# A NOTE OF DISSENT ON THE MEMORANDUM OF THE PANEL OF ECONOMISTS*

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I am unable to subscribe wholly to the views of my colleagues on (1) the Size of the Plan, (2) Deficit Financing as a means of raising real resources for the Plan, and (3) certain Policy and Institutional Implications of the Plan Frame. I may set out, briefly, my views on these subjects.

## I. SIZE OF THE PLAN

The Plan Frame is built on the basis of a 25 to 27 per cent, increase in the national income in five years. The targets of production in the several sectors, which correspond to this rise in income, would require an increase in net investment (or savings) from 6.75 per cent of the national income in 1955-56 to 10.95 per cent in 1960-61. This relationship yielded a figure of a total net investment of Rs. 5,600 crores in five years; Rs. 3,400 crores of this expenditure would be in the public sector and Rs. 2,200 crores in the private sector.

The total developmental outlay corresponding to a net investment of Rs. 3,400 crores in the public sector would be Rs. 4,300 crores. Adding to this an expenditure of Rs. 4,500 crores outside the Plan, the total outlay of the Centre and the States would be Rs. 8,800 crores in five years. The Plan Frame proceeds to finance this expenditure in the following manner:

| | (Crores of Rupees) |
|---|---|
| 1. Revenue and other current Receipts at the of 8.5% of the National income | 5,200 |
| 2. Railway surplus | 200 |
| 3. Loans and Small Savings | 1,000 |
| 4. Foreign assistance | 400 |
| 5. Additional taxation, compulsory savings, and higher profits from government enterprises | 800-1,000 |
| 6. Deficit Financing | 1,000-1,200 |
| **Total** | **8,800** |

If we separate from the above the total developmental outlay on the Plan (Rs. 4,300 crores) the resources for the public sector of .the Plan would be derived probably as under :

| | | (Crores of Rupees) |
|---|---|---|
| 1 . | Loans and Small Savings | 1,000 |
| 2. | Foreign assistance | 400 |
| 3. | Revenue Surplus on the basis of Revenue Receipts at the current rate of 8.5% of the national income. | 900 |
| 4. | Additional taxation, compulsory savings, and higher profits from government enterprises | 800-1,000 |
| 5. | Deficit Financing | 1,000-1,200 |
| Total | | **4,300** |

My colleagues have stated that the increase in investment required for the Plan Frame is "fairly ambitious" and they "stress that the effort involved in this increase is considerable, and will strain the economy a very great deal" (para. 7). Earlier however, they have observed that "given a determined bid to put forth a maximum measure of effort", the national income objective, which this rate of increase in investment would yield, "can be attained" (para. 4). This, to my mind, does not adequately indicate the risks which an investment attempt on this scale may involve (unless foreign assistance becomes available in an incomparably larger measure than envisaged in the Plan Frame). To force a pace of development in excess of the capacity of the available real resources must necessarily involve uncontrolled inflation. In a democratic community where the masses of the people live close to the margin of subsistence, uncontrolled inflation may prove to be explosive[1] and might undermine the existing order of society. In such a background one cannot subsidise communism better than through inflationary deficit financing. Probably the greatest enemy of the Kuomintang in China was the printing press. Alternatively, if appropriate "physical measures", familiar to a communist economy, were adopted (in an effort to prevent inflation) we would be writing

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[1] From the standpoint of social security, the incidence of further inflation on the real incomes of the Constable in the Police Forces and of the Jawan in the Defence Services should be borne in mind. This aspect of the matter must not be dismissed lightly under the thought that dearness allowances would provide adequate compensation. The salary and allowances of a Constable in the Police Force, I understand, varied between Rs. 86 and Rs. 100 p.m.

off, gradually or rapidly, depending upon the exigencies, of the plan, individual liberty and democratic institutions by administrative or legislative action. We should be, therefore, forewarned of the dangers of an over-ambitious plan. A wide gap between targets and achievements as has been hither to the case with the first plan was a third possibility This depended, however, upon the rigour with which we may resist temptations for inflationary finance, and the pressure to encroach upon the liberty of the individual. Such resistance may prove to be difficult under the natural enthusiasm to reach the targets. It may entail, moreover, some wastage incidental to a revision (to match in the available resources) of a plan in progress which had been based on a larger blue print.

