

INFLATION AND THE ECONOMIC CRISIS IN INDIA TODAY

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PREFACE

It is with real pleasure that I have responded to the request of that able and enthusiastic publisher, Mr. S. Viswanathan, to write this second brochure, in the Current Thought Series. There is no more current, burning and vital topic than the subject of this study. Nothing new has been said, but I hope that a clear presentation of the problem that faces the country and of the solutions that have been suggested will have interest for the general reader and value for all those who shape public policy.

I thank the Editors of the "*New Democrat*" of Bombay for permitting me to use some of the material published in an article of mine. My thanks are also due to my esteemed and beloved friend, Dr. R. N. Poduval of the Madras University, for having gone through the manuscript.

20th Nov. 1948

THE AUTHOR

THE PRESENT ECONOMIC CRISIS IN INDIA

INTRODUCTORY

It is well-known that many of our social and economic ills have been with us for quite a long time now. They became very much accentuated during the last one and a half centuries when the country was, unhappily, under a foreign regime, which acted on the out-moded *police theory* of the functions of the State.

For India, it is not a question of *reconstruction*. For countries which had a fairly prosperous and stable economy like Belgium, Denmark, Holland and Czechoslovakia, what is needed is post-war *reconstruction*. But for countries like India and China, which have always been backward in matters material, what is needed is not reconstruction but *construction*.

To take only the economic ailments of India into consideration, it will be admitted on all hands that the most serious of them, namely, grinding and widespread poverty of the people, glaring inequalities in the distribution of earned income and income from property, low productivity of land, labour and organisation, and bad inefficiency—these have all been chronic. Several of them have got into vicious circles, making it very difficult to find out which is cause and which is effect. Are people poor because they are inefficient, or, are they inefficient because they are poor?

All these grave, complex, age-old economic maladies cannot be cured easily or quickly. Leaders of public opinion in the country today are aware of the fact that these require careful and detailed planning and long-term remedies.

Unfortunately, however, what has been a chronic disease has also suddenly become extremely acute. That is why everyone in the country has suddenly sat up and taken note of the grave emergency in the country.

The reason for the economic stress in the country, which was chronic till some years ago, suddenly becoming acute, is usually put in one word—INFLATION.

SIGNIFICANCE OF INFLATION

.....the simplest and most useful definition of inflation would seem to be that it is a state in which the value of money is falling—i.e., prices are rising.”¹

“...Inflation means any expansion of the volume of money which is more rapid than the increase in the volume of transaction, the word being sometimes also applied to the rise of prices which accompanies such an increase in the volume of money.”²

Inflation may be defined, in simple terms, as a state of affairs in which too much money chases after too few goods.

In India the total quantity of goods and services available for the nationals of the country became smaller and smaller during the period of the second world war. While things and services available for purchase were becoming less and less, the money with which to buy them was becoming greater and greater. Even if one of the two had happened, prices would have risen. But actually both the steps needed for pushing up prices were being taken, partly by design and partly by accident!

Note below the steady rise in the amount of notes in circulation:

1939	238 crores of rupees
1940	257 " "

THE PRESENT ECONOMIC CRISIS IN INDIA

1941	410	Crores of rupees
1942	643	" "
1943	882	" "
1944	1009	" "
1945	1169	" "
1946	1272	" "
1947	1289	" "
Today	1239	" "

Note below the steady rise in the prices:

1939	..	100
1940	..	114
1941	..	136
1942	..	171
1943	..	237
1944	..	245
1945	..	289
1946	..	360
1947	..	378
Now	..	380

The working class cost of living index number for Bombay during September 1948 was two points higher than in the preceding month. That for Ahmedabad was one point higher. For Sholapur it was 3 points greater than what it was in the previous month.

This, this phenomenal increase in the prices is the economic crisis facing the country today. If wages of all classes had also risen correspondingly, there would have been no trouble. But they have not done so, and they usually do not behave in that happy manner.

HOW IT HURTS

Even when prices were normal, most of the working classes and the lower middle classes were in a state precarious deficit economy. Malnourishment was spread. Their lives were anything but long, full,

and colourful. That has long been the privilege of only the upper one-fiftieth of the population in India. The rest were leading brief, inadequate, poor, drab lives. But inflation has made even these lives worse. Even the proverbially long-suffering people of this country are unable to bear it. The portents are ominous and awesome. Hence quick, and daring steps are called for.

What J. A. Todd in his "*The Mechanism of Exchange*" has said about other countries is exactly true of the recent developments in India. ".....there is very little doubt that in many cases the price of particular articles rose abnormally, simply because the supply was short, and the fortunate producer or dealer who happened to possess a good stock could charge whatever price he liked, or at least the highest price he thought his customers would pay."

The poor, and even more so the middle-class, suffered untold misery when this kind of extortionate price was levied by a few producers and dealers for many essential articles like food, clothing, pharmaceutical products, and consumers' goods of many kinds like blades, Horlicks, Ovaltine, paper, pens and watches.

MADE WORSE BY THE NEW-RICH

The scarcity, horrid as it was, was made even more intolerable by the new-rich. Speaking of another country, Todd says: "During the war the producers were earning more than they had ever earned in history, and naturally they expected to spend the money. But when they went out to do so, they found the shops very bare of goods, and they could hardly find anything they could spend their money on. Naturally they bought anything they could get, and were not very careful as to how much they paid for it."

