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Mohamed and Mountain

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BOMBAY is the industrial heart of India, it is also the most active financial centre of the country. It is only natural that the Finance Minister must descend down to Bombay to renew his contacts with big business. That is how it always happens. Always, the Prophet goes down to the Mountain, if the Mountain is unwilling to approach the Prophet. For a couple of years now, big business has shown unwillingness to be coerced or cajoled by New Delhi. Hence New Delhi's fresh effort to win over Bombay.

To be successful, a Finance Minister must have the patience of Job. Dr. John Matthai came to Bombay to give pep talks to the business community. He was not given much opportunity to say what he came to say. Instead, the business community harassed the Finance Minister to a series of lengthy curtain-lectures. If Dr. Matthai's evasive and non-committal replies are any guide, they reveal that the Finance Minister is used to such nagging and knows how to respond to such treatment.

Unpredictable antics of big business were not the Finance Minister's only anxiety. He had, and has, to face recalcitrant and turbulent colleagues in the provinces. In the past year, the country witnessed a state of affairs prevailing in the days when the provinces used to rely on subventions from the Centre. Then those who could shout the loudest got the lion's share of the cake. All the provinces have been repeating that game now, though in a different form.

Provincial Governments accepted the Centre's directives to slow down unproductive expenditure and social experiments with strong mental

reservations. They could not help it if the Centre would not assist them in implementing their election pledges. But, in turn, they argued that the Centre could not stop them from levying fresh imposts to finance their plans for prohibition and for abolition of zemindaries. As a consequence, every province has imposed fresh sales and excise taxes.

This has had two disturbing repercussions. Inter-provincial movements of goods have been impeded; the inevitable consequences of double as well as multiple taxation are already becoming apparent. These fresh indirect levies have not only tended to make the cost structure more rigid, but has impeded the Government's anti-inflationary policy. Simultaneously, it has reversed the progressive war-time trends in taxation as well as in the tax structure. Too much is known about the "penal" level of direct taxation because of the vocal propaganda by big business. Too little is yet known of the alarming increase in the aggregate level of indirect taxation in the country as a whole.

Dr. John Matthai has not solved the problems. In pursuance of the Government's policy, he has issued a post-dated cheque: these problems will be reviewed only after the results of the enquiry committee on national income are available. Only then, the Finance Minister re-affirmed the Government's earlier decision, can the problems of double taxation and of allocation of resources between the union and the units be satisfactorily settled.

Even so, the Finance Minister mildly hinted in one of his numerous speeches while in Bombay

that, if the present unhealthy tendency of the team of provincial bosses to move in opposite directions persists, the Centre may be forced to employ legal machinery to compel recalcitrant provinces to fall into line with New Delhi. Apparently, something has to be done—and sooner the better—about the re-allocation of resources to suit functions. Yet, provinces cannot ignore that, even in a functional federation, the autonomy of the units has definite limitations.

More complicated is the other purpose of the Finance Minister's visit to Bombay. Complaints and criticisms voiced during the friendly discussion between the Finance Minister and the business community reveal that big business do not appreciate the Government's strategy of indirect approach. Big business does not seem to be much impressed by the Government's efforts to assure supplies of capital goods and of the raw materials of industry; nor is it grateful for the ample depreciation allowances now provided for renovation of plant and machinery.

Industry's main complaint is that it has no savings to invest. In brief, the argument is that because of high taxation and of high wages, it lacks the incentive to invest. To this it may be retorted that statistics so far available do not substantiate the assertion that industrial profits have been materially affected by higher taxation and wages. Industrial savings are not appreciably lower; nor is industry financing plant expansion out of current profits. Such imports are being financed, as they should be, out of past savings. As a consequence,

India's foreign exchange resources are dwindling which, in turn, is causing a depletion of bank deposits.

As result, institutional investors are now faced with a lower volume of funds for employment. At the same time, relatively higher prices are adversely affecting the savings of the general public, especially in view of the gradual redistribution of income in favour of farmers and of salary and wage earners. This calls for a two-pronged drive. A more comprehensive and rigorous system of physical controls must continue to bring down prices and consumption of non-essential goods to a more adequate level so as to force the public to save more.

Simultaneously the expected repercussions of continued imports on the banking and financial structure must be neutralised through compensatory actions. In the narrow sphere of the money market, this perhaps calls for a re-examination of the bank rate, open-market operations and the other accepted devices for easing the stringency. As regards the wider sphere of industrial finance, it is mainly a question of active functions of industrial finance corporations to assist new and ancillary industries to get going. Existing "teething troubles" an expanding economy cannot avoid. But these pains can be minimised by adopting suitable alternative actions, especially as the debatable device of encouraging private investment through a lower tax burden is not a practical possibility as long as public expenditure is maintained at current levels.