The Plan Frame begins by prescribing the increase in national income which the Plan would set to achieve. Its authors, then, proceed to find the real resources necessary for the corresponding rate of investment. In making the national budget, it is permissible to determine expenditure first and then, raise equivalent funds, as the Receipts of the State form but a part of the total national income. The budget can grow by drawing on the rest. This procedure cannot be applied to the budget of a Plan, which embraces the entire monetised saving and investment activity of the nation. Here the availability of real resources must be assessed first and the investment plan must match it. In a communist economy the volume of savings may be made to vary within fair limits by restricting allocations to the consumer trades. Within these limits a communist plan can determine expenditure first, and, then, proceed to find the requisite resources. In a democratic society the scope for variation in savings, which is largely the result of individual choices, is comparatively limited.

The availability of real resources must depend on the reliability of the estimates of saving. Under no circumstances can total net investment (excluding external assistance) exceed the total net savings of the community. Revenue surpluses, surpluses of State business undertakings, loans, ploughing back of profits, deficit financing, credit creation, and so on, are but devices of appropriating the savings of the community for purposes of the Plan. There is no device of creating real resources which are not saved.

A paper on “Capital Formation in India” supplied to the Panel of Economists estimates net domestic capital formation India, in the recent past, as under :

**Net Domestic Capital Formation in India**

| | (1) | (2) | (3) |
|---|---|---|---|
| | (Rs. in Crores) | | |
| | Net Domestic Capital | National Income | 1 as % of 2 |

| | formation | | |
|---|---|---|---|
| 1948-49 | 446 | 8,580 | 5.2 |
| 1949-50 | 524 | 9,000 | 5.8 |
| 1950-51 | 589 | 9, 500 | 6.2 |
| 1951-52 | 672 | 10, 000 | 6.7 |
| 1952-53 | 659 | 9,800 | 6.7 |
| 1953-54 | 71 9 | 10, 500 | 6.8 |

During the first three years of the First Five Year Plan, (1951-52 to 1955-56), net capital formation, as a percentage of national income was more or less stationary, the increase in the national income being presumably absorbed, in large part, partly by an increase in the population and partly by an increase in consumption. Relatively to 1949-50, capital formation (as a percentage of national income) in 1953-54 rose by 17.24 per cent, an annual increase of 4.56 per cent. Under the Plan Frame net capital formation (10.95%) at the close of the Second Plan (1.960-61) would be 61.98 per cent higher than (6.75%) at the close of the First Plan (1955-56) or an annual increase of 12.40 per cent.

The over-ambitious character of the Plan Frame is also reflected in the rate of increase it aims at in the national income. Allowance being made for favourable monsoons, the increase in national income during the First Plan is estimated at 12 to 13 per cent, or an annual increase of 2.4 to 2.6 per cent. The corresponding increase in the Plan Frame is 5 per cent per annum or 25 to 27 per cent in five years.

Statistics of the growth of national income in certain overseas countries, quoted by the Plan Frame, show that in Canada, Switzerland and Germany the rate of growth in national income generally approximated to the rate of growth experienced in India during the First Five Year Plan. In U.S.A. the rate of growth was 4.5 per cent until 1913 and 3 per cent from 1929 to 1950. Both in per capita income and the capacity to save we are far behind these countries. In the Soviet Union, Poland, Czechoslovakia, Hungary and Bulgaria, the rate of growth in recent years is stated to vary between 12 to 16 per cent. If these statistics are comparable, the more rapid progress of communist economies reflects the relative efficiency of totalitarian devices.