How true is this! How exactly similar to this have been the experience and behaviour of the producers in

our own country during the period when the emergency was coming on us! During the second world war and after, our producers also "were earning more than they had ever earned in history". Many instances are known of individuals and groups who made profits in one year which were five times their capital! And just as their *confreres* in the country mentioned by Todd, our producers and dealers also were absolutely reckless and anti-social in the way in which they bought the few luxury articles, that were available, at fabulous prices. Before imports could trickle into the country, automobiles, old and new, houses and lands, bullion and jewellery, exchanged hands at scandalously high prices. Even articles, which were normally within the reach of the middle-class, became utterly unavailable to them, because of the way in which the few who made huge fortunes bought them up at fantastic prices.

Producers and dealers, the war contractors and commission agents, the men who happened to possess old and accumulated stocks of any article under the sun, after making tons of money, neither saved and gave them to the government for their Savings Certificates or other State loans nor invested them in anything immediately productive of goods. They used them for buying air-conditioned automobiles, *de luxe* fountain pens containing novel gadgets, plastic bush coats, etc!

The inequalities in the distribution of income from work and income from property which, as was pointed out earlier, were grave and chronic, have become intolerable and acute. The war, the way in which it was financed by the foreign rulers of India, the methods which were adopted during that period by the stronger strata of our society, have all made the few rich richer and the many poor poorer. Terrible as the rise in the price level shown by the index number is, the actuality is even more appalling. The necessities and comforts

of the lower-income groups, things like rice, kerosene, match-boxes, firewood, milk, vegetables, fruits, clothing and housing have become more scarce and costly than tables, graphs and index numbers reveal.

Yet another development which has contributed very largely to the scarcity and costliness of essential goods is the bad deterioration in the transport system of the country. Locomotives and wagons were not imported during the years of the war. Those we had in the country were over-worked and worn out. Renewals and replacements were sadly neglected. And thus developed serious bottle-necks in transport, leading to accumulation of stocks in certain centres while the rest of the country suffered from dire need.

Before the situation deteriorated very badly, the Honourable Mr. Gopalaswamy Iyengar and the Central Board of Transport, of which he is the Chairman, have decided to make the best of the materials available and play their full part in pulling the nation out of the economic difficulties in which it has been entangled. Not a day too soon has the Board of Transport arrived at the four-fold national objectives in the use of railway transport. The priorities are, it is satisfactory to note, to be as follows: (i) the prime necessities of life, namely food, clothing, and housing; (ii) the achievement and maintenance of full production and distribution in industries accepted to be of national importance; (iii) the rationing out of the balance capacity among other competing demands; and (iv) the movement of coal, not necessarily in relation to its unregulated production levels, but according to actual requirements. It is good that it has also been decided that as regards priority No (ii), steel, textiles and cement should be the three basic industries, to start with, for which one hundred per cent transport facilities should be provided.

DIFFERENT ELSEWHERE

In progressive and self-governing countries like the United Kingdom, the United States of America and the U.S.S.R., *strong, enlightened and patriotic* governments were at the helm of affairs. These three adjectives have been chosen deliberately. It is a combination of these qualities, not only in the governments but also among the sections of the public that count, which was responsible for the determined way in which they went through the war without letting loose on their peoples the horrors of inflation. They had profited by the experience during the first world war and the years that immediately followed it. Therefore, they tightened their belts, had economy, austerity, and savings drives, planned a system of controls which was as wisely designed as was deftly executed, and dealt with the anti-social elements mercilessly. Above all, they recovered, and in some cases improved on their vast scales of production of goods and services.

It was all because they had a sense of urgency about this matter. The index number of prices, in the U.S.A. was fifty per cent higher than in 1939. That was enough to cause a tremendous lot of anxiety in that country. President Truman and his advisers then considered the situation very serious and asked for special powers! Here in India, as the table given above has shown, our prices were steadily rising—doubling, trebling, and rising still further than that. Yet the governments, central, provincial and State, were marking time.

Even now, but for the fact that the Prime Minister of India happens to be a statesman whose one great objective is to lift the masses of this country out of the slough of desperate poverty, there would not have been even this much sense of emergency in the ranks that wield power. While, as a result of the natural consequences

of the war, and the sins of omission and commission of the then governments in India, this country is now faced with a crisis, countries like Canada, it would be no exaggeration to say, are actually better off today than they were before the war!

The question of questions now is therefore this: What are the steps that the governments, central and provincial, the industrialists and traders, labour and its leaders, and the leaders of public opinion should take to end this crisis as speedily as possible?

The answer to this big question cannot be a simple one. Many measures have got to be taken, some of them immediate and others spread over a period of two decades. Everyone has got to do his or her duty by the country.

GOVERNMENT'S OBJECTIVES GOOD

The Government of India have already taken the following steps. But, before outlining the actual steps taken, the objectives which the government had in view may be set forth. They wanted, in the first place, to keep the government expenditure as low as possible consistent with efficiency, and to increase revenue by all available means. Secondly, they decided to make a concerted effort immediately to ensure that there is no further rise in prices and cost of living. Thirdly, it was their object to secure, in the shortest possible time, a progressive reduction in prices to reasonable levels. Fourthly, it was their aim to supply an increasing volume of goods and services. And lastly, the government planned to curtail the purchasing power in the hands of the community and to prevent any addition thereto.

No one can deny that everyone of these five objectives of the Government of India is absolutely appropriate to the needs of the situation. Let us take the

first of these, namely, keeping the government expenditure as low as possible, consistent with efficiency, and increasing the revenue by all available means. To achieve this the Government of India have set up a Committee of the Cabinet for determining the relative priority of schemes of development so that a decision may be arrived at as to which of them must be immediately taken on hand, the rest being postponed or slowed down. They have warned the provincial governments that they can expect no financial assistance from the Centre in the implementation of their plans for the abolition of zamindaries or for introducing prohibition.

