THE MENACE OF INFLATION

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

—Eugene Black

President, World Bank

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The subject of inflation, in the sense of a steadily rising level of prices, as also in the sense of steadily rising cost of living, — the two ways in which inflation impinges upon us — has been with us with special severity over the last three or four years. But it is only recently, particularly during the last six months or so, that it has suddenly come to the fore as a subject for active, serious discussion, not merely as a matter for academic debate between this or that school of politicians, or between this or that *pundit* in economics, but as one in which important and major practical issues are urgently involved and on which, in fact, the National Development Council, when considering the preliminary outline of the Third Five-Year Plan, had to adjourn for the *specific* consideration of the problem of rising prices, and for which consideration it has again adjourned into some kind of committee. Thus, the fact remains that whereas inflation was only a general "background feeling" that remained with us for some years, today it is an active issue of very great public importance; and for that reason, and as I feel myself that it is a matter of urgency, I thought the public should be educated about it. I feel also that what is undoubtedly a somewhat complicated problem should be elucidated in as simple terms as possible, so that an informed public opinion may be formed about it and that public opinion may have a decisive impact upon the behaviour and functioning of the Government.

What exactly is inflation? Can we get, or in effect have we got, inflation? If we have, how long will it last? What is wrong about it? Is it such a great evil? And what should we do about it?

In the simplest terms, inflation can be defined as that condition of an economy in which the money supplies are in excess of the requirements of the economy. Making it a little more complicated so as to correspond with the facts of the case, i.e. expressing it in terms of the dynamic state we are in, when the money supplies in the economy increase more rapidly than do the money requirements of the economy, a state of inflation subsists. We have an economy which is fast developing. A developing economy needs more money supplies in order to keep that economy going. But if the money supplies increase more rapidly than the economy's needs, then we have what is known as a state of inflation.

The most obvious outward manifestations of the existence of inflation, — very often we may have additional money supplies coming in but, for the inflationary effect to be felt, it takes some time — are:

(a) a general rise in the level of prices (not merely the price of foodgrains, of cinema tickets or sarees, etc., but of all prices all along the line); and

(b) a general rise in the cost of living.

These are the two primary indications. There are also various other technical indices and symptoms to show the existence of an inflationary state, but these two are enough. It is an indication of the existence of a state of inflation if we have a continual, persistent and general rise in prices and a continual, persistent and general rise in the cost of living.

It is necessary that these propositions concerning inflation should be carefully examined, for a full understanding of the problem.

First of all, let us see what exactly is money. What is the function of money in the economy? It can be stated quite simply that it has three functions to serve. In the first place, it is a medium of exchange. We exchange our services or goods for money; and that money, in turn, we exchange later for something which we want to buy. Money is thus primarily a medium of exchange. Secondly, it is the unit of accounting. It is the measure in terms of which we can measure the relative economic values of a wide variety of things and services *inter se.* Otherwise, how can we compare a thousand and one things with each other and in terms of a number of other things and services?

Thirdly, and from the standpoint of the economics of inflation, most important of all, it is the means by which we arrange the exchange of values between various things and services *over a period of time,* — between the past and the present, and the present and the future. The whole problem of inflation arises because of the discrepancies which it gives rise to, in the settlement of accounts and obligations over a period of time.

Suppose twelve years ago I bought a National Savings Certificate for a thousand rupees and now I get Rs. 1,500 for it. But if meanwhile there has occurred a general rise of prices I do not get the same real worth per rupee for the Rs. 1,500 as for the Rs. 1,000 that I gave. In other words, if I am not to lose, I must get a thousand rupees of the same value as those I lent, *plus* Rs. 500 also of the same value. Thus, if the price level in the meanwhile has gone up by 50 per cent, when I invest a thousand and get back fifteen hundred, I still get back only a thousand rupees. In such a case, the whole exchange between the past and the future has gone completely wrong. One of the most important functions of money, if properly administered, is to arrange that there shall be equality or stability of exchange as between the values of the past and the present, and between the values of the present and the future. That is a matter of very great consequence.

