

I. THE ECONOMY IN 1972-73—AN OVERALL VIEW

Introduction

The Indian economy has been under very considerable strain during 1972-73. Later chapters of this *Survey* describe in detail the developments in selected major sectors of the economy and the manner in which public policies responded to the challenges implied by these developments. The present chapter summarises the performance of the economy in 1972-73.

2. To a considerable extent, the economic strains of 1972-73 reflect the rather unsatisfactory growth of commodity production in 1971-72. Agricultural production which increased by 7.3 per cent in 1970-71 declined by 1.7 per cent in 1971-72; food production declined from 108.4 million tonnes in 1970-71 to 104.7 million tonnes in 1971-72. The index of industrial production registered an increase of only 4.5 per cent over the year. The sluggishness of the commodity production was accompanied by a significant increase in monetary outlays on account of unavoidable expenditure on refugee relief and the defence effort. Despite considerable imbalance between aggregate demand and supply, it is notable that the economy came out of 1971-72 without any serious effect on either the price level or the balance of payments. The wholesale price index increased by only 4.0 per cent in 1971-72. It now appears that this rather favourable outcome was partly due to the operation of time lags and some effects of the imbalance between aggregate demand and supply in 1971-72 spilled over into 1972-73, thereby adding to the pressure of demand on real output in the current year.

3. The economy might have absorbed this pressure without any significant rise in prices in 1972-73 if the commodity production had maintained its normal upward trend. However, agricultural production in the kharif season of 1972-73 suffered a set back for the second year in succession. At the same time, judging by the behaviour of government expenditure and other available indicators, aggregate expenditure in the economy increased further. The increase in government expenditure was partly a result of a deliberate effort on the part of the Government to step up the Plan outlay in order to make good the short-falls in the Fourth Plan targets. Certain unforeseen events such as the drought and natural calamities involved a further unavoidable increase in government expenditure. In addition, Rs. 190 crores were provided for a crash programme designed to increase food production in the current rabi season. While this programme adds immediately to the stream of national expenditure, its beneficial effects in the form of higher food production will materialise only by the end of April, 1973 when the new rabi crop will be harvested. In the meanwhile, the imbalances between demand and supply particularly in the strategic sectors of wage goods such as foodgrains, vegetable oils and sugar were magnified, leading to an exceptionally large increase in the prices of basic necessities of life.

4. During the current year, major efforts have been made to contain the inflationary pressures and to relieve distress caused by the rising prices and the drought. The public distribution system has been considerably strengthened. Releases of foodgrains from government stocks were greatly increased. The emphasis of credit policies continues to be on restraint consistent with the need to stimulate production. Arrangements have also been made to supplement domestic production by increased imports to the extent feasible. It is proposed to import about two million tonnes of foodgrains during the early months of 1973.

5. The wholesale price index normally shows a seasonal decline from mid-September to December. This decline, however, did not take place in 1972. The index for all commodities increased from 210.1 in October, 1972 to 211.4 in December, 1972. It further increased to 213.0 in January, 1973. As such, the price situation remains a source of continuing concern and anxiety.

TABLE I
SELECTED ECONOMIC INDICATORS

| | 1968-69 | 1969-70 | 1970-71 | 1971-72 | 1972-73 |
|---|--|---------|---------|-------------|-------------|
| | (Percentage change over previous year) | | | | |
| 1. National Income at constant prices | 0.7 | 7.3 | 4.6 | 1.5 to 2.0† | 1.5 to 2.0† |
| 2. Agricultural production | -1.5 | 6.7 | 7.3 | -1.7 | .. |
| 3. Foodgrains production | -1.1 | 5.8 | 9.0 | -3.5 | .. |
| 4. Industrial production | 6.9 | 6.6 | 2.5 | 4.5 | 7.0†† |
| 5. Electricity generated | 14.1 | 14.3 | 8.6 | 8.8 | 10.5†† |
| 6. Wholesale prices | -1.1 | 3.7 | 5.5 | 4.0 | 8.8*** |
| 7. Money Supply | 8.1 | 10.8 | 11.1 | 12.9 | 12.3@ |
| 8. Imports | -4.9 | -17.1 | 3.3 | 10.9 | -7.8* |
| 9. Exports | 13.3 | 4.1 | 8.6 | 4.7** | 23.1* |
| 10. Freight carried by Railways | 5.3 | 2.5 | -0.7 | 4.6 | 5.9* |

†Estimated.

