

Planning

Economic Transition

from

War to Peace in India

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By

V. K. R. V. Rao, Ph. D. (Cantab)

Here in this book the eminent economist V. K. R. V. Rao, M. A. Ph. D. (Cantab). University Professor of Economics, Delhi & of Food Department, Government of India, discusses the various problems of Economic transition from—War-time Economy to Peace-time Economy—in India, with his usual thoroughness. After enunciating the general principles by which the transitional Economy should be guided, he deals with the problems like Demobilisation, Re-employment, control measures, & consumer's interests, Public Expenditure & Tax Relief. The book has more than a pure academic interest; it abounds with thoroughgoing details & practical suggestions and displays a sense of responsibility. And hence its importance today is more than usual.

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PLANNING
ECONOMIC TRANSITION
from
WAR TO PEACE IN INDIA

(An Essay on the Economics of Transition)

BY

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Dedicated

to

Pramila, my wife.

without whose constant regard for
the maintenance of my academic
personality this book could
not have been written.

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Preface

The following pages were originally contributed as articles to the "Commerce" of Bombay and "The Eastern Economist" of Delhi. They have been written mostly during the late hours of the night or the early hours of the morning, after a hard day's work in the uninspiring rooms of the Imperial Secretariat; the writer is therefore acutely conscious of imperfection of language and arrangement in the expression of his ideas, but he has been impelled to do so out of a sense of the urgency and public importance of the problems involved in the transition from War to Peace in India. He will be satisfied if the re-publication of these articles in book form helps to stimulate more public interest and discussion of these problems than has hitherto been the case in India. His thanks are due to the Editors of "Commerce" and "The Eastern Economist" for permission to reprint the articles contributed to their columns.

The arrangement of the book is as under. The first chapter states the problems of the transition. The second deals with principles of Planning in the Transition Period. The third, fourth, fifth and sixth chapters discuss the questions of demobilisation and re-employment, expenditure income and prices, controls,

and disposals and taxation respectively. The seventh chapter contains an account of how economic policy during the Transition Period can be used to facilitate the inauguration of an era of planned economy in post-war India. The final chapter is included only for the busier reader's convenience, as it merely brings together the conclusions reached in the course of each of the preceding chapters.

In view of my present temporary connection with the Government of India in the Food Department, I must make it clear that what follows represents purely my personal views.

University of Delhi,
1st October 1945.

VIJAYENDRA K. R. V. RAO.

CHAPTER ONE

THE PROBLEMS STATED

NOW that the war is over, the immediate problem that confronts the country is that of the transition. From war economy with its controls, its emphasis on the production of military goods, its diversion of resources from civilian to defence purposes, its mobilization of the man-power of the country for war purposes, and the manifold reactions that such measures produce in the Nation's economic life, to a peace economy, cannot obviously be brought about by one sudden single stroke the problem becomes even more difficult when one's objective is, as in the case of India, not a mere return to the pre-war peace economy, but the attainment of a new peace economy, which would also be a planned economy intended to bring about a substantial rise in the pre-war standard of living of the people. It is my object in this chapter to state the problems of the transition and then to follow it up in subsequent chapters with presenting my ideas about the manner in which these problems should be tackled.

First and foremost are the problems directly brought about by the cessation of war activity. As has been stated so many times before, certain types of activity considered highly productive during the state of war, cease to have any value immediately on the declaration of peace, and several articles commanding high prices acquire with the termination of war an actually negative value. That is why a hundred thousand tons of ammunition sent from America for the Far-Eastern war is now going to be dumped into the Mediteranian Sea. In India too, therefore, ordnance factories producing machine guns, bullets, rifles, etc. have stopped working at once; factories making articles like tents, parachute silk and similar goods will

also stop work almost at once: as regards factories and other producing units supplying articles like cloth, leather goods, dehydrated vegetables and meat, other foods, etc., the demand for these is dependent upon the current strength of the armed forces: the rate at which their activities will be brought to an end will depend upon the pace at which demobilization is proceeded with. But eventually military orders for these goods will also cease, even as eventually the armed forces have to be demobilized and brought down to the peace-time strength which will be a very small proportion of their present war inflated number. As regards workers who will be released from employment on account of the stopping of further production of munitions and other purely military goods and services, they constitute an immediate problem of re-employment: as regards the others, the problem of re-employment spreads itself over a given period of time depending (a) on the rate of demobilization and (b) upon the rate at which reconversion schemes are put through the factories engaged in war production, as also the rate at which new schemes for employment formulated by the Central and Provincial Governments are given effect to. The problems falling under these heads, therefore are:—

- (1) Immediate unemployment arising out of stopping further working of ordnance and similar factories.
- (2) Unemployment spread over a period of time, probably from one year to two years, arising from demobilization and the stopping of orders for other goods required by the army.
- (3) Reconversion to civilian use of factories engaged in war production.
- (4) Re-employment of demobilized personnel and workers released from the war factories by schemes of new employment, such as roads, public works, etc., etc.

The next set of problems arising from the transition relate

to what may be called disposals. A large mass of goods, buildings and other materials built, produced or accumulated during the war, now become surplus. If these are released on to the civilian market without any plan or control, it might lead to a complete dislocation of civilian economic life and thus hamper the resumption of full time economic activity. It is essential, therefore, that disposal of all surplus materials in India, whether belonging to the Government of India, or the United Kingdom, or the United States of America, should be undertaken in a careful and systematic manner; while it is important to see that these articles should not be dumped on to the civilian market, it is essential that they should be brought on to the civilian market as early as possible in order to combat inflation and aid the resumption of full time civilian economic activity; at the same time, care has to be taken to see that there is no bias or partiality shown in the disposal of these goods and that all producing interests especially the small and unorganised producers, in the country get an equal chance subject to such conditions as Government may determine with a view to carrying out any scheme of priorities in civilian production that they may have for easing the strain of the transition period. It is satisfactory to note that a Directorate General of Disposals has now been set up and presumably this organization will handle all problems relating to disposals. The disposal of surplus material in India by the U. K. and U. S. A. governments should also be linked up with this organisation in an appropriate manner.

The third set of problems arising out of the transition are problems relating to the various economic controls which have been imposed during the war. Among the different controls which are now in force may be mentioned the controls relating to food, transport, capital issues, imports and exports, exchange, and the obtaining of essential articles like cement, iron and steel, timber, other building materials, etc. There are also the

controls on prices, and the provisions of the anti-profiteering and anti-hoarding ordinances. The public may expect that with the termination of war all these controls should come to an end. This conclusion, however, cannot logically follow from the mere termination of hostilities. Some of the circumstances which brought these controls into existence—such as strain on transport, difficulty of obtaining imports of foodgrains, difficulty of obtaining imports of capital and consumer goods, the tendency to profiteering resulting from shortages, the pressure on supplies due to the tendency to a sudden release of pent-up civilian demands, and shortages in other parts of the world which, in the absence of export controls, may lead this country to be denuded even of its present limited supplies by offers of high prices and high profits from customers abroad—still remain, and would make the sudden termination of controls exceedingly unwise from the point of view of the national economy. There is also the danger that a sudden removal of all import controls may lead to a collapse in most of the industries brought into existence in India during the war and thus add to the problem of unemployment which will be created by demobilization and cessation of war-time activity. There is also the important factor to be borne in mind that from the national point of view, certain civilian requirements have prior claim on resources of exchange and facilities of import, transport and building materials during the transition period. Unless there is an immediate rejuvenation of the consumer goods industries which have been working overtime and without sufficient repairs and replacement during the war, the position regarding shortages will persist and there will be no relief to the country in spite of the cessation of defence demands. On the other hand, there may be certain controls, such as priorities on the movement of munitions, requisition of ships, reservation of the output of certain industries and so on which may now be relaxed or withdrawn, without creating difficulties for the

transition period. There is also the question to be faced of how far these controls should be utilized for the purpose of easing the strain caused to civilians by shortages during the transition period; there is also the question of how far these controls can and should be used for initiating a programme of planned economic development in the country to commence even within the transition period, and finally there is the question of how these controls have to go and in what order of priority and with what safeguards. It seems to me that this problem of war-time controls is perhaps the most important problem of the transition and it is essential that there should be a comprehensive examination of the whole subject made by Government as quickly as possible and in consultation with interests concerned. It is important that the country should know what the policy regarding controls is going to be in order that both consumers and producers can make their plans accordingly.

Finally, there are the problems arising from the stoppage of expenditure in this country by the U. K., the U. S. A. and other allied Nations; sterling balances will now cease to accumulate and the Reserve Bank will no longer show large weekly additions to the volume of Indian currency. With the termination of war and relaxation of exchange and trade controls all over the world, the enormous disparity that at present exists between prices in India and elsewhere will also produce its own reactions. The dreaded threat of deflation and a steep fall in prices is, so to speak, across the corner. At the same time, nobody can ask for an indefinite continuance of the inflated abnormal level of prices brought into existence in India on account of the war. Here again, what the public would be anxious to know is whether there is going to be a policy of gradual transition and whether a restoration to more price levels is going to be brought about and if so, when, and in what manner.

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Finally, there are the problems relating to the exchange value of the rupee, the continuance of budgetary deficits and the high levels of taxation reached during the war. While, no doubt, all these factors will undergo changes ultimately, industrial and commercial opinion would like to know as early as possible what would be the position regarding these items in the immediate transition period. Otherwise, there will tend to be created a feeling of uncertainty which will hamper the resumption of peace-time economic activity.

To sum up, there are a number of major problems that would confront the country on account of the termination of war. Between the termination of war and the resumption of what may be called normal peace, there will be a period of transition. This period will be concerned with problems of demobilization, unemployment, reconversion of war-time industry to peace time use, rejuvenation of consumption goods industries whose productive capacity has been impaired or over-strained during the war, the relaxation and ultimate removal or modification of war-time controls, disposal of war-time surpluses, the movement towards a more normal level of prices and changes in the levels of exchange and taxation. All these problems require the most careful handling, if the end of the war is not to be followed by social unrest, renewed profiteering and acute economic distress for the vast masses of the country. What is required is planning for the transition period. To the details of this planning I turn my attention in the next chapter.

CHAPTER TWO

SOME PRINCIPLES FOR PLANNING THE TRANSITION PERIOD

IT is essential, as I have said before, that measures relating to the transition period and its final dissolution into normal peace-time economy should be properly planned. A policy of drift accompanied by *ad hoc* and departmental decisions will fail to give the public the relief it is expecting from the termination of war and at the same time prevent the country from preparing itself for the era of large scale economic development which it is looking forward to in the post-war period. It is my object in this chapter briefly to discuss the principles which should govern the economic planning of the transition period in India.

To begin with, the public is eagerly looking forward to relief and relaxation after the strain imposed by the war on their daily life and activity. Restrictions of various types, such as those on the freedom of purchase or sale or movement, shortages of various kinds, such as housing, food, consumer goods, etc., and high prices resulting in placing beyond the ordinary consumer's reach even the commodities which are available, are all associated with war economy and the public naturally expects that these will now disappear, if not all at once, at least, by rapid stages during the transition period. The overwhelming desire of a man in the street is for a quick reversion to normal conditions; he has been putting up with all the restrictions and controls associated with the war economy in the belief that these are but temporary. If no hope is given to him that these restrictions and controls will soon be brought to an end, patience will become exhausted and

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it will be even more difficult to maintain a peaceful atmosphere in the country. The first principle, therefore, which would govern the planning of the transition period should be that the transition period will be as brief as possible. It would be useful if a declaration were issued by Government proclaiming its intention to bring about as speedy a termination as possible of this transition era in Indian economy.

At the same time, the public is not unconscious of the fact that war economy has been accompanied by a state of high employment and monetary prosperity within the country. They are also aware that a sudden cessation of the activities associated with the war in both expenditure and employment is likely to lead to acute distress on the part of large section of the population and therefore will almost certainly result in a social unrest fraught with dangerous consequence. It is necessary, therefore, that the termination of war-time economic activities should be brought about in stages, and if possible accompanied by the stimulation of civilian economic activity that could offset the progressive decline in war-time economic activity. It is true that this programme of terminating war-time economic activity by stages is going to mean, at least, for some time, the continuance of war-time financial burdens but that is a price which has inevitably to be paid if the country is to be saved from the more harmful contingency of a precipitate slump in the post-war period; at the same time, this does not mean that war-time economic activity in terms of both expenditure and employment should just continue as they are, merely in order to avoid the slump. What is required is, on the one hand, a termination of these activities by accelerating stages and on the other, an off-setting of the affects of this termination by a restored or an additional civilian activity. The second principle, therefore, which would govern the planning of the transition period should be a programme of demobilization and scaling down of war-time expenditure accompanied by a

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programme of governmental employment and expenditure for civilian purposes and the stimulating of private investment and activity. It is desirable that the second programme should as far as possible offset the effects of the first. But the country would have to face the fact that it would be exceedingly difficult to offset the cessation of allied war expenditure in the country by a corresponding volume of Indian public or private expenditure.