Let me now turn to two other important concepts which have a great bearing on the problems of stability of the value of money in the past, present and future. Let us inquire "What is the monetary equation in the economy?" We know the usual talk about equating "demand" and "supply" for most things. How do we express the same supply-and-demand concept in regard to money? What is the "demand for money" in an economy, and what is the "supply of money"? Quite briefly, the factors which govern the demand for money are the totality of economic transactions. One can go on endlessly describing them. We have the whole mass of agricultural production, industrial production, commercial production — concrete things that are produced and bought and sold. Then we have transportation, electricity, power and numerous other services. Public administration is a service that is produced. There is also the rendering of personal services by the whole mass of employees in the country — labour, salaried persons, administrators, management people, entrepreneurs, and technicians. All these are engaged in economic activity. The totality of all these things and services constitutes the aggregate volume of economic transactions which have to be financed and which have been made possible by using money as the medium of exchange. They constitute the largest single conglomerate in the demand for money. As these grow, as our production, transport and population, etc., grow, as the number of people employed increases, as the whole gamut of economic activity is in a state of buoyancy, so we need more and more money as a medium of exchange to facilitate these operations. Otherwise, there will be a dearth of the medium of exchange with which to finance these operations; and the economy would slow down.

Other factors on the demand side are the volume of savings and investment, the gross national product, the level of national income, the level of income *per capita,* the level of production, the customs and habits of people and so on. For example, we know quite well that there is still a very large mass of the people in the country who are in the habit of saving in cash. They save money and tuck it away. They keep on doing that. With that sort of thing, the demand for money in a growing economy can be quite large. But the demand would be much less if that habit did not exist, because all that money would then be available for circulation through the Government Small Savings Schemes or through the banking system and so on.

But basically there is the assumption and the fact that our economy is not a barter economy. In order to function in a modern economy, I do not exchange a hen for a hair-cut, but things and services are exchanged for money and *vice versa.* There is thus a very large and growing volume of demand for money.

The "supply of money" consists, basically, of three things. In this country, there is the currency of the country consisting in the first place of Reserve Bank notes and, secondly, the notes printed by the Government of India, i.e., the one rupee notes, and the coins. All this constitutes currency in public circulation, (not that which is still locked up in the Reserve Bank). Secondly, the credit balances of the banks and other institutions with the Reserve Bank are also "money"; and, therefore, when the Reserve Bank indulges in open market operations for buying Government

Securities from the market, it is actually pumping money into circulation. Thirdly, there is the large volume of commercial banking credit, consisting largely of all those balances in banks which can be drawn upon by cheque at will.

The aggregate of these three is primarily what constitutes the "money supplies". There are also other technical things like "potential" bank credit supplies. It is an important fact in this connection that in 1955-56 the ratio of bank advances (including bills discounted) to Banks' time deposits and demand deposits taken together was as high as 63 per cent. This means that the banking system *could* lend to the public an aggregate amount equal to some 63 per cent of the aggregate money with the banks in terms of time and demand deposits. Now, because of various restrictions imposed by the Reserve Bank and also non-availability of "approved" fields for investment, the ratio, in January 1960, was down to 53 per cent. Meanwhile, since the total demand deposits and time deposits have themselves increased, there exists in the banking system a potential for additional "bank money" or "credit creation" to a vast extent. In other words, about 10 per cent of the present aggregate volume of bank deposits is a potential source of additional money supplies.

The creation of all this money is *not* automatic. In this country, basic money is created by the Government. It is printed at Nasik. Depending upon the amount of currency that is being so created and upon the amount of "bank money" which the Reserve Bank creates, all of this finds its way partly into public circulation and partly into the banking system, which in turn creates a superstructure of bank credit, which again is a form of money. All this is highly technical. But the problem of inflation is that if all this money supply is not controlled at its *source* and if, in the aggregate, it exceeds, for some reason, the requirements of the economy for money in terms of the demand factors, then there is too much money all around. And when there is too much money around, that, naturally, has less value like anything else when we have too much of it. Now the manner in which money loses its value is by the general rising of all prices; and, therefore, if over a period of time, as has been happening over the past four years, there is a steady inflow into circulation of money supply far in excess of the requirements of the economy, resulting in the value of money, i.e., its purchasing power, continually dropping, there is the expression of this fall in value in a general rise in prices and specifically in terms of a steady rise in the cost of living.

