

SOCIAL AND ECONOMIC SIGNIFICANCE
OF INSURANCE IN MODERN
ECONOMIC LIFE

Prof. C. N. Vakil

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FOREWORD

The first two annual lectures arranged by The A. D. Shroff Memorial Trust were well attended and the publication of the texts in book form was very much appreciated. The subjects covered were: (i) The Role of Central Banking Authority & Commercial Banks in a Planned Economy by H. V. R. Iengar, I.C.S. (Retd.), and (ii) The Changing Structure of Industrial Finance by Dr. P. S. Lokanathan.

According to the Trust deed, the lectures are to be in rotation on banking, industrial finance and insurance.

On behalf of the Board of Trustees, I have pleasure in placing before the public the text of the third lecture, on "Social and Economic Significance of Insurance in Modern Economic Life" by Prof. C. N. Vakil, Vice-Chancellor of South Gujarat University, and a veteran educationist and economist. In view of the present discussions on the insurance industry, this publication should be of great interest to all students of public affairs.

N. A. PALKHIVALA
Chairman
The A. D. Shroff
Memorial Trust

20th June 1970



A. D. SHROFF

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid the following tributes to A. D. Shroff:

"In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

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SOCIAL AND ECONOMIC SIGNIFICANCE OF INSURANCE IN MODERN ECONOMIC LIFE

By
Prof. C. N. Vakil

Modern economic life is complex in nature. From the simple life of the village we have now drifted towards modern activity which connotes, among other things, speed. The need for exchange of goods between rural and urban areas in any country and the exchange of goods of one country with those of another involves modern arrangements for transport by road, rail, sea or air. The size of modern industries has grown enormously so that we have to distinguish between cottage industries, small-scale industries, large industries, huge industries, and so on. While progress is determined by the ever-increasing size and multiplicity of such modern arrangements, we also notice at the same time a wide range of risks which are associated with such modern activities. The risks may be personal. Personal risk is usually concerned with death and the time of its occurrence. Whereas death is certain for each individual, the time of its occurrence is not known. Besides, there is also

Text based on a Public Lecture delivered under the auspices of The A. D. Shroff Memorial Trust on March 25, 1970. Prof. Vakil is an eminent economist and Vice-Chancellor of South Gujarat University. A past President of the Indian Economic Association, and an author of several books on economics, Prof. Vakil held with distinction several positions in academic and public life.

the risk of incapacity through accident, illness or old age.

The second type of risk is due to the destruction of property. There may be loss of cargo by some mishap to the ship at sea. Forces of nature such as fire, lightning, windstorm, floods etc. also imply serious threats to property. Such situations make it difficult for the businessman to carry on his operations, because of the constant fear of such events.

There are other types of risks, where it is possible to say that the responsibility of generating the risk rests on some one else. For example, when a driver of an automobile causes injury to a pedestrian by his negligence, it is possible to say that the risk is caused by the driver and the law may provide that the driver should be dealt with in a suitable manner.

Insurance and Risk

Though there are many small and big risks which we face in modern life, it may be said that there are certain types of risks, where it is possible to shift the burden of the risk to others in the interest of security. This process is called Insurance. Whereas it is not possible to bring in the fold of Insurance minor risks, it is found in practice that when the danger of loss is sufficiently great it would be possible to go in for insuring the risk as the premium charged for the service would be a minor factor in the cost element of the business.

In order to appreciate the value of modern methods of insurance against risk, one has to consider what would happen if the facilities of insurance

did not exist. It is obvious that some of the gigantic enterprises in different parts of the world would not be in a position to do their work if insurance facilities were not available. It is also realised that international trade which provides one of the important stimuli to economic activity would not be possible without the facilities for insuring the goods in transit.