*April-November, 1972 compared to April-November, 1971.

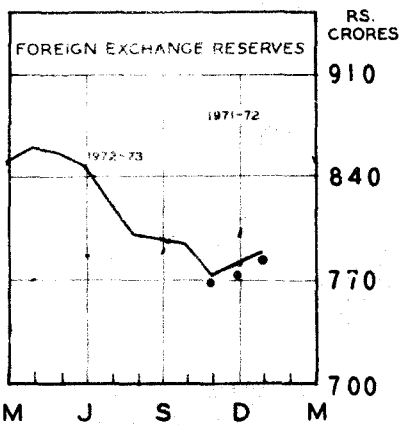
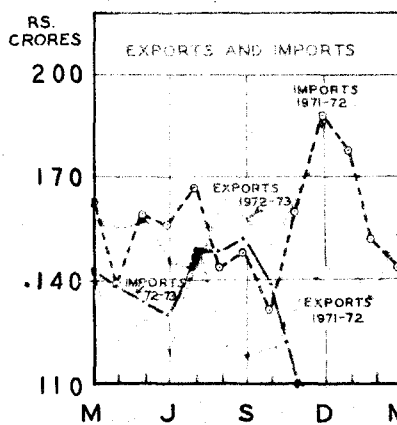
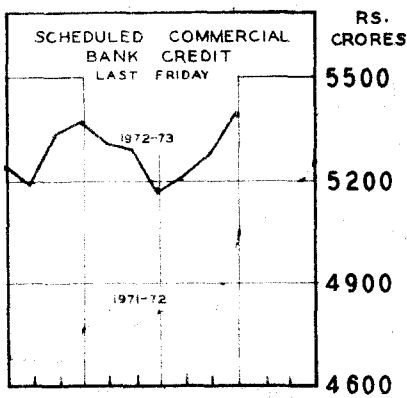
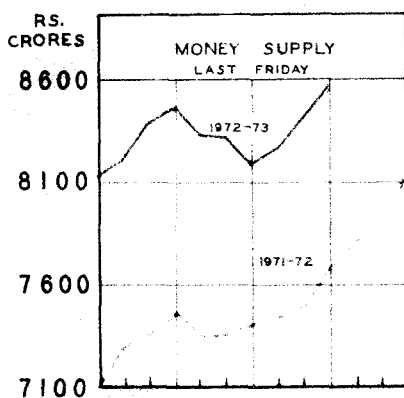
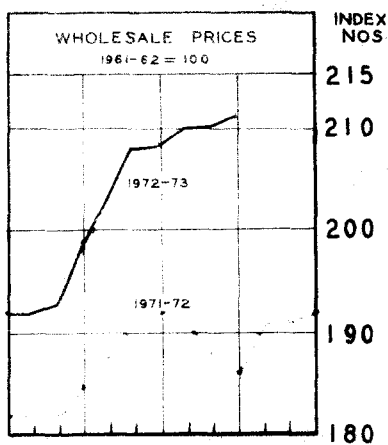
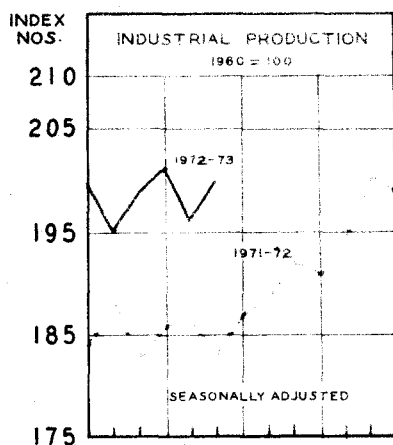
**Includes exports to Bangladesh worth Rs. 38 crores.

††April-August, 1972 compared to April-August, 1971.