Judging from our own recent experience, and also the experience of other democratic countries, the available real resources (savings) for development cannot for sometime be expected to be of an order that would permit anything like a doubling of the rate of growth in national income. The current rate of savings in India is generally estimated at 7 per cent or under of the national income. During the past five years it has risen by about 1 per cent. It would be too optimistic to assume that the rate of increase may be accelerated in the next five years. A reduction in the inequalities of income distribution, which is the declared policy of the Government, would tend to reduce overall savings. The consumption of food of the vast masses of the people being both below the national average and below the minimum nutritional standards, it has been estimated that about 50 per cent of an increase in consumer expenditure is liable to be utilised in India on foodgrains. In conformity with traditional experience, a succession of good harvests, which we have experienced, may be followed by a couple of years or so of bad or indifferent harvests. Under the circumstances, it may not be safe to assume a rate of saving of much higher than 8 per cent at the end of the next five-year period. The possibility of this conjecture proving too high cannot be ruled out. The size of the Plan needs to be, therefore, revised to match the real resources as indicated by this rate of savings and the estimate of the rate of increase in national income should be adjusted to conform to the investment equivalent to this rate of saving.

The rate of increase in income would depend upon the bias of the Plan for labour intensive schemes and for cottage industries. The probable magnitudes of the investment and of the growth in income remain to be worked out. This it is not possible to do immediately. On a rough estimate the order of magnitude of the investment would be probably about Rs. 3,500 to Rs. 4,000 crores. Considering that the total investment in the public sector in the three years of the First Plan did not exceed Rs. 885 crores (38.65 per cent of the target of Rs. 2,290 crores for five years), this is not too low a target to aim at in the Second Five Year Plan. Investment in the public sector may roughly correspond to the target fixed for the First Plan. If at the end of the five year period, the actual investment, at constant prices should be about 70 per cent of the target, the investment in the public sector of the Second Plan would be about 43 per cent higher than that in the First Plan.

As no plan can be bigger or bolder than the available resources, the size of the investment programme should be reviewed periodically to ensure that it keeps within the limits of savings. If such a review should reveal a shortage of resources it would be short-sighted to fill the gap by credit creation or deficit financing as this will be self-defeating. A deficiency of total real resources for development will get manifested, in the sphere of finance, by a failure to secure finance otherwise than through an excessive creation of credit, or deficit financing. The inability of the Plan Frame to place more than about 75 per cent of the resources required for the Plan under the usual sources and the reliance on deficit financing for the rest is broad evidence that the size of the plan far exceeds the available savings.

The deficiency of resources, in fact, may be larger than the magnitude of the deficit financing, as the assumed Receipts from other sources may prove to be over-optimistic. To mention one item, it would appear exceedingly unlikely that from an average of Rs. 45 crores per year during the past seven years, the Revenue surplus would jump up to an average of Rs. 180 crores per year in the Second Plan, the figure assumed in the Plan Frame. The available real resources were inadequate even for the comparatively moderate First Plan. This is reflected in the disparity between achievements and targets. Economic development is not merely a matter of credit creation or deficit financing. Scarcity of savings manifests itself in a scarcity of the needs of production, and in administrative and organizational difficulties, which limit the pace of development and which credit creation cannot correct.

Indian poverty and the massive rural under-employment are conceivably the result of a continued shortfall of savings and investments below the demographic rate (or a rate of investment necessary to maintain per capita income undiminished with a growing labour force). It is not to be expected that full solution of this problem would be possible in five years. The employment potential of the First Five Year Plan has been estimated at 9 to 9.5 million persons. This is roughly equal to the natural growth in the labour force during the period. We may presume, therefore, that with a higher rate of investment, than during the First Plan period, the Second Plan would begin to provide relief to the underemployed in addition to absorbing the annual increase in the labour force. The unemployment position may be worsened if the programme of investment proving over-ambitious inflation should develop, as this would dissipate savings, and, in due course, reduce the employment potential of a given volume of savings.

The size of the Plan Frame has been unduly inflated as a result, on the one hand, of an over-optimistic growth in national income, which it aims at, and, on the other, of an unduly high average rate of saving as applied to this assumed growth in income. A much lower figure would result if both these rates were more realistic projections of Indian experience of the recent past. Though a certain measure of accelerated progress may result as incomes grow and savings increase, a steep upward movement from a background in which the mass of the people live on the margin of subsistence may not be possible except in a totalitarian regime.