NEED FOR ECONOMY

As regards the reduction of governmental expenditure, much more can be and ought to be done. Retrenchment in the departments of the central and provincial governments has got to be ruthless. Every one admits that, during the last few years, there has been a frightful increase in the number of posts in the civil and military service of the governments. The government can make substantial savings if disinterested and expert advice is sought and acted upon in such matters as speedy amalgamation and rationalisation in our railways, and retrenchment in the posts and telegraphs, telephones, A.I.R., Secretariat and even the Defence Departments.

The Government of Bombay, it was reported, had appointed a committee, consisting of the Finance Minister, the Chief Secretary and the Finance Secretary to scrutinise and suggest curtailment of expenditure during the current year and in 1949-50, in pursuance of the policy of anti-inflation. The Committee was asked to ensure that revenue expenditure is well within revenue receipts and that reserves are not drawn upon for capital expenditure. A broad scheme of priorities, it has been reported, was approved by the government for the guid-

ance of the Committee. Under this scheme, subject to a reservation in favour of minimum essential expenditure on administration, and particularly on law and order, all expenditure on development schemes will have priority over other schemes and productive schemes will have priority over those which are not.

What has been done in Bombay must be done in other provinces also. It should be the constant endeavour of all concerned to arrange for the most drastic cuts in expenditure in pursuance of the immediate objective, namely, the creation of powerful antidotes to inflation. Barring a minimum essential expenditure, all else must be kept in abeyance.

The Madras Committee on retrenchment, of which a distinguished retired Professor of Economics was also a member, submitted its report sometime ago. We hope its recommendations will be published and given effect to.

The Central Economy Committee has already held a number of meetings. It is reported that it has submitted memoranda in respect of several Ministries whose expenditure it has investigated so far. The Committee must speed up its investigation and cover the entire field of expenditure of the Central Government. It has been stated in the press that the cuts proposed in the reports submitted thus far ranged from 20 to 30 per cent. This is not surprising in view of the fact that there was a legacy of extravagance which we inherited; and there was no inducement to change the habit soon after the peoples' representatives took over.

It should be possible to finance even the measures for the attainment of social justice which several provinces have introduced in such a manner that the inflationary situation will not be worsened.

For example, the payment of compensation to the Zamindars whose lands are to be acquired by the govts

ernment must be made by means of suitable non-transferable and non-negotiable bonds. The Central Government must have the relevant law suitably amended with a view to make this possible. Payment of cash compensations or in negotiable bonds is unthinkable in the appalling conditions that prevail now. Neither would it be fair or desirable to postpone this long overdue legislation, eliminating the intermediaries who have failed to act on the principle, *noblesse oblige*. A striking social and agrarian reform like this has to be achieved in a manner that would not aggravate the inflationary pressure.

Thus, one of the first among the short-term and immediate steps to be taken for relieving the upward surge of prices is to narrow the budgetary gap by a ruthless reduction in governmental expenditure. In the centre as well as in the provinces, there must be a rationalised, sleek, streamlined administration that will tolerate no avoidable expenditure, as long as the conditions of inflation continue.

RAISING MORE REVENUE

As regards the other part of filling the budgetary gap, namely, increasing the revenue, the Government of India have proposed the following steps. First, they have suggested the expediting of the progress of the Bill for levying an estate duty, which is now on the anvil of the legislature. Secondly, they have advised the provincial governments to strengthen their finances by levying an agricultural income-tax, where it is not now levied. Thirdly, they have increased the existing import duty on certain articles of luxury consumption by about 25 per cent ad valorem. The main items affected are articles of luxury consumption such as ale, beer, brandy, whisky and other spirituous liquors; tobacco manufactured and unmanufactured, cigars and cigarettes, and a number of miscellaneous articles like gold plated or silver-plated ware, toys, and games requisites, etc., for which the existing import duty will be increased

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THE PRESENT ECONOMIC CRISIS IN INDIA

by about 25 per cent ad valorem. The overall surcharge at present levied on certain other luxury items like fabrics of silk and art silk, particularly textiles containing 50 per cent or more of either of these materials, will be increased from $1/5$ to $1/2$ involving a net ad valorem increase of 25 per cent over the existing rates. Government also considered that the import duty on motor cars and taxi-cabs could stand an increase. The standard and preferential rates of 50 and $42\frac{1}{2}$ per cent ad valorem have accordingly been increased to 60 per cent and 54 per cent respectively.

Having regard, however, to general transport necessities, the duty on other motor vehicles, like motorcycles, omnibuses, and transport vehicles will remain unaffected.

These steps are not adequate. The Government of India and the provincial governments must think of new taxes besides these. The Economists of the Government of India have themselves suggested that "land revenue calls for substantial increase". They have admitted that "the present levels of direct taxation are not excessive or burdensome."

The Committee of Economists, not connected with any department of the Government of India, have suggested the following taxes: (i) the introduction of a graduated surcharge on income-tax on personal incomes above Rs. 5,000, (ii) the increase to 25 per cent of the rate of business profits tax, (iii) the raising of the rates of the personal super-tax to the levels of 1947-48.

The Industrialists in their Report to the Government of India on anti-inflation measures suggested that a purchase tax on luxuries and a special graduated surcharge on railways, shipping and air fares should be imposed. The purchase tax on luxuries was suggested by the popular socialist leader Jaiprakash Narain also.

