

OUR ECONOMIC
FUTURE

By

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Of all the problems facing this country today, none is as challenging as the present economic situation. It is a tragedy that when all the energy of the country should be mobilised in meeting the unusually difficult economic situation, comparatively smaller issues of regional interest are tearing the country to pieces. The country will not grow one inch taller in stature nor will its material prosperity be enhanced whether English or Hindi was the official language or whether the reorganization of States which has recently been brought about is allowed to stay or is changed. The fruitless controversies over these regional problems confirm the

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

President, World Bank

impression that the country is not sufficiently appreciative of the dangers it is confronted with on the economic front. I would, therefore, make a rapid survey of the present economic situation in the country.

That a country which is in the process of an enormous development programme should experience hardships and privations is nothing unexpected, but that after ten years of independence with unfettered freedom to our Government to shape its policies, the country should experience continued shortage of foodgrains is significantly symptomatic of something wrong in the State of Denmark. Making due allowance for the freaks of nature, insufficient monsoons and droughts, we must confess that we have failed to plan with intelligence and foresight for adequate supplies to meet the most elementary requirements of our people. The Food Minister has times without number given the country an estimate of the food situation and, without exaggeration, till very recently all his estimates have proved wrong as soon as they were made. Very recently we were told by the Food Minister that all the efforts made by him to procure additional rice from abroad have not produced much result. The country, therefore, will have to be content with whatever supplies are available which would mean a very heavy call on a large section of the people to

go without the bare quantity of rice to which they have been accustomed as a primary diet. From the Prime Minister downwards the country has been told that the food production can be raised by 60 to 70 per cent, but we are yet to be told how it is to be done. The only concrete contribution made by Government towards the solution of this grave problem is, we are told, a decision by the Cabinet Minister not to eat rice till there is shortage in the country.

Apart from the hardship involved to the common man in putting up with this acute shortage of foodgrains, the problem involves a heavy drain on our foreign exchange resources at a time when we are at our wit's end in collecting every Dollar or Pound to honour our international obligations. It is not generally realised that when Ministers talk glibly of increasing the food production of this country, this objective cannot be attained quickly without importing large quantities of expensive fertilizers from abroad. The process, therefore, of augmenting our food resources in the coming years will involve substantial expenditure of foreign exchange in the purchase of fertilizers. That Government are seriously thinking of giving up or at least postponing one or two of the fertilizer projects in the immediate future is a tragic reminder of the vicious circle in which the country has been caught

by the ill-considered policies which are pursued in the economic field. The country must be educated to appreciate that the food problem is not a passing difficulty. It is a long-term problem which will continue to be with us for many years to come, and further that till we attain self-sufficiency, ensuring adequate supplies of food-stuffs would continue to cause a heavy drain on our foreign exchange resources.

Apart from food, we are faced today with a very critical situation in regard to our external resources. For the week ended 3rd January, our Sterling balances have declined in a year by Rs. 330 crores. Deducting Rs. 95 crores which was a temporary loan from the International Monetary Fund, we were left last week with Rs. 198 crores. Against this, according to Government's own statement, we have outstanding gap of Rs. 700 crores. Ignoring for the present our total requirements for the balance of the Second Five-Year Plan period, our minimum requirements for the next 12 months are so heavy that they are causing serious concern to all thinking people and Government: have not yet cared to take the country into confidence as to how the country will meet its maturing liabilities in the next 12 months. India hitherto has a very fine record of meeting all her international obligations punctually and faithfully and let us only pray that Provi-

dence will come to our assistance in maintaining this unsullied record. Very serious and earnest efforts have been made in recent months to secure assistance from foreign countries. It is, however, still anybody's guess as to the extent and magnitude of the assistance that may be forthcoming, but unless a very energetic effort is made at our end not to allow any further drain on our available resources, the situation will become extremely critical in the next six months. I have pleaded before and I plead again today for a very drastic cut in imports. I am fully conscious of the hardships such restrictions may cause, involving a reduction on the tempo of our industrial activity in general, but any complacency in this regard and undue optimism about foreign aid will bring us nothing but disaster.

Whilst it is imperative that we should concentrate all our energies in a constructive way towards meeting this immediately difficult situation, it is only fair to the country that it should know how this crisis was created. It is really amazing that nobody yet has raised a discussion in Parliament as to the origin of this crisis. The thoughtless and indiscriminate issue of import licenses in 1956, possibly inspired by an over-enthusiastic effort to push the tempo of development, has been responsible for creating our present plight. This has been

sought to be explained away as a crisis of development, as something which is inevitable in a country which has embarked on a large-scale programme of economic development. Without the slightest fear of contradiction, I would say that this has been a crisis of planless planning. The Planning Commission recently issued a statement explaining a number of causes which have led to the present crisis of foreign exchange. The only one and the real explanation has been omitted, viz., that it was due to their under-estimate of the foreign exchange resources which would be needed to implement the Plan targets that the country today has been landed into this perilous situation. I want to leave it to the common man in this country to judge for himself the validity of the explanation that it has been a crisis of development. Only a few days ago I received a circular from an importing house stating that German Silver-plated ware and Rosenthal Crockery have just been received. This stuff might have arrived in India under one of the licences given in 1956 and we are asked to believe that the economic development of this country could not have proceeded if German Silver-plated ware and Rosenthal Crockery was not licensed to be imported into India. I still feel, and I know that there are a number of thinking people strongly feeling that way, that Parliament should order an

enquiry into the method and manner in which licences were indiscriminately issued in 1956.