With this background, we are now in a position to ask a few important and relevant questions. Firstly, has there, in fact, been an increase in money supplies to any significant extent? Secondly, has there also been an increase in demand for money? Thirdly, nevertheless has there been a fall in the value of money, i.e. a steady rise in prices? And if so, what is it all due to?

Let us begin with just a few statistics. The total currency supply with the public, inclusive of bank notes, currency notes and banking balances of the public with the Reserve Bank, was about Rs. 1,500 crores in 1955-56. In January 1960, it was Rs. 1,800 crores. There was thus three hundred crores increase in currency in circulation. In 1955-56, bank money, i.e., demand deposits with commercial banks upon which persons concerned could draw cheques at will, was Rs. 680 crores. In January 1960, it was Rs. 800 crores, an increase of Rs. 120 crores. The total increase in currency supply has thus been of the order of Rs. 420 crores over the past four years, i.e. since the commencement of the Second Five-Year Plan upto January 1960. But that is not all. A considerable amount of additional currency actually created and put into circulation got *extinguished,* or rather, neutralised, as a result of the tremendous diminution in our holding of foreign securities, or, as it is called, a fall in our sterling and dollar balances, because we have been importing far more than we have been exporting. Sterling balances have fallen in this way over the same period by Rs. 525 crores. So, in round figures, something over Rs. 900 crores of additional currency was really put into circulation, of which about Rs. 500 crores got neutralised. That again is not all. The total of time-and-demand liabilities of the commercial banks in 1955-56 was, on the average, Rs. 1,000 crores. The total of the same figure in 1960 was Rs. 1,886 crores. The banks lent out of the first figure 63 per cent; out of the second, only 53 per cent. So, in January 1960, there was available a further potential credit creating capacity in the banking system of roughly Rs. 188 crores. Hence, the tremendous credit squeeze in March and May; but it has not caught up yet with the *capacity* of the banks to create credit. Because of increased basic money, the total time and demand deposits have increased tremendously; and the capacity of banks to create credit is still very considerable indeed, notwithstanding the restrictions that have been imposed by the Reserve Bank of India on lending by the banking system.

I am not arguing that, at the same time, there has not been a considerable increase in the genuine demand for money. The population itself has been increasing at the rate of about 2 per cent per annum. In five years, a 10 per cent increase in population is substantial. Naturally, to meet the money requirements of this growing population, we need more money. Even if we get down to a narrower field, viz. to the *employable* portion of the population, that too has increased; and if we like to take only the *actually employed people* their number too has been increasing steadily. Secondly, the gross national product and also the net national income and the income per capita (all at 1948-49 prices) have also increased. Savings and investments have increased and production too has been increasing rapidly. I would like to give you a few statistics concerning all this, as I do not want to exaggerate the extent of monetary inflation. There has undoubtedly been a very considerable increase in the totality of the economic transactions; and for that, certainly, additional currency was necessary. For instance, in foodgrains, the production in 1955-56 was 65.8 million tons; in 1958-59 it was 73.5 million tons. Production of commercial crops like cotton, jute, oilseeds, sugarcane has increased, some of them very substantially. As for capital goods, the annual production of things like iron and steel, diesel engines, machine tools, electric motors, electric transformers has increased. The production of cement and coal has increased; so have power and transportation by rail, road and sea. The whole range of production has been steadily going up. There is no doubt at all that the economy has been exceedingly buoyant and that such a buoyant economy certainly requires increasing money supplies to finance and facilitate its operations.

The question, however, is: Has money supply increased more than was needed? For that, unfortunately, there is never any direct test except in terms of prices. If money supply increased more than was needed, inevitably there will be a fall in the value of money evidenced by a general rise in prices; and inevitably that rise will both be significant and sustained. Let us examine a few price figures. Compared with the average price level in 1955-56, the price level in February 1960 was 30 per cent higher. The general increase in price level of foodgrains alone was by 37 per cent. We can do a bit of explaining away by way of wishful thinking about these figures; but the order of magnitude by which the general level of prices has increased, viz. by something between 25 and 30 per cent with the foodgrains prices rising even more over the past five years, and the fact that this price increase has been a general, persistent, steady and sustained price increase — not a sporadic one, — these are unchallengeable facts.