So far as production of goods in factories is concerned, the different types of insurance facilities make it possible for the entrepreneur to concentrate on his production activity without worrying about the possible risk. It is obvious that modern insurance facilities which provide protection against the risk of death, accident, sickness, fire, storm, shipwreck, air crash, floods and other phenomena are responsible for promoting economic stability and economic freedom. The creative work which people undertake in many different ways to promote human happiness requires that they should be able to concentrate their energies on such work without worrying about the attendant risk on such work. Insurance eliminates such risks and makes it possible for the creative worker to have that peace of mind which is necessary for his success.

Life Insurance and General Insurance

The above observations indicate briefly the way in which Insurance helps modern economic life and social order. For the purpose of our discussion we may distinguish between Life Insurance and General Insurance. The former is obviously insurance on the life of an individual. The insurance policy

in this case matures either at death, or after a particular period of time, in which case it is known as an endowment policy. In the case of insurance of all other risks such as accidents, fire, loss or damage in transit, and so on, they are grouped under one name called General Insurance. It would be good to have a clear understanding of the distinction between these two different types of Insurance covers. In the case of Life Insurance the contract is a long-term contract involving payment of premium from year to year till death or till such time as has been fixed by mutual arrangement. The policy matures on death or on the expiry of the period of contract. The settlement of the claim involves a simple procedure. The beneficiary has to prove to the Life Insurance company the fact of death by a death certificate or that the period of contract is over. These are usually simple formalities and do not involve any dispute except in rare cases. The settlement of the claim is therefore a simple affair and the insurer is expected to pay the required amount without difficulty.

There is, however, one peculiarity in Life Insurance. Besides providing against the risk of death, Life Insurance also promotes savings. It is usual for the insured party before insuring his life to think in terms of his capacity to save in the form of an insurance premium every year. Some persons who are in a position to save more have to decide the amount of their saving which should take the form of Life Insurance. They may have other forms of savings also. The mobilisation of savings that takes place in this manner in Life Insurance, creates the

problem of the effective use of these resources by the insurance company. The insurance company thus becomes a financing agency, as it is in a position to advance large amounts of finance to businessmen and others and earn interest in the process for the benefit of the policy-holder. In view of the capacity that is thus generated in the hands of a Life Insurance company, it is possible that there may be some use of these funds which is not consistent with the interests of society. It has been decided therefore in some countries to nationalise Life Insurance so that Life Insurance funds are concentrated in the hands of one corporation under the control of the government and suitable policy can be evolved to see that these funds are used in the right direction to ensure social good. It is possible to argue that either the Life Insurance Corporation, or the Government Department which controls it, may make mistakes consciously or unconsciously and may not fulfil the objective of using the funds in the interests of society with due regard to the interests of policy-holders. It is possible however in a democratic society for the public to be vigilant and point out defects in the administration of Life Insurance funds and get the same corrected in time.

Characteristics of General Insurance

The nature of General Insurance is essentially different from that of Life Insurance which we have briefly discussed above. General Insurance is usually for one year and the policy has to be renewed from year to year. The problems with General Insurance companies are distribution of risk and settlement

of claims. Each General Insurance company would try as soon as it has written a policy involving large risk to distribute the same among other sister companies by the method of reinsurance. For example, in the case of a big fire involving large loss or in the case of aircrash involving huge loss, the insurance company may find itself in difficulties to settle the claim, unless it has distributed its risk by reinsurance with other companies. Such reinsurance facilities make it easy for the companies to provide cover for such cases of large risk.

So far as settlement of claims is concerned, it is usually a complicated matter. Each claim has to be separately assessed with reference to the nature of the accident or loss and the value of the claim settled to mutual satisfaction before payment is made. Whereas in small claims this may not cause great difficulty or delay, in the case of large claims there is bound to be some delay before the claim is settled. There is a provision for survey work which means that experts are appointed to decide the nature of the claim. There is also provision for arbitration in cases of dispute. Because of the nature of claims of large amounts which may arise under General Insurance, reinsurance facilities are international in character. In other words, there is a close inter-dependence among General Insurance companies in different parts of the world. They cooperate to bring about this facility to those liable to risks which have to be covered by the method of General Insurance.