@12th January, 1973 compared to January 14, 1972.

***April-December, 1972 compared to April-December, 1971.

SELECTED ECONOMIC INDICATORS



MINISTRY OF FINANCE, ECONOMIC DIVISION.

● ESTIMATES

National Income

6. India's national income increased by 4.6 per cent in 1970-71. Because of sluggish growth of commodity production, the rate of growth of national income declined steeply in 1971-72. The official estimates of national income for 1971-72 are still not available. However, there are indications that the growth rate in 1971-72 may have been slightly less than 2 per cent. As for 1972-73, although the rate of growth of industrial production may be higher than in the preceding year, there is considerable uncertainty about the behaviour of agricultural production. It is as yet too early to predict the extent to which the loss of kharif output will be offset by higher production in the rabi season. Some rough estimates indicate that the growth rate of the economy in 1972-73 may be about the same as in 1971-72.

7. There is no doubt that the overall rate of economic growth in 1971-72 and 1972-73, has been unsatisfactory. However, in a country like India, in which agriculture accounts for nearly one-half of national income, fluctuations in national income resulting from the operation of such uncontrollable factors as weather conditions are not an unusual phenomenon.

8. A principal task of planning in India is to reduce the amplitude of these fluctuations by a progressive diversification of the country's economic structure and also by reducing the dependence of agriculture on rain-fed water. As a result of the rising tempo of development activities, the amplitude of fluctuations in the output of some agricultural products has been considerably reduced in recent years. However, the events of the current year are a sharp reminder of the still very considerable vulnerability of the economy in face of unfavourable weather conditions.

Investment and Savings

9. The rate of investment defined as the ratio of net investment to net domestic product at current market prices reached a peak of 13.4 per cent in 1965-66. During the succeeding four years, the investment ratio continued to decline. However, since 1970-71, the investment ratio has tended to increase. According to Reserve Bank's tentative estimates, this ratio increased from 9.3 per cent in 1969-70 to 10.5 per cent in 1970-71 and to 11.5 per cent in 1971-72.

10. It is difficult at this stage to give a firm estimate of the rate of investment in 1972-73. Such indirect evidence as is available supports the hypothesis that the rate of investment in 1972-73 may be somewhat higher than the estimated level of 11.5 per cent reached in 1971-72.

11. The annual plan for 1972-73 envisaged an increase of 26 per cent in development outlays in the public sector. The increase in public investment reflected in the step up of plan outlay is likely to have stimulated private investment in various sectors of the economy. There are no reliable figures of private investment in agriculture and the unorganised sector of industry and trade. Data relating to private investment in the organised industry are still not available. However, certain indicators, on balance, point to some improvement in the climate for private investment in industry. The approvals sanctioned by the Capital Goods Committee increased

from Rs. 99.7 crores in 1970-71 to Rs. 113.2 crores in 1971-72. The approvals accorded during the first nine months of the current financial year also show an increase over the approvals accorded in the corresponding period of the previous financial year. There is a considerable time lag between the issue of an import licence and actual import of capital goods. However, judging by the trend of capital goods licences in 1971-72 and 1972-73, it seems reasonable to assume that in the current financial year that part of private investment which is dependent on imported equipment will perhaps not be less than in 1971-72. The data on capital issues, reveal a more encouraging picture. After registering a decline in 1971-72, capital raised by non-Government companies in the first half of 1972-73 amounted to Rs. 52 crores as against Rs. 31 crores raised in the corresponding period of 1971-72.

12. The current rate of investment is patently inadequate when viewed against the country's development needs. It also compares unfavourably with the investment rate achieved in the early sixties. A substantial increase in productive investment is a major task facing the economy in 1973-74.

13. The output potential associated with any given rate of investment is vitally dependent on the efficiency of the process of resource allocation involving an efficient choice of sectors, projects as well as of technology. A Public Investment Board has been set up recently for screening all major project proposals emanating from the public sector enterprises. This will help to improve the quality of project appraisal and also to reduce the time lag between the formulation of a project proposal and its approval by the Government.

