AN ECONOMIC REVIEW — 1957

BY

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> "People must come to accept private enterprise not as a necessary evil, but as an affirmative good."
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> Eugene Black
>
> President, World Bank

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THERE is an old adage that speech is silvern and silence is golden. However, there are occasions in the life of man when it would be considered a crime against society to remain silent. I believe this is one such occasion. Truth always hurts, but truth has to be told in the larger interests of the country. Mahatma Gandhi was an apostle of truth. But it is unfortunate that today some of his followers, and particularly some of those placed in high authority, are honouring his memory by practising considerable economy of truth. The Forum, for the last 18 months, has been endeavouring to place before the country a true picture of our economic situation and in spite of considerable opposition and criticism and deliberate misunderstanding in some quarters, it can at least take credit for the fact that an increasing number of people are developing sufficient courage to speak out their minds. It is rather heartening to learn that even some of those who had advised us on "Purdah" representations and consultations with the authorities have now publicly stated their views on the economic situation and the way it should be tackled.

As we are living under a planned economy, any true assessment of the economic situation today would be an assessment of the working of the Second Five-Year Plan. Lest both I and the Forum be misunderstood, I wish to reiterate that we believe in planned development of the country. That, of course, does not mean that we accept the basis on which the development of the country is laid out in the Second Five-Year Plan. For the last 18 months, we have missed no opportunity in revealing the deficiencies of the Plan, its over-ambitious character and its general approach. We also sounded a note of warning that if the implementation of the Plan as it was made was persisted in, it would create a man-made crisis of a magnitude which we had never experienced before. That crisis unfortunately has come and has been acknowledged, though in different terms, even by the highest authorities in the country. It is not my intention to say "I told you so", but to present to you the various aspects of our economy today and to suggest possible remedies to get out of the mess that has been created.

The Second Five-Year Plan was based on a certain philosophy, namely, the attainment of a "socialist pattern of society." I am sure, by this time, both the planners and their supporters have realised that this philosophy which looked such a fine horse in the stable is proving an arrant jade on the journey. I shall never tire of pointing out that comprehensive planning in a country like ours without the necessary tools and equipment can only result in an amateurish attempt based on assumptions which have no relation to actual facts. The Plan has broken down at various stages and for various reasons, some of which at least could have easily been foreseen and the rest could have been easily avoided, but for wishful thinking. For instance, the estimate of resources, both internal and external, was so hypothetical that it could not, under any conceivable circumstances, materialise. The lack of co-ordination between the possible attainment of inter-related targets fixed was so obvious that the development could only be of a lopsided character. Priorities were determined without relation to the interdependence of various factors. It was not sufficiently appreciated that factories and townships, dams and shipbuilding yards cannot be built by prescribed dates without a preceding flow of essential materials like cement and steel. Docks and harbours and transport facilities which required topmost priority have been found in a state where they handicap the attainment of other targets. In short, within 18 months of starting the Second Five-Year Plan, it has been found unworkable.

Earlier criticisms of the Plan were met by the statement that the Plan was flexible and could be reviewed every year, but the idea of annual review has been found unpracticable. You embark on certain projects which should take two, three or five years to complete, you make commitments both internally and externally on the completion of these projects, and it is only self-delusion to believe that you can revise decisions at the end of each year whether to proceed with the projects or not. The commitments once made are of a character that their suspension would be a very costly affair apart from the demoralising effect of suspension.

Necessity is the mother of invention and, therefore, the authorities have invented a new fiction called the "core of the Plan". This word does not occur at all anywhere in the text of the Second Five-Year Plan. What is the "core of the Plan" has not yet been precisely defined and before it could be defined a new refinement has been made on it and called the "hard core of the Plan". The authorities who have been entrusted with the task of implementing the Plan have shown a remarkable lack of understanding of public psychology. The uncertainties created by the vague and loose definition of Intention are creating in the country today a sense of frustration and there is nothing so fatal to any plan for development as the state of mind in the country where people are not definitely told "what next?" People have actually started wondering whether even the Government know their minds. The Finance Minister recently told Parliament that he would not be in a position to give a complete picture of where the Plan stands till the next Budget time. People naturally ask what is going to happen in the meanwhile.