In view of these circumstances peculiar to General Insurance, the companies are not in a position

to accumulate large funds as is the case with Life Insurance. They have continuously to pay because of the nature of the business, and to see carefully that they have enough surplus of receipts over expenditure to meet the cost of their management. Because of this some of the General Insurance companies lose at the end of the year; some again marginally; but there is no substantial profit as a rule. In any case, the total funds at the disposal of General Insurance companies are not large.

Socialism and the Public Sector

The country is committed to a policy of Socialism as the form of social order which should be developed progressively. The word "Socialism" has different shades of meaning in the minds of different political parties. This unfortunately confuses the public, as it is not possible for the average citizen to get a concrete idea of the type of society which the country is likely to have in the near future. Without going into the different slogans which are used by different political parties in this connection, we may say that equality of opportunity to every citizen and efforts to improve the living standards of the large masses of the people to a reasonable level and removal of inequality between man and man as far as possible are among the objectives which are common to most political parties, though their methods for achieving the same may differ. One of the principal methods which is resorted to in this connection is that of nationalisation of certain economic activities, either existing or new. The objective in this effort

is to create a public sector which would be in a position to determine the economic structure of the country. In other words, Socialism has been identified with nationalisation of economic activities or the growth of the public sector, on the assumption that it leads to the realisation of the objective referred to above.

Significance of Loss in the Public Sector

Unfortunately, a careful analysis of the policy, from the point of view of its possible results under our conditions, has not been attempted. For example, public sector activities have to be managed and controlled by the bureaucracy and the politicians. Whether this leads to greater production and cheaper prices is not even examined. Any enterprise which is considered large becomes a target of attack, and efforts are made to prevent such activity from growing larger, without even taking into consideration the experience of corresponding situations in other countries, and the need for competitive production from the point of view of international trade. What is considered a large enterprise in our country is relatively small from the point of view of international standards - American or Russian. The fear of concentration of economic power leads to the neglect of the elementary economic principle of economies of scale, with consequent reduction in production and increase in prices. The bureaucracy and the politicians who control nationalised industries are, with rare exceptions, not able to produce the desired results, and it does not require any statistical proof to say that the major

urity of public sector undertakings involve the country in losses running into several crores of rupees. In the Fourth Plan, the public sector has been assigned a dominant position, which means that the savings of the people will be diverted to the creation of more public sector activities in the country and the private sector will have less funds available for its development. The savings are mobilised by the Government, partly by taxes, partly by loans and to some extent from forced savings because of deficit financing. Foreign aid helps to some extent, but it is now known that it is becoming less and less available. People have not realised the significance of the losses from the public sector activities. In the case of a private company, if there is a continuing loss, the company has to be wound up because the creditor has to be satisfied from the available assets of the company and the shareholders will lose. If it is a partnership, partners will lose. In the case of public sector undertakings, which show losses of crores of rupees, the burden falls on the tax-payer, because it is out of the revenues of the Government that the losses are met. And, with the continuation of these policies, the burden may continue to increase. It is not clear as to how the average tax-payer in the country, who contributes to meet the losses on the public sector is benefited in any way. In what way does this policy benefit the common man or give greater opportunity to him is not clear. Socialism implies better distribution of resources, but if resources do not increase as expected or planned the question of better distribution remains in the background.

Socialism and Production

One of the objectives of Socialism, namely to prevent the large industrial units in the country from becoming larger still may be realised, because it appears that with the prevailing atmosphere in this connection those in charge of large units have already begun to feel that they are not welcome to take any further efforts to produce more. In other words, the policy has made those few leading industrialists, who have proved their capacity to produce more, inactive in their effort. It is therefore not realised whether, instead of achieving greater production, we are being led to a situation in the contrary direction.