THE PRESENT ECONOMIC CRISIS IN INDIA

Some economists have recommended the re-imposition of the excess profits tax with the necessary modifications in the old E.P.T. legislation to suit peace time conditions. It has also been suggested that a capital levy of 25 per cent may be imposed on all whose annual income is over a certain figure, say, Rs. 50,000.

PAST EXPERIENCE ELSEWHERE

It cannot be that not one of these several sources of revenue has so far commended itself to the Government of India. Lots more effort to increase the revenue must be put in than what has so far been done by the Government of India and the provincial governments. As a matter of fact, after the devastating first world war, several European countries raised their levels of taxation very high and secured large budget surpluses.

In the case of Latvia for example, "these surpluses were used to finance the investments of private entrepreneurs as well as by government". Similarly in Poland, special State banks received the budget surpluses realised during and after 1926. Even more than these two countries, it was the U.S.S.R. which practised collective saving through the fiscal system.

Of course, as the study of the League of Nations on "The Course and Control of Inflation" after the first world war has pointed out, the method of collective saving presupposes an adequate apparatus of fiscal as well as general government administration. "The compulsory method of domestic capital formation depended on the degree to which the sacrifices involved could be politically enforced by the government and physically endured by the population."

Who can say that our government cannot politically enforce and that our population cannot physically endure such sacrifices as this grave national emergency calls for?

The prevention of dissaving and the increase in the governmental revenues must be achieved by fairly drastic measures: "If all disposable funds above a minimum were blocked, taxed away or otherwise immobilised, the means of dissaving would be eliminated and rise in prices due to dissaving prevented. There are various ways of mopping up "loose cash": the blocking of bank deposits above certain minimum amounts; the compulsory stamping or exchange of bank notes and the removal into blocked accounts of all individual note holdings above a certain minimum; the compulsory investment of the "surplus" funds in government securities, the money thus withdrawn being held inactive or wiped out through repayment of government debt to the banks; the imposition of capital levy. Blocking is in the nature of a temporary stop-gap measure, and may in fact be preparatory to more durable measures. A capital levy, on the other hand, would permanently extinguish monetary assets available for dissaving. A capital levy may be devised for various purposes; social (e.g. to correct the inequality of wealth), physical (e.g. to reduce the internal debt burden), as well as monetary. From the monetary point of view, with which we are concerned, the total amount of the levy should equal the surplus cash in existence. To impose the levy solely on monetary assets or, as in Greece in 1922, solely on bank notes, would be unfair; all kinds of property would have to be subjected to the levy. Shares, bonds and other assets surrendered in payment of the levy could then be re-sold by the government on the market so as to mop up such surplus cash as is not mopped up directly by the levy."¹

Even if, as it may well be said, that conditions in India do not permit today the achievement of substantial budgetary surpluses and collective saving, we must cer-

1. The Course and Control of Inflation. League of Nations: 1948, p. 73.

tainty achieve at least a balanced budget. It should not be forgotten that the budget for 1948-49 was the tenth consecutive deficit budget at the Centre.

CAPITAL LEVY?

Economists of the eminence of A. C. Pigou, M. E. Robinson and J. A. Hobson, have discussed the question of a capital levy with reference to a different context, namely, the wiping out of the huge war debt of Britain after the end of the first world war. Hobson has argued that there is "no inherent injustice in a capital levy", that it is not a policy of plundering the rich, and that it is simply an emergency application of the principle of ability to pay. Pigou and Robinson, with their characteristic balance, have argued both the pros and cons of the subject, and have taken the view that the best time for such a levy was immediately after the termination of the war. While Pigou has canvassed both the good and bad effects of a capital levy, he has not failed to expose the hollowness of some of the usual arguments against such a levy. For instance, it is suggested that "the imposition of a capital levy will create an expectation that it will be repeated, and that this expectation will discourage people from saving and so adding of the capital stock of the country, and this check to capital will react injuriously on the productivity. The injury wrought in this way will, it is urged, be more great. It cannot, moreover, be prevented by any assurance of the Cabinet, or even of the Parliament, that a repetition of the levy is not contemplated, because no government can effectively bind its successors. But it is arguable that, when once a levy had actually been made, people would feel that things were settled, at all events for a considerable time, and would, therefore, be actually less fearful

of the future than they are now. This objection to a special levy is not, therefore, very formidable"¹

It is not the intention of the author of this monograph to suggest that the Government of India should immediately go in for a capital levy. It is only a plea for a detailed, scientific, and expert investigation of the advisability of levying such a tax.

Thus it seems to be clear that our national government at the centre, with the determination and courage which we have come to expect of it, can and ought to tap new sources of taxation which will serve the twofold purpose of avoiding deficit spending by the government and reducing the purchasing power in the hands of the people, particularly the wealthy.

While every aid must be rendered to industry, while the incentive to save should not be injured, it is equally important that there should be no hesitancy or timidity in levying the taxes that a national emergency may call for.

After all, "high rates of direct taxation—when the proceeds are retained inside the country—are not really very damaging, and even a substantial cut in this is not, therefore, very beneficial"².