Take the question of our foreign exchange resources. On November 30, 1956, our foreign balances stood Rs. 536 crores. On November 29, 1957, if we exclude the loan of Rs. 95 crores from the International Monetary Fund, the foreign balances have dwindled to Rs. 214 crores. The indiscriminate and almost crazy manner in which licences were issued in 1956 has created in the country a very serious crisis. Incidentally, the country has never yet been told on what basis these licences were issued and whether there was any administrative machinery at any given time to apprise the Government of the total number and amount of licences issued. I have been told a story of an Irish kitchen-maid whose knowledge of arithmetic was confined to mere additions: I am afraid the officers of that particular Ministry have not impressed us even with that limited knowledge of arithmetic. Somebody must have bungled and we know who did bungle. Even today, we have not been told what is the total amount of outstanding licences issued in 1956 and during the current year. In the absence of official statistics, the outstanding commitments have been variously estimated and they have been placed anywhere between Rs. 800 to Rs. 1,000 crores. These are actual Commitments and Providence alone knows how the gap between our available resources and the total commitments is to be made up.

There is one redeeming feature, however, that., though late, the authorities have awakened to the reality of this embarrassing situation and have started making an effort, both in augmenting the resources and in curtailing further drains in future. The reorientation of import policy which started in a half-hearted way is now being pushed up to meet the necessities of the situation. I do not know if the country sufficiently realises how vital this question is to the maintenance of India's credit abroad. India has so far a very fine record of honouring all its obligations and, although a mess has been made, I would earnestly appeal to every patriotic citizen of this country to support the Government in any measure that may be deemed necessary to see that India still continues to honour its obligations abroad.

Let us hope that the recent efforts which have been made to secure foreign assistance will succeed in a substantial measure; but the nature and magnitude of such assistance is today a matter of guess-work. In the meantime, what I would strongly @-commend is a further and drastic cut in our future imports. I would personally support Government even in having a close screening of the outstanding licences and in cancelling those licences which have remained unutilised for more than six months. There is still today some trafficking in licences and certainly the Government, with their resources, should be in a position to summarily cancel such licences. The Government should also call upon all licencees to file statements of the extent to which licences have been utilized and to give them a reasonable notice of termination, except on satisfactory proof that the licences would be utilised within a reasonable period of time.

In making such a recommendation, I am fully aware that a drastic curtailment of import licences might involve not only curtailment of future plans for expansion, but even the reduction in the installed capacity of existing industries. It is really a hardship and might mean a lower tempo of industrial activity, but on the other hand, it is impossible to contemplate a situation where India could fail to meet its obligations abroad.

I believe it is completely indulging in self-delusion to presume that the foreign exchange crisis is a temporary, passing crisis of our economy. If this country is to develop and go on developing in the next generation, the foreign exchange difficulty will continue for many years to come, and the only solution is to create a climate in this country which would go on attracting foreign capital. A realistic appraisal of the possibilities of our expanding exports does not reveal any substantial augmentation of our foreign resources. The exportable articles are few and limited in number and most of them are of a very highly international competitive character. In any case, it would take some time before even a modest increase in our exports could be achieved.

One great potential source of developing our foreign resources is to develop tourist traffic on a large scale. I believe that an investment of Rs. 15 to 20 crores will enable this country to build up, over a period of years, a tourist traffic which would annually yield Rs. 50 crores of additional foreign exchange. This would, of course, mean shedding some of the fads like Prohibition, abolition of first-class travel, etc., which are today dissuading some people from abroad to visit India. It would also call for a new outlook on the question of visas and withdrawal of certain humiliating conditions like reporting to the police on arrival in India.

In order to meet the foreign exchange crisis, I said that we should create a climate for attracting foreign capital. The few business men who recently visited countries like the United States have brought encouraging news of possibilities of foreign capital coming to India, provided we create the necessary climate. What will create the necessary climate?

These gentlemen, after visiting so many countries, have told us that when they were there, they found a number of misconceptions, a word which I have been unable to understand. In any case, there they were asked too many questions and there were too many criticisms about things like our taxation structure, compulsory deposits, elaborate Governmental procedures and so forth. So far as the compulsory deposits are concerned, the Forum from the very inception of the idea pointed out to the Government that compulsory deposits, if not in actual fact, psychologically would prove a serious deterrent to any foreign money coming to India. There was considerable resistance to this criticism. Ultimately, the rules pertaining to compulsory deposits were so watered down that I understand not more than Rs. 2 crores have been collected so far. But the mischief psychologically has been done and the withdrawal of this vicious feature in our taxation structure would go some way in inducing foreigners to come to India.