The third principle which, in my opinion, should govern the planning of the transition period, should be the importance of giving urgent and maximum relief to the consumer. During the war, the consumer has suffered on account of reductions in supplies both from domestic and from foreign sources. It is important that during the transition period, Government should have a positive policy regarding imports and domestic production in such manner as to bring about the most rapid possible increase in supplies to the consumer and at the same time, save him from the inferior quality that the war has made so characteristic of practically all the goods consumed by him. For this purpose, Government should undertake, if they have not already done so, a comprehensive but quick examination of the immediate needs of the Indian consumer and should provide facilities for the satisfaction of these needs. Imports will have to be permitted on a large scale of consumer goods, care being taken, however, to see that these imports do not result in the closing down of Indian industries even though it is certain to result in a scaling down of their abnormal profits. As far as domestic production is concerned, every encouragement must be given both by way of priorities in respect of movement and supplies of essential goods as also of the required imports of machinery to industries like the textile and house building which have been in such short supply during the war period. What is required is the recognition by Government of the fact that consumer has suffered during the war and that he is entitled to

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speedy relief during the transition period: and the economic controls and other powers acquired by Government for purposes of prosecuting the war should now be utilised during the transition period for the purpose of decreasing supplies and bringing relief to the hard-pressed and long suffering Indian consumer.

The fourth principle governing the planning of the transition period should be a positive programme by Government for the purpose of restoring the free workings of normal economic activity. For this purpose, it is necessary that transport facilities should be restored to the maximum, restrictions on private enterprise withdrawn or diminished and private investments induced. Transport is a matter where it is only Government which can do anything really useful. The country must have enough wagons and locomotives, the rail lines should be speedily restored and road transport made available. Only if transport facilities are restored and maximised in this manner, would the necessary atmosphere be created for the restoration of normal economic activity in the country. Fortunately, the restoration of transport facilities should be comparatively easy of achievement in view of the surplus transport stores that will become available as a result of the cessation of hostilities; and import of capital equipment needed for the purpose should have high priority, and India might press her claims in this regard in spite of competing claims that might be put forward by the devastated areas abroad. Coal production should also be stepped up, so that private economic activity may not languish for want of power. At the same time, there should be an immediate review of existing restrictions and capital issues and obstacles in the way of new private investment should be removed as early as possible. The working of the control should be made more mechanical and more liberal and the small producers in India should no longer be made to suffer the disadvantages and handicaps he

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was subjected to vis-a-vis with bigger producer during the war period. Facilities by way of priority, movement, land acquisition and finance should be made available to small entrepreneurs in consumption goods industries. There should be a speedy announcement of policy regarding exchange and determined attempts should be made to bring back trade into the picture, even though it may have to be subjected to some safeguards based on the experience of the profiteering and anti-social tendencies of large section of the trading community in the war period. What is required, speaking in general terms is the creation of an atmosphere and the giving of the facilities which will lead to a restoration of private enterprise and private economic activity in the country, subject, of course, to the all important consideration that these activities will be in line with the objective of bringing speedy relief to the consumer.

Finally, advantage should be taken of the existence of controls and the comparative dominance of public expenditure during the transition period to bring about a sound basis for the planned economic development which is to follow the resumption of peace-time economic activity. Public expenditure during the period should take the form not only of reviving and expanding transport facilities within the country, but should also concentrate on the production and speedy expansion of hydro-electric power. The country has vast resources of hydro-electric power and it is only by development of the same that a secured foundation will be laid for the rapid industrial development which all of us look forward to in the post-war period. It is also necessary that schemes of technical training both by sending large number of persons abroad and by opening a large number of technical training institutions within the country; staff, if necessary of foreign personnel, should be expanded and proceeded with, without delay. It is gratifying that some steps have already been taken in this direction, but

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the pace needs to be accelerated. Public expenditure should also be concentrated for an improvement in the utilization of the land resources of the country, so that supplies of both raw materials and foodstuffs can be rapidly increased with a view to meeting the requirements of the desired era of rapid economic development; thus schemes of irrigation and anti-erosion must be put through as rapidly as possible, and similarly the production of fertilizers within the country. In other words, everything possible should be done during the transition period to diversify and improve the quality of Indian labour to restore and expand the country's transport facilities, to increase the production of power and to take concrete measures for the better and more effective utilization of its land resources.

Finally, advantage should be taken of this interval between the termination of war and the return to normal conditions to undertake all the preparatory work by way of research, collection of data and formulation of policy in matters of detail which is so necessary, if the country is to have a programme of planned economic development, with a view to doubling or trebling its per capita income within a defined period. A Planning Commission should be set up with power to appoint various committees to deal with the different aspects of the country's economic activity. At the same time, it is hoped that the transition period would see the final settlement of the political question as well, so that when planning comes to be inaugurated in India, its execution would be in the hands of a free and independent Government responsible to the people of the country.

To sum up, economic policy during the transition period should not be one of drift or *ad hoc* and departmental decisions. Economic activity and policy during the transition period should be planned according to different principles. Among the criteria suggested for this planning are :-

- (1) Speedy termination of the transition period.

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- (2) A policy of terminating, in well defined stages, war-time economic activity in respect of both employment and expenditure to be offset as far as possible by a corresponding programme of public and private expenditure and re-employment for civilian purposes.
- (3) As rapid an increase as possible in supplies of consumer goods, both by way of imports and domestic production without, however, causing undue loss or suffering to industries created by the war, but resulting in a fall in their abnormal profits.
- (4) Utilization of public expenditure for the restoration of normal economic activity by rejuvenation and expansion of transport facilities and the giving of facilities to the private entrepreneur in respect of consumer goods industries.
- (5) Utilization of public expenditure to lay the secure foundations for the development of India's post-war economy by concentrating on development of transport, power, irrigation, anti-erosion, technical training, etc.
- (6) Setting up the machinery for undertaking all the preliminary work by way of research, collection of data, discussion of details, etc., connected with the inauguration of an era of planned economic development.

CHAPTER THREE

DEMOBILISATION & RE-EMPLOYMENT IN THE TRANSITION PERIOD

HAVING discussed the general principles which should govern the planning of the transition period, I shall now turn to a detailed examination of the more important aspects of this problem. The most important of these from the point of view both of its repercussions on the economic life of the people as also of the dominant place it occupies in the minds of the public is the problem of unemployment and falling prices which one inevitably associates with the termination of war activities. We have already seen that war activity spells a sort of economic boom, during which employment, expenditure and prices are all at a maximum. Past experience has proved that the termination of these activities is usually followed by a slump. It is, however, the firm determination of our government as it is of governments in other parts of the world not to permit a repetition of this experience at the end of this war. That is why there has been talk of a graduated programme in the termination of war-time activities on the one hand, and of a simultaneous programme of stimulation of public and private economic activity on the other. With us in India, the position is further complicated by the fact that the boom has been partially the result of expenditure in India by the allied nations which will automatically come to an end to which we are not in a position to enforce the principle of a reduction by stages. There is also the further complication that what we desire in India, is not a restoration of pre-war economic conditions but the inauguration of a new era of planned economic development.

To begin with, the war has seen an increase in employment in India which can be classified under two broad heads, viz.

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(a) employment under Government or as I propose to call it public employment and (b) private employment. The former includes.

- (1) The armed forces proper, including followers and constructional labour engaged directly on army work.
- (2) Production of munitions and ordnance stores required by the armed forces.
- (3) Increase in civilian employment under the Government of India and provincial Governments, both in respect of offices and of office personnel.

It is not possible to estimate the number involved with any accuracy, but I believe the number will be found to be between 30 and 32 lakhs, of whom 25 lakhs are admittedly on the roll of the armed forces. The latter includes;

- (1) Production in factories or other organised establishments of articles required by the armed forces like tents, mosquito nettings, textiles, furniture, crockery and cutlery, toilet articles, leather articles, etc.
- (2) Production, in small scale, cottage, and similar establishments, of articles required by the armed forces, like blankets, hosiery, clothing, etc.
- (3) Labour involved in constructional work.

It is not possible to give an even reasonably approximate estimate of the numbers involved, but it may be interesting to note that the Indian army review according to an A. P. message, gives this figure at about 13 millions of whom 8 millions Indians are stated to be doing 'auxiliary work for the armed forces and 5 millions employed in war industries. I am inclined to believe that this is an overestimate. The number of workers employed in factories has risen from 1.6 millions in 1932 to 2.4 millions in 1944, or by less than one million men. There is no doubt, however, that a large number of persons have been employed in constructional work such as the building of aerodromes,

strategic roads, barracks, etc; and a large number have also found work, either part-time or whole-time, as tailors, upholsterers, caterers, cooks, bearers, etc. I may hazard a moderate guess that this number would be about 5 millions, but accurate figures can only be furnished by Government. In any event, the number of war employees is not less than 8 millions, and the problem of their demobilization and re-employment forms a big enough task in all conscience.

It is obvious that a substantial portion of this employment becomes patently uneconomic with the termination of war, but since peace is not immediately restored with the termination of hostilities and since fairly large armed forces will be required for purposes of reoccupation of liberated territory till the restoration of civil Government in those areas, some of the employment mentioned above will continue to be necessary for a few months more, but this would be true only for a few months. The continued retention of all this additional employment after that stage has got only one strong argument in its favour, viz, the desirability of keeping up the volume of economic activity and expenditure within the country; as against this, it must be remembered that this kind of expenditure is unproductive, the employment it generates does not lead to a net increment in output, and the result will be a strain on the budget similar to the war-time strain leading to inflationary consequences and meaning for the public a low level of output of goods and services required by them. It is obvious, therefore, that what the country requires is not a continued retention of war-time employment in war-time jobs, but a re-employment of this personnel in productive peace-time activity as quickly as possible. It would be ideal if fresh and productive employment could be found for all these people immediately; that would maintain the war-time level of employment and at the same time not have its inflationary consequences, as this additional employment will be accompanied by real additions to output

required by the public. Even if such employment cannot be found for all war employees, the correct policy is to try and find such employment for as many of them as possible and as quickly as possible. How this should be done is a question that I shall take up in a subsequent paragraph. But to the extent such re-employment for war employees is not available within a reasonable short period after the termination of hostilities—say, from 6 months to a year—the question arises whether these men should be maintained in their present employment indefinitely till they are found new employment, even if their present work is unproductive and causes budgetary deficits with all its threat of inflationary consequences. My answer to this question is definite and categorical, though I am acutely conscious of the unpopular reception it is likely to have. I do not think India can afford to maintain in the transition period the war-time scale of public expenditure—by public expenditure is meant expenditure financed by Government—if this expenditure is to be incurred on retaining people in the employment which they have been given during the war and on their war-time scales of salaries or wages. We are not such a rich country, nor is our level of real income so high that we can afford to pay a large section of our adult population for doing work which is useless and at rates which have been inflated under the stress of war-time necessities. At the same time, the State cannot just give them one month's salary and send them home to feed for themselves. It is its duty to give these war employees some breathing time within which they could prepare themselves with or without Government aid for re-entry or fresh entry, as the case may be, into peace-time and productive employment. Pending this finding of re-employment, the State has also got the duty of giving them a living allowance consistent with the country's economic standards and its financial stability; the amount of this allowance may vary with the current wages or salaries of the war employees but there must be a definite

minimum and maximum set to these allowances. I must emphasise that this allowance must be consistent with what the country can afford to give from its honest tax revenues unaided by the machinery of the printing press; only then can we afford to retain it long enough to tide these people over the period between their ceasing to be useful on account of the termination of war and their becoming useful again on entry into peace-time employment; and only then will it give them a real incentive to seek re-employment on their own at reasonable levels of earnings without waiting for the State to hand them re-employment on a plate at rates of pay equivalent to those given them by a belligerent Government with a bottomless purse.

During this period, with these war employees for whom employment cannot be found fairly quickly in peace-time productive occupations, Government should try to provide for them facilities for training such as will enable them quickly to terminate their period of allowances and take to *bonafide* employment. The kind of training which would be required will, of course, vary with the different classes of war employees, such as administrative and managerial personnel, clerical personnel, skilled workers and unskilled workers. But some systematic attempt has to be made to give them such training as will be a useful preliminary to their re-employment.

I do not, however, want to suggest that there will be no immediate re-employment for any war employee and that all of them will have to be placed on the allowance basis mentioned above. It should be perfectly possible for a good proportion of them to be found productive employment either directly under Government control or with Government encouragement in private enterprise. In fact, some of this re-employment will be almost automatic as in the case of peace-time factories which have been supplying a portion of their output to war-time requirements and which can immediately redivert this output to civilian markets, e.g., textiles, iron and steel, cement, paper, &c.

