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N O T E

The following pages deal with the effects on the Indian economy of the Union Budget for 1969-70. They comprise two pre-budget articles which appeared in the Hindustan Times of 24 and 25 February 1969; and two post-budget articles which appeared in The Times of India of 13 and 14 March 1969. Some minor changes have been made in the published version and a table of statistics (page 16) has been added.

2. The following conclusions emerge from the discussion:

1. The assumption of the budget speech of 28 February 1969 that the Indian economy is probably moving out of the woods seems to be unrealistic.

When about Rs.1,445 crores worth of agricultural output (at 1960-61 prices) was added to the stream of the Indian national product by the weather gods in 1967-68, thereby lifting up the Indian national income by about 8.5 per cent, many good things must follow.

Our analysis indicates that the prospects of a continued uptrend in agricultural production being uncertain, the signs of economic revival may not survive for long.

2. Under the pressure of printing press finance provided for in the budget for 1969-70, a resumption of the rise in the general index of prices is more than likely. Inflationary finance may also eat into the rise in exports.

3. The Indian economy has been harassed by three major functional ailments: social injustice, capital consumption and capital misdirection. They have been eroding economic and social progress since about 1954-55 and have gathered force since 1960-61.

4. Capital consumption is the result of the colossal income transfers, of over one-half of the annual increases in Indian national income, from the masses to a thin top layer of a monied minority.

5. These income shifts have also produced social injustice, which is assuming explosive dimensions; this is the biggest single problem confronting the Indian economy to-day and is really behind the social and political instabilities, now stalking the land.

6. Capital misdirection has resulted from our policies of indiscriminate industrialisation, regardless of the cost and quality of the output. Production costs in India of the import substitutes

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are generally 75-100 per cent more than the import goods concerned. This is unconcionable waste for a poor country. Indian made agricultural inputs may be 50-100 per cent more costly than the imported varieties, which impinges very harshly on Indian farmers.

7. The budget for 1969-70 may well aggravate, not correct, the maladies of social injustice, capital consumption and capital misdirection, taking the economy down the inclined plane further. Basic policy changes alone may place the country along the right road to progress.

B. R. Shenoy

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BUDGET FOR 1969-70

I. Indian Economic Sickness

Post-independence budgets were not common-man oriented, though official spokesmen may like to proclaim them as such. Like the policy measures on which they were based, they fostered fundamentally unstable sectoral growth, to the detriment of overall economic development, and have impinged very harshly on the under-privileged masses. The electoral mishaps of the Congress and the no less spectacular successes of the Marxist dominated United Front in Bengal, in the mid-term poll, are one more red signal of the disaster we are heading for if we still persist in our misguided policies of the past 1½ decades. These policies would seem to be taking us along the road that China went.

2. The serious condition of the national economy demands drastic fiscal and monetary reforms. The budget for 1969-70 is an opportune occasion for adopting these reforms. If, on the other hand, following the line of least resistence, the Finance Minister presented yet another budget based on the old policy measures -- providing for more consumption expenditures, more taxation, more investment in extravagant and nearly no-return projects, and more interference in the economic life of the people, with sops to some pressure groups and tinkering with disease symptoms -- we may slip down the inclined plane further, adding to the risks of the demise of democracy.

3. From a close look at the relevant economic indicators we find that the Indian economy is harassed by three major functional ailments: social injustice, capital consumption and capital misdirection. They have been eroding progress since about 1954-55; and have gathered force since 1960-61.

II. Capital Consumption

4. Capital consumption has resulted, first, from the consumption expenditures of the public rising faster than production and income; and, secondly, from the almost vertical rise in the consumption expenditures of the Centre and the States, the mounting bonfire of this consumption being fed by the potential savings of the people, gathered through the inordinately high tax levies.

This paper appeared as two articles in the Hindustan Times, New Delhi, in the issues dated 24 and 25 February 1969.

5. The evidence of capital consumption is in the decline in the rate of saving from 8.3 per cent of the national income in 1965-66 to 6.7 per cent in 1966-67 and to 5.6 per cent in 1967-68. As savings are the raw material for capital formation and as the expansion of production rests on the pace of capital formation, clearly, the economy must decay when savings decline. This decay is visible in the statistics of the Indian national product. Capital consumption having reduced the overall average capital equipment per worker, output per worker declined; consequently, from 1960-61, the expansion of the national product barely kept pace with the expansion of population and per capita incbme remained semi-'stagnant. During the two years ending 1966-67, per capita income declined.

6. The spurts in national income in 1964-65 and again in 1967-68 do not reflect any increase in capital formation; nor, as India's planners may wish to claim, a better management of the nation's economic affairs, in these two years, They are largely a gift of the gods, being the result of the timely and good monsoons. So long as the prevailing policies and the consequential capital consumption, continued, any sustained increase in per capita income is apt to be a forlorn hope.