Luxury of Socialism

The failures of the private sector are often referred to. The Government has, however, by its elaborate Company Law legislation and the Company Law Administration introduced stringent control over companies to control possible unsocial acts of the private sector. But there does not seem to be any corresponding effort to control the working of the public sector. The public sector is ultimately accountable to Parliament, but such accountability is usually in the nature of a *post mortem* examination. Because of the political situation, the ruling party can always get its decisions approved by the majority it controls and ignore the criticism in and outside Parliament. Cases of inefficiency, corruption, overstaffing because of patronage and things of that nature, are not rare in the public sector. Whereas one need not take a doctrinaire view of

favouring nationalisation as a policy or being against it, what is suggested in the above remarks is that the question needs to be considered without delay - "whether the working of nationalised concerns in the country is conducive to the public good" which is the objective of the policies the Government has adopted. A related question would be: should the Government of the day be permitted to have the luxury of Socialism at the cost of the tax-payer? This is exactly what is happening: - in the name of Socialism the Government of the day raises the public sector to a dominant position but in managing the same makes the tax-payer pay for the losses which it incurs.

Socialism and Insurance

Apart from the principle of Socialism and the practice of nationalisation now prevalent in the country, we may refer to the application of the principle to insurance companies. Life Insurance companies were nationalised some years ago leading to the creation of a mammoth organisation called the Life Insurance Corporation under Government control. No one has made any careful research regarding the question whether the progress of Life Insurance in the country could have been better under the old private companies if they were allowed to continue than what has been achieved under the LIC. But what is more important is that the LIC has been able to bring the Life Insurance funds under one control and has therefore become an important financing agency with huge resources at its disposal.

LIC Funds

The funds at the disposal of the LIC are of the order of Rupees 1,260 crores and they are continuously on the increase in proportion to the new life policies that they write every year. The LIC uses these funds for underwriting the shares of certain new companies, for investment in certain selected shares which have a good yield, as well as for certain welfare schemes suggested by Government such as loans to housing societies. It has also to invest certain amounts in Government securities. The primary responsibility of the LIC is to the policy-holder and it should be careful in seeing that the payment of the dues of the policy-holder are met in time without any difficulty, and the manner in which it locks up its funds in other activities should be such that it brings adequate return to cover the cost of management and yet leave a surplus. Whereas some welfare activities such as housing schemes may be encouraged by the LIC, it will be necessary for the Corporation to make sure that each such scheme is planned properly and executed efficiently. One hears occasionally complaints regarding favouritism of this or that group by the LIC consciously or unconsciously. In view of the large network of offices through which LIC operates in the country as well as in view of the fact that so many years have passed since it was created, it will be appropriate for Government to review the working of the LIC with a view to ascertaining whether the nationalisation of Life Insurance has led to satisfactory results and also

with a view to introducing the necessary reforms and changes in its work. Such periodical reviews for such public sector undertakings are part of democracy in order to assure the public that all is well with such Corporations. What will be necessary to establish by such a review is that the LIC funds are utilised in a manner which leads to public good and helps the common man in a significant manner. Unless this is done it will not be possible to prove that this is a socialistic measure. It is not enough that certain existing institutions should be nationalised in the name of Socialism. It is essential that under democratic conditions the public should have convincing proof that the nationalised concern is working in practice for the socialistic goal as laid down by Parliament. In this connection, we may briefly review the investment policy of LIC.

LIC Investment Policy

The interests of the policy-holders should be the primary concern of the LIC in its investment policy. Subject to this it is expected to help in carrying out the objectives of the country's social and economic development. It has therefore to make sure of the economic soundness of any project, public or private, and also of its management. It would not be proper for it to act as a speculator, but it may enter the market to secure maximum benefit. It should carefully study and follow the working of companies and projects in which it invests and take timely steps to see that conditions are satisfactory.