## II. DEFICIT FINANCING

The case for deficit financing, briefly, would appear to be that, (1 ) for “initiating a process of higher investment and higher incomes by fuller utilization of unemployed and underutilized resources" credit must be taken "in advance for the additional savings" that will be forthcoming, in the future, from the larger incomes, and that "some initial credit creation therefore, is an essential part of a development programme" (Paper No. 2, Section II) (2) that "a larger money supply will be needed as the monetised sector expands relatively to the non-monetised sector" (Paper No. 2, in Section II); (3) that a larger money supply will be needed with an increase in the national income: (4) that, there being no current inflationary pressures in the economy, there was no danger in undertaking deficit financing in a limited measure; and (5) that the apparently large budgetary deficits of recent years have not produced adverse consequences.

My colleagues have cautioned "against any tendency to undue optimism as regards the extent to which the use of deficit financing may avoid the awkward necessity of a deliberate endeavour to mobilise resources" (p. 4) I wish to join them in this cautioning. I also generally agree with (2), (3) and (4) above as offering justification and scope for a certain measure of deficit financing. With regard to (1) above, a distinction must be made between unemployment in industrial economies and underemployment in under-developed economies. A mistaken analogy between them has been responsible for erroneous policy approach in under-developed economies. The problems of the two economies differed in fundamental respects. In under-developed economies the only factor of production that was in abundance was unskilled labour. There was a scarcity of the other needs of production machinery, materials, and skilled personnel with the technological and managerial knowhow. This reflected continued below the demographic rate of saving and investment. The simplest form of investment needed some equipment and technical know-how at some stage. In industrial economies, on the other hand, the rate of saving being generally above the demographic rate, unemployment of labour was accompanied by unemployment or underutilization of the complementary real resources of production. Credit creation could bring two together. Deficit financing or credit creation here is a device of mobilizing the real resources. We cannot seek in this a solution to the problem of development of under-developed economies. In the latter it was a question of a scarcity of savings, for which created money was no substitute. Under-employment in underdeveloped economies, thus, offered no criterion for deficit financing in the way unemployment in the industrial economies offered such criterion.

A paper on "Installed Capacity and its Utilization in Indian Industries" (Paper No. 9

of Section III) presented to the Panel shows that appreciable percentages of unutilized capacity exist in a number of industries including jute, sugar, certain heavy chemicals, machines and machine tools. It is conceivable that there may exist, in the case of some at least of these industries, complementary skilled personnel, which are unemployed or under-employed; there may also exist in the economy the materials of production required to employ these personnel. The reasons for the partial idleness of the plants may vary. This would require individual studies on these industries. In some cases it may reflect export difficulties or competition from imports, which, conceivably, may be related to the over-valued exchange rate. Deficit financing or credit creation cannot meet the needs of such cases. The economic significance of this unused capacity to the total activity of even the organized private sector would be negligible. Some of them may justify extension of credit by the banking system or by the State Credit Corporations. They cannot be said to provide a case for deficit financing of the public sector.

Regarding (5) the amount of the deficit financing with a monetary effect, undertaken since August 15, 1947 to March 31, 1954 has been comparatively moderate. Excluding the purchase of sterling by the Government in 1948 against ad hoc Treasury Bills, which had no monetary impact, and allowance being made for the variations, in the public debt holdings of the Reserve Bank and the commercial banks, the deficit financing of the period averaged about Rs. 50 crores per annum. Between 1947-48 and 1953-54 the Whole-sale Price Index rose from 308 in the former year to 435 in 1951-52 and stood at 398 in 1953-54. Part of the rise in the price index may be due to the activation of latent inflation. But its effect could not have lasted beyond the early part of this period. The amount of the latent inflation in India was in any case moderate. It would seem significant that notwithstanding the moderate amount of the deficit financing, prices continued to rise until 1951-52 and were about 29 per cent higher at the end of the period relatively to the beginning of the period. This experience lends support to our estimate of the magnitude of deficit financing which may be deemed safe and necessary.

My colleagues consider that for a year deficit financing at a rate of Rs. 200 crores is safe and even necessary and for the five-year period they would put it at within Rs. 1,000 crores. I consider these figures far too excessive. The formula on which they are based is not known.