IMPROVING THE ADMINISTRATIVE MACHINERY

As important, however, as the discovery and levy of new taxes is the improvement in the machinery of assessment and collection. It is surprising that the full text of the Finance Ministry communique announcing the government's anti-inflationary measures makes no reference whatever to the urgent need for "improving the machinery of tax assessment and collection and the realisation of arrears", to which even the Industrialists

1. A. C. Pigou: A Study in Public Finance, p. 296.
2. Ibid, p. 291.

have called attention. The Government do not seem to have taken adequate note of one of the causes of the present economic crisis, namely, "pressure of money made in the black-market and of incomes evading taxation on prices", to which reference has been made in the report of the committee of unofficial economists. During the British rule the nature of the bureaucratic machinery and the opposition of vested interests served to help laxity in the collection of taxes. That legacy has not yet been liquidated. There is no doubt that there has been a great deal of evasion of taxes and that vast gains have been made by unlawful activities

As long as our tax-assessing and collecting officials are not purged of corruption, the imposition of fresh taxes will not yield adequate results. That the situation in this regard is not exaggerated is proved by what has been said in the Reserve Bank of India's Annual Report for 1946-47. It said: "The most urgent and serious problem that will claim the attention of the two States as soon as they settle down to the real job of governance is that of the all-pervading corruption that is destroying the vitals of public life generally and the administrative machine in particular. Unless its corrosive influence is countered repeatedly and relentlessly, controls will deteriorate progressively into handicapping the poor and law-abiding members of the community and all talk of a planned development will have to be abandoned."

It is a matter for satisfaction that the Government are becoming increasingly alive to the need for speeding up the investigation of and tightening up the grip over evaders of income-tax. On the basis of certain urgent recommendations made by the Income-tax Investigating Commission, the Governor-General has recently promulgated an ordinance to amend the Taxation of Income (Investigation Commission) Act.

The Commission had called upon a number of banks to furnish information in respect of all but specified categories of current account and deposit account transactions exceeding certain specified monetary limits during the years 1941 to 1947. Objection was taken on behalf of some of the banks on the grounds, first, that there were practical difficulties in complying with the requisition in view of the efflux of time and secondly that they should not be placed in an embarrassing position if the law was not quite clear about the powers of the Commission to call for information about all clients and depositors instead of about specified class of individuals only.

The first ground of objection has been met by the Commission's evolving, in consultation with the representatives of certain leading banks, a practicable form in which the information would be supplied. The second objection is met by the Ordinance which gives the Commission comprehensive powers to call upon banks to furnish whatever information is considered useful for the investigation of tax evasion.

The Commission had also intimated to the Government that they had reason to think that there was a strong inclination on the part of some assesseees to come to settlement but that they were in difficulty and doubt about the procedure to be followed. It was added that this question might become material in the months to come even as regards other assesseees. Under the Investigation Commission Act, as it now stands, the Government's power to withdraw a case, even with the approval of the Commission, ceased on August 31, 1948. The Commission pointed out that in the absence of specific power for settlement every case must be tried out to the end. They have therefore recommended that a clause be added to the Statute immediately to the effect that settlements might be entered into if both the Government and the Commission considered that the terms

offered were acceptable. The Ordinance gives effect to this recommendation also and provides a simple procedure whereby assesses who desire to compound their cases with the Government may approach the Commission with their proposals.

What an excellent thing would it be, what an opportune moment is it for the people who made enormous fortunes in the last few years to come to a settlement with the Income-tax Investigation Commission of the Government of India?

It seems to be clear that besides reducing expenditure and increasing revenue, as suggested above, the governments must improve the administrative machinery for the better assessment and collection of revenue.

RE-IMPOSITION OF CONTROLS

Another of the short-term measures to be taken by the Government for ensuring that there is no further rise in prices and the cost of living, and that goods are equitably distributed, is the re-imposition of controls on essential commodities like, foodgrains, textiles, sugar, kerosene oil, iron and steel and cement. It is now accepted on all hands that the removal of controls on prices and distribution of essential goods was a costly blunder. As long as there is a scarcity of these essential goods, as long as their prices do not reach very nearly the pre-war level, control of prices and of distribution must continue.

Today there is a shortage of essential foodgrains in the country. It is only three-fourths of even the meagre needs of our people that are satisfied by the total food production in the country. Even according to the most optimistic estimates, the country is expected to need about 3 million tons of imported foodgrains in order to meet its minimum requirements in 1949. Therefore, it

is very essential that controls over foodgrains should be imposed and maintained till the situation improves. In the report, "The State of Food and Agriculture in 1948", the Food and Agriculture Organisation of the United Nations said that at present, in spite of encouraging increase in food production, the supplies available in most countries are not up even to the pre-war averages, and population figures are mounting. Australia, Canada, Denmark, New Zealand, Norway, Switzerland and the United States were the only reporting countries with enough food in 1947-48 to provide adequate nutrition for all their populations. The prospects for the year 1948-49, the F.A.O. analysis states, "considering the growth of population are such that the people of the world, on the average, will continue to be seriously under-fed and inadequately supplied with lumber and fibres."

With the world situation as well as the Indian production being so disappointing, and with an average deficit in foodgrains of the order of 10 million tons a year, rational and equitable distribution of foodgrains and a strict control of their prices have become inevitable.

Nearly as severe as this is the shortage of the other essential commodities listed above. To take only one instance, according to official estimates, India is now producing on an average 10 yards of mill cloth and 4 yards of handloom cloth per head per year, after making allowance for exports, non-wearable varieties, etc. With such a low per capita production, if equitable distribution is not enforced by the State, how distressing would the situation of the poor and the weak be!

NEED FOR DETERRENT PUNISHMENTS

But the re-imposition of the controls without the courage to impose the most deterrent punishments on

hoarders, profiteers and black-marketeers, would be a mockery. Why should there be any compunction in dealing drastically with the larger landlords who secrete their stocks of grain and refuse to sell to the Government at prices fixed by them?

The weakness of the Governments in free India in the matter of punishing even the thrice-proved offenders against the hoarding and profiteering clauses has been an amazing and inexplicable phenomenon of recent times.

