

Based on a talk at the Surat Rotary Club on Feb. 23, 1957

WE ARE HEADING TOWARDS A MAN-MADE ECONOMIC CRISIS

By A. D. SHROFF

THE economic situation in India is entirely dominated by the progress which the country is making in terms of the Second Five-Year Plan. This Plan is rather an ambitious one. It wants us to register and record targets in economic activities in various directions, and if we ultimately succeed, to register a 25% increase in the national income of India at the end of the five years.

Unfortunately, some factors have crept in, which were not foreseen by the planners. The Suez crisis has upset economies of many countries of the world and it has affected the economy of India too. Today, we have to face delay in shipments of machinery for the implementation of a number of our industrial projects in the Plan. Longer shipment routes mean heavier cost. We have to pay heavier freight and insurance charges and bear an increased burden of interest on large-scale capital projects, which will add tremendously to the cost of the Second Plan. When recently the Government of India announced that the total cost of the Plan in the Public Sector was ultimately likely to increase from Rs. 4,800 to Rs. 5,300 crores, it came as a

shock to thinking people in this country. Some who give closer look to these dry-as-dust problems in economic development wondered where the cost of the Second Plan will stop. Apart from the unfavourable developments of the Suez crisis, the ugly implications of the Kashmir problem are there.

The situation developing internally in the country is also causing concern to the Government. It is inevitable that in implementing a plan of this magnitude, there is some inflation. But the inflationary spiral has arisen greatly in the very first few months with the consequence of an unceasing increase in the cost of living and general level of prices. This situation has been aggravated by the unfavourable food situation and shortages of essential commodities so necessary to bring about large scale development. Despite strenuous efforts made by the Government of India to build up a stock of food — here we will have to thank the U. S. A. for aid of about 171 million dollars worth of foodgrains — the food situation is still serious. Food still appears to be out of relation to demand. In spite of the opening of fair price shops, several parts of the country

have paid high prices for food. This has caused serious concern both to the Government and the country.

Essential materials like steel and cement continue to develop acute shortage. Economic development on a large scale is not possible without essential commodities like steel and cement. While it is true that if Government's plans fructify at the end of five years, we will have three new steel plants and additional capacity in the two existing steel works, till we reach that stage, the present situation will continue. The country will suffer from acute shortage of steel. We have to pay, it should be realised, through our nose for imports of steel and cement. Steel produced in India costs Rs. 393 per ton, while every ton imported costs Rs. 615. So also, cement produced in India costs about Rs. 72 per ton, while every ton imported from abroad costs about Rs. 120/-. All this has added to the cost of the Second Plan and placed serious strain on the general economy of the country.

Another curious situation during the last two months is regarding the supply of money. One could think during a period of inflation there would be plenty of money going round. But there is a curious anomaly. Though the Government is spending very huge amounts of money week in and week out, and while the Nasik Printing Press is turning out huge amounts of currency notes, leading banks in the

country say there is no money. This is like "water-water everywhere; but not a drop to drink". It is a serious situation affecting the economy vitally. Adequate credit from the banks is difficult to get. Unless new measures are adopted, we are heading for a serious monetary crisis.

Two weeks ago, it was made known that the country was running a serious shortage of foreign currency. During the last ten months quite an amount of foreign currency has been drawn. Twelve years ago, when I represented this country at the Bretton Woods Conference, we, delegates from India, tried our utmost to preserve the foreign currency India accumulated in those days. They have gradually disappeared. Today we are faced with a situation, when maintaining Rs. 400 crores towards stability of our currency, we are left with only Rs. 117 crores of foreign currency. The Government had to approach last week the International Monetary Fund for a loan of Rs. 127.5 million dollars, out of which Rs. 8 crores were used. I am afraid that by the end of June 30, we are going to face a very disturbing situation. Very little money in the country will go round. We are practically at the bottom of the bucket so far as foreign currency is concerned.

You will ask : What is the way out ? To my mind there is only one way out : Reassess the economic position and return to the old adage, "Cut your

coat according to the cloth available." We have made the mistake in trying to have a plan which was unrelated to available resources in the country and the potential credit which could be raised abroad. We have to face the facts. We have to be realistic and cut our coat according to the cloth. We have to revise the Plan, so that we don't bring about a disaster in our country. Even at present the whole economy is being subjected to serious stresses and strains.

The Government might not find time to take action during the elections. But once the elections are over, they will have to take action. The trouble is that the framers of the

Plan and the sponsors of the ideology of socialistic pattern of society, in their sincere enthusiasm for rapid economic development, have not taken into consideration the play of economic laws. Laws of economics do assert themselves. Mere laws passed by Parliament and ideologies preached by Ministers in Delhi will not be able to get over the assertion of economic laws. In India the economic laws have begun to assert themselves. If we act, we could avoid a foreseeable and obvious disaster by obeying the laws. We Indians are sufficiently disciplined and we have sufficient character to face the situation. We must have honesty of conviction and moral courage to face realities.

With best compliments of :

FORUM OF FREE ENTERPRISE

"Sohrab House", 235, Dr. Dadabhai Naoroji Road,
BOMBAY 1.

“We want to produce the material goods of the world and to have a high standard of living, but not at the expense of the spirit of man, not at the expense of his creative energy, not at the expense of his adventurous spirit, not at the expense of all those fine things of life which have ennobled man throughout the ages.”

**.... Jawaharlal Nehru
Prime Minister of India.**