

# A PACKAGE PLAN TO FIGHT INFLATION

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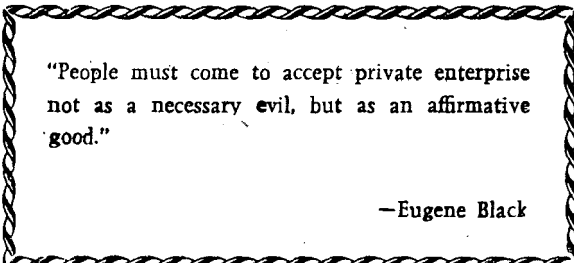
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**FORUM OF FREE ENTERPRISE**

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

—Eugene Black

# A PACKAGE PLAN TO FIGHT INFLATION

## I

### SOME PRACTICAL MEASURES

DR. R. C. COOPER\*

The problem of inflation can be solved only through an attack on the basic causes. It has to be tackled under the following three main heads: (1) A massive increase in production of: (a) Foodstuffs, (b) Agricultural cash crops, and (c) Industrial production, particularly of consumer goods; (2) Substantial increase in employment opportunities, and (3) Sizable reduction in growth rate of population.

To achieve these results, it is necessary to bring about a fundamental change in the attitude of both the Government and the people. Appointment of committees and issue of notifications are not going to solve the problem. At the political level and also among the bureaucrats and businessmen, there should be a fundamental change of attitude. The following measures should be taken:—

**Relaxation of licensing and regulatory procedures :**  
It is now generally recognised that undue delays and harass-

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\* The author is a well-known economist and chartered accountant. This text is based on a public lecture delivered under the auspices of the Bangalore Centre of the Forum of Free Enterprise on 11th July 1974.

ment are having a very demoralising and harmful psychological effect on entrepreneurs, apart from slowing down industrial production. It is equally clear that politicians and bureaucrats have by now developed such strong vested interests in the licence-permit-quota system that no amount of appointment of Commissions of Inquiry nor the streamlining of procedures can improve the situation. The only thing necessary is to scrap a large number of burdensome and unnecessary regulations.

In this connection, the "Subramaniam Formula", about which so much has been said, has not really helped to improve the situation. This is primarily because the persons administering the so-called simplified and streamlined procedures are bureaucrats who have no real interest in improving the situation. On the contrary, they feel it deprives them of their power and patronage. The result has been that the so-called simplification has merely led to wholesale rejection of applications to comply with the time limit stipulation.

The Subramaniam formula can be compared to the effort at trying to convince a man-eater not to attack human beings. A tiger who has tasted blood is not likely to desist from doing so merely because a minister tells him not to do so. The only solution is to eliminate the Man-Eater. The minister knows that what the tiger is doing is wrong, but the tiger does not think so. Therefore, the only solution of the problem is to do away, at one stroke, with the whole mass of unnecessary regulations which plague the economy at various levels.

Very often, even after getting clearance for industrial projects at the Centre, innumerable delays still result at the level of State Governments and local authorities.

**The Monopolies and Restrictive Trade Practices Act :**  
At the present juncture, when it is of the utmost import-

ance to increase industrial production, particularly of mass consumer goods, the administration of the Monopolies and Restrictive Trade Practices Act seriously interferes with increase of industrial production in three ways: (i) Fresh applications for expansion of existing capacity or new projects by larger industrial houses get unduly delayed and/or rejected. (ii) The consumers suffer because massive production of essential goods can be organised effectively mainly by the larger industrial houses who have the necessary managerial, technical and other resources to do so. (iii) It has had a very bad psychological effect on the industrialists, and particularly foreign collaborators.

Innumerable instances of these could be cited, the most classic being the inordinate delay in sanctioning the Tata Chemicals Fertiliser Project which could have gone on stream long ago, saving valuable foreign exchange and also leading to substantial increase in agricultural production. It is a pity that purely ideological considerations have done permanent damage to the country's economy. The present acute shortages of fertilisers in the country is the result of this ideological stand for which our planners must take full responsibility.