Deficit financing does not create real resources. Together with the issue of loans, collection of Small Savings, etc., it is one of the devices of appropriating, for the public sector, the real resources which exist in the economy. The necessity for deficit financing arises from the fact that an individual converts a part of his real income into cash balance, the rest of it being either consumed or invested (through the stock exchange or otherwise). The cash balances, like the investments and the amounts spent on consumption, tend to grow with the growth in income. As they form a part of the savings, there exist somewhere in the economy equivalent real resources. Deficit financing provides the individual with the cash balances and acquires the real resources for investment in the Plan. If the demand for the increase in cash balances is not adequately met, prices would decline and there may ensue unemployment. Part of the cash balances would be provided by the banking system through the creation of credit. In this case the equivalent real resources would be acquired by the private sector, in whose favour the banking system would create credit.

The amount of the deficit financing and the amount of the credit creation should be together limited to the increase in the cash balances. The rate of increase in the cash balances would depend upon the rate of increase in the Indian national product during the Five Year Plan. An estimate of the magnitude of the credit creation and of the deficit financing under this head would require a closer study than is immediately possible. The Bernstein Fund Mission estimated deficit financing and credit creation by the banking system at about Rs. 33-1/3 crores per annum for the last three years of the First Five Year Plan. Assuming constant prices, we may place it at a round figure of Rs. 35-40 crores per annum for the next Five Year Plan. This is only a conjecture. But it indicates the order of magnitudes involved. What part of this amount would constitute deficit financing and what part credit creation by the banking system, would depend upon the ratio in which the increase in the cash balance real resources of the public sector would be divided between the public and private sectors.

To the amount of the deficit financing under this head must be added the sterling releases acquired for the public sector, to arrive at the total figure of the deficit financing that might be safely undertaken. The total amount of the sterling releases during the five-year period has been placed at Rs. 100-150 crores by the Plan Frame. Part of this would have to be allocated to the private sector and will be matched by equivalent credit creation by the banking system. If we may assume a division of the cash balance resources and the sterling release between the public and the private sectors, respectively, in the ratio of 2:1, the order of magnitude of aggregate deficit financing would be Rs. 180-235 crores for the five years, or an annual rate of Rs. 35-47 crores. Post Independence Indian experience lends support to the comparative safety of this order of magnitude of deficit financing.

Since the precise amount of the deficit financing is contingent upon the actual rate of increase in the national product and the actual withdrawals from the cash reserves, both of which may be subject to wide variation in an economy where weather conditions significantly influence output and prosperity, it may not be prudent finance to take advance credit for the amount of the deficit financing even if the order of magnitude were larger. The preference of the public for cash balance may, moreover, change with their confidence in the honesty of the rupee. Under the circumstances these sources should be held in reserve to help meet possible shortfalls in the receipts from other sources.

I realise that this is less than cat's meat before the order of magnitude of the deficit financing proposed in the Plan Frame and that approved by my colleagues. But, if the above analysis is correct, I do not see how a significantly different conclusion may be arrived at. Even on the assumption of a doubling of the rate of growth of the national income, the demand for the additional cash balances cannot be of an order to justify deficit financing on a scale equivalent to 50-60% of the money supply. If a third of the central bank money proposed to be put into circulation through deficit financing went to augment the reserves of commercial banks, and if they built on it a volume of credit six to seven times, the total money supply at the end of the Plan period may be more than double the money supply at the beginning of the period. This would be clearly inflationary. An increase in the rate of growth of national income from 13 per cent to 27 per cent would not require a doubling of the total money supply.

Deficit financing is essential in an under-developed economy to permit full use of the scarce real resources. By the same token, deficit financing should stop severely short of the point at which inflation begins. Inflation does not, on balance, add to the aggregate real resources. It creates wasteful or socially less useful demands on the limited savings. Investment gets diverted into luxury trades to meet the demand for their products resulting from inflation incomes. It diverts an undue proportion of savings into urban property and real estate, into gold hoards and jewellery, and into foreign exchange, as a result of the effort of the savers to protect the value of their savings. The resources available for the plan would be, as a result, correspondingly less, and overall economic development would be impeded.