14. In recent years, the level of output has also been considerably affected by the persistence of unutilised capacity in a number of industries. Available capacity in a number of machine building industries is currently not being fully utilised for want of adequate demand. In a number of other industries, deficiencies in organisational arrangements, poor maintenance of plant and strained labour-management relations stand in the way of full utilisation of available capacity. In some other industries, shortage of critical inputs like iron and steel and power has led to considerable under-utilisation of capacity. However, owing to an improvement in the supply of raw materials, such as raw cotton, as well as the rising tempo of demand, the overall level of capacity utilisation in Indian industry seems to have improved in 1972.

15. The rate of domestic savings, as measured by the ratio of net domestic savings to net domestic product at current market prices, reached its highest level in 1965-66 when it was estimated at 11.1 per cent. This was followed by a decline in the two succeeding years. However, since 1968-69, the savings rate has tended to increase. According to a recent Reserve Bank estimate, the savings rate increased from 8.2 per cent in 1968-69 to 8.6 per cent in 1969-70, 9.4 per cent in 1970-71 and to 10.0 per cent in 1971-72. Although it is not possible at this stage to give any firm estimate of the savings rate in 1972-73, there are indications based on growth of financial assets that it will be somewhat higher than in 1971-72. However, the savings rate achieved in recent years is not much higher than the rate of savings realised in the early sixties.

Agricultural Production

16. Agricultural production which rose by 7.3 per cent in 1970-71 declined by 1.7 per cent in 1971-72. Increased output of raw cotton and raw jute was more than offset by a fall in the production of foodgrains, oilseeds and sugarcane.

17. Production of foodgrains increased from 99.5 million tonnes in 1969-70 to 108.4 million tonnes in 1970-71, recording an increase of about 9 per cent. However, the food production in 1971-72, estimated at 104.7 million tonnes, registered a decline of 3.4 per cent over the year. While the output of wheat reached a record level of 26 million tonnes and that of rice also increased marginally, there was a sharp fall in the output of coarse foodgrains and of pulses.

18. The erratic behaviour of monsoons in the summer of 1972 did a considerable damage to the kharif crop of 1972-73. Although firm estimates of the loss of output are still not available, on current indications it may be about eight million tonnes for foodgrains.

19. In order to make up for the shortfall in kharif production, Government launched in 1972 a crash programme for an intensive rabi/summer production drive. It is envisaged that as a result of this programme there will be a substantial increase in the production of wheat during the current rabi season. However, it is unlikely that the increase in the output of wheat and other foodgrains in the current rabi season will fully neutralise the loss of food output in the kharif season.

20. The output trends of major commercial crops present a mixed picture. The production of raw cotton which had been virtually stagnant in the 1960's and had touched a low ebb at 45 lakh bales in 1970-71, however, reached a new peak of 65 lakh bales in 1971-72. Notwithstanding the drought conditions the prospects for the 1972-73 cotton crop are fairly good. On the other hand, the output of raw jute and mesta which had registered an increase from 62 lakh bales in 1970-71 to 68 lakh bales in 1971-72 is expected to be significantly lower in 1972-73. In oilseeds, despite a record output of 9.26 million tonnes in 1970-71, there has been no major breakthrough in production in the last decade. Production of oilseeds declined to 8.28 million tonnes in 1971-72 and available indicators suggest a further fall in output in 1972-73. Due to a decline in the production of sugarcane, as also an increased diversion of cane for manufacture of gur, sugar production declined from 37.4 lakh tonnes in the 1970-71 sugar season (October-September) to 31.1 lakh tonnes in 1971-72. The sugarcane crop in 1972-73 is expected to be higher by about 5 per cent as compared to 1971-72, and sugar production in 1972-73 may, therefore, be marginally higher than in 1971-72.

21. The behaviour of agricultural production clearly shows that, contrary to earlier expectations, the agricultural problem is far from having been solved. The continuing instability of agricultural output not only affects the overall availability of certain basic necessities of life but also accentuates inter-regional disparities in income and consumption.