Was it not suggested in the press that the black-marketeers descended to such depths of anti-social and anti-national activities as to even smuggle prohibited goods into Hyderabad at a most critical hour, when that State was considered to be preparing for a war against the rest of India?

Here is one instance of how lacunae in control measures lead to black-marketing and the charging of extortionate prices: The All-India Iron and Hardware Merchants Federation have recently pointed out to the Iron and Steel Advisory Committee appointed by the Government of India that the existing distribution is defective and leads to artificial shortage. At present, where iron and steel are strictly controlled, Fabricators are free to charge any price they like once the material is fabricated. Nowhere has "fabrication" been defined, and therefore the slightest possible alteration in the material such as a tiny little hole in a flat bar, angle or beam would be construed as fabricated material! The cost of articles manufactured by Fabricators must be scrutinised and ceiling fixed.

It is gratifying that the Government of India have decided to exercise technical control over the production of cloth, and that in pursuance of this decision they will appoint Technical Directors at Bombay, Ahmedabad

Indore, Kanpur and Coimbatore and a Technical Deputy Director at Calcutta. It will be the duty of this department to ensure the production of those varieties of cloth which are really needed by the bulk of the people in the country. They should keep a close, direct, and continuous watch over the production of the mills and see that no part of the raw materials and finished products disappears in the black-market.

Not only should the punishments for offences against the laws regarding controls and rationing be deterrent, but it is also of the highest importance that the officers of the government should detect and bring to book the real culprit and not the poor employee. In many cases the principal offender manages to keep himself behind the screen and well within the letter of the laws, by using his huge wealth for tempting poor employees to accept the punishment of the courts.

MORE PRODUCTION

As regards the fourth objective set out in the Finance Ministry's communique announcing their anti-inflation measures, there can be no doubt that it is by far the most important of the aims to be fulfilled. The supplying of an increasing volume of goods and services is the most vital measure against inflation. It ought not to be neglected as just a long-term remedy.

The Government of India have suggested the following steps in the matter of stimulating production and encouraging industry and trade:

The rules regulating the allowance of depreciation on plant and machinery for income-tax purposes are being liberalised. Commencing with the assessment for the year 1948-49, depreciation will be allowed on new buildings, plant and machinery set up on or after April 1, 1948, at double the existing rate for the first five years

and thereafter at the prescribed rate, subject to the condition that the total amount of depreciation does not exceed the original cost of the assets. For factories working on triple shift, additional allowance will also be given up to a maximum of cent per cent of the normal.

In order to promote the installation of new machinery, it has been decided to give a further concession. If after a period of five years the price of machinery falls below the original cost, the difference between the written-down value of the asset and the corresponding value at the reduced price will be allowed as additional depreciation.

For new industrial undertakings of specified categories which commence production in India within a period of three years from April 1, 1948, exemption of income-tax will be allowed for a period of five years on the profits up to a limit of 6 per cent per annum of the capital employed in the undertaking. If in any particular case the period of three years within which production should commence proves inadequate, Government propose to consider the question of extending it at the appropriate time.

Government also announced their intention of granting some relief in respect of customs duty on raw materials and plant and machinery to the extent to which this can be done without injury to Indian manufacturers of similar goods. It has been decided to reduce the present import duty of 10 per cent on plant and machinery to 5 per cent, except in the case of certain items where it is proposed either to levy a protective duty or to refer the matter to the Tariff Board. The reduction will apply to all items of machinery in the tariff except electric motors, belting and steel belt lacing, grinding wheels and segments and certain items of textile machinery, namely, spinning rings, wire healds, pickers and bobbins.

As regards industrial raw materials, the entire duty on kraft paper, emery and synthetic grains used by the manufacturers of coated abrasives will be refunded. The import duty on cotton yarn will be abolished and the duty on rough lens blocks, unwrought optical glass in blocks, moulds and sheaths and spectacle crown sheet glass will be reduced from 30 per cent ad valorem to 20 per cent ad valorem. The existing duties on iron and steel scrap, ball clay and graphite electrodes will be abolished.

Besides these, the reduction of the export duty on cotton textiles from 25 per cent ad valorem to 10 per cent ad valorem and the abolition of the export duty on castor oil and castor seed have also been announced by the Government of India.

These concessions to industrialists are undoubtedly specific, varied and liberal. These anti-inflationary measures of the Government were welcomed with enthusiasm by a leading industrialist like Mr. G. D. Birla.

Yet, so far as concrete action is concerned, by and large, the representatives of industry and commerce have not reacted in the manner in which they were at first expected to.

MORE STEPS TO BE CONSIDERED

In view of this rather surprising and disappointing situation, the Government of India should take some additional steps. Every effort should be made to import, to the extent that is possible in the present set-up capital goods and the technical know-how from the advanced countries of the world. It was only recently that the U.S. Secretary of Commerce, Charles Sawyer mentioned at the 35th National Foreign Trade Convention that one of the goals of the U.S. trade programme must be the encouragement "of foreign economic deve

lopment by investment in exploration and improvement of their natural resources". At the same convention Mr. John J. McCloy, President of the International Bank for Reconstruction and Development, observed that "most of our undeveloped members need technical assistance at least as much as they need financial assistance".

Considering the unique position which India occupies in the world set-up today, that she is the pivot of Asia, that her Prime Minister has greatly raised her reputation for high-minded endeavour and pacific objectives, our consular and trade representatives in the United States of America must strain every nerve to persuade governmental and private agencies there to enter into partnership with our government, on terms which will not give foreign interests a major voice in ultimate control, for the rapid starting of new factories and farms. These should first be set up for the manufacture and growth of goods which are now in acute short supply, and a little later, for the production of tractors, textile machinery and cement machinery.