In some other cases, with Government help, factories catering to war-time demands could be reconverted for the satisfaction of peace-time civilian demands and thus ensure employment for their war employees. In other cases, Government can themselves undertake schemes of productive activity, such as public works of various kinds and also give facilities to private enterprise either to expand their old industries or start new industries. It would also be necessary to provide the machinery by which frictional factors could be eliminated and employers put into touch with the personnel they would like to employ.

It would be useful to classify these measures for promoting re-employment under the following heads :-

- (1) Restoration of civilian industry.
- (2) Conversion of war industries into peace industries.
- (3) Addition to the pre-war industrial, agricultural and other economic activities in the country.

Restoration

The first set of measures involve partly public and partly private re-employment. The following items could be listed under this head :

- (1) Renewing peace-time governmental—both central and provincial—schemes of welfare activity which may have been suspended during the war such as extension of education, sanitation, sinking of wells, rural development schemes, etc.
- (2) Taking up governmental building and other constructional projects—central provincial and local—postponed on account of the exigencies of war.
- (3) Restoration of factory output to civilian customers as in textiles or vegetable ghee or leather manufactures or iron and steel or cement.
- (4) Grant of facilities for essential repairs and maintenance of factories which had had to postpone these operations on account of war-time restrictions.

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- (5) Restoration of permission to proceed with private building and other constructional projects, particularly residential houses and educational buildings.

Conversion

The second set of measures involves the conversion of industries and services catering to war-time demands into ones having a peace-time activity, and means action in both the sectors of public and private activity. I give below an illustrative list of such items :-

- (1) Conversion of some war-time governmental services included in departments like Supply, Civil Supply & Industries, Labour Welfare, Information & Broadcasting, Food, Scientific & Technical Services, Army Education & Welfare, etc. into peace-time services with appropriate alteration in functions and, may I add, appropriate reductions in salary scales to conform to the peace-time finances of the country.
- (2) Conversion of ordnance factories, military vegetable and poultry farms, etc. into peace-time establishment with appropriate alterations in machinery and other relevant factors. In this connection, it may be of interest to notice that the Milford Ordnance Company of Delaware, one of America's largest war plants, which was turning out cartridges and cannons during the war is today producing dolls to amuse little children.
- (3) Conversion of private factories such as those making parachute silk or dehydrated meat and other processed foods or special kinds of army equipment or repairs of ships and construction of naval vessels into factories catering to civilian demand by the grant of necessary technical, equipment and other facilities.

Addition

The third set of measures relate to additions to the pre-

war levels of economic activity which may take the form either of expansion of industries and other types of economic activity existing before the war or the creation of new industries and other types of economic activity. These again will fall under the heads of public and private activity, and could be classified as under :-

- (1) Extension of building and constructional work by the central, provincial and local governments for offices, schools, hospitals and dispensaries, technical institutions etc.
- (2) Extension of roads, both arterial and village.
- (3) Extension of railway lines.
- (4) Extension of rural development programmes such as sinking of wells, bunding, other anti-erosion measures, drainage, etc.
- (5) Extension of irrigation works.
- (6) Extension of schemes of hydro-electric power.
- (7) Grant of facilities for expansion of pre-war industries producing consumption goods in general demand such as textiles, leather manufactures, residential buildings, furniture, crockery, toilet articles of daily use, biscuits and confectionery, stationery, utensils, etc.
- (8) Expansion of public social services such as education, medical relief, municipal services, labour welfare, nutritional improvement and the like.
- (9) Sustenance of industries which have grown behind the protection given by war-time restrictions on imports, subject to their having a reasonable chance of attaining an eventual ability to stand on their own.
- (10) Encouragement of private investment in domestic industries.
- (11) Financial and other facilities to private individuals who want to set up their own small business, either in industry or in trade.

- (12) Financial and other facilities to individual cultivators who want to improve their agricultural efficiency and increase their output of food crops and other essential raw materials.
- (13) Grant of facilities for re-settlement on land by war employees drawn from agricultural occupations.
- (14) Grant of facilities for adding to the area under cultivation and settling on it war-employees either in co-operative farms or in vegetable or fruit allotments in the vicinity of urban markets or in individual small holdings in under-crowded rural areas.
- (15) Financial and other facilities for the expansion of private social services such as education, medical relief, labour welfare, industrial canteens, school feeding, infant and maternity welfare centres etc.

I would like to emphasize that while all these measures are deserving of early consideration by Government because of the immediate alternative but productive employment they will provide, priority needs to be given to those measures which will result in an increased domestic production of those consumption goods and services which have been in short supply during the war and thus enable early relief to the long-suffering and hard-pressed Indian consumer. Otherwise, the large public which is outside the category of war-employees will get no relief and no satisfaction either by the cessation of hostilities or by governmental measures for easing the transition to peace-time economy. At the same time, it is also essential that fullest opportunities are provided to war-employees to get a reasonable chance of being absorbed into the new employment resulting from these measures. For this latter purpose, the following specific steps need to be taken :-

- (1) Labour exchanges which will keep indexed and classified lists of all war-employees with their qualifications and establish contact between employees

(both public and private) and the classes of employees they require.

- (2) Training schemes for giving war-employees the training which will enable them to meet the requirements of Prospective employers or in the alternative give them the knowledge of an art or craft which they can practice on their own.

Unless these steps are taken on a regional but country-wide basis, one of the objectives behind the employment policy will not be achieved viz. that of finding alternative employment for war employees. It is fair to add that Government have already been taking some action on some of the lines indicated above, while more action will probably follow. What is needed is extension and more co-ordination, and a considerable stepping-up in the pace of the action that is being taken.

To sum up, the war has seen an enormous increase in employment, particularly public or governmental employment; and this net increment in employment had largely meant the production of defence goods and services of great utility during war-time. With the termination of the war, the goods and services produced by these war employees cease largely to have any utility; and useless activity cannot obviously be financed by public revenues, especially in a poor country like India. At the same time, these war employees cannot be thrown on the scrap heap because of the termination of the war. On the other hand, the civilian public stands in great and urgent need of relief from the shortages in the supplies of consumption goods and services to which they have been subjected during the war; the country also needs renovation and expansion of its productive equipment. What is needed therefore is a positive policy of re-employment covering both the public and private sectors of economic activity and resulting in an increase in the current supplies of consumption goods and services and of productive equipment. This re-employment should take the

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form of restoration, expansion, and additions to pre-war economic activity. Pending the finding of this re-employment all war employees whose current work has ceased to have utility should be put on an allowance related to their current wages or salaries but having a defined minimum and maximum and subject to the financial ability of Government and conforming to the standard of living of the country. To ensure that war-employees get the best chance of being absorbed by re-employment schemes and do not have to linger long on this dole, Government should set up labour exchanges and undertake extensive training schemes. It will be necessary to provide that those refusing the offer of re-employment or of technical training considered necessary to ensure re-employment will have their allowance automatically terminated.

In the next chapter, I shall turn to the allied question of the transition from war-time expenditure and prices to more normal but not pre-war levels.

CHAPTER FOUR

EXPENDITURE, INCOME, AND PRICES

I HAVE shown in the previous chapter the effect which the termination of war has on the nature and levels of war-time employment; thus a good deal of war-time employment will automatically cease to continue with the termination of war, unless special steps are taken to continue this employment. I have tried to argue that the extent to which Government themselves can continue this employment is dependent on the productivity of the work which can be provided by public expenditure and the extent to which this condition can be satisfied is not sufficient to cope up in its entirety with the problem of unemployment. I have concluded, therefore, that one has to look to private activity and private investment for keeping up the levels of employment at anywhere near the war-time levels.

The same conclusion becomes even more patent if we look at the problem from the financial angle. During the war, *Public* expenditure or governmental outlays have played an enormous part in raising and maintaining high levels of employment and income. Thus during the five-year period ending 31st March 1945, governmental outlays on the part of the Centre have amounted to Rs. 31428 millions, while the amount of central expenditure budgetted for the current year 1945-46 is Rs. 10242 millions; corresponding figures on behalf of the Provincial Governments are Rs. 7841 millions and Rs. 1882 millions respectively. Of the Central Government's expenditure, no less than Rs. 13934 millions have been incurred on behalf of H. M. G. and other allied Governments during the five-year period ending 31-3-45, while the corresponding figure budgetted for the current year is Rs. 4883

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millions. In other words, no less than 45% of the Central Government's expenditure (or 37% of the total of the Central and Provincial expenditure) during the last 6 years including the amounts budgetted for the current financial year has been incurred by H. M. G. and other allied Governments. It is quite obvious that we cannot expect this expenditure to be continued by these Governments in the interests of maintaining war-time levels of expenditure in India. In fact, let us not forget that the main brunt of public criticism in the country of Government's war-time economic policy has been the incurring of this expenditure on behalf of H. M. G. on account of the inflationary consequences it entailed and it would be rather odd if it were now suggested that this expenditure should be continued. The only alternative would be to suggest that the Government of India should themselves incur this expenditure. In concrete terms, that would mean for the year 1945-46 that the Central Government's expenditure should be of the order of Rs. 10065 millions as against revenue of Rs.3623 millions. In other words, the central deficit would increase from Rs. 1553 millions to Rs. 6442 millions. This would mean a deficit amounting to twice the central revenues and at a time when the central revenues are practically at their maximum and include war-time taxes like E. P. T. and when demands are being made from all quarters for relief from war-time taxation. Obviously such a deficit, if incurred, will have to be met not by additional taxation but by inflation; and inflationary finance of this magnitude following on the inflationary finance of the 5 years of the war would lead to results which I shudder to contemplate. Even a statement of these simple facts will, I hope, prove conclusively the completely unpractical character of proposals which are being made in some quarters that *public* expenditure in India should be maintained at war-time levels.

If public expenditure cannot be maintained at war-time levels, what is the alternative? What is going to happen to

the war-time levels of prices and incomes which are so much above the pre-war levels? In answering this question, I should like to draw attention to the fact that though war-time levels of prices and incomes are very much above pre-war levels, the rise is really monetary and, as far as real incomes are concerned, largely illusory. Thus, for example, a cultivator of foodgrains today may be getting a price 3 times of what he used to get before, but he does not get in terms of goods and services 3 times what he was able to get in the past. Similarly, for the Government servant and for the trader and the manufacturer. In fact, when I calculated last year the national income* of India for the year 1942-43, I found that whereas the *per capita* income in terms of the price levels of that year was as much as Rs. 114/-, it only amounted to Rs. 69/- in terms of the price levels prevalent before the war. Let us not therefore make the mistake of thinking that war-time increments in the levels of income and prices spell so much addition to real income in the country. If this conclusion is accepted, it follows logically that what we are interested in is not the maintenance of war-time levels of money incomes and prices but the maintenance, if not the expansion, of such increment to the real output of goods and services which took place during the war. This latter phenomenon is quite consistent with a reduction in the existing levels of money incomes and prices. In fact, as I shall argue later, it is contingent on such a reduction. We need not therefore regard a decline in war-time levels of money incomes and prices as a major tragedy which we must use all means to avert. One does not secure prosperity by stabilising inflation. Nor can we now suddenly turn round and begin to regard the war-time economy as an era of golden prosperity, simply because of the high levels of income and prices that it brought in its strain. The high prices arose on account of scarcity and inflation; the high incomes resulted from the high prices, and

* Vide Commerce dated 26-2-44.

added to the height of the prices. It is now time that we thought of income in terms where the purchasing power of the rupee would approximate more to its pre-war value than it does at present, and this cannot be done without lowering the prices. My conclusion therefore is, that while the reduction in public expenditure is bound to lead to a reduction in prices and money incomes in the country, it does not necessarily follow that this will mean a reduction in production and real incomes within the country.

There is another fact which has also to be noticed in connection with the existing levels of high money incomes and prices. This is the high levels to which money costs have arisen in both agricultural and industrial production. These high money costs are going to make it difficult for this country to export with profit either manufactured goods or raw materials; at the same time, it will make it more difficult for producers within the country either of agricultural or of industrial goods to compete with import from countries where costs have not risen to a similar extent. I know that some people may suggest as an easy answer to this difficulty either the remedy of devaluing the rupee or putting up our tariff levels and using our import controls to shut out competition to our domestic producers. These remedies, however, are not going to prove unmixed blessings to the national economy. They will put up the costs of imports of much needed machinery and equipment and without which there can be no rapid economic development in India; they will also result in retaliatory measures being taken against Indian exports in foreign markets and I am sure no one familiar with the country's economy can argue that we have reached a stage when we do not care what happens to our exports. Finally, such action on the part of India will be regarded as inconsistent with the trend of international policy on the whole subject of foreign trade and exchange and will not only be regarded with disfavour by countries like

U. S. A. and U. K. but may also lead to their refusing to give us the technical help and the supplies of capital goods without which India can never hope to shake off her existing poverty. Under these circumstances, it is practical to realise that quite apart from the economics of overvaluation* and shutting out imports into India, our freedom to follow such a policy in the post-war world is going to be of a rather limited character. Maintaining existing levels of prices therefore will injure our capacity for exports and increase our inducement for exports and as such result in great injury to the national economy. From this point of view also, it is imperative that money costs in India should be brought down more in conformity with the levels of money costs prevalent abroad and this cannot be done without a substantial reduction in existing levels of prices.