7. The consumption expenditures of the public have remained ahead of production and income -- one of the two causes, cited above, of capital consumption -- mainly as a result, of income transfers, from the already indigent masses to a thin top layer of the monted minority. These income transfers have ensued principally from import licensing, inflationary finance of budget deficits and undue economic controls. This phenomenon of income transfers, together with its economic and social effects, constitute perhaps the biggest single set of problems confronting the Indian economy to-day and merits closer attention than it has received.

8. The mechanics of the income transfers through import licences; which the present writer has dealt with so frequently, is by now familiar. As the combined result ef domestic inflation and of the physical restrictions on imports, the rupee prices of import goods in India are

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generally sky-high in relation to the international prices of these goods. Consequently, imports may bring windfall profits and, because of these windfalls, import licences nay command incredible values. The aggregate market worth of these paper documents, relating to public and private sector imports (but excluding food imports), may be 75-100 per cent of the values of the imports they authorise, or of an order of Rs.950 crores, annually.

9. These amounts accrue, each year, to the recepients of the licences. Rut they are not incomes earned by them. The mere act of receiving (or issuing) import licences adds nothing to the stream of the national product. When the licensees appropriate from this stream the values of the licences, quite obviously, they acquire incomes earned by the rest of the community and to which they have neither economic nor moral title.

10. Parasitical income transfers have been taking place also through inflation and economic controls. Income shifts through inflation, and the mechanics of these income shifts, are common knowledge; and the annual average income shifts through inflation, since 1960-61, may be about Rs.350 crores, the annual average budget deficit of the period. Controls cause income transfers through depressing prices below their competitive norms; or lifting them above these norms. Controls effect income transfers also through corrupt payments, which they give rise to. It is not possible to guess the order of magnitude of the income shifts through economic controls.

11. The total income transfers from the three heads may be of an order of Rs.1,300 crores, or over one-half of the annual increases in Indian national income since 1963-64. These income transfers have produced a double damage. They have retarded economic growth and have inflicted untold social injustice.

12. The retardation of economic growth has ensued via the impact of these income transfers on national savings and investment. When some of A's income is unjustly transferred to B, the total income of A would be subjected to two con-

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earner of the income, and an illegitimate claim of B, the recepient of the shifted part of A's income. When two parties live off the same income, the flow of savings (and investment) from the income inevitably suffers. The magnitude of this damage to savings is large enough to appear in the statistics of savings, which we have quoted above.

III. Social Injustice

13. The social injustice of the income transfers is obvious. When the bulk of the annual expansions of the national income are appropriated by an affluent minority, the balance left would be, clearly, less than sufficient to maintain undiminished the level of consumption of the growing numbers of the masses. In a context of semi-stagnant per capita income, such colossal income transfers must necessarily cause hardships on a wide social front.

14. These income transfers have been responsible for the withered prosperity of much of the salaried middle classes, and for tens of thousands of the already indigent families being pushed, each year, towards or below the bread line. On the other hand, they have brought, as is visible even to the naked eye, unforeseen and unmerited abundance to a monied minority. Consumption statistics confirm these developments. The consumption of cloth, foodgrains, edible oils and sugar, all of which are already sub-standard, have been fluctuating downward since about 1961. On the other hand, the consumptin of art-silk fabrics, the registeration of motor cars, the purchases of refrigerators and air-conditioners -- all of which are beyond the reach of the masses -- have risen from about twice to about four times since 1954-55.

15. This social injustice is really behind the growing tensions and political instabilities now stalking the land. The Communist and other political parties are but taking advantage of the inner human unrest, which the income transfers have produced. Though already late, it may be still possible to stop the rot and retrieve the situation, if we are prepared for basic policy changes.

IV. Inordinate Taxation

16. Capital consumption from the steep rise in the consumption expenditures of the Centre and the States is easily indicated. These expenditures rose from Rs.930 crores

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in 1954-55 to Rs.4,930 crores in 1967-68, or from 10 per cent to 18 per cent of Indian national income; and, to finance these expenditures, the tax and non-tax revenues went up correspondingly.

17. Revenues shift incomes from the pockets of the people into the coffers of the state. If some of these revenues had been left in the pockets of the people -- i.e., if the consumption expenditures of the state had not risen so steeply -- the incomes of the people, after tax, would have been correspondingly higher; and a part of. the larger incomes ,might have been added to savings. The very rich might add to savings close on 100 per cent of the tax relief; and the poorer tax payers, relatively smaller sums. Rut every tax relief will augment national savings and, therefore, capital formation and economic development. When these incomes are acquired by the state, the addition to national savings would be zero, as the whole of the revenues would be burnt into consumption.

18. This was the logic behind President Kennedy's budget for 1963-64, providing for tax reductions of $10 billion in three years, to speed up the expansion of the national product and to reduce unemployment and unused production capacities. In a context of declining national savings, low national product, chronic unemployment and under-employment, and the uncertain prospects of foreign aid, the urgency for tax reductions in India cannot be over-stated. Possibly, every reduction of Rs.100 crores in revenues my add to national'savings an order of Rs.30 crores.