While there cannot be two opinions regarding the need for legislation to curb monopolistic exploitation of the consumers, under the prevailing conditions in India, the fear of dominance over the economy by larger industrial houses is a myth.

Therefore, the following modifications in the administration of the M.R.T.P. Act are required: (a) Mere size of an undertaking, or a group, should not be the criterion for the purposes of the M.R.T.P. Act. (b) The real test to be applied should be whether there is any evidence of exploitation of the consumer. If so, action under the M.R.T.P. Act is justified. (c) Permission under the M.R.T.P. Act should not be a condition precedent to any applica-

tion for industrial expansion or the setting up of new industrial activity. (d) On the other hand, complaints of exploitation of the consumer may be taken up by the Monopolies Commission from Government or upon complaints from the consuming public, at any time.

**Hoarding of Essential Commodities and its Impact on Inflation:** One of the factors which accounts for inflationary conditions is the hoarding of essential commodities by anti-social elements in the business community. Theoretically, three different solutions are often prescribed to deal with this problem, all of which, in practice, prove unworkable.

The first method suggested by economists is to raise the rate of interest on bank advances to such an extent that hoarding will prove uneconomical. The major drawback is that the high rate of interest may also adversely affect genuine business activity, particularly, small industries, export financing, bills discounting, etc. Moreover, under Indian conditions, this measure is quite unsuitable due to the operation of the parallel black money economy which it is unable to touch.

The second measure is rigid enforcement of laws like the Essential Commodities Act (E.C.A.) and Maintenance of Internal Security Act (M.I.S.A.) against hoarders and black-marketeers. Such measures have been tried again and again during the last 25 years without the slightest success because we have a plethora of legislation which the Government has neither the inclination nor the ability to enforce for reasons of administrative inefficiency and political and bureaucratic corruption.

Recently, a third suggestion made is (a) the freezing of a part of bank deposits for a fairly long period (30% of deposits for 10 years) and (b) Demonetization of currency notes with simultaneous freezing of a part of their value (30%).

This scheme, under Indian conditions, suffers from all the disadvantages I have pointed out for the first two methods. Moreover, it has the added danger of destroying public confidence in the entire banking and currency system. Banking and deposit habits are just growing in the country among the illiterate and semi-educated masses. Bulk of the business community does not have large bank deposits. They operate through bank advances. Majority of depositors will obviously belong to the lower and middle classes who will be the main sufferers.

What then is the solution of this problem of hoarding and black-marketing? Basically, increase in production of goods and services is the only answer. Simultaneously, some other bold practical measures may be adopted.

A method which is often suggested, but not yet used by our Government, is selective dumping of imported commodities to break the hoarding habit. It would require tremendous courage and integrity on the part of the Government. It pre-supposes a high degree of vigilance since very often hoarding is initially confined to a few items in short supply. As soon as shortage of a particular item is noticed and evidence of hoarding is available, the Government should be in a position to act very quickly by boldly drawing from its foreign exchange resources a certain amount to rapidly bring in substantial quantities of that very item in short supply and temporarily flooding the market. Maximum secrecy in the process is called for. This would prove very effective in teaching a lesson to speculators through the working of the laws of demand and supply. If practised on a few occasions, it has the desired long-term effect.

Under the Indian conditions, another important factor is the parallel black money economy which contributes very substantially towards hoarding. To effectively check this evil, I would suggest three practical steps: (a) The Com-

pany Law should once again be amended to officially permit companies to give donations to political parties so that politicians are not compelled to depend on cash contributions by businessmen. (b) Abolition of all unnecessary permits, quotas, licences and regulations which compel businessmen and industrialists to become corrupt and which tempt the politicians and bureaucrats at every level from the highest to the lowest to accept black money for doling out favours or to expedite release of permits. (c) Bringing down the rates of taxation, both for individuals and companies, to more reasonable levels and at the same time rigid enforcement of fiscal statutes.