The following statement shows the distribution of investments of LIC:

| | 31-12-1957 | | 31-3-1969 | |
|-----------------------|------------------------|----------------------|------------------------|----------------------|
| | Amount in crores | Per- cen- tage | Amount in crores | Per- cent- age |
| 1. Public Sector | 255.12 | 77.37 | 919.52 | 73.1 |
| 2. Cooperative Sector | 3.96 | 1.20 | 107.98 | 8.6 |
| 3. Joint Sector | — | — | 6.54 | 0.5 |
| 4. Private Sector | 70.66 | 21.43 | 223.98 | 17.8 |
| | <u>329.74</u> | <u>100.00</u> | <u>1258.02</u> | <u>100.00</u> |

As the cooperative sector is under State control it would be correct to say that LIC investments are 81.7 per cent in the public sector and only 17.8 per cent in the private sector. The following table shows the way in which investments are distributed among several categories:

| Class of Investment | In crores of Rupees | | | |
|--|---------------------|------------------|------------------|----------------------|
| | As on 31.12.57 | As on 31.3.63 | As on 31.3.69 | Per- cent- age |
| 1. Central Government Securities | 185.55 | 249.18 | 283.52 | 30.49 |
| 2. State Govt. Securities | 42.53 | 136.36 | 212.49 | 16.89 |
| 3. Other unspecified approved Securities | 23.52 | 26.10 | 27.38 | 2.18 |
| 4. Shares of Public Sector Companies | 0.12 | 0.39 | 1.05 | 0.08 |
| 5. Private Sector: | | | | |
| (a) Equity Shares | 70.14 | 121.01 | 223.98 | 17.80 |
| (b) Preference Shares | | | | |
| (c) Debentures | | | | |
| (d) Loans | | | | |
| 6. Housing Loans to State Governments | — | 33.13 | 103.50 | 8.23 |
| 7. Housing Loans to Co-op. Financing Societies | — | 7.86 | 50.70 | 4.03 |
| 8. Loans to Municipalities | — | 1.61 | 21.12* | 1.68 |

| | | | | |
|--|---------------|---------------|----------------|---------------|
| 9. Shares & Bonds of State | | | | |
| Finance Corporations | 1.50 | 7.46 | 17.27 | 1.37 |
| 10. Loans to Electricity Boards | — | — | 103.50 | 8.23 |
| 11. Bonds of Electricity Boards | 0.34 | 11.03 | 29.01 | 2.31 |
| 12. Shares & Bonds of Industrial Finance Corporation | 2.09 | 8.75 | 12.47 | 0.99 |
| 13. Cooperative Sugar Factories | — | 1.20 | 1.90 | 0.15 |
| 14. Land Mortgage Bank Debentures | 3.96 | 10.86 | 58.09 | 4.62 |
| 15. Loans to Industrial Estates | — | — | 0.99 | 0.08 |
| 16. Other investments | — | 8.70 | 11.05 | 0.87 |
| | <u>329.75</u> | <u>623.64</u> | <u>1258.02</u> | <u>100.00</u> |

* Includes loan of Rs. 1.89 crores granted to Government of Rajasthan for water supply scheme.

It will thus be seen that the LIC investments are firstly in Government Securities (Central 30.49 per cent and State 16.89 per cent). The share of the private sector is only 17.8 per cent. Among the loans are: (a) Housing Loans to State Governments and Cooperative Financing Societies; (b) Loans to Municipalities; (c) Loans to Electricity Boards, (d) Loans to Cooperative Sugar Factories and (e) Loans to Industrial Estates. The LIC has also invested in (a) Shares and Bonds of State Finance Corporations (b) Shares and Bonds of Industrial Finance Corporation, (c) Bonds of Electricity Boards and (d) Land Mortgage Bank Debentures. The total of such loans and investments is Rs. 398.55 crores or 31.69 per cent of the LIC funds.