An expert committee for immediately investigating the possibility of the introduction of three shifts must be set up, and their recommendations must be put through without delay.

Yet another step that must be taken to see that the government's efforts to increase production are not rendered ineffective is to promote industrial peace. It is true that, as Mr. Jagjivan Ram, Minister for Labour, Government of India, has pointed out, "the workers are making efforts and also sacrifices to maintain industrial truce in the larger interests of the country as a whole". It is true that "in the first 8 months of 1948 the total number of man-days lost was about 7 millions involving about one million workers as against 16½ million man-days and two million workers in 1947". But, it cannot be repeated too often that organised labour in

India has got awakened to its rights. Therefore, every effort should be made to get a move on in the matter of giving labour a share of the profits of industry.

The Government may well implement the suggestion that has been made in some quarters that an inventory of unused capital equipment, industry-wise and unit-wise, may be taken. On the basis of a thorough investigation of this kind, Government may take firm and early steps for bringing all such equipment into productive use.

Special honours of various kinds, by means of medals, publicity, bonuses and so on may be conferred on those labourers, entrepreneurs and cultivators, who distinguish themselves in increasing the output of any kind of essential goods. Just as the anti-social elements should be isolated and exposed to every kind of ridicule, so also the landlord and the capitalist and the labour leader who whole-heartedly co-operate with the Government in their campaign for increased production should be encouraged and honoured by every means open to a modern government.

Many plots of lands in the neighbourhood of growing cities have been allowed to lie fallow because their owners wait for increase in prices as the need for building sites gets more and more urgent, or because they do not have the wherewithal and the resources to put up buildings thereon or to use them for cultivation. All such lands must be taken over by the government and put to whatever productive use they lend themselves to. In the legislation for achieving objectives of this kind, the province of Madras has copied the bold and comprehensive measure that has been prevalent in the United Kingdom. It has been reported that a Bill for the complete re-organisation of agriculture in Madras is now under consideration.

Under this measure, the Government will be empowered to direct the use of the land in such a manner that there will be a diversion from commercial crops to food crops. Fallows are forbidden and crop planning will be put through. Splendid progress has been made in legislation of this type in the United Kingdom. A planned attempt is to be made by the Madras Government to increase agricultural efficiency and establish self-sufficiency in food. Under this Bill, owners of land may be required to raise the crop which "the province requires" and landowners are to be provided with a market and fair prices for their produce. The Government may also enforce reasonable standards of efficiency in the management of good husbandry.

Even the reputed British Economic Weekly, well-known for its restraint and conservatism, *The Economist* has admitted the need for such a Town and Country Planning Act in Britain. It said: "To ensure the effective public planning of the use of land is an aim accepted by all political parties; it is essential to physical and social reconstruction; and it involves the solution of the problem of compensation and betterment. No way of doing this which is clearly superior to the method introduced by the Act, has yet been propounded. There may well be a case—indeed a necessity—for amending legislation on some of the Act's particular features. But the only fullblown alternative which could replace it is that cherished by the extreme Left—the nationalisation of the land."

The provincial governments in India have not yet gone all out in their efforts to make the grow-more-food campaign bear quick results. In addition to the steps mentioned above, the governments must manage to sell larger quantities of suitable manure and good seeds to the cultivators of foodgrains and vegetables. They must supply, at reasonable rents, ploughs and bullocks. It is

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surprising, to say the least, that even after nearly three years of people's rule in the provinces, the effort at growing more food should be yielding such inadequate results.

MOPPING UP SURPLUS MONEY

In the matter of the last of the very good objectives of the Government of India mentioned in their first communique on anti-inflation measures, namely, "to curtail the purchasing power in the hands of the community and to prevent any addition thereto", the measures of the Government are unexceptionable, though here again they do not seem to go far enough. The measures suggested by them were:

1. Intensification of the campaign for small savings;
2. wider facilities for investments by the small investors in post offices;
3. raising the maximum permissible limit for investment in postal savings banks from Rs. 5,000 to Rs. 10,000 and in National Savings Certificates from Rs. 15,000 to Rs. 25,000;
4. issuing Treasury Deposit Receipts, on favourable terms, for 6, 9, and 12 months, to cater for institutional investors seeking short-term investments;
5. restricting the amount distributed as dividend for public companies to the average of the two years ending with March 31st 1946 or six per cent of the paid-up capital, whichever is higher; and
6. postponing the repayment of the Excess Profits Tax deposits and of refundable E.P.T. for a further period of three years (Refunds will, however, be allowed for financing purchase of capital equipment).

The ordinance limiting the dividends payable is confined to public companies. In calculating the amount of the average dividend distributed in the past two years, adjustments will be made for any alteration of the paid-up capital. The rights of holders of preference shares

will not be affected, but the return on future issues of such shares will be limited to six per cent.

The Government have emphasised that the Ordinance merely limits the amounts that may be distributed as dividend and that any profit not distributed will remain with the industry and be available for its development. The limitations of dividends, they point out, will lead to the strengthening of reserves and the ploughing back into industry of a part of the profits, and thereby give a further impetus to production from which shareholders must ultimately benefit.

The fact that, so far, the voluntary savings drives have not borne satisfying results, would seem to point to the need for a compulsory savings scheme. Bonuses and increments to workers whose monthly remuneration is above Rs. 500 must be in government bonds.