As regards cost of living, there is, unfortunately, no all-India Cost of Living Index. But there are certain disjunct figures such as those for Bombay and Ahmedabad, the general trend of which, as we all know from practical experience, has been that during the first four years of the Second Five-Year Plan, the cost of living has been steadily going up. Today, it is somewhere about 40 per cent higher than it was at the end of 1955-56, i.e. at the commencement of the Second Plan.

In the face of these facts, it is quite impossible to argue that there is no serious inflation in the country. The inevitable and necessary conclusion from these facts is that we have been undergoing over the past four years a steady and growing state of inflation. It is equally undeniable that this inflation has been *monetary* inflation. The Government may try its best to persuade the public that it is due to inadequate production, profiteering, black-marketing and the whole lot of other well-known clichés. The fact remains that despite the increase in production to a very significant extent and the undoubted increase in the gross national product and the net national income in *real* terms, there has been so much greater increase in money supply that the price level and cost of living have been rising.

The next problem is: What is it all due to? Why has money supply been increasing more than needed? Where does it all come from? The answer is simple. Somewhat over-enthused with the success of the First Plan, we plunged quite unthinkingly into a Second Plan beyond our real resources, whether in terms of revenues the Governments could raise, or in terms of the borrowings which the Governments could raise within and outside the country. The measure by which it was beyond our real capacity is in fact what is known as "Deficit Financing" by the Government of India year after year.

The structure of Plan financing in the country today is, and has been for some years, something like this. Various State Governments draw up Plans. They have normal expenditure and Plan expenditure. Whatever they cannot meet, or in other words the shortfall, would be financed by way of loans and grants from the Central Government. But in addition to these demands from the State Governments, the Centre has its own plans. It has got its own revenues too. Whatever it cannot meet out of its revenue, or in terms of the capital outlay compared with its capital receipts, the gaps are sought to be bridged by loans and by raising additional revenues. The final difference, the eventual gap between overall outlays and overall receipts, is expressed as the "Uncovered deficit". In such a situation in private budgeting, we would lop off some expenditure. But the Government of India makes "finance" out of the "deficit". It first "borrows" by way of Ways and Means Advances from the Reserve Bank of India; these borrowings (when they become too large) are then set off against I.O.Us. of the Government known as "Treasury Bills". The "money" so generated gets into circulation in the country, part of it directly, but most of it through the commercial banks. Meanwhile, the Treasury Bills are converted into "*ad hoc* Securities", against which currency notes are issued by the Reserve Bank. Thus, in effect, the various Governments in India including the Central Government have been financing vast amounts of their expenditure in the country as a whole, quite simply, by printing notes. The amount of deficit financing resorted to over the last four years until March 1960 has been of the order of Rs. 1,100 crores. In addition, for the year 1960-61, we have "planned" a further dose of deficit financing of Rs. 163 crores. Thus are we launched on the slippery slope of ruinous inflation.

These facts lead me to some objective propositions. We have steadily achieved a decisively acute state of monetary inflation, notwithstanding the enormous increase in production there has been. That inflation, notwithstanding the increase in production, is due unquestionably to this mode of financing our "Plan expenditure". And that, in short, is the history of recent inflation and the cause of inflation in this country.

Let me turn now to the effects of inflation. What is so terrible about it that I characterise it as the "Menace of Inflation"? The answer is actually so simple that one feels a little reluctant to reel off the whole lot of its somewhat obvious consequences. Nevertheless, this must be done for educating the public, because most people do not experience *all* these effects; some encounter one consequence and others some other consequence, and so on. And yet, precisely because the impact of inflation is so different on different classes of people, all the people do not think of getting together so as to be able to protest most vehemently against this form of financing, which alone was responsible for this state of affairs. The whole thing is so chaotic.