**A Massive Programme of Road Building and Public Works :** The most critical problem before the country today is that of faster economic development coupled with maximum employment. For this, a massive national road building project, preferably as part of an integrated rural works programme, will be the right answer for the following reasons: (1) It will promote integration of rural and urban economies. (2) It will carry industries to rural areas, easing pressure on congested cities. (3) It will open up fresh markets for industries. (4) It will create tremendous job opportunities for those directly engaged in road building. (5) Many more will find employment through fresh transport facilities. (6) It will enlarge the markets for commercial vehicles, scooters, mopeds, bicycles, services stations, repair shops, etc. (7) In terms of both rupee resources and foreign exchange, the strain on our resources will be the minimum in comparison with employment opportunities created and the overall boost to the economy. (8) It will primarily benefit the most under-privileged sections of our society and assist also the small-scale producer.

It is estimated that the contribution to the Central and State Government exchequers by the road transport industry in shape of taxes and licence fees is not less than



Rs. 1,000 crores per annum. With immediate effect, we should spend at least Rs. 500 crores out of this on a massive rural works programme, whose principal plank will be road building. The additional purchasing power created through this expenditure of Rs. 500 crores per annum will generate additional demand for consumer goods, which in turn will create further employment opportunities in the consumer goods industry.

**Underground and External Nuclear Explosions :** In the process of accelerating agricultural and industrial production, adequate infrastructural facilities will have to be provided. The recent nuclear explosion for peaceful purposes raises tremendous possibilities for rapid advancement in this sphere at a much lower cost as compared to conventional methods.

Contained nuclear explosions could be used for mining of oil, natural gas and other ore deposits. As early as 1967, the U.S. Atomic Commission and the U.S. Bureau of Mines successfully carried out such explosions and drew up a long-range plan for gas production. Similar underground explosions are also reported to have yielded very good results in several mining projects in the U.S.S.R. and Communist China. In India, preliminary studies have revealed that the yield of petroleum and gas obtained through nuclear explosions could be several times more than through conventional methods. Similar possibilities of very good results exist for applying nuclear technique to mining of lower grade ore deposits.

External nuclear explosions are known to yield results in the construction of dams, major water reservoirs, construction of highways and railroads in difficult terrain, inter-river canals, artificial harbours, flood-control and digging of quarries. For rapid assistance in agricultural development, a number of large water reservoirs can be constructed in dry regions to provide irrigation. The same would

also apply to flood control facilities. Coming to the economics of nuclear explosions in the application to mining, civil engineering and other similar projects, it is established that the cost will be much lower than conventional methods.

**Recycling of Scarce Resources:** With continuous rise in prices all over the world, pressure on foreign exchange resources and rupee finance can be considerably eased by a systematic programme of re-cycling scarce materials like paper, copper, lubricating oil and other mineral resources. Some technological progress has already been made in this direction in India. However, the possibilities are almost unlimited.

Due to acute shortage of fertilisers in the country, there is a strong case for commercial exploitation of Municipal garbage and industrial waste material for production of fertilisers and building materials. Both these are in extreme short supply and will continue to be so in the foreseeable future. Here again, technology is readily available and can be harnessed at reasonable cost.

A third possibility is to convert municipal garbage into fuel gases and other sources of energy, again very much in short supply.

**Free Trade Zones :** The developed nations of the world have by now reached a high level of employment. Labour costs in these countries have reached uneconomical levels. This provides a wonderful opportunity for India. West Germany, Japan and the U.S.A. are reported to be quite keen to transfer some of their labour intensive factories to India to benefit from cheap labour. This will mean for us not only increased employment but also import of valuable technology and capital goods at no cost to us. They are also prepared to re-export 100 per cent of the production in India.

Restrictions on percentage of equity holding by foreigners, type of items to be manufactured, extent of value added, insistence on obtaining import licences for capital goods and raw materials and components, are strictly irrelevant and uncalled for. Yet, we rigidly adhere to these conditions, and in turn, exasperate and demoralise the foreign industrialists who are not accustomed to such harassment.