Inflation tends to be self-perpetuating. With the rise in price and wages, the original estimates of the cost of the projects taken in hand will be out of date. More deficit financing would be necessary for their completion. And, as they cannot be left half finished, there would be a pressure for further deficit financing. At any given moment, the whole of the currently available savings being invested either in the public or the private sector, or outside the Plan, there would be no idle savings to draw upon. Real resources would have to be drawn into the Plan by force, which would render the distortions and wastages referred to above unavoidable. This takes away from the practical value of the caution, that the inflationary situation should be kept under watch. Once inflation begins, it tends to gather momentum, and while it runs its course we are apt to be more or less helpless witnesses. The best protection against inflation is to prevent it by keeping the investment programmes within the available real resources.

## III. POLICY AND INSTITUTIONAL IMPLICATIONS

In this section we shall deal with legislative and administrative measures, taxes on lower income groups, extension of nationalisation, continuance of controls, price support of agricultural produce, and the proposed National Labour Force.

### (i) Legislative and Administrative Measures

No plan can be bigger or bolder than the available real resources. The taxation Inquiry Commission has estimated net savings in India at about 7 per cent of the national income in 1953-54, which is about Rs. 730 crores. This is an overall figure and, therefore, includes savings utilised for capital formation in the organized private sector (about Rs. 75 crores), public savings, urban savings, rural savings, and also nonmonetised savings. Other estimates of savings are more or less of the same order. To the extent this estimate is reliable, it is a measure of the total permissible investments in India. Any attempt to exceed this limit would raise prices, and would impede overall economic development. Consistent with individual freedom and democratic institutions, there is no device of significantly adding to the volume of the flow of savings, though, with proper inducements (which should include an honest rupee and an unpegged interest rate), it may be possible to stimulate the flow somewhat. The situation, however, may be significantly different under a totalitarian regime, which may impose authoritarian reductions in consumption. Overall savings, then, are no longer dependent upon individual choices. I presume that planning in India would be consistent with democracy and democratic institutions.

I am unable to agree to the following recommendation of my colleagues :

“It is only when there is a firm legislative and administrative base that it is possible to think in terms of doubling the rate of progress in the Second Plan period, of increasing capital formation, of raising levels of living and providing the machinery for accelerated development in the future. We cannot, therefore, emphasise too strongly the importance of facing up boldly and without hesitation to the legislative and administrative implications of a bigger and a bolder plan".

I apprehend that reliance on legislation and administrative measures to increase the rate of saving which will permit a bigger and bolder Plan, may, by degrees undermine our democratic social order, which would be too high a price to pay for accelerated economic development. Legislative and administrative action should be directed to ensuring the specially most effective uses of democratically generated savings, rather than risk undue infringements of the liberty of the individual, without which, to quote our Prime Minister, "We lose what is the greatest value in life". It would appear preferable to explore the scope for more ample but unicumbered, foreign aid and foreign loans and a larger flow of unicumbered foreign private capital to supplement domestic saving for accelerated economic development. In view of the vast scope of profitable investments, this would be imminently worth-while, the net profits of the projects may be expected more than to cover the amortisation of the foreign capital within a reasonable period. Economic history does provide instances of national economic development being financed by foreign capital in the early stages with no loss or sacrifice or sovereignty.

(ii) Taxes on Lower Income Groups

There is hardly room for a further reduction in the standard of living of the lower income groups in India. Finance for the Plan must be raised from the middle and the upper income groups. Measures of taxation and other devices, which would tend to reduce further the consumption of the lower income groups, should be avoided. I am unable, therefore, to agree to my colleagues' recommendation to amend Article 286(3) of the Constitution in order to permit taxation of articles "essential to the life of the community". Amendments to the constitution which should be rare, should much rather be in the direction of adding to the liberties, privileges and rights of the common man than otherwise.

(iii) Extension of Nationalisation

I agree with my colleagues that the scarcity of administrative and specialised personnel, and the necessity of conserving savings for the plan are factors against extension of nationalisation. But they have no objection for such extension on principle. I would oppose general extension of nationalisation on principle. Nationalisation should be ordinarily limited to public utility concerns and to concerns, involving national security. Otherwise, State intervention should be concerned with the prevention of monopolies or quasimonopolies. Efficient management of business and industrial concerns in a competitive market economy is a highly specialised function and demands qualities which a civil servant is not required to, and in the ordinary course of his training may not, acquire. This function is best left to private entrepreneurs, in the prevailing socio-economic order, which is dominated by the market economy and the pricing system.