It would not be proper to hold the Commerce Ministry solely responsible for this exchange crisis unless Government tell us that there is no co-ordinating machinery between the Commerce and Finance Ministries to regulate import policy. The Commerce Ministry cannot, of course, plead complete ignorance of the availability of foreign exchange resources when it sanctioned all the import licences, but, at the same time, the Finance Ministry which handles our foreign exchange resources should have been vigilant enough to pull up the Commerce Ministry in its senseless spree over the issue of licences.

The country is undoubtedly most anxious that every possible effort should be made to augment our external resources at least to meet the obligations we have so far undertaken. In our anxiety to secure adequate foreign assistance it is very essential that we should continuously keep under review the total amount of obligations we are incurring abroad though they have to be paid in subsequent years. Nobody who has even a nodding acquaintance with the problem of our foreign trade and external resources can seriously contend that this is a passing short-term problem. If development is to

continue, and it must continue, the problem of our foreign trade and external resources can seriously contend that this is a passing short-term problem. If development is to continue, and it must continue, the problem of foreign exchange will continue to engage our attention for the next many years to come. And, having been lost in the muddle which has been created during the last two years, we should keep a very close watch of the total new commitments we are creating abroad and how they can be related to the total available resources.

It is only very recently that a realistic appreciation is to be found in official circles regarding the availability of internal resources. Government have not been very successful on their public borrowings. The Small Savings Movement on which so much reliance was placed has, in recent months, shown definite signs of dwindling interest. Taxation, both direct and indirect, has been raised so high that there is very little scope left for imposing further burdens on the tax-payer. The additional taxation of about Rs. 100 crores through the fantastic Budgets of last year will soon be absorbed in meeting the demands of Government employees and the Defence Ministry. There will thus be very little left for meeting the expenditure under the Plan. At the same time, we are told that Govern-

ment have decided to control deficit financing and, on the other hand, the Prime Minister stated only a few days ago that the Second Five-Year Plan must be implemented at all costs. This is for the Public Sector.

When you turn for a moment to the requirements of the Private Sector, you find that the new Capital Market is practically dead. Under-writers of new issues have had the unfortunate experience of being left with large chunks of new issues, in some cases as high as 90 to 95 per cent of the total issue. Industries, therefore, have to lean more heavily on banks with the result that in order to maintain reasonable liquidity banks are finding it increasingly difficult to meet all the demands made on them. The leading Stock Exchanges in India present a pathetic picture with brokers reporting that investors are not interested in any further investments. Investments in preference shares have become practically unrealisable and equity shares today are seeking buyers with attractive yields: from anything up to 10 or 12 per cent. Analyse the situation as you like, but you cannot escape the unavoidable conclusion that the taxation policy has both drastically reduced the capacity to save and has also dissuaded investors from taking the normal risk of investment as all incentive to save and invest has been destroyed by the growing burden.

of taxes. I make bold to suggest that all the implications of the new taxation pattern and the almost confiscatory level to which direct taxation has been pushed have not yet been sufficiently realised by the country. As the incidence of these new taxes comes to be felt, there will be an undoubted slowing down of economic activity in the country in general.

Having made a brief survey of the principal aspects of our economy today, it seems to me that the immediate economic future of the country is definitely bleak and will continue to be so unless there is a radical change in our economic policies.

Whilst I am a consistent and convinced believer in planned development, I have come to feel that the concept of periodic Plans is not suited to our conditions. The economic development of the country must be a continuous process. In view, moreover, of our experience of the inadequacy of the necessary tools and equipment for coordinated and comprehensive planning, what we should do in future is to draw up a programme of development which should not be attempted to be completed within a specified period. The idea of making planning flexible under a rigid periodic plan is not practicable. The programme should outline a num-

ber of targets in respect of various items of production and the detailed drawing up of the projects for the fulfilment of the targets should be conditioned by the availability of resources and the inter-relation of the simultaneous progress made by different targets under various heads. The Second Five-Year Plan has broken down on many fronts mainly because of the wrong determination of priorities and lack of coordination in the simultaneous progress of different projects. That failure can be avoided in future if a suitable readjustment in priorities was made so that, for instance, transport should be found available to move materials for construction projects or that adequate quantities of cement would be available for building dams, shipbuilding yards and new factories before the projects for the latter are finally decided upon.