Let us, therefore, put together the main facts about the consequences of inflation. Let us take a look at these, first of all, in terms of the effects on individuals in various categories. Let us take the case of people with fixed income — pensioners, widows, old people, and minor children, orphans, with no means of subsistence other than what they were left with. *Everyone* with a fixed income constitutes a main mass of really helpless people in the face of inflation. There are pensioners who have done 30 to 35 years of service in the army or business or civil service or wherever it was; widows, who are not responsible for their state; minor children and the old and the aged people. They depend upon fixed income or upon past service or some past investments out of savings yielding small returns. What is their fate? Every year, something like 5 to 6 per cent is taken away from their *real* income. Inflation is the cruellest tax that exists, a tax on the old and the helpless, the infirm and the orphans. Over the last four years, the worth of their incomes have diminished by 25 per cent. I was talking the other day to a professor of a university, a very learned man, very much attached to his work. He is due to retire next year with a pension of Rs. 150. What is this Rs. 150 worth to him today as compared with its worth when he started in service some thirty years ago or even with its worth at the beginning of the Second Plan? It is worth less than one-third; and he will go on getting even less and less of money's worth as he grows older and older and needs that money more and more.

The effect on salary-earners is also nearly as disastrous. They are a group of people whose income is only a little more adjustable than that of pensioners. Their income is not so elastic as, for instance, that of the wage-earning class who can fight their way through. The salaried people's *work* continues to remain the same; their responsibility is increasing; but the real worth of their salary keeps on diminishing. Most of us know the struggle for existence that is going on in the middle class and lower middle class families today. The whole white collar brigade, after the 10th of the month, carries an empty purse. They have not got money to buy books for their children; no money for their wives or widowed sisters, or for their mothers or for medical help or for anything at all. An amazing number of employees in large companies keep on borrowing from the provident fund, or any other funds that are available, even for current expenditure because they cannot make both ends meet. The salaried people are a very large group who suffer great privation. And they, the middle classes, are the backbone of the country.

Let us take wage-earners. It is easy for us to say that it is unreasonable for them to demand a rise in wages or an increase in dearness allowance. But what are they to do? The prices are going on rising. Everything is very costly. The cost of living is increasing. No doubt the employers are giving them more and more amenities; but they cannot catch up with cost of living. So there are strikes and a whole lot of long-drawn-out disputes. Production goes down. Essential things like improving efficiency, and all tall talk about increasing productivity, are not interesting any more to people who are faced with the stark question of how to get a reasonable fair wage to meet their essential needs at rising prices. And when they get it six months later, — there is always that time-lag, — the real worth of the money would have diminished further. It is from that point of view that one has sympathy for those very large and important groups of Central Government servants who recently went on strike. Where will an increase of Rs. 5 p.m. take them, when the rate of price increase is such that there is no comparison between the real worth of what they get now and would be getting six months later? We cannot resolve these problems overnight. But these are some of the most important impacts of inflation and should provoke us to protest vehemently against the basic malady, viz. Deficit Financing.

The effects of inflation on the economic activity of persons are equally disastrous. The man who is lending money is continuously losing. The National Savings Certificate I bought for a thousand rupees twelve years ago is nominally worth Rs 1,500 today; but in real worth I am exactly where I was. The insurance that I am buying today is going to be worth less than the worth of the money I have given for it. Investment in insurance, in small savings, in Government Securities, in Provident Fund, in fact, in all kinds of fixed income yielding investments — preference shares, debentures — will fetch me less and less, both in income and capital worth, with the result that I am probably going to get a negative net return!

Let us look at industry. Industries are in two categories; those engaged in production of commodities of which the prices are controlled and those that are not. The reason why prices of commodities like cement are controlled is because they are in short supply *and* are essential and vital to the country. But those are precisely the industries that are held back today by encountering the wrong end of the control stick, with the result that increasingly the investing public and entrepreneurs are finding it more worthwhile to go into uncontrolled industries. There is a wide range of industries which are not controlled; and there, at any rate, they can get a return that is high enough to be related to the real value of money invested. In addition, there is capital appreciation. But whether all this is for the good of the country is open to question.

Let us look at the national economy as a whole on the inflation basis. People get more and more inclined to say, "Why should we save when the savings are not worth anything?" This attitude is the biggest menace to increase in saving. At any rate, the inclination to save in terms of fixed income yielding Government or other securities is diminished. People would naturally buy gold. There at least one hopes for appreciation of its worth in terms of currency corresponding to the depreciation in the value of money. Thus, there is not only reduction in the *ability* to save but also in the willingness to save. Inflation also affects adversely the manner in which it is desirable (for the community) that the citizens should save. Every one of these consequences on savings presents great danger to the national well-being.

