

CHAPTER 1
THE ECONOMY IN 1973-74 : A SYNOPTIC VIEW
Introduction

1.1 The most important characteristic of the economic situation in 1973-74 was a sharp acceleration in price inflation. The wholesale price index on December 29, 1973 was 26 per cent higher than at the end of December, 1972. This order of increase, coming, as it did, in the wake of an increase of nearly 14 per cent in wholesale prices between December, 1971 and December, 1972, was bound to cause widespread hardships to the people. It is, therefore, not surprising that the discussion of economic policy during the year has been dominated by concern regarding rising prices.

1.2 It was pointed out in last year's Economic Survey that, because of a severe decline in agricultural production in 1972-73, the price situation would remain a cause for serious concern and anxiety during 1973. However, it was then anticipated that with a good rabi crop to be harvested in April-May, 1973, followed by a normal kharif crop later in the year, the pressure on prices would be considerably reduced. In the event, the rabi crop witnessed a decline in output as compared to 1972 crop. This fact, coupled with a number of other factors, such as, inadequate procurement, the steep increase in international prices of foodgrains, inadequacy of stocks of food with the public sector agencies and large budget deficits, strengthened the inflationary psychology. As a result, prices increased at an accelerated pace during the months of April to July 1973. Although from all accounts the 1973 kharif crop was much better than that of 1972, this has not made any visible impact on prices. This is essentially due to the fact that despite a considerable increase in production in 1973, the output of kharif foodgrains was at best no higher than 1970. Due to a rise in population and cumulative impact of increased monetary outlays in the last three years, one good crop cannot be expected to bring about a stable balance between demand and supply. There is also no doubt that in the background of steep increases in prices that have taken place in the last two

years, those sections of the community, whether producers, traders or consumers, who have the capacity to hoard sizeable stocks, have felt tempted to hold larger than normal stocks. This has naturally aggravated the price situation.

1.3 The uncomfortable food situation in 1973 necessitated large scale imports of foodgrains at abnormally high international prices. These have considerably swelled the import bill, leading to a substantial drawdown of reserves, and the emergence of a sizeable deficit on trade account, despite good performance on the export front. Towards the latter half of the year, balance of payments came under further strain due to a sharp escalation in the price of imported crude oil. The situation with regard to industrial production and industrial investment also does not provide much room for cheer. Data available so far indicate that industrial production has increased only a little, if at all, during the better part of the year. Public sector investment in industry and minerals is also likely to be no more than last year.

1.4 The balance sheet for the economy thus looks distinctly unfavourable, and there is little point in minimising the task that the country faces in the coming year. The Government has responded to the economic challenges faced by the country through a variety of policy measures. These have been directed towards relieving the basic causes of economic difficulties as well as minimising their adverse effects on more vulnerable sections of society. That these policies have not made a significant impact on the price situation is too obvious a fact to need any elaboration.

1.5 In the following paragraphs, an attempt is made to briefly summarise the performance of the economy in 1973-74. The chapters that follow describe in detail the developments in major sectors of the economy and the manner in which public policies have responded to the needs of each sector.

TABLE 1.1
SELECTED ECONOMIC INDICATORS

	1969-70	1970-71	1971-72	1972-73	1973-74
	(Percentage change over previous year)				
1. National income at constant prices‡	5.5	4.3	1.7	-1.7	6.0
2. Agricultural production	6.7	7.3	-0.8	-9.1	..
3. Food production	5.8	8.9	-3.0	-9.5	..
4. Industrial production	7.4	3.0	3.3	5.3	-2.5*
5. Electricity generated	14.4	8.4	8.8	4.8	-8.6*
6. Wholesale prices	3.7	5.5	4.0	9.9	21.1†
7. Money supply	10.8	11.2	13.1	15.9	9.6@
8. Imports	-17.1	3.3	11.6	-1.5	33.7††
9. Exports	4.1	8.6	4.8	21.9	20.0††
10. Freight carried by railways	2.5	-0.7	4.6	2.5	..

