E. C. No. 523

ESTIMATES COMMITTEE (1967-68)

THIRTIETH REPORT

(FOURTH LOK SABHA)

MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

Foreign Exchange

LOK SABHA SECRETARIAT
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INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Thirtieth Report on the Minstry of Finance—Foreign Exchange.

2. This subject was examined by the Estimates Committee (1966-67) and necessary information obtained and evidence taken by them. That Committee, however, could not finalise their Report due to the sudden dissolution of the Lok Sabha on the 3rd March, 1967. The Estimates Committee (1967-68) have persued the minutes of the evidence and have come to their own conclusions which have been embodied in the Report.

3. The previous Committee (1966-67) took evidence of the representatives of the Ministries of Finance; Commerce; Defence; External Affairs; Food, Agriculture, Community Development and Co-operation; Information and Broadcasting; Irrigation and Power; Petroleum and Chemicals; the then Ministries of Health; Industry; Iron and Steel; Mines and Metals; Supply, Technical Development and Materials Planning; Transport; the Planning Commission; the Reserve Bank of India; the State Trading Corporation; the Minerals and Metals Trading Corporation and the Hindustan Shipyard on October 10, 11, 12, 13, 14, 15, 29 and November 1, 2 and 3, 1966.

The Committee wish to express their thanks to the officers of these Ministries for placing before them the material and information which they wanted in connection with the examination of the subject and for giving evidence before the Committee.

4. They also wish to express their thanks to Shri V. B. Gandhi, M.P.; Shri Babubhai M. Chinai, M.P.; Shri J. R. D. Tata; Shri D. P. Mandelia, Special Adviser, Birla Group of Industries; Dr. B. N. Ganguli, the then Pro-Vice-Chancellor, University of Delhi; Shri B. R. Shenoy, Director, University School of Social Sciences, Gujarat University, Ahmedabad; Shri S. K. Basu, Director, Indian Institute of Social Welfare and Business Management, Calcutta and Shri R. B. Amin, the then President, Federation of Indian Chambers of Commerce and Industry, for giving evidence and making valuable suggestions to the Committee.

5. The Committee also wish to express their thanks to all the associations and individuals who furnished memoranda on the subject to the Committee.

6. The Report was considered and adopted by the Committee (1967-68) on the 26th, 27th and 28th December, 1967.

7. A statement showing the analysis of recommendations contained in the Report is also appended to the Report (Appendix XI).

NEW DELHI-1;
January 30, 1968.
Magha 10, 1889 (*Saka*).

P. VENKATASUBBAIAH,
Chairman
Estimates Committee.

I

INTRODUCTORY

1.1. For an under-developed country seeking rapid economic development, the problem of foreign exchange is a vital issue. The typical development programme in an under developed country requires investment in a wide range of productive facilities with a high ratio of components which cannot be manufactured locally and must, therefore, be imported. As development progresses, it brings with it increased urbanisation and demand for a range of goods beyond the capacity of domestic production. Thus, a large, expanding and relatively reliable supply of foreign exchange is indispensable to the smooth progress of a low-income country's development effort.

1.2. As distinguished from internal resources—a shortfall in which can, to an extent, be met by letting the economy operate under some strain-foreign exchange is a specific which has either to be earned by larger exports of goods or services or has to be secured through an in-flow of external resources. Of course, a country may also meet its current requirements for external payments by drawing upon its foreign exchange reserves (*i.e.* accumulated earnings of foreign exchange), if any. Broadly speaking, a country has four sources of securing foreign exchange, *viz.*:

(i) Its own Earnings either from exports of goods; or

(ii) from 'Invisibles' that is to say, payments arising from the sale of services to 'foreigners'. These 'services' include various items, such as, tourism, transportation, banking and insurance, etc.;

(iii) Foreign investments; and

(iv) External Assistance.*

1.3. A country's foreign exchange position is, in a large measure, a product and a reflection, of its general economic condition. For instance, as stated in the Annual Report of the Reserve Bank for the year 1965, the foreign exchange difficulties experienced by India

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*'External Assistance' has been dealt with in the Eleventh Report of the Estimates Committee (Fourth Lok Sabha), 1967.

during the year 1964-65 were "mainly a reflection of the adverse developments in the internal economy." To take another example, internal price and monetary conditions have a direct bearing on the foreign exchange position. The Second Five Year Plan while emphasising the need for keeping inflationary pressures firmly under control in the interest of a healthy balance of payments position, stated:

> "The balance of payments is particularly sensitive to inflationary pressures. Rising domestic prices create new demands for imports and come in the way of exports. While commercial policy can mitigate these adverse repercussions for a time, there is no doubt that the corroding effect of a sharp or continued inflation within the economy cannot long be prevented from making itself felt in the country's balance of payments position."

1.4. Even before the Second World War, the Reserve Bank of India used to maintain sterling securities in London as a part of its currency reserves. During the War, several factors led to a huge accumulation in India's foreign balances, commonly known as "Sterling Balances". At the end of March, 1948, the country's foreign exchange reserves stood at Rs. 1,612 crores.

1.5. Soon after the commencement of the Second Plan India's Balance of Payments came under heavy pressure. Since then recurring foreign exchange crisis, attributable basically to the growing gap between imports and exports, had reduced the country's foreign exchange reserves to Rs. 299.5 crores on March 31st 1966, as against the minimum of Rs. 200 crores required as statutory cover for currency issue. Apart from the erosion of the Sterling Balances, the country has incurred a huge foreign debt since independence. According to the Economic Survey 1966-67 up to the end of the Third Plan, India had utilised external assistance amounting to Rs. 4,515.11 crores (including assistance under U.S. PL-480). In addition, the country had borrowed $ 287:5 million from the International Monetary Fund till the end of the Third Plan.

1.6. It is recognised that there is a basic disequilibrium in our balance of payments. This disequilibrium was particularly noticeable during the Third Plan period when the balance of payments deficit grew from year to year. A variety of measures were taken to correct the disequilibrium in the balance of payments. These included measures to step up exports by fiscal and other assistance, a progressive tightening of import restrictions, curb on foreign travel and steps to check smuggling. These measures, however, failed to yield the desired results. Exports which had shown encouraging signs

of growth in early years of the Third Plan, ceased to grow in the closing years as inflationary conditions at home, made exports more and more uneconomical and they required assistance on an increasing scale. Imports, on the other hand, remained at high levels, despite strict controls, largely because of the inexorable needs of the economy on account of development and defence. On the invisibles account also there was worsening of the position, as receipts fell off due partly to diversion to unofficial markets and payments grew on account of repayment of principal and interest on foreign loans and repartriation of profits and royalty etc. Although a substantial volume of foreign aid was made available, the pressure on the country's foreign exchange reserves intensified during the last two years of the Third Plan and recourse had to be taken to borrowings from the International Monetary Fund on a large scale, thus running down the second line of reserves to a large extent.

1.7. As the imbalances in the internal sector of the economy worsened with the growing inflationary situation and the external payments reached a stage of critical disequilibrium during the year 1965-66, it began to be realized that the existing parity of the rupee had become more and more unrealistic and impeded efforts to improve the balance of payments and that selective measures were of limited use in meeting the problem. Finally, recognising the prevailing situation, Government decided to devalue the rupee in June, 1966.

1.8. Although devaluation was expected to provide "a stable and enduring solution to our balance of payments", even the Government recognised that "none of the real problems of the economy are altered by the decision to devalue. The decision only highlights the urgency of attacking all our continuing problems with renewed vigour. Basically, the problem is that of achieving higher productivity and higher savings and to live within our means".

II

BACKGROUND

A. Determinants of Commercial Policy before the Second World War

2.1. Before the Second World War, India was a net debtor country and had to have a surplus of a fairly large order in its trade accounts in order to meet the servicing charges on the sterling debts. This, as stated in the First Five Year Plan document, was therefore the key to India's commercial policy in the period before the Second World War. In the wider pattern of international balance of payments, India was among the group of countries which were net dollar earners and used those earnings to meet their deficit with the metropolitan countries of Europe. Further India was a member of the Sterling area, one of the main objectives of which was to expand trade within the area while preserving the stability of the sterling as an international currency. Under the conditions that prevailed in the Thirties, this meant that a certain measure of discrimination in trade was unavoidable. In so far as the discriminatory principle was implicit in arrangements like Imperial Preference, it was an important factor which also affected commercial policy. In actual practice, Britain came to occupy a prependerant position in almost every item of India's balance of payments. Whether it be commodity trade, interest payments, shipping, insurance or repayments on foreign loans, the British share in India's international economic transactions was the largest and exceeded by far the second country in importance, Japan of the United States. It is commonly held that this situation was, to a certain extent, due to "India's membership in the sterling area and the existence of certain forms of Imperial Preference."

B. Trends in India's Balance of Payments in the inter-War period

(1) *Balance of Commodity Transactions*

2.2. The most distinct feature of India's balance of payments during the inter-war period, 1921-1939, was a large favourable trade in merchandise. The substantial surplus on merchandise account not only paid for the net import of bullion but also for India's large debits on various 'Service' and 'Non-Commercial' transactions.

2.3. According to a recent study, India's balance of commodity transactions (including treasure and taking credit for the inclusion

of freights and insurance charges in import returns and allowing for certain gaps in trade returns) showed during 1921-22 to 1938-39, a net surplus of Rs. 1,489 crores, giving an annual average of about Rs. 83 crores.

(i) *Composition of Foreign Trade*:

2.4. The composition and direction of India's foreign trade before World War II distinctly showed the underdeveloped characteristics of the economy. Agricultural commodities and raw materials constituted the bulk of the exports. Thus, in 1939, 71 per cent. of the country's total exports were composed of agricultural commodities and industrial raw materials, while manufactured articles accounted for only 29 per cent. of the exports. The chief items of export were raw cotton, raw jute, oil seeds, tea and hides and skins. Further, the modern organised sector of the Indian economy being unable to meet the domestic demand for manufactured goods, imports consisted mainly of manufactured goods of which the most important were consumer goods like textiles, leather goods, cycles, automobiles, sewing machines, drugs and chemicals, hardware, etc. On the eve of the Second World War about 64 per cent. of India's total imports consisted of manufactured articles specially consumer goods.

(ii) *Direction of Foreign Trade*:

2.5. Broadly speaking, before World War II half of India's foreign trade was with countries of the sterling area; only ten per cent. on average was with the dollar area, while the rest was distributed between a number of countries in Europe, the Middle East and the Far East, which did not fall in either of these groups. Country-wise, Britain occupied the foremost place in India's foreign trade. For instance, in 1938-39, trade with Britain accounted for about 30 per cent. of India's imports and 34 per cent. of India's exports.

(2) *Balance of Service Transactions*

2.6 The Balance of Service Transactions of India in the pre-World War II period included the following major items on the debit and credit sides:

Debit Items:

(a) Expenditure of Indian tourists abroad;

(b) freights, commissions, insurance and brokerage on foreign imports;

(c) pensions to British Officers-Civil and Military-retired from Government service in India;

(d) debt services, on the sterling public debt of India, and on other foreign investments in the trade and industry of India;

(e) remittances by foreign shipping firms operating in India's coastal trade;

(f) insurance remittances;

(g) profits, etc., remitted by foreign (exchange) banks operating in India; and

(h) cinematograph royalties.

Credit Items:

(a) expenditure of foreign tourists in India;

(b) insurance receipts by Indian Companies abroad; and

(c) expenditure in India of foreign ships engaged in India's overseas trade.

2.7. The debit items dominated the service balance. During the period 1921-39, the total outflow under this head has been estimated at Rs. 1,556.55 crores while the inflow has been placed at a paltry sum of Rs. 79.42 crores. Thus, during the 18 years period, India incurred on account of service transactions a cumulative deficit of Rs. 1,477.13 crores, average Rs. 82 crores annually.

2.8. In magnitude, the four largest debit items of the service balance were (a) returns on foreign investments in Indian industry and commerce, (b) Interest on India's sterling public debt, (c) freights, insurance etc. on imports and (d) Government pensions paid in Britain. The average annual outflow under these four items during 1921-22 to 1938-39 was as under:

Item	*Annual outflow*
	Rs. in crores
(a) Interest and Dividends on other foreign investments	32·21
(b) Interest on Sterling Public Debt . . .	18·07
(c) Freights, Insurance, etc. on imports. .	15·35
(d) Government Pensions	8·33

2.9. It may be mentioned that most of sterling obligations of the Government of India were initially incurred for the Indian railways. Originally, these railways were constructed either by the State or by private companies. In the main, the funds required for capital expenditure for railways were obtained by the Government of India by open market loans either in London (through the Secretary of State for India) or in India. In course of time the Government also purchased several Railways originally owned by private companies.

2.10. It has been estimated that in 1938-39, the sterling Public Debt of India (externally held)* amounted to £ 334,870,000 or about Rs. 446.49 crores. In the same year, foreign industrial and commercial investments in India were put at about Rs. 439 crores. As already noted, the average annual outflow from India on account of these two items was over Rs. 50 crores during 1921—39.

(3) *Balance of Non-Commercial Transactions*

2.11. The Balance of Non-Commercial Transactions included the following items on the credit and debit sides:

Credit Items

(a) remittances received by foreign christian missions working in India;

(b) remittances received by the offices of the Foreign Consuls etc. for their expenditure in India;

(c) remittances sent by Indian emigrants and certain other miscellaneous remittances received through the Post Office; and

(d) monetary savings brought back by the emigrants on their return to India, either temporarily or for good;

Debit Items

(a) transactions of the Government of India and Provincial Governments in Britain—excluding payments of interest on the sterling public debt of India and of various civil and military pensions;

*Lord Kindersley, in an enquiry into British Overseas Investments, published in series of articles in Economic Journal, 1930—39, estimated that 91·1 per cent of the total Indian Government and Local Corporation Loans was held by residents in the U. K. It may be presumed that the balance of 8·9 per cent was held in India by private individuals and companies. See A. K. Banerji, *India's Balance of Payments London, 1963.*

(b) remittances from India by immigrants of non-Asiatic origin and miscellaneous remittances sent through the Post Office; and

(c) monetary savings taken back by such immigrants on their return from India to their home countries.

2.12. It has been estimated that the net balance of India's Non-Commercial Transactions for the eighteen inter-war years, 1921-1939, was a debit of Rs. 222.19 crores or Rs. 12.34 crores annually. The value of the annual averages in respect of each of the items included under this head is indicated below:—

Annual Averages during 1921-22 *to* 1938-39 *of the items in the balance of Non-Commercial Transactions*

(a) Credits

	Rs. '00,000
(i) Missionary remittances	4,13
(ii) Expenditure of Foreign Consuls	5,00
(iii) Remittances through the Post Office	2,01
(iv) Savings brought back by Indian emigrants	1,96
Total credits	13,10

(b) Debits

	Rs. '00,000
(i) Government transactions	[12,88
(ii) Non-Asiatic Immigrants remittances :	
(a) Annual remittances	2,00
(b) Savings remitted	10,56
Total debits	25,44

(c) Net annual debits (b-a) : 12,34 lakhs.

2.13. It is seen that over the 18-year period (1921-39) as a whole, the surplus of Rs. 1489 crores under commodity account fell short of the combined deficit in the service (Rs. 1477 crores) and non-commercial transactions (Rs. 222 crores) of Rs. 1699 crores by Rs. 210 crores.

C. Balance of Payments during World War II and the Sterling Balances

(1) *Effect of the War on India's Foreign Trade*

2.14. World War II changed the course of India's foreign trade to a considerable extent. The normal commercial export surplus

improved substantially as demand from abroad for many of the country's export articles increased while imports declined. Trade with U.S.A. and the British Commonwealth countries was maintained but foreign trade with enemy countries like Germany and Japan ceased. India also supplied manufactured and semi-manufactured goods to the East African countries which formerly obtained their requirements from Britain, Germany and Japan.

2.15. As regards composition of India's foreign trade during the War, there was a marked rise in the volume of manufactured goods (notably jute manufactures and cotton piece-goods) in relation to other types of exports. At the same time the establishment of some new industries and the working of the older industries to their full capacity for meeting abnormal war-time demand for goods led to reduced availability of raw materials for export. Consequently, the percentage of raw materials in the country's total exports declined.

(2) *The Sterling Balances*

2.16. Before Independence India had always held sterling in the United Kingdom as part of its currency reserve. Under the Reserve Bank of India Act, 1934, not less than two-fifths of the total assets of the Bank were required to consist of gold coins, bullion, and sterling securities. Under this provision the Reserve Bank, even before the War, always held sterling balances of varying amounts. The amount that was thus held immediately before the War was about £48 million or Rs. 64 crores.

(i) *Accumulation of sterling Balances and Repatriation of Sterling Debit.*

2.17. Large accumulation to the sterling balances accrued during the war as a result of various financial and commercial transactions. The main sources of accumulation were twofold. The first was the substantial export surplus referred to earlier. The second was the purchase of stores and other materials from India on account of the British Government and the expenditure incurred by India on account of the Allied countries. Normally, these purchases should have been financed by the British Government obtaining rupees by paying gold or raising loans in the country or by other financial arrangements with Indian Government. This, however, was not done, and a section of the Reserve Bank of India Act, which imposed on the Bank the obligation to buy sterling offered to an unlimited extent, was utilised for financing these supplies. The British Government paid for the supplies from time to time and the Government of India handed over

the proceeds of these transactions to the Reserve Bank against which notes were issued by the Bank. It has been stated that "The sums thus paid to India became her absolute property and the Reserve Bank invested these amounts in various types of securities or deposited them with the Bank of England." Thus, the sterling balances were not an inter-Governmental war debt in any sense of the term but were the property of the Reserve Bank of India which held them partly in the Issue Department as a currency reserve and partly in the Banking Department as its own assets against its liabilities. At the beginning of April, 1946, the sterling balances held by the Reserve Bank stood at Rs. 1732 crores.

2.18. As regards the use of the sterling balances by India, both during the War and immediately thereafter, there were no limitations on the amount which she could use for any purpose. There were, however, practical limitations imposed due to the non-availability of supplies, the lack of shipping space and the necessity during the war years for restricting imports, particularly from the dollar and hard currency areas, to those absolutely necessary for the prosecution of the war and for maintaining the civil life of the community. Opportunity was taken of the availability of these balances to repatriate, during the war years, practically the whole of India's sterling debt which amounted to a sum of about £300 millions (Rs. 400 crores).

(ii) *Negotiations with Britain.*

2.19. The position in early 1947 was that India was free to utilise her sterling balances in any manner she pleased for expenditure in, or remittance to, the sterling and soft currency areas. She was also entitled to convert them into dollars or any other hard currency at her own discretion. This position could not, however, have continued on account of the fact that under the Financial Agreement between the Governments of the United States and Britain, the latter were bound to make every endeavour to enter into arrangements with the countries holding sterling balances with a view to providing for the multilateral convertibility of current earnings of sterling. That Agreement also provided that the British Government would negotiate with the holders of accumulated balances with the object of arriving at arrangements whereby a portion of these balances would be immediately released in multilaterally convertible sterling, a portion released in instalments over a period of years beginning from 1951 and a further portion "adjusted" as a contribution to the settlement of war and post-war indebtedness

and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement. As stated by the then Minister for Finance, Shri Shanmukham Chetty, "It was mainly in pursuance of the Anglo-American Agreement and the necessity for an orderly liquidation of the balances that discussions between the United Kingdom Government and the various sterling area countries became necessary early in 1947."

(a) *Financial Agreement of August* 1947.

2.20. The first series of discussions between the Governments of India and Britain were held in New Delhi in February, 1947. These discussions were not brought to a conclusion but an interim settlement was effected in August, 1947, with the limited object of providing India with sufficient foreign exchange to cover the estimated deficit in her balance of payment during the six months ending December, 1947. The main points of the agreement were:—

(1) The Agreement was of a purely interim nature designed to cover the six-month period ending 31st December, 1947 and was not to be regarded as prejudicing either side in regard to a final or another interim agreement later on.

(2) The arrangements dealt only with the sterling balances of the Reserve Bank of India. The holdings of commercial banks and private individuals were not affected. For the purpose of the Agreement the sterling assets of the Reserve Bank were taken at £1,160 million.

(3) The balances of the Reserve Bank of India were to be kept in two accounts. The No. 1 account would be the main operative account which would contain the freely convertible currency. To this account would be credited the amounts released from the accumulated balances and all future current earnings. The No. 2 account would contain the remainder of the accumulated balances. All future current expenditure would be debited to account No. 1. All balances in the No. 1 account would be multilaterally convertible for current transactions.

(4) A sum of £35 million was transferred to the credit of account No. 1. This amount was intended to meet the estimated deficit in the balance of payments on current account from 15th July to the end of December, 1947.

(5) In addition to this straight release of £35 million, a further sum of £30 million was placed to the credit of the

No. 1 account as working balance to be used to meet any temporary deficit in India's available means of payments abroad. Although this amount was in the nature of a reserve, which was expected ordinarily to be replenished it was clearly understood that it could be drawn upon to meet any deficit.

2.21. The sum of £65 million thus released for use by India could be spent in any currency that she chose. However, this amount did not represent the whole of the foreign exchange resources at India's disposal. Withdrawals from the No. 2 account were available for meeting certain other obligations. These were:—

(a) Payments in respect of pensions, provident funds and gratuities estimated at about £2½ million during the period.

(b) Certain payments in connection with the release of enemy assets estimated to amount to over £1 million.

(c) Payments on account of the purchase in the United Kingdom from the surplus assets of His Majesty's Government; the settlement of any matters arising out of the Defence Expenditure Plan and adjustments of any other accounts in connection with transactions arising out of the war and which took place prior to 15th July, 1947.

(d) The repatriation of British assets without limit.

(e) The transfer of savings of British nationals in the sterling area.

(f) Repayments of the sterling debt of the Government of India, local bodies and companies.

(g) Other agreed capital transfers.

2.22. In January 1948, the interim agreement made in August, 1947 was extended by another interim agreement to cover the period upto the end of June, 1948, for India alone. The main difference between this and the earlier agreement was that, while under the former, India and Pakistan were entitled to convert the entire release of £65 million into dollars, under the later agreement India could convert a sum of only £10 million (Rs. 12.3 crores) out of the total fresh release of £18 million. She was expected to borrow from the International Monetary Fund an additional sum of between $ 40 million to $ 52 million in order to make good the estimated deficit in

her dollar balance of payments. This was the consequence of the suspension of the convertibility clause of the Anglo-American agreement.

(b) *Agreement of July*, 1948.

2.23. Since the January, 1948 Agreement was only for a period of six months and terminated in June, 1948, fresh negotiations on the subject of sterling balances were held between the Government of Britain on the one hand and the Governments of India and Pakistan on the other in June, July, 1948. The main objects of the negotiations were:

(a) to settle the payment for the British stores and installations in India which the undivided Government of India took over in April, 1947;

(b) to arrive at a pension capitalisation scheme for meeting the sterling pensionary and Provident Fund liabilities of the Government of India.

(c) to arrange for a release of sterling initially for a period of three years including multilateral convertibility for at least a part of the release.

(d) the settlement of all outstanding matters arising out of the operation of the Defence Expenditure Plan which regulated the allocation of Defence expenditure between India and the United Kingdom upto the 31st March, 1947.

2.24. It may be mentioned that during the Partition Council discussions, it had been agreed that the sterling required for the purchase of the stores and installations from the British Government and for the capitalisation of pensions would be deducted from the assets of the Reserve Bank before they were divided between the two Dominions.

2.25. After a full and frank exchange of views, an Agreement was reached on all the issues in July 1948. The salient points of the agreement are set out below:

(a) For British stores and installations in India with an estimated book value of the order of £375 million (Rs. 500 crores) it was agreed that a payment of £100 million (Rs. 133.3 crores) should be made in full and final settlement.

(b) It was agreed that for the payment of a lump sum, the U.K. Government would make available to the Government of

India over the next sixty years sums estimated as sufficient to meet the latter's requirements for paying the sterling pensions. The capital payment for Central pensions was agreed at £147.5 million (Rs. 197 crores) and that for pensions of the Indian Provinces at £20.5 million (Rs. 27 crores).

(c) It was agreed that for the three years ending the 30th June, 1951 a fresh release of £80 million (Rs. 107 crores) from the sterling balances would be made. In view of the fact that India then had £80 million to her credit in Account No. 1, no provision was made for any additional release in respect of the period July 1948—June 1949. The fresh release of £80 million was to be made available in two instalments of £40 million for each of the years 1949-50 and 1950-51. This release would be in addition to the sum of £80 million which was available in the No. 1 Account at the end of June, 1948. As regards the adequacy of these releases it was stated that the "difficulties and uncertainties during the period of transition from war-time to a peace-time economy in the U.K. and the ability of that country to build up an adequate export surplus must be borne in mind. At the same time, India's ability fully to absorb capital equipment and utilise the balances must also be taken into account". So far as multilateral convertibility of the sterling releases was concerned in view of the "uncertain factors affecting the economy of the World in general and the United Kingdom in particular" it was agreed that "the arrangements relating to multilateral convertibility shall be confined to one year in the first instance. Out of the amount in No. 1 Account as at the end of June, 1948, a sum of not more than £15 million (Rs. 20 crores) will be so convertible".

(d) As regards the settlement of outstanding matters arising out of the operation of the Defence Expenditure Plan the arrear amount due from the U.K. was agreed at £55 million (Rs. 73 crores). Of this amount a sum of £8,951,250 was to be paid direct to the Pakistan Government as her share and the balance was to be paid to India.

(c) *Transfer of Sterling Assets to Pakistan*

2.26. The sterling balances being the property of the Reserve Bank of India, a share of these had to be paid to the Pakistan Government on the establishment of a separate currency for Pakistan and the return of Indian notes to the Reserve Bank. The manner in which the

sterling assets of the Reserve Bank were to be divided between India and Pakistan was provided for in the Pakistan (Monetary System) Reserve Bank Order, 1947 and the various amendments to that order. The Committee have been informed by the Government that under the Financial Agreement with the U.K. and the partition settlement sterling assets worth Rs. 213.7 crores were made over to Pakistan.

(d) *Indo-British Financial Agreement of* 1949

2.27. The 1948 Agreement, which covered the sterling release for a period of three years ending June, 1951 provided, *inter alia*, for a release of £40 million for each of the twelve monthly periods July-1949—June, 1950, and July 1950—June 1951, in addition to the sum of £80 million in the No. 1 Account of the Reserve Bank of India with the Bank of England at the beginning of July, 1948. The multilateral convertibility arrangements were concluded only for the twelve months ending June, 1949, the amount made available being £15 million ($60 million). Subsequently, it was felt by the Government of India that the annual release of £40 million was inadequate in the context of the country's requirements. Additional releases were also considered necessary to cater for "the unexpectedly heavy drain caused by the operation of O.G.L." In view of these developments the Government of India undertook negotiations with U.K. Government in June, 1949. As a result the following arrangements were agreed upon:

(a) to effect a release of £81 million for the year 1948-49, for which year the 1948 Agreement did not provide any release.

(b) to increase the annual release for the 12 monthly periods ending June 1950 and 1951, from the original amount of £40 million to £50 million.

(c) to cause to be released an additional, but unspecified, sum sufficient to meet the cost of the liabilities created under the operation of O.G.L.—XI.

(d) As regards convertibility, the quantitative limitations on India's right to draw dollars from the Central Reserves were removed. For the period ending June, 1950 it was agreed that, along with other countries of the Commonwealth, India would keep her dollar imports to 75 per cent of the 1948 level. This, in effect meant that India would be able to draw on the Central Reserves to finance a dollar deficit of $150 million. This was exclusive of any imports

she might finance by loans from the International Bank. Further, it was agreed that the dollar overdrawals of the previous year need not be reimbursed.

(e) *Indo-British Agreement of* 1952

2.28. In 1952, the Governments of India and the United Kingdom agreed to extend the Principal agreement in regard to Sterling Balances (as modified from time to time) to 30th June, 1957, subject to certain modifications. The main provisions of the new Agreement were:

(a) A sum of £310 million would be transfered forthwith from the No. 2 Account to the No. 1 Account, to be held by the Reserve Bank of India as a currency reserve. The Government of India agreed not to draw upon this sum without previous consultations with the Government of the U.K.

(b) After the transfer referred to above had been effected, the balance from time to time standing to the credit of the No. 2 Account was to be transferred to the No. 1 Account in instalments not exceeding £35 million in each of the six periods of twelve months beginning July 1, 1951. However, these transfers were to be limited to such amounts "as may be necessary to maintain a minimum balance on the No. 1 Account of £340 million or such lesser amount as may be agreed between the two Governments."

(c) Any balance standing to the credit of the No. 2 Account on 30th June, 1957, would be transferred automatically to the No. 1 Account.