One important contributory cause in delaying implementation of projects and substantially increasing the cost of the projects is to be found in the elaborate procedures which are a concomitant of the endless regulation of practically every economic activity in the country. I would very strongly urge Parliament to appoint a small committee to examine the procedures set up under the various regulations with a view to simplify and I am sure that simplification of procedures will both

accelerate the pace of development and reduce substantially its cost.

Our economic future will be seriously impeded if inflationary pressure is not continuously kept under control. It has been suggested that the expenditure during the Second Five-Year Plan in the Public Sector may now be restricted to Rs. 4,800 crores. As Rs. 1,500 crores will have been spent in the first two years, Rs. 3,300 crores will have to be spent in the next three years. In view of the attenuated resources; both internal and external, I am definitely of the opinion that expenditure of this magnitude in the next three years will release additional purchasing power which will not be matched with increased production and will thus accentuate inflationary pressure on the economy, particularly when the drastic import restrictions which are unavoidable will not be able to off-set this pressure. If expenditure of this magnitude is persisted in, I am afraid our economy will not be able to stand the additional strain and may well aggravate an already difficult situation. I will never tire of repeating that the Second Five-Year Plan has been basically wrong and although realism has been recently dawning on our authorities in that the Plan has now been reduced to what is called the "core of the Plan", any persistence for the sake of prestige will subject the country to un-

told and unjustified hardship and misery. In this regard the country must realise to an increasing extent that if the price-line is to be held, Government alone cannot do the job. There are sufficient indications already that as a result of import restrictions prices of various commodities have started rising. Unscrupulous dealers have been exploiting shortages and have been holding back stocks with a view to profiteering. The public must be disciplined to take concerted action against such anti-social activities and I suggest that consumers' associations should be formed to keep a vigilant watch over these anti-social activities, the most effective way of controlling which would be by mobilising public opinion against them. If the voluntarily organized consumers' associations act vigilantly and rouse public opinion against unjustified increase in prices and expose the miscreants, it would be possible to control these anti-social activities.

Government themselves can help the public in resisting hoarding and profiteering by setting a good example through their own trading activities. It has now been abundantly proved that the State Trading Corporation has profiteered to the tune of over five crores of rupees in the exclusive monopoly of distributing cement in the country. It is really surprising that Government should not im-

mediately reduce the price of cement and avoid profiteering and thus set a good example to other traders in the country.

One serious threat to our economic future lies in the extent of corruption that prevails both in the Private and Public Sector. Recently the Home Minister assured Parliament and the country that Government will take very active measure to eliminate corruption, particularly in the Administration. The Forum of Free Enterprise, while assuring the Home Minister of their wholehearted support in any measures Government may take in eliminating corruption, suggested that Government should compile for the information of the public a statement in respect of relations of Ministers both at the Centre and in the States who are connected with any Government department either through service or through contracts or through firms in which they are directly or indirectly interested in respect of contracts with Government departments or of licences for import and export. The Home Minister considered this proposal not practicable. I fail to see what practical difficulty the Home Ministry sees in compiling such a statement and publishing it for general information. The very publication of such information will prove a deterrent to the continuance of corruption through such relationship with the Ministers and officers of Govern-

ment. I would strongly urge Parliament to insist on obtaining this information from Government.

The economic future of this country can be assured by creating a climate in the country which would make possible a regular flow of capital from foreign investors. Apart from other things, the most important deterrent today is the pattern of taxation. In an amateurish attempt to plug all real and imaginary loopholes, a pattern of taxation has been devised which can only result in destroying all incentive to enterprise in the country and to act as a scare-crow to possible investment from abroad. Unless, therefore, there is a radical overhaul of this fantastic pattern of taxation, it is difficult to see how further development on any extensive scale can be expected in future.

In the background of our experience of the last ten years, it is becoming increasingly clear that large-scale and rapid economic development cannot be the exclusive responsibility of one ruling party in the country. Certainly the members of this ruling party cannot claim that they are the exclusive and ultimate repository of all economic wisdom in the country. If our economic future is to be ensured on right lines, what is needed today is the pooling of ideas, experience and resources of all citizens of the country irrespective of their poli-

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tical affiliations. Amateurs of yesterday cannot be accepted by the country as authorities on planning and public finance. The actions of such men have landed the country today in a mess which now calls forth the combined wisdom of all sections of the community to find a way out. The attempt to destroy the acquisitive society is fast turning into a gerquisitive society and the continuous addition of powers assumed by Government happens to turn this country into an authoritarian State. Let us pray that both wisdom and realism will soon dawn upon the authorities in power and this country may be saved from the disaster with which it is faced today.

Based on Mr. A. D. Shroff's talk given under the auspices of Forum of Free Enterprise, Bangalore, on January 17, 1958.

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

—A. D. Shroff

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