V. Capital Misdirection

19. Capital consumption is a bad enough malady. Capital misdirection, in the context of falling savings, has rendered the situation doubly dangerous. Capital misdirection has ensued from drastic import restrictions and the policies of indiscriminate import substitution.

20. We like to state, with some pride, that, in order to "save" foreign exchange, we have cut down imports severely; that the import of consumer goods,, now almost wholly food, represent 'nut about 26 per cent of total

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imports; and that virtually the whole of the balance, 74 per csnt of total imports, are capital goods, raw materials, accessories and other intermediate products.

21. Contrary to popular belief, it is not as if, by restricting luxury imports, we may add to national savings; and by restricting imports in general, we may hasten economic development. By these measures, we merely cause these goods to be manufactured on this side of the Indian frontier, instead of acquiring them through imports.

22. The result has been most unfortunate. Our p oduction costs are, on an average, about 75-100 per cent more than the costs of the corresponding products manufactured abroad; i.e., with the same investment reso rces, we could get 75-100 per cent more of goods through imports than through manufacturing them in India. This is un-concionahle waste for what is about the poorest country in the world.

23. If Indian farmers could get their agricultural inputs through imports, for the same investment fun!?~, they could have, for instance, two pumping sets, for irrigation,' in place of only one; about 50 per cent more of fertilizers; about twice the quantity of pesticide chemicals; and nearly two pesticide spray pumps in place of only one. To this price difference must be added the costs of the higher consumption of fuel, more frequent break-downs and repairs, and the smaller life span, in the case of the Indian products.

24. The impact of import liberalisation on agricultural production might be impressive, as a unit of fertilizers is estimated to add 4.2 units to the output of rice, 5.8 units to the output of wheat and, as much as, 18.5 units to the output of sugarcane and 39.7 units to the output of potatoes. The corresponding response, in terms of value, in respect to the use of pesticides, may vary from 6 times to 40 times. As about one-half cf the Indian national product is from agriculture, about 70 per cent of the population lives on it, and as about 67 per cent of agri-cultural production is foodgrains, the spurt in agricultural production from' import liberalisation might, in addition to stepping up the national income, wipe out altogether India's food deficits.

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VI. Budget Reforms

25. The foregoing diagnosis indicates that the first and foremost budget reform should be to put a stop to printing press finance of budget deficits. Its importance arises not only from the social injustice and the erosion of savings, which inflation produces; if inflation is not abandoned, there is little hope of overcoming the chronic balance of payment difficulties. The link between the two -- inflation and balance of payments difficulties -- is still not recognised by policy makers in India, though this link is easily discerned. Inflationary money incomes, ensuing from budget deficits, flow into the market and appropriate, for domestic consumption or investment, equivalent goods from the national product. This correspondingly reduces the goods available for export; and exports suffer. The decline in exports from 6.2 per cent of the Indian national product in 1954-55 to 4.8 per cent in 1966-67; and the drop in the values of exports, at constant (1957-58) prices, from Rs.6,640 crores in 1954-55 to Rs.5,766 crores in 1966-67 is statistical evidence of the impact of inflation on exports.

26. The next step in budget reform should be to reduce revenues and consumption expenditures, so that the budgetary balance, once attained, is maintained., and at progressively lower levels of taxation. The prevailing quest of government experts for fresh heads of taxation or for stepping up existing tax rates should yield place to a reverse quest for heads for tax relief or tax abolition; so that national savings and economic development may grow.

27. Public sector undertakings appropriate, each year, about 70 per cent of Indian national savings and foreign aid. While the industrial sector is able to acquire its due share of resources from the balance of 30 per cent, agriculture is starved of capital. Capital starvation of agriculture was revealed in two surveys conducted by the Reserve Bank and is reflected in the fantastic interest rates, which may vary from 25 per cent to 50 per cent, on farm loans. It may be also seen in the virtual stagnation of agricultural production since 1960-61.

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28. We seem to be banking on a green revolution for redeeming the Indian economy from the mess we are in. While the spectacular potentialities of the high yielding varieties of seeds, of fertilizers and of pest control are not doubted, there is little hope of a green revolution if the public sector appropriations of investment resources arc not scaled down drastically, so that agriculture may get its due share of capital. Our analysis indicates that, if the prevailing economic policies and the 70:30 ratio of resource distribution between the public and private sectors continue, a red revolution may come sooher than a green one.

29. Threfore, as a third step in budget reform, any overall increase in capital investment in the public sector must be, first, resisted; and existing public sector undertakings must he progressively denationalised, through sales to private hands. This may permit, among other things, more economic and fruitful management of these undertakings. The proceeds of the sales of public sector undertakings may be utilised for debt redemption.

30. The foregoing budget reforms may boost the economy sufficiently to permit import liberalisation and the eventual abolition of import licensing, the worst among the economic controls deviced by man.