D. **Effects of Partition on India's Balance of Payments**

2.29. Upto 1946 India generally had a surplus payments position on account of international Trade. This was because she was a net exporter of agricultural products and raw materials which commanded favourable world markets. Partition changed the position as the granary of undivided India and some areas of commercial crops cultivation, went to Pakistan.

2.30. Partition affected most the exports of jute, cotton and hides. In the new set up, large scale imports of these commodities were essential for some of the largest established industries in India. But the commodities that could be exported to Pakistan in exchange were mainly processed materials like cotton textiles, sugar and matches. In undivided India, there were protective duties for these commodities; after partition these ceased to enjoy that privilege in Pakistan.

Consequently, their export to Pakistan practically stopped. As stated in the First Five Year Plan document "Partition therefore not only resulted in increased reliance on imported raw materials but made more difficult the problem of export promotion."

2.31. It has been estimated that the loss to India's export trade as a result of partition was about Rs. 25 crores. It may also be mentioned that during the year July 1948—June 1949, India incurred a deficit of Rs. 34 crores on current account *vis-a-vis* Pakistan.

III

REVIEW OF BALANCE OF PAYMENTS 1947—1966

A. The Pre-Plan Period (1947-51)

3.1. India had accumulated surpluses in its balance of payments during the Second World War period but in the post war years there have been chronic deficits in the balance of payments. The reasons for this transformation have been explained in the First Five Year Plan document as follows:

> "Since the sterling balances were largely the result of restricted consumption and investment and not a reflection of any permanent improvement in productivity in the economy the problem of balancing trade at the end of the war was in a sense more difficult than before it. The financing of the war had increased money incomes but consumption had been kept down by scarcities and price rises. In industry and transport there had been not only little net addition to capital equipment during the War but even normal depreciation requirements had to be postponed. On the conclusion of the War the economy was in a starved condition, and it was necessary to provide for imports on a large scale to make good the results of War-time austerity and depletion of capital, not to mention the needs of development.
>
> Even apart from the pressure of pent-up demnds, the import requirements were larger and exportable surpluses smaller at the end of the War. This was on account of the increase in population in the interval and the partition of the country which enlarged the country's deficit in food and raw materials. Changes necessitated by war-time requirements in the pattern of production also aggravated the difficulty. These changes were responsible for a sharp contraction in the exportable surpluses of staple commodities like raw cotton and raw jute. Oil-seeds and pig iron were also required in large quantities to meet increased domestic industrial needs. The decline in the exports of these commodities was to some extent counter-balanced by increased exports of primary products like spices and mica and of semi-manufactures

such as vegetable oil, but the volume of exports in 1946-47 was still only about two-thirds of the pre-war level."

3.2. During 1946 and 1947 the net balance of payments deficits for undivided India were Rs. 28·3 crores and Rs. 39·5 crores respectively. The small deficit in 1946 was easily covered as there were no restrictions then on drawings from the country's sterling balances. In 1947 too the deficit was easily covered by the sterling resources that were available, *i.e.* the current earnings plus agreed releases.

(1) *Balance of Payments during* 1948—51

3.3. The compilation of India's balance of payments in a systematic manner began in 1948 when this work was undertaken by the Reserve Bank.

The following Table indicates India's overall Balance of Payments during the three years (1948—51) preceding the commencement of planning:—

India's Overall Balance of Payments: 1948—51

(Rs. crores)

	1948-49	1949-50	1950-51
1. Imports	766·3*	603·9	650·3
2. Exports	482·5	514·0	646·8
3. Trade Balance	—283·8	—89·9	—3·5
4. Invisible (Excl. offl. Donations)	+31·7	+42·8	+40·3
5. Current Account (net)	—252·1	—47·1	+36·8
6. Errors & Ommissions	+6·3	+1·7	—6·7
7. Private Capital (net)	—28·5	—13·0	—13·6
8. Banking Capital (net)	+13·4	—14·2	+22·3
9. Amortisation Payments (gross) (minus indicate payments)	—12·8	—12·4	—12·9
10. Misc. Capital transactions (net)	—353·3	+45·1	—7·1
11. Total (items 7—10)	—381·2	+5·5	—11·3
12. Offl. Loans (gross)	+4·6	+12·7	+7·7
13. Official Donations			+2·1
14. I. M. F. (net)	+23·9	+14·3	..
15. Foreign Exchange Reserves]	—598·5	—12·9	+28·6

*Includes payment of Rs. 71·9 crores to the U.K. for purchase of surplus defence stores.

(i) *Current Account*

3.4. The period 1948—51 was noted for inflationary pressures and domestic shortages of food and raw materials which were in the main the legacy of the Second World War and the aftermath of partition. Dealing with the effect of these factors on the country's balance of trade, a study on India's Balance of Payments, brought out by the Reserve Bank of India, states:

> "The inflationary pressures during this period emanated from the backlog of aggregate demand which did not find an outlet during the war and immediate post-war period owing to various controls and import restrictions. They were reinforced by the shortages of food and basic raw materials brought about by structural changes in the Indian economy in the wake of partition and also by the effect of the Korean War boom of 1950-51. As a result of these factors imports reached a high level of Rs. 766 crores in 1948-49 and although they declined to Rs. 604 crores in the following year, they rose again to Rs. 650 crores in 1950-51. To some extent the rise in imports was due to higher prices. Extents, on the other hand were lower than imports at Rs. 482 crores in 1948-49, though they rose to Rs. 514 crores in 1949-50 and Rs. 647 crores in 1950-51. The rise in exports was largely due to higher prices, particularly of leading commodities like jute manufactures, cotton manufactures, tea and vegetable oils, which were the result of rising World demand occasioned by the Korean War boom."

3.5. The following tables show India's imports and exports of selected commodities during 1948—51:

India's Exports of Selected Commodities 1948—51

(Rs. Crores)

	1948-49	1949-50	1950-51
A. *Capital Goods*	150·4	180·6	162·3
1. Machinery of all kinds	81·9	117·8	91·0
2. Metals—iron & steel	12·9	18·4	9·0
3. Metals—other than iron and steel	22·3	19·2	27·8
4. Transport equipment (excluding locomotives)	33·3	25·2	24·5

	1948-49	1949-50	1950-51
B. *Raw Materials*	207·4	156·8	207·2
1. Mineral Oils	35·7	53·6	55·1
2. Cotton raw and waste	64·2	63·2	100·8
3. Jute raw	71·2	21·2	27·5
4. Dyes and Colours	15·7	11·1	14·6
5. Chemicals	20·6	7·7	9·2
C. *Consumer Goods*	150·2	179·6	125·6
1. Electric goods and Apparatus	11·5	14·1	9·7
2. Drugs and Medicines	7·9	7·9	9·9
3. Rayon Textiles	13·9	13·6	15·2
4. Paper, paste-board etc.	15·4	10·2	10·4
5. Foodgrains	101·5	133·8	80.4

India's Exports of Selected Commodities 1948—51

(Rs. Crores)

	1948-49	1949-50	1950-51
Tea	68·7	72·7	80.4
Spices (including black pepper)	2·7*	14·5*	20.4*
Cashew Kernels	4·9	5.6	8.6
Oil cakes	0·1	0.1	..
Tobacco (manufactured and unmanufactured)	8.3	12.0	18.5
Metallic oras (including manganese ore)	1.8	7.8	9.7
Vegetable Oils	10.9	7.6	25.3
Cotton, raw and waste	19.1	18.8	17.3
Hides and skin, raw and tanned	18.3	28.0	34.9
Cotton yarn and manufactures	36.2	59.2	118.0
Jute yarn and manufactures	146.6	127.0	114.0

3.6. As regards the structure of Imports during the period, it is seen that all the categories showed fairly wide fluctuations from year to year.

3.7. Payments for 'capital goods' rose from Rs. 150.4 crores in 1948-49 to Rs. 180·6 crores in 1949-50 but declined to Rs. 162·3 crores in 1950-51. With regard to the variations in machinery imports it has been stated that "machinery imports went up from Rs. 82 crores in 1948-49 to Rs. 118 crores in 1949-50, partly because of the increased rupee cost of capital goods from the dollar area following

the devaluation of the rupee in September, 1949. The operation of stricter controls over dollar imports, however, resulted in a drop of Rs. 27 crores to Rs. 91 crores during 1950-51." Payments for iron and steel and non-ferrous metals continued to show a rising trend. In aggregate, metal imports during the period amounted to Rs. 119·6 crores of which imports of non-ferrous metals accounted for Rs. 69·3 crores.

3.8. 'Raw materials' imports declined from Rs. 207·4 crores in 1948-49 to Rs. 156·8 crores in 1949-50 but rose again in the last year to the earlier levels. The variations were mainly governed by changes in imports of raw jute and raw cotton. The decrease in raw jute imports from Rs. 71 crores in 1948-49 to about Rs. 21 crores in two subsequent years was stated to be due to trade deadlock between India and Pakistan. The sudden rise in raw cotton imports from around Rs. 64 crores in the first two years to Rs. 100 crores in 1950-51 has been ascribed to "domestic shortage, in part, to the failure of the monsoon".

3.9. Import of 'Consumer goods' after rising from Rs. 150 crores in 1948-49 to Rs. 179.6 crores in the following year fell to Rs. 125.6 crores in 1950-51. The variations in this category arose on account of fluctuations in food imports which rose from Rs. 101.5 crores in 1948-49 to Rs. 133.8 crores in 1949-50 but fell to Rs. 80.4 crores in 1950-51. Barring 1950-51, when imports of raw cotton were larger than those of foodgrains, throughout this period (1948-51) foodgrains, ranked first in the import list, annually accounting for over Rs. 100 crores of the total import bill.

3.10. It has been stated that, "like imports, the pattern of exports in the three years covered by this period (1948-51) was influenced by three developments: the partition of the country in 1947, the devaluation of the ruee in September 1949 and the outbreak of the Korean War in 1950." The impact of these factors was reflected in a rise in the share of 'manufactured articles' in the total exports from 48 per cent in 1947-48 to 56 per cent in 1950-51 and a fall in that of 'raw materials' from 32 per cent in 1947-48 to 21 per cent in 1950-51.

3.11. The performance of exports in each of the three years is said to have been governed by different factors. Thus, the rather low level of exports during 1948-49 has been attributed 'mainly to a temporary business recession in the U.S.A.', 'partly to the postponement of purchases by the U.S. consumers of some of the important commodities, because of the expectation of devaluation of sterling and the rupee' and 'to some extent', to the reduction in export quotas for commodities like raw jute, raw cotton, oil seeds and oil-cakes in

view of domestic shortages. The increase in exports from Rs. 482.5 crores in 1948-49 to Rs. 514 crores in 1949-50 has been explained as being the result of the devaluation of rupee in September 1949, while the further spurt in export to Rs. 647 crores in 1950-51 has been attributed to the Korean war boom.

3.12. It is seen that for the three year period (1948-51) as a whole the country incurred a trade deficit of Rs. 377 crores. However, there was an improvement in the balance of trade from year to year in as much as the trade deficit declined from Rs. 283.8 crores in 1948-49 to only Rs. 3.5 crores in 1950-51. The net current account position was further helped by favourable changes in the invisible account. Thus, the net current account deficit of Rs. 252 crores in 1948-49 narrowed down to Rs. 47 crores in the subsequent year and changed into a surplus of Rs. 36.8 crores in 1950-51. For the three years together, the net current account deficit, excluding official donations, amounted to Rs. 262 crores, with imports and exports aggregating to Rs. 2,020 crores and Rs. 1,643 crores respectively and invisibles (net) to Rs. 115 crores.

(ii) *Capital Account*

3.13. It is seen from the, Table of India's overall Balance of Payments during 1948-51 (see para 3.3) that in 1948-49, along with a large current account deficit of Rs. 252 crores, the changes in capital transactions were also adverse. Except in respect of banking capital, there was a sizeable net outflow of capital on other accounts, *i.e.* official and private. The outflow, on the official account during 1948-49 was about Rs. 338 crores. In 1949-50, there was a net receipt of Rs. 59.7 crores on the official account, but in the subsequent year there was again an outflow of Rs. 12.3 crores. Banking capital showed a fluctuating trend from an inflow of Rs. 13 crores in 1948-49 to an outflow of Rs. 14 crores in the next year and again an inflow of Rs. 22 crores in 1950-51. In contrast, private capital showed a consistent outflow, though the magnitude declined in the last two years.

(iii) *Draft on Foreign Exchange Reserves*

3.14. Over the three-year period (1948—51) the net outflow on official account other than foreign exchange reserves amounted to Rs. 290 crores; the private capital outflow came to Rs. 55 crores but there was a net inflow of banking capital to the tune of Rs. 21 crores. Taking the deficits on the current and the capital account together, the total draft on foreign exchange reserves during this period came to Rs. 583 crores. Thus, from Rs. 1612 crores at the end of March

1948 India's foreign exchange reserves came down to Rs. 1029 crores in March 1951.

3.15. It has been stated by the Ministry that "certain special transactions arising from the Indo-British Financial Agreement and the Partition settlement with Pakistan were responsible for this heavy drain on reserves. Devaluation of the rupee in September, 1949 also had an impact on the reserves."

(iv) *Trade Policy*

3.16. The Committee are informed that during the period 1948-51, import policy "was dictated by the need to limit the volume of imports to the amount of available foreign exchange. It was related to the availability of dollar and hard currency resources, as well as to the general sterling area position and the Indo-U.K. agreements governing the releases of sterling balances."

3.17. In July 1948, the rigid import policy pursued in the first half of that year was relaxed. It has been stated that this step was taken in view of the 'comfortable foreign exchange position.' The liberalisation of imports resulted in the emergence of a substantial overall current deficit as well as a large deficit with the dollar area during 1948-49. By August 1949 not only had the sterling balances of £80 million available under the Indo-British Financial Agreement been used up, but a further overdraft of £ 81 million was obtained. In view of this, the liberal import policy was tightened up in successive stages beginning with the cancellation of the O.G.L. (NOXI) in May 1949 and its replacement by a new O.G.L. (NOXV) which restricted the list to mostly essential items and later by another O.G.L. (NOXVI) which covered only twenty items. During this phase, the list of articles to be imported from the dollar areas was stated to have been "drastically reduced to the most urgently needed categories of capital goods, raw materials and some of the most essential consumer goods such as life saving drugs."

3.18. It has been stated that "the restriction on imports and the stimulation provided to exports by the devaluation of the sterling area currencies and the rupee combined to improve the balance of payments in the last quarter of 1949." As the surplus on current account continued into 1950 a gradual liberalisation of import restrictions took place. However, despite the more liberal import policy, imports did not rise significantly. This, it has been stated was "because of shortages abroad resulting from the outbreak of the Korean War and the stockpiling programme." Thus, not only was

there no draft on the sterling balances in 1950-51 but the reserves rose by Rs. 28.6 crores.

3.19. As regards export policy, it has been stated that "on the whole, for the period 1947—51, the policy relating to exports was, by and large, restrictive" the principal considerations being (1) to ensure adequate supplies to meet home demand and (2) to maximise hard currency earnings. Thus, in the immediate post-war years owing to shortages in production resulting from Partition and to meet domestic demand, export quotas were fixed for a number of items. In the case of goods for which demand from overseas countries was much in excess of the exportable surplus, destinational quotas were allotted, whereas in the case of commodities the supply situation of which was less acute, only global quotes were fixed. During the Korean War boom, besides quantitative and destinational controls, heavy export duties were levied as a disinflationary measure, wherever it was apprehended that the external stimulus to a rise in the prices of exports would lead to a distortion in the domestic cost structure.

(2) *The* 1949 *Devaluation*

(i) *Devaluation: The General Background.*

3.20. At the end of World War I devaluation of currencies followed almost immediately. After World War II, however, the endeavour in most countries had been to put off devaluation for as long as possible, though certain economists, both in India and elsewhere, had recommended the adjustment as called for by the war-time variations in the purchasing power of currencies. The considerations which guided national policies away from immediate devaluation after the war have been stated as under:

> "Apart from the fact that in a controlled economy, changes in purchasing power have less significance for the exchange rate policy, there was, in most countries, including India, the practical consideration, that exchange depreciation at that stage might aggravate inflation, while a high exchange rate would help to keep down the price level by cheapening imports. Exports, in any case, were limited during the immediate post-war years more by the lack of production and transport facilities than by a high exchange rate; at any rate, so long as the needs of reconstruction and the backlog of demand continued to exist universally. In many European countries there

was also the desire to avoid, soon after the War, the making of inroads into the already lowered standards of living. The possibility of arresting a badly needed stimulation of investment was also in mind. While increased production and productivity were then the primary needs, there was no indication that the distortions in the economies left behind by the war and post-war conditions would have been corrected merely by changes in the exchange rate. Loans and grants from wherever they might by available were considered more necessary for readjustment than the manipulations of exchange rates and these were accordingly left untouched."

3.21. With the massive assistance provided under Marshall Plan European recovery was accomplished in a fair measure by 1949. By the summer of 1948, industrial production in Western Europe reached the level of 1938 and exceeded that limit by 15 per cent by 1949. Overall balance in international accounts was achieved in a number of countries, though deficits continued to be substantial on the dollar account. The sellers' markets became less universal by this time and the availability of goods was seen to exceed demand at the existing rates of exchange in limiting sales on account of price factors rather than prodction. At this stage the restoration of international balance seemed to hinge on adjustments of the rates of exchange, especially in relation to the dollar, and the urgency of this adjustment was underlined by the contraction in demand that followed the short-lived American recession of early 1949. It was against this background that on the 18th September, 1949 Britain announced the decision to alter the parity of the pound sterling from $4.03 to $2.80 involving a depreciation of 30.5 per cent. This lead was then followed by thirty other countries including all countries of the sterling area except Pakistan*, thirteen member countries of the International Monetary Fund and a number of other countries. It has been estimated that, in all, the devaluing countries accounted for nearly 65 per cent of world trade.

(ii) *Devaluation of the Indian Rupee*

3.22. In India, as in other countries, suggestions for the devaluation of the currency were made soon after World War II on the ground that the structure of prices in India had got seriously out of line with that of the United States. However, the view prevailed that devaluation at that stage would be a premature step. India's

*Pakistan was not a member of the I. M. F. at that time.

preference for non-devaluation in the immediate post-war years was explained on the ground that "she too was face to face with more or less the same problems that confronted the countries of Western Europe viz., the problem of reconstruction; the need for building up the depleted stocks of the Government, the producer and the consumer; the desirability of holding down the price level through cheaper imports of consumer goods and the increased dependence in post-war years on the imports of food and raw materials which had emerged as the most important feature in the country's post-war balance of payments." It was recognised in India, as in Western Europe, that "primarily it is not the monetary factors of internal origin that explained the disequilibrium in balance of payments but the structural changes in the country's economy caused by War and partition and that for re-establishing equilibrium, priority was due to production rather than exchange adjustments."

3.23. However, when Britain and several other countries devalued their currencies India decided to follow suit. On the September 20, 1949 the Government of India announced their decision to devalue the rupee in relation to the U.S. dollar by 30.5 per cent, that is the same percentage by which the pound sterling was devalued. The decision implied a change in the parity of the rupee in terms of the U.S. dollar from 30.2 cents to 21.0 cents while its parity in relation to the pound sterling remained unlatered at 1sh.—6d.

3.24. The reasons necessitating the devaluation of the rupee were explained by the then Minister of Finance, Dr. John Mathai, in his speech in the Constituent Assembly (Legislative) on the 5th October, 1949. He said that although "on the basis of economic facts, there was a case for devaluation of the rupee" the actual decision to devalue the rupee had been taken "not on conviction born of logic necessarily but, so to speak, by compulsion of events." Elaborating the point, he added:

> "Since the pound sterling was devalued, I felt and my colleagues entirely agreed with me that there was no other course open to us. I say that for this very good reason. Nearly 75 per cent of the export trade of this country is with the countries in the soft currency areas. Therefore, when sterling was devalued if we did not devalue, the result would have been that our export trade to these countries would not merely have greatly diminished but in course of time in certain important directions

might have been wiped out altogether—Lancashire piecegoods competing with our piecegoods in the markets of the sterling area, Ceylon tea competing with our tea in the same area, East African groundnuts competing with our groundnuts, South African manganese competing with our manganese, Dundee jute goods competing with our jute goods. The position was really serious and we could not afford to take the risk involved in keeping the value of the rupee at a higher rate when it was likely to lead to these extremely grave consequences for the country. It is not merely that our export trade would have suffered, the dwindling of our export trade would straightaway have reacted upon our import trade because the only way in which we can pay for our imports is by earning foreign exchange by our exports. Today we are meeting the bill in respect of our imports partly out of the foreign exchange earned by our exports and partly out of our sterling balances. We cannot go on drawing upon these balances—they must come to an end some time. Therefore, the only way in which we can maintain our trade on a healthy and enduring basis is by taking every step to promote our export trade. That then is the main reason. May I put it like this? We took this decision in the main as a defensive measure."

3.25. Another important consideration which weighed with the Government, Dr. Mathai said, was that India was a member of the sterling area, one of whose objectives was to enable member countries "to achieve a balance of trade at the highest possible level, partly by expanding exports and partly as a temporary measure—if that was necessary in order to restore equilibrium—by reducing imports also." In this connection, explaining the need for India to continue to remain in the sterling area, he observed:

"The essence of the sterling area is that all the hard currency resources earned by the members of the sterling area are pooled and all the members of the sterling area have the right to draw upon the central reserves. That was not so till a few years ago. In undivided India, that is to say, during the pre-war period, India was a net contributor to the central reserves. Today unfortunately, we are not a net contributor; we are a net beneficiary. So long therefore as there is a mal-adjustment in our monetary relations with hard currency countries, there is not

the slightest doubt that it is to our interest to remain in the sterling area. To get out of it at this stage would not be in our interest."

3.26. Dealing with the degree of devaluation, Dr. Mathai said that the reasons he had advanced for devaluation were equally applicable to the proposition that the rupee should be devalued to the same extent as the pound sterling. He added, "Already the level of prices in India is higher than the level of prices in the U.K. and if on top of that you are going to have an appreciation of the Indian rupee, say, to the extent of ten percent, that is a handicap which is quite serious enough to affect our export trade.

3.27. In conclusion, the Finance Minister observed that the devaluation of the rupee must be looked upon "as a timely sign and warning that for many years now we have been living beyond our means, both internally and externally.....we have yet time to put things together and to remedy the situation before it becomes too bad to mend." He urged that since devaluation had become an accomplished fact, "we would do well to take it and to use it for what it really is, a check on the pace at which we have been living and the extent to which we have been over-drawing our existing resources." To meet the situation arising out of devaluation, Dr. Mathai emphasized the need for (i) bringing about economy in public expenditure, (ii) bringing down the price level and (iii) increasing the productivity of the country, and announced that Government proposed to take the following immediate steps:

(1) The formulation of a future pattern of trade which in the new situation will reduce our expenditure of foreign exchange to a minimum, having regard to the essential requirements of the country.

(2) The employment of such bargaining power as we have by reason of our position as large scale purchasers for the purpose of bringing down to reasonable levels the prices of industrial materials imported from countries whose currencies have appreciated in relation to Indian currency;

(3) Prevention of speculative price increases by legislative and administrative measures and by regulation of credit facilities;

(4) Imposition of duties consistently with the principle of non-discrimination on articles exported to hard cur-

rency areas so as to ensure a maximum amount of foreign exchange for the country and at the same time secure that the advantage resulting from devaluation is distributed among the foreign importer, the Indian manufacturer and the Indian exchequer;

(5) To further the stimulus to investment which devaluation generally provides and thereby assist production and promote development by an intensified savings drive by propaganda, and failing this by compulsion and by provision of suitable governmental assistance for the extensive of Banking facilities in rural areas;

(6) With the same object in view, to extend facilities for voluntary settlement of taxes payable in respect of War profits to assessees whose cases have not been referred to the Tax Investigation Commission;

(7) Introduction of economy measures for securing an aggregate reduction of approximately forty crores in revenue and capital expenditure for the current year and not less than twice that sum next year, as compared with the budget estimates for 1949-50.

(8) To take steps, in co-operation with Provincial and State Governments, to bring about an aggregate reduction of ten per cent, in the retail prices of essential commodities, manufactured goods as well as food-grains, by a reduction of exfarm and exfactory prices or by reduction of distribution costs and incidental charges or by both."

3.28. Asked to specify the concrete measures taken by Government to hold the price line after the 1949 devaluation, the Ministry have informed the Committee that "following the devaluation of the rupee in September, 1949, Government took a number of measures, such as,

(a) the increase in export duty on raw cotton and hessian (the former from Rs. 40 per bale to Rs. 100 per bale and the latter from Rs. 80 per ton to Rs. 350 per ton),

(b) the levy of export duties on mustard oil and certain categories of iron and steel,

(c) the reduction in the prices of cotton textiles and yarn by a cut in the ex-mill prices and the margin allowed for distribution, and by the reduction in the level of excise duty on cloth,

(d) the reduction in the price of pig iron and the selling prices of all categories of iron and steel,

(e) the reduction in the prices of certain categories of coal and the grant of coal freight concession to certain industries,

(f) the reduction in the issue prices of foodgrains to be secured partly by a reduction in distribution and other incidental charges and partly by the lowering of procurement prices, and

(g) prohibition w.e.f. 15th February, 1950 of "futures and options" in gur, gur shakkar and rab."

3.29. Maintaining further that the 1949 devaluation "was not followed by a general upsurge in prices" the Ministry have stated:

"The general index of wholesale prices (year ended August 1939—100) moved up slightly from 389.8 in September 1949 to 393.3 in the following October but declined to a low of 381.3 in December 1949. It rose thereafter to reach a level of 395.6 in June 1950. This was the time of the out-break of war in Korea which influenced the course of prices thereafter not merely in India but in other countries as well. The rise in prices between September 1949 and June 1950 was less than 2 per cent."

3.30. The Committee are also informed that soon after the 1949 devaluation Government also introduced 'a scheme of compulsory savings and a cut in salaries generally applicable to all Government employees'. Under the scheme of compulsory savings, which was to remain in force from 1st December 1949 to 1st March, 1952, those drawing above Rs. 250 p.m. were required to subscribe to any of the existing provident funds, the rate of contribution varying from 1¼ annas in the rupee in the case of salaries between Rs. 251 and Rs. 500 to 3¼ annas in the case of salaries over Rs. 3,000. These subscriptions were recoverable not in addition to but inclusive of any sums which a Government servant 'may already be subscribing'. There was no change in Government contributions to the provident funds. As regards cuts, those drawing a salary of Rs. 3,000 were to be subject to a cut of Rs. 250 while those drawing over Rs. 3,000 were to be subject to a further cut of 25 percent in respect of the excess over Rs. 3,000. However, those whose salaries were subject to cuts were not required to subscribe to the compulsory savings scheme.

3.31. It is also known that a voluntary cut of 15 per cent in salaries had been accepted by the Central Government Ministers for the period from November 1949 to 29th February, 1952.

(iii) *Effect of Devaluation on Balance of Payments*

3.32. It has been noted earlier that India had been having balance of payments deficit ever since the end of World War II. In 1948-49 the deficit on trade account alone was as large as Rs. 283.8 crores. As stated by an eminent economist, "On the eve of devaluation, the position was that though the demand for India's exports including that from the hard currency areas was showing some signs of revival, speculative anticipations of devaluation were working in the opposite direction."

3.38. The devaluation of the rupee was expected to achieve a more balanced position in the country's international accounts, by providing a stimulus to exports and a check on imports in so far as trade with non-devaluing countries (such as the U.S.A. and other hard currency areas) was concerned. Actually, following devaluation, Indian exports did increase from Rs. 482.5 crores in 1948-49 to 514 crores in 1949-50 and Rs. 646.8 crores in 1950-51 while the trade deficit came down from Rs. 283.8 crores in 1948-49 to Rs. 89.9 crores in 1949-50 and Rs. 3.5 crores in 1950-51.

3.34. The following table indicates India's balance of trade with the U.S.A. in the year preceding devaluation and the two post devaluation years:

India's Balance of Trade with the U.S.A. 1948-49—1950-51

(Rs. crores)

	1948-49	1949-50	1950-51
Imports	109.8	98.1	117.9
Exports	70.7	81.6	115.3
Balance	—39.1	—16.5	—2.6

3.35. It is seen that in the two years following devaluation of the rupee in September, 1949, there was a perceptible improvement in India's overall balance of payments as also in her trade balance with the U.S.A. (in terms of whose currency the rupee had been devalued) and the performance of her exports. However, it has been found difficult to estimate how far this improvement was due to devalua-

tion for there were certain other influences which were also at work at the same time. These 'influences' have been described as under:

> "Firstly, the deficit of the earlier period is partly attributable to the speculative forces generated by rumours of devaluation which adversely affected our exports and exaggerated the payments for imports during that period.