This does not mean, however, that war-time public expenditure should be brought suddenly to a stand still without action being taken by Government to replace as much of it as possible by national expenditure, both public and private of a productive character. If some such thing were not done, the result would be not only a fall in prices and money incomes but also reduction in real incomes and an increase of economic distress in the country. It is imperative therefore that ways and means must be found for replacing the undoubtedly justified termination of war-time public expenditure by (a) such additional public expenditure as will result in increasing the production of goods and services within the country and (b) facilitating and encouraging such expansion of private expenditure over its war-time levels as will result in providing extra employment and increased production of goods and services. As regards the additional public expenditure suggested above, I have already discussed in detail in my previous article the objects on which expenditure

* I have discussed this subject in detail in my book 'The Post-war Rupee' This book is published by, Oxford University Press on behalf of the Indian Council of World Affairs, Delhi.

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should be incurred, viz., activities like irrigation, hydro-electric power, roads, railways, sinking of wells, anti-erosion, construction of educational and other buildings, etc. It is necessary that this type of public expenditure on the part of Government should be put into effect at once, so that it can offset, as far as possible, the reduction in war-time expenditure and give employment to those who will be losing their employment on account of the cessation of hostilities. The ideal thing would be synchronisation of diminishing *public* expenditure on war-time activity with increasing *public* expenditure on peace-time and productive activity; the better planned the synchronisation is the less precipitate will be the fall in prices and incomes and the more quickly will employment be provided to the demobilised personnel.

As regards private expenditure, there is no doubt that civilian consumption has been restricted a good deal during the war on account of diversion of output and productive power to defence purposes. There is undoubtedly a good deal of pent-up civilian demand both for domestic goods and for imports in the realm of consumer goods. In the case of domestic consumption goods, however, excepting in the matter of foodgrains, there has been no legal restriction on consumption excepting in the matter of foodgrains and domestic demand has competed with defence demand and helped to push up prices. The result has been that such pent-up civilian demand as there is for domestic consumption goods is demand that does not exist at current levels of prices but is one that will make itself felt with a fall in the price level. This would mean that with the fall in prices the fall in public expenditure would induce an increase in the domestic demand for consumption goods; this increase in domestic demand would, on the one hand, prevent a precipitate fall in prices and, on the other, provide a market for the increased supply of consumption goods made possible by the release of productive

activity from the war effort. A part of the pent-up demand will, I am afraid, be for imports and increased imports will not mean increased money incomes in the country. At the same time, the increased imports would help in bringing down domestic costs and to that extent facilitate an expansion of private investment activity. In any case, the increased imports need not be followed by deflationary consequences even if it means drawing on our sterling balances. Our present holdings of sterling balances are of such magnitude that the ratio of sterling *cum* gold reserves to the total note issue is very much in excess of the legal ratio of 40% and it is therefore not at all necessary that the utilisation of every pound of our sterling balance should be automatically followed by an equivalent cancellation of the Reserve Bank's issue of rupee notes. In other words, there is a big margin of imports which we can finance from our sterling balances without entailing deflationary consequences. At the same time, we cannot adopt a policy of *laissez-faire* regarding our imports. We will have to watch them carefully and regulate their quantity with a view to seeing that they do not pour into the country in a flood with detrimental consequences to Indian industries.

There is one special class of domestic pent-up demand which is bound to make itself felt fairly quickly after the termination of hostilities; and this is the demand for durable consumption goods like houses, furniture, etc. In this case, domestic demand has not made itself sufficiently felt during the war, partly because of high prices but partly because of controls imposed by Government in the interests of war effort. While the first factor will lose its force on account of the fall in prices that will take place with the reduction in war expenditure, it cannot be followed by an increase in domestic activity unless Government controls are relaxed with a view to facilitating private investment in durable consumption goods.

While the fall in prices will encourage the emergence of

pent-up domestic demand and thus help to arrest a further fall in prices, the same factor will also provide an inducement to domestic entrepreneurs to expand their investment activities. While the fall in prices will on the one hand increase demand, it will on the other hand be accompanied by a fall in costs which will encourage the entrepreneurs. The entrepreneur will also find that with the termination of war expenditure, productive resources, both in the form of capital equipment, essential materials and labour will become more easily available to him. All this will give the entrepreneur the necessary inducement to expand his productive activity and go in for fresh investment. He cannot do this however, unless existing controls are suitably relaxed in his favour. In addition to this increase in private investment in consumption goods industries, there will also be the increase in private investment resulting from the need for replacement and repairs of machinery and buildings and other capital equipment postponed during the war and essential to be undertaken as quickly as possible if production is to be maintained. Here again, the entrepreneurs cannot proceed without the necessary relaxation of controls in his favour. In addition, there will also be a good deal of private capital accumulated from war-time profits and lying idle during the war which will now seek fresh investment; here again, Government sympathy and an appropriate relaxation of controls will go a long way in stimulating the emergence of such private investment activity. All this will mean that private investment activity in the post-war period will reach levels very much higher than those prevalent during the war and correspondingly offset the effect on employment, prices and incomes of the reduction in war-time public expenditure.

To sum up, war-time expenditure in India has largely been influenced by war-time public expenditure and has resulted in the current high levels of prices, money costs and money incomes. This increase in money incomes has not

been accompanied by a corresponding increase in real income. An attempt to maintain war-time levels of public expenditure is really outside the pale of practical politics in view of the fact that such an attempt would mean a deficit of about 600 to 700 crores in the central budget and at a time when taxation is already at its maximum and there is an insistent demand for relief. At the same time, the country cannot afford to follow a policy of *laissez-faire* in the realm of public expenditure and allow war-time expenditure to lapse without attempting to replace it as much as possible but by expenditure of a productive character. A policy directed towards increase of the national civilian expenditure is therefore essential during the transition period. This should take the form of both public and private expenditure. The public expenditure should take the form of productive activities like irrigation, transport, anti-erosion, well-sinking, construction of buildings, supply of technical services, etc; the private expenditure will take the form of an increase in the domestic demand for consumption goods and in the domestic expansion of investment activity, provided the reduction in war-time expenditure is permitted to make itself felt in the form of a reduction in the prices of consumption goods and in lowering of the money costs of production. It would also be essential that there should be an appropriate relaxation of Government controls to the extent that they hamper either the satisfaction of domestic consumption demands such as for durable goods like houses or for the expansion of domestic investment activity such as for the expansion of consumption goods industries, replacement and repairs of the existing industrial units and starting of new industries. If these measures in the realm of both public and private expenditure are taken side by side with a bold reduction in war-time levels of expenditure, the result would be no doubt a fall in the existing levels of prices and money incomes, but it would be accompanied by an increase in real income and

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by an expansion of economic activity of a productive character much beyond the levels reached in the country either during the war or in the pre-war period. What we need therefore is not a policy of maintaining war-time levels of *public* expenditure; what we require is a policy of terminating war-time *public* expenditure of an unproductive character and replacing it by an increase in national expenditure, both public and private, of a productive character which will lead to a rise in real incomes and output.

In the next chapter, I shall turn to the subject of the detailed measures necessary in respect of controls, disposals, taxation, etc. with a view to bringing about an expansion of private investment activity in the transition period.

CHAPTER FIVE

CONTROLS, THEIR RETENTION, RELAXATION OR ABOLITION

I HAVE argued in the last two chapters the thesis that in the transition period neither civilian *public* expenditure nor civilian *public* employment can replace more than a limited part of war-time employment and war-time expenditure; and that we shall have to look to private employment and private expenditure to make up the balance. I have also argued that if this objective is to be secured, an appropriate economic policy on the part of Government towards private enterprise will be required, particularly in view of the fact that war-time economic policy in the form of controls, taxation etc. were largely designed to restrict rather than encourage private economic activity of a type useful to civilian consumption. In this chapter, I propose to discuss the details of such a policy in respect of controls for the transition period.

To begin with, there are a number of controls which we have inherited from the war period. These controls can be classified under the following broad heads:—

- (1) Controls on foreign transactions. This will include the controls on imports, on exports and on exchange.
- (2) Controls on domestic investment and activity. This will include the controls on capital issues, on the obtaining of essential goods such as iron and steel, coal, cement, building materials, etc, and on movement.
- (3) Controls on profit. This will include the whole machinery of price-fixation and other controls arising from the Anti-profiteering and Anti-Hoarding ordinance, and textile controls.

- (4) Food controls. This will include controls on procurement, stocking, movement, distribution, and prices of foodgrains.

Because of my present temporary connection with the Food Department of the Government of India, I propose to say nothing in this series on the subject of food controls excepting to point out that the relevance of food controls to expansion of private activity will turn mainly on how far they promote or impede (a) the required decline in the present high cost of living and (b) the keenness of the farmer to produce more. I may add that these two objectives, though apparently contradictory, are really not so; the apparent contradiction can be resolved by an increase in the output per acre leading simultaneously to both an increase in the farmer's total net income and a decrease in the price per unit at which he sells his output. All the other controls are intimately concerned with domestic investment in non-agricultural activity, and have to be reviewed in the light of the fresh objective set out above.

The controls on imports from the sterling areas were mainly the result of shortage of shipping space and the consequent need for allotting priority to imports considered essential for the war effort; controls on imports from non-sterling areas had the additional reason of the need for conserving the Empire's supply of dollars. With the termination of the war, the shipping position should be easier, while there is not the same need for conserving empire dollars except from the point of view of the reconstruction of British economy. If Indian manufacturers are to go ahead with their schemes for repairs, replacements and expansion of their existing industrial units as also with schemes for starting new industrial enterprise, it is essential that these controls on imports of capital goods should now be removed. It is however desirable in the interests of our future planned economy that the State should have a complete record of the imports of machinery. Imports should therefore continue

to be brought under license, but the grant of license should be automatic on the filling up of the required particulars, and on payment of a small fee. As, however, it is likely that the shipping position is not likely to ease for a few months more, the system of priorities will have to continue, but the priorities should be in favour of the manufacturers of consumption goods in India. As regards imports of consumption goods, the position is a little different. While it is true that the country has a large pent-up demand for imported consumption goods, it must also be recognised that a number of consumption goods industries have grown up in India behind the protection afforded by war-time restrictions on imports; any sudden or unlimited flow of imports of consumption goods will merely result in the destruction of these indigenous industries which will mean not only a waste of productivity built up during the war but also more unemployment in the country and a worsening of the problems created by demobilisation. Under these circumstances, I would suggest that licenses for imports of consumption goods should not be automatic as in the case of capital goods, but should be regulated with a view to avoid adverse consequences to indigenous industry. This will mean that in the case of these imports no restrictions should be imposed on imports of consumption goods equivalents of which are not produced in India; while in the case of the others, it may be suggested that quantity of imports allowed should be regulated with reference to the volume and cost of domestic output and the extent of domestic demand unsatisfied by domestic manufacture. I must mention, however, that this suggestion would be difficult to work in practice, as the prices of imported goods and of domestic equivalents will vary, resulting either in black marketing in the former or profiteering on the part of foreign importers. It is, of course, theoretically possible to get over this difficulty by a system of bulk purchase by Government of both imports and domestic output and reselling the same at a pooled price; there

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are, however, innumerable practical difficulties attending on this course such as differences of qualities and varieties, lack of any special competence on the part of a governmental bureaucracy to handle these commercial transactions, and the extent and duration of the controls that are involved. Under the circumstances, it would be better either to adopt the course recently followed by South Africa and levy appropriate tariff duties on selected imports; or to adopt the system of giving bounties to selected domestic industries. I would personally prefer the latter course, especially in view of the inflated levels of costs and prices in India at present, and the need for bringing them down as early as possible. In the case of imports from non-sterling areas which mainly means the U. S. A., there is the additional difficulty of securing dollars. The dollars we get by exports to U. S. A. is limited in amount and this too is incorporated into the Empire dollar pool from which we are doled a quota; it appears therefore that the system of priorities will have to continue in the case of imports from America. I would like however to make two suggestions. viz., (1) dollars available from the Pool should be given in the first instance to importers of capital equipment required by consumption goods industries, (2) other Indian manufacturers should be given licences to import from America quite freely provided they can make their own dollar arrangements. I am making this second suggestion because it is quite possible that Indian industrialists may be able to arrange for dollar credits on their own, in which case they should not be deprived of the opportunity to go ahead with their economic activity and increase output and employment in the country. At the same time, imports of consumption goods from America should also be subject to the same restrictions as are imposed on imports of similar goods from the sterling area.