(iv) Continuance of Controls

I do not feel convinced of the economic importance of continuing the remnants of controls. Decontrols have proved a noteworthy success. Controls and physical allocations are not a necessary adjunct to planning. The distribution of productive resources, including the ratios in which they are used, are subject to variation and depend upon diverse technological, economic and price considerations. It is quite impossible to take into account these complex and changing considerations and arrange anything like a satisfactory allocation of resources. There are great advantages in allowing freedom to the economy, and to the price system in the use and distribution of the needs of production. I am unable to agree with my colleagues that a case exists for continuing what controls now remain. Steps should be taken to remove controls as early as may be possible. Controls and allocations are an essential characteristic of communist planning. They do not very well fit in, under planning in a free enterprise market economy.

(v) Price-support of Agricultural Produce

I wish to join my colleagues in the matter of the urgency and importance of completing speedily the scheme for licensed ware-houses, and for the provision of credit and marketing facilities to farmers. My colleagues have stated that the ware-housing system "should be used by the State for purchase and sales of buffer stocks of agricultural commodities not only for the purpose of dealing with any sharp falls in agricultural prices such as we are witnessing today but also with the objective of preventing any sharp seasonal fall or rise in prices".

In theory it may be possible to distinguish between seasonal price movements from the long-term price trends, and to prescribe that seasonal fluctuations should be smoothed out by State purchases in times of harvest and sales between harvests. In practice, however, such distinctions may prove to be difficult and seasonal interventions may turn into long-term price support operations.

Price support of agricultural produce in India is a risky venture and we should be forewarned of the inherent dangers of it. About 50 per cent of Indian national income is drawn from Agriculture. A policy of price support is, in essence, a subsidy, by the rest of the community to the producers of the price supported commodity In countries, where agriculture is a minor sector of the national economy, the incidence of the subsidy may be spread out thinly on the larger sector of the economy and the proceeds may provide substantial relief to farmers. The reverse would be the case in India. The strain of the subsidy will manifest itself in a shortage of budget resources for the open market purchase and storage of agricultural produce. This, in due course, would lead to either abandonment of the price support policy or inflation. In either case damage would result. If the dilemma does not appear in one season, it is likely to come in the next, as successful price support would stimulate production. In the Indian context, a policy of price support of agricultural produce may force the economy down the inclined plane of inflation. Even in the United States, where agriculture is a minor sector of the national economy, price support has only survived. It has not succeeded. It has led to undue stockpiling of agricultural commodities and, in the past, had involved a great deal of wastage of stocks through deterioration. Selective price support policy is a poor answer to this difficulty. The distinction between crops would be invidious, the relief provided may prove to be a token, and it might cause a distortion in the pattern of agricultural production and economic instability.

The price situation in India today was too complex to be resolved by price support of agricultural commodities or other inflationary measures such as a deficit financing. The price decline was neither universal nor uniform. The prices of some major commodities had moved in opposite directions. The fall was heaviest among foodgrains, oilseeds, and black pepper. Some agricultural produce, e.g., tea, raw hides and lac, which were export goods, and raw jute, among import goods, had risen almost as high as some other agricultural prices had fallen. The prices of manufactures were either steady or showed a slight upturn on the average. The cost of living index was either steady or had fallen only slightly. In a background of dissimilar price movements, simple monetary remedies may aggravate the complexity and difficulty of the price structure. It may, on balance, adversely affect the employment position by stiffening the already rigid cost structure. Price support and deficit financing were no remedies to individual over-production, and to export difficulties which are attributable to quality and to domestic costs or exchange overvaluation. Price support and deficit financing might, in fact, aggravate these maladies.

The complex problems of the prevailing price situation emphasise the importance of economic rationalisation, for progress with stability, whereby the fiscal, the investment, the monetary, the interest rate, the tariff, and the exchange rate policies are rendered mutually consistent and harmonious.

(vi) National Labour Force

I apprehend more risks than I see advantages in the proposed National Labour Force. It may create a privileged class of workers, who may prove to be relatively more expensive to keep and to move. The availability of this force may impede relief to the regional underemployment problems. The necessity for such a force may not arise until labour becomes a bottleneck in economic development.