Secondly, the various steps taken by the Government of India to promote India's export trade may have made a contribution of their own.

Thirdly, after the start of the Korean War, there was a spurt in demand for some of the raw materials.

Fourthly, in pursuance of the decisions made at the Commonwealth Finance Ministers' Conference at London during the summer of 1949, stricter controls over dollar imports were in operation from the middle of that year and continued unrelaxed for some time after devaluation.

3.36. Commenting on the improvement in exports during 1949-50 and 1950-51 an eminent economist observes:

> "On the side of exports, while there is no doubt that a considerable amount of the stimulus both in regard to jute manufactures and cotton textiles is due to devaluation, it is difficult to isolate at this stage the contribution due to other causes or to assess the extent to which the improvement is likely to be lasting. The declining trend of exports witnessed during the second quarter of 1950 may be an indication that the effects of devaluation have neared exhaustion while the subsequent improvement is due to the Korean situation and the World—wide stimulation of demand for essential raw materials."

3.37. In their written replies to the Committee the Ministry have also stated that exports during the period 1948-49 to 1950-51 "showed a rising tendency.....partly under the impact of Korean War boom and partly due to the temporary impetus provided by the devaluation of the rupee." Dealing with the effects of the 1949 devaluation the Chief Economic Adviser, Ministry of Finance, said during the course of official evidence that, "on the export side, our exports picked up with the U.S.A." He added, that the effects of the 1949 devaluation "are not those of normal devaluation" since the rupee had been "devalued with reference mainly to one country" and along with Indian many other countries had devalued at the same time. Further, explaining. in reply to a question. the decline in India's exports to

the U.S.A. from 1952-53* onwards, the representative of the Ministry said, "By this time the 1949 devaluation had worked itself out."

B. The First and Second Plan Periods

(1) *Balance of Payments* 1951—1956:

3.38. The following table indicates India's overall Balance of Payments during the First Five Year Plan period:

India's Overall Balance of Payments
(1951—56)

(Rs. crores)

	1951-52	1952-53	1953-54	1954-55	1955-56
1. Imports	962.9	633.0	591.8	689.7	773.1
2. Exports	730.1	601.9	539.7	596.6	640.3
3. Trade Balance	—232.8	—31.1	—53.1	—93.1	—132.8
4. Invisible (excl. official Donations)	+64.9	+80.5	+80.5	+77.4	+87.6
5. Current Account (net)	—167.9	+49.4	+28.4	—15.7	—45.2
6. Errors & Ommissions	—45.0	—25.7	+2.3	—12.1	—17.6
7. Private Capital (net)	—10.3	—5.8	—11.0	—4.8	+10.4
8. Banking Capital (net)	+23.2	—36.0	—1.3	+4.4	+8.9
9. Amortisation Payments (gross) (minus indicate payments) . .	—12.9	—12.8	—11.2	—10.7	—3.6
10. Misc. Capital transactions (net)	—16.8	+1.7	+18.3	+15.7	+3.4
11. Total (items 7-10) (other Capital transactions) .	—16.8	—52.9	—5.2	+4.6	+19.1
12. Offl. loans (gross)	+59.6	+35.1	+1.6	+0.6	+9.4
13. Off Donations . .	+5.3	+10.8	+19.0	+21.7	+51.9
14. IMF (Net) . . .	..	..	—17.2	—17.2	—7.1
15. Foreign Exchange Reserves	—164.8	+16.7	+28.9	—18.1	+10.5

(i) *Current Account*

3.39. It has been stated that "certain external facters like the Korean War boom and the American recession of 1953" influenced India's imports and exports during the First Plan period. "Some

*India's exports to the U.S.A. fell from 132.3 crores in 1951-52 to Rs. 112.5 crores in 1952-53 and Rs. 90.7 crores in 1953-54.

fortuitous factors internally like favourable monsoons which boosted agricultural and industrial production" are also stated to have had impact on the country's balance of payments during this period.

3.40. It is seen that imports during this period averaged Rs. 730 crores annually representing a rise of Rs. 80 crores over the annual average for the 1948—51 period. Exports averaging Rs. 622 crores annually exceeded the average for the period 1948—51 by Rs. 74 crores. The first year of the Plan registered the highest level of imports (Rs. 963 crores) and exports Rs. 730 crores). This has been attributed to "the impact of the Korean War boom". In the following two years, namely 1952-53 and 1953-54, "due to the tapering off of the Korean boom and the onset of recessionary tendencies," exports came down to Rs. 602 crores and Rs. 540 crores respectively; similarly, imports declined to Rs. 633 crores and Rs. 592 crores. Owing to a larger fall in imports than in exports, the trade deficit which had been as high as Rs. 233 crores in 1951-52 narrowed down to Rs. 31 crores in 1952-53 and Rs. 52 crores in 1953-54.

3.41. It has been stated that as the tempo of planned investment gathered momentum only in 1954-55, the impact of economic development on the balance of payments was "really felt in the last two years of the First Plan". Imports showed a sharp rise to Rs. 690 crores in 1954-55 and Rs. 773 crores in 1955-56. Exports also increased in these two years, but the expansion of exports was far behind that of imports. In consequence, the trade deficit widened from Rs. 52 crores in 1953-54 to Rs. 93 crores in 1954-55 and Rs. 133 crores in 1955-56. For the whole of the First Plan period the country had a deficit of Rs. 542 crores on trade accounts.

3.42. Invisibles other than official donations averaged Rs. 72.2 crores a year and aggregated Rs. 391 crores during the First Plan Period. Thus, for the entire First Plan period there was a current account deficit of Rs. 151 crores.

(ii) *Capital Account*

3.43. It is seen that during 1951—56 there was a net outgo of private capital of about Rs. 22 crores, and of banking capital of Rs. 1 crores. With a net receipt of Rs. 36 crores on account of official capital, there was a net capital inflow of Rs. 13 crores during the First Plan period.

(2) *Balance of Payments* 1956—61

3.44. India's Overall Balance of Payments position during the Second Plan period is indicated below:—

India's Overall Balance of Payments 1956—61

(Rs. Crores)

	1956-57	1957-58	1958-59	1959-60	1960-61
1. Imports	1102·1	1233·2	1029·3	932·3	1105·7
2. Exports	635·2	668·6*	576·3	627·4	630·5
3. Trade Balance . . .	—466·9	—564·6	—453·0	—304·9	—475·2
4. Invisibles (excluding Official Donations). . .	+117·1	+100·3	+90·4	+81·3	+37·6
5. Current Account (net) .	—349·8	—464·3	—362·6	—223·6	—437·6
6. Errors & Omissions . .	—0·3	—7·9	—29·1	—24·5	—6·3
7. Private Capital (net) . .	—21·8	+3·5	—20·0	—4·9	+16·5
8. Banking Capital (net) .	—12·6	—11·1	+4·8	+12·5	+9·7
9. Amortisation (gross) (minus payments) . . . (Payments indicate)	—3·3	—79·0*	—7·3	—12·3	—37·6
10. Misc. Capital transactions (net)	+44·4	+116·5	+110·8	+35·3	+105·0
11. Total (items 7-10) .	+6·7	+29·9	+88·3	+30·6	+93·6
12. Official Loans (gross)	+30·4	+115·0	+225·5	+187·3	+256·6
13. Official Donations . .	+37·0	+32·9	+35·6	+38·0	+45·2
14. IMF (net) . . .	+54·7	+34·5	..	—23·8	—10·7
15. Foreign Exchange Reserves	—221·3	—259·9	—42·3	—16·0	—59·3

(i) *Current Account*

3.45. Reviewing the position, the Ministry have stated that during the Second Plan period export earnings averaged Rs. 613 crores which was lower than the average during the First Plan period by Rs. 9 crores. Imports, on the other hand, rose steeply, the annual average for the Second Plan period being Rs. 1080 crores as against Rs. 730 crores for the First Plan period. The hump in imports was reached in the second year of the Plan, *i.e.*, 1957-58 when they amoutnted to Rs. 1,233 crores. In the following two years, there was

*Includes silver valued at Rs. 74·4 crores exported to USA in fulfilment of lend lease obligations. The cancelling debit entry for this export is included in item 9.

a rapid fall, but in the last year of the plan import payments again rose to Rs. 1105:7 crores which was slightly higher than the level reached in the first year of the Plan. For the Second Plan period as a whole, the country incurred a heavy deficit on trade account amounting to Rs. 2,336 crores.

3.46. Invisibles, other than official donations, increased marginally in the Second Plan period, the annual average for the period being Rs. 85 crores as against Rs. 78 crores for the preceding plan period. It is to be noted, however, that earnings on the invisible account started declining from 1957-58 onwards. In 1960-61, these amounted to only Rs. 37.6 crores as against Rs. 117.1 crores in 1956-57. Net earnings from invisibles for 1956—61 amounted to Rs. 426 crores.

3.47. The net current account deficit (excluding official donations) during the Second Plan period amounted to Rs. 1910 crores as against Rs. 151 crores during the First Plan period.

(ii) *Capital Account*

3.48. During the five year period (1956—61) there was a net outgo of private capital amounting to Rs. 28 crores and a net inflow of Rs. 7 crores of banking capital. The movements of both these types of capital were over-shadowed by net receipts on account of official capital which rose to Rs. 1215 crores during the Second Plan period against Rs. 36 crores during the First Plan period. Official loans including PL 480 assistance accounted for the bulk of this increase. On the net inflow of capital during the Second Plan period amounted to Rs. 1194 crores.

(3) *Pattern of Imports and Exports*

(i) *Imports*

3.49. India's imports of selected commodities during the First and Second Plan periods were as under:—

India's Imports of selected Commodities during First Plan Period

	1951-52	1952-53	1953-54	1954-55	1955-56
			(Rs. crores)		
A. Capital Goods . . .	178·1	180·5	159·9	220·7	314·4
1. Machinery of all kinds .	101·1	96·1	96·9	121·3	164·3
2. Metals—Iron & steel .	22·0	24·5	22·1	28·7	70·5

	1951-52	1952-53	1953-54	1954-55	1955-56
			(Rs. Crores)		
3. Metals-other than iron and steel	20·6	19·8	13·6	22·7	23·7
4. Transport equipment (excluding locomotives)	34·4	40·1	27·3	48·0	55·9
B. Raw Materials	314·4	194·4	181·9	176·5	193·6
1. Mineral oils	70·9	76·9	76·7	70·0	72·5
2. Cotton, raw and waste	137·2	76·7	59·0	55·3	58·1
5. Jute raw	67·1	16·5	12·9	11·9	18·3
4. Dyes and Colours	19·3	10·6	13·8	13·5	15·7
5. Chemicals	19·9	13·7	19·5	25·8	29·0
C. Consumer Goods	289·3	205·5	118·7	156·1	108·2
1. Electric Goods and apparatus	10·3	16·3	17·3	18·3	18·6
2. Drugs and medicines	15·6	11·5	11·3	11·9	12·5
3. Rayon textiles	18·2	8·1	11·2	11·9	14·4
4. Paper, paste-board etc	14·9	14·1	12·2	13·1	14·6
5. Foodgrains	230·3	155·5	66·7	100·9	48·1

India's Exports of Selected Commodities during Second Plan period

	1956-57	1957-58	1958-59	1959-60	1960-61
			(Rs. Crores)		
A. Capital Goods	501·1	555·1	463·5	342·4	420·9
1. Machinery of all kinds	246·2	325·3	309·4	208·6	237·1
2. Metals-iron and steel	133·5	132·7	84·5	50·8	78·4
3. Metals-other than iron and steel	37·7	36·0	26·8	32·1	43·1
4. Transport equipment (excluding locomotives)	83·7	63·1	42·8	50·9	62·3
B. Raw Materials	204·5	174·7	136·6	198·0	205·0
1. Mineral Oils	88·3	79·7	56·0	88·0	86·1
2. Cotton, raw and waste.	54·6	35·5	30·1	43·5	60·9
3. Jute raw	7·9	6·4	2·6	2·8	5·4
4. Dyes and colours	15·1	14·4	12·5	10·8	12·1

	1956-57	1957-58	1958-59	1959-60	1960-61
			(Rs. crores)		
5. Chemicals	38·6	38·7	35·4	52·9	40·5
C. Consumer Goods	177·9	228·9	194·5	193·4	279·5
1. Electric goods and apparatus	24·1	24·8	15·6	14·5	17·5
2. Drugs and medicines	14·1	15·7	9·9	8·8	8·9
3. Rayon textiles	17·0	10·6	11·7	11·6	13·4
4. Paper, paste-board etc.	14·5	12·1	7·1	8·4	9·2
5. Foodgrains	108·2	165·7	150·2	150·1	230·5

3.50. It is seen that there were notable changes in the structure of imports during the First Plan period. Imports of 'Capital Goods' showed a sharp rise of as much as 76 per cent over the five-year period. Within this group, machinery imports increased by 62 per cent to Rs. 164 crores, and iron and steel imports by more than three fold to Rs. 71 crores. On the other hand, 'Raw materials' imports showed a sharp decline from Rs. 314 crores in 1951-52 to Rs. 194 crores in 1955-56; the fall in imports being largely accounted for by cotton, raw and waste, and raw jute owing to increased domestic production of these commodities. Further, in the category of 'consumer goods', the sharpest declines were in respect of foodgrains, *i.e.*, from Rs. 230 crores in the first year of the First Plan to only Rs. 48 crores in the last year of the Plan.

3.51. Over the first decade of planning, imports of 'capital goods' rose by as much as 136 per cent, their share in total imports having moved up from 18 per cent in 1951-52 to 38 per cent in 1960-61. Within this group, machinery imports increased by 134 per cent, from Rs. 101 crores in 1951-52 to Rs. 237 crores in 1960-61, and iron and steel by more than three-fold to Rs. 78 crores. On the other hand, with improvement in the domestic supply position of raw jute and raw cotton, the share of 'raw materials' in total imports declined from 32 per cent in 1951-52 to 18 per cent in 1960-61. In the consumer goods' category, although imports of foodgrains in 1960-61 were of the same order as in 1951-52 (Rs. 230 crores), the share of this category in the total imports came down from 30 per cent in 1951-52 to 25 per cent in 1960-61.

3.52. A notable feature of imports during the Second Plan was the pronounced increase in Government imports. These imports averaged Rs. 443 crores during the Second Plan period as against Rs. 187 crores in the First Plan period. It has been stated that the increase in Government imports "resulted from the large programmes of expansion, re-equipment programme for the Railways and the construction of the three steel plants." In the last year of the Second Plan, however, Government imports are stated to have increased "primarily on account of food imports under the P.L. 480 deals."

(ii) *Exports*

3.53. India's exports of selected commodities during the First and Second Plan periods are indicated below:

India's Exports of Selected Commodities during First Plan period

	1951-52	1952-53	1953-54	1954-55	1955-56
			(Rs. in crores)		
1 Jute yarn and manufactures	242·9	136·6	114·1	128·9	120·4
2. Tea	92·4	80·6	101·6	146·0	110·7
3. Cotton yarn and manufactures	70·1	81·5	85·2	82·0	86·3
4. Hides and skins raw and tanned	37·3	28·2	33·4	27·9	32·9
5. Vegetable Oils	32·6	30·1	7·7	21·9	41·1
6. Spices (including Black pepper)	23·2*	16·1*	18·1	14·0	13·2
7. Tobacco, (manufactured and unmanufactured)	22·5	15·6	12·9	11·6	14·5
8. Metallic ores (including manganese ore)	17·7	40·0	39·9	22·1	29·9
9. Cotton raw and waste	15·8	31·4	20·7	22·7	44·6
10. Cashew-Kernels	9·0	13·0	11·0	10·2	14·3
11. Oil cakes		..		0·7	6·5

* Upto 1952-53 the figures cover exports of black papper only.

India's Exports of Selected Commodities during Second Plan period

	1956-57	1957-58	1958-59	1959-60	1960-61
			(Rs. in crores).		
1. Tea	149·3	119·4	137·9	129·8	124·3
2. Jute yarn and manufactures	126·3	118·2	105·9	113·9	135·2
3. Cotton yarns and manufactures	80·3	76·2	63·5	84·3	73·7
4. Metallic ores (including manganese ore) . . .	40·9	45·5	27·7	31·8	37·7
5. Hides and skins, raw and tanned	30·4	30·5	29·2	45·3	39·4
6. Vegetable Oils .	25·5	14·9	9·6	18·0	11·8
7. Cotton, raw and waste .	23·7	15·9	23·2	15·2	12·8
8. Tobacco (manufactured and unmanufactured) . . .	15·6	16·3	15·9	15·0	15·6
9. Cashew Kernels .	13·7	16·0	15·5	15·3	17·0
10. Spices (including black pepper)	10·2	9·8	9·1	13·9	17·4
11. Oil cakes	2·3	3·4	11·5	22·3	14·7

3.54. It is seen that the pattern of exports did not change to any significant extent during the first decade of planning in the country. As in the period 1948—51, jute manufactures, tea and cotton manufactures continued to account for 50—55 per cent of the total export earnings. Vegetable oils, raw cotton, hides & skins, metallic ores, spices and cashew kernels between them accounted for the next 20—25 per cent. Thus, about three-fourths of the export trade was divided between these nine commodities and the remaining one-fourth was contributed by all other commodities. However, among the principal commodities there were widespread shifts. For instance, in five out of ten years, jute manufactures ranked first among the earners of foreign exchange whereas in the other five years tea qualified for the leading position. Cotton manufactures, which had risen to the first position in 1950-51, held on to the third position throughout the two Plan periods. Other commodities that showed noticeable variations were spices and vegetable oils. Exports of the former declined from Rs. 23 crores in 1951-52 to Rs. 9 crores in 1958-59 but rose to Rs. 17 crores in 1960-61, while earnings from the latter dropped sharply from Rs. 33 crores in 1951-52 to barely Rs. 12 crores in 1960-61.

3.55. During the Second Plan period a number of traditional commodities such as jute and cotton manufactures, raw cotton and vegetable oils brought in lower earnings than in the First Plan period. But, items like iron-ore, cashew kernels and oil-seed tended to acquire increasing importance in the country's export trade. It has also been stated that engineering goods emerged as a new export commodity during the Second Plan period, earnings therefrom in 1960-61 being Rs. 5.6 crores.

5.56. It has been stated that the preponderance of commodities like tea, jute and cotton manufactures in India's export trade "is not surprising as changes in the export pattern are governed by the diversification of the economy."

(4) *Draft on Foreign Exchange Reserves and Foreign Exchange Crisis of the Second Plan.*

3:57. The First Plan had anticipated that during the five-year period, 1951—56, there would be a current account deficit of Rs. 667—727 crores and that there would be a draft on the foreign exchange reserves of the order of Rs. 290 crores. In reality, the current account deficit during the Plan period was around Rs. 151 crores and the actual draft on reserves was only Rs. 127 crores. According to the Second Plan document, the main reasons for this 'favourable outcome' were (a) the lower volume of food imports on account of large increase in domestic production and (b) imports of machinery were "lower than was anticipated in the First Plan report." However, a study brought out by the Reserve Bank of India has drawn attention to the following 'important implications' of the comfortable balance of payments position during the First Plan:—

> "The actual development effort fell considerably short of what was planned. This was evident from a fall in the proportion of investment to national income in 1952-53 and a virtual stationary level of investment in the following year. Since the expected impact on the balance of payments was linked up with the volume and pattern of investment, the reduction of the investment led to a lower order of imports, mainly of capital goods. In a sense, the slowing down of the pace of investment and the consequent easing of the payments position led to a much grater pressure on the balance of payment in subequent years."

3.58. The Second Plan document had anticipated an aggregate deficit current account of about Rs. 1100 crores over the five year

period. This deficit was to be met partly by withdrawal from the foreign exchange reserves and partly by external assistance and foreign investments in the private sector. Total withdrawals from foreign exchange reserves during the Plan period were estimated at Rs. 200 crores. The gap of Rs. 900 crores in the current account deficit was expected to be filled by external assistance amounting to about Rs. 800 crores and a net inflow of Rs. 100 crores of foreign capital in the private sector.

3.59. However, the balance of payments estimates of the Second Plan were completely upset by a steep spurt in imports, particularly during the first two years of the Plan period. Imports during 1956-57 and 1957-58 amounted, respectively, to Rs. 1102 crores and Rs. 1233 crores against Rs. 783 crores and Rs. 886 crores envisaged in the Plan. Over the Plan period as a whole, imports averaged Rs. 1080 crores as against the Plan estimates of Rs. 868 crores. Since actual exports averaged only Rs. 613 crores (as against Rs. 593 crores envisaged in the Plan), the large trade deficit, amounting to Rs. 2,336 crores against the Plan estimate of Rs. 1375 crores, resulted in heavy erosion of the foreign exchange reserves. The following table shows the draft on India's foreign exchange reserves during each year of the Second Plan:—

Draft on Foreign Exchange Reserves during the Second Plan, period

(Rs. crores)

Year	Draft on Reserves
1956-57	221·3
1957-58	259·9
1958-59	42·3
1959-60	16·0
1960-61	59·3
Total	598·8

3.60. Thus, the draft on foreign exchange reserves in the very first year of the Second Plan was higher than the total draft anticipated for the whole of the Plan period. The actual draft for the five-year period was Rs. 599 crores which was three times the figure visualised in the Plan. It may be mentioned that this heavy fall in reserves occurred inspite of the fact that external assistance actually utilised for the Second Plan "turned out to be more than 50 per cent

over the level that was originally envisaged." At the end of the Second Plan India's foreign exchange reserves stood at only Rs. 308·6 crores.

3.61. The decline of Rs. 481 crores in the foreign exchange reserves in the first two years of the Second Plan created a foreign exchange crisis. In the wake of this crisis and the serious ways and means position arising therefrom a reappraisal of the economic situation in 1958 led to the decision to scale down the plan and to concentrate on "core" projects.

3.62. It has been stated by the Ministry that the persistent decline in the foreign assets of the Reserve Bank and the likelihood of further heavy draft on them necessitated a modification of the statutory minimum in respect of currency reserves. The Reserve Bank of India Act, as amended in 1956, had provided for a minimum of foreign reserves in absolute terms, *viz.*, Rs. 400 crores in foreign securities and Rs. 115 crores in gold coin and metal. By an ordinance issued on October 31, 1957 and a subsequent amending Act which replaced the same, the aggregate value of 'gold coin, gold bullion and foreign securities' to be kept as reserve was fixed at a minimum of Rs. 200 crores, of which the value of gold coin and gold bullion was not to be less than Rs. 115 crores. The Act also empowered the Reserve Bank, with the previous sanction of the Government of India to reduce the amount of foreign securities in the reserves.

3.63. It has been stated that with a very low level of reserves by the end of the second year of the Second Plan; "special efforts to secure foreign assistance became increasingly imperative in order to keep up the momentum that the economy had gathered earlier in the Plan." As a result, whereas the reserves and net drawings from the I.M.F. financed about 80 per cent of the current account deficit (excluding official donations) in 1956-57 and 55 per cent in 1957-58 they financed only 10 per cent of the deficit in 1958-59. In 1959-60 the current account deficit was financed entirely by capital transactions and foreign assistance other than from the I.M.F.

(5) *Trade Policy*

3.64. It has been stated that the favourable foreign exchange position in 1950-51 led to the adoption of a more liberal import policy during 1951. However, with the inelastic supply of exports and increased flow of imports, the current deficit reappeared in 1951-52, resulting in a fall of Rs. 165 crores in the reserves during that year. In view of this, import controls are stated to have been again tighten-

ed in the second half of 1952 and in 1953, but were liberal in respect of machinery, industrial raw materials and foodgrains.

3.65. The Committee are further informed that "in the last two years of the First Plan the import policy was one of progressive but controlled liberalisation—in keeping with the needs of economic development". Thus, import quotas of a number of commodities were stepped up to meet the increasing demand of industries. At the same time there was considerable relaxation of the discrimination against dollar imports. It has been stated that "despite the fairly liberal import policy the import bill did not rise appreciably; and in the last year of the First Plan there was a small accretion to the reserves of Rs. 10 crores".

3.66. However, as stated in a study on India's Balance of Payments, brought out by the Reserve Bank of India, "the cumulative effects of the successive liberalisations of import policy during 1954-55 and 1955-56 were felt in the first year of the Second Plan". In that year (*i.e.*, 1956-57) import payments were pushed to the high level of Rs. 1102 crores, involving in turn a draft on the reserves to the extent of Rs. 221 crores. It has been further stated that from 1956-57 onwards "the shortage of foreign exchange became the key problem of the Indian economy with the result that drastic cuts were effected in respect of imports of non-essential consumer goods. Since 1957 the import policy, while making adequate provision for development and maintenance imports to sustain industrial activity at a high level, has basically remained a very restrictive one with successive tightening at every stage, and with only marginal adjustments and modifications aimed at relieving the shortage of raw materials and components experienced by different industries at different times. Imports of most consumer goods were either prohibited or curtailed." However, the Committee are informed that whereas in the first half of 1958-59, "imports of consumption goods required for the domestic market were drastically controlled," in the second half of that every year the import policy was liberalised to permit imports of consumer goods such as infant food, time-pieces photographic goods and "such goods which were in short supply owing to tighter import licensing during the preceding half year and which were domestically not forthcoming".

3.67. Another significant aspect of the import policy of the Second Plan was that imports of capital goods for new projects were allowed only under deferred payment arrangements. In December, 1959, currency discrimination in respect of imports from the dollar area was eliminated.

3.68. As regards export policy, it has been stated that "with the petering out of the Korean War boom and the recession in the World demand for primary commodities, the export policy was gradually liberalised during the First Plan period. Export duties were steadily removed or reduced; export quotas were liberalised and destinational restrictions on commodities like jut goods were romoved. Other measures taken to promote export were: grant of a rebate of import duty on raw materials and components used in the manufacture of goods to be exported; and the setting up of Export Promotion Councils for plastic manufactures, engineering goods, pepper, tobacco, cotton, silk and rayon textiles.

3.69. The drastic fall in foreign exchange reserves in the first two years of the Second Plan, on the one hand, resulted in the introduction of stringent import policy and, on the other, focussed attention on the need to promote exports, since the cushion erstwhile provided by the accumulated sterling balances had more or less disappeared. It has been stated that, "as the Second Plan progressed, it became apparent that a broad-based export programme was called for to step up export earnings, and in fact that accent on export promotion gathered momentum each year." From about the middle of the Second Plan export promotion measures were said to have been directed along the following lines, (i) liberalisation of export quotes wherever practicable, (ii) Fiscal reliefs and concessions in the form of abolition of export duties (iii) grant of drawback and rebates on customs and excise duties in respect of materials and component parts used in the manufacture of the export products, (iv) freight and railway concessions for specified exports, and (v) the remission of sales tax on a wide range of commodities.

3.70. The Committee are also informed that a 'central feature' of the export promotion policy after 1957 was the introduction of a number of export incentives schemes in the form of import entitlements. The import-linked schemes, introduced during the Second Plan period, were of two varieties. In the first group were schemes whose objective was "of ensuring normal supplies of imported raw materials, and thereby insulating export production from the rigor ous of import control." Schemes for cashew kernels, shellac, unmanufactured tobacco were illustrations of this variety. The second variety of schemes not only ensured supplies of imported materials for export production, but provided a level of incentives which left a margin over the actual requirements of export production. It has been stated that the intention behind the latter type of schemes was "to offer a monetary attraction for exports by allowing the industry

to earn surplus entitlements which could be either used to expand domestic production or sold in the domestic market at a price higher than the international price, the rationale being that the loss arising from the sale of a product abroad at the international price would be covered through higher prices on internal sales." Although, in general, these schemes were intended to aid new manufactures like chemicals, plactics, etc., they were also extended to cover traditional exports like cotton textiles, woolen ruges etc.

3.71. It has been stated that during the Second Plan period, institutional facilities for export promotion were strengthened by the setting up of Export Promotion Councils, the Export Risks Insurance Corporation, the State Trading Corporation and the Board of Trade. Further, a number of Trade Agreements were concluded with foreign countries, particularly the Bilateral Payments Agreements with East European countries to enlarge markets of Indian exports.

(6) *Comments on Foreign Exchange Crisis and Trade Policy*

3.72. Various reasons have been advanced for the foreign exchange crisis of 1957-58. In the Third Plan document the deterioration in the foreign exchange position of the country during the Second Plan period has been explained as follows:

> "The adverse foreign exchange situation that developed during the Second Plan period was due partly to the under-estimation of the direct foreign exchange requirements of the Plan and partly to failure to take into account sufficiently the growing import needs of a developing economy. The sharp rise in the tempo of private investment in the early stages of the Plan also contributed to the difficulties, although this probably affected the timings of deficits rather than their total over the Plan period. The difficulties arising from these shortcomings in planning were aggravated by two bad agricultural seasons during the Plan period. Food imports provided for in the balance of payments estimates for the Plan were 6 million tons. Actual imports over the Plan period have been about 20 million tons. Imports of raw cotton have also been on a substantial scale."