‡Provisional Estimate.

*April-June, 1973 compared to April-June, 1972.

†April-December, 1973 compared to April-December, 1972.

@As on January 25, 1974 compared to March 31, 1973.

††April-October, 1973 compared to April-October, 1972.

National Income, Savings and Investment

1.6 Although no firm estimates of national income are available beyond 1971-72, it is likely that in 1972-73 national income (at constant 1960-61 prices) showed a small decline. Industrial production in that year had increased by over 5 per cent, but this was more than offset by a steep fall in agricultural production. In the current year i.e., 1973-74, however, it is likely that the rate of growth of national income will be about 6 per cent. This again is the result of a substantial anticipated increase in agricultural production. Industrial production is likely to make a small, if any, contribution to the growth of national income. Taking the Fourth Plan period as a whole, the average annual rate of growth of national income is not likely to exceed 3.5 per cent as compared to the Plan target of 5.7 per cent.

1.7 Both savings and investment in the economy seem to have reached their peak levels in 1965-66. Available data show a gradual increase in domestic savings as a percentage of net domestic product (at market prices) to the level of about 12 per cent in 1965-66 compared to 8.6 per cent in 1961-62. After that, the savings ratio tended to decline until 1969-70 when it picked up again and is estimated to have reached the level of 11.0 per cent in 1971-72. In 1972-73, according to Reserve Bank series on savings, there seems to have been a further increase in the ratio.

1.8 In the absence of both income and savings data, it is not possible to judge whether the savings ratio will continue to show an upward trend in 1973-74. One partial, though imperfect indicator of growth of savings in the economy is the growth in time deposits with commercial banks. In the current financial year, time deposits with banks have shown a high rate of growth and had increased by Rs. 1144 crores upto January 25, 1974 as against an increase of Rs. 866 crores over the corresponding period of last year. However, in the absence of complete data regarding asset-holdings of the household sector, it is not possible to say whether the growth in time deposits represents only a shift in the pattern of asset-holding or a net addition to total savings in the economy.

1.9 Aggregate investment in the economy can be estimated by adding net inflow of foreign resources to the estimate of domestic savings. The ratio of net investment to net domestic product (at market prices) reached 14.7 per cent in 1965-66. Thereafter, the investment ratio declined to 10.8 per cent in 1969-70. The fall in the investment ratio during this period was steeper than the fall in the savings ratio because of a simultaneous decline in net inflow of foreign resources. There was, however, an increase in the investment ratio after 1969-70 and it reached the level of 12.2 per cent in 1971-72. According to Reserve Bank data, which are not strictly comparable to the above figures, which are based on data compiled by the Central Statistical Organisation, the investment ratio remained stable in 1972-73.

1.10 In 1973-74, public sector investment is unlikely to be higher than in 1972-73. Partial information

available for a section of the private corporate sector shows that any increase that might take place in private corporate investment in 1973-74 is unlikely to make up for the stagnation in public sector investment. Since at the same time, real national income is likely to grow by about 6 per cent, it follows that the investment ratio this year may be lower than last year. In a year when price stabilisation has been the major objective of economic policy, this outcome is not altogether unexpected. Over the medium term, however, there can be no doubt that the success of both development as well as stabilisation efforts would depend on the ability of the economy to raise the level of investment at the expense of aggregate consumption.