VII. Auction Import Licences

[illegible] the abolition of import licensing, these licences, [illegible] of being issued free of cost, may be sold by auction, at their market worth. This may yield for the budget incredible amounts, which, to-day, are dissipated in private hands. Our estimate of the aggregate value of the import licences indicates that these yields might, after wiping out the budget deficit, permit considerable debt reduction.

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VIII. Undue Optimism of the Budget Speech*

32, The budget for 1969-70 was an opportune occasion for adopting certain major fiscal and monetary reforms which the serious state af the national economy calls for. But the budget speech indicates that official thinking on the subject is on another plane; and the budget proposals are in line with this thinking.

33. The budget speech assumes that the Indian economic scene is no longer a matter for grave concern.' It dwells hopefully on the "new dynamism in agriculture", the revival in "transport activity and trade", the "distinct signs of industrial revival", the "remarkable increase in exports", the halt in the depletion of our foreign exchange reserves, the "restoration of price stability" and the "renewed interest in the equity market on the part of genuine investors". The budget speech seems to suggest that these developments constitute mutually corroborative evidence that the Indian economy is, probably, moving out of the woods. The Finance Minister views the years ahead "with a measure of confidence."

34. This assessment of the Indian economic scene seems to be receiving growing support. But a close look at the relevant economic indicators yields another story. Official rural surveys have revealed decay in the capital base of our farms, including implements, circulating real capital, farm equipment and farm buildings. Fantastic interest rates in other production sectors -- inordinately high though the latter are -- bespeak of the serious hurdles which exist in the way of the free flow of investment funds into the market for farm loans from the capital and credit markets. Capital equipment per agricultural worker having declined as a consequence, output per worker declined too. This is reflected in the statistics of agricultural production. Though the working population on our farms has been increasing at an annual rate of over 2 per cent, the index of agricultural production has stagnated around 140 (1949-50=100) from 1961, as the end result, and also the crowning evidence, of the deterioration of the capital equipment of farms,

* Appeared as two articles in The Times of India, Bombay-Ahmedabad-New Delhi, on 13 and 14 March 1969.

35. In such a background, it is somewhat odd to talk enthusiastically, as we frequently do, of a green revolution being round the corner. The spurt in agricultural production, in 1967-68, by 23 per cent over the preceding year is no refutation of this assessment. Short-lived spurts in production are characteristic of the agricultural industry. We have had such spurts in 1964-65, in 1958-59 and several other times in the past. But, being gifts of the rain gods, they cannot be properly described as constituting a new dynamism in agriculture. To recognise such dynamism, capital formation on Indian farms, as distinguished from capital formation on mammoth river valley and such other projects, must keep moving up.

36. The spectacular production potentialities of the high-yielding varieties of seeds, fertilisers, pest control, weedicides, modern implements and better irrigation, which have been demonstrated not only on the experimental farms of the government but also by the more progressive farmers are, doubtless, a heart warming development. If the use of the new agricultural technology could progress at a rapid enough pace, we may well have a major economic boom and the host of economic ills, which have been harassing us during the past about two decades, may become memories of the past.

37. But the discovery of technological innovations and their general use on the farms are two different things. The discovery of electricity and the invention of the electric bulb did not solve the lighting problem of Indian villages. Many a hurdle has to be overcome before this problem may be solved. The spread of the use of the new technology on our farms calls for not only the relative know-how -- which the Indian farmers may absorb faster than many had thought -- but much more credit and capital than the old agricultural methods require. Shortage of credit is perhaps the biggest bottle-neck which prevents our farmers from producing a green revolution. Mainly because of this bottle-neck, the use of the new technology is still regional and individual, not universal.

IX. Public Sector Appropriations of National Savings

38. Progress in the spread of this technology will be slow so long as the public sector continues to appropriate as much as 70 per cent of the total available investment resources, the sum of domestic savings and foreign aid. From the balance of 30

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per cent, industry, transport and 'communications in the private sector have been able" to obtain their due share of capital, as the institutional arrangements in the capital market are traditionally attuned to meet their needs, Agriculture, which is without an organised lobby in the capital market (as in politics), has had less than a fair deal, though latterly it has been the subject of much sympathy from many quarters. Other things remaining unchanged, if farmers must get their due share of investment funds, public sector investments must be scaled dawn drastically. Without this essential first step, whatever else we may do, there will not be sufficient savings left to flow into the hands of farmers.

39. The budget for 1969-70 does not improve matters in this regard. It continues to appropriate for the public sector the lion's share of investment resources. The capital account disbursements of the year are placed at Rs.4,980 crcres as against Rs.4,806 crores in 1968-69 and Rs.4,512 crores in 1967-68. With national savings on the decline, an increase in the official appropriations of these savings is not calculated to release more funds for farm loans,

X. Fortuitous Spurts in Agricultural Production, Price Stability and Rise in Exports

40. Much of the signs of economic improvement cited in the budget speech are largely by-products of the fortuitous spurt in agricultural production. When about Rs 1,445 crores worth of agricultural output (at 1960-61 prices) was added to the stream of the Indian national product by the weather gods in 1967-68, thereby lifting up Indian national income by about 8.5 per cent, many good things must follow. The movement of the additional output to the urban areas, to factories and to sea-ports will revive trade and transport activity.