Looking at the canvas of our economy as a whole, we find that while the wide scale and range of wage demands are in themselves justifiable in the light of rising cost of living, they are nevertheless actually leading to a superimposed cost-price-inflation on top of monetary inflation. Moreover — and this is really the more vicious consequence — all concepts of productivity are set aside. The worker does not care for increased production and proportionate increase in wages, because the money that is paid to him is steadily going down in value. Thus the country loses the benefits of all considerations of productivity, of improvement in efficiency, and harmony between the employer and the employees. The definition of productivity is really very simple: to get more in terms of production out of the deployment of the *same* resources of manpower and money, — not by merely giving more wages or by putting in more and more capital. Inflation defeats this objective; the workers have no time for it.

Let us consider the effect of inflation upon exports, i.e. upon our capacity for earning foreign exchange. People do not buy our products because they like us. If due to inflation we price our goods out of the world market, our customer countries will go to somebody else. They will not buy our textiles nor our manganese ore, unless our prices are competitive. They will move out from here and go to other countries. They will buy from the international market which is elastic. If our prices are out of control, our exports will suffer; and notwithstanding all that we do to curtail our imports, there will be pressure for increasing imports even of consumer goods. Prof. B. R. Shenoy, who has said and written a great deal on this subject after deep study, has warned us that we have so priced ourselves out of the world markets as a result of inflation that we may have to devalue the rupee again if we realistically assess the true worth of the rupee in terms of foreign currencies. In his view, our Rupee is overvalued.

What is the effect of all these circumstances on our national policies? The Government keeps on trotting out before us what are really prevaricating progress reports. It tells us that we have spent so many crores of rupees on the Second Plan already and that we are going to spend so much more. It does not tell us the *real worth* of the money spent. In real terms, all this tremendous so-called progress turns out to be doubtful progress. We are getting accustomed to expressions of progress in mere monetary terms. Secondly, it has now become almost a basic part of national policy to treat symptoms of inflation instead of the disease. *The disease is inflation;* and *that disease is caused by the injection into the economy of too much money by the simple process of monetising budgetary deficits.* And that in turn is the result of excessive and unwise expenditure by the Government. Instead of tackling the disease as such, cures are advanced for treating the symptoms. The Government says that we must increase food production. It accuses the industrialists of not producing as fast as they ought to. Other slogans are: Expand industries; Export or perish; Stop profiteering and hoarding. These are all attacks merely on the symptoms of the disease. Last year in 1959-60, for instance, there occurred the most incredible spectacle. We had the best harvest of the preceding three years; yet the flow of grain into the markets was less because the peasant proprietor said to himself, "If I sell the foodgrains I get money which is worthless". People hold back their goods during inflation. The producer will hold back his goods, let alone the trader. Yet, all that the public gets over the whole period is a steady refusal by the Government to admit the truth: that we have inflation. For instance, the "Economic Survey" published by the Finance Ministry along with the Budget papers for 1960-61 contains this beautiful paragraph:

> "The domestic resources available for investment have not shown any marked rise. The continued uptrend in prices and cost of living indicates the insufficiency of domestic resources relatively to the demands both by way of investment and of consumption. Although food production has risen, it is considerably below the target fixed in the Plan, and the imports of foodgrains have averaged about 3 million

> tons a year for the last four years. What is needed, obviously, is both increased production and continuance of policies designed to restrain consumption and enlarge savings. A developing economy has necessarily to move forward progressively to higher levels of investment. The task of policy is, therefore, the difficult one of promoting and fostering the growth of investment on sound lines without creating in the process large or persistent imbalances in the system."