## II

# PLANNING POLICIES ARE DEFECTIVE

DHIRAJLAL MAGANLAL\*

The launching of the Second Five-Year Plan was the starting point for sowing the seeds for inflationary pressures on the economy. The Plan was highly ambitious and heavy industry based. Agriculture was not given the required priority. Hence imbalance developed between money supply and goods produced in the country.

The Indian Merchants' Chamber of which I was the President during the period and many other commercial bodies had warned the Government about the likely inflationary effects of the Plan but the Government was in no mood to accept any suggestions. The Second and Third Plans ultimately brought about a price rise of **80 per cent**

This was followed by **devaluation** of the Rupee by 57 per cent in 1966. Between the years 1969-1974, the general price level rose by 60 per cent. Food prices have gone up by 62 per cent, paper money has increased by 70 per cent, while the real output of the necessities of life has increased only by 12 per cent.

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\* Based on a speech delivered under the auspices of the Forum of Free Enterprise on 11th July 1974. Mr. Dhirajlai is a past President of Bombay Stock Exchange.

Taking the last one year, i.e. 1973-74, prices have gone up by 29 per cent, money supply has increased by 17 per cent and the value of the Rupee in the last 12 months ending 1973 fell by 19 per cent.

This is the alarming picture of inflation in India.

Briefly, the disastrous effects of inflation have been : (1) It has worked as the worst form of taxation on weaker sections of the public. (2) It has led to a situation where money incomes are chasing prices and **vice versa** forming a circle. (3) Labour unrest resulting in strikes and lower production. (4) Unrest among the masses against high prices leading to mass upsurge as in Gujarat and Bihar. (5) Deterioration in moral standards resulting in wide-spread corruption. A 15 to 20 per cent inflation, year after year, may result in over-turning the existing basis of society and may even devour democracy.

Inflation is due to several acts of omission and commission by the Central Government. The main cause is deficit financing by the Centre and the States (through unauthorised overdrafts on the Reserve Bank). This reached an alarming magnitude of over Rs. 1,200 crores in 1973-74.

Defective planning has resulted in scarcity instead of plenty. Add to this the curbs on production under the mis-conceived notions of monopolies. Preference to heavy industries over agriculture and consumer goods has aggravated the problem.

Unrealistic prices and distribution controls on commodities like cement, cars, tractors, etc. has introduced more distortions in the economy.

A package plan to fight inflation should consist of the following: (i) A massive increase in production by adopting practical Governmental measures. This means the present negative policy of curbing production through controls should be replaced by positive steps of giving incentives like

extensive tax relief in excise duties and lower taxes for greater production. Moreover, all industrial plants should be encouraged to utilise the installed capacity to the maximum. (2) Deficit financing should be stopped completely. (3) Price control on industrial products should be substituted by a dual price policy as in the case of sugar and steel. (4) Measures should be taken to see that unduly heavy inventories are liquidated by industries and a psychological atmosphere is created for higher production. (5) Black money held in high denomination notes should be mopped up through schemes like SEMIBOMBLA.

Unless the Government takes quick and realistic measures, the economy will head for a bigger crisis.

### III

## INCREASE PRODUCTION TO CURB INFLATION

MINOO R. SHROFF\*

Lately there has been a widely held belief that inflation being a worldwide phenomenon its occurrence in India need not cause undue anxiety. Inflation undoubtedly has become a matter of global concern. It is also a fact that several countries, more particularly Japan and Brazil have had spectacular rates of real growth, exceeding 9% per annum sustained over a period of years, with a much higher rate of inflation (more particularly Brazil) than witnessed in the other developed and the relatively more stable developing countries. However, the real test of the tolerance should be a particular country's own experience of its overall rate of growth, levels of **per capita** income and the

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\* The author is a well-know financial consultant. This text is based on a public lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 10th July 1974.

distribution of income and wealth between various segments of the population. That in India inflation has reached alarming proportions is so clearly borne out by facts that it has ceased to be a matter of any controversy.