41. Price stability in 1967-68 is also mainly attributable, to the same factor. National income having risen by 8.5 per cent and money supply by 8.1 per cent, the general index of prices remained steady. It fell by but two points to 201 (1952-53=100) during the year. As this price stability is not the result of any fiscal and monetary discipline,

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it may not last for long. The budget proposals of Last February provide for printing press finance of Rs.250 crores plus the amount of the long-term government debt which the banking system may acquire during the year. Already, as at the middle of February 1969, the prices of industrial raw materials have almost recovered their loss in 1967-68 and after; and the prices of manufactures and of the other commodity groups have moved up significantly from the levels they had fallen to at the close of March 1968. A renewal of the rise in the general index of prices is more than likely under the pressure of the inflation provided for in 1969-70.

42. The spurt in agricultural production may also explain the increase in exports in 1967-68, though the devaluation of the rupee might claim a share of the credit, Other things remaining unchanged, any appreciable increase in the national product is apt to increase the goods available for export; even as any appreciable decrease in the national product might produce the opposite effect on exports. Agricultural production having gone up by 22.6 per cent in 1967-68, exports (expressed in U.S.$) rose, during the year, by 16 per cent. In 1966-67 exports fell by 22.5 per cent as a result of the low level of agricultural production during the year, the outcome of two years of drought.

XI. Recovery in Equity Prices

43. The all-India index of industrial share prices, after reaching a peak of 100 in 1961-62, slipped down an inclined plane, touching an all-time low of 73.2 (1961-62=100) on 10 February 1968. Thereafter, it rose steadily and continually. In about twelve months, ending on 28 February 1969, the budget day, this rise piled up to about 24 per cent The budget for 1969-70 has stimulated this uptrend. During the week ending 5 March 1969, the Economic Times index of share prices moved up by over 2 points.

44. The capital market being the heart of a modern economy, the state of activity on this market is traditionally recognised as a dependable index of the state of the national economy. When national prosperity is strong based, as evidenced by the rising curve of production and income and a high or rising rate of saving, it will manifest in a two

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dimensional development on the capital market: rising equity prices and an ever-growing volume of business in capital issues and in the turnover of past issues. Both aspects of the phenomenrn -- rising equity prices and growing stock exchange business -- will be in evidence, when national prosperity is well founded.

45. Thus, from 1954 to 1961, the national income of U.S.A. rose by 42 per cent and US national savings remained at about 17-18 per cent. This produced a jump of $2\frac{1}{3}$ times in equity prices; and the outstanding amounts of the "common" stock (ordinary shares) of corporations rose by 42 per cent. Whilst production and savings kept marching forward, this two dimensional phenomenon has been repeated in country after country.

46. The rise in share prices in I'ndia during the past about nne year does not belong to this category. It does not reflect any basic revival of the national economy. This is evidenced by the continued downtrend in fresh capital issues from the peak of Rs.108 crores reached in 1962-63 to Es.85 crores in 1967-68, the year of the bumper harvest, and to Rs.56 crores in 1968-69, or about one-half of the peak. If the Indian economy was truly reviving, the rise in share prices would have been accompanied by an expansion of capital issues. The downtrend in capitai issues indicates that the uptrend in share prices does not reflect economic growth; this uptrend is not sustained by any rise in national savings.

47. A look at the capital market experience of the past few years helps to bring this out. The boom on. the 'stock market from 1953-54 to 1961-62 was the more' usual two dimensional one, Industrial production nearly doubled during the period and national savings rose from about 5 per cent to over 8 per cent. As a result, not only the index of industrial equity prices almost doubled; fresh issues of capital rose from Rs.68 crores in 1957-58 to Rs.108 crores in 1962-63. The slump in share market activity and in' equity prices, which followed, ensued from the working of three factors.

48. First, the rate of saving in India, after reaching a peak of about 8.5 per cent in 1960-61, tended downward. It 'declined noticeably to' 6.7 per cent in 1966-67 and to

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5.6 per cent in 1967-68. Though comparable data for 1968-69 are not yet available, the Annual Plan, 1968-69, states that the rate of saving in 1968-69 may be lower than in 1967-68. As finance for capital issues is drawn from national savings, a drop in savings dampens stock market activity.

49. Secondly, crushing company taxation, coming on top of the decline in savings, added to the woes of the capital market. This taxation, already high, climbed further upward from 1957-58 and reached a peak of over 80 per cent of profits (before tax) in 1963-64. It has declined noticeably since and has been marginally stepped down in the budget proposals of last February. But taxes may still amount to 54.7 per cent of profits (before tax) in 1969-70, in the case of certain "specified priority industries"; or, under certain circumstances, 60 per cent. To be able to declare a dividend of 15 per cent, a company may have to earn gross profits of about 32 per cent; or, under certain circumstances, well over 32 per cent.