Agricultural Production

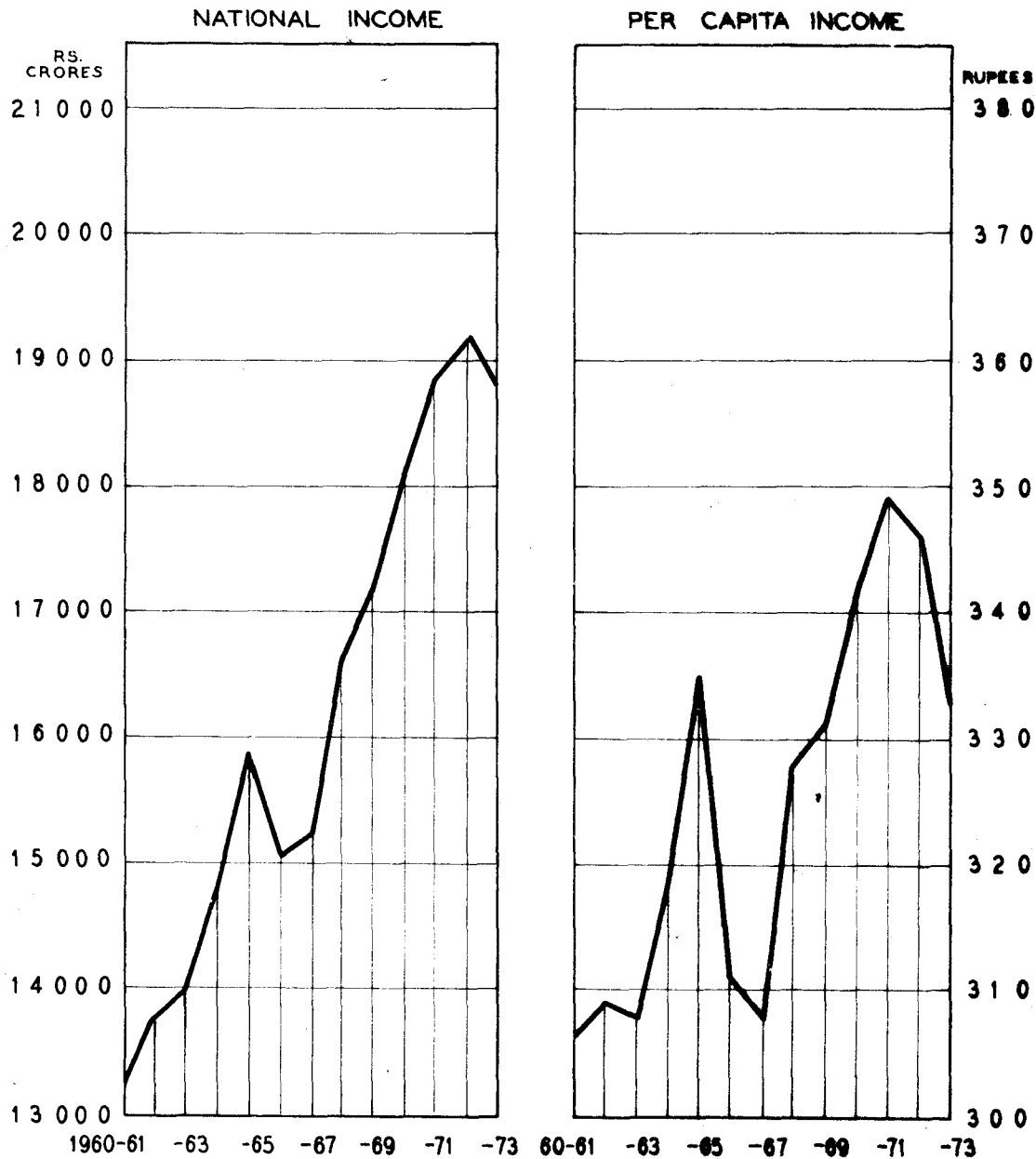
1.11 Agricultural output which declined by 0.8 per cent in 1971-72 registered a further sharp fall of 9.1 per cent in 1972-73. The behaviour of agricultural output in 1972-73, reflected the widespread drought conditions that prevailed almost all over the country in that year. Production of foodgrains as well as principal commercial crops, excepting sugarcane, declined significantly. Two most disturbing facts about cropwise pattern of production in that year were: a fall in the production of wheat for the first time since 1967-68, and a sharp decline in the output of coarse grains and major oilseeds, particularly groundnuts. Output of groundnuts fell from 6.2 million tonnes in 1971-72 to 3.9 million tonnes in 1972-73. Total output of five major oilseeds fell from 9.3 million tonnes in 1970-71 to 8.8 million tonnes in 1971-72 and to 6.7 million tonnes in 1972-73. This led to a phenomenal increase in prices of vegetable oilseeds and oils.