3.73. A study made by the Reserve Bank of India also holds that the heavy draft on foreign exchange reserves during the first two years of the Second Plan was "due partly to under-estimation of

the import requirements of the Plan projects." Other contributory factors listed by the Reserve Bank are:

"(i) The successive liberalisations of the import policy during 1954-55 and 1955-56 and the 'cumulative backlog of import licences' issued before the commencement of the Second Plan.

(ii) Larger investment in the private sector in directions not anticipated in the Plan, and

(iii) Slowing down of the pace of development during the First Plan period which implied "a much greater pressure on the balance of payments in subsequent years."

3.74. At the height of the foreign exchange crisis in 1958, the Planning Commission also undertook an examination of the situation. Cataloguing the factors that had led to the crisis, the Commission observed:

"The rise in imports and consequent drain on foreign exchange resources is itself *attributable mainly to the attempt to carry out the Second Five Year Plan.* But the shortage has been to some extent aggravated and hastened by the following factors:

(i) The heavy demands of defence.

(ii) The need to import more foodgrains than was originally anticipated.

(iii) The increased requirements of raw materials, components, spares, replacements etc. for matching the higher levels of industrial production reached in 1955 and 1956 for which some allowance was made in the Plan estimates but has proved to be inadequate.

(iv) Rather higher imports of consumer goods in the years 1955-56 and 1956-57 compared with earlier years.

(v) Increase in prices and in freight rates."

3.75. Dealing with the increases in imports in the first two years of the Second Plan the Commission observed that the items responsible for the largest increase were foodgrains, iron and steel and machinery of all kinds. Iron and steel and machinery of all kinds accounted for Rs. 136 crores or more than one-third of the total rise in imports in 1956-57 as compared with 1955-56.

3.76. As regards defence imports, it was estimated that the annual average of foreign exchange expenditure on these during the first two years of the Second Plan was about Rs. 30 crores higher than the average of the preceding three years. Furthermore, the outstanding foreign exchange commitments for defence were stated to be 'exceedingly heavy'.

3.77. The Commission estimated that food imports in 1956-57 had amounted to Rs. 102 crores (of which about Rs. 35 crores were covered by foreign aid) and in 1957-58 to Rs. 150 crores, but a considerable part of the imports was covered by P.L. 480. Referring to the divergence between the 'actual' food imports in the first two years of the Second Plan and the estimated made in this behalf in the Plan document, the Commission observed:

> "During the last three years of the First Plan imports of foodgrains etc. had substantially fallen (from Rs. 161.28 crores in 1952-53 to 72.48 crores in 1953-54, 68.37 crores in 1954-55 and 29 crores in 1955-56), but in the first year of the Second Plan they have risen sharply to Rs. 102 crores. This compares with an annual average import of Rs. 48 crores worth of foodgrains assumed in the Second Plan. This assumption has proved so far to be wide of the mark, but it may be recalled that at the time it was made it appeared reasonable. Right up till July 1955 the Food Ministry was burdened with stocks of foodgrains which it was finding some difficulty in disposing of. Even as late as the early part of 1956, it was contemplated that the foodgrains, which at that time it was agreed to take under PL 480, would be used to build up a reserve and would not have to be issued straight to the public for consumption."

3.78. As regards 'consumer goods' the Commission estimated that increases in imports of 9 'consumer goods' items (*viz.*, fruits and vegetables, provisions and oilman's stores, spices, oilseeds, tobacco, vegetable oils, drugs and medicines, paper, pasteboard and stationery, and cotton yarns and manufactures) in 1956-57 amounted to Rs. 6 crores as a compared to 1955-56 and Rs. 19 crores as compared to 1954-55.

3.79. With regard to increases in prices and freight rates, the Commission observed that "the large increase in the value of imports between 1955-56 and 1956-57 was due mainly to an increase in their volume and only to a relatively small degree to an increase in their

unit cost arising from higher prices abroad or from higher freight rates. As regards freight rates, it has been estimated by the Reserve Bank that their rise resulting from the Suez episode accounted for about Rs. 15 to Rs. 20 crores of the increase in the total value of imports."

3.80. In a monograph, published towards the end of 1957, the National Council of Applied Economic Research also dealt with the facotrs behind the foreign exchange crisis of the Second Plan. The Council had based its findings primarily on the following data published in the Reserve Bank Bulletin of July 1957 which had also formed the basis of the Planning Commission's appraisal of the situation referred to earlier:

India's Imports of Principal Commodities

(Rs. crores)

	1955-56	1956-57	Expected 2nd Plan Average	Increase(+) or Decrease(—) of (2) over (3)
	1	2	3	4
1. Machinery, Vehicles, iron and steel and other metals	299	442	430	(+)12
2. Foodgrains	29	102	48	(+)54
3. Sugar	..	..	7	(—)7
4. Oils	67	80	82	(—)2
5. Chemicals, drugs and medicines	34	43	32	(+)11
6. Dyes and colours	16	15	17	(—)2
7. Papers, pasteboard and stationery	15	15	11	
8. Cutlery and hardware, eelctrical goods and apparatus	41	53	29	(+)24
9. Raw cotton	58	53	54	(—)1
10. Raw Jute	18	8	18	(—)10
11. Others	174	266	140	(+)126
Total	751	1,077	868	(+)209

3.81. The Council also cited the following data showing the division of imports between 'private' and 'Government' during 1956-57 and the preceding year:

Private and Government Imports

(Rs. Crores)

	1955-56	1956-57	Increase
Private . .	612	796	184
Government .	139	281	142
Total .	751	1077	326

3.82. Thus, while private imports went up during 1956-57 by about 30 per cent Government imports registered in the same year an increase of over 100 per cent.

3.83. According to the Council the major reasons for the sharp increase in imports during 1956-57 were:

(i) Increase in Government imports on account of food.

(ii) "Estimates of Foreign Exchange requirements of many projects under the Second Plan had been revised upwards. Inadequate allowance was made originally for the components of a number of plan projects which had to be corrected subsequently. Thus, the cost calculations for the three steel plants in the public sector did not initially include the outlay on townships. Subsequently, the inclusion of the latter meant additional demand for imports, including iron and steel, cement, cables etc."

(iii) With the substantial increase in defence appropriations, necessitated by the deteriorating relations between India and Pakistan, "imports for defence purposes must have gone up."

(iv) "Lags and leads in programmes of investment in both the private and public sectors had also aggravated the crisis. Thus, some imports which ought to have taken place in the First Plan period had spilled over and had occurred in 1956-57. The crisis had been further made acute by a number of leads in import programming. A number of Ministries, anxious that some of their projects which involved a certain drain on foreign exchange should not be

affected by the general shortage in exchange availability which could be anticipated for the later years of the Plan, seemed to have made early arrangements during 1956-57 to import the necessary capital goods. Similarly in the private sector, again in anticipation of a possible crisis in foreign exchange and consequent adoption of restrictive measures, there was a rush to import as much of goods and materials as was possible."

(v) Under the liberal import policy pursued by the Government towards the close of the First Plan "licences were granted for a wide group of commodities including consumer goods and intermediate goods which can be put to use to produce consumer goods." Thus, in the import bill of 1956-57 miscellaneous items (classified as 'others') had accounted for Rs. 266 crores marking an increase of Rs. 126 crores over the anticipated Plan average. This category consisted, among others, of a "whole range of consumer and intermediate goods." Catch-all heads such as cutlery and hardware, electrical appliances etc. also concealed a whole group of consumer goods including such items as wrist watches, cinematographic films, radios, refrigerators, kitchenware, household gadgets, mechanical toyes, etc."

3.84. The view that the foreign exchange crisis of the Second Plan was largely due to errors in planning and indiscriminate issue of licences, particularly during the years 955-57, is shared by a number of eminent authorities like Shri C. D. Deshmukh and Dr. V. K. R. V. Rao. Maintaining that the foreign exchange component of the Second Plan was not calculated very precisely Shri Deshmukh has observed, "Perhaps the most inaccurate estimation by a Central Ministry was in connection with the iron and steel plants, the cost, and, therefore, the foreign exchange content, of which has gone up by about 25 per cent. It is possible that there were similar underestimates in regard to the requirements of the railways." He was also very critical of the failure in the sphere of agricultural production and the consequent drain on foreign exchange on account of heavy food imports. Further, dealing with the "imprudent licensing of imports" and expenditure of scarce foreign exchange for "things we do not want in such hurry" Shri Deshmukh observed:

"This must be obvious from the fact that within six months of the discovery that sterling balances were running low, we were able to institute strict regulation of import licen-

ces. Obviously had this matter been foreseen earlier, regulatory measures could have been taken earlier. If a correction was required and was found possible within such a short period no other proof is required that the grant of import licences and their use towards the end of 1955 and middle of 1956 was somewhat unplanned and imprudent."

3.85. According to Dr. V. K. R. V. Rao the major reasons for the emergence of the enormously greater import surplus (than was envisaged in the Second Plan) with its attendant foreign exchange crisis were:

"(i) a gross under-estimate of requirements in the public sector because of imperfect work on project estimates

(ii) permitting the private sector to import a much larger quantum of capital and semi-finished goods than visualised in the Plan and not even being aware of the magnitude or timing of these imports because of lack of coordination between the Planning Commission, the Ministry of Finance and the Ministry of Commerce and Industry.

(iii) having to import a much larger quantity of foodgrains than provided for in the Plan because of the failure to fulfil the Planning Commission's targets of agricultural production.

(iv) Permitting a much larger import of consumer goods than was either allowed in the Plan or could be considered essential in the overall national interest."

3.86. Dr. Rao concluded, "It seems fairly clear, therefore, that bad planning by the Planning Commission and inefficient execution by the Central and State Governments were, between them, largely responsible for the exchange crisis."

3.87. In reply to a question, the Ministry have explained the rise in imports from Rs. 591.8 crores in 1953-54 to Rs. 773.1 crores in 1955-56 and Rs. 1102.1 crores in 1956-57 as follows:

"The rise in imports during the period 1953-54 to 1955-56 has been on average about Rs. 95 crores annually. This is attributable to normal pace of development. During 1955-56 to 1956-57, however, the increase has been rather step, *viz.*, Rs. 329 crores. Government imports accounted for Rs. 132.2 crores and private imports Rs. 196.8 crores out of this increase. A considerable part of the increase

in Government imports was attributable to higher expenditure on foodgrains. The largest expansion in private imports occurred in the capital goods category; imports of machinery items rose by about Rs. 53 crores, of iron and steel by about Rs. 61 crores, and other metals by nearly Rs. 13 crores. The increase in imports of consumer goods was of the order of Rs. 25 crores. The unexpectedly larger imports were attributable to (i) some under-estimation in the import content of the First Five Year Plan, particularly in respect of iron and steel, (ii) larger imports of foodgrains and (iii) the cumulative effect of successive liberalisation of import policy in the past."

3.88. Asked whether a substantial part of the foreign exchange spent during 1956-57 was utilised for the import of non-essential items like luxury-housing equipment, cars, cycles, watches, fountain pens, tobacoo manufactures, etc., the Ministry have stated that "actual figures of imports of non-essential items mentioned in the question are not readily available." However, in a statement furnished by the Ministry imports of 'consumer goods other than food' (which covers the variety of non-essential consumer goods mentioned in the question) during the period 1948—61 have been shown to be as under:

Imports of Consumer Goods other than Food

(Value in Rs. crores)

Year	Value*	Percentage to total Imports
1948-49 . . .	147	22·8
1949-50 . . .	155	23·9
1950-51 . . .	141	21·7
1951-52 . . .	207	21·3
1952-53 . . .	170	24·2
1953-54 . . .	202	33·1
1954-55 . . .	224	34·1
1955-56 . . .	76	11·2
1956-57 . . .	76	9·0
1957-58 . . .	70	6·8
1958-59 . . .	49	5·4
1959-60 . . .	50	5·2
1960-61 . . .	56	4·9

*At the time of factul verification, the Ministry of Finance Stated that the figures of imports of "Consumer goods other than food" include the figures for the import of cashew nuts, the import of which was allowed for re-export after processing. The value of cashew nut imports ranged between Rs. 2 crores to Rs. 5 crores a year during 1948-56 as gainst total imports of 'Consumer goods other than food' amounting to Rs. 147·6 crores a year during 1948-51 and Rs. 176 crores a year during 1951-56.

3.89. The Committee note that the value of import of consumer goods (other than food) increased from an average of Rs. 147·6 crores per year in 1948—51 to Rs. 176 crores per year in the First Plan.

3.90. As regards the growing current account deficit during the Second Plan period, the Ministry have stated in reply to a question, "In a large measure this is a reflection, in accounts, of the faet that foreign loans have been utilised to a considerable extent for effecting imports. The current account deficit will be wiped out only when imports financed by aid are eliminated and we use only our export earnings for import payments. While this is the goal to be set, as long as developmental needs are to be met out of aid, the accounts will continue to show a current account deficit."

3.91. On a review of India's balance of payments during the years 1948—61, the Committee note that India had an adverse balance of trade throughout these thirteen years, though the size of the trade deficits varied from year to year. Briefly, the aggregate and average annual trade deficits during the three periods—the pre-plan period (1948—51), the First Plan period (1951—56) and the Second Plan period (1956—61)—covered in this span of thirteen years, were as under:

(Rs. crores)

Period	Trade Balance	Annual Average
1948-51 . .	(—)377	—126
1951-56 . .	(—)542	—1 08
1956-61 . .	(—)2336	—467

The impact of the trade deficits on the country's balance of payments was to some extent softened by net receipts from Invisibles. But earnings from invisibles being generally very small compared to the size of the trade deficits, the country had a negative current account in all but two years, viz., 1952-53 and 1953-54, the annual average current account deficit being Rs. 88 crores in 1948—51, Rs. 30 crores during the First Plan period and Rs. 382 crores during the Second Plan period. The recurring trade and current account deficits inevitably led to the erosion of the country's foreign exchange reserves, which declined from Rs. 1612 crores at the end of March, 1948 to Rs. 303·6 crores at the end of the Second Plan period. Besides, to meet the payments arising out of excess of imports over exports the country had to go in for external assistance on an extensive scale.

3.92. The Committee feel that the persistent current account deficits during the period 1948 to 1961 were due mainly to failure to evolve and implement a consistent trade policy which would maximum exports and minimise imports.

3.93. The Committee note that during the period 1948—51 the policy relating to exports was, by and large respective, guided as it was, by the need to ensure adequate supplies to meet the home demand. Although exports rose during this period from Rs. 482.5 crores in 1948-49 to Rs. 646.8 crores in 1950-51, the increase in export earnings was purely fortuitous being largely due to higher prices resulting from rising world demand occasioned by the Korean War boom of 1950-51.

3.94. During the First Plan period the export policy was liberalised somewhat by reducing or removing export duties, liberalising export quotas and removing destinational restrictions in the case of certain commodities. The annual average exports during the plan period amounted to Rs. 622 crores as against Rs. 548 crores during 1948—51, marking an increase of about 14 per cent. It has to be noted, however, that the improvement was largely accounted for by the fact that under the impact of the Korean War boom exports had reached an all-time peak of Rs. 730 crores in 1951-52. With the tapering off of the Korean War boom, exports again came down and the annual average for the remaining four years of the First Plan period was only Rs. 594·5 crores.

3.95. The Second Five Year Plan while anticipating a large foreign exchange gap had stressed that "the accent of policy must necessarily be on maximising export earnings and economising to the utmost on imports." However, in the balance of payments estimates of the Plan annual average exports during 1956—61 were assumed to amount to only Rs. 593 crores, i.e. Rs. 29 crores lower than the level attained during the preceding plan period. It is significant that even after the drastic fall in foreign exchange reserves in the first two years of the Second Plan had focussed attention on the need to promote exports and certain promotional measures to step up export earnings were initiated, exports failed to pick up appreciably. In fact, the level of export earnings in the last four years of the Second Plan was lower than that in the first year of the Plan. The annual average of actual exports during the Second Plan period was only Rs. 613 crores which was Rs. 9 crores less than the average for the First Plan period.

3.96. The Committee are distressed to note that in spite of a decade of planning exports had remained stagnant during the first two Plans. They consider it regrettable that in spite of the large foreign exchange requirements of the two Plans, no serious effort was made to earn additional foreign exchange through increased exports. In fact, till the cushion provided by the accumulated sterling balances very nearly disappeared in 1957-58, there was hardly any awareness that exports had an effective role to play in augmenting the country's foreign exchange resources. In the Third Plan document itself, it has been stated, "One of the major drawbacks (of export promotion) in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five Year Plans."

3.97. The Committee also regret to note the absence, during the years 1948—61, of a purposive import policy aimed at ensuring the most beneficial use of available foreign exchange resources in accordance with well-defined priorities which are indispensable for a country engaged in bringing about rapid development in a planned manner with scarce resources. They would like to recall that during 1948—61 the import policy was frequently changed from 'rigid' to 'liberal' and vice versa. For instance, in July 1948 the rigid import policy pursued in the first half of that year was relaxed as the foreign exchange position was believed to be comfortable, but as the liberalisation of imports resulted in the emergence of a large trade deficit (of Rs. 283.8 crores) in 1948-49, the import policy was again tightened in 1949 in successive stages. An improvement in the current account position in 1950-51 (in this year there was a net receipt on current account of Rs. 36·8 crores although the trade balance had shown a deficit of Rs. 3·5 crores) again led to the adoption of a liberal import policy in 1951—the first year of the First Plan. The relaxation resulted in a record flow of imports (Rs. 962·9 crores) and a large trade deficit (Rs. 232·8 crores) in 1951-52. This again led to some tightening of import controls in the second half of 1952 and in 1953. In the last two years of the First Plan the import policy was said to be "one of progressive but controlled liberalisation". The effect of the successive liberalisations of import policy were felt in the first year of the Second Plan when an unprecedented gap between imports (Rs. 1162·1 crores) and exports (Rs. 635·2 crores) brought about a sharp fall of Rs. 321·3 crores in the foreign exchange reserves in spite of net drawings of Rs. 54·7 crores from the IMF. The serious foreign exchange position in the opening year of the Second Plan necessitated a drastic cut in imports of non-essential consumer goods and the adoption of a stringent import policy. However, in the second half of

1958-59 the import policy again became less restrictive and imports of a number of non-essential consumer goods were liberalised.

3.98. The Committee would also like to point out in this connection that during the years 1948—55 substantial amounts of foreign exchange were spent on the import of 'consumer goods other than food'. The annual average value of imports of this category and their average percentage to the total imports during 1948—51, the First Plan period and the Second Plan period was as under:

(Value in Rs. crores)

	1948-51	1951-56	1956-61
Annual Average Value	147·6	176	60·2
Average Percentage	22·8	24·8	6·26

3.99. Imports of such goods reached their highest level in 1954-55 when they amounted to Rs. 224 crores and formed 34·1 per cent of the total imports. Considering that the imports of 'consumer goods other than food' were brought down from an average of Rs. 176 crores a year during the First Plan period and Rs. 224 crores in 1954-55 to only Rs. 60.2 crores per year during the Second Plan period, the Committee cannot but infer that during the period preceding the foreign exchange crisis of the Second Plan substantial amounts of foreign exchange were expended on avoidable imports of consumer goods consisting of various non-essential items. They are particularly unhappy that even after the country had embarked on a course of planned development as much as Rs. 176 crores a year on an average were spent on imports of this category of goods. The Committee need hardly stress that had the drastic cuts in imports of non-essential consumer goods, which the Government were obliged to enforce during the Second Plan period, been introduced earlier the foreign exchange crisis of 1957-58 might have been avoided.

3.100. The Committee are of the view that the foreign exchange crisis that overtook the Second Plan was the result mainly of:

(i) Successive liberalisations of import policy in 1954-55 and 1955-56, the effects of which were felt in the first year of the Second Plan.

(ii) Heavy imports of iron and steel and machinery.

(iii) Permitting the private sector to import a much larger quantum of capital and semi-finished goods than visualised in the Plan.

(iv) Permitting a much larger import of consumer goods than was either allowed in the Plan or could be considered essential.

(v) Larger imports of foodgrains than provided for in the Plan.

(vi) Under-estimation of the import requirements of the Plan projects.

3.101. The Committee would like to mention here that actual imports in 1956-57, the first year of the Second Plan, were of the value of Rs. 1102 crores against Rs. 783 crores estimated in the Plan document. Since imports occurring in 1956-57 must have been licensed earlier, it is evident that while making their estimate of imports in the first year of the Second Plan the framers of the Plan were unaware of the imports that had been ordered in the preceding year. The Committee are, therefore, constrained to observe that one of the reasons why the foreign exchange estimates of the Second Plan proved so wide of the mark was an unfortunate lack of coordination between the Planning Commission, the Ministry of Finance and the Ministry of Commerce and Industry.

C. Balance of Payments during the Third Plan Period, 1961—66

(1) *Overall Balance of Payments*

3.102. In the Third Plan document, the balance of payments estimates for the Plan period were broadly indicated as under:—

(Rs. in crores)

Item	Total Third Plan	Annual Average Third Plan
A. *Receipts*		
1. Exports	3700	740
2. Invisibles (net) (excluding official donation)	Nil.	Nil.
3. Capital transactions (net) (excluding receipts of official loans and private foreign investment)	—550	—110
4. External assistance	2600	520
5. Draft on foreign exchange reserves	Nil.	Nil.
TOTAL (1 to 5)*	5750	1150

*P.L. 480 imports, estimated at about Rs. 600 crores for the Third Plan period, were excluded from both sides 'Receipts' as well as 'Payments'.

Item	Total Third Plan	Annual Average Third Plan
B. *Payments*		
1. Imports of machinery and equipment for Plan project .	1900	380
2. Components, intermediate products etc. for raising production of capital goods	200	40
3. Maintenance imports	3650	730
TOTAL (1 to 3)*	5750	1150

3.103. The actual balance of payments position in each year of the Third Plan period is indicated in the following table, supplied by the Ministry of Finance:

India's Balance of Payments (adjusted) 1961-62 *to* 1965-66

(Rs. crores)

	1961-62 (Final)	1962-63 (Final)	1962-64 (Revised)	1964-65 (Preliminary)	1965-66 (Preliminary)
1	2	3	4	5	6
1. Imports—c.i.f.[1] .	996·3	1079·0	1215·0	1362·9	1335·3
(*a*) P.L. 480 Title I .	86·8	121·4	167·4	229·4	250·2
(*b*) Others . .	910·0	957·6	1047·6	1133·5	1085·1
2. Exports—f.o.b. .	668·3	680·9	801·7	802·7	781·8
3. Trade Balance (2-1) .	—328·0	—398·1	—413·3	—560·2	—553·5
4. Mon-monetary gold movement (net) . .	..		..	+16·0	
5. Invisibles—					
(*i*) Receipts[2]	173·5	173·6	188·3	167·1	201·3
(*ii*) Payments	203·0	222·2	231·1	255·7	270·5
Of which Interest and service payments on foreign loans and credits	46·0	58·6	65·8	74·3	88·1
(*iii*) Net	—29·5	—48·6	—42·8	—88·6	—69·2
6. Current Account (net)	—357·5	—446·7	—456·1	—632·8	—622·7

*P.L. 480 imports, estimated at about Rs. 600 crores for the Third Plan period, excluded from both sides 'Receipts' as well as 'Payments'.

NOTE :—Figures shown in this table for some items do not correspond with the similar statistics published by the Reserve Bank of India. The difference is due to adjustments made in the above table in receipts and payments in respect of P.L. 480 assistance which have been grouped together under External Assistance and Imports respectively, and excluded from other heads of account.

[1]Exclude freight on P.L. 480 imports initially borne by India but subsequently refunded by the US authorities.

[2]Exclude receipts on account of freight on P.L. 480 imports initially borne by India but subsequently refunded by the US authorities, these also exclude all grants.

1	2	3	4	5	6
7. Capital transactions :					
(*a*) Private[3]					
(*i*) Receipts . . .	30·4	40·7	41·4	21·4	21.8
(*ii*) Payments . .	35·4	45·7	40.3	24·5	40·0
(*iii*) Net . .	—6·0	—5·0	+1·1	—3·1	—18·2
(*b*) Government[4]					
(*i*) Receipts	108·4	57·4	66·1	86·8	177·0
(*ii*) Payments	96·7	33·0	28·9	39·8	166·0
(*iii*) Net .	+11·7	+24·4	+37·2	+47·0	+11·0
(*c*) Amortization payments (Gross)	—60·3	—53·2	—57·8	—75·7	—82·0
(*d*) Repurchase of rupees from I.M.F. . . .	—60·7	..	—23·8	—47·6	—35·7
(*e*) Banking capital (Net)	—2·5	+9·9	+0·4	—7·0	—1 ·5
8. Errors & Omissions .	+7·8	+5·9	—54·9	—71·2	+24·0
9. Total deficit (6 to 8) .	—467·5	—464·7	—553·9	—790·4	—736·1
Financed by—					
10. External Assistance .					
(*a*) Loans (excluding PL-480 PL-665 loans) .	+225·3	+306.3	+376.5	+435.3	+434·3
(*b*) Grants (excluding PL-665 grants)	+30.5	+22.8	+20.8	+21.9	+34·4
(*c*) P.L.-480 (Gross) .	+86.3	+121.4	+167.4	+229.4	+250·2
TOTAL (*a*+*b*+*c*)	+342·1	+450·5	+564·7	+686·6	+718·
11. Drawings from the IMF	+119·1	+11·9		+47·6	+65
12. Decline in reserves (+)/increase (—) . .	+6·3	+2·3	—10·8	+56·2	—43·8
TOTAL (10 to 12) . .	+467·5	+464·7	+553·9	+790·4	+736·1

[3]Receipts by way of drawings on loans extended to private sector under the external assistance programme and corresponding amortization payments are excluded from items 7(*a*)(*i*) and 7*a*(*ii*) and are included under items 10(*a*) and 7(*c*) respectively.

[4]Include all official capital transactions not enumerated separately.

(2) *Balance of Trade*

(i) *Imports*

3.104. It is seen that the total requirements of imports during the Plan period, excluding food imports under PL 480 programme, were estimated in the Third Plan document at Rs. 5,750 crores. PL 480 food imports for the period were taken at Rs. 600 crores in the Plan document. Thus, according to the Plan estimates, the average level of imports, inclusive of PL 480 imports, was expected to be Rs. 1,270 crores a year for the Third Plan period.

3.105. Actual year to year imports during 1961—66 were as follows:

Year	(Rs. crores)
1961-62	996·3
1962-63	1079·0
1963-64	1215·0
1964-65	1362·9
1965-66	1335·3
	5988·5

3.106. It is seen that total imports during the Plan period were less than the figure estimated in the Plan document (Rs. 6350 crores inclusive of PL 480 imports) by Rs. 361·5 crores which works out to an annual average of Rs. 72·3 crores. It is also to be noted that total PL 480 imports during 1961—66 were of the order of Rs. 854·7 crores. Thus, actual total imports, exclusive of PL 480 imports, for the Third Plan period amounted to Rs. 5133:8 crores being lower than the figure anticipated in the Plan (Rs. 5,750 crores) by Rs. 616·2 crores, or Rs. 123·2 crores a year.

3.107. It has been stated in the Economic Survey 1965-66 that the progressive rise in imports during the first four years of the Third Plan period was "necessitated by the tight domestic food situation requiring increased imports of cereals (much of which came under PL 480); a part of the increase in imports also reflected a rising rate of absorption of aid". The fall in imports in 1965-66 has been attributed in the Reserve Bank's Annual Report for 1966 to "a drastic reduction in the import bill during the latter half of the year necessitated by the decline in the reserves".*

*For 'structure of imports' and 'Import Policy during the Third Plan period, *see* Chapter VIII : Import and Imports Substitution.

(ii) *Exports*

3.108. In the Third Plan document export earnings for the Plan period were estimated at Rs. 3,700 to 3,800 crores giving an average of Rs. 740 to 760 crores a year.

3.109. Actual year to year exports during 1961—66 were as under:

Year	(Rs. Crores)
1961—62	668·3
1962—63	680·9
1963—64	801·7
1964—65	802·7
1965—66	781·8
	3735·4

3.110. Thus, with total exports during the Plan period amounting to Rs. 3735:4 crores, giving an annual average of Rs. 747 crores, the export targets contemplated in the Third Plan document were more or less fulfilled.*

(iii) *Trade Deficit*

3.111. The Third Plan document had anticipated that the total trade deficit during the plan period would be:

Rs. 2,050 crores, if PL 480 imports were excluded, and

Rs. 2,650 crores, if PL 480 imports estimated at Rs. 600 crores, were included in the import bill.