Industrial Production

22. Industrial production went up by 6.6 per cent in 1969-70 and by 2.5 per cent in 1970-71. In 1971-72 the growth rate was 4.5 per cent. Industrial production increased sharply during the first five months of 1972-73; the index for April-August 1972 showed an increase of 7.0 per cent over the level reached in April-August, 1971.

23. A large number of industries contributed to the acceleration of industrial production in 1972. However, a major part of the improvement was due to a very high growth in the production of textiles, which have a weight of 27 per cent in the index of industrial production. Output of mining and quarrying, chemicals, non-metallic mineral products, rubber products, non-electrical machinery and transport equipment also expanded significantly in January-August, 1972. By contrast, food industries and metal products recorded a decline.

24. The index of industrial production is still not available for the whole of 1972. It is likely that the year will record an increase of 7 per cent in industrial production as compared to an increase of 2.9 per cent in 1971. The growth rate for the financial year 1972-73 may be somewhat lower than 7 per cent. The prospect of a serious power shortage hangs like a dark cloud over the growth of industrial production in the early months of 1973. Besides, the unsatisfactory progress of agriculture may have some adverse effects on the rate of growth of agro-based industries. Already, the shortage of vegetable oilseeds has added to the excess capacity in the vanaspati industry. Fortunately, on account of a heavy carry over of stocks of raw cotton from the preceding year, the production of textiles in 1972-73 is not likely to be constrained by the availability of raw materials. However, a decline in the purchasing power of farmers on account of the loss of a part of kharif output, and of certain urban groups as a result of an increase in prices, may affect the demand for textiles and other consumers' durables.

Price Behaviour

25. The wholesale price index showed, until December 1971 a remarkable stability in face of the mounting pressure of government expenditure in connection with developments in Bangladesh. However in 1972, particularly since the month of May, prices have shown an abnormal increase. The Wholesale Price Index in December 1972 was 13.7 per cent higher than its level during December 1971. The increase in the price index averaged 7.8 per cent in 1972 as against an increase of less than 4 per cent in 1971.

26. The steep rise in prices since May 1972 is a matter of legitimate public concern, more so because prices of important basic necessities of life such as foodgrains, vegetable oils and sugar have risen sharply. Among foodgrains, prices of coarse grains have risen more than those of rice and wheat.

27. The rise in prices in 1972 was largely due to a shortfall in the production of foodgrains, vegetable oils and sugar. A spill-over into 1972 of a part of excess demand resulting from increased government outlays in 1971, and further unavoidable increases in government outlays in 1972 financed partly by borrowing from the Reserve Bank, accentuated the imbalance between aggregate demand and supply. The speculative atmosphere created first by the delayed arrival of monsoons in July 1972 and later, by highly exaggerated accounts of the loss of kharif output also played a role. In view of the encouraging prospects for the coming rabi crop, the pressures generated by a psychology of scarcity should abate. However, considering the fact that the food production in 1972-73 is likely to decline as compared to 1971-72, there is no scope for any complacency on the price front.

Fiscal and Monetary Policies

28. In 1971-72, expenditure connected with the refugee influx, war with Pakistan and natural calamities in several parts of the country imposed a serious strain on the government finances. Notwithstanding the unprecedented resource mobilisation effort by way of additional taxation, the budgetary operations of the Central and the State Governments disclosed an overall budgetary deficit of Rs. 738 crores, the largest ever in any single year.

29. The principal object of the budgetary policy in 1972-73 was to carefully balance the imperative need for accelerating the tempo of developmental activity and that of containing the inflationary pressures. The Central Budget provided for a step-up of 23 per cent in the Plan outlay in the Central sector in 1972-73. The provisions for the crash programme of rural employment and similar schemes designed to benefit the weaker sections of the community were further increased. Such schemes no doubt increase the pressure of demand on the resources of the economy. However, provided the outlays generate new productive assets, the growth potentialities of the economy are also improved. While providing for a substantial step-up in the plan outlays, the Central budget sought to minimise the expansionary effect of the budget both by restrictions on non-Plan expenditure and by fresh taxation of Rs. 172 crores. In this way, an attempt was made to contain deficit financing within reasonable limits. There was, however, an unexpected increase in expenditure on drought relief and on the crash programme to increase food production in the current rabi season. This naturally upset the original budgetary calculations to some extent. Thus, despite the fact that the Central Government's net market borrowings have far exceeded the budget provision (Rs. 478 crores as against Rs. 215 crores provided for in the budget) and tax revenues and small saving collections have shown a marked buoyancy, the overall budgetary deficit in 1972-73 may turn out to be larger than the budgeted figure of Rs. 252 crores.