As regards controls on exports, they were imposed with a view to securing the maximum possible domestic supplies to

the country, and also with a view to preventing supplies from reaching enemy countries. The latter consideration ceases to be important with the termination of war, but in my opinion, the former remains and will continue to remain in view of the persistence of shortages and inflationary conditions in the country. In fact, shortages in some neighbouring markets are so great and prices so high that a removal of export controls will result in an enormous outflow of goods from India and lead to an acute worsening of the condition of shortage and distress that already prevail in the country. I am therefore not in favour of any immediate removal of the export controls imposed during the war. At the same time, I am aware of the need for India's maintaining her export markets and of the opportunity she will now get with the defeat of Japan and the pre-occupation of U. K. to find a place in fresh markets. I would therefore advocate a relaxation of export controls in cases where (1) the goods exported are clearly surplus from the point of view of India's immediate requirements and (2) the exports asked for, though not surplus, are absolutely necessary either to continue India's connection with her existing markets or to establish her connection with fresh markets where this is likely to result in the getting a permanent place in these markets. In the case of the exports coming under this second category, Government should exercise great vigilance and permit only the maximum necessary quantities to be exported.

As for exchange controls, they were imposed mainly with a view to secure to the Empire Pool all dollars obtained by Indian nationals and minimise the extent to which India could draw on these dollars. Quite frankly, I do not see the necessity of continuing these controls with the termination of war, and particularly in view of the great and urgent demand for dollars by Indian industry in the post-war period. It is true that Britain is in urgent need of dollars to tide over her transition from war to peace and to help her to rebuild her

economy; but so do we, and even more urgently in view of the leeway to be made up in India's economic development. I would therefore urge the breaking away of India from the Empire-dollar pool; but I am not in favour of our dollar transactions being freed from all control. I would suggest that dollars obtained by Indian nationals should continue to be pooled but by the Reserve Bank; and that the first claim on these resources should be given to Government's developmental requirements, to the requirements of Indian manufacturers of consumption goods for imports of machinery, and to Indian students for technical training abroad.

I now turn to the controls on domestic investment and activity. The control on capital issues was primarily designed, as an anti-inflationary measure, to prevent the operation of private investment for other than essential needs because of the prevalent shortages in equipment and skilled labour; incidentally, it also proved useful in diverting savings to Government loans. With the termination of war, the problem is one of re-employment of equipment and skilled labour; and the operation of private investment would be one of the most effective ways of solving this problem.

Removal of the capital issues control would undoubtedly facilitate this expansion of private activity; and lead to an immediate increase in private employment; but from the long range point of view of the interests of the country, such a removal would not be an unmixed blessing. There are two dangers which may follow a policy of *laissez-faire* in respect of capital issues, viz., (1) a crop of bubble companies leading to failures and loss on the part of private investors; (2) a concentration of investment in some specific industries which apparently promise quick returns, but which will result in over-production and subsequent non-employment. I do not know how Government can prevent either of these contingencies by the use of the capital issues control unless they are in

a position to judge the profitability of each venture and assess the exact requirements of the country in respect of each commodity, applications to produce which are made. I doubt very much whether Government or, for the matter of that, any person or institution in the country is in a position to undertake at this moment either of these functions. The data required is so scattered, vague and dependent upon so many imponderables that it would be difficult to undertake this function even in normal times; more particularly would this be so in the transition period when the entire economic world, both domestic and international, is full of so many uncertainties. Under the circumstances, I am afraid that in this matter we have only a choice between two evils as far as the transition period is concerned; one is the removal of capital issues control with its advantage of immediate increased employment but the disadvantage of probable over-production in some fields and the waste of private resources; the other is the retention of capital issues control with the possible advantage of preventing over production and waste of private capital but with the certain disadvantage of discouraging the rapid expansion of private investment and employment. I am inclined to prefer the former alternative not only because it means more employment but also because I am not sure whether it is possible for Government in the present unsettled conditions—even basic issues like Pakistan have not been settled yet, without which licensing of new industrial units so closely connected with capital issues control cannot be satisfactorily undertaken—to exercise control over capital issues sufficiently beneficial to offset the disadvantages arising from the same. After all, the private entrepreneur will have some regard for his own advantage; and so too the private investor; if the private investor goes wrong and loses because of his gullibility or greed, it is better that he should do so instead of the State using up public revenues to maintain the unemployed and offset the depression likely from

the failure of private investment to expand sufficiently in the transition period. At the same time, let me make it clear that capital issues control will have to be an integral part of the planned economy; and I take it that advantage will be taken of the transition period to gather the necessary data and set up the necessary machinery with which to direct capital issues into channels most beneficial from the point of view of the country's planned economic development. In case Government finds it impossible to remove the existing controls on capital issues, they must use them in such a way as to give priority to concerns manufacturing or proposing to manufacture consumption goods, particularly those in which acute shortages have been experienced. As regards essential articles required by industry such as steel or coal or cement or other building materials or raw materials which are still in short supply, it will not be possible to do away with some system of priorities. Any attempt to do so will either result in the wrong industries getting the essential materials or in the prices of these materials going up which will only further put up the levels of costs in India. I am afraid therefore that these controls on essential materials will have to continue in the transition period till supplies become adequate. At the same time, it is essential that Government should clearly state the orders of priority they have in mind and the extent to which essential materials will be made available to each class; and this should be given the widest publicity. I would suggest for high priority in the transition period industries producing consumption goods, particularly in short supply during the war. As regards controls on movement, these should continue only so long as transport facilities are not equal to the demand made on them. I believe, however, that this situation is not likely to last for a considerable time and movement can become completely de-controlled by the end of 1946.

Then there are the controls on profits and therefore of

prices of some types of both imported goods and of domestic goods. Theoretically, these controls should continue in the transition period, especially because of the sad experience the country has had of profiteering practices on the part of sections of the commercial community during the war. But there is also no denying the fact that in the case of organised trades, maximum prices tend to become the minimum, and get sticky at that, resisting vigorously attempts at subsequent reductions. I would therefore suggest that in the case of all imported goods from the sterling area and of equivalent articles from the dollar areas, controls should go as soon as the shipping situation becomes easier and merchants are able to import freely; similarly in the case of those domestic goods which are the counter-parts of these imported goods. But there will be some imported goods such as those from the dollar areas which may continue to be in short supply because of exchange difficulties; and there will be some domestic goods which are free from the competition of imports but which for one reason or another way continue to be in short supply, on account of difficulties of expansion. I would suggest the continuance of profit and price controls on these goods in the interests of the consumer; the only condition I would like to attach is that the prices of these goods and the profit margins allowed should be subject to the examination of an impartial expert body on the lines of the Tariff Board holding public hearings and publishing their findings. In the absence of such a condition, I am afraid that the profit margins allowed may favour the importer or the manufacturer as the case may be, and not the consumer.

As regards the textile controls, I do not see how we can abandon them for some time. Cloth is in short supply and demand for cloth is likely to increase rather than decrease in the transition period. Imports of cloth in substantial quantities are most unlikely for long time, while imports of textile

machinery on a large scale are not likely in the immediate future. Moreover, the high price of cloth in neighbouring domestic markets is likely to exert a bullish influence on cloth prices in India. Finally, cloth rationing may have to be continued for a year or two and this cannot be done without imposing controls on the textile industry. Under the circumstances, I am not in favour of the relaxation of controls on the textile industry in the immediate post-war period. I would, however, suggest two modifications in the existing system of controls. The first is the introduction of a stronger element of consumers in the management of the controls and a corresponding weakening of the element of manufacturers; this should be accompanied by the setting up of an impartial expert body for determining prices and profit margins and holding public hearing and publishing their findings. The less hush-hush there is about price fixation the more safety there is for the consumer under a system of controls. The second suggestion is for a modification of the methods at present followed of cloth rationing. However idealistic it may sound, it is utterly unrealistic to think of equal cloth rations and allot every one the same quota of coarse cloth and fine cloth; the result of such a system is the creation of black markets in fine cloth coupons. It would be far better to give people an option between fine cloth and coarse cloth; those getting coarse cloth should not be permitted any fine cloth and vice-versa. This rule will, of course, have to be subject to exceptions, but the exceptions can be more easily controlled and regulated. It may also become necessary to lay down some objective criteria such as income limits to determine who should get coarse cloth and who fine cloth and not leave the matter entirely to the option of the consumer. All this may not be ideally equitable, but there has never been anything even remotely resembling equality in the consumption of cloth per each family in India; and it is better to take account of reality and avoid black

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markets rather than proceed on pure theory and land into inequitable distribution of a worse kind. With these modifications, I would suggest the continuance of textile controls till there has been a substantial increase of cloth production in the country, which will probably take one or two years after the termination of hostilities.

To sum up, the mere continuance of war-time controls will not tend to encourage the expansion of private investment and activity. What we need is an examination of each control from the point of view of its effect on the willingness and the ability of the private entrepreneur to expand his investment and increase his activity. The results of such an examination will show the need for the entire removal of some controls and the relaxation or reorientation of some other controls. It is suggested that among the former should be controls on imports of capital goods from the sterling areas and controls on capital issues; controls on import of capital goods from the dollar areas should continue on the basis of priority for the equipment required by developmental government activity and by consumption industries. Controls on the imports of consumer goods should generally be relaxed subject to the grant of bounties to selected domestic industries otherwise likely to suffer from such imports. Controls on dollar exchange should continue, subject to the transfer of our dollars from the Empire Pool to the Reserve Bank and subject to their not precluding private individuals from arranging for their own dollar credits. In general, dollars should not be made available by Government to importers of consumer goods except in special cases. Controls on the distribution of essential materials to industry must continue as long as supplies are inadequate, but priority must be given to the consumption goods industries in the immediate transition period. Controls on movement should go as soon as transport facilities become adequate to meet the demand made on them, and this should not take more than a

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year to 15 months. Controls on prices and profit margins of imported as indigeneous finished goods should continue as long as they are in short supply, but the prices and profit margins should be determined by an impartial body of experts holding public hearings and publishing their findings. Subject to the same conditions, textile controls should also continue with the addition that cloth rationing must take more realistic account of the actual distribution of demand between coarse cloth and fine and avoid giving rise to black markets in fine cloth coupons. Finally, the whole policy behind such controls as are continued should become expansionist instead of restrictionist, priority being given to the expansion of the consumption goods industries in the immediate transition period.

DISPOSALS OF SURPLUS STORES AND TAX-RELIEFS TO INDUSTRY.

THE policy followed regarding disposals is also going to play an important part in stimulating or retarding the expansion of private investment and activity. The war has seen a substantial accumulation of scrap and salvage, in addition to which there is a large stock of surplus stores of all kinds and description. The total value of the stores to be disposed of by India alone is estimated at between Rs. 100 and 200 crores. Besides, there is the vast quantity and much larger variety of American stores valued at many hundreds of crores of rupees and the property put up in India by H. M. G. As far as the Indian Government's surplus stores are concerned, there is a Disposals Board functioning through a Directorate-General of Disposals; and the principles underlying the operating policy are described to be as under :—

- (1) Shortest and most direct approach to the ultimate consumer;
- (2) Use of established trade channels, etc., as far as practicable;
- (3) Regulation of the flow of surpluses so as to cause minimum interference with internal economy and production;
- (4) Wide distribution, so that the benefits are made available throughout the country;
- (5) Control, where practicable, of retail selling prices, in relation to current market prices;
- (6) Realisation of the largest possible cash return.

I would like to point out that the articles to be disposed of fall chiefly under the following broad heads :—

- (1) Buildings and land.
- (2) Factories and equipment.
- (3) Consumption goods.
- (4) Salvage and scrap.

The first thing to do is to have a complete description of the surplus stores available for sale by means of printed booklets freely available to members of the public on a small payment; this publication or publications should be issued at once, however imperfect the information available at the moment. Manufacturers and traders would be greatly helped in starting their new ventures or expanding their old ones if they got some idea at once of what they can get by way of stores, equipment, and particularly of buildings. It would also be useful to get as early as possible details of the buildings, equipment and stores designed for disposal in India by the American and British Governments and publish these details in booklet form.