The Taxation Structure: Prof. Kaldor was invited by the Government of India to advise them on financial matters. In his mental laboratory, two test-tube babies were born—Wealth and Expenditure Taxes—which were readily adopted by our Finance Minister. The Finance Minister was possibly not conscious of the fact that these two new taxes had brought with them what is called Pandora's Box. You have only to open the lid to realise what a world of troubles was awaiting. In any case, in the teeth of country-wide opposition, opposition not from people like us but even from members of the ruling party, and against the advice of many friends abroad, the Wealth Tax and the Expenditure Tax have been brought in; even a compromise suggestion of not having Wealth Tax on companies was not accepted, with the result that it has created an atmosphere abroad where people are really frightened by the taxation structure and pattern in India. We in India may have reasons at time to complain that undue preference is shown to outsiders. Only three days ago, I received a copy of an attractive booklet issued by the Government of India in U.S.A., the heading being "Corporate Taxation in India", wherein an attractive picture is sought to be made out to induce foreign investors not to get frightened by the taxation in India. In any case, we do not seem to merit **that** attention. But this taxation structure is there, all the same. You have got the Income-tax if you earn money, if you earn money in excess of a certain limit, you pay super-tax, if you are lucky enough to have accumulated some savings after 20-25 years of hard work in life and collected over **Rs.** 2 **lakhs** you become an **assessee** under the Wealth Tax Act, if you are fortunate enough to be in a position of spending Rs. 36,000 in a year then you come in for this new **tax,** the Expenditure Tax, if you travel more than **30** miles, then you are another lucky contributor to the exchequer. What is not realised by the Government of India is the very simple fact which was **told the** British Parliament many years ago by a very eminent Chancellor of the Exchequer that money fructifies better in the pockets of individuals than in the Exchequer.

Nearly Rs. **100** crores of new taxation was **levied** last year. And look at our budgeting position. We are still awaiting the award of the postal and telegraph workers. There is pressure from the Railways for railwaymen asking for increase in wages and dearness allowance. There is the pressure from the Defence Department to strengthen our defence. And, therefore, the budgetary position at the end of the year, after meeting these demands, if not it remains the same, it can be a little worse. In the meantime, all the mischief has been **done—no** incentive has been left to the people, the state of stock market is pathetic, first-class investments on a yield basis of anything between 6 and 12 per cent are going a-begging,

conservative minded peaple, widows, orphans and minors for whom guardians invested their moneys in first-class preferred stocks are finding their capital disappearing into thin air by anything between 20 to 40 per cent, conditions have arisen where one of the biggest American Companies operating in India, the National Carbon Company, a subsidiary of one of the **12** biggest corporations **in** the world, the Union Carbide, cannot raise money on debenture for less than 6½ per cent. Then there is the plight of our largest industry, the Textile Industry. **A** few mills have already closed down because they have no money to finance their business. There are a few more which I am told will be **closed** down in the next week or two. Confidence has been lost, people **who** have some money are sitting tight on it, people **who** have confidence and no money will not take the risk which they would normally **take—the** net result has been that the taxation **structure** has destroyed all incentives. Resources which should have been made available for the development of the country have very largely disappeared owing to severe depreciation of capital suffered; and in some cases the resources are there, but confidence is absolutely lacking and these resources will never be taken out for developmental project in this country.

There is also the **rigmarole** of Governmental procedure. An interesting report appeared in The **Hindustan** Times of November 29, 1957. The heading **is "Nehru's** Experience of Bureaucracy." It says:

> "Even the Prime Minister cannot do much to promote the co-operative movement under the present law on co-operatives, Mr. Nehru confessed at his Press Conference in New Delhi on Thursday.
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> "He was speaking from personal experience.
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> "Mr. Nehru explained that some time ago, he tried **to** help in the formation of a cooperative

in Punjab, near the Union capital. But he found that the Registrar of Co-operatives 'will go on putting the most amazing questions again and again. They are too difficult to answer. Every obstruction is put in the way, either by the Government or the Registrar.'

"Mr. Nehru said he ultimately got it through in eight months.