30. One encouraging feature of the current situation is that with effect from May 1, 1972, the State Governments have agreed not to resort to unauthorised overdrafts from the Reserve Bank of India. At the same time the Government of India assisted the States in clearing the outstanding overdrafts and also raised the limits within which States could obtain ways

and means advances for temporary periods. Another event of fiscal significance in the current year was the appointment of the Sixth Finance Commission with wider terms of reference than in the past. The Commission has been asked to assess the overall non-Plan gap in States' resources and review, among other things, the States' debt position, having regard to the requirements of the Centre.

31. The increased budgetary outlays in 1971-72 and 1972-73 had a strong expansionary effect on money supply with the public. It increased by 12.9 per cent in 1971-72 as against an increase of 11.1 per cent in 1970-71. In the calendar year 1972, money supply with the public increased by 11.0 per cent as compared to an increase of 13.6 per cent in 1971. Data on banks deposits and credit show that both in 1971 and 1972, the major expansionary impetus to money supply emanated from the budgetary operations of the Government and that on balance the net bank credit to the commercial sector was not an expansionary force.

32. Normally, an increase in money supply of 7 to 8 per cent in a year if accompanied by growth of real output of about 5 per cent should not cause any large scale pressure on the price level. In the present case, unfortunately, a large increase in money supply was accompanied by a decline in food production. Since food prices are normally the king pin of the price structure in our economy, the price situation took a turn for the worse. However, any assessment of the events of 1971-72 and 1972-73 must take account of the fact that the bulk of additional outlays that were incurred were largely unavoidable. A cut in development expenditure would have added to the difficulties in dealing with the pressing task of accelerated growth and creation of new employment opportunities. Similarly, undue stringency in expenditure on drought relief would have led to avoidable human suffering and would have also intensified the existing inequities in the distribution of income and consumption. While increased spending was unavoidable, it was not possible to finance the entire increased outlays from additional taxation; particularly after the massive tax effort of 1971-72 when additional taxes estimated to yield about Rs. 500 crores in a full year were levied. Thus, placed as the economy was in 1971-72 and 1972-73, increased reliance on deficit financing could not be helped.

33. A principal task of credit policy both in 1971-72 and 1972-73 has been to contain the expansionary impulses operating from the side of the budget. Efforts have been made to siphon off the excess liquidity of the banking system which might have otherwise added to the inflationary pressures in the economy. The emphasis of both general and selective credit controls has been on restraint without in any way affecting the genuine needs of production.

34. The credit policy for the 1972-73 busy season provides for an increase in both the statutory liquidity ratio (from 29 to 30 per cent) and in the minimum net liquidity ratio which determines the cost of banks' refinancing from the Reserve Bank (from 34 per cent to 36 per cent). Restrictions on bank advances against foodgrains, oilseeds and vegetable oils have been further tightened. However, in order to ensure that the genuine requirements of the productive and hitherto neglected sectors are adequately met, the Reserve Bank has left undisturbed its structure of refinance at the Bank rate|concessional rate in respect of bank advances to the priority sectors.

35. During the current busy season so far (October 27, 1972 to January 12, 1973) bank credit to the commercial sector increased by Rs. 331 crores as compared with an increase of Rs. 192 crores in the corresponding period of the last busy season. If bank credit for food procurement is excluded, the expansion in bank credit to the commercial sector during this period works out to be higher, this being of the order of Rs. 421 crores as against an increase of Rs. 188 crores in the corresponding period in 1971-72.