50. Thirdly, to escape company taxation, both savers and companies have by-passed the capital market through the device of savings being held as fixed deposits with companies. Fixed deposits enable companies to obtain their resource needs at lesser cost to profits than if they collected these resources through fresh issues of equities; and fixed deposits protect savers against capital losses from slumps in share values. The preference of savers for fixed deposits with companies is evidenced in the rise in these deposits from Rs.97.5 crores in 1961-62 to Rs.228.5 crores in 1965-66. Figures for later years are not yet available.

51. The initial leverage for the recovery in share prices, in February 1968, would seem to have come from the budget proposals of last year, which abolished the tax of 7.5 per cent on dividends in excess of 10 per cent. This recovery was designedly assisted by the reduction in the Bank Rate by one per cent to five per cent, on 2 March 1968. But the main sustenance of the recovery stemmed from the fortuitous addition of Rs.2,620 crores of agricultural output (at current prices) to the stream of the national product by 8.5 per cent, was probably larger than in 1967-68. The increase in the quantum of savings gave an upward push to share prices.

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52. Certain general and sectoral tax concessions in the budget proposals for 1969-70 would seem to have stimulated the recovery in share prices.' The surtax on company profits has been reduced from 35 to 25 per cent; the tax exemption limit, on dividend incomes has been raised from Rs.500 to Rs.1,000; the "tax holiday", on new industries has been extended upto 31 March 1976; the development rebate continues: and this rebate has been extended to cotton and jute industries, in order to encourage the modernisation of their machinery and equipment.

XII. Erosion of Savings

54. As the spurt in agricultural production is weather based, not rooted in the economic development of agriculture, the share market revival, which seems to rest mainly on this spurt in production, lacks long term prospects. These prospects may not be very bright, also because the budget for 1969-70 may further erode, not add to, national savings, as it steps up tha consumption expenditures of the government by Rs.263 crores, or; faster than the possible pace of increase in Indian national income; and provides for unduly high printing press finance. The erosion of savings from increased consumption is obvious. The erosion of savings from printing press finance ensues from the increase in consumption~which such finance gives rise to, without adding to production and income, correspondingly.

55. The contemplated printing press finance in 1969-70 may be much larger than Rs.250 crores, the "overall deficit" of the budget, statements. This deficit takes note of only the amounts of the net increase in treasury bills, (which is, almost wholly, taken up by the Reserve Bank) and the variations in the cash balances of the Government. For some unknown reason, the long-term debt acquired by the Reserve Bank is not included in the overall deficit, though, in a past budget speech, the Finance Minister had accepted that long-term debt, even like treasury bills, sold to the Bank constituted deficit financing. As may be seen from the following table, the purchases of long-term debt by the banking system averaged Rs.123.6 crores during the eight years ending 1966-67, 'for which firm figures are available:

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Union Budget Deficits

Year	Changes in Cash Balan-ces (Increase -)	Receipts from Treasury Bills	Increase in Long-term Debt of Central Government with Banks	Budget Deficit (1+2+3)
	1	2	3	4
1959-60	- 34.8	72.3	232.1	269.6
1960-61	24.5	49.0	101.5	175.0
1961-62	- 4.2	68.7	110.9	175.4
1962-63	- 18.4	124.6	110.4	216.6
1963-64	9.5	82.4	190.0	281.9
1964-65	60.3	61.6	104.7	226.6
1965-66	- 45.5	168.3	139.5	262.3
1966-67	- 62.4	307.7	90.5	335.8
1967-68	41.4	164.9(1)	64.3*	270.6
1968-69 R.E.	13.7	246.0(1)	50.0*	309.7

(1) Including *ad hoc* Treasury Bills of Rs.75.00 crores. See, *Explanatory Memorandum on the Budget of the Central Government, Part I, for 1969-70*, p.10 n.

* Estimates.

56. It is important to note that, from 1962-63, equity prices in India ceased to reflect the state of inflation and a growing lag developed between the general index of prices and the index of equity prices. Currently, the general index of prices is, reflecting the state of inflation, 67 points higher than in 1961-62; the index of equity prices, on the other hand, is below the 1961-62 level by about 12 points despite the recovery in it of the past one year. This lag in the equity prices index by 79 points is artificial and abnormal; it is mainly an outcome of ruthless company taxation. Continued relief in this taxation may cause share prices to climb back to their natural parity with the rest of the price structure in the economy. Such share price recoveries must be distinguished from the development-based upward movements in share prices,

57. The favourable developments -- revival of trade and transport activity, price stability, rise in export earnings and recovery in equity prices -- to which the Finance Minister has invited attention in the budget speech, are, so to speak, laboratory demonstrations of the pivotal role of agriculture in the Indian economy; and of the leverage to economic acti-

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-vity, which an increase in agricultural production might bring. Our analysis indicates that the prospects of a continued uptrend in agricultural production being uncertain, the signs of economic revival may not survive for long.