It has also adopted the policy of investing more in backward States with a view to reducing regional disparities. These are laudable objectives, but

it is not known how far they are consistent with the interests of the policy-holder. The policy-holders do not seem to have any effective voice in the disposal of their funds. And if some of the activities in which their funds are invested turn out to be unsatisfactory, their interests may suffer. It is also not known whether political considerations determine some of the investments of LIC. There is a recent move to go ahead with the financing of welfare schemes by the LIC under the guidance of the new Chairman. In the enthusiasm for welfare schemes, the interest of the policy-holder should not be overlooked.

Compared with the huge resources of LIC the total funds at the disposal of General Insurance companies are limited, Rs. 61 crores only. If the object is to mobilise any financial resources for the Government by nationalising General Insurance, there is no case for it. Out of Rs. 61 crores of the total funds of General Insurance companies, about 75 per cent is already invested in Government and other securities according to law. The remaining funds would be required for working purposes, even if General Insurance is nationalised.

Insurance for Stability

While discussing the known forms of insurance - Life and General - I may be permitted to refer to another form of insurance in which the public is vitally interested. This may be described as Insurance for Stability. It may be said that in order to be sure of stability, that is for a relatively stable price level, we do not pay any premium as we do

in the case of insurance - Life and General. It may however be pointed out that whereas individuals and companies pay premia to insurance companies for taking out Life Insurance or General Insurance policies for specific purposes, the public pay to the Government in the form of taxes - direct and indirect - in the hope of getting stability of political and economic conditions. This sort of payment is therefore more general and not specific, but nevertheless the objective is similar — the avoidance of risk and uncertainty regarding undesirable changes in political and economic conditions. It is easy to see that since Independence, and particularly in recent years, the public is not sure of reasonable stability of economic and political conditions, though their payment for ensuring the same in the form of taxes is continuously on the increase. The irony of the situation is almost tragic when we realise that the public is taxed in order to bring about unstable economic conditions. This may sound strange, but everybody in the country is aware of the continuously falling value of the Rupee in his pocket without fully understanding the reasons for the same in most cases. Most of us have to adjust to this situation, much against our will and at considerable inconvenience and sacrifice. The continuously rising price level in the country, mainly due to inflation, is the powerful factor contributing to economic instability and incidentally leading also to political instability. It is not realised by all that inflation of currency which is resorted to by Government, in order to incur certain expenditure for which they

do not have resources in the form of taxes and loans, acts as a concealed form of taxation. The average citizen finds that the Ten Rupee note in his pocket fetches less and less of commodities and services from month to month or even week to week. The extent to which the value of the currency note is eroded is the concealed tax which the citizen has to pay without knowing it. Whereas in the case of ordinary taxes you deal with the tax collector in one form or another, in the case of inflation the tax collector is invisible and therefore the process is mysterious. Whereas in the case of insurance you pay voluntarily for eliminating the risk to which we have referred, in the case of inflation which leads to economic instability the public is made to pay for causing the phenomenon. While we talk of raising the standard of living of the common man by Socialism, we have a situation in practice which prevents the realisation of the objective. A person getting a higher money income than before may temporarily feel happy, but he soon finds out that in terms of commodities or services he is poorer.

Inflation and Socialism

Whereas in the case of direct taxation there is a system of progression by which the incidence of the tax is higher on the richer classes because they have the capacity to pay, in the case of inflation the burden falls more severely on the poorer sections of the people. The limited money income of the majority of the people in the country fetches lower and lower return in commodities and services because of inflation. In the case of the richer

classes the pinch is not felt because their larger incomes and resources, even if they lose some value because of inflation, enable them to pay a larger amount to continue in comfort, or even in luxury, without difficulty. In fact, under conditions of inflation, some of the richer classes are in a better position to multiply their incomes and resources by obtaining contracts from Government or by entering into commercial and industrial activities in which the money return is higher in proportion to the rise in prices. In other words, by this process, disparity between the poor and the rich is intensified. The slogan of Socialism which implies removal of inequalities remains on paper when inflation is the vogue. In other words, the socialistic slogan creates enthusiasm among the public and the hope of achieving something, but they are soon disillusioned because they do not realise their objective and are not able to appreciate the insidious operation of inflation which is not easily understood by the public at large.