What all that means, I do not know. There is not one word there about inflation. The Second Plan involved an expenditure in the public sector of about Rs. 4,800 crores. But out of that Rs. 4,800 crores, the investment outlay was only Rs. 3,800 crores. The balance was for all those schemes we hear so much about all over the place, — such as Social Overheads, Community Development, National Extension Block, Village Industries, *Khadi Prachar*, building of "homes", Art Galleries and Music Palaces, and roads and buildings where they are not wanted. An analysis of the Budget of any State Government shows that it can be divided into four parts: enormous and growing Administrative Expenditure; some Investment Expenditure that will yield return; other Investment Expenditure that is going to build something on ground, but of little or no economic value and not yielding any return at all; and a tremendous residue called by all kinds of odd names like Development Expenditure and Social Services Expenditure, which builds nothing on ground *and* gives no return. These last two are in reality political expenditure for party gains at public cost.

The remedy is that we have got to cut down administrative expenditure drastically and confine the rest of the expenditure to investment expenditure yielding return and such further investment expenditure which, even if it does not yield, is worthwhile. The rest has to be looked upon with the utmost suspicion. Without a realistic approach of this kind it will be impossible to avoid deficit financing on an ever growing scale.

Deficit financing means pumping more and more money into the system and thereby generating monetary inflation. But the authorities claim that it will not injure our economic growth at all. They say that if we do not have a bit of inflation and deficit financing, development will suffer. This assertion is untrue. From such cursory examination of the Budget for the year 1960-61 that I have made, I am sure that it was possible in the aggregate to slash the State Budgets and Central Budget, without touching essential and fruitful development expenditure and defence expenditure, by Rs. 150 crores for which deficit financing is going to be resorted to. If deficit financing is stopped, then gradually the level of production, — both agricultural and industrial, — already rising steadily, will catch up with the money supply. Thus inflation can be curbed by stopping deficit financing; and that in turn can be avoided by putting an end to all kinds of unwise expenditure.

I have tried to explain, in simple terms, problems that are most difficult and also of very great importance. Unless the public understands this problem of inflation, it is going to be fooled all the time. It is said that you can fool some people for some time, but not all people for all times. But modern governments can do just this, because they shift their ground all the time. First they will deny there is any inflation at all. They will admit a whole range of symptoms of inflation, but not inflation itself or its true causes. Then they will go on to say gently that there is perhaps some inflation but they are not responsible for it. They will blame everyone but themselves. They will point to the middlemen, peasants, landlords, industrialists, professional men like doctors and all others. The labouring classes clamouring for higher wages and Government servants shouting for increase in salaries are pointed out as the people who are setting in motion the spiral of inflation. Finally, when they are pinned down, they say that there is undoubtedly a certain amount of inflation which is *necessary for development*! The Finance Minister said this in Parliament while defending the deficit financing he was contemplating in the Budget for 1960-61.

It is most important that we should understand this whole business about inflation. It is important we should distinguish between cause and effect, and not keep on warring with symptoms. It is our business, as members of the public, to tell the Government to stop the rot. All this is particularly important at this juncture because we are on the threshold of the Third Plan and the public is in for "another fast one" being pulled on them. In that Plan something like Rs. 6,000 crores is the "investment outlay" proposed in the public sector; and the total outlay contemplated in the public sector is Rs. 7,000 crores, the difference being described as "current outlay"! Obviously, some Rs. 2,000 crores are designed to go down the drain anyhow. There is also a whole lot of wishful thinking that vast sums would become available out of taxation, small savings and borrowings; and it is expected that foreigners will be coming along briskly to make us loans. And deficit financing is put down at the trifling figure of Rs. 550 crores, which frankly I cannot believe. I think there is a camouflage going on there. If the Plan is to be of the size contemplated, there can be no doubt that deficit financing will also be of a comparable magnitude, much larger than in the Second Plan. If we persist with such an unwise policy of utterly unproductive, useless expenditure, not even yielding any asset, much less any return, it is anybody's guess where we shall end.

It is high time that we, as members of the public having a stake in the stability and orderly progress of the country, realised that economic ideologies divorced from commonsense realities promote calamities, not progress. The sooner these false ideologies are replaced by commonsense approach to problems of development, the better it will be for the nation. But that can only be done by mobilising the public opinion of the common man.

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

Based on a speech delivered under the auspices of the Forum of Free Enterprise in Bangalore on July 2, 1960.

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

—A. D. Shroff

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