3.112. The actual trade deficit during the Plan period was as under:

Rs. 1398·4 crores, excluding PL 480 imports, and

Rs. 2253·1 crores, including PL 480 imports amounting to Rs. 849 crores.

3.113. The Committee note that even with larger PL 480 imports than were anticipated at the time of the formulation of the Third Plan the actual total trade deficit during the Plan period was lower than the Plan estimates by Rs. 396:9 crores. Exclusive of PL 480 imports, the actual trade deficit was Rs. 651:6 crores less than the deficit envisaged in the Plan document.

*For details regarding Exports during the Third Plan *see* Chapter VI : Exports and Export Promotion.

(3) *Invisibles (excluding official donations)*

3.114. The Third Plan document had assumed a nil figure for invisible net receipts (excluding official donations) as against an annual average of net receipts of Rs. 76 crores during the Second Plan period. Noting the falling trend in the net receipts from invisibles during the Second Plan period which was attributed to "increasing payments of interest and dividend on the one hand and the declining receipts from foreign exchange holdings abroad", the Third Plan document broadly indicated the likely trend in respect of invisibles during 1956—61 as follows:

> "In the Third Plan period some improvement in gross receipts, particularly under foreign travel, transportation and insurance, is expected. This improvement will, however, be more than offset by the increase in interest liabilities on account both of the Second and Third Plan loans. Provision has also to be made for the payment of 50 per cent of the freight on PL 480 imports. For 1961-62 a surplus of Rs. 22 crores on invisibles is estimated. This will, however, fall progressively in the subsequent years, so that over the five year period, the receipts and payments in respect of invisibles will more or less balance."

3.115. It has been stated by the Ministry that the heading 'Invisibles (net) (excluding donations)' in the balance of payment data supplied by it reflects the "net result of receipts and payments by India for various services such as:

(i) expenditure of Indian travellers abroad and foreign travellers in India;

(ii) international transportation services (except freight on imports invoiced c.i.f. or c.f., which is booked under "imports");

(iii) life and general insurance (except marine insurance on imports invoiced c.i.f.);

(iv) income on Reserve Bank's and Government's foreign investments and remittances of current profits, dividends and interest including interest on various foreign loans;

(v) diplomatic expenditure (including expenditure of U.S. embassy out of U.S. P.L. 480 rupee counter part funds);

(vi) miscellaneous governmental receipts;

(vii) miscellaneous services like agencies, technicians and other professionals, film rentals, royalties; and

(viii) migrant's transfers, savings, remittances for family maintenance and upkeep of religious missions."

3.116. According to the balance of payment data furnished by the Ministry, the actual position with respect to 'Invisibles' (net) during the years 1961-66 was as under:

Year	(Rs. crores)
1961—62	—29·5
1962—63	—48·6
1963—64	—42·8
1964—65	—88·6
1965—66	—69·2
TOTAL	—278·7

3.117. In the 'Supplement to the Economic Survey' presented to Parliament in July 1966, it has been stated that, "despite the continued loss of earnings from invisibles, no specific action could be taken until the introduction of the National Defence Remittance Scheme which provided a substantial incentive for the remittance of funds from abroad through official channels". The National Defence Remittance Scheme was in operation from 26th October, 1965 to 31st May, 1966 and about Rs. 70 crores were received under it. According to the Reserve Bank's Annual Report (1966), the "entire improvement" on the invisible account during 1965-66, "seems to have resulted from an increase in gross receipts following larger remittances from abroad under the National Defence Remittance Scheme".

3.118. The Committee note that while the Third Plan document had assumed that receipts and payments under the head 'invisibles (excluding official donations)' "would more or less balance" during the Plan period, transactions on this account over the five years of the Third Plan have actually resulted in net outflow of Rs. 278.7 crores from the country's foreign exchange resources. The Committee are surprised that the Plan estimated in this behalf should have proved so unrealistic. Considering that the adverse trend in respect of 'invisibles excluding official donations' became noticeable in the very first year of the Third Plan and continued to aggravate in subsequent years, the Committee cannot but regret that effective measures to improve the position were not taken in time.

*See also Chapter VII : Invisibles.

(4) *Capital Transactions*

3.119. The Third Plan document had assumed that capital transactions (net) (excluding receipts of official loans and private foreign investment) would result in net outflow of Rs. 550 crores over the five-year period.

3.120. The actual position in respect of capital transactions as it has emerged during 1961-66 is summed up on the basis of the balance of payments data furnished by the Ministry (reproduced earlier) below:—

(*Capital Transactions* 1961-66)

	(Rs. crores)
1961—62	—117·8
1962—63	—23·9
1963—64	—42·9
1964—65	—86·4
1965—66	—137·4
	—408·4

3.121. Besides the above deficit on the capital account there was also, during the Third Plan period, a net outflow under the head 'Errors and Omissions' which represents the "net total of errors and omissions in various items of accounts". The Third Plan document had made no reference to 'Errors and Omissions'. The year-wise position in respect of 'Errors and Omissions' during 1961-66 has been stated to be as under:—

(*Errors and Omissions* 1961-66)

Year	(Rs. crores)
1961—62	+7·8
1962—63	+5·9
1963—64	—54·9
1964—65	—71·2
1965—66	+24·0
TOTAL	—88·4

The Committee note that the margin of 'errors and omissions' has been very large in certain years. They feel that with better collection and processing of balance of payments data it should be possible to reduce the size of 'errors and omissions' to the minimum.

3.122. The Committee also note that as against the total outflow of Rs. 550 crores on capital transactions (excluding official donations) contemplated in the Third Plan document the actual outflow on this account together with 'Errors and Omissions' had amounted, during 1961—66, to Rs. 496:8 crores.

(5) *External Assistance and gap in Balance of Payments*

3.123. To cover the anticipated deficit of Rs. 2,050 crores on the trade account (excluding P.L. 480 imports) and Rs. 550 crores on account of capital transactions (excluding official donations) the Third Plan document had assumed availability of external assistance (excluding assistance under P.L. 480 programme) of the order of Rs. 2600 crores. An additional assistance of Rs. 600 crores was expected to meet payments requirements for P.L. 480 food imports. The actual position in respect of Receipts (on account of external assistance and drawings from I.M.F.) and payments (on account of deficits under current account, capital transactions and 'Errors and Omissions'), as it has developed during the Third Plan period, is indicated below:—

(Rs. crores)
(Plus indicates inflow, minus outflow).

		Total for 1966-68
Receipts.		
(*a*)	External Assistance (Excluding PL-480 & PL-665 loans and grants)	+1908·1
(*b*)	PL 480 (gross)	+854·7
	External Assistance (Total)	+2762·8
(*c*)	Drawings from I.M.F. (Gross)	+244·1
	TOTAL (*a*), (*b*) and (*c*)	+3006·9
Payments		..
(*d*)	Current Account (including movement of non-monetary gold)	—2515·8
(*e*)	Capital Transactions	—408·4
(*f*)	Errors & Omissions	—88·4
	TOTAL (*d*), (*e*) and (*f*)	—3012·6

On the above basis, the gap between payments and receipts on external account during the Third Plan period comes to Rs. 5.7 crores. The gap had to be covered by withdrawals from the foreign exchange reserves.

(6) *Draft on Foreign Exchange Reserves and Foreign Exchange difficulties during the Plan period*

3.124. Since foreign exchange reserves were at a low level at the commencement of the Third Plan, it was assumed in the Third Plan document that there would not be a further draft on these during the course of the Plan. In fact, however, as the payments on the external account exceeded receipts, it was found necessary to draw upon the reserves in three out of the five years of the Plan, the fluctuations in reserves during each year of the Plan period being as under:—

Rs crores.

Year	Changes in Reserves
1961—62	—6·3
1962—63	—2·3
1963—64	+†10·8
1964—65	—56·2
1965—66	+48·3
TOTAL for 1961—66	—5·7

3.125. It is seen that during the Third Plan period as a whole India's foreign exchange reserves declined by Rs. 5:7 crores. However, this small figure conceals the fact that over the period of the Plan India's liabilities to the I.M.F. have gone up from $127.5 million to $287.5 million. In other words, but for the assistance provided by the I.M.F. the fall in reserves during 1961-66 would have been larger by $160 million or Rs. 76:3 million.

3.126. The reserves had gone down slightly in the first two years of the Plan. In 1963-64, there was an accretion of Rs. 10.8 crores notwithstanding repayments of Rs. 23:8 crores to the I.M.F. It has been stated by the Ministry that "the easing of the situation in 1963-64 was mainly as a result of extraordinary export performance". It may be pointed out, however, that though exports had increased in 1963-64 by Rs. 120:8 crores, as compared to the previous year, imports had also increased by as much as Rs. 136 crores resulting in a widening of the trade deficit by about Rs. 15 crores. The outflows on account of capital transactions and 'Errors and Omissions' were also considerably higher in 1963-64 than in the previous year and the only compensatory factor was an increase in official assistance from Rs. 450:5 crores in 1962-63 to Rs. 564:7 crores in 1963-64.

3.127. In 1964-65 the reserves once again came under a heavy pressure and registered a fall of Rs. 56.2 crores in spite of external assistance amounting to Rs. 686.6 crores. It has been stated by the Ministry that "the pressure on reserves during 1964-65 was due to the larger provision for imports of foodgrains and fertilisers, a substantial rise in debt service charges, and the stagnancy in exports. While imports (other than PL 480) went up by Rs. 98.4 crores, there was hardly any increase in exports. Debt service charges went up by Rs. 22 crores in that year compared to 1963-64. Net receipts from other invisibles also showed a marked decline, in particular, on account of larger 'miscellaneous' payments such as for technical know-how and reduced receipts from private donations."

3.128. The persistent attribution of reserves, which occurred in 1964-65, continued during the first four months of 1965-66. From Rs. 249.7 crores on April 1, 1965, the foreign exchange reserves came down on July 8, 1965 to Rs. 225.3 crores which was the lowest level ever reached and very close to the statutory minimum of Rs. 200 crores. However, the trend was reversed as will be seen from the figures given below:—

Month	Foreign Exchange Reserves Assets) (Rs. crores)
July 8, 1965	225·3
July (end) 1965	230·9
September, 1965	241·1
December, 1965	285·4
March, 1966	298·0

3.129. Over the financial year 1965-66, as a whole, the reserves improved by Rs. 48.3 crores. The improvement has been attributed by the Ministry to "the severe import policy and other financial measures taken by the Government as well as drawals from I.M.F." Further, as pointed out in the Reserve Bank's Annual Report for 1966, other factors contributing to this favourable out-turn were (a) increased remittances from abroad under the National Defence Remittance Scheme and (b) Unidentified transactions (categorised as 'Errors and Omissions'), which had for several years resulted in a net outflow, turned favourable in 1965-66.

3.130. The 'Economic Survey, 1965-66 commented on the balance of payment position during 1965-66 as follows:

"Despite a restrictive import policy, and further measures to encourage exports, the balance of payments position during April-September 1965 was Rs. 8:5 crores in spite of a drawing was aggravated following the outbreak of hostilities with Pakistan which interrupted the flow of export supplies from Assam and led later to a pause in external assistance."

The Survey further points out that "the decline in reserves during April-September 1965 was Rs. 8·5 crores inspite of a drawing of Rs. 36 crores from the I.M.F. The overall deficit in the balance of payments was thus Rs. 44·5 crores as compared with Rs. 43·5 crores in the corresponding period of 1964. . . . Thus, although aid utilisation improved by Rs. 27 crores, the loss in reserves was about as high as in April-September, 1964."

3.131. In this connection the Ministry have stated:

"The pressure on balance of payments during the current year (1965-66), caused by continuing factors such as growth of imports, relative stagnation in exports and the mounting burden of debt service charges, was further increased following the Indo-Pakistan hostilities. Increased requirements of food and fertiliser due to severe draught conditions and changes in the pattern of PL 480 assistance had also their impact."

3.132. In the 'Supplement to the Economic Survey', presented to Parliament in July, 1966, it has been stated that "throughout most of the Third Plan period, the balance of payment situation remained difficult". Recognising that there was a "basic disequilibrium in our balance of payments", the Survey adds:

"The underlying forces making for weakness in balance of payments have been the same as in the Second Plan period when reserves declined substantially by as much as Rs. 600 crores. With the progress of development, the demand for imports has been rising; the set back in agriculture has affected not merely our export earnings, but also created the need for large scale imports of foodgrains, the bulk of which have been financed by aid under PL 480. These have, nevertheless, put a pressure on our balance of payments as imports of rice have had to be financed from our own resources and lately the freight

on PL 480 shipments has also had to be paid in foreign exchange. There have been large and continuing imports of raw cotton and more recently we have had to import raw jute also on a substantial scale and arrange for imports of vegetable oils. Exports did increase during the first three years of the Third Five Year Plan, but thereafter they have remained stagnant and in the last year there was a small decline.

There was thus a basic disequilibrium in our balance of payments which was aggravated by two other factors. In the first place, the burden of servicing the large and growing external aid has increased substantially during the Third Plan period—from Rs. 58.2* crores in 1960-61 to Rs. 147* crores in 1965-66. Secondly, our earnings from other invisibles have declined substantially during the last few years—from an average of Rs. 78 crores a year in the Second Plan to only Rs. 12 crores a year during the first four years of the Third Plan. This is a reflection in part of the fact that payments on account of dividends, royalties and technical fees have been growing; in part it also reflects the emergence of various leakages and the diversion of remittance from abroad, tourist earnings and the like to unofficial channels.

Ever since the beginning of the Third Plan, the basic balance of payments deficit (current account deficit as well as deficit on capital account, excluding external aid, recourse to the Fund and changes in reserves) has been growing.

Although there has been a progressive increase in the utilisation of foreign aid, this was not sufficient to cover the balance of payments deficit and it was necessary to draw down reserves in some years and draw on the International Monetary Fund in others."

3.133. The Committee note that throughout most of the Third Plan period, the balance of payments situation remained difficult and that inspite of 'a progressive increase in the utilisation of foreign aid' periodic crisis in the balance of payments necessitated frequent recourse to the I.M.F. and drawing down of the foreign exchange reserves.

3.134. The Committee feel that the balance of payment difficulties of the Third Plan were essentially only a reflection of 'a basic disequilibrium in our balance of payments', caused mainly by two con-

*The figures are exclusive of debt repayable in rupees like servicing etc. of DLF loans—*vide* information furnished by the Ministry of Finance at factual verification stage.

tinuing factors, namely, a growing trade deficit and the mounting burden of servicing the external debt. This is evident from the fact that the balance of payments situation 'deteriorated sharply' only in 1964-65 as exports remained stagnant while 'payments for imports and debt repayments mounted up rapidly'. In this connection the Committee wish to draw attention to the following figures, indicating the magnitude of the trade deficits and debt servicing payments during the Third Plan period:

(Rs. crores.)

	1961-62	1962-63	1963-64	1964-65	1965-66	Total 1961—66
(a) Trade deficit	328	398·1	413·3	360·2	553·5	2253·1
(b) External Debt Servicing & Intisation	106·3	111·8	123·6	150·0	170·1	661·8*
Total (a) & (b)	434.3	509.9	536·9	710·2	723·6	2914·9

They would also like to mention that according to the Draft Outlines of the Fourth Plan external debt servicing payments during the period 1966—71 are expected to amount to Rs. 2284 crores, that is, about Rs. 457 crores a year.

3.135. The Committee regret that although the foreign exchange crisis of the Second Plan had amply demonstrated the adverse effects of large and recurring trade deficits, the Third Plan tactly assumed that such deficits were essential and would be fully covered by foreign aid. The actual trade deficit during the Plan period has turned out to be smaller than that estimated in the Plan document by Rs. 396:9 crores, which only means that the foreign exchange position would have been much worse had the import targets envisaged by the planners been achieved.

3.136. The Committee need hardly stress that large trade deficits are not indispensable to the economic growth of an under-developed country, for they might well arise from shortfalls in domestic production, inflation, and other similar setbacks in the internal economy.

3.137. In the ultimate analysis, the disequilibrium in the balance of payments can be removed only by:

(i) reducing the outflows on account of imports and invisibles.

(ii) increased earnings from visible and invisible exports.

*This includes (a) payments on account of debt servicing and interest—Rs. 332.8 crores and (b) Amortisation payment—Rs. 329 crores. For yearwise break-up please *see* para 3.103. It has been stated by the Ministry of Finance at the factual verification stage that these figures are inclusive of debt repayable in rupees like servicing etc. of DLF loans.

3.138. The Committee consider that the balance of payment difficulties during the Second and Third Plan periods mainly arose on account of the following:

(i) Heavy inflation particularly during the Third Plan period on account of deficit financing and other factors. It is significant to note that the quantum of deficit financing which was envisaged at Rs. 550 crores in the Third Plan actually mounted to Rs. 1,150 crores.

(ii) Failure to attain self-sufficiency in foodgrains and consequential need to import foodgrains both under PL 480 and with free foreign exchange resources. This was obviously due to failure to take effective steps to modernise agriculture and boost up food production.

(iii) Heavy investments in projects having long gestation period with the result that while there was no return from these projects, the products intended to be manufactured in these projects continued to be imported.

(iv) Lack of integrated programme of industrialisation which resulted in creating the demands for heavy maintenance imports. This would be evident from the fact that out of total imports amounting to Rs. 12049 crores (in post devaluation rupees) envisaged for the Fourth Plan as much as Rs. 8,190 crores (i.e. 78 per cent) have been estimated for maintenance imports. With the setting up of industries, no serious effort appears to have been made to create indigenous capacity for the production of components, intermediaries and raw materials required by these industries which largely depended upon imports for their maintenance requirements.

(v) Non-attainment of the targets of production (e.g. fertilisers, non-ferrous metals) envisaged in the various sectors of economy during the various Plan periods, leaving wide gaps which had to be filled up by imports.

(vi) High costs of setting up of industries on account of tied foreign aids, as well as various other factors. The result has been that the unit cost of production in the country is much higher than the international cost of similar articles thereby inhibiting the prospects of exports on competitive basis.

(vii) The existence of sellers' market in the country, leaving no incentive to industrialists to export their products and to improve the quality of their goods.

(viii) Failure to link imports with the capacity to generate surpluses for exports required to repay the loan servicing charges.

(ix) Import of non-essential consumer goods particularly during the First and Second Plan periods.

3.139. The Committee urge that the problems posed by the chronic disequilibrium in the country's balance of payments call for a realistic approach to planning and fiscal policy and should not be viewed, in isolation, as mere problems of trade.

IV

DEVALUATION

A. Background to Devaluation

4.1 The relatively favourable outturn in the balance of payments witnessed in 1965-66 was due mainly to the narrowing down of the adverse trade balance following a drastic reduction in imports during the later half of that year necessitated by a decline in the reserves. Increased remittances from abroad under the National Defence Remittance Scheme had also contributed to the improvement to some extent. However, inspite of various incentives, export earnings failed to register any improvement.

4.2. The balance of payments situation during the first two months of 1966-67 remained difficult. In the quarter April—June, 1966, the deficit on the external account re-emerged, and, in order to tide over the difficulties and ease the pressure on reserves, assistance to the extent of Rs. 95.3 crores (after meeting a repurchase obligation of Rs. 35.7 crores) had to be obtained from the International Monetary Fund. The prospects of any improvement in the balance of payments position remained remote as there was no evidence of any marked uptrend in export earnings. At the same time, the drastic cut in imports had created difficulties for sectors of industry dependent on imports and it became increasingly evident that it would not be possible "to continue import restrictions on the same scale as in 1965-66 without inviting the danger of a substantial fall in industrial productions." As stated in the Reserve Bank's Annual Report 1966, "The improvement in the balance of payments position (during 1965-66) was of a temporary character and could not have been sustained in the context of the increasing need for essential imports except by a revival of increased flow of external assistance."

4.3. It may be recalled here that following the outbreak of Indo-Pak conflict there was a sudden pause in fresh authorisations of external assistance. The U.S.A. and I.B.R.D. (World Bank)/I.D.A. withheld part of the aid pledged for 1965-66, and there was also some delay on the part of some countries in the signing of agreements in respect of pledges made as far back as April 1965. Partly because of this and 'more importantly' because of lower aid from East European Countries, the magnitude of total fresh assistance

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authorised during 1965-66 was only Rs. 604 crores as compared to Rs. 744 crores in the previous year.

4.4. On the night of June 5, 1966, the Union Finance Minister, Shri Sachindra Chaudhuri, announced in a broadcast, the Government's decision to devalue the Rupee. According to this decision, the par value of the rupee had been changed, effective from June 6, 1966, from 18.66 grams of gold per hundred rupees to 11.85 grams of gold, representing a reduction in the external value of the rupee by 36.5 percent. In effect, it meant that the price of foreign exchange in terms of the Indian rupee had gone up by 57.5 per cent; the U.S. dollar was henceforth to cost Rs. 7.50 instead of Rs. 4.76, and the pound sterling Rs. 21 as against Rs. 13 and one third.

B. Reasons for Devaluation

4.5. Explaining the reasons for devaluing the rupee, the Finance Minister, in the course of his broadcast of June 5, dwelt on the need of a realistic rate of exchange in the context of the decline in the purchasing power of the rupee in recent years and its adverse effects on exports. He said:

> "The exchange rate is nothing more or nothing less than the price of foreign exchange....As in the case of any other commodity, the price of foreign exchange should be on the basis of strictly economic considerations. It should reflect economic realities as they are today. Only so can it serve the main purpose of a price which is to enable and facilitate the right allocation of resources. An unrealistic price will not serve this purpose. On the contrary, it will increasingly lead to distortions which can only harm the economy.
>
> There is little doubt that the value of the rupee today is not what it was 10 years ago. You all know that internal prices have been rising for some years. Today the general level of prices is 80 per cent more than what it was ten years ago. On the other hand, the official par value of the rupee has remained unchanged since 1949. Prices have not risen to anything like this extent in the main countries of the world with whom we trade and in consequence our exports have been meeting increasing resistance in foreign markets. At the same time, our need to increase our exports and foreign exchange earnings have become greater and greater."

4.6. Maintaining further that the various measures for giving a boost to exports that were in vogue before devaluation had proved

inadequate and could not be relied upon on a continuing basis, the Finance Minister observed:

> "In order to overcome price resistance to many of our exports in foreign markets, we have during the last few years, tried many measures. We have, for example, been subsidising exports in several ways by import entitlements to exporters, by direct subsidies and more recently by tax credit certificates. These measures succeeded only to a limited extent. Had our difficulties been temporary in character, they might even have been enough to restore our competitive position. But experience has clearly demonstrated that our difficulties are more basic.
>
> The real question is whether, in this situation, the kind of remedial measures which might have been suitable for temporary difficulties, could be relied upon on a continuing basis. To my mind, the answer is definitely "No". Consider, for example, the Import Entitlement Scheme. Under this scheme exporters could incur losses only because on the sale of the articles they could import under their, entitlement they could make profits more than enough to compensate them. They were able to do so only because of our increasing import restrictions and the consequent high prices for imports. But we cannot afford to keep up this condition of scarcity merely to encourage exports by this particular device. Even for enabling our existing industries to work to anything like full capacity, not to mention the requirements of new industries that we desire to set up, we must arrange for a much greater flow of imports of raw materials and components. Every effort is being made to secure this. To the extent we succeed, the effectiveness of import entitlement scheme will correspondingly go down. This method, therefore, cannot be relied on. We shall then have to resort more and more to the device of tax credit certificates and other types of direct subsidies. This will involve an increasingly intolerable strain on our budgetary resources which are so badly needed both for the development and the defence of the country. Further, direct and open subsidies, if continued for long, will carry the grave danger of retaliation by the countries to whom we export."

4.7. He added that in view of the difficulties experienced in stepping up exports through selective measures Government had

to devise a "more enduring and reliable way of restoring and indeed increasing the competitive power of our exports." Devaluation was intended to provide the requisite stimulus to the export effort, for "an exporter who was earning 100 dollars will from now on be able to earn 750 rupees as against 476 rupees so far." Apart from restoring the competitiveness of the country's exports devaluation would provide "a strong inducement for the flow of investment into export industries and thereby progressively strengthen our export position."

4.8. Shri Chaudhuri further claimed that devaluation would "quicken the pace of import substitution.", for the "cost of imports in terms of rupees will automatically go up" making it "really worthwhile and attractive to invest in those of our industries which produce goods which are still being imported. This is equally true of agriculture as it is of industry."

4.9. Dealing with the effect of devaluation on invisible earnings, Shri Chaudhuri said that "Remittances into India will be encouraged and remittances out of India will be discouraged. The Foreign Exchange burden arising from repatriation of profits, capital and royalty payments by private foreign investors will automatically go down. On the other hand, new private investors who bring foreign exchange into the country will be able to realise more rupees and this would serve to encourage new foreign investment in the fields in which we desire it. Similarly, India will become more attractive to foreign tourists whereas foreign travel by Indians will become more costly and, therefore, less attractive."

4.10. Further, Shri Chaudhuri held that devaluation would reduce the leakage of foreign exchange through unofficial channels. He said:

> "Because of the decline in the purchasing power of the rupee, a number of unhealthy practices had developed and were indeed becoming more widespread. At the older rate for the Indian rupee, anti-social practices such as under invoicing of exports, over-invoicing of imports, sale of travellers' cheques in the unofficial-markets, remittances through unauthorised channels, smuggling of gold and other articles, such as watches, cameras and transistors were becoming increasingly attractive and, therefore, difficult to check. Even legal imports enable the marketing of substantial profits, some of which go to swell the flow of unaccounted money in the country. At the new rate, all these anti-social activities will become substantially less attractive and therefore, less widespread. With

the reduction in the leakage of foreign exchange through these means, our official foreign exchange reserves would get strengthened."

4.11. As regard the effect of devaluation on the budgetary position, the Finance Minister made the following points:

(i) *Debt servicing*: "In terms of foreign exchange, neither the total value of the debt nor the annual payments we have to make in respect of it will change as a result of devaluation. In terms of rupees, undoubtedly, the burden of repayment will go up."

(ii) *Government Imports, etc.*—"The rupee cost of Government imports and other foreign expenditure will also go up."

(iii) *Over-all effect on Budget*:—But the budget will also benefit from devaluation in a number of ways. For example, export duties (announced simultaneously with the decision to devalue the rupee) will yield substantial revenue. Similarly, the rupee value of the foreign aid we get will also go up. On balance, it is expected that devaluation will have no adverse effect on the budgetary position. Indeed, if we can liberalise imports, the budget may actually benefit."

4.12. He also dealt at some length with the effect of devaluation, particularly of the increased cost of imports, on the price situation in the country, and said:

"Taken together with the incidence of import duties, devaluation will certainly increase the cost of imports substantially. But as I have said earlier, it is only by doing so that we can provide an enduring stimulus for import substitution. I should also remind you that in the present conditions of scarcity actual prices paid by the consumer bear little relation to landed costs and are, infact, fixed by what the market can bear. In practice, therefore, the price that final consumers will now pay may often not be significantly higher because a part of the increase in landed cost will be absorbed by present excessive profit margins.

I am well aware that in the present situation we cannot allow the prices of certain essential commodities to increase as a result of devaluation. In the package of measures decided upon we have provided that the prices of foodgrains, fertilisers, kerosene and diesel oil will not increase as a result of devaluation."

4.13. Shri Chaudhuri urged that in the ultimate analysis price stability could be achieved only by higher production and productively, both in agriculture and industry. He said that "in the field of industries, most of our factories, which have increased largely in number as a result of our three Plans, are unable to produce full capacity because of lack of enough imported raw materials and components. This state of affairs also comes in the way of greater productivity in a situation of scarcity and the edge of competition and the drive towards cost reduction necessarily gets blunted. We are, therefore, taking active steps to provide substantially larger quantities of imported components and raw materials."

4.14. Concluding, the Finance Minister said:

> "To sum up, devaluation would provide a better corrective to the price rise and distortion of the past than the remedial meausures we have pursued so far. Even more important, it will facilitate a better allocation of our resources and strengthen our foreign exchange position on an enduring basis. With renewed determination and discipline on the part of all of us to hold inflationary pressures firmly in check, it would be a major ally in our march towards self-reliance."