Deficit Financing

These general observations are made in order to point out that the policy of deficit financing which is practised by our Government since Independence is not suited to our country. Deficit financing is suggested when in the case of a developed country there is idle manpower and idle capacity ready to utilise the same with the creation of new demand which can be generated by expenditure based on deficit financing by the government of the day. In a country like ours we have plenty of idle manpower, but it is such that it is in no position

to take advantage of demand created by deficit finance. The advantage of such demand goes to a few persons such as contractors, who undertake work on behalf of some public activities, managerial and technical staff of such activities, as well as some workers at different levels. In the process of giving employment to a few in this manner large sums are spent out of deficit financing, leading to a rise in prices for the country as a whole. The production from the proposed enterprise may take any number of years to fructify. There are very few cases of public expenditure where production matches, without delay, the increase in money supply. Besides the inherent weakness of the economy and social structures of countries like ours to handle deficit financing leads to extravagant expenditure by the administrator and the politician. The incentive to economy is reduced when the administrator knows that he can get any amount of money for expenditure on the task which he is asked to fulfil. The politician promises certain things to his constituency and he is bent on seeing them through at any cost for the sake of prestige. To him, deficit financing is the easiest escape for realising his ambition and achieving something by which he can be sure of re-election. Without realising the implications of deficit financing under our conditions, we have this combination of forces which conspire to bring about rising prices and unstable economic conditions.

One may venture to suggest in this respect that the authorities in any country are not willing to admit the unfortunate consequences which follow

from a policy of inflation. They find it convenient to conceal it from the public as far as possible. When the fact of inflation was first exposed by me in the beginning of 1943 by the publication of *The Falling Rupee*, the British Indian Government was not willing to admit the existence of inflation. It is on record in the speech of the then Finance Member introducing the budget for 1943-44 that he denied the fact of inflation. Similar instances of other governments are also on record.

Now that the general situation regarding the possible inflationary tendencies of deficit financing is known in our country, Finance Ministers try to put a limited amount of deficit financing in their budgets from year to year and explain it away by saying that it would be possible for the economy to absorb such an amount of deficit financing without difficulty. It is not realised that the figure put in the budget is usually an underestimate. The actual deficit financing in the year is invariably longer. It is not realised that the States are in no mood to cooperate with the Centre in curtailing expenditure. This is happening now for some years as seen in continuous large unauthorised overdrafts by them. The tendency in the State budgets of this year to budget for large deficits, without any thought of raising resources to meet them, is so widely prevalent that its impact on the national figure of deficit financing cannot be easily estimated. Besides such record figures of deficit financing, it is easy to see that in all those cases where large schemes are undertaken, if there is extravagance or waste of any sort not leading to desired

results, or corruption, these factors also have the same effect as deficit financing in as much as they do not produce goods but merely add to the money supply and therefore cause rising prices. No estimate of this situation can be given by any one, but the public has to suffer from the same in any case.

Significance of Rising Prices

This digression on what I have called Insurance for Stability may not seem at first sight related to the subject matter of this talk. It has however an important significance which I should like to point out. As already explained, Life Insurance has the important characteristic of being a form of saving by the policy-holder. The savings of the public in this form are on the increase, but it is not realised that with rising prices the value of the savings tend to fall. For example, if I have taken out a policy of Rs. 20,000, payable after 20 years, and if I have been paying my premium regularly all these years and am due to receive the amount now, i.e., on the expiry of 20 years, what would be the position? I would have paid all these years in instalments a sum in the aggregate of Rs. 20,000. But the value of each Rupee that I paid in earlier years in terms of goods was higher than the value of the Rupee that I receive today. In other words, I made a contract to receive Rs. 20,000 at the end of 20 years, on the assumption that I shall receive good value in terms of commodities. The assumption was that the value of the Rupee would be stable throughout the period. As it has not remained stable, what has happened? The value of the amount that I now receive is much less than