58. The budget for 1969-70 does not show any departure from the policy thinking of the past about 1½ decades. It is yet another budget of the now familiar series providing for more consumption expenditures, more taxation, more investment in extravagant and no-return public sector projects -- a special Memorandum on Public Sector Enterprises, issued with budget papers, states that, in 1967-68, on a total investment of Rs.3,500 crores in 80 industrial and commercial enterprises, the tax payer, far from receiving any returns, suffered a net loss of Rs.35 crores -- and more interference in the economic life of the people, with sops to certain pressure groups and tinkering with some disease symptoms, Nothing is better calculated to push the Indian economy down the inclined plane further. There is little hope of the economy being placed along the right road to progress without basic policy changes.

59. But the urge to change these policies may not be very compelling, as they are heavily under-written, financially, by foreign aid. In 1967-68, the budgetary resources of the Centre, Rs.240 crores represented but 19.4 per cent of the net Plan Outlay of the Centre (Rs.1,236 crores). The rest of this outlay (Rs.996 crores), 80.6 per cent of the total, was financed from foreign aid, In 1968-69, the Centre's own resources (Rs.509 crores) provided 36.8 per cent of the finance for its Plan Outlay (Rs.1,385 crores); foreign aid found the balance of 63.2 per cent (Rs.876 crores). The position in 1969-70 may be of a similar order, though aid amounts are not yet precise.

B. R. Shenoy

Economics Research Centre
D-390 Defence Colony
NEW DELHI-3

B.R.SHENOY
Director

University School of Social Sciences
Gujarat University
Ahmedabad-9

22 December 1964

Dear Professor Hayek,

Professor R.K.Amin of Sardar Vallabhbhai Vidyapeeth, a University in Gujarat State, has asked me to write to you regarding a free translation in Gujarati of the <u>ROAD TO SERFDOM</u> and the <u>CONSTITUTION OF LIBERTY</u>. The idea broadly is to put out your ideas in Gujarati as weekly articles in the <u>Lok Satta</u>, a daily Gujarati paper of Ahmedabad, on the more important issues covered by the two books, and later to ~~be~~ publish~~ed~~ the articles together with the translation of the remaining parts of the books, in book form. Financially the proposition is not attractive, as payments for the weekly articles are very meagre and the first edition of the books may not be more than 1000 copies each. But it would be worthwhile as an initial effort to publicise your thinking and analysis in an Indian language. The translation of the <u>CONSTITUTION OF LIBERTY</u> will have to be much smaller in size than the original text; it may be in fact a translation of selected topics. If you are agreeable to this in principle, Professor Amin asks me to request for an indication of your terms.

2. Professor Amin is a past student of mine and, though he is not fully committed to the free market philosophy, he should do a good job of free translation without damage to your analysis and view-point.

Wishing you a pleasant Christmas and a prosperous New Year,

Yours sincerely,

B R Shenoy

(B.R.SHENOY)

Professor F.A.Hayek
Volkswirtschaftliches Seminar
der Albert-Ludwigs Universtitat
Werthmannplatz 1
78 Freiburg im Breisgau
Germany

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der Albert-Ludwigs Universität

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Sender's name and address :—

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16 June 1970

Dear Professor Shenoy,

Your kind letter of the 3rd inst, has Been in my hands fox a little while, but the matter it raises required a little reflection. The new duties I have assumed here leave me free for February and I would like to use that time for a visit to India. But I must also treat this vacation as a sort of holiday. Though generally in good health, I am after all getting on in years and find that I easily tire and need a good deal of rest if I am to do good work. I would normally use February as a vacation and certainly want to go South, and in one sense change of environment and scenery is a vacation even if one has to do some work. But I am no longer up to a tight schedule of lectures and need lair comfort and periods of rest- in between. If on this understanding a trip to India could be arranged for February, I should be delighted. As I believe you know, my only experience of India so far are few days in Calcutta, detained involuntarily during the hottest season — not a very pleasant experience. I should very much like to see a little more of the country and if in the course of such a visit I am to give a few lectures on rather broad philosophical subjects end hold a number of discussions of a slightly more technical kind, and can use for this the subjects of the big hook on "Law, Legislation, and Liberty" which I have now nearly completed, I shall be glad to do so,

I shell probably be in Munich only for the first three days, but hope very much then to see you.

Professor B. R. Shenoy
DIRECTOR

Phone : 626863

Economics Research Centre
D-390 Defence Colony
New Delhi-3

3 June 1970

Dear Professor Hayek,

At the Caracas meeting of the Board of Directors of the Mont Pelerin Society, it was agreed that the Society would be glad to consider financing visits to India by overseas economists sponsored by the Economics Research Centre. When I met you later, you had kindly agreed to consider a trip to India, though not immediately. If you are agreeable to a visit in January, February or March 1971, we shall be glad to put up the proposals to the next meeting of the Board of Directors at Munich. The programme we would like to arrange would comprise lectures and seminars at University centres, at other educational institutions and also public lectures under the auspices of organizations arranging such lectures. In view of the vastness of the country, the visit may be for three to four weeks. We shall be glad to prepare a detailed programme after hearing from you.