Secondly, the procedure followed regarding the actual disposals should command the confidence of the business community as also of the general public. Individual members of the business community may be apprehensive of favouritism, while the general public is interested, as consumers, in getting consumer goods released early and also productive equipment of use in consumer goods industries, while, as tax-payers, they are interested in seeing that the best prices are secured and no undue waste occurs by prolonged storage and delays in disposal. It seems to me that one way of securing this confidence is to associate members of the business community as also some members of the public with the organisation in charge of disposals. In any case, it would be unwise to leave these decisions, involving crores of rupees and affecting the public interest so closely, purely in the hands of officials. It is also imperative that the procedure for obtaining these surplus goods should be clear and unambiguous, it should be widely publicised,

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and there should be periodic reports of applications received, property disposed of and extent of demand satisfied. It would also be useful if there is set up an impartial body of 2 or 3 experts to whom aggrieved parties can appeal in case they feel that they have been unjustly treated. Rightly or wrongly the public all over the world is suspicious of officialdom in the matter of disposals of property and particularly so in India where the bureaucratic system of Government is a standing handicap in the way of officials getting justice at the hands of the public. Under the circumstances, a tribunal for appeal would go a long way in securing public confidence that justice and impartiality are being observed, even if this means some more burden on the administration.

Thirdly, the country is in acute short supply at the moment regarding buildings for factories; and there is bound to be a big scramble for building materials both for industrial and for residential purposes. A great number of buildings have been put up during the war with, in many cases, staff quarters; no doubt many of these structures are temporary but they can be of use at least for the transition period. I would therefore urge that the business community should be given details of these buildings as early as possible; and high priority given for the disposal of such buildings as can be released at once. The same procedure should be followed in the case of such capital equipment as can be used for civilian purposes without any conversion. The country is in such short supply regarding capital equipment in general, and different types of capital equipment offer such possibilities of interchange that no considerations of whether individual items of capital equipment are surplus to domestic requirements or not should be permitted to stand in the way of their early disposal.

As regards capital goods which cannot be used for civilian purposes without some kind of conversion or refashioning, it would be desirable to place at the disposal of the public what-

ever information is in the possession of Government regarding the possibilities of reconversion of each item or class of items; and this information should be given the widest possible publicity. It would also be useful to set up at once a technical panel—this has been done in the Food Department—which could examine the technical possibilities of reconversion of plant and equipment, and also advise individual industrialists on the problems of reconversion of any plant or equipment bought by them from Government. The sale of these goods need not await the solution by Government of the problems of reconversion. Sometimes private entrepreneurs urged by the motive of profit are able to hit upon ingenèous devices for getting commercial utility out of apparently useless things which may not occur to a public servant; and if private entrepreneurs are willing to purchase equipment or goods used in the defence industries, Government should allow them to buy and carry the risk of converting them to civilian use, provided of course this does not apply to armaments proper. Here again, what is required is early disposal.

There are also a number of consumption goods which come under the category of Government's surplus stores. With regard to these items, it has been stated "Goods needed for civil consumption of which there has been an acute shortage during the war may easily be released without any untoward effects on the market; on the other hand, in regard to items where surpluses are likely to equal or exceed normal civil demands, careful planning is needed to ensure that their release is arranged in a manner which does not upset internal economy and industry". The latter part of the press message quoted above needs careful watching in its operation by consumer interests in the country. I do not disagree with the theoretical soundness of the proposition it contains, but let us not forget that India has undergone a period of acute inflation during the war which has left her with an abnormally high

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level of prices and of costs in its wake. "Normal civil requirements" under these conditions is a highly theoretical concept, as much of civil demand is to-day non-effective because of high levels of prices; and civil demand cannot be assessed even on the basis of pre-war consumption standards till prices come down to more normal levels. Hence it is that I would urge the caution that, in disposing of surplus consumption stores, too much tenderness need not be shown to the effects it will have on domestic industries. If domestic industries are going to be adversely affected on account of difficulty in adjusting costs quickly, let them be given temporary bounties or other assistance; but let not this regard for domestic industries lead to a long and possibly wasteful period of storage of consumption goods by Government nor deprive the country of the immediate benefits—which the public are legitimately entitled to expect—of an increase in the supply of consumption of goods and a reduction in war-time prices and costs of living.

Then there is the question of salvage and scrap. Salvage is of two kinds viz. process scrap or scrap arising from the manufacturing processes in industries and other salvage. The items coming under these two categories cover a large field as can be seen from the list enumerated in the recently published review of the work done so far by Government in regard to the disposal of war surpluses in India. Sales of these goods are usually by auction or by advertised tender. Salvage items are particularly useful in small industries, and it is interesting to note that from aero-scrap, a variety of utility articles can be produced such as trays, plates, cutlery, mugs, ash trays, picture and mirror frames, blotters, pen-holders, ink-pots, hooks, paper weights, table lamps, window frames and fasteners etc. It is stated that "at salvage depots are occasionally exhibited items like furniture, tyre pumps, rotating hospital lamps, ice boxes, buckets, small tools, etc., all made from salvaged aircraft material". I would only like to make two suggestions

regarding the disposal of salvage. One is to publish as quickly as possible a comprehensive list of all the salvage items as available for disposal together with, wherever possible, quantities involved, where located, and likely uses. My second suggestion is that exhibitions should be arranged simultaneously in the big cities showing all the principal items of salvage material, and the likely civil purposes they can be made to serve together with the necessary processes; this should be accompanied by setting up in some central place in India a temporary museum containing samples of *all* the salvage items available for disposal, together with all relevant information concerning their peace-time utilisation. If these suggestions are followed, I am confident that disposal of salvage and scrap will play an important part in reviving small industries, giving work to demobilised personnel, and adding immediately to the supply of consumption goods in the country.

It is also necessary to see that satisfactory arrangements are made for India getting a legitimate share of the war surpluses of the U. S. A. and the U. K. As for the surplus goods of these two Governments which are held in India, Indian requirements should have first priority and suitable steps should be taken to see that this is secured in practice. As for the surplus stores of these two Governments which are outside India, Indian requirements should receive high priority. The essential thing is to have special Indian purchasing missions set up at the principal headquarter of their Disposal Boards as also at their other important headquarters in the theatres of war; and these missions should work in close conjunction with Indian industrial interests. In this way, India could be saved the long delay of waiting for the manufacture of many items of capital equipment which she needs and thus be enabled to proceed with her schemes of industrialisation quicker than she would otherwise be able to do.

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So much for disposals. As regards taxation, there is no doubt that there is a good deal of dissatisfaction in industrial circles about the existing high levels of taxation and at what is regarded as an unfair treatment of the profit element in industrial earnings. And some times one hears the plea that unless the profit motive is given a better incentive, there will not be any considerable expansion of private investment and activity in the transition period. Quite frankly, I am not impressed by this argument. I do not think the profit motive has had a new deal during this war, at any rate in India. In fact, the money motive and the profit incentive have only been too prominent all along and I have always held this to be one of the major causes of the high levels of war-time expenditure with its consequent inflation. I admit that the E. P. T. will have to go because (1) it was specially a war-tax, (2) it drew no distinction between distributed profits and invested profits and (3) it tried to stabilise profit conditions as on a particular date. At the same time, I also hold the view that it is salutary to have a limit set on the rate of profits; and I would urge consideration of the desirability of introducing a corporation tax graduated on the rate of profit—the graduation should be with specific reference to distributed profits—somewhat on the lines of the corporation tax prevalent in Japan before the war. Industrialists in India have also to be in tune with the time spirit which is leading the world to an abolition of the right to more than a normal profit; and in fact, they have such plentiful funds now that their anxiety should be more for getting opportunities for investment and facilities in operating their enterprises than for a high rate of profit.

I must add however, that the tax-system at present is not planned for the purpose of aiding an expansion of private investment and activity. Granted the proposition that, in the transition period, private investment will be the major factor in increasing employment and output, it necessarily follows

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that facilities should be given to industrial concerns for using their funds for the purpose of both effecting repairs and replacements and embarking upon expansion and fresh enterprise. This cannot be done if the funds used for such purposes is also subject to taxation as if it is current income. I admit that it is possible for the individual shareholder to translate into current income the effects of the improved or increased equipment of his concerns by selling his shares at higher prices; but this only means that separate tax measures should be devised for depriving the individual shareholder of the major portion of this unearned increment by a well-devised scheme of taxation on share transfers supplemented by an appropriate scheme of taxation of property at death. In fact, such tax measures are the logical corollary of accepting the principle of limitation of profits; but this does not mean that industrial concerns should be discouraged from increasing their efficiency or expanding their activity by taxing their invested profits in the same way as their distributed profits. Unless the major portion of industrial profits is ploughed back into industry, there is no hope for a vigorous expansion of industrial activity in the transition period; and this cannot be done without comprehensive tax concessions on the funds used for financing repairs, replacements, extensions and expansion. I would therefore suggest that the most liberal deductions should be made from taxable income of funds of industrial concerns spent for these purposes. Depreciation and obsolescence allowances should be stepped up if Indian industrial equipment is to be modernised as early as possible; and the rate of taxation on undistributed profits should be substantially lower than on distributed profits. Hitherto, we have looked on undistributed profits as a method used for evading taxation; we must now recognise that undistributed profits form a part of the nation's reserve for industrial investment, and treat it accordingly.

In addition to these tax-concessions on funds used for

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maintaining and expanding equipment, it is also necessary to re-examine the whole system of our import tariff from the point of view of its effect on productive activity within the country. Taxation on imports in general, has been enhanced during the last few years in a rather hap-hazard fashion; and surcharges have been levied in equal measure on both finished and semi-finished goods. What is required is a detailed examination of each item on the list with a view to examining how far it constitutes a part of the productive process either of agriculture or of industry in India and therefore affects the domestic cost of production by the level of duties imposed on it. Such items should be clearly distinguished from those which either directly compete with deserving Indian industries or constitute luxury products well worthy of taxation. The level of duties on the first class of goods, viz. equipment and semi-finished goods used in industry or agriculture, and raw materials used in industry and non-competitive with Indian raw materials should either be freed from all import duties or taxed at very low rates. Such tax concessions on the part of the State will have a stimulating effect on domestic industrial activity at any time and especially so during the current transition period in India.

Suggestions are sometimes made that existing taxes on consumption goods should be reduced in order to stimulate demand and thus increase industrial activity in the transition period. However, desirable it may be on general grounds to reduce excise duties on consumption goods, I do not see how it is going to be useful in stimulating industrial activity in the transition period. The pent-up demand of the country is already making itself felt by its pressure on prices and industrialists are only too willing to expand their activity. What is holding them up is not lack of demand or dissatisfaction at profit margins, but difficulties in getting the necessary materials, equipment and building facilities. I have already indicated in the previous chapters the ways by which these difficulties can

be met; and they will have a far more noticeable effect on industrial activity than reduction of excise duties on tobacco or matches or vegetable ghee. In fact the more probable effect of any reduction in these taxes would be to throw it in the hands of the middleman or the manufacturer and not to the consumer in the form of lower taxes. I am therefore not in favour of the reduction in these taxes as a measure for increasing employment and output in the transition period. The question can be considered on its merits in connection with the whole subject of a review of the Indian tax-system from the point of view of its equity and efficiency.

To sum up, a correct policy regarding disposals of Government surplus stores and of taxation can go a long way in stimulating industrial activity and employment in the transition period and increasing the output available for civil consumption. The measures necessary for this purpose are;

- (1) There should be the greatest possible publicity in regard to different classes of surplus stores and storage, the methods of their utilisation or conversion, and the utmost dispatch in making them available for the public.
- (2) The organisation set up for disposals should enjoy complete public confidence and could, with advantage, include non-official representation.
- (3) Exhibitions should be arranged of scrap and salvage material together with sample articles into which they could be converted and special facilities offered to the small man for acquiring them.
- (4) Surplus stores of consumption goods should be disposed of as speedily as possible, thus helping to bring down costs of living and give relief to the consumer; at the same time, suitable assistance by way of temporary bounties or otherwise should be given to domestic industries whose profits are likely

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to be adversely affected by such disposal, provided that these profits are not unreasonably high.

- (5) Suitable arrangements should be made for India to get a legitimate share of the surplus stores of the U.K. and U. S. A. Governments by setting up purchasing missions at the headquarters of their Disposals Boards and working in close conjunction with Indian industrial interests,
- (6) The most liberal possible deductions should be allowed from taxable income of the funds spent by industrial concerns on repairs, replacement extension and expansion of their equipment. Together with this, depreciation and obsolescence allowances should be stepped up for the future.
- (7) A clear distinction should be drawn between profits distributed as dividends and profits utilised for expansion of industry, and the rate of taxation on the latter should be substantially lower than on the former.
- (8) The tariff schedule on imports should be examined item by item to determine which of the item constitute a part of the productive process either in agriculture or industry and therefore of domestic costs of production, and the import duties on such items like semi-finished goods, equipment, non-competitive raw materials, etc., should be substantially reduced and even abolished in essential cases.
- (9) No change is necessary at the moment in the excise duties on consumption goods from the stand-point of stimulating industrial activity in the transition period.