the value of the amount that I have contributed to the LIC. As a saver, instead of being at an advantage, I find myself at a disadvantage. One of the advantages of Life Insurance, of the policy-holder being able to save, is thus eroded by the inflationary policy of the Government. The close connection between inflation and savings of all types, and particularly of savings under LIC, will thus be obvious. In order to see that the public has "insurance for stability of economic and political conditions", it is essential that the government of the day must see that inflation is stopped at any cost. Besides, when the Government thinks, preaches and acts on the basis of a socialistic order in the interests of the common man, it is imperative, if it is sincere, that the price level should be relatively stable. If, on the other hand, it indulges in a policy of inflation leading to continuously rising prices, it would be cheating the public, because the public would be believing one thing and realising another. Instead of being happier, the common man would be worse off. Instead of inequalities gradually being eliminated, they would sharply increase. It is appropriate therefore to draw the attention of the authorities to the vital importance of providing insurance to the public for stability of the value of the Rupee. No amount of effort which Government may undertake for this will be too large for achieving this goal, because unless they do so there will be a situation adverse to the country's growth and prosperity and inconsistent with the social order. The social and economic significance of ordinary insurance - Life or Gene-

ral - assumes a relatively minor place in the country's scheme of things, if it is viewed in the light of the greater need for having Insurance for stability of economic conditions. The Government may or may not nationalise insurance, may or may not nationalise banking. It may or may not achieve wonderful things that are expected by these measures of nationalisation, but if it fails to bring about adequate Insurance or Economic Stability by preventing inflation and assuring a relatively stable price level, the expected goal of socialism will recede further and further from the horizon. In other words, in our country we are emphasising minor things such as nationalisation of General Insurance, which has relatively very little or no significance in the life of the common man, and forgetting the paramount need of providing insurance to the common man against continuous rise in prices by the policy of inflation.

I have deliberately chosen to introduce this theme by taking opportunity of this address, because as one who has lived with the economic and political scene in this country for half a century or more as a research worker and student of economic affairs, I consider it my duty at this juncture of uncertain outlook on many things in the life of the people, to draw pointed attention to more important things of this nature for the growth of the economy and for maintaining the vitality of the people, instead of diverting our limited energies to less important problems like General Insurance in which the common man is not interested. As one of the senior economists in the

country I venture to make this appeal in all seriousness to all those who have the good of the country and particularly of the common man at heart.

I am not a politician. I have no affiliation to any political party. Nor have I any interest in any insurance company. I am used to say things frankly based on convictions due to sustained scientific study and mature thought. I was the first to draw pointed attention to the disadvantage of the Ottawa Trade Agreement leading to Imperial Preference in 1932 and incur the displeasure of the British Government. I was the first to explain the fact of growing inflation in 1943 by the publication of "The Falling Rupee" and by public discussion to the dismay of the British Indian Government. As Economist to the Department of Planning and Development under Sir Ardeshir Dalal, 1945-46, I was in a minority of one in pointing out that the proposed large public expenditure by Government on the termination of the War would lead to further inflation. My advice was ignored with disastrous consequences, and the Nehru Government had to hastily call a group of nine economists including myself to provide a prescription for the economic ills due to inflation in 1948.

As one of the very few senior economists in the country devoted to independent economic thinking in the national interest, I venture to make this appeal in all seriousness to all those who have the good of the country and particularly of the common man at heart, to see that the public has adequate insurance for stability instead of diverting our

limited resources to relatively minor things like the nationalisation of General Insurance, which has no scope of bringing socialism or raising the standard of the common man.