In the 1950s India had an enviable record of price stability, the rate of increase in the Wholesale Price Index being under 2.5% per annum compound. This increased to 6.5% in the 60s. However, since April 1972 there has been a very sharp rise, the WPI having increased by 54.1% between May 1972 and May 1974. In fact the rise during this period has been 121.4 points (1961-62=100) as against 124.3 points in the preceding eleven years.

There have been several contributory factors for the current very high level of inflation, one of the most important being the excessive liquidity in the system. Money supply in the last two years has been growing at the rate of 15% per annum as against 10% in the previous decade. That the rise in WPI has been almost twice the rate of increase in money supply is due to lower **per capita** availability of foodgrains and other agricultural commodities, stagnant industrial production, the general psychology of scarcity and most important the Government's total incapacity to grapple with the situation. This is also borne out from the much lower procurement of foodgrains in the current year which has been hardly half of the target and way below that in the previous year despite an increase in output by about 10%.

There has been a marked fall in the rate of growth of agricultural production in the 60s as compared to the 50s with the sole exception of wheat (even wheat production has fallen by about 10% in the last two years) as will be seen from the following table:—

### Compound Rate of Growth

|          | 50s  | 60s  |
|----------|------|------|
| Rice     | 3.3% | 1.9% |
| Wheat    | 4.5% | 8.8% |
| Pulses   | 3.1% | 0.5% |
| Oilseeds | 3.4% | 1.8% |
| Cotton   | 4.9% | 0.8% |

In the field of industrial production the rate of growth of around 4% per annum witnessed in the Fourth Plan has been less than half of the target and the rate of growth attained in the early 60s. The production achieved in 1973-74 was far below the Fourth Plan targets in respect of many basic items—cloth (15%), fertilisers (55%/60%), cement (25%), steel (30%) and aluminium (35%). The shortfall between increased output envisaged during the Plan period and that actually attained was even more pronounced.

In an economy where agriculture still occupies the pride of place, plan investments therein have been declining in the last three years even in absolute terms from Rs. 782 crores in 1972-73 to Rs. 638 crores in 1974-75. In real terms, the outlay in the current year would be only under two-thirds of the outlay in 1972-73.

In the past year and more, there has been a virtual breakdown in the infrastructure. Consequently, we find acute power shortage in various parts of the country with power cuts ranging from 15% to 60%. The Fourth Plan target for additional generating capacity has not been attained even to the extent of 50%. The utilisation of most existing power plants has been way below optimum in view of poor maintenance. Transmission losses have been incredibly high. In view of the unprecedented hike in crude oil prices, availability of petroleum products will be somewhat lower than last year. Imports of other essential raw materials are also likely to suffer a cut in physical terms as a result of foreign

exchange constraints. Coal production, which last year touched 79 million tonnes, has languished in the last decade the production having increased by hardly 5%. There have been serious shortcomings in respect of rail transport and wagon availability, posing constant problems.

As a result of a combination of all these factors, it is most unlikely that industrial production will show any increase for at least a year. Even if the present favourable monsoon conditions were to continue, it is doubtful whether the overall food production will touch the record level attained in 1971-72 in view of the acute shortage of fertilisers and electric power.

In short, the Indian economy today is in a very sick state and as such calls for drastic treatment. The recent Ordinances, despite their inadequacies, at least indicate the Government's earnestness to get to grips with the problems. That the Government is aware that prices in the next two years will continue to rise by at least 20% per annum or more is evident from the figures released of the amounts expected to be so immobilised. It is reported that several other measures are on the anvil as a part of the overall package to contain inflation. Monetary instruments, despite their limitations, have undoubtedly a vital role to play at the current juncture faced as we are with shortages and stagnation with no likelihood of any material change in the situation in the next few months at least.

Ensuring availability of food articles through the public distribution system is by far the most urgent problem. We read so many conflicting reports in the press that it is difficult to comprehend what the Government's present thinking is on this aspect particularly in view of the poor procurement so far. In any case, it seems inevitable that domestic production will have to be supplemented by imports both for ensuring reasonable supplies through the public



distribution system as also for replenishing the depleted buffer stocks.