4. 15. In a press note, issued by the Ministry of Finance on June 5,1966, it was stated that the decision to devalue the rupee had been taken "after the fullest consideration and Government are convinced that in our present circumstances, such a measure is essential in the interests of our economy." Elaborating the need and desirability of having recourse to devaluation, the Press Note added:

> "The requirements of economic development over the last fifteen years have thrown a very heavy strain on our resources, more especially our external resources. Despite the aid we have been receiving from abroad, we had to make considerable inroads into our own foreign exchange reserves.... It the same time apart from our developmental needs, import requirements for the maintenance of our economy have been steadily increasing, following the growth of industrial capacity as a result of our Plans. Unfortunately, the growth in our earnings in recent years both through exports and invisibles has not been adequate for our needs despite the assistance given to exporters in a variety of ways. In a large measure this has been due to inflationary pressures, which have meant higher costs for exporting industries and also diversion of supplies to the domestic market. The tendency for our exports

to be priced out in foreign markets has been in evidence for some time and Government had during the last few years taken a number of steps in an attempt to remedy this situation. These measures have, however, clearly proved inadequate. Subsidies on exports had to be increased periodically, and even traditional exports such as tea and jute now require support through the medium of Tax credit Certificates. Despite all such assistance the rising trend in exports which was in evidence in early years of the Third Plan has not been maintained and there has actually been a slight fall in our exports in 1965-66 as compared to the previous year. In regard to imports also, despite the progressive increase in import duties, imported goods still continue to command a premium as Indian prices of comparable goods are well above world prices. The result is that we have not been able to realise the full potentialities of import substitution. With the present severe restrictions on imports, this has also only enabled importers to make large profits without any benefit to the consumer.

The experience of the measures that we have taken so far suggests that they cannot provide an enduring solution to the problem. Essentially, this problem has arisen because of the decline in the purchasing power of the rupee, both at home and abroad during the last ten years or so.

4.16. Explaining further that the attempts to main the predevaluation exchange rate had "without achieving their purpose, conferred benefits on a small group of people and thrown the burden of helping exports increasingly on the public . exchequer" as also given rise to various anti-social practices causing leakage of foreign exchange, the Press note stated:

"Private foreign investors who have earned substantial profits as a result of scarcity are able to remit their profits at the present over-valued rate, thus involving the country in an undue drain of foreign exchange. Anti-social practices, such as smuggling, retention of illegal earnings abroad and concealed over-payments for imports have increased and the present black market rate means a continuing leakage of foreign exchange. Our earnings from invisibles which were sizeable six or seven years ago have progressively dwindled to a negligible amount."

4.17. It was in the above circumstances that Government came to the conclusion that the "*status quo* cannot be maintained any fur-

ther without serious damage to our economy and that the only remedy lies in fixing the par value of the rupee at a more realistic level."

4.18. It was recognised that devaluation would be "followed by some increase in prices." However, it was expected that the rise in prices would not be proportionate as imported goods were already selling at a very high premium because of their being in short supply. Moreover, Government proposed "to take substantial measures to minimise the impact of devaluation on the cost of living."

4.19. The note emphasised that the objective of devaluation, *viz,* "to put the economy on a sounder footing and pave the way for future progress and development", would be defeated unless "the necessary discipline" was observed "to keep inflationary pressure under control." "Only by doing so," it was said, "can we defend the value of the currency and prevent the recurrence of a similar situation in future."

In the 'Supplement to the Economic Survey (July 1966) the decision to devalue the rupee was justified, *inter alia,* on the ground that it "represented, in a sense, the formal recognition of the situation which was already developing". This was explained as follows:

> "Apart from the fact that the Indian rupee was quoted at a considerable discount in unofficial markets, official policies themselves had created in practice rates of exchange which were far below the old par value. The premium on import entitlements, for instance, implied an effective rate of exchange varying from Rs. 6.5 to a dollar to about Rs. 8 to a dollar depending on the rate of entitlement and the extent of the premium. The National Defence Remittance Scheme had also shown that at a rate sufficiently below the old par value, it would be possible to attract substantial remittances from abroad."

4.20. Further, Government was impelled to take this major step in the interest of "providing a stable and enduring solution to our balance of payments". In this regard, it was stated in the Survey that

> "The major consideration in favour of a change in the exchange rate, as opposed to equivalent alternative solutions which would work primarily through the fiscal system, was that a change in the exchange rate would be a more general form of incentive and disincentive and would cover all invisible transactions in addition to imports and exports. There are administrative difficulties in using a system of

taxes and subsidies to encourage invisible earnings and discourage invisible payments. Devaluation also is a measure of such major importance and consequence that once it is taken it creates stable expectations which no system of taxation and subsidies would do".

4.21. Dealing with the argument, advanced in certain quarters, that "a large part of our exports moved without assistance and that in their case devaluation would not result in additional foreign exchange earnings but, in fact, may involve a loss since the fall in foreign prices may outweigh our ability to increase the value of exports", the Survey stated:

"This argument is plausible but not quite true. Over the last few years, even our traditional exports had to be given assistance. Tea and jute, for instance, were given assistance in the form of tax credit certificates. If allowance is made for this, well over 70 per cent of India's exports moved only with the help of assistance of one form or another and in the case of newer manufactured goods, the assistance had to be substantial. The danger of a fall in foreign prices of traditional commodities is sought to be countered by the levy of appropriate export duties. Government will not hesitate to vary the rates of duty in accordance with the needs of the situation."

4.22. The Survey also countered the apprehension that devaluation might bring about a fall in the foreign exchange prices of the country's exports.. It stated.

"The foreign exchange prices of many of our exports are determined by international demand and supply over which we have little control as our exports constitute only a small part of total world trade. In these cases, devaluation as such should have no effect on the foreign exchange price of exports. Government has taken protective action in the firm of export duties in the case of commodities where foreign exchange prices might tend to fall without a more than propotionate increase in the quantum exported. Where devaluation makes it possible to increase total export earnings by offering a lower price in foreign exchange, there should be no objection in doing so if we are determined to increase export earnings. There is little reason thus to fear that devaluation necessarily reduces the foreign exchange price of our exports or that to the extent it makes it possible to do so, such a reduction would be unwarranted in all cases."

4.23. The Survey added that the scepticism about India's capacity to increase exports was not justified, for "over a long period, neither supply nor demand is inelastic over the whole range of our products. Devaluation will enable the full export potential of our economy to be realised over a period of time."

4.24. As regards the effect of devaluation on the budgetary position the Survey reiterated, with some details, the views expressed by th Finance Minister in his June 5 broadcast. Admitting that "the rupee value of the interest liability and repayment of existing external debt will go up" the Survey emphasised that "the increase in the burden of debt service was primarily a problem of internal resource mobilisation....We do not have to export more in terms of foreign exchange to discharge our existing debt." It added:

> "Apart from the debt service burden, the cost of Government imports will also go up. On the other hand, the value of foreign aid will be larger. Tentative calculations indicate that on account of these factors alone, there would be a loss of about Rs. 80 crores. The levy of export duties, the reduction in Central excise duties, especially of petroleum products, and the adjustments in import duties, together may yield some Rs. 100 crores. While there should be a saving on export subsidies, there would be a substantial outgo on account of the subsidy on food and fertiliser. Altogether, it is estimated that the deficit of Govrnment will increase by about Rs. 40 crores. Government may also have to make additional provision for financial assistance to private sector through the financial institutions. On the other hand, with liberalisation of imports financed by aid, there will be an augmentation of budgetary resources both on account of aid and customs duty on additional imports. Altogether, therefore, there will not be any adverse effect on the budgetary position and there may, in fact, be some improvement."

4. 25. On the effect of devaluation on the private sector, the Survey observed:

> "The cost of financing plant and equipment imported from abroad will increase and so will the cost of imported raw materials and components; if this results in a greater preference for the home market, it would be all to the good. But we would still need to import equipment which is not made at home. The increased cost of this equipment can only be met by better performance of industry all

round; in suitable cases the rise in prices of final products may be necessary. Government will consider measures to augment the flow of financial resources to the private sector to meet any transitional problem which may arise."

Monetary policy will, however, have to continue to be restrictive in general. While genuine needs of industry will have to be met, the very purpose of devaluation would be defeated, if all cost increases are financed by creation of credit. Over a wide range of our industries, cost increase will have the result of restraining expansion in undesirable lines and the resources so released could be diverted to industries which result in import substitution or larger exporters."

4.26. Concluding, the Survey indicated the post-devaluation prospects and the basic conditions for deriving the maximum benefit from devaluation as follows:—

"In short none of the real problems of the economy are altered by the decision to devalue. The decision only highlights the urgency of attacking all our continuing problems with renewed vigour. Basically, the problem is that of achieving higher productivity and higher savings and to live within our means. A sufficiently strong institutional framework must also be built up to take care of periodic shortages in supply which are inevitable in an economy dominated by agriculture. The mood of self-search created by devaluation should provide the right setting in which the requisite changes in policies should be introduced and the need for discipline accepted.

The outlook for the economy is still governed by the state of the crops. Given normal weather conditions, the agricultural programmes initiated this year should bring about a marked improvement in output. Following the liberalisation of imports, industrial production should also start picking up in the next three or four months. There is every likelihood, therefore, that, provided fiscal and monetary discipline is observed, the inflationary situation can be brought within control by the end of the year and the country can look forward to the effective implementation of the Fourth-Five Year Plan with a sense of realism and confidence."

4.27. The devaluation decision has also been justified and explained at some length in the Annual Report of the Directors of the Re-

serve Bank for the year ended June 30, 1966. The Report underlined the harmful effects of inflation on exports and imports as follows:

"The persistent and substantial rise in prices over the last few years has steadily raised costs in the economy and has made it more and more difficult for Indian exports to compete in international markets. The selective incentive measures, viz., import entitlement schemes, tax credit certificates and straight subsidies, in some cases meant to compensate the export industries for higher costs have proved inadequate in the context of the inflationary situation and called for periodic increases in their range and quantum. Moreover, these *ad hoc* remedies did not have the potential to bring about a lasting solution either in the form of increases in output or lowering of the cost of production of the export industries."

"The effects of inflation have been equally harmful in regard to imports. In the context of a continous rise in domestic prices, imported goods continued to command a premium (despite the progressive increase in import duties), as Indian prices of comparable goods have been well above world prices. In the result, imports when they could be obtained were considerably cheaper relative to domestic products. The relative cheapness of imports gave rise on the one hand to severe import restrictions which has affected the growth of industrial production and on the other to leakage of foreign exchange through smuggling."

4.28. The Report pointed out further that while exports had "ceased to grow" during the last two years, imports "remained at high levels, despite sctrict control, largely because of the inexorable needs of the economy on account of development and defence." On the invisibles account too, "There was a worsening on both sides, as receipts fell off due partly to diversion to unofficial markets and payments grow on account of interest and profit payments."

4.29. Summing up the case for devalution the Report stated:

"The experience of schemes of assistance to visible and invisible exports through pratices resembling a multiple exchange system was that while these schemes were useful over a limited range and period, their continuance aggravated rather than helped to solve the underlying problem of loss of competitive power. Devalution thus became all the more necessary to correct the handicap caused by inflation to external viability."

4.30. An immediate reaction to the devaluation decision was that it had been done unde rpressure from the United States, and the international monetary authorities the I.M.F. and the World Bank. Referring to this criticism the Minister of Planning and Social Welfare, Shri Asoka Mehta, stated in the Lok Sabha on August 8, 1966:

> "The position is this that we take credits or we obtain credits, or we seek credits from Western Countries as well as from the East Europeon Countries and the Soviet Union....We have got to discharge our debt obligations, the repayment of the debt as well as of the interest charges, by pushing up our exports and earning the foreign exchange. When these countries (the creditor countries) find that our economy has got into a state where we may not be able to sustain our exports, they are entitled to say that they will not be prepared to give us any new credits.
>
> In the same way, the World Bank can say that 'Your repayment capacity seems to be becoming difficult. Therefore we do not know what will happen to the new credits that you want."

4.31. Similar advice, Shri Mehta said, could be given by the I.M.F. "which has been set up for the purpose of seeing that exchange rates between different currencies is held within a certain balance". The country was entitled to ignore the advice of its creditors but it had to realise the consequence, which Shri Mehta explained as follows:

> "The consequence would have been that we would have carried on as we had carried on, less and less of maintenance imports would have been available and our exports would have become more and more difficult. What would have been the impact upon prices inside the country? Suppose we were going as we were going, the result would have been that there would have been less of imports available for utilising our capacities in industries, hardly any fertiliser available for getting greater production in agriculture and we would have to subsidise from a national income which would have been shrinking our exports more and more."

4.32. Some light on the question as to how far the decision to devalue the rupee was influenced by considerations of aid is also

thrown in an official publication issued a few days after devaluation. Relevant extracts are reproduced below:

"Our foreign exchange position at present is so difficult that unless aid begins to flow soon in adequate quantities, there is every danger of the economy receiving a serious setback. Already, import restrictions are hurting industrial production very badly. The index of industrial production which had shown an improvement of 11 per cent in the first quarter of 1965 over the corresponding period of a year earlier has shown scarcely an increase during the latter part of the year, and over the whole year industrial production has raisen only by 4 per cent. Also, without substantial imports of fertilizers immediately on the basis of aid, our agricultural programmes will not get going. With stagnant agriculture, internal inflation may get out of hand. The commitments ahead of us for debt repayments are also heavy. Aid already in the pipeline is much smaller. Altogether, therefore, action was urgently called for.

Lastly action could not be postponed as all further aid negotiations hinged on it. It is extremely douteful whether without demonstrable evidence of our determination and capacity to push our exports and improve the external viability of our economy, we shall continue to get external credits, particularly as we are already at a stage when we have to incur fresh debt in order to pay off old ones. Without reasonable prospects of aid forthcoming on the scale contemplated by us, the finalisation of the Fourth Plan will be still further postponed. A truncated plan, without aid or aid in much smaller amount, will not meet the requirements of the situation and enable us to deal with our deep rooted economic problems satisfactorily.

4.33. It is seen that in the absence of adequate external assistance Government were faced with a serious situation—an alarming decline in industrial production, stagnation in agriculture, the danger of inflation going out of hand, lack of ready resources to repay external debts. The fate of the Fourth Plan was also linked with the prospect of aid. It is also seen that action on refixing the par value of the rupee "could not be postponed as all further aid negotiations hinged on it."

4.34. The devaluation of the rupees was discussed at some length in the course of official evidence before the Committee. On the ques-

tion whether the advice of certain aid-giving countries or the World Bank or the I.M.F. had any thing to do with the decision to devalue the rupee, the Secretary of the Ministry stated:

> "It is no doubt true that not only the Bank but many foreign observers, economists and people on the scence had the opinion that the Indian rupee per value was unrealistic. It was not a wrong opinion because our own evidence says that it was there. The connection is not pressure or advice that if you do this we would give grater foreign aid. I think that is somewhat a political oversimplification. If we look at matters soberly, the real point all of us can appreciate is that the lending countries legitimately think that the economy which they hope to help by giving aid is a sound economy. Therefore it is the credibility, the belief, of other people in the soundness or the prospective soundness of the economy that really determines the attitudes of other countries to aid. Therefore, to put it quite brutally, one would even say that, whether a particular institution gave a particular kind of advice or not, putting the Indian economy on the right basis and creating the general belief in the world that it has been put on a right basis and therefore it is potentially good and would be improving, that is what creates the climate not only for the increase of foreign aid but even for the willing continuance of foreign aid.

4.35. Further, emphasizing that substantial foreign aid had flown in after devaluation he said, "May be our expectations and our desires were for very great foreign aid but that should not make us under-rate the foreign aid which has come in.....The fairly quick promise and implementation of 900 million dollers of new-project aid is not a thing to be dismissed....Just over a billion dollars has been the scale of fereign aid of which previously only half was non-project aid, that is aid which is quickly usable and mainly for the maintenance or improvement of production. This year, we cannot underrate the fact that 900 million dollars, practically 90 per cent of the level of aid which had been coming in the last few years, has been arranged in a nonproject form."

4.36. Asked whether Government were in 'constant contact' with the World Bank and the U.S.A. Government during the time the de-

valuation decision was in the offing, the Secretary of the Ministry said:

> "No, Sir, We were in constant contact with only the Internanational Monetary Fund because of the Charter. The change in the par value of the currency requires the concurrence of the International Monetary Fund. The International Monetary Fund has got a Board of Directors on which there are the representatives of all the big countries, the United States, the United Kingdom, France, Canada and so on. Officially, therefore, naturally the representatives of these countries who are the members of the Board of the International Monetary Fund knew about the proposal of the Government of India a little earlier because the Board had to consider it and give their concurrence to us before we finally announce the step. I can assure you that no Government was informed by the Government of India about this...."

4.37. In reply to another question relating to the degree of devaluation, the Chief Economic Adviser, Ministry of Finance stated, "I think that the degree of devaluation which we did....is the right degree. It is a very difficult question to decide what should be the right degree .... we had some basic facts. We have a spectrum of exports. We know, for instance, what kind of subsidy was there for engineering products and various other exports. We try to hit at the rate which eliminates the need for most subsidies and minimises the need for export duties." He disaggreed with the view, expressed in certain quarters, that the "Indian rupee is still over-valued." As regards the question whether the unofficial exchange rate can be taken as the true index of the value of the rupee, he said:

> "You really cannot accept it (the unofficial exchange rate) as the true index, because in a situation where we have exchange control and we do not permit the free imports of certain goods like gold or the free exports of certain transactions like capital, there will be some blackmarket or illegal market in which these transactions will take place, and for them to take place in those unofficial markets, they will have to offer a higher inducement than what the official exchange rate would offer. That being the case, this narrow area of transactions which take place in the unofficial market certainly cannot give any index of what will happen if all the markets were one. This is one of those

things which it is very difficult to put across; we are always embarrased by the fact that there is an unofficial market but there will always be such a market as long as controls are there."

4.38. As to the benefits that were expected to accrue from devaluation the Chief Economic Adviser stated that "Essentially it (devaluation) is a step to make or induce the right investment. What used to happen was, when you had the exchange rate which was higher, that it was not profitable for people to invest in export industries or to invest in import replacing industries. What we are trying to achieve as a result of devaluation is that people will now find it more profitable to invest in export industries, that would spell out and work out over a period of time."

4.39. He recognised, however, that 'in the short run' it was necessary to guard against inflation and a general rise in prices, and said, "Any increase in the price level that is induced by devaluation should be held to a minimum and we should not, at the same time, follow other policies which would allow prices to rise in a general way. If that happens....then of course you are neutralising the value of devaluation....we have to increase our determination to avoid inflation in the context of devaluation."

C. Follow-up Measures

4.40. Simultaneously with the decision to devalue the rupee Government announced a number of other economic measures which were in the nature of follow-up action to devaluation.

4.41. Thus, all special export promotion schemes whether based on import entitlements or tax credits as well as other minor schemes were abolished with immediate effect (See Appendix I and II). Simultaneously, export duties were imposed on a number of traditional commodities such as jute manufacturers, tea, coffee, iron ore, manganese ore, rw hides and skins, black pepper, raw motton, cotton waste, coir yarn and coir products (See Appendix III). Explaining the rationale of these changes, a Press Note issued by the Ministry of Finance (Department of Economic Affairs) on June 5, 1966 stated:

"With this change in the par value of the rupee there will no longer be any need for subsidies given through Import Entitlement Scheme and Tax Credit Certificates and both these Schemes are being abolished with immediate effect. Simultaneously separate arrangements would be made to ensure that exporters secure their import requirements of raw materials, components etc. on a priority basis.

In the case of those of our traditional exports which at present require relatively little assistance, it would be necessary, on the other hand, to levy appropriate export duties so as to mop up the surplus but at the same time leaving a sufficient edge to the exporter so as to give him a competitive advantage."

4.42. At the same time, downward adjustments were made in the effective rates of basic import duty on a number of items (See Appendix III). It was stated that "In carrying out this revision Government have kept in view the need to avoid any adverse effect on the budget. At the same time, the new range of duties would be such that the total import cost, especially for machinery items, is not out of line with the cost of similar or comparable items produced in India". In terms of broad classifications, the new rates of import duty, announced on June 5, 1966, were : 27% for capital goods, 50% for intermediate goods and 100% for consumer goods; the regulatory duties were withdrawn for all items. These compared with the pre-devaluation rates of 35% for capital goods, 60% for intermediate goods and 100% for consumer goods *plus* 10% regulatory duty on each of these categories. On certain essential categories of steel, mainly plates and electrical steel sheets, the basic duty was brought down to 15 per cent. Foodgrains, fertilisers, books and journals, newsprint, family planning accessories, sulphur and rock phosphate were declared to be "entirely free of duty."

4.43. Apart from the changes in export and import policies, it was stated that Government proposed to take "suitable measures to minimise the impact of devalution on the cost of living." For instance, Ministry of Finance (Department of Economic Affairs), press note of June 5, 1966 indicated that 'although the cost of important foodgrains will go up, it is not proposed to raise the issue prices." Similarly, certain downward adjustments in the excise duties were made so that consumer prices of products like kerosene, diesel oils, furnace oil and motor spirit remained unchanged (See Appendix III).

4.44. Further, besides the exemption from import duty in respect of fertilisers and raw materials for fertiliser production, it was announced that 'in the interest of higher agricultural production, Government propose that the increase in the cost of imported fertilisers will not be passed on to the farmer but will be absorbed through an appropriate subsidy."

4.45. The June 5 Press Note of Ministry of Finance also dealt with the urgent need of import liberalisation. It stated in this connection:

"Government also recognise that it is necessary to relax as soon as possible the present severe import restrictions which are already affecting industrial production, particularly in the medium and small scale sectors. It is hoped that with sufficient assistance forthcoming from friendly nations and institutions abroad, it will be possible in the very near future to liberalise imports so as to meet in a substatial measure the maintenance needs of our economy. With the appropriate level of import costs which would result from devaluation it would be possible also to simplify in a large measure the present administrative controls over such imports."

4.46. On June 21, 1966, Government announced the following important import liberalisation measures:

(i) "Special arrangements are being made to import in large quantities fertilisers and pesticides, sulphur and rock phosphates, in order to support the rapid expansion of agricultural production.

(ii) Certain raw materials needed primarily for export production will be allowed to be imported on an open General Licence which in the first instance will be valid for shipments made up to March 31, 1967. Those are raw hides and skins, tanning substances such as wattle bark and wattle extracts and cashewnuts.

(iii) For 59 priority industries raw materials, components and spares required for production up to full capacity for six months will be provided. The list of priority industries (See Appendix IV) includes many important export industries, industries meeting the common requirements of the people and above all capital building industries.

(iv) In the case of other industries, allocations will be made the priority industries will be given the same liberal of the product. For all industries, licensing will naturally conform to the availability of foreign exchange from different sources.

(v) Small scale industrial units making the same products as the priority industries will be given the same liberal facilities. Assessment of their requirements by sponsoring authorities may cause delay. It is, therefore, proposed to grant them licences immediately to the extent of thrice the rupee value of the licence given in 1964-65. In the case of other small scale units import licences will

be issued for twice the rupee value of licences issued in 1964-65.

(vi) Imports of copper and zinc will be made both through actual users and by the Minerals and Metals Trading Corporation which will be expected to look after the requirements of small scale industries in particular.

(vii) It is roposed to license freely both to actual users and traders the import from the U.S.A. of a wide range of spare parts other than those whose import is banned. The quotas for established importers from other sources are also being raised.

(viii) An announcement on the liberalisation of imports of certain essential drugs and books was made on the June 15. It has now been decided to liberalise further the imports of certain of these items through the trade.

4.47. It was stated that these measures "should help increase agricultural and industrial production." It was also pointed out that "there will be no liberalisation in the import of either capital goods or of less essential consumer goods." A separate announcement for 'other requirements of export industries' was pomised...'

4.48. On August 16, 1966, the Minister of Commerce laid on the Table of the Lok Sabha/Rajya Sabha a 'Statement Outlining Selected Immediate Programmes to Help and Develop Exports'. The statement noted that having "completed the examination of the measures necessary in the field of import policy to strengthening industrial production for export" Government had decided, as a post-devalation measure, that "highest priority should be accorded" to the requirements of industries, whether in the small or the large sector, for imported and indigenous raw materials, intermediates, components, spares and equipment needed by them to improve and enlarge their production capabilities for sale to overseas markets.

4.49. It was stated that under the new import policy for registered exporters "the value of import allotted to the registered exporters will be for single import content, including wastage in manufacturing processes, required for the export product, and will be determined by the D.G.T.D. Export products which have no import content will not qualify for this allotment. D.G.T.D. will determine such import content of th export product and C.C.I & E. will notify it to the the registered exporters. No registered exporters, who are not manufacturers (Actual Users) will be issued such import licences. Registered exporters who are not engaged in manufacturing business

will have to nominate manufacturer/manufacturers of export products, or components or parts. And such import licences will be issued by the C.C.I & E. only to such manufacturers as actual users and the imported raw materials, components will have to be consumed by them in their respective factory or factories."

4.50. Government had also decided to give, high priority to the allotment of capital goods, equipment, dies, jigs and tools to the exporting units and exporting industries. It was stated that "A special allocation of foreign exchange will be made for this purpose and an inter-ministerial committee is being constituted which will consider applications from the exporting units and exporting industries for import of capital goods, macinery and equipment etc. (not indigenously manufactured) for maintenance, replacement, modernisation, rehabilitation, development and expansion of such exporting units and exporting industries with assured export performance or issued export potential. Allotment for import of machinery will also be made by this committee to exporting units and exporting industries for enabling them to manufacture quality products so as to bring up their product designs and packaging standards to international levels."

4.51. It was point out in the Statement that under the new import policy, for 1966-67 the import of raw jute, raw cashew nuts, wattle-bark and raw hides and skins had been placed under the Open General Licence so that the exporting units and manufacturers could import "these essential raw materials freely and easily for these major exporting industries."

4.52. Further, it had been decided that under the Essential Commodities Act allotment of indigenous raw materials (such as, pig iron, prime steel and steel sections, tin plates, cotton, cotton yarn, cotton fabrics for garments, polyethylene, polystyrene, plastic raw materials, BHC insecticides, sugar for processed fruits, juices and jams, etc. etc.) to exporting units and exporting industries and manufacturers would receive highest priority so that they could obtain "the required indigenous raw materials for exporting production off the shelf."

4.53. In order to increase the volume of the exports of traditional commodities as also of some other items with high export potential, the Statement outlined 'Immediate Production Programmes' indicating certain 'special steps' to secure higher levels of production. These special steps have been described as under:—

(i) *Raw Jute*:—

"Government have decided to take immediate steps on the highest priority to increase the production of raw jute

and improve its quality. An inter-Ministerial Committee will work out the steps to be taken immediately for providing assistance to jute growers for technical, financial and other measures required for this purpose. Full requirements of fertilisers and pesticides for raw jute production will be released to the jute growing States for distribution to the jute growers. Several other steps for extending credit and making other suitable grants to help jute growers to intensify their production and productivity of raw jute will be taken up."

(ii) *Raw Cashew Nuts*:—

"We are depending a great deal on imported raw cashew nuts. The potentiality of export of processed cashew nuts is very great and, therefore, while continuing the import of raw cashew nuts from abroad, immediate steps are being taken to promote production of raw cashew nuts in Maharashtra, Orissa and other States. The production of cashew nuts in Kerala will also be intensified. Concrete administrative and financial measures are being devised to achieve quick and efficient results. Collection of raw nuts will also be improved so as to minimise the present loss in the collection of raw nuts.

(iii) *Plantation Crops*:—

"The requirements of fertilisers and pesticides for Tea, Coffee, and Cardamom plantations will be made available on the highest priority to these plantations in the same manner as for other agricultural crops. In addition, a Tea Finance Guarantee Corporation will be established at an early date to provide cheap and adequate credits to the tea planters for re-plantation and new plantation programmes."

(iv) *Mineral Ores*:—

"Iron ore has the greatest potentiality for exports. The programme to develop an export of 25 million tons of iron ore per year by 1970-71 is being streamlined in order to quickly modernise and mechanise iron ore mines, and provide financial credits to the miners for development of their mines and roads in the mining areas. The programmes of road construction and construction of link

railway lines will also be expedited. Development of ports and facilities for better transport and mechanised handling and loading at the ports will be given top priority among the programmes of transport and port development during the Fourth Five Year Plan. These programmes connected with the Mineral Ores will be given highest priority in implementation. Similar steps will be undertaken for development of manganese ores."

(v) *Steel and Steel Products:-*

"A proposal to set up a "Steel Sales Promotion Division" in the Hindustan Steels Ltd., is under active consideration. This Organisation and other leading private steel exporters will help to develop export marketing as well as production of the required types of specifications and standards of steel for foreign markets so that the required categories and specifications of different varieties of steel could be supplied to South East Asia, Africa and Western European markets. Likewise, the potentiality of the American and British markets which require a large quantity of rods and bars and other prime steel and iron and steel castings could be developed by such an organisation."