1.12 Fortunately, the unsatisfactory trend in agricultural output during the last two years is likely to be reversed in 1973-74. Preliminary estimates of output of the kharif food crops range between 65-68 million tonnes, and according to present indications it is likely that total output of foodgrains during the year may be about 110 million tonnes. The prospects for commercial crops are also equally good. For example, the output of raw cotton which declined from 6.6 million bales in 1971-72 to 5.5 million bales in 1972-73, is expected to increase significantly in 1973-74. Similarly, the output of principal oilseeds may again be close to the peak level of 9.3 million tonnes reached in 1970-71.

1.13 There are thus definite indications that the index of agricultural production in 1973-74 will register an increase of 10-15 per cent. This is certainly the most favourable development of the current year. However, it must also be pointed out that even then output in most cases in 1973-74 may not be significantly different from the corresponding output in 1970-71. This cannot but be a cause of concern since in the meanwhile population has grown at an average annual rate exceeding 2 per cent. Recently, it has been observed that while the growth of productivity in the case of wheat has slackened, there has correspondingly been no acceleration in the growth of productivity in the case of other foodgrains. The new high yielding varieties of seeds have

NET NATIONAL PRODUCT [NATIONAL INCOME]

(AT 1960-61 PRICES)
REVISED SERIES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

so far made no significant impact on the production of rice and coarse grains. In addition, over the years there has been no break-through in the production of oilseeds and the output of pulses has continued to decline. All these facts are indicative of significant gaps in our agricultural performance.

1.14 In the management of India's food economy there were two important policy developments during the year. One was, of course, the take over of the wholesale trade in wheat; and the other was a substantial increase in procurement prices as well as issue prices of kharif cereals. The procurement of wheat from the 1973 rabi crop fell short of the procurement target by a considerable margin and was also less than procurement out of 1972 rabi crop. This was no doubt partly due to a fall in the output of wheat. However, it appears that procurement was also hampered by considerable resistance on the part of farmers and erstwhile wholesale traders. It has been suggested that the unsatisfactory progress of procurement was on account of an unremunerative procurement price. However, the fact that the shortfall in procurement was relatively less marked in a State like Punjab, which has much higher cost of production than many other States, indicates that this factor could not be a sufficient explanation of the shortfall. However, the experience regarding wheat had a major influence on the evolution of food policy for the kharif cereals. Thus procurement prices were increased significantly in order to induce farmers to sell more of their grain to the public sector agencies. In addition, in order to keep the amount of food subsidy within safe limits, issue prices of rice, wheat and coarse grains were revised towards the closing months of 1973.

1.15 How far a higher procurement price will help in achieving the procurement targets for the kharif cereals is yet to be seen. Clearly, in this matter public policy faces a dilemma : if procurement prices are not sufficiently remunerative, farmers will not sell their grain to the public sector agencies. At the same time, pushing the procurement prices too high will inevitably reduce the effectiveness of the system of public distribution in protecting the vulnerable sections of society whose paying capacity is bound to be severely limited.

Industrial Production

1.16 Data on industrial production are available for the first half of the calendar year 1973. These show that there was a small decline in the index of industrial production during the period. Performance in certain critical sectors, such as, steel, power, and fertilisers was particularly unsatisfactory. On present indications, it is likely that growth of industrial production in the current year would be very low. Apart from normal factors (e.g. inadequate availability of raw materials, transport bottlenecks, labour unrest, a low level of industrial investment, and management problems, etc.) which have restrained industrial activity in the country in recent years, this year's production was also affected by a widespread shortage of power. Total generation of power in 1973

is in fact likely to show a decline over 1972. Part of the reason for stagnation in electricity generation was the failure of monsoon in 1972; an equally important reason has been inadequate maintenance and insufficient attention to operational efficiency in generation and transmission of power.