CHAPTER SEVEN

TOWARDS A PLANNED ECONOMY IN POST-WAR INDIA

I HAVE discussed in the previous chapters the whole question of the special problems which the termination of the hostilities gives rise to in the realm of our national economy and suggested some measures for handling these problems in the transition period. The whole idea of the transition period is that it would be used to enable the economy to shed its war-time aspects and resume its peace-time activity in a smooth and gradual manner with a view to prevent sudden changes and aiding the working of those forces in the country which will cushion the effect of the change. Planning of the transition period is intended to (a) minimise, if not overcome, the economic distress that may arise from the end of war-time expenditure and facilitate economic recovery; (b) enable demobilized war employees to obtain productive peace-time employment as quickly as possible; (c) retain the advantages of the real increase in the productivity in the country stimulated by war economy. This will involve a positive policy as regards public expenditure and the application of somewhat unorthodox financial criteria, not so unorthodox as during the war but less orthodox than during normal peace-time. In the past, there was no planning of the transition period from war to peace with the result that every termination of war saw changes coming on all too quickly and resulting in the emergence sooner or later of a big slump. Governments all over the world have decided this time to prevent the repetition of such an experience and the measures suggested in the previous chapters are intended precisely to prevent a slump and enable a smooth transition from war to peace in India.

Incidentally, however, the economic measures to be undertaken during the transition period in India could be utilized as a part of the vast scheme which is being drawn up in India for planned economic development in the post-war period. Thus, the objects of a policy of public expenditure and employment could be linked up with a planned development of the productive resources of the country, instead of merely having the limited objective of smoothening the transition and providing interim employment to demobilized war-employees. In particular, there are certain preliminary developments of economic productivity in the country in the fields of land, equipment and labour which are essential to an era of planned economy but which can only be brought about on the initiative of Government. Thus, before there can be industrial development on a large enough scale, there has got to be sufficient supplies of power in the country. The supplies we have got at present are grossly inadequate and in fact the difficulties we are having regarding coal are preventing the working of even the existing industrial machine at its full strength. At the same time, the country has abundant resources of hydro-electric power which has hitherto remained unexploited. There is no doubt that they will continue to remain unexploited if they were left to private enterprise, because it would not be profitable to produce power unless there is a vast industrial market to receive it and there will be no industrial market unless there is previous supply of power to stimulate its emergence. It is only a party like the State, which can sustain the loss between the period when power is first made available and that when there is sufficient market for it, which can undertake the production of hydro-electric power on a sufficiently large scale. Similarly economic development, both industrial and agricultural, depends upon the availability of transport facilities, and this is particularly important in a vast country like India with its long distances. A programme of construction of roads or railways is again one

that can only be undertaken by the State.

Then again, planned economic development requires an increase in the supply of foodgrains and foodstuffs for meeting the consumption requirements that would be generated by the progressive increase in the income of the people which will accompany investment on a large scale; the same factor will also necessitate an increase in the supply of raw materials. Neither of these objective can be secured at a cost approximately comparable to costs in other countries without a substantial increase in the yield per acre of agricultural produce in India and an extension of the area under profitable cultivation. For this purpose, the country requires an extension of irrigation facilities, both by way of canal irrigation and sinking of wells; it also requires anti-erosion measures, drainage schemes and the availability of manure at rates low enough to tempt the cultivator to go in for their use. Agriculture in India also requires much larger storage accommodation and much larger supply of the technical and scientific services and research institutions than it has hitherto been able to secure. All these are objects which, so to speak, condition both the pace and the real costs of a programme of intensive industrial development of the country. They are, therefore, fully deserving of priority in public expenditure at any time and could well be taken up by Government during the transition period.

Apart from these measures suggested above which will bring about an increase in the country's capital equipment and stimulate a rise in the productivity of its agriculture, the State could also take up schemes by which the labour force of the country can be made more efficient and more suitable for employment from the point of view of the requirements of planned economy. It is a notorious fact the significance of which has only been fully realized during the war that India's supply of different types of skilled labour and technical services required by an industrial economy is woefully inadequate.

This is not because India has not sufficient supplies of the necessary human personnel, nor that this personnel is lacking in either intelligence or aptitude for learning. The fact of the matter is that there has been no attempt made by the country so far as to have a scheme of comprehensive industrial and technical training such as prevails in other industrial countries, nor has any attempt been made to send out Indians abroad on a large scale to acquire advanced training. The transition period can be utilized to repair this omission. The war has brought into existence large bodies of men who are joined together under disciplined conditions; the end of the war has been the termination of the utility of the services of these men in their war-time occupations. At the same time, the state has certain obligations towards securing them re-employment and is willing to spend on them a certain amount of public revenues that will aid this purpose. There is therefore a golden opportunity now open to the country to convert these vast masses of men into a skilled and technically trained labour force which will meet the requirements of planned economy and help to sustain a rapid pace of industrial development. It may be difficult at this stage to determine precisely the type of technical training that would be required in all cases, but there are certain broad types of industries which will have to claim priority in a planned economy and which will require the services of skilled labour and trained personnel. In addition there is a type of minimum technical education and training which serves as a basis of all skilled labour and the imparting of which will undoubtedly improve the efficiency of industrial labour in India. The transition period could also be utilised by Government for sending out large numbers of competent Indian students abroad for getting both theoretical and practical training in industrial matters and thus increase the country's supply of persons fitted to occupy managerial and other high posts in industry arising from intensive economic development.

In addition to public expenditure being utilised for the purpose of increasing public productive equipment and improving the efficiency and expanding the supplies of skilled labour in the country, Government should also have a positive policy of encouraging the achievement of the same results in the sector of private economic activity. Thus, facilities should be made available to private entrepreneurs for the replacement and expansion of their capital equipment by giving them tax concessions on the amount spent for this purpose and providing them with other facilities required for the same. Cultivators should be given financial and other facilities for increasing the productivity of their soil and encouraged to undertake development expenditure; financial and other facilities again should be made available to private institutions and bodies for setting up technical training institutions, research institutions and hospitals and dispensaries. Appropriate steps should be taken for strengthening the banking system in the country with a view to mobilising the savings of the people for employment in productive purposes. In short, Government should regard the improvement in the productive efficiency of the country as a matter of national interest and actively assist private institution and enterprise in the achievement of this objective in sectors not covered by the State's own activity.

There is another important purpose which can be achieved during the transition period. It is a well known fact that planned economy unless it is sustained by vast imports of foreign capital will necessarily mean for a country like India emphasis on the development of capital and therefore non-consumption industries in the earlier stages of the planning period. In other words, in the earlier stages of the planning period, the increase in incomes accruing from the expansion of investment will not be permitted to find expression in increased real income in the shape of consumption goods and services. This will therefore be a period of stress and strain

for the consumer. The consumer in India has already undergone a considerable strain on account of the pressure of war economy and has had to tighten his belt until he can tighten it no further. He naturally expects some relief from the termination of war. To deny him this relief and expect him to further go on tightening his belt in the interest of planned economy would be very difficult to put across the Indian public quite apart from the unfairness of the same to a people whose standard of living is already extremely low. Under these circumstances, I have always maintained that something should be done immediately after the termination of war to increase the supplies of consumption goods and services in the country. I want such an increase not only with a view to provide the Indian consumer with relief from his war-time privations but also with a view to secure for the country a reserve which will enable it to go through the initial stages of the planning period without undue economic distress and difficulty. That is why I am of the definite opinion that during the transition period, the manufacture of consumption goods and the supplies of consumption services to the country must have a high priority; and Government policy both regarding controls and regarding the offer of financial and other facilities to private enterprise must be determined from this angle. Once we have stepped up the domestic production of consumption goods and services to a level somewhat higher than during the pre-war period, it would be easier to ask the country to tighten up its belt in the earlier stages of the planning period and concentrate on the production of capital and other non-consumption goods.

There is one more useful purpose which can be served by the transition period in functioning as a preliminary for the era of planned economy. Planned economy for India will involve a good deal of interference with freedom of action in what has hitherto been regarded as a private economic sector. To give an illustration, planned production of agricultural goods would

mean crop planning with the power to tell the cultivator what he should grow and what he should not grow. Another illustration would be licensing of factories with the power to tell the entrepreneur where to set up his factory and where he should not. There would be many more instances of similar interference with private discretion in economic affairs which will necessarily follow the setting up of planned economy. All these will mean legislation of a comprehensive and controversial character if planning in India is to be undertaken by a democratic State. The legislation will have to be carefully thought out, sufficient time will have to be given for an expression of public opinion and discussion by public bodies and private individuals, and there will have to be a good deal of give and take and compromise before the legislation can find its place on the statute book. All this means time and yet it is a necessary preliminary for the inauguration of planned economy. I do not see why we should not use the interval that we get by the transition period for initiating proposals for this legislation and thus take the first step towards their eventual enactment in the statute book. Then again, planned economy will involve the organisation of producers, both in the agricultural and in the industrial fields as also the organisations of traders and consumers. Without such organisations, it would be extremely difficult for democratic planning to function and put across the country lines of co-ordinative policy without which planning has no meaning. These again will take time and the transition period gives us a golden opportunity for the initiation of the measures necessary for the purpose. Moreover, there is the whole subject of the administrative and other machinery of the planned economy which has still to be thought about; proposals for the constitution of such machinery like tariff boards, national resources board, planning commission, industrial boards, agricultural boards, price fixation machinery, quality controls, etc. have to be formulated and placed before the public for

discussion and comment, and this will have to be followed up by the setting up of such machineries. All these will again take time and can well be undertaken during the transition period. Finally, planned economy implies a reasonable measure of knowledge of the quantity and distribution of the country's natural resources in the matter of minerals, forest products, herbs and medicinal plants, etc. It is admitted that our knowledge on this subject is at present incomplete and comprehensive surveys will have to be undertaken to make up the deficiency. This, again, can most suitably be undertaken during the transition period. The points for action suggested above are only illustrative of the steps which must necessarily precede the inauguration of planned economy, but I hope they are enough to show the need for using the transition period as a successful prelude and jumping off stage for entry into the era of planned economic development in India.

Incidentally, the intervention of this transition period between war economy and planned economy will give us a much needed period of time during which certain unresolved issues fundamental to the whole subject of planning can be resolved. Thus, we do not know at present whether India is going to be a united country and enjoy the benefits of one Central Government or whether it is going to consist of two or more independent and sovereign states. In case the latter contingency eventualises, we do not know at present what would be the economic and other relations between these independent and sovereign states that will constitute the new India. In case we continue to have one united India we do not know what would be the distribution of functions and resources between the provincial unit and the central Government. We also do not know what the trend is going to be in the realm of international relations on such important subjects as traiff policy, currency policy, capital movements, etc. We do not even know what would be the extent of real political independence that the Indian

Government or Governments will enjoy, nor what their international status and bargaining power is going to be. Finally, we are not yet in a position to assess the extent to which we can draw on foreign resources either in the shape of return of our own sterling balances or in the shape of loans from countries like U. S. A. It is obvious that all these are matters without a solution of which it will be almost impossible to undertake anything like a policy of planned economic development in India, but it is also evident that answers to these questions cannot be long delayed. It would be not unreasonable to expect that within a period of 4 or 5 years from the termination of war, these questions would have been answered and the necessary political and international background clarified against which planned economic development can take place.

To sum up, the war has left a legacy which will take some time for the country either to recover from or to make productive use of for the post-war period. A transition period is therefore required during which a planned attempt can be made to effect as smooth a transition as possible from war economy to peace economy and at the same time retain all the increase in productivity which the war has brought about and stimulate the utilisation of all the potential productive activity which the war economy has brought into existence. This objective will involve a planned policy of public expenditure and employment together with a positive policy towards the expansion of private enterprise and activity. These measures can be utilised not merely to smoothen the transition but also to function as a prelude and successful preliminary to the inauguration of planned economy in India. With this end in view, public expenditure should take the form of an increase in the country's productive equipment in the realm of public capital goods and an expansion in the country's supply of skilled and trained labour together with an improvement in its efficiency. Public policy should be also devoted to an encouragement of such

private economic activity as would lead to the same result, viz., increase of equipment and improvement in efficiency in the private economic sector as well. In particular, emphasis is necessary in the transition period on increasing the domestic supplies of consumption goods and services, with a view to providing the country with the reserve with which alone it would be in a position to face without undue distress a further period of 'tightening the belt' inevitable in the initial stages of planned economy. It would also be desirable to utilise the transition period for undertaking all the work which entails so much time but which is a necessary preliminary to the inauguration of planned economy in the realms of legislation, organisation of producers, traders and consumers, surveys of resources and setting up of the administrative machinery required for planning. Incidentally, the transition period will also give us the necessary time within which the basic political and international issues fundamental to Indian planning such as the constitution of the Indian state, the autonomy it will enjoy in respect of international relations and the facilities it will get in respect of import of capital goods, and the relations between the centre and the provinces, will all be resolved. That is why I have been pleading for regarding the transition period not merely as a period of transition from war to peace but also as an interlude preliminary to the inauguration of a successful planned economy in India; and that is why I have been urging the adoption of a planned economic policy during the transition period.