4.54. The Statement noted that export promotion schemes in existence before devaluation had been abolished. It stated that "exporters of industrial products face special difficulties and need special assistance to enable them to overcome price disparities, to meet competition in foreign markets, to develop marketing competition and to be in a position to neutralise the disadvantages which result from price and high import duties." It had been considered that "the simplest way to make it possible for exporters to meet these difficulties will be to provide them with cash assistance." Government had, therefore, decided to extend cash assistance to export of selected products with sizeable export potential so as to maintain and promote further exports of these goods. It was stated that, following devaluation, the amount of assistance required had substantially decreased and "these products, exports of which were receiving direct or indirect assistance in very large measure before devaluation, will now be granted only a very modest assistance." The salient fatures of the cash assistance scheme have been stated as under:

(1) "Engineering Goods, which have a high export potential have now been categorised into 3 groups. On the basis

of exhaustive calculations and taking into account the full benefit of devaluation, the assistance now to be granted to these products will be 10%, 15% and 20% to Group No. I, Group No. II and Group No. III, respectively.

(2) The assistance to be accorded to the Metals Scrap Trading Corporation (MSTC) through which the exports of steel scrap are already canalised will be at the rate of 10%.

(3) Assistance at the rate of 15% will be placed at the disposal of Iron and Steel Controller to assist export of iron and steel. The Iron and Steel Controller, in consultation with the All India Steel Exporters Association (on which are represented the Joint Plant Committee, the steel plants in public and private sectors and the steel exporters) will determine the actual quantum of assistance to be given to different categories of steel products. There will be several categories of steel which will require no assistance, while some categories of steel may require certain assistance the quantum of which will be determined by the Iron and Steel Controller out of the overall average rate mentioned above.

(4) Woollen carpets will be granted cash assistance at the rate of 10%.

(5) Cash assistance to export of sugar will continue on a lower basis than before, taking into account the full benefit of devaluation and the ruling international prices of sugar in different markets of the world."

All the rates of assistance are related to the f.o.b. value of exports.

4.55. The 'Selected Immediate Programmes to Help and Develop Exports' *inter alia* provided for the setting up of an Inter-Ministerial Committee in the nature of a high power standing Committee, to ensure the closest joint working between the Ministries of Commerce, Food, Agriculture, Community Development and Cooperation, Finance and the Planning Commission in order to achieve speedy results. The constitution of such a Committee has been announced on December 13, 1966. The Committee consists of the Secretary, Ministry of Food, Agriculture, Community Development and Cooperation (Department of Agriculture and Community Development), Special Secretary, Ministry of Commerce, Chairman, State Trading Corporation, Additional Secretary, Planning Commission, and Additional Secretary, Ministry of Finance.

The Committee will co-opt different senior officers like the Jute Commissioner, Textile Commissioner dealing with specific commodities, while discussing the commodities handled by them. The terms of reference of the Committe are:

(i) to work out in detail the various programmes for development of the production of the principal export-oriented agricultural commodities on the lines envisaged in the Fourth Five Year Plan;

(ii) to suggest from time to time the various measures required to be taken to achieve the production tragets laid down for such commodities in the Plan; and

(iii) to generally supervise the implementation of the priorities and programmes so as to ensure their smooth and timely fulfilment.

4.56. Explaining the implications of the term "follow-up measures" in the context of devaluation, the Chief Economic Adviser has stated in the course of official evidence:

"The term 'follow-up measures is often used in three different contexts. Two of them are legitimate and one is not.

One kind of follow-up measures is to take the consequential measures along with the decision on devaluation that is to decide about the subsidy, import duty etc. These form part of the decision to devalue. There are other things in the same category of follow-up measures, for instance, what to do with the existing contracts etc.

The second kind of follow-up measures which is also legitimate relates to other measures such as economy in expenditure and trying to see that inflation does not gather momentum so that the advantage of devaluation is not eroded.

Third idea of follow-up measures which is popularly emphasised consists of the demand for compensating everybody against the effects of devaluation."

4.57. Replying to a question about the delays in introducing necessary follow-up measures of the first category and the effect of such delays on exports, the Secretary of the Ministry has stated:

"All the measures connected with devaluation have to be considered and dealt with on the basis of strict secrecy. Therefore, until the day of devaluation, consultations with

outside agencies were not possible.....What I am saying is that questions relating to devaluation affecting contracts with East European Countries have to be dealt with on the wake of devaluation. There was a few weeks' delay on that. (Similarly) there has been no doubt delay due to the gathering of the correct facts for settling the correct rate of subsidy. Due to these reasons probably there was a little delay in the announcement of subsidies. Naturally people who expect that there is likely to be some subsidy but do not know what it is, will hold up. Barring these little elements, there was no significant delay in the follow up measures of the first category."

On his attention being drawn to the fact that the export of engineering goods had been 'practically blocked for two months or more for want of any clear cut decision about the subsidy', the Secretary of the Ministry stated:

"It was true that a couple of months was taken in deciding the exact level of subsidy for the engineering goods and in a sense during this time there was naturally a standstill. But it is not that the industry did not know whether any subsidy would be given or not but surely they did not know what would be the quantum of the subsidy."

4.58. As regards follow-up measures for ensuring that the effects of devaluation are not eroded by a general rise in prices, the Chief Economic Adviser has stated:

"That is in a way a long term and continuing problem. It is not something which we do only for six months in a year. We have got to do it year in and year out. Immediately also something has to be done. Sometimes the psychological factors are more important. To tackle these psychological factors, effective steps were taken to neutralise the price rise on essential commodities like foodgrains and kerosene. If we allow the prices of these things to go up, there would have been a pile up of further prices increase. As a part of devaluation follow-up measures, the idea of opening departmental stores and meeting and making the industry people to hold the price line was adopted. Of course, these are not measures which could be permanently effective. At least for the immediate psychology this

was a very valuable thing to do. I think the co-operation from the business community was not wanting.

In the same class I would also put the kind of measures that we have been taking on the monetary side to see that there was not a wave of stock-piling. I think the monetary situation has been reasonable considering the degree of devaluation and considering the fact that we had already inflationary impetus coming from the past which was a very bad year of harvest and the price rise after devaluation has not been unduly worrisome."

4.59. Elaborating the position with regard to follow-up measures in a note furnished to the Committee at the post evidence stage, the Ministry have started that the measures which were contemplated as follow-up action after devaluation consisted of:

(i) those which were necessary to remove transitional difficulties in foreign trade and to provide for additional assistance for exports in selected cases; and

(ii) measures which were necessary to bring about a greater degree of stability in prices, and to stimulate production for export and import substitution so as to derive the maximum benefit from devaluation.

4.60. The Ministry have added that "by their very nature, the category (ii) measures would be taken over a period of time and their effect also would be felt over a longer period. Obviously, the follow-up steps were not supposed to be such as to run counter to the main purpose of devaluation itself. And yet, it is often implicitly assumed that the follow-up steps are meant primarily to provide relief to those adversely affected by devaluation. Transitional relief on a selective basis is in order and has in fact been given. To the extent that the area of such relief-whether for consumption, investment or exports—is enlarged, the task of devising appropriate and adequate measures for longer term benefits from devaluation would become even more difficult."

4.61. In so far as follow-up measures which were considered necessary 'to remove transitional difficulties in foreign trade and to provide for additional assistance for exports in selected cases' are concerned, the Committee have been informed by the Ministry that "the follow-up action may be taken to have been completed." The important steps stated to have been taken in this behalf are indicated below:

(i) Export duties have been levied on traditional items of export. The original list covered twelve commodities but

subsequently duties were also levied on iron ore, manganese and certain other mineral ores and manganese dioxide. The export duty rates have been kept constantly under review and modified where necessary in keeping with the price trends and needs of the economy. For example,.....when it was found that the specific duty of Rs. 2 per kilogramme levied on tea was weighing heavily on exports of low and medium priced teas, it was decided to replace this specific duty by a value slab scale according to which teas of the value upto Rs. 4 per kilogramme now bear a specific duty of Rs. 0.80 per kilogramme which rises progressively to the maximum rate of Rs. 3 per kilogramme depending on the value of the tea exported.

(ii) The export incentive schemes were abolished following devaluation. Special arrangements have been made for meeting the import content of exports under the scheme of import replenishment. Cash subsidies have been announced for export of metal scrap, iron and steel, engineering goods, woollen carpets, sugar, certain chemical products, drugs and drug intermediates and plastics. It has also been announced that there is no intention to give any further export subsidies.*

(iii) The transitional problems arising in respect of trade with rupee payment countries have been settled.

(iv) Liberalisation of imports of raw materials, components and spare parts required by 59 industries has been put into effect.

(v) To provide relief to the consumer, the initial higher cost of imports of foodgrains and kerosene, among other petroleum products, was absorbed by a budgetary subsidy. More recently it has been decided to withdraw the subsidy on foodgrains in stages. Specific measures have also been taken to keep a watch on prices. Retail consumer co-operative stores are being established.

(vi) The question of rupee finance for augmenting the availability of rupee finance for industry is kept under consideration.

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*It may be mentioned, however, that further cash subsidies for certain exports Commodities have been announced on September 7, 1967, *See* also Chapter VI under 'Export promotion Measures'.

(vii) A scheme for granting depreciation allowance for the increased value of plant and equipment imported under foreign credit or on deferred payment terms was announced by the Minister of Finance in the Lok Sabha on 24.1.1966. According to this scheme industry would be allowed to write-up the capital cost of the plant and machinery imported from abroad before the 6th June, 1966 on deferred payment terms or under a foreign loan which remained outstanding wholly or partly on the 6th June, 1966, by the amount of the additional rupee liability by way of depreciation allowance over the useful life of the asset. Necessary amendments to the Income-Tax Act for this purpose would be sponsored at the next suitable opportunity."

4.62. Explaining the position generally with regard to measures 'to bring about a greater degree of stability in prices, and to stimulate production for export and import substitution' the Ministry have stated that "action has to be continuous. Liberalisation of imports by itself should provide stimulus to greater industrial production. Special administrative arrangements may be necessary for removing other obstacles in the way of higher production, especially of exportables. On the fiscal and monetary front, action has been taken to effect economies in Government expenditure. The credit policy of the Reserve Bank of the busy season has been announced and it provides fully for the needs of liberalisation. The Indian scheduled banks with deposit of Rs. 50 crores and above and all foreign banks have been asked to ensure that at least 80 per cent of the increase in their advance during the busy season goes to finance industrial borrowings and/or export import bills."

4.63. Asked to indicate the specific steps that Government have taken since devaluation to contain inflation, the Ministry have stated, "Since the sharp rise in prices which has taken place in recent years has been due, on the one hand to stagnation in agricultural production and inadequate rise in industrial production and, on the other, a rapid increase in the pressure of demand as a result of the increase in population and deficits both in the public and private sectors, Government is taking a number of long-term measures which aim at reduction in this imbalance between supply and demand. These include measures for expansion of agricultural and industrial production, restraint on expenditure in the public and private sectors, avoidance of monetary inflation, checking the rate of growth of population through family planning and so on."

4.64. To meet the immediate situation Government are stated to have taken a number of measures such as those listed below:

(i) "To meet the shortages, arrangements have been made to the extent possible for imports of foodgrains, soyabean oil, sunflower oil, copra, palm oil, kerosene oil etc.

(ii) Imports of raw materials, spares and components have been liberalised so as to facilitate, *inter alia*, full production in the 59 priority industries.

(iii) Consumer Co-operative movement is being strengthened and department stores are being opened in major cities.

(iv) Powers under the Essential Commodities Act (1955) have been delegated to the State Governments for purposes of regulating the distribution of consumer goods by licences, permits or otherwise."

4.65. Further, a Civil Supplies Organisation under a Commissioner, is stated to have been constituted by Government to watch the price movements and distribution pattern of certain essential commodities and to take corrective action if necessary. Commodities selected initially for this purpose are:

(1) Foodgrains.
(2) Kerosene and diesel oil
(3) Sugar
(4) All vegetable oils
(5) Textiles
(6) Drugs
(7) Baby foods
(8) Soap
(9) Matches
(10) Paper and Stationery
(11) Cycle tyres and tubes
(12) Electric lamps
(13) Soda Ash
(14) Dry cells for Torches
(15) Hurricane Lanterns.

4.66. It has been stated that the Civil Supplies Organisation "has already taken steps towards removal of impediments in the way of increased production of a number of essential commodities and

for relieving shortages of consumer goods in different parts of the country on the basis of reports received."

4.67. The Committee have also been informed that to make the consumers aware of the correct prices of articles, the producers/manufactures have been requested to widely advertise their prices and this is being done; the authorities of States and the Union Territories have also issued orders requiring the retail trade to display price lists prominently at their premises. Further, controls on prices of a number of essential commodities such as, popular varieties of mill cloth, sugar, kerosene oil, soft coke, and drugs and medicines have been continued.

4.68. Among more 'general measures' taken to prevent a sharp rise in prices, the Ministry have mentioned:

(i) selective credit control over bank advances against foodgrains, edible oils, etc.

(ii) regulation of forward trading, and

(iii) issue of licensing and anti-hoarding orders.

4.69. Dealing with the 'Follow-up Measures on Devaluation' the Supplement to the Economic Survey, presented to Parliament in July 1966, had stated, *inter alia*, that "It will be necessary to introduce fresh measures of economy in expenditure, to improve the performance of our projects so that an adequate increase in output is obtained from investments already made and to undertake fresh investment only to the extent that genuine savings are available to finance them. These measures imply a rigorous discipline on the part of Central and State Governments alike"....

4.70. The Draft Fourth Plan envisages that an additional amount of Rs. 335 crores would be available for Plan purposes if the rate of increase on 'administrative services, tax collection and non-plan development expenditure' is restricted to 3½ per cent per year.

4.71. Addressing a conference of Chief Ministers in New Delhi on July 19, the Prime Minister, Shrimati Indira Gandhi, announced that the Union Government was attempting a general cut of 3 per cent in the revenue budget and of 5 per cent in the capital budget. In addition to these minimum general cuts, there would be further substantial reductions on a selective basis which would be worked out soon in respect of individual Ministries and Departments. These would include a cut in items like travelling allowances, the use of staff cars and other small items which might not yield a great deal of money but would help create a climate of economy.

4.72. The Prime Minister called for "resolute action" at every level to achieve economy in Governmental expenditure. She said, "We have to evolve an agreed plan about it. Obviously, economy cannot take place at the cost of postponing development. Nor can drastic remedies like retrenchment of staff be thought of at this stage. But there are innumerable other ways in which substantial economies can and must be achieved. For instance, while retrenchment may not be possible, one could go slow with fresh recruitment. One area for substantial savings is that of civil works; capital costs on civil works can be reduced appreciably. In some cases, economy may be possible by expediting a project or by staggering the process of construction. Again, cheaper construction is possible."

4.73. Winding up the discussions at the conference, the Finance Minister proposed the following general objectives with regard to effecting economies in public expenditure:

(1) An immediate overall 3 per cent cut in revenue expenditure;

(2) An effort to limit expansion of staff within the average annual "wastage of personnel" of 3%;"

(3) 15% economy in civil works, *i.e.*, buildings;

(4) 5% cut in overall capital expenditure.

4.74. It would be for each State to apply whatever cuts it could selectively and to achieve the maximum economies possible. The Chief Ministers generally agreed to have State budgets scrutinised along these lines to effect economies.

4.75. Towards the end of September 1966, the Union Cabinet approved the report of the 'Secretaries Committee on Economy' which envisaged an economy of Rs. 101 crores in the current financial year. It was envisaged that the economy in the revenue budget would be Rs. 24 crores and in the capital budget Rs. 67 crores. Additionally, the Railways had agreed to forgo an allocation of Rs. 10 crores on capital account which was to be made to them.

4.76. Asked to indicate the steps taken or proposed to be taken by Government to give effect to the economies in administrative and other non-development expenditure envisaged in the Draft Outline of the Fourth Plan the Ministry have stated:

(a) The ratio of non-development civil expenditure on revenue account to national income rose from 3.2 per cent

in 1950-51 to 5.8 per cent in 1965-66. However, the ratio of this expenditure to tax revenue decreased from 48.8 per cent to 41.3 per cent during the same period.

(b) A number of economy measures have already been adopted by the Central and State Governments and further efforts in this direction are continuing. The other measures proposed to be taken are as follows:

(i) Restraint on increases in emoluments of Government employees. While the Draft Outline of the Fourth Plan envisages an increase in emoluments in the case of low-paid employees to compensate the increase, if any, in the prices of basic consumer articles, as also the correction of obvious anomalies in relative wages or salaries, it emphasises the need for avoiding any general increase in the wage or salary structure as a whole. The ability to adhere to such a policy would depend among other things, on the ability to keep in check the rise in the prices of essential consumer goods.

(ii) A substantial part of the increase in non-development expenditure in recent years is accounted for by additional transfers of funds from State Governments to local bodies on account of the establishment of Panchayati Raj institutions. The total grants to local bodies in 1966-67 are estimated at about Rs. 77 crores as compared to Rs. 42 crores in 1961-62. It is envisaged that in future the transfer of further resources to local bodies would be accompanied by a transfer of certain functions to local bodies, so that the expenditure of State Governments is reduced. Besides, it is envisaged that the further transfer of funds to local bodies should be such as will encourage them to raise additional local resources for development works and thus augment the total resources for the Plan."

D. Trends in Exports since Devaluation

4.77. One of the avowed purposes of devaluation was to stimulate exports. The following Table (reproduced from the Ministry of Commerce, Annual Report 1966-67) indicates, the trend in exports during 1966 as compared to the preceding year.

Month-wise exports (including re-exports) during 1966 and 1965

(Rs. lakhs U.S. $ Million)

Months	1966		1965	
	Rs. lakhs	$ Mill.	Rs. lakhs	$ Mill.
January	65,94	138·319	63,32	138·025
February	60,89	127·920	61,83	129·895
March	77,04	163·529	76,79	161·324
April	62,67	131·660	57,02	119·790
May	65,04	136·638	61,72	129·664
June	75,28	100·378	68,19	143·256
July	76,66	102·213	61,89	130·021
August	107,20	142·938	67,48	141·764
September	97,41	129·880	70,77	148·677
October	111,86	149·147	66,67	140·063
November	89,85	119·800	74,62	156·765
December	104,56	139·413	72,73	152·794
TOTAL	994,30	1580·147	803,03	1687·038

NOTE.—1. Figures for June to December, 1966 are in post-devaluation rupee.

2. $ equivalents have been calculated at the old exchange rate of Rs. 4.76 equal to one U.S. dollar for the pre-devaluation period and at the new exchange rate of Rs. 7.50 equal to one U.S. dollar thereafter.

4.78. It is seen that exports in the pre-devaluation period of January—May, 1966 recorded an increase of about 3 per cent over the corresponding period of the preceding year, but during the seven month period after devaluation (June—December 1966) they declined by nearly 15* per cent as compared with the same period of 1965. According to the 'Annual Plan 1967-68', during the period June 1966 to March 1967 exports declined nearly by 11 per cent as compared to the same period of 1965-66.

4.79. In a statement placed on the Table of the Lok Sabha on 31st March, 1967, the decline in exports during the seven months following devaluation has been explained as under:

"Among the major factors responsible for the unsatisfactory export performance, a drastic fall in domestic agricultural

*Ministry of Commerce Report 1966-67, p. 11. At the factual verification stage the Ministry of Finance have stated that the decline in exports during June-December 1966 as compared to the corresponding perioc of 1965, was 13 per cent.

output on account of the severe drought conditions prevailing in most parts of the country and in industrial output as a result of the pause in the flow of aid since 1965 were the most important. Indeed, by and large, the difficulties in the agricultural sector have continued to persist while the pick-up in industrial production as a result of the resumption of aid flows and the recent liberalisation of import policy would naturally take some time. Besides these difficulties which devaluation was not designed to overcome, there were three other difficulties. Firstly, simultaneously with devaluation all export assistance schemes in force at that time were abolished. Secondly, the position of export contracts negotiated before devaluation was somewhat uncertain particularly in the trade with Rupee Payments Area where the contracts were determined in rupees. Thirdly, the awareness that devaluation could bestow a windfall gain on the Indian exporters impelled a number of foreign buyers to press for reductions even in internationally competitive prices."

E. Comments and Suggestions

4.80. The Committee note that in spite of considerable external assistance the country's foreign exchange reserves, which amounted to Rs. 1612 crores at the end of March 1948, had suffered heavy erosion, particularly during the Second Plan period, and had remained at a precariously low level for most of the Third Plan period. At the same time, while exports had ceased to grow and had even shown a declining trend in 1965-66, imports had remained at a high level despite controls. On the invisibles account too payments had grown while receipts had continued to fall off. There was thus a basic disequilibrium in the country's balance of payments. Despite the progressive increase in the utilisation of external assistance, there had been recurring crises in the balance of payments during the Second and Third Plan periods.

4.81. Following the outbreak of the Indo-Pak conflict in September, 1965, there was a sudden pause in fresh authorisations of external assistance and the magnitude of fresh assistance authorised during 1965-66 was only Rs. 604 crores as compared to Rs. 744 crores in the previous year. In the latter half of 1965-66, government were obliged to impose a drastic cut in imports. The Committee also note that after a brief recovery, the balance of payments had again shown a deficit in the quarter April—June 1966. There was no evidence of

any marked uptrend in exports. Further, the drastic cut in imports, imposed in the latter half of 1965-66, had adversely affected industrial production. In fact, the foreign exchange position was so difficult that unless aid began to flow soon in adequate quantities there was every danger of the economy receiving a serious setback More-over, the country had reached a stage when it had to 'incur fresh debts in order to pay off old ones'; even the finalisation of the Fourth Plan could not be undertaken in the absence of reasonable prospects of aid. However, external assistance was not readily forthcoming as the lending countries/institutions seemed to require 'demonstrable evidence of our determination and capacity to push our exports and improve the external viability of our economy'. It has been acknowledged that action in regard to devaluation "could not be postponed as all further aid negotiations hinged on it."

4.82. The fierce reaction both in Parliament and outside to Government's decision to devalue in June 1966 is indicative of the far-reaching repercussions of this measure on the Indian economy. It should have been possible for Government to foresee in the beginning of Second Plan the critical position which was bound to be reached in the balance of payments, if timely and effective measures were not taken to generate enough export surpluses to pay for large imports and to service heavy loans which were being taken from foreign countries and international bodies, to force the pace of industrialisation.

4.83. The Committee feel that the chronic and growing deficits in India's trade and invisibles accounts were essentially due to inflation and the attendant overvaluation of the rupee.

4.84. Inflation had meant not only higher costs for exporting industries, as a result of which Indian exports were priced out in foreign markets, but also diversion of investment as well as supplies to meet domestic demand. The selective export incentive measures in operation before devaluation, such as import-entitlements, tax credit certificates, subsidies etc. had proved clearly inadequate considering that exports in 1964-65 were almost at the same level as in the previous year while in 1965-66 they actually registered a slight fall. Moreover, in the context of the inflationary situation, these incentive schemes had called for periodic increases in their range and quantum; they also lacked the potential for bringing about a lasting solution in the form of increases in output or lowering of the costs of production. It becomes evident that these ad hoc measures could not provide an enduring solution to the country's export problems.

4.85. The effects of inflation had been equally harmful in regard to imports. Despite a progressive increase in import duties, imported goods continued to command a premium as Indian prices of comparable goods were well above world prices. This hampered the progress of import-substitution. The relative cheapness of imports also gave rise to severe import restrictions which affected the growth of industrial production and enabled importers to make large profits without any benefit to the consumer.

4.86. The over-valuation of the rupee had also adversely affected the position on the invisibles account. Private foreign investors, who had earned substantial profits as a result of scarcity, were able to remit their profits at the over valued rate, thus involving the country in an undue drain of foreign exchange. Moreover, over-valuation had given rise to leakage of foreign exchange through various anti-social practices, such as, under-invoicing of exports, over-invoicing of imports, retention of illegal earnings abroad, smuggling etc.

4.87. The Committee are glad to note that Government recognize the imperative need of observing the 'necessary discipline' to keep inflationary pressures under control so that the country is not again faced with a situation where further devaluation becomes unavoidable. They regret to observe, however, that judging by results there has been little evidence so far of Government's determination to hold inflation in check.

4.88. The Committee also note Government's decision to effect a modest economy of Rs. 101 crores in the expenditure during 1966-67 as a post-devaluation measure. They would, however, like to underline the very distressing fact that, in sharp contrast to 1949 when devaluation was followed by voluntary cuts in salaries of Ministers and schemes of compulsory savings or cut in salaries applicable to all Government employees, the present devaluation has been followed by increases in emoluments of Government employees all over the country necessitated by the spiralling up of prices.

4.89. The Committee need hardly stress that if inflationary pressures continue to grow, as they have during the past year, the usefulness of devaluation might get eroded.

4.90. The Committee would like Government to take speedy and effective measures to attack the root causes of the malady of inflation which can be traced to over-ambitious Plans which have tended to emphasise requirements rather than resources and are not moda-

rated in the light of actual achievements and resources available from year to year. More specifically, the Committee consider that the size and the contents of the Third Plan should have been reviewed pragmatically in 1962 when Chinese aggression and the growing menace of Pakistan made it abundantly clear that defence requirements had to be given top priority in the interest of national security. Government should at that time have curtailed non-developmental civil expenditure specially on schemes which held out little promise of return so as to accommodate perceptible increase in the outlay on defence. It is evident that if inflation is to be curbed effectively the size, contents and strategy of the Fourth Plan would have to be radically changed so as to enforce economic discipline by curtailing expenditure on non-developmental schemes and accord the highest priority to agricultural production and industries catering to the basic requirements of the common man viz. food, clothing and shelter. Simultaneously, concerted efforts would have to be made to develop the exports of the country to pay for heavy imports of capital goods and machinery and to service large loans which have been taken from foreign countries and International institutions.

4.91. The Committee would like to stress the imperative need of securing an appreciable increase in production and productivity in both agriculture and industry so as to augment export supplies and also provide an enduring solution to the problem of rising prices in the context of persistent scarcity conditions. They hope that Government would lose no time in initiating suitable measures in this behalf.

4.92. The Committee feel that time has come when the Plan will have to accord with economic realities and be flexible enough to be rolled forward or back in the light of achievements from year to year.

4.93. The Committee would also like to draw attention to the inordinate delay in the setting up of a high-powered Inter-Ministerial Committee to work out the details of the 'various programmes for development of the production of the principal export-oriented agricultural commodities' and to supervise the implementation of these programmes. The constitution of such a committee was envisaged in the 'Selected Immediate Programmes to help and develop exports' announced by the Minister for Commerce in his statement of August 16, 1966, but the committee was actually set up only on December 13, 1966, that is, nearly four months after the announcement of the 'Immediate Programmes' and over six months after the devaluation of the rupee.

4.94. The Committee would like to recall that the main objectives of devaluation were:

(i) That it would bring about a steady and appreciable increase in exports by providing an enduring and stable stimulus to the export effort and investment in export industries;

(ii) That it would discourage imports and encourage import substitution;

(iii) That it would improve the country's position on the invisibles account by (a) encouraging remittances into India and discouraging outward remittances and (b) reducing the leakage of foreign exchange due to various unhealthy practices which would become "substantially less attractive" with the change in the rate of exchange.

4.95. The Committee need hardly emphasize that the desirability and efficiency of devaluation and the follow-up measures taken by Government can be judged only by the effect they have on the country's exports, imports and invisible earnings and payments.

4.96. Considering that one of the main objects of devaluation was to provide a boost to exports the Committee cannot but feel concerned that exports during the ten months following devaluation were nearly 11 per cent lower even as compared to the corresponding period of 1965-66 which itself was a 'bad year' from the point of view of exports. They note that the downward trend in exports since devaluation is at least partly attributable to delays in introducing requisite follow up measures. First, while pre-devaluation export incentive schemes were abolished simultaneously with the devaluation of the rupee, new schemes of export assistance were announced more than two months after devaluation. Secondly, the admitted delay in settling the transitional problems arising in respect of trade with rupee payment countries, created understandable difficulties for Indian exporters.

4.97. In view of the adverse trend in exports since devaluation the Committee would like the Government to keep a continuous watch on the behaviour of the country's exports and the trends in international trade and take timely and effective measures to ensure that Indian goods are not priced out of world markets due to such factors as high export duties or inadequate assistance.*

*Further comments on the post-devaluation export and import policies have been made in Chapter VI and VIII.

4.98. The Committee cannot help concluding that the economy of the country is at present undergoing a heavy strain on account of inflation and balance of payment difficulties. They would like to reiterate that the situation calls for strict economic discipline to curtail all avoidable non-developmental expenditure and a determined effort to achieve a break-through in agriculture which would make the country not only self-sufficient in foodgrains but also provide a broad base for development of industries, particularly those which are export-oriented.