36. Total deposit accretion in the current busy season has also been larger—Rs. 371 crores between October 27, 1972 and January 12, 1973 as against Rs. 230 crores in the same period in 1971-72. There is as yet no evidence of any strain on banks' liquidity position. The credit-deposit ratio at 67.2 per cent as on January 12, 1973 was lower than 73.5 per cent reached during this part of the year in 1972.

International Trade and Payments

37. The availability of foreign exchange continues to be a major constraint on the pace of economic development in India. The suspension of U.S. aid in 1971, the continuing uncertainty of the prospects for external assistance, the heavy burden of debt service which currently absorbs nearly 30 per cent of the country's export earnings emphasise the urgent need for effective measures to further step up exports and to save on imports, through import substitution.

38. The international environment in recent years has not been favourable to the expansion of India's exports. The international monetary system has been in a state of turmoil for many years and the events took a dramatic turn when the U.S. Government suspended in August 1971 the convertibility of the U.S. dollar into gold and imposed a 10 per cent surcharge on all dutiable imports. The Smithsonian agreement of December 1971 resulted in new parities or central rates of exchange for major currencies. However, this agreement failed to restore order and confidence in the Foreign exchange markets. The persistent weakness of the U.S. balance of payments forced the U.S. Government on 13th February, 1973 to devalue the dollar for the second time within a period of fourteen months. The British pound has been floating since the last week of June 1972. The Japanese Government has also decided to float the Yen in the wake of the recent devaluation of U.S. dollar. Thus the situation in the exchange markets is still highly fluid and uncertain. This uncertainty has particularly adverse effects on developing countries since unlike developed countries they do not have effective institutional arrangements to cope with prolonged uncertainties in the exchange markets. The increased risks attaching to international trade hamper the growth of non-traditional exports on which countries like India are laying increasing emphasis in their export strategy.

39. A welcome feature of the situation is that the need for a reform of the international monetary system is now universally accepted. The IMF has set up a Committee of Governors to advise the Board of Governors on matters relating to international monetary reform. This Committee is now engaged in an examination of various proposals for reform. Developing countries have no less vital a stake than developed countries in a smooth functioning of the world monetary system. As such, together with other developing countries, India is taking an active part in the deliberations of the Committee of Board of Governors.

40. Another major recent event in the world of international trade was the enlargement of the European Economic Community on 1st January 1973 by the addition of U.K., Denmark and Ireland as new members. The loss of Commonwealth preferences in the U.K. market, may lead to some disruption of India's exports to that country at the very moment when she needs to expand her exports as rapidly as possible. Moreover, the enlargement of the European Economic Community and the proposed establishment of a free trade area in manufactured goods covering the whole of Western Europe will more or less neutralise any beneficial effects on India's exports that may have been expected as a result of the adoption by the European countries of the UNCTAD scheme of generalised tariff preferences in favour of developing countries. The multilateral trade negotiations which are expected to begin in September 1973 under the auspices of GATT provide another opportunity for the world community to redress some of the inequities of the present trading arrangements between developed and developing countries. However, unless developing countries act in concert, there is a real danger that their problems may not receive due attention in these negotiations.

41. According to the DGCI&S data, India's exports increased by 4.1 per cent in 1969-70, 8.6 per cent in 1970-71 and by 2.2 per cent (excluding exports to Bangladesh) in 1971-72. Including exports to Bangladesh, total exports increased from Rs. 1535 crores in 1970-71 to Rs. 1607 crores in 1971-72, yielding a growth rate of 4.7 per cent. However, in interpreting export statistics it has to be borne in mind that a change in the method of compiling export statistics (from the finally passed shipping bills to the original copy of shipping bills but with adjustment for short and shut out shipments in the subsequent month) with effect from November 1970 probably overstated the growth of exports in 1970-71. By the same token, actual growth rate of exports in 1971-72 was probably much higher than is revealed by recorded statistics. On a rough basis, exports grew at an average annual rate of close to 5 per cent (about 6 per cent if exports to Bangladesh are also included) during 1970-71 and 1971-72. A major element in the growth of exports in 1971-72 was the abnormal increase in exports of jute goods in the wake of disruption of supplies from Bangladesh. However, for reasons mentioned earlier recorded statistics do not permit an accurate analysis of the role of various commodities in export growth in 1970-71 and 1971-72.