Further, if in the course of the next few months the Government find that the appeal for national savings on the part of institutional investors does not meet with encouraging response, they must arm themselves with powers to compel Banks and Insurance Companies, Power, Light and other public utility concerns to invest a larger proportion of their funds in government securities than they are doing now.

In fact, the Government must be prepared even to consider, on expert level, the desirability of increasing the rates of interest, for curbing inflation and obtaining larger funds.

It is not clear why the Government have not expressed agreement with the recommendation of the Committee of Economists that the Mahatma Gandhi Memorial Fund should be invested, for the time being, in government securities or held in deposit with Government. Will not a whirlwind campaign in the press and the radio and by personal tours on the part of great

leaders with mass appeal, result in a large collection for the Mahatma Gandhi Memorial Fund? The purchasing power so gathered must be immobilised till the crisis passes away.

Another very important antidote to inflation which merits careful consideration at the hands of the economic experts of the country and the Government of India is the sale of gold within the country. During the first three decades of this century, India imported nearly 20 million ounces of gold. But this is a bagatelle compared to her past and present passion for the yellow metal. It is no doubt true that in the one and a half decades commencing from almost the start of the world economic depression, India exported (net) nearly double this amount. But that was mainly "distress gold." During the last few years the thirst for gold has been really terrific in India; but imports were first severely restricted and later completely banned, and that is why India has not been feverishly absorbing gold. The price has been very high during these few years. The only country that has adequate supplies of gold and where its official price is much less than half its rate in India is the United States of America. The only snag is that the Government of India have not got the dollars to purchase the gold. But it is certainly worth while to make a big effort for persuading the Government of the United States of America and the world monetary institutions to grant us a substantial loan with which the Government of India can buy (A) essential capital goods and (B) gold at official rate for sales to the public in India.

The grant of such a loan will be the essence of a Nehru Plan for India. It would be a strange paradox, nay, almost a cruel irony, if so much should be talked about the closeness and cordiality of the relations and identity of interests between the Western Democracies and the sovereign and democratic India of today, and yet

if there is to be no really substantial economic aid to India from America. For after all, prosperity is indivisible. If India is not to go the way of China, and if she should be the bastion of peaceful and democratic ways of life in Asia, the living standards of her people must be raised very quickly. Communism flourishes in conditions of widespread and acute economic distress. Like the European Recovery Programme, a realistic Indian recovery programme seems to be worthy of the most serious consideration.

Experience of European countries which suffered from inflation after the first world war serves to underline the utility of foreign loans as an anti-inflationary measure. The League of Nations review of "Monetary Experience in Europe after World War I" says that "when foreign loans were available, their anti-inflationary effect was direct and obvious. On the one hand, the supply of goods in the country was increased. On the other, the supply of money in the country was reduced in so far as the sale of the additional imports to the public, or rather the sale by the Central Bank of the foreign exchange with which traders paid for the imports, tended to withdraw money from circulation." There is no doubt at all that "it is desirable to meet the real investment needs of a poor or impoverished country at least partly by foreign loans instead of wholly by domestic saving."

Of course, foreign loans will give rise to the problem of interest services and amortization. To meet that problem one of two conditions must be secured. In the first place, loans must be used for directly productive purposes which increase the national income of the debtor country and provide a return out of which the interest and amortization charges could be met. If this condition does not exist, and the loans though socially necessary are not commercially remunerative, then the

alternative is that the servicing of the debt is met out of taxation. This would involve the creation of an export surplus out of which the foreign exchange will be available to servicing the loans. Recent trends in India suggest that we may have to depend on the second of the two alternatives.

CONCLUSION

In this brief study expression has been given to many suggestions which should be considered and put through, for achieving the five-pronged drive against the present crisis, mentioned in the first communique of the Government of India announcing their new economic policy. So many and so varied have been the remedies suggested, because the *malaise* is at once chronic and acute. Besides the direct measures recommended above, there are many indirect steps the desirability and feasibility of which, governments in free India should consider carefully. A keen sense of urgency leading to great courage, a fine sense of proportion enabling first things to come first and ceaseless vigilance should characterise and animate the men in seats of power today.

For instance, the Government of Bihar are reported to have done a very appropriate thing in issuing instructions to all the District Officers, that in view of the fact that large quantities of building materials are being diverted towards construction of cinema houses, while government's own building programme is being held up for want of necessary materials, no new licence for cinemas should be issued for a period of two years in the first instance.

This is only a sample. Many are the indirect measures of this kind that must be taken to enable scarce commodities to be put to the most urgent uses first.

THE PRESENT ECONOMIC CRISIS IN INDIA

Similarly, as long as the emergency lasts, India cannot afford the luxury of *laissez-faire* in important sectors of the nation's economy. The Government of India, for instance, should consider whether it is not desirable to make the foreign trade of this country a state monopoly. At any rate, it has to be closely regulated by a Central Government which transcends sectional or provincial considerations.

Scientific and rational redistribution of provincial boundaries, fine adjustment of the claims of innumerable sects for representation in the services, the introduction of Hindi as the official language of the country and the elimination of English, things like these are luxuries, which the country can afford to put off for a while, when she is struggling to face and destroy the incubus of inflation.

In the vivid words of Sir M. Visveswarayya, the population of India has doubled in his own lifetime, and he calculated that every minute the country is burdened with nine more beings to be fed, clothed and housed!

"The Indian born in 1931 had a life expectation of 26.5 years; the Englishman born in the same year, a life expectation of 61 years. This meant that prewar India spent 22.5 per cent of its national income on raising children who would make hardly any contribution to production, while England spent only 6.5 per cent of its national income on the raising of children."

If this will not rouse the people of India to a sense of national crisis, what will?