

## Better Late Than Never

**N**EW DELHI has earned an unenviable reputation for lagging behind. Restrictions on imports enforced in 1947 should never have been relaxed. Yet, in August 1948, when the Government discovered that the country had not been using up sterling balances released by Britain, import restrictions were considerably relaxed. Two reasons were then put forward in support of liberalisation of import restrictions. A year later, the Government have again discovered that those reasons are flimsy and untenable.

Indiscriminate imports have frittered away India's scarce foreign exchange resources. But they have not brought internal prices down. Despite considerable imports of food grains at fantastic costs, food prices have not declined. This is the paradox in present-day Indian economy wherefrom all other disparities spring. Because food and cloth prices are high, the general price level remains high. Because the price level is high, costs continue to be rigid.

And, yet, for two procurement seasons, the Government did nothing to lower food prices. In cloth, control was reintroduced, but the re-controlled level of prices was fixed at an inordinately high level. Thus, the never-ending chase between prices and wages continued; India gradually lost export markets; goods could not be sold within or without the country; economy deteriorated.

These trends are pronounced and widely recognised. Yet, strange as it may seem, neither industry nor Government were

willing to accept the proper remedy at the proper moment. Industry clamoured against high taxation, lower controlled prices and bloated public expenditure and Government hearkened to its cry. Concessions were wrested from New Delhi in the shape of lower taxation and enhanced depreciation allowance while controlled prices were kept sufficiently high to assure industrial profits at near-war-time levels.

And, now, industry has succeeded in convincing the Government that economic equilibrium is merely a problem of reduced cost of administration. Public expenditure is, admittedly, running at a high level. It admits of substantial pruning. But, it would be a fatal blunder if industry and Government were to comfort themselves with the false belief that the national balance-sheet could be balanced by a cut of Rs. 45 crores in public expenditure.

Within the over-all deficit, there is, confessedly, the problem of budget unbalance. It has been obvious to all those who did not share the Finance Minister's optimistic budget expectations. Neither the yield from income tax nor the revenue from excise duties could maintain the extraordinary war-time levels for ever. 1949-50 is the first post-war year when the inevitable post-war decline in revenue receipts is expected to make its influence felt. Shrinkage in revenues is likely to be more phenomenal because of the heavy loss in receipts from customs duties due to the severe limitation of imports recently enforced by the Government.

There are over-riding arguments for cuts in public expenditure, and there is, to repeat, scope for depleting departmental staffs. But this can be over-emphasised. Administration cannot be run by ill-paid and discontented civil servants. And, neither controlled economy nor a welfare state can be efficiently run by an under-paid and under-staffed administrative service. That will only lead to corruption, nepotism and the other attendant evils. Reduction in civil expenditure has some propaganda value for industry and opposition parties. But, major economic problems do not admit of such facile solutions.

More encouraging is the growing indication that deteriorating economic conditions may force New Delhi to adopt an adamant attitude towards recalcitrant provinces. If prohibition can only be enforced by introducing new excise duties and sales taxes and by enhancing the rates on existing imposts, it is time for the provinces to think twenty times twice whether prohibition is worth introducing. Where persuasion has failed, the Government of India have now issued a veiled threat of financial sanctions to wayward provinces to fall into line. The possibility that loss of crores of rupees to public revenues may yet be avoided, will be welcomed by those who are reluctant to jettison financial prudence in search for questionable "reform" measures.

Lower administrative costs are desirable but both the Government and the country need the reminder that the British analogy can be carried too far. Admittedly in Britain, the problem is similar. In India, in Britain, in the whole of the non-dollar area, prices are higher than those

obtaining in America. But the disparity cannot be largely removed simply by reducing public expenditure in order to stimulate investment in the private sector of the economy.

In India, in particular, public expenditure on capital projects like railways and river valley schemes will now be defrayed out of the loans from the World Bank. Thus, the Government will no longer be competing with industry to secure resources available to the country. This, along with the gradual concessions to industry, should facilitate the Government's belated decision to bring down the prices of essential goods.

It is no usingpretending that the Government's disinflationary measures have succeeded. Neither in India nor in the non-dollar area as a whole has disinflation achieved its objects. Recent experience in India, in Britain, in France and throughout Europe confirm the impression that the vicious spiral can be snapped only by breaking the vicious circle. And, the first step

to break the circle is to slash prices.

Events subsequent to the modification of the cloth distribution system confirm the suspicion that cloth is not being sold because the price is more than the consumer can afford. By making cloth, sugar, cement and iron and steel—that is, goods and commodities which the farmer needs—available to the grower of food at cheaper rates, it may be possible to induce him to grow as well as to sell more food grains.

Price inflation is, and remains, the major stumbling block towards economic balance. Reduced public expenditure can aid the Government's efforts to bring prices down, but inflation cannot be fought with such minor weapons. There is nothing sacrosanct about controls to be effective, controlled prices must be fixed at proper levels and the system of control must embrace the major sectors of the economy. In reports emanating from New Delhi there is a faint hint that the Government are belatedly realising the major issues at stake.

forced admissions *of* the accused; that august body has chosen to make no pronouncement on the subject. It is clear, however, that India's object of exposing the guilty party has been achieved; it is equally clear that she is not likely to get an official verdict to that effect. That being so, what object can she gain by submitting further to the U. N.'s jurisdiction? We suggest that she can make a most graceful and effective exit from that forum with the simple statement that, she has gained her objective there and seeks no more.

As to the second question, it is founded on a magnanimous gesture made by our Prime Minister many months ago. Constitutionally, this gesture was wholly otiose. It was an expression of sentiment, pure and simple, and subsequent events have shown that sentiment to have been misplaced because it was not reciprocated. From the point of view of sentiment, therefore, it is only fitting that the gesture should now be withdrawn. And from the realistic point of view, such a retraction appears to be the only practical way in which to meet the situation.

## The Kashmir Imbrolio

**K**ASHMIR still remains a baffling enigma. India regards it as hers by constitutional right; Pakistan as hers by the rights of her theocratic ideology. A little shame-faced (it is to be hoped) at the exposure of her defence before the U. N., Pakistan now seems to rely on irrational obduracy rather than on diplomatic professions of innocence. It may be, that she is encouraged in this course by the singular forbearance shown by the U. N. on the

question of her guilt as the aggressor. The questions, however, that demand answers at this stage are: Is anything likely to be gained by prolonging the agony in its present international setting? And, is a plebiscite really necessary now?

As to the first question, India went to the U. N. with the demand that Pakistan should be declared the aggressor; and even with the clearest evidence, *viz.*,

President Truman apparently feels concerned over the problem. We share this concern. But a stage has been reached where appeal must be made not to the parties concerned but to established facts.

Following President Truman, Mr. Attlee has also issued a similar appeal to the Prime Ministers of India and Pakistan to accept the latest proposals of the United Nations Commission. The exigencies of the situation are perhaps so grave that they thought of dispensing with good form.