Looking forward to seeing you in Munich,

Yours sincerely,

(B. R. Shenoy)

Professor Dr.F.A.(von) Hayek
Firmianstr.17 A
A 5020 SALZBURG
(Austria)

22/5/1969

Professor B. R. Shenoy
D-390 Defence Colony
New Delhi, 3

Dear Professor Shenoy,

this is briefly to acknowledge the receipt of your Note on the budget for 1969/70 and to say at the same time that since I have only recently returned from the United States there is also an earlier study of yours waiting to be acknowledged and read. And now I hope to have my affairs fairly soon in order so that I can turn to reading this and other material awaiting my attention.

With best regards
yours sincerely,

January 3rd 1965

Mr. B.R.Shenoy
University School of Social Sciences
Gujarat UniversityAHMEDABAD-9

Dear Mr. Shenoy,

Thank you for your letter of December 9th. I am delighted by the prospect that The Road to Serfdom and The Constitution of Liberty may become available in Guajarati and very glad to give Professor R.K.Amin permission to proceed. I do not expect to derive any financial gain unless the final book edition makes a profit (which is unlikely) and am ready to accept whatever share in such net profits seem equitable to you. I should perhaps mention that about 1947 I had given permission to a Mr.Lalchand Hirachana in Construction House, Bombay 1, for a translation of The Redd to Serfdom into Marathi, but was informed in 1951 that the plans had been abandoned.

If you have not yet Sear about it you may be interested that in about two weeks I shall probably be giving a lecture in London to an "Old Whig Society" which I understand your daughter has created there at the London School of Economics. I shall be going there for a public lecture at L.S.E. and have just consented to give that second lecture in reply to an indirect approach. But I am at any rata looking forward to meeting you daughter on that occasion.

With all the best wishes for the new year and the most cordial regards,

Sincerely yours,

Professor B. R. Shenoy
DIRECTOR

Phone : 626863

Economics Research Centre
D-390 Defence Colony
New Delhi-3

3 August 1970

Dear Professor Hayek,

I regret this delay in replying to your letter of 16 June. I wish to thank you most sincerely for your kindness in agreeing to consider a visit to **India** in February 1971. I have written to Mr.Ralph Harris regarding this requesting him to place this item before the Board of Directors. I am looking forward to have a chance of meeting you in Munich.

With best regards,

Yours sincerely,

B.R.Shenoy

(B. R. Shenoy)

Professor F.A.Hayek
Firmianstrasse 17A
A5020 SALZBURG (Austria)

Professor B. R. Shenoy
DIRECTOR

Phone : 626863

Economics Research Centre
D-390 Defence Colony
New Delhi-3

4 January 1971

Dear Professor Hayek,

May I invite reference to our correspondence resting with my letter to you dated 3 August 1970 regarding the idea of your visit to India? In terms of the Caracas decision, this was placed, on my request, before the Board meeting in Munich. I was not present as I was in a nursing home, where I had to remain for two months. Mr.Ralph Harris has written to me to say that the Society's funds are rather meagre and that it has been decided that I should make a special request to the Relm Foundation for the requisite finance,

2, I delayed writing to the Relm Foundation, among other reasons, because there were serious talks of a mid-term election, The Parliament has since been dissolved and we are now facing what may turn out to be the most critical election as the party in office has extreme leftist bias bordering on Communism. Elections are scheduled to be held in the first week of March. Because of the crucial nature of the elections, electioneering time may not be appropriate for organising meetings to be addressed by you; and with the coming of the hot season, you may not like the visit to be scheduled after March,

3. May I take the liberty to suggest, therefore, that the visit may be deferred until the next winter months? This will also give us enough time to arrange for finance by the Relm Foundation.

4. This has been a matter of great disappointment to many of us who have been looking forward to your visit.

With best regards,

Yours sincerely,

(B. R. Shenoy)

Professor F. A, Hayek
Firmianstrasse 17A
A5020 SALZRURG (Austria)

F. A. Hayek
A-5020 Salzburg
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13 Hanuary 1971

Professor B.R.Shenoy
Economics Research Centre
Exxxk D-390 Defence Colony
New Delhi-3

Dear Professor Shenoy,

Thank you fox. your letter of the 4th inst. It was as well that we did not plan a visit of mine to India for this winter, as during the past few month my health has not been such that I could have undertaken it. I am slowly recovering and perhaps the position will be more favourable next winter. At any rate, them is no choice but to defer the plan until then.

I hope you have fully recovered from your illness. With all. the best wishes and kind regards,

Yours sincerely,

F.A.Hayek

With the compliments of

Professor B. R. Shenoy

Director, Economics Research Centre

KINDLY ACKNOWLEDGE RECEIPT.

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