CHAPTER EIGHT

CONCLUSION

THERE are three objectives which have to govern the planning of transition economy. One is to give as speedy and extensive a relief as possible to the consumer in India. The second is to provide for re-employment of a productive character as early as possible to the personnel demobilised from military or civil or industrial occupations on account of the termination of war and give these people maximum possible relief, pending re-employment. The third is to use the transition period as a base for the inauguration of an era of planned economy in India, and direct economic policy accordingly. The three objectives imply a vigorous and planned policy of increase of the nation's output of goods and an increase in its productive capacity. In fact, I would stress the importance of a productive policy rather than an employment policy in the transition period. More production will not only give more employment, but also help to bring down the cost of living, break the back of war-time inflation and give much needed relief to the Indian consumer; whereas mere employment may solve the personal problems of individual employees, but will not give either relief to the consumer or increase output, unless it is employment of a productive character. Therefore I say, let the stress be on production and not on employment except to the extent that it is ancillary to production. If the volume of productive employment is not sufficient to absorb all the demobilised personnel, there may be case for unemployment relief but not retention of unproductive employment at public expense.

This policy of increased production, employment and real income in the transition period has to be brought about partly

by the direct action of the Government and partly by the Government's adopting a policy which would induce the maximum expansion of private investment and activity. Among the items coming under the category of State action would be re-conversion, public works, training schemes, and labour exchanges. Among the items coming under the category of State policy would be appropriate alteration or adjustments in the policies regarding controls, disposals and taxation. (Details of the measures recommended have been set out in the preceding chapters. But for convenience of reference and in order to save reading time to the interested but busy men who influence or execute policy, I give below the summaries of the conclusions reached in each of the preceding chapters:—)

The Problems stated,—There are a number of major problems that would confront the country on account of the termination of war. Between the termination of war and the resumption of what may be called normal peace, there will be a period of transition. This period will be concerned with problems of demobilisation, unemployment, reconversion of war-time industry to peace-time use, rejuvenation of consumption goods industries whose productive capacity has been impaired or over-strained during the war, the relaxation and ultimate removal or modification of war-time controls, disposal of war-time surpluses, the movement towards a more normal level of prices, and changes in the levels of exchange and taxation. All these problems require the most careful handling, if the end of the war is not to be followed by social unrest, renewed profiteering and acute economic distress for the vast masses of the country. What is required is planning for the transition period.

General considerations regarding Economic Policy in the Transition Period,—Economic policy during the transition period should not be one of drift or *ad hoc* and departmental decisions. Economic activity and policy during the transition

period should be planned according to definite principles. Among the criteria suggested for this planning are ;—

(1) Speedy terminations of the transition period.

(2) A policy of terminating, in well defined stages, war-time economic activity in respect of both employment and expenditure to be offset as far as possible by a corresponding programme of public and private expenditure and re-employment for civilian purposes.

(3) As rapid an increase as possible in supplies of consumer goods, both by way of imports and domestic production without, however, causing undue loss or suffering to industries created by the war, but resulting in a fall in their abnormal profits.

(4) Utilization of public expenditure for the restoration of normal economic activity by rejuvenation and expansion of transport facilities, and the giving of facilities to the private entrepreneur in respect of consumer goods industries.

(5) Utilization of public expenditure to erect secure foundations for the development of India's post-war economy by concentrating on the development of transport, power irrigation, anti-erosion, technical training, etc.

(6) Setting up the machinery for undertaking all the preliminary work required by way of research, collection of data, discussion of details, etc., in connection with the inauguration of an era of planned economic development.

Demobilisation and re-employment,—The war has seen an enormous increase in employment, particularly public or governmental employment; and this net increment in employment has largely meant the production of defence goods and services of great utility during war-time. With the termination of the war, the goods and services produced by these war employees cease largely to have any utility. and useless activity cannot obviously be financed by public revenues, especially in a poor country like India. At the same time, these war employees

cannot be thrown on the scrap heap because of the termination of the war. Moreover, the civilian public stand in great and urgent need of relief from the shortages in the supplies of consumption goods and services to which they have been subjected during the war; the country also needs renovation and expansion of its productive equipment. What is needed therefore is a positive policy of re-employment covering both the public and private sectors of economic activity and resulting in an increase in the current supplies of consumption goods and services and of productive equipment. This reemployment should take the form of restoration, expansion, and additions to pre-war economic activity. Pending the finding of this re-employment, all war employees whose current work has ceased to have utility should be put on an allowance related to their current wages or salaries but having a defined minimum and maximum and subject to the financial ability of Government and conforming to the standard of living of country. To ensure that war-employment schemes get the best chance of being absorbed by re-employment Schemes and do not have to linger long on this dole, Government should set up labour exchanges and undertake extensive training schemes. It will be necessary to provide that those refusing the offer of re-employment or of technical training considered necessary to ensure re-employment will have their allowance automatically terminated.

Expenditure, income and prices:- War-time national expenditure in India has largely been influenced by war-time *public* expenditure and has resulted in the current high levels of prices, money costs and money incomes. This increase in money incomes has not been accompanied by a corresponding increase in real income. An attempt to maintain war-time levels of *public* expenditure is really outside the pale of practical politics in view of the fact that such an attempt would mean a deficit of about 600 to 700 crores in the central

budget and at a time when taxation is already at its maximum and there is an insistent demand for relief. At the same time, the country cannot afford to follow a policy of *laissez-faire* in the realm of public expenditure and allow war-time expenditure to lapse without attempting to replace it as much as possible but by expenditure of a productive character. A policy directed towards increase of the national civilian expenditure is therefore essential during the transition period. This should take the form of both public and private expenditure. The public expenditure should take the form of productive activities like irrigation, transport, anti-erosion, well-sinking/construction of buildings, supply of technical services, etc; the private expenditure will take the form of an increase in the domestic demand for consumption goods and in the domestic expansion of investment activity, provided the reduction in war-time expenditure is permitted to make itself felt in the form of a reduction in the prices of consumption goods and in a lowering of the money costs of production. It would also be essential that there should be an appropriate relaxation of Government controls to the extent that they hamper either the satisfaction of domestic consumption demands such as for durable goods like houses or for the expansion of domestic investment activity such as for the expansion of consumption goods industries, replacement and repairs of the existing industrial units and starting of new industries. If these measures in the realm of both public and private expenditure are taken side by side with a bold reduction in war-time levels of expenditure, the result would be no doubt a fall in the existing levels of prices and money incomes, but it would be accompanied by an increase in *real* income and by an expansion of economic activity of a productive character much beyond the levels reached in the country either during the war or in the pre-war period. What we need therefore is not a policy of maintaining war-time levels of *public* expenditure; what we require is

a policy of terminating war—time *public* expenditure of unproductive character and replacing it by an increase in national expenditure, both public and private, of a productive character which will lead to a rise in real incomes and output.

Controls, their retention, relaxation or abolition:—
The mere continuance of war-time controls will not tend to encourage the expansion of private investment and activity. What we need is an examination of each control from the point of view of its effect on the willingness and the ability of the private entrepreneur to expand his investment and increase his activity. The results of such an examination will show the need for the entire removal of some controls and the relaxation or reorientation of some other controls. It is suggested that among the former should be controls on imports of capital goods from the sterling areas and controls on capital issues; controls on import of capital goods from the dollar areas should continue on the basis of priority for the equipment required by developmental government activity and by consumption industries. Controls on the imports of consumer goods should generally be relaxed subject to the grant of bounties to selected domestic industries otherwise likely to suffer from such imports. Controls on dollar exchange should continue, subject to the transfer of our dollars from the Empire Pool to the Reserve Bank and subject to their not precluding private individuals from arranging for their own dollar credits. In general, dollars should not be made available by Government to importers of consumer goods except in special cases. Controls on the distribution of essential materials to industry must continue as supplies are inadequate, but priority must be given to the consumption goods industries in the immediate transition period. Controls on movement should go as soon as transport facilities become adequate to meet the demands made on them, and this should not take more than a year to 15 months. Controls on prices and profit margins of imported as well as

indigenous finished goods should continue as long as they are in short supply, but the prices and profit margins should be determined by an impartial body of experts holding public hearings and publishing their findings. Subject to the same conditions, textile controls should also continue with the addition that cloth rationing must take more realistic account of the actual distribution of demand between coarse cloth and fine and avoid giving rise to black markets in fine cloth coupons. Finally, the whole policy behind such controls as are continued should become expansionist, instead of restrictionist, priority being given to the expansion of the consumption goods industries in the immediate transition period.

Disposals of surplus stores, and Tax-Reliefs to Industry-

A correct policy regarding disposals of Government surplus stores and of taxation can go a long way in stimulating industrial activity and employment in the transition period and increasing the output available for civil consumption. The measures necessary for this purpose are;

(1) There should be the greatest possible publicity in regard to different classes of surplus stores and storage, the methods of their utilisation or conversion, and the utmost despatch in making them available for the public.

(2) The organisation set up for disposals should enjoy complete public confidence and could, with advantage, include non-official representation.

(3) Exhibitions should be arranged of scrap and salvage material together with sample articles into which they could be converted and special facilities offered to the small man for acquiring them.

(4) Surplus stores of consumption goods should be disposed of as speedily as possible, thus helping to bring down costs of living and give relief to the consumer; at the same time, suitable assistance by way of temporary bounties or otherwise should be given to domestic industries whose profits are likely to be

adversely affected by such disposal, provided that these profits are not unreasonably high.

(5) Suitable arrangements should be made for India to get a legitimate share of the surplus stores of the U. K. and U. S. A. Governments by setting up purchasing missions at the headquarters of their Disposals Boards and working in close conjunction with Indian industrial interests.

(6) The most liberal possible deductions should be allowed from taxable income of the funds spent by industrial concerns on repairs, replacement, extension and expansion of their equipment. Together with this, depreciation and obsolescence allowances should be stepped up for the future.

(7) A clear distinction should be drawn between profits distributed as dividends and profits utilised for expansion of industry and the rate of taxation on the latter should be substantially lower than on the former.

(8) The tariff schedule on imports should be examined item by item to determine which of the items constitute a part of the productive process either in agriculture or industry and therefore of domestic costs of production; and the import duties on such items like semi-finished goods, equipment, non-competitive raw materials, etc. should be substantially reduced, even abolished in essential cases.

(9) No change is necessary at the moment in the excise on consumption goods from the stand-point of stimulating industrial activity in the transition period.

Towards a planned economy in post-war India,—The war has left a legacy which will take some time for the country either to recover from or to make productive use of, for the post-war period. A transition period is therefore required during which a planned attempt can be made to effect as smooth a transition as possible from war economy to peace economy and at the same time retain all the increase in productivity which the war has brought about and stimulate the utilisation of all

the potential productive activity which the war economy has brought into existence. This objective will involve a planned policy of public expenditure and employment together with a positive policy towards the expansion of private enterprise and activity. These measures can be utilised not merely to smoothen the transition but also to function as a prelude and a successful preliminary to the inauguration of planned economy in India. With this end in view, public expenditure should take the form of an increase in the country's productive equipment in the realm of public capital goods and an expansion in the country's supply of skilled and trained labour together with an improvement in its efficiency. Public policy should be also devoted to an encouragement of such private economic activity as would lead to the same result, viz., increase of equipment and improvement in efficiency, in the private economic sector as well. In particular, emphasis is necessary in the transition period on increasing the domestic supplies of consumption goods and services, with a view to providing the country with the reserve with which alone it would be in a position to face, without undue distress, a further period of 'tightening the belt' inevitable in the initial stages of planned economy. It would also be desirable to utilise the transition period for undertaking all the work which entails so much time but which is a necessary preliminary to the inauguration of planned economy in the realms of legislation, organisation of producers, traders and consumers, surveys of resources and setting up of the administrative machinery, required for planning. Incidentally, the transition period will also give us the necessary time within which the basic political and international issues fundamental to Indian planning such as the constitution of the Indian State, the autonomy it will enjoy in respect of international relations and the facilities it will get in respect of import of capital goods, and the relations between the centre and the provinces, will all be resolved.

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