VII. Economic Policy And Measures

42. The accent of India's development plans is necessarily on rapid and all-round development. But even so, the process cannot but cover several five year periods, each one requiring a larger effort than the earlier one. Economic policy in this context has inevitably a certain long-term orientation that does not change. It has to focus on securing the step-up in investment which is crucial to the development process. This raises two major problems: *viz.*. effective mobilisation of domestic savings; and conservation and expansion of foreign exchange resources. The fiscal, monetary and commercial policies of Government have in recent years been shaped in the light of these prime considerations, the adjustments in these policies being made at appropriate points in the light of changes in the economic situation.

43. Budgetary policy since 1956-57 has been directed towards a progressive enlargement of public revenues by suitable widening and strengthening of the tax structure. The Central budget for 1960-61 proposed additional taxation of Rs. 24 crores. The coverage of Central excise duties was extended to certain durable goods and to semi-processed materials, and some existing duties were raised further. In the field of direct taxation, wealth tax on companies and super tax on excess dividends were abolished, but their incidence was merged with the corporation tax payable by companies. The business profits of cooperative societies other than banking, credit, agricultural marketing and milk supply societies were made liable to tax if they exceeded Rs. 15,000. The process of simplification of corporate taxation initiated in 1959-60 was completed and the new system of non-refundable tax on company profits and dividends was made fully operative from 1960-61. The tax holiday for new undertakings was extended to cover those going into operation during the five year period ending March 1965.

44. Over the Second Plan period, the additional taxation raised by the Centre works out to Rs. 797 crores. With the addition of Rs. 244 crores of fresh taxation by the States, the total additional tax effort during the Second Plan period comes to Rs. 1,041 crores. The revenues of the Central and State Governments have increased from Rs. 768 crores in 1955-56 to about Rs. 1,300 crores in 1960-61, *i.e.*, an average annual increase of some 14 per cent. Part of this reflects the growth of production and part is a reflection of the rise in prices that has occurred. The total of tax receipts to national income at current prices—which is an indicator of the relative advance secured—has risen only moderately from about 8 per cent in 1955-56 to about 9 per cent in 1960-61. This illustrates how difficult it is, in a country with a preponderance of low incomes, to draw a growing proportion of national income into the public exchequer.

45. There has been over the last few years a large expansion in public expenditure. In 1951-52 the total expenditure of the Central and State Governments amounted to Rs. 998 crores; it rose to Rs. 1,470 crores by 1955-56 and the budget estimates for 1960-61 place this total at Rs. 2,587 crores. The larger part of this increase is accounted for by the rise in developmental expenditures; the proportion of such expenditure to the

total has gone up markedly from 48 per cent in 1951-52 to 60 per cent in 1955-56 and further to 66 per cent in 1960-61. The following table sums up the position:

Developmental and Non-Developmental Expenditure of the Central and State Governments

(Amount in Rs. crores)

	1951-52	1955-56	1960-61 (BE)
Total Expenditure	998	1,470	2,587
Development expenditure*	480	884	1,703
Non-development expenditure†	518	586	884
Development expenditure as per cent of total expenditure	48·1	60·1	65·8
Non-development expenditure as per cent of total expenditure	51·9	39·9	34·2

*Includes Revenue and Capital expenditure on development heads, loans and advances (net) and Railways' and Posts and Telegraphs' expenditure on expansion, renewals and replacements. Excludes working expenses of industrial and commercial undertakings.

†Excludes appropriation for reduction and avoidance of debt, transfers to Special Development Fund and capital outlay on State Trading.

46. The accentuation of pressure within the economy, as evidenced by the various economic trends reviewed in the earlier sections, especially the large expansion in bank credit and the emergence of a speculative boom on the stock exchanges, led to a tightening of monetary policy by the Reserve Bank. The objective of policy in this regard has throughout been one of 'controlled expansion' and the Reserve Bank has relied for the most part on selective credit controls designed to correct excessive lending in particular directions. These techniques had to be supplemented during the year by general measures of restraint aimed at a reduction in the excess liquidity of the banking system.

47. In March, the quantum of balances to be maintained by scheduled banks with the Reserve Bank was raised; a further increase in this quantum was made in May with a view to impounding a substantial proportion of the additional deposits accruing to the banking system. These measures had a marked impact on the liquidity of banks but not on the volume of credit creation by them, as the banks could still replenish their resources by selling Government securities to the Reserve Bank and by borrowing from it at the prevailing low rate of interest. In September, the Bank, therefore, raised the cost of credit by instituting a system of penal rates on scheduled banks' borrowings from it above certain defined limits. It also directed the scheduled banks to raise their average lending rates by ½ per cent, subject to a minimum of 5 per cent. In the wake of these developments, there has been an upward adjustment in interest rates.