"He observed: 'If I found it so difficult very near Delhi, imagine the (plight of the) poor peasant or somebody else who tries to get it done.' "

An American gentleman came to India at the beginning of this year to explore the possibility of putting up a new industry. After three months, he returned to his country leaving behind this message: "In the course of my preliminary inquiries, 1 had to contact not less than 20 different authorities in your state and in the Centre to get preliminary information in respect of my project. I wonder what will happen when I actually undertake the project. Therefore, I have decided to return to my country." When I had the opportunity of going to the South early this year, I met a number of business men. Many of them, particularly the medium-class industrialists, told me how difficult it was to start any industrial project in this country. Most of them had one uniform story to tell. They say, they go to Delhi, cool their heels for a week or two, find it extremely difficult to get an appointment with the Secretary of the Department, much less with the Ministers. They add that, "In the meantime my foreign collaborators get restive, it takes months before I can reach anything near finalisation of my project, with the result that I give up the scheme loosing all the preliminary expenses I have made and incur the displeasure of my foreign collaborators."

The procedures which have been set up under the planned economy are so elaborate if not vicious

In some respects that the people are getting actually fed up. The number of authorities who have to be seen and the amount of work that has to be put in behind the screens accumulate to a point which very few people are prepared today to meet. Out of my personal experience, I will give you another instance. A very enthusiastic young man came to see me early in 1956 with the recommendation of a very leading member of the ruling party. He had an industrial project which appealed to me, and I considered that project should do a lot of good to the country if it was started. I got going, but I warned him that his enthusiasm would soon wane if he thought that within the course of the next few months he can put the the project through. That young man came to me in last June and reported that he had finally succeeded in completing all the preliminaries!

Unless we succeed in improving the climate by providing the necessary incentives to foreign and domestic capital we shall be searching for a needle in the haystack.

Apart from the problem of foreign exchange, there is the growing problem of internal resources. This problem of internal resources affects both the Private and Public Sectors. Mr. Gulzarilal Nanda, Minister for Planning, recently disclosed in a speech, which was refreshing for its realistic approach, that the Government have been falling far behind their estimates both in their public borrowings and in their small savings collections. He, therefore, indicated that the outlay of the Plan structure will have to be restricted to Rs. 4,800 crores. In the context of our existing situation and the conditions which are likely to prevail in the next three years because of the necessary restrictions on the tempo of our activity, any attempt to spend so much money would be inviting serious trouble to the general economy of the country. Whether we like it or not, if economic health is to be maintained even at a low level, expenditure of this magnitude is simply not practicable. After all, development of a country is a continuous process and any forced implementation will generate such forces as would cause a serious setback instead of taking us further on the road of development.

A new philosophy is being preached in recent weeks that in an under-developed country there can be no inflation. It is so naive, if not puerile, that it would hardly merit any attention; but since it is capable of mischievously misleading public into a state of self-complacency, it has to be controverted. With the restrictions on the tempo of industrial activity, necessitated by our desperate foreign exchange situation, and with food production lagging behind, any new large-scale expenditure on development would leave additional purchasing power unmatched by increased production, and is bound to result in increasing the general level of prices, cost of living, reducing our competitive capacity in the export markets of the world, and will ultimately cause widespread distress in the country.

In the last few days, another impression is being created that acute monetary stringency which has been our experience for the last two years is now being relieved. This is another attempt to deceive ourselves. The Private Sector continues to suffer from shortage, both of working and long-term capital.

The trouble in this country is that we have statistical information which is not reliable or is too old and not up-to-date to enable the authorities to reach the right decisions. Attention has been drawn to the fact that during the last two weeks what is called the all-India average of ratio of advances to deposits of the scheduled banks has been declining. These all-India figures are of a very illusive character. What is forgotton is that today in the banking

structure of the country the State Bank, which is a Governmnt organ, has come to command a very predominent position. According to the latest available figures, nearly 25% of the total deposits of this country with scheduled banks are held by the State Bank. Naturally, therefore, with this predominance, the position of the State Bank affects the all-India average. I must take this opportunity of lodging a very serious grievance on behalf of the Private Sector that the way the Government are diverting the resources which would normally be available to the private banks to State Bank is leading to such concentration of banking power in the hands of the State Bank that it gives an entirely distorted picture of the banking situation in the country. The State Bank last week had Rs. 345 crores of deposit, one important item of which was that Rs. 90 crores of the counterpart funds — counterpart funds are funds which are created against the release of the loans of things like agricultural products which we have obtained from the U.S.A. under what is called PL 480— have been passed on to the State Bank. I understand that one of the conditions on which this loan has been given to the Government of India is that these funds, amongst other things, must be used for the support of Private Enterprise in India. Similarly, the Government of India have been giving directions to local authorities, municipalities, port trusts, universities and, I understand, now even the embassies in New Delhi, that their balances should be maintained in the State Bank of India. Under such a situation, to rely on an all-India average showing a decline is to give a very misleading picture to the country. So far as my daily observation goes, excepting a few banks, a large number of leading banks of India today are unable to cope with applications for new loans and advances consistent with the maintenance of normal liquidity of banks. In that situation, to give the country an idea that the monetary stringency which has been so acute is being relieved is to convey a very misleading picture. So far as long term capital is concerned, it is simply not there.