1.17 While the overall growth in production is likely to be unsatisfactory, there are some hopeful signs. One such development is the satisfactory performance of the heavy engineering industries, the metal manufacturing industries, heavy electricals, and transport equipment industries. The aggregate performance is likely to have been much better but for the slow-down in growth of textiles and the chemicals group of industries. Another hopeful development is the fact that, in 1973-74, several public sector industrial enterprises have shown a substantial increase in output as compared to the corresponding period of 1972-73. In a country like India the satisfactory performance of public sector enterprises is of great importance since this adds to resources available for public investment at the same time that it augments the availability of goods and services in the country.

Prices

1.18 Compared to an average increase of 7.8 per cent in 1972, the wholesale price index went up by 19.2 per cent in 1973. Although prices rose almost every month in 1973, the largest increase took place in the period May-July. The index registered a slight decline for a brief period in August-September. However, since October, 1973 the index has again risen every month, though at a much slower rate. Thus, the normal seasonal decline in the price index, which takes place from mid-September to December, did not occur in 1972 as well as in 1973.

1.19 An analysis of price movements in 1973 points to the leading role of food articles and industrial raw materials in determining the behaviour of the price index. The two groups together accounted for as much as 78 per cent of the increase in the wholesale price index in 1973. While for the period as a whole, the contribution of foodgrains and industrial raw materials in price rise remained predominant, it is worth noting that, after July, 1973, prices of manufactured goods emerged as a more important causal factor in price inflation. Prices of both intermediate products and finished products increased substantially during the period. Prices of intermediate products have increased partly because of a steep increase in international prices of non-ferrous metals as well as due to a substantial increase in the administered prices of iron and steel items in September and October, 1973. Among finished products, the largest increase was recorded by prices of mill cloth, metal products and oilcakes.

Fiscal and Monetary Policies

1.20 The major task of fiscal and monetary policies during 1973-74 was to assist in the control of inflation. A principal objective of the Central Government budget for 1973-74 was to greatly reduce reliance on budgetary deficits for financing public sector

consumption and investment. In pursuance of this objective, the Central Government decided in August, 1973 to further reduce its expenditure by Rs. 400 crores without affecting investment in the vital core sectors of the economy. As against the budget provision of Rs. 326 crores for market loans, net receipts until December, 1973 amounted to Rs. 472 crores, even though a sizeable part had to be absorbed by the Reserve Bank. However, both because of the unexpected shortfall in collections from excise duties and much higher expenditure (on items such as, relief of natural calamities, the liability arising out of the Pay Commission's recommendations, increase in food subsidy despite upward revision of issue prices and a significant deterioration in the railways' financial position), the Government's efforts to contain the size of the budgetary deficit are unlikely to meet with a significant degree of success.

1.21 Despite continued emphasis by the Reserve Bank on credit restraint, credit expansion to the commercial sector recorded an unusually large increase in the 1973 slack season. For the current busy season, the Reserve Bank has set a quantitative ceiling of Rs. 400—450 crores for aggregate expansion of bank credit to the commercial sector, excluding credit for food procurement and exports. In the current busy season so far, i.e. until January 25, 1974, bank credit for non-food commercial sector expanded by Rs. 447 crores as compared to Rs. 427 crores during the corresponding period of 1972-73 busy season. This suggests that if genuine additional needs of productive sectors are to be met without upsetting the Reserve Bank's aggregate ceiling, there will have to be considerable redeployment of outstanding credit in the next two or three months. Money supply with the public has increased by Rs. 407 crores in the current busy season until January 25, 1974 as compared to Rs. 442 crores during the corresponding period of last busy season. However, in the calendar year 1973, money supply with the public increased by 15.8 per cent. This indicates the persistence of a sizeable imbalance between aggregate demand and supply in the economy.