48. The instruments of monetary policy are necessarily delicate and they have to be used flexibly and judiciously. With the onset of the busy season, the Reserve Bank has relaxed some of the earlier restrictions. These seasonal adjustments apart, it has to be recognised that an expanding economy needs, over a period, expanding credit for programmes in the

public as well as in the private sector. It is necessary to view these needs together and assess what level of expansion in money and credit will be compatible with orderly advance. Fiscal as well as monetary policies have their respective roles in securing or facilitating the result; and, they have both to be adapted continually to this end.

49. In the difficult foreign exchange situation that the country has to confront, import policy has continued to be stringent over the last three years and it will, undoubtedly have to remain so for the foreseeable future. The total value of import licenses (excluding those for raw jute) issued in the period October 1959 to March 1960 was Rs. 484 crores as compared to Rs. 381 crores for the period April-September 1959. For the half year April-September 1960, the total value of import licenses issued was Rs. 477 crores, which was slightly lower than the licensing in the second half of 1959-60 but was considerably higher than that in the corresponding period of 1959-60. The governing factors in determining the level of licensing have been the availability of credit—foreign exchange reserves having declined,—the requirements of capital goods for new development as well as the need to ensure adequate supplies of raw materials and components for the industrial units already set up and the new capacity coming into production.

50. From the point of view of immediate requirements as well as the long-term needs of the economy, an increase in export earnings is a major desideratum. Various export promotion measures have been taken in recent years and these were strengthened in several directions in the year under review. There are now twelve Export Promotion Councils reviewing this problem in their respective fields from time to time and suggesting ways and means of securing an increase in exports. Special export promotion schemes are in operation in respect of several important commodities and in certain cases larger import licenses for raw materials or components are issued as part of export promotion. Trade agreements have been signed with a number of countries to increase the volume of trade with due regard to the accepted principles of multilateralism and non-discrimination. Primary reliance has, therefore, to be placed on creating a surplus from domestic production by restraining consumption. The export angle has constantly to be kept in mind while determining the level of excise duties.

51. There are, in the short-run, rather rigid limits to the expansion that can be achieved in respect of traditional exports like tea, jute goods and cotton textiles, but it has to be borne in mind that a small percentage increase in these exports can yield a large total of foreign exchange. The need more and more is to diversify exports by placing greater emphasis on new lines like iron ore and the products of newly developing industries. Some promising beginnings in this direction have been made. The Indian economy has not hitherto been sufficiently export-oriented. It was inevitable in the early stages of development to concentrate on import-saving investment. But import-saving can only be relative; in absolute terms, the trend of imports cannot but be upward as the industrial structure gets diversified.

52. It is essential, therefore, to view export promotion as a vital element in making the economy viable. This requires a close watch on costs, for while the domestic market may absorb whatever is produced even at relatively high prices, the export markets are highly competitive. It will be necessary in the coming years to intensify greatly the effort to increase

exports. The necessary business links and organizations to secure a footing in foreign markets have to be built up and developed assiduously. In the final analysis, the key to increased exports is more production and the acceptance of sacrifices in domestic consumption in the interests of a highly important resource, *viz.*, foreign exchange—which is a developmental resource *par excellence.*

53. The rise in wholesale prices for the major part of the year has been a matter of concern. In so far as this rise was due to supply factors such as the shortfall in the production of foodgrains and agricultural raw materials, the only corrective available in the short period is to secure increased imports. Imports of foodgrains in 1960 totalled 5 million tons. Raw cotton imports over the first ten months of 1960 were 10·5 lakh bales. A large proportion of these imports was obtained on terms not involving foreign exchange expenditure. Clearly, within a given period, if the deficiency in domestic production cannot be met from imports, the economy has to go short. Over a period, the answer to the problem is increased production through irrigation, better supply of seed and fertiliser and improvements in farming techniques. The pull of demand in a developing economy is necessarily upwards; such a pull is up to a point the very condition of economic advance. It is, nevertheless, necessary to keep it within limits and reference has been made in the paragraphs above to the role of fiscal and monetary policies in this context. The wide disparities between the prices of foodgrains as between different parts of the country drew considerable attention during the year and steps have been taken from time to time to encourage freer movement of foodgrains from surplus to deficit areas through wider zoning arrangements.