42. India's imports which increased by 3.3 per cent in 1970-71 went up by 10.9 per cent in 1971-72 to reach a level of Rs. 1,812 crores. The increase in imports was partly a result of the liberalisation of import licensing in 1970 in order to stimulate industrial growth. A more important role was played by larger imports of raw cotton and oilseeds following a poor domestic crop and of steel and fertilisers because of shortfalls in domestic production. There was also a significant increase in the import of petroleum products.

43. The trade deficit widened from Rs. 99 crores in 1970-71 to Rs. 205 crores in 1971-72 (Rs. 243 crores if exports to Bangladesh are excluded). But for reasons explained earlier DGCI&S export data and therefore the figures of trade deficit in 1970-71 and 1971-72 are not comparable.

44. The trade figures for 1972-73 are available only for the first eight months of the year. According to these figures, exports increased by 23 per cent as compared to the corresponding period of 1971-72. Excluding exports to Bangladesh, the export growth will amount to about 18 per cent. Although commodity-wise details are not yet available, this improvement was largely due to increased exports of cotton textiles, leather and manufactures, oil cakes, cashew kernels and marine products. Non-traditional exports like engineering goods do not seem to have increased significantly this year. In analysing export performance for 1972-73, it is, however, necessary to bear in mind that the rupee value of exports was increased by the effective change in the rupee-dollar exchange rate in the wake of the British decision to float the pound in June, 1972.

45. According to the DGCIS data, India's imports declined from Rs. 1190 crores in the first eight months of 1971-72 to Rs. 1097 crores in the corresponding period of 1972-73. Exchange rate movements since 23rd June 1972 have led to an understatement of the decline in imports. Cessation of aid-financed food imports, reduced imports of raw cotton in the wake of bumper domestic crop in 1971-72 and lower international prices of non-ferrous metals contributed to a decline in the value of imports. However, this trend is unlikely to be sustained later on in the year. The large continuing imports of items like steel and fertilisers, and the substantial imports of oils and fats and foodgrains that may be needed to make up for inadequate domestic production will probably result in higher imports in 1972-73 as compared to 1971-72.

46. The trade balance showed a surplus of Rs. 142 crores during the first eight months of 1972-73 as against a deficit of Rs. 184 crores during the corresponding period of 1971-72. However, inspite of a reduction in imports and an increase in exports, foreign exchange reserves in the first ten months of 1972-73 declined by Rs. 60 crores. At constant exchange rates, the decline in reserves would have been greater. The fall in reserves was partly due to larger debt repayments which are to be made in this part of the year as well as a decline in the utilisation of external assistance.

1972-73: A Broad Assessment

47. By all accounts, 1972-73 will be remembered as a very difficult year for the Indian economy. Despite an acceleration of the rate of growth of industrial production, the year will probably record only a modest increase in real national income. The unsatisfactory behaviour of agricultural production in the kharif season has not only affected the overall growth rate of the economy but has also greatly accentuated the pressure on prices. The drought conditions which have affected several parts of the country have further magnified the disruption and the distress that a failure of rainfall can still cause in an economy such as ours.

48. The events of 1972-73 once again demonstrate that so long as the irrigated area accounts for only about 25 per cent of the total area under crops, periodic fluctuations in agricultural output, with their inevitable disruptive consequences, will continue to be a recurring feature of our economic life.

49. To reduce the instability of agricultural output it is necessary both to expand rapidly **the area under irrigation** and also to evolve, through systematic research and development, a suitable technology for dry farming areas. A major emphasis of the latter programme must be on the development of new high yielding but drought resistant varieties of seeds.

50. There is also an urgent need to have a fresh look at the commercial crop economy of India. With the possible exception of raw cotton, there has been virtually no increase in the productivity of any major commercial crop in the last decade. High priority must be attached to redress this imbalance.

51. It has also to be recognised that the droughts will not disappear from the Indian economic scene in a short period of time. Accordingly, it is necessary to adopt well conceived contingency plans for dealing with drought situations in the future with speed and efficiency.