On current reckoning, imports of 6 million tonnes seem to be very necessary. It has been reported that we have already finalised purchases of 3 million tonnes to which must be added about a million tonnes out of the wheat loan arranged from USSR last year. A similar loan of 2 million tonnes, either from the USA or the USSR, would go a long way not only in grappling with the situation physically but also creating the right psychological impact on the larger farmers and traders who are holding on to sizable stocks which will result in dehoarding and consequently a fall in prices. However, for a more enduring solution it is of paramount importance to take crash action in stepping up production of agricultural and basic industrial goods such as coal, steel, aluminium, cement, power and fertilisers. In all these areas, fortunately, there is considerable underutilised capacity and production can be stepped up within a year by anywhere from 15 to 20% given the political thrust, right sense of direction and dynamic management. In fact, the greatest single input required today in fighting inflation is improving productivity all round. In this task, all productive agencies in the country, irrespective of the sector they belong to, should be harnessed.

In this endeavour, active cooperation of all organised groups—trade, industry, labour, administration and consumers—is called for. This is a battle which the Government cannot possibly wage on its own and must receive the wholehearted support of all sectors, even if their immediate interests are hurt in the process, as long as the measures are well conceived and are proposed to be justly implemented. All anti-social activities should be ruthlessly dealt with and not in the manner of the “theatrical beating with the pillow” witnessed so often in the past. Today, the honest citizen would like to cooperate wholeheartedly but feels

helpless and frustrated as the Government seems to have lost its credibility in dealing with people who hold society at ransom in pursuit of their blind self-interests.

In the ultimate analysis, what has really aggravated the problem of inflation is the psychology of scarcity. Various segments of society have come to acquire a vested interest in scarcity, with its alluring opportunities for profiteering, tax evasion and political corruption. In the long term, this vicious circle can be broken only by fostering competition. This would mean a drastic change in our present industrial licensing policies which have done everything possible to stifle competition and thus perpetuated shortages, inefficiencies, high costs and prices.

In the face of external threats, we as a nation have displayed exemplary unity and sense of purpose but it is naive to expect the people to rally round in the same manner in peace time unless they are convinced the Government means business and has the will to enforce discipline on all, irrespective of status and authority, starting with itself.

#### IV

## **MEASURES TO CONTROL INFLATION**

**PROF. GANGADHAR GADGIL\***

We are in the midst of a galloping inflation. It is said that so long as prices rise by 10 p.c. or less annually it is a cause for worry but not serious worry. A rise of 10 p.c. to 15 p.c. is a cause for serious worry; and a rise above 15 p.c. is a cause for alarm. Our prices increased by over 28 p.c. in the course of last year. This means

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\* Prof. Gadgil is Economic Adviser to Apte group of industries. This text is based on a public lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 10th July 1974.

that all the alarm bells should be ringing. If this inflationary spiral, which is showing no signs of abating, is not checked, our economy will collapse and our social and political structure will disintegrate. The problem of inflation, therefore, has to be tackled with the utmost urgency and determination.

Inflation in this country is a complex phenomenon. However, basically it stems from the following factors. One of them is a very rapid increase in money supply which was of the order of 14.2 p.c. in 1973-74. Secondly, there has been stagnation in both industrial and agricultural production. Thirdly, the inefficient operation of our system of transport and distribution of essential commodities in particular has added to the severity of shortages. Fourthly, hoarding and speculation particularly with resources in the black sector or the parallel economy have intensified the shortages and sent prices spiralling upwards. Fifth, the inflationary tendencies in world markets have accentuated the inflationary pressures. Finally, the oil crisis, the stoppage of food imports under P.L. 480 and reduction in net foreign aid have made it extremely difficult for us to obtain essential imports.

The most satisfactory solution to this inflationary situation would be to increase production of essential commodities. But there seem to be no immediate prospects of doing so. With shortage of fertilisers, our agricultural production is not likely to increase in the current year; and recently Mr. Subramaniam, Union Minister of Industrial Development, stated that we cannot look forward to even a 1 p.c. growth in industrial production in 1974-75.