International Trade and Payments

1.22 Balance of payments data are not available for either 1972-73 or 1973-74. Customs data compiled by the Director General of Commercial Intelligence and Statistics, however, show that these years have been good years for growth of India's exports. Exports increased by 21.9 per cent in 1972-73 and by 20.8 per cent in first eight months of 1973-74 as against an increase of only 4.8 per cent in 1971-72. Part of the explanation for increase in exports in 1972-73 lies in certain temporary factors e.g., credit financed exports to Bangladesh. It is also likely that due to frequent changes in exchange rates during this period, the growth in foreign exchange earnings is likely to be lower than the growth in rupee value of exports. Further, the fact that higher prices for some of our traditional exports have made a significant contribution to export growth since 1972-73 is indicative of the potential weakness of our export effort. As the international commodity boom ends, some of our exports are bound to be affected. A significant shortfall in exports of engineering goods in relation to the

Fourth Plan target is another indication of the weakness of our export base. Thus recent export performance, welcome as it is, cannot be accepted as a definitive evidence of a break-through.

1.23 India's imports recorded a fall of 1.5 per cent in 1972-73. However, according to data available for the first eight months of 1973-74, imports increased by about 45 per cent as compared to the corresponding period of 1972-73. The trade balance in 1972-73 showed a surplus of about Rs. 164 crores as compared to a deficit of Rs. 216 crores in the previous year. During the first eight months of 1973-74, the trade balance showed a deficit of about Rs. 71 crores as against a favourable balance of about Rs. 156 crores during the corresponding period of the previous year. The trade balance is likely to show considerable further deterioration in the remaining months of the year due to a steep increase in import prices of crude oil.

1.24 That our balance of payment has been under considerable pressure this year can be deduced from the movement of foreign exchange reserves during the year. In rupee terms, reserves were at a comfortable level of Rs. 846.6 crores at the end of 1972-73. However, in the first ten months of 1973-74, reserves have declined by Rs. 70 crores. The pressure on reserves and balance of payments is likely to increase still further in the remaining months of this year because of a sharp escalation in the price of curde oil.

1973-74 : Overall Assessment

1.25 The preceding brief survey shows that both agricultural production and national income are likely to record a significant increase in 1973-74. Nevertheless, the economy continues to be under severe strain, partly because the expected increase in agricultural production and national income has come in the wake of two successive years of unsatisfactory performance. Presently the greatest concern relates to the price situation. Another area of concern is the sluggishness in industrial production and continued under-utilisation of existing capacity in several critical sectors, such as, iron and steel and fertilisers. Further, because of a steep increase in the price of imported crude oil and sizeable imports of food, the balance of payments is also likely to show a significant deterioration. The continuing good performance of exports is a relieving feature in the present situation, but this by itself is unlikely to provide an adequate answer to the emerging balance of payments problems created by the sharp increase in oil prices. Thus maximum economy will have to be observed in the use of imported supplies, and measures designed to increase the domestic production of such critical import-substitutes as iron & steel, coal, oil and non-ferrous metals will have to receive urgent attention.

1.26 The experience of 1973 has once again demonstrated the crucial place that agriculture has in our economy and the disruptive effects of unsatisfactory performance in agriculture on all other aspects of economic performance, e.g., industrial production,

prices, balance of payments, the budget, and the distribution of income. In this context, the wide fluctuations in agricultural output from year to year, depending on the vagaries of the monsoon, perhaps constitute the most basic single problem in the sound management of the economy. As was pointed out in last year's Economic Survey, reduction of this instability, through a speedy expansion of the area under irrigation and evolution of suitable techniques of dry farming, constitutes one of the most pressing immediate tasks before the country. Both economic efficiency and social justice demand that no effort need be spared to make a significant advance on this front in the coming years.

1.27 Notwithstanding the pivotal place of agriculture in the economy, the importance of sustained growth of industrial production and investment for long run development of the economy cannot be overemphasised. Diversification of the economic structure is possible only through industrialisation, which means that the industrial base of the economy must progressively gain in importance. The rate of growth of industrial production in the last few years has been far from satisfactory. Economic management in the coming years will have to find effective ways and means of imparting a new element of dynamism to India's industrial economy. This task will have to be accomplished despite the increased severity of the foreign exchange constraint.