The recent experience of financial houses who do underwriting of industrial issues has been unusually unfortunate so much so that most of the recent industrial issues had to be taken up by underwriters to the extent of anything between 50 to 98.5 per cent. You will be interested to know that an underwriting of a small amount of 11 lakhs of shares of a new small textile company in West Bengal resulted in attracting applications from all over the country of shares worth Rs. 700! That is the state of affairs. The Private Sector from day to day is finding itself extremely short of resources, leave alone for expanding business but even for maintaining the present tempo of activity.

At a time when imports have necessarily to be curtailed, which would lead to scarcity of consumer goods, and when food will have to be distributed on some sort of rationed basis, one effective way in which the public of this country should co-operate with the Government is to abstain scrupulously from any kind of hoarding and profiteering. The Forum of Free Enterprise recently issued an earnest appeal through leading newspapers throughout the country to this effect. I wish to reiterate this appeal that it is the normal, patriotic duty of every citizen of India to eschew all temptations for making additional profit by exploiting the scarcity of consumer goods which has been forced on this country.

In this connection, I cannot help referring to the standard of conduct which should be maintained by the administration itself. We have already made a charge, which I repeat here with a full sense of responsibility, that the State Trading Corporation, which is an organ of the Central Government, has been indulging in profiteering in the cement trade. The report of the first year's working of this Corporation

fully confirms this charge. After allowing for the loss of Rs. 47 lakhs of imported cement and after paying a handsome commission to the State Trading Corporation for handling nothing, there has been a net surplus of Rs. 5½ crores secured by the monopoly of distribution of cement in the country. This is absolutely unjustified and proves that the consumer of an essential commodity like cement has been subjected by Government to needless profiteering. It is only right and proper and it is immediately due to the public of this country that the Government should reduce the price of retail ,cement by 10% and set an example to the business community in general that profiteering is an anti-social activity.

I may be asked what is the solution to our present problem. My answer is again, a realistic approach. It is true that in last few weeks, there is some evidence of realism dawning on our authorities. With all the differences I have with the Finance Minister of India—and I have some big differences with the Finance Minister of India—I am bound to acknowledge that the speeches which he recently made in U.S.A., West Germany, Canada and other places carry with them a little refreshing breath, refreshing in that he has faced the situation in a very realistic way. Reading between the lines, it also indicates his intention to meet the situation in a realistic way. But I am sorry to note that some of the recent speeches of the Prime Minister leave the public more bewildered than ever before. I am sure, the Prime Minister will be the first to acknowledge that knowledge and understanding of economic and financial problems are not amongst his strong points. One of his recent statements that we shall die but the Plan will be implemented will hardly carry us any further towards meeting our existing difficult situation

What is required today is a courageous realism, courage of a character that will admit past mistakes and show resolution to benefit by them. Economic laws have evolved out of the experience of human behaviour over a period of centuries. They have not been passed by any Sovereign Parliament. These laws can only be ignored at our peril. My earnest appeal and strongest advice to the authorities is, "consult your purse, and not your pride." The Prime Minister has appealed for co-operation. He will get the whole-hearted co-operation of the country if the country knows precisely where it stands today.

A true democracy always functions best when it is told the worst. A true democracy also functions fruitfully when criticisms of Government are taken in the right spirit and not resented. The planned economy and the way it is implemented has already created very strong resentment in numerous sections of the community. The limitless powers which have been vested in the bureaucracy, and under which a growing army of "chota Hitlers" has been created, threatens to destroy the very element of democracy in this country. Unless, therefore, the Government re-shape their attitudes and policies in a manner which would create the will in the country to co-operate and support Government in the universally accepted objective of raising the standards of living of our masses, God help this country.

Text **of** a **talk given** under **the auspices** of **the Forum** of **Free Enterprise** in **Bombay,** *on* **December** *9,* **1957.**

Free Enterprise was born with man and shall survive as long as man survives.

—A. D. Shroff

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