Even if it were possible to increase production immediately, monetary measures would have been necessary to curb inflation. With no prospects of any significant increase in production in the near future, we have to lean heavily on them.

There are various types of monetary measures available ranging from demonetization or its variants like **semibombla** or compulsory savings or credit squeeze.

Demonetization would reduce all prices sharply and also strike a blow at black money. However, the reduction in prices will be mechanical and wages will fall proportionately to prices. Thus it will not remedy the inequities in distribution of incomes which have resulted from the inflationary spiral. Its impact on black money may not be as harsh as one imagines. Black money may escape through the demonetization dragnet, through various crevices and loopholes. For example, farmers who are by and large exempt from income-tax could provide a loophole for black money to get converted into white money. Moreover, demonetization may not eliminate the scarcity psychology.

**Semibombla** will be a relatively better scheme in certain respects. It will reduce prices not only absolutely but also relatively to wages at least in the organised sector. It could be effective to some degree in getting hold of black money. Thirdly, it would be more effective in counteracting the scarcity psychology.

**Semibombla**, however, is a surgical operation aimed at stocks of money. It would, therefore, affect inequitably different holders of money and force even sound parties to sell at a loss or even to go into liquidation. It would have a very disturbing effect on long term contractual obligations and inflict undeserved losses on the buyers. It would cause considerable maladjustments and disturbance in the short period.

A scheme of compulsory savings would be inevitably related to incomes and will, therefore, affect all persons and business firms on an equitable and predictable basis. It would gradually squeeze purchasing power out of the economy. Thus there would be gradual and orderly process of reduction in prices and the maladjustments and

undeserved losses likely to result from **Semibombla** would be avoided. Unlike demonetization, it would reduce prices relatively to wages and thus to a degree counteract the inequities resulting from inflation.

A credit squeeze could be an additional weapon which along with a compulsory savings scheme could reduce the spending in the economy. A credit squeeze, however, has to be more carefully thought out and effectively implemented than the one carried out by the Reserve Bank during the last busy season. In any case, excessively high interest rates are not necessary for making a credit squeeze effective.

Moreover, no monetary measures can succeed unless the Union and State Governments are prepared to observe strict fiscal discipline and eschew deficit financing. It would be a good idea to impose a statutory ceiling of 5 p.c. on the annual increase in money supply.

While monetary measures are the only ones that can be effectively taken immediately, there is scope for increasing production and available supply of essential commodities.

A more efficient management of our railways, coal mines, power houses and steel mills could bring a significant improvement in production even within a period of six to nine months. In fact, there is considerable scope for increasing production all round through more efficient management. Such an increase could be achieved without any significant additional investment for which we do not have the necessary resources.

More efficient management would involve a thorough overhaul of our existing system of economic controls and regulations.

Judicious investment of our limited resources in selected channels particularly with a view to increase our agri-

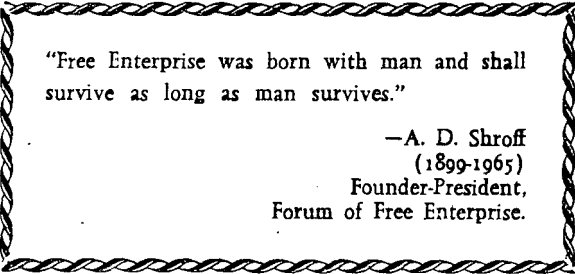
cultural production would also have an impact on the inflationary situation in a year or two.

Increased imports of essential commodities would be another immediate remedy against inflation. It was food imports under PL 480 that kept inflationary pressures under check in this country for a long time. We ought to make vigorous efforts to improve the aid climate so as to secure essential imports of food and fertilisers.

It seems that the world is heading towards a slump. The slump could be turned to our advantage by opening our markets and offering investment opportunities to businessmen abroad. I know that the climate at Delhi is not favourable to foreign private investment. But even Delhi will have to learn to bow to realities.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*

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

—A. D. Shroff  
(1899-1965)  
Founder-President,  
Forum of Free Enterprise.

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