V

PLANNING AND THE BALANCE OF PAYMENTS POSITION

5.1. India started on a course of planned economic development in 1951. During the sixteen year period that has since elapsed, the Five Year Plans have shaped and influenced the country's foreign exchange position in many ways, direct as well as indirect. For instance, the size and pattern of investment in the Plans and the actual results achieved therefrom have determined, in large measure, the country's capacity for export and its import needs. Similarly, the total outlays in the Plans and the rate of growth achieved generally as well as in particular spheres, such as, agriculture and industry, have affected the domestic price position which, in turn, has been a major factor influencing the balance of trade.

A. The First Five Year Plan

(1) *Investment and Rate of Growth*

5.2. The First Five Year Plan underlined the crucial role of capital formation in accelerating economic development. As stated in the Plan document:

> "The key to higher productivity and expanding levels of income and employment lies really in stepping up the rate of capital formation. The level of production and the material well-being a community can attain depends, in the main, on the stock of capital at its disposal, *i.e.*, on the amount of land *per capita* and of productive equipment in the shape of machinery, buildings, tools and implements, factories, locomotives, engines, irrigation facilities, power installations and communications. The larger the stock of capital, the greater tends to be the productivity of labour and therefore the volume of commodities and services that can be turned out with the same effort. The productivity of the economy depends on other things also, as for instance the technical efficiency and attitude to work of the labour that handles the capital equipment. But the stock of capital reflects in a concrete form the tech-

nological knowledge that underlies the organised processes of production, and while other factors are important and essential a rapid increase in productivity is conditional upon additions to and improvements in the technological framework implicit in a high rate of capital formation."

5.3. Dealing with the relationship between the rate of investment and economic development in the light of the experience of certain countries, such as, Britain, Japan, the U.S.A. and the U.S.S.R., the First Plan further stated:

"The conditions in which economic development was achieved in the course of the last century have naturally differed from country to country, but a common feature of almost all of them is the high rate of capital formation which characterised periods of expansion.

It is fairly obvious that a doubling of per capita incomes within a generation or so (that is 25 to 30 years) required, in most of these countries, a rate of net investment of the order of 12—15 per cent of the national income. More rapid rates of development have required, apart from other things still higher rates of investment as in the U.S.S.R. it would appear on the whole that, in under-developed countries with low standards of living and rapidly increasing population, a rate of growth commensurate with needs cannot be achieved until the rate of capital formation comes upto around 20 per cent of the national income."

5.4. It has been estimated that prior to the commencement of the planning era in India the resources devoted to net capital formation amounted to about 5 per cent of the national income. In the First Plan report the national income in 1950-51 was estimated as approximately Rs. 9,000 crores. Dealing with the question, "In what manner and how quickly the rate of capital formation in India can be stepped up, consistently with other objectives, from about 5 per cent of the national income to 20 per cent?", the First Plan stated:

"The answer depends upon the rate at which the national income increases as development proceeds and the proportions of this increase which can, so to say, be ploughed

back into investment. The larger the proportion of the increments to national income that can thus be ploughed back into investment, the greater is the pace at which development can be accelerated. The principle is, in essence, simple. If, for instance, a community starting with a 5 per cent rate of saving increases its total output by, say 10 per cent, and if in the following period capital formation is stepped up by an amount equal to half the additional output, the rate of saving would almost get doubled in the process.....''

"The proportion of the addition to the national income in each period which it is decided to plough back is thus one of the major determinants of the rate of development. But this proportion cannot itself be fixed in a given situation without reference to two other factors. These are (a) the rate of growth of population, and (b) the increase in national output and income likely to follow a given increase in the capital stock,"

5.5. It was explanied that if population is growing at a certain rate, the total national output has to be raised at the same rate merely to maintain existing standards of income and consumption. This means that not only will so much less of further additions to national income be available for ploughing back into investment but a part of what is ploughed back will be taken up by capital equipment required for maintaining *per capita* incomes constant in the following period. In other words, the higher the rate of increase of population, the larger is likely to be the effort needed to raise *per capita* living standards.

5.6. The perspective of growth in national and *per capita* incomes set out in the First Plan, was based on certain assumptions. In the first place, it was assumed that the population of India would continue to grow at the rate of about 1¼ per cent annum (*i.e.* at the same rate as was recorded in the preceding decennial period). Secondly a unit increase in national output and income was stated to require about three times as much by way of additions to capital stock. Thirdly, it was assumed that during the First Plan period (1951—56) capital formation would rise by about 20 per cent of the additional income each year and that the resources thus generated by the process of development would be supplemented to some extent by external resources. From 1956-57 onwards investment was expected to be stepped up each year by an amount equal to 50 per

cent of the additional output. It was stated that this increase in investment would mean that "the rate of saving as a proportion of total national income will have to go up from 5 per cent in the base year 1950-51 and 6¾ per cent in 1955-56 to about 11 per cent by 1960-61, and 20 per cent by 1967-68." After 1968-69, though the resources devoted to investment will continue to go up in absolute terms, capital formation was not expected to be raised beyond 20 per cent of the national income.

5.7. On the above assumptions and with an outlay of Rs. 2,069 crores in the public sector together with an estimated investment of Rs. 1,600 crores in the private sector, during the First Plan period, it was estimated that national income would go up over the five years of the First Plan by about 11 to12 percent. As regards the long range perspective, national income was expected to be doubled by 1971 and *per capita* incomes by about 1977.

(2) *Resources, Savings and Consumption*

5.8. Since the investment expenditure which a community can undertake depends on the resources that can be mobilised for the purpose, the problem of resources is basic to the whole question of planning. In the words of the First Plan document "The *raison d'etre* of a planned economy is the fullest mobilisation of available resources and their allocation so as to secure optimum results." It was also noted in the Plan document that "the investment expenditure which, in the last analysis a community can undertake depends, apart from whatever external resources may become available, upon the rate at which it can step up its savings."

5.9. The level of saving is to a great extent dependent on the level of national income. This means that the higher the national income the higher normally should be the proportion saved. However, as pointed out in the First Plan, this is not always true. For instance, in the United States, considering the rate of increase in income *per capita* and the higher level of this income even to begin with, the rate of net saving achieved in the period 1870 to 1913, *viz.*, 12 to 15 per cent, was relatively low. On the other hand, Japan with a lower level of incomes was able to attain a remarkably high rate of investment (about 17 per cent during the decade 1910—1919). Similarly, the rate of investment in the U.S.S.R. in the decade 1928—38 was, on a conservative estimate, of the order of 20 per cent. The high rate of saving achieved in Japan has been attributed to the fact that "the Japanese capitalists spend very little on personal consumption,

the rural population and urban working proprietors are exceptionally thrifty and, indeed, the wage earners themselves save a substantial proportion of their incomes."

5.10. The First Plan Report stressed that "the resources that can be applied to development depend on the level of aggregate output that can be attained and on the consumption requirements of the community". The larger the output and the lower the consumption requirements, the greater would be the productive resources available for building up the human and material resources of the country for the future. Holding that restraint on consumption was essential for accelerating the pace of investment and that fiscal policy could play an effective role in achieving this objective the Plan Report stated:

> An increase in aggregate investment implies a postponement in increases in the standard of living to the maximum extent possible, and fiscal policy is a major devise for bringing about this result. Fiscal policy has at the same time to aim at a reduction in inequalities of income and wealth. There is clearly far more scope for cutting down consumption expenditure in the higher income groups than the tightening of the belt in the lower income ranges."

> "Conspicuous consumption may have a place in rich countries where rapid expansion of consumption in all directions is in a way essential to the maintenance of a high level of economic activity, it is seriously detrimental in the conditions of an under-developed country. Though the resources which such consumption directly diverts away from capital formation may be small, it not only increases discontent in the community but also indirectly discourages saving in the economy as a whole by initiating a process of wasteful emulation. It is evident that in a planned economy in which the public sector takes over progressively the promotional and managerial functions necessary for development, neither large inequalities of income nor higher consumption standards for particular classes can be justified."

5.11. The First Plan originally envisaged an outlay of Rs. 2,069 crores by the Central and State Governments. Dealing with the assessment of resources the Plan document stated, "on present calcu-

lations the normal revenue and capital receipts of public authorities, including loans and grants received upto now (*i.e.* till the presentation of the Plan in December 1952) from abroad are expected to finance about Rs. 1414 crores of this expenditure. Deficit financing in the public sector cannot at this stage be visualised in excess of about Rs. 290 crores. There is thus still left a gap of Rs. 365 crores which can be met only from external resources or, in the absence of it, by additional measures of internal taxation and borrowing or by further deficit financing."

5.12. The Plan envisaged that the increase in budgetary resources for development would have to come to a considerable degree from additional tax revenues to be obtained 'as far as possible through widening the coverage of taxation' and to some extent from 'further additions to the direct taxation of higher incomes'. It was noted in this connection that India's total tax revenue in 1950-51 (including the tax revenues of both the Central and the State Governments) amounted to a little over Rs. 625 crores. As a proportion of national income, *i.e.*, about 7 per cent, this level of revenue represented one of the lowest in the World. It was also stated that in India only a relatively narrow range of population was affected by taxation to any appreciable extent. About 20 per cent of the total tax revenue came from direct taxation which affected only 1 per cent of the working force in the country. One the whole, one third or more of total tax revenue was derived from 'certain limited strata of society'. This implied that the burden of taxation spread over the rest of the community was correspondingly lighter and that relatively small increases in the rates of taxation on the latter would help to add significantly to total tax revenue. According to the estimates of the First Plan, by the end of the Plan period the tax revenues of the Central and State Governments were likely to be about Rs. 70—80 crores higher than in 1950-51; but if there were unexpected receipts on items like export duties the increase might be of the order of Rs. 100 crores. It was pointed out that even with the anticipated increases the level of tax revenues would still remain at about 7 per cent of the national income at the end of the Plan.

5.13. On the role of external assistance in the context of planning, the First Plan while recognising that "external resources are necessary in the early stages of development and they could be a significant factor in eliminating bottlenecks and in helping to avoid dislocations which may have far-reaching consequences" cautioned against excessive reliance on foreign aid. It was stated:

> "That a plan of development today must, in the main, rely on domestic resources can hardly be over-emphasised. In

the first place, the conditions governing international investment are no longer what they were when some of the highly industrialised countries of today like the United States, Australia and Canada began their career of development. Secondly, external assistance is acceptable only if it carries with it no conditions explicit or implicit, which might affect even remotely the country's ability to take an independent line in international affairs. There are also obvious risks in excessive deliance on foreign aid which depends on the domestic political situation in lending countries and which might be interrupted by any untoward international developments."

5.14. It was pointed out in the plan document that Japan had depended very little on external resources for its economic development; the State there had played an active part in financing industrial development and introducing new forms of organisation needed for industrialisation. The Soviet Union provided another instance of a country which had developed rapidly with its own resources The Plan document also expressed confidence that if external assistance of the order anticipated was not forthcoming "there will undoubtely be scope for marginal adjustments".

5.15. As regards the scope for deficit financing (the term was used to denote the direct addition to gross national expenditure through budget deficits, whether on the revenue or the capital account) generally and during the period 1951—56, in particular, it was stated:

"Deficit financing can be countenanced only if and to the extent that there is assurance of steady supplies of the essential commodities of consumption .... The scope for deficit financing at any particular time must be judged not so much in terms of movements in wholesale prices or in the money supply but rather in the light of the trends in the cost of living indices. When costs of living are high, increased purchasing power injected into the system is apt to lead to increased demand for the basic commodities of consumption and push up costs of living still further."

"At the present stage, the external resources than can be firmly counted upon for the Plan—apart from loans and grants from abroad already received—are the releases from India's sterling balances, estimated at Rs. 290 crores over the five year period. This, so far as it is possible to visualise now may be regarded as the safer upper limit to deficit financing."

5.16. A break-up of the resources for financing the First Plan outlay in the public sector proposed as well as actual is given below:

	Amount (Rs. crores)		Percentage	
	Plan provision	Actual	Plan provision	Actual
Surplus from current revenues at 1950-51 rates (including additional taxation) . .	570	637	27	33
Public Loans (net) .	115	204	6	10
Small Savings .	225	243	11	13
Railways (contribution)	170	115	8	6
Unfunded debt and miscellaneous capital receipts	178	239	9	12
External Assistance .	521*	189	25	9
Deficit Financing . . .	290	333	14	17
TOTAL Resources—Plan Outlay . .	2069	1960	100	100

5.17. It is seen that although the actual realizations from taxation, public loans, small savings, unfunded debt and miscellaneous capital receipts, and deficit financing exceeded the Plan estimates, the total resources actually mobilised for the First Plan fell short of the Plan target by Rs. 109 crores. This was mainly because actual receipts under external assistance were much less than the figures anticipated in the Plan. The contribution of Railways towards development was also substantially less than expected.

5.18. It is also to be noted that although there was some inflow of external credits in the First Plan period, the bulk of the Plan outlay was financed from domestic resources. In fact, for the last four years of the First Plan period, the total of domestic savings and external credits was larger than the total investment in the economy, and the accumulated savings in the form of foreign exchange reserves increased somewhat. However, taking the First Plan as a whole, there was a drop in these reserves of about Rs. 127 crores.

(3) *Priorities and Pattern of Outlay*

5.19. The framers of the First Plan recognised that the relationship between investment and increases in national income was "one which by its nature, would vary with circumstances" and that "the

*Between April, 1951 (when the First Plan commenced) and December, 1952 (when the First Plan Report was presented) India had received loans and grants from abroad amounting to Rs. 156 crores. Thus, the balance of external assistance expected during the remaining part of the First Plan period comes to Rs. 365 crores.

efficiency of investment depends upon a great many other factors besides the size of the investment". This was explained at some length as follows:

"There is no unique capital output ratio applicable to all countries at all times. Much depends not only on the stage of economic development reached but also on the precise forms of further expansion. Japan provides the instance of a country where, in about a generation (*i.e.*, roughly between 1885 and 1915) labour productivity in agriculture was doubled with very little additions to capital equipment and mainly through the use of fertilizers, better seeds, improvements in water supply and pest control etc. Though climatic and other differences might require larger investments to produce the same result under other conditions the capital output ratio is likely to prove favourable in most countries where agricultural yields are low and where they can be stepped up by relatively small improvements in technique and organisation. Industrial development naturally requires more apital, but here too there are differences from country to country depending on the capital intensity of the industries concerned. Before the War, for instane, capital per occupied person in manufacturing industry was about three times as high in Canada as in Australia, while in the relatively more undeveloped countries of South Eastern Europe it was a quarter to a third less than even in Australia. As a rule, basic industries like iron and steel, heavy chemicals and power, and services like Railways are more capital-intensive than others, and therefore, in the stages of industrial development where these are being built up, the capital output ratio is likely to be less favourable than when more attention is being given to light consumer goods industries.... The capital output ratio also depends in a given period on the extent to which installed equipment in industry and transport is utilised; if it is used more intensively, say by multiple shift working, the output as a proportion of the capital invested would naturally tend to be greater than otherwise ....Then, again, the likely increase in national income consequent on capital accumulation depends to a great extent on the share of residential buildings in the additions made to the capital stock. In the pre-War Five Year Plans of the Soviet Union, it would appear that the share of the new residential constructions in capital formation was relatively small; this entailed austere stand-

ards in regard to housing, particularly in the urban areas, but it made possible a greater concentration of resources on industrial and agricultural development and, therefore a more favourable capital output ratio for the country as a whole."

5.20. The demands of the economy for development being large, the First Plan emphasised that great care had to be taken in allocating the limited resources available. While recognising that in the long run there was no sector of the economy in which a large increase in investment would not be justified, the Plan document stressed, "Within a limited time horizon, however, the problem assumes a different aspect; first things have to come first. It follows that the conception of priorities over a period has to be a dynamic one, the emphasis as between different sectors shifting as development in those taken up initially prepares the ground for development in others."

5.21. For the immediate five year period (1951—56) the First Plan accorded 'the topmost priority' to 'agriculture, including irrigation and power'. The case for this was explained in the Plan document as follows:

"For one thing, this emphasis is indicated by the need to complete projects in hand. But, further we are convinced that without a substantial increase in the production of food and raw materials needed for industries, it would be impossible to sustain a higher tempo of industrial development. In an under-developed economy with low yields in agriculture, there is of course no real conflict between agricultural and industrial development. One cannot go far without the other; the two are complementary. It is necessary, however, on economic as well as on other grounds, first of all to stdengthen the economy at the base and to create conditions of sufficiency and even plentitude in respect of food and raw materials. These are the wherewithals for further development .... countries which start the process of development at this stage must as far possible look for sources of supply of the necessary food and raw materials within their own borders. In India, with its varied resources, conditions are favourable for securing a balanced pattern of development. The creation of sizeable surpluses in the agricultural sector and mobilization of the same for sustaining increased employment in other sectors is fundamental to development as the experience of the U.S.S.R. in the twenties and thirties shows."

5.22. Subsequent to the publication of the First Plan report, the total plan outlay in the public sector was raised from Rs. 2000 crores to about Rs. 2378 crores to accommodate certain additional programmes designed to make up shortfalls in the earlier years and enlarge employment opportunities. The distribution of the outlay as between different heads of development is shown in the following table:

Pattern of Plan Outlay in the Public Sector

Heads of Development	Amount (Rs. in crores)		Percentage distribution	
	Plan provision*	Actual Outlay	Plan provision*	Actual Outlay
Agriculture & Community Development	353·4	289·9	15	15
Agricultural programme	238·4	210·9	10	11
Community Development**	115·9	79·0	5	4
Irrigation & Power	647·5	582·9	27	30
Multipurpose projects	255·9	236·6	11	12
Irrigation	213·0	197·5	9	10
Power	178·6	148·8	7	8
Industry & Mining	188·2	96·8	8	5
Large and medium industries Mineral Development and Scientific reasarch	138·7	54·7	6	3
Village and small industries	49·5	42·1	2	2
Transport & Communications	570·1	517·8	24	26
Railways	267·1	260·0	11	13
Roads and road transport	146·8	142·9	6	7
Oth r transport	96·1	73·5	4	4
Broadcasting & Communications	60·1	41·4	3	2
Social Services	531·6	411·9	22	21
Education	170·0	149·0	7	7
Health	137·8	97·9	6	5
Housing	49 1	33·5	·2	2
Welfare of backward classes	31·9	31·8	1	2
Rehabilitation	135·7	95·7	6	
Labour and labour welfare	7·1	4·0	neg.	neg.
Miscellaneous	86·0	60·7	4	3
TOTAL	2377·7	1969·0	100	100

*As revised subsequent to the publication of the First Plan.
**Includes local development works and village panchayats.

5.23. The pattern of outlay reflects the relatively greater stress that the First Plan laid on programmes designed to build up the agricultural potential of the country. It is seen that of the total outlay of Rs. 1960 crores, Rs. 724 crores, or 37 per cent, were spent on agriculture, community development, irrigation and multi-purpose projects. Considering that multi-purpose projects provide both power and irrigation, it has been estimated that programmes for agriculture and irrigation comprised about 31 per cent of the First Plan outlay. It is also to be noted that the actual outlay on large and medium industries and mining (Rs. 54·7 crores) constituted only 3 per cent of the total Plan outlay and was less than 40 per cent of the outlay proposed for this head.

(4) *Investment in the Public and Private Sectors*

5.24. The problem of mobilising resources has to be viewed in the light of requirements of both of the public and of the private sector. As stated in the First Plan document, "There is a single pool of investible resources on which the private and the public sectors have to draw. The problem is not merely to find resources for the public sector but to enlarge progressively the size of the common pool and to see that the total thus available is allotted between the two sectors in terms of agreed priorities". While noting that there was no way of expanding the size of the Plan except by increasing the resources available to the public sector the First Plan stressed that the level of expenditure in the public sector and the devices used for finding the needed resources should not be "such as to react too adversely on the private sector, the development plans of which are of equal significance from the point of view of the community's interests."

5.25. Of the actual public sector outlay of Rs. 1960 crores under the First Plan, about Rs. 1560 crores represented investment, i.e. expenditure on building up of productive facilities. It has been stated that private sector investment during the Plan period was approximately of the order of Rs. 1800 crores against Rs. 1600 crores estimated. Thus, the total investment in the economy during the First Plan period comes to about Rs. 3,360 crores.

(5) *Targets and Achievements*

5.26. It has been noted earlier that the actual outlay in the public sector during the First Plan was Rs. 1960 crores as compared to the outlay of Rs. 2069 crores envisaged in the Plan document and the revised outlay of Rs. 2378 crores decided upon subsequently. The total investment in the economy during the Plan period was of the order of Rs. 3360 crores. Of this, investment in the private sec-

tor amounted to Rs. 1800 crores as against the original estimate of Rs. 1600 crores. On the assumption that investment in the economy would rise from 5 per cent in 1950-51 to about 7 per cent in 1955-56, the Plan document had anticipated that national income would increase by about 11 per cent during the Plan period. Actually, national income in 1955-56, the last year of the Plan, was 18·4 per cent higher than at the beginning of the Plan.

5.27. A statement showing the physical targets, envisaged in the First Plan, in respect of various sectors and the actual results achieved over the Plan period is reproduced in Appendix V.

5.28. It is seen that production of foodgrains rose from 54·9 million tonnes in 1949-50 to 66·9 million tonnes in 1955-56 marking an improvement of 4·3 million tonnes even over the Plan target of 62·6 million tonnes. As regards cotton, sugarcane and oilseeds, production more or less approximated the targets. However, there was a shortfall in respect of jute, production in the last year of the Plan being only 4·2 million bales as compared to the target of 5·4 million bales. On the whole, agricultural production is stated to have increased during the First Plan period by 22 per cent.

5.29. The major and minor irrigation programmes of the First Plan were expected to extend irrigational facilities to an additional 19·7 million acres during the Plan period. Actually, the total area under irrigation is stated to have increased by 16 million acres—from 51 million acres at the commencement of the Plan to 67 million acres at its end.

5.30. In the industrial sphere, targets in respect of coal and cement were nearly achieved; sugar production attained the level of 1·9 million tonnes as against the target of 1·5 million tonnes. As regards textiles, though there was a shortfall in the production of handloom cloth, actual production being only 1296 million metres as compared to the Plan target of 1554 million metres, this was more than offset by an increase in the production of mill cloth in which case a level of 4665 million metres was reached as against the target of 4298 million metres. However, there were significant shortfalls in respect of Aluminium (plan target: 12,200 tonnes; actual production: 7,400 tonnes); Jute manufactures (Plan target: 12,19,000 tonnes; actual production 10,71,000 tonnes) and superphosphates (Plan target: 182,900 tonnes; actual production: 71,000 tonnes) ;production of finished steel also fell short of the Plan target of 1·7 million tonnes by ·4 million tonnes. Production of ammonium sulphate, paper and paper board, vanaspati and bicycles, electric motors, electric fans and automobiles was also somewhat below the targets.

5.31. As regards the overall progress in the industrial sphere during the First Plan period it has been stated that "industrial production went up by 39 per cent; production of capital goods rose by 70 per cent and that of intermediate goods and consumer goods by 34 per cent each."

B. Second Five Year Plan

(1) *Investment and Rate of Growth*

5.32. In the First Plan Report it was assumed that, as from 1956-57, a rate of investment equal to 50 per cent of the additional output would be achieved. On this basis, it was postulated that (a) the rate of investment in the economy would go upto 11 per cent of the national income by 1960-61 and 20 per cent by 1967-68; (b) national income would be doubled by 1971 and (c) *per capita* incomes doubles by about 1977. Although the rise in national income recorded in the First Plan period was above initial expectations, the framers of the Second Plan felt that the rate of investment assumed in the First Plan document was based on 'excessively high expectations'. In the new projection worked out in the Second Plan Report, it was assumed that the investment co-efficient (as a proportion of national income) would go up from about 7 per cent in 1955-56 to about 11 per cent in 1960-61, 14 per cent by 1965-66 and 16 per cent by 1970-71 whereafter it would remain practically stable, rising to 17 per cent by 1975-76. Even with this lower rate of investment it was expected that, taking 1950-51 as base, national income and *per capita* income would be doubled, respectively, by 1967-68 and 1973-74, that is, three years ahead of the First Plan projections.

5.33. It may also be recalled that the First Plan projections regarding the growth in national and *per capita* incomes were based, *inter alia* on the assumption that population would grow over the next few decades at a rate of about 1¼ per cent per annum or 12·5 per cent per decade. The Second Plan document stated that while this assumption might hold good for the decade 1951—60, the rate of population might go up subsequently to 13·3 per cent per decade in 1961—70 and 14 per cent, during 1971—80. On this basis the population of India was expected to total 408 million in 1960-61, 434 million in 1965-66, 465 million in 1970-71 and about 500 million in 1975-76

5.34. The Second Plan envisaged an outlay of Rs. 4800 crores in public sector of which Rs. 3800 crores represented investment. With an estimated investment of Rs. 2400 crores in the private sector;

total investment in the economy during the Plan period was assumed to be of the order of Rs. 6200 crores.

5.35. The following table gives a synoptic view of the growth in income, investment and population postulated in the Second Plan:

Growth in Income and Investment 1951—76

Item	(At 1952-53 prices) 1st Plan 1951—56	2nd Plan 1956—61	3rd Plan 1961—66	4th Plan 1966—71	5th Plan 1971—76
1. National income at the end of the period (Rs. crores) .	10800	13480	17260	21680	27270
2. Total net investment (Rs. crores.)	3100	6200	9900	14800	20700
3. Investment as percentage of national income at the end of the period . . .	7·3	10·7	13·7	16·0	17.0
4. Population at the end of the period (in millions) .	384	408	434	465	500
5. Incremental capital ou put ratio. . . .	1·8:1	2·3:1	2·6:1	3·4:1	3·7:1
6. Per capita income at the end of the period (in . Rs.) .	281	331	396	466	546

5.36. It was stated that the pr ncipal task of the Second Plan was to secure an increase in national income by about 25 per cent over the five years. Taking into account the increase of about 18 per cent during the First Plan period it was observed in the Second Plan Report that the improvement in national income at the end of the first two Plans would be "as large as 47 per cent in the aggregate as compared to 25 per cent in the estimates put forward in the report on the First Plan".

(2) *Resources, Savings and Consumption*

5.37. It was stated in the Second Plan Report that the programme of investment envisaged for the Plan period required a step up in the rate of domestic saving from the then existing level of 7 per cent of national income to about 10 per cent of national income in 1960-61. This was on the assumption that external resources of the order of Rs. 1100 crores would become available, as postulated in the Plan, for supplementing domestic savings. It was emphasized that if foreign resources of the order required were not forthcoming, it would be necessary to restrict the growth in consumption to a correspondingly greater extent. "The essence of economic development", it was urged, "lies precisely in this that unless increases in consumption are held in check to the extent required for realising the rate of investment, the expected increase in national income and standards of consumption cannot materialise."

5.38. Dealing with the problem of mobilising resources, the Second Plan document stated that, "Basically, the issue is whether

and how domestic savings to the requisite extent can be mobilised in the aggregate. This depends on a judgment not only as to the desirability of limiting consumption beyond a point, but also the suitability, in the given economic and social set up, of the means or techniques to be used for the purpose. The latter is an important consideration in shaping taxation and other economic policies in a democratic state, and especially in the context of the private sector functioning side by side with the public sector." The Plan document emphasised that "given the decision to invest a certain quantum of resources, the necessary savings have to be found from within the economy, the Second Plan Report underlined the importance of foreign exchange resources in the following words:

> "Foreign exchange resources present a problem to which special attention has to be given. A country which starts on industrialisation has necessarily to import the required machinery and equipment from abroad in the earlier stages, and it has, therefore to conserve its foreign exchange resources to the utmost. The fact that supplemental resources from abroad on a considerable scale would still be necessary even after the utmost economy in the matter of imports highlights the need for an active export promotion policy."

5.39. The scheme of financing the public sector outlay of Rs. 4,800 crores, envisaged in the Plan, and the actuals from each source are indicated below:

Financing of Second Plan Outlay in the Public Sector

	Amount (Rs. crores)		Percentage distribution	
	As proposed in the Plan	Actuals	As proposed in the Plan	Actuals
Surplus from current revenues at existing (1955-56) rates of taxation	350	11	7·3	0·2
Additional Taxation	450	1052	9·4	22·5
Public Loans (net)	700	772	14·6	16·5
Small Savings (net)	500	406	10·4	8·7
Railway's contribution	150	167	3·1	3·6
Unfunded debt and miscellaneous receipts	250	261	5·2	5·6
External Assistance	800*	1049	16·7	22·5
Deficit Financing	1200	954	25·0	20·4
Gap to be covered by additional measures to raise domestic resources	400	..	8·3	..
TOTAL	4800	4,672	100·0	100·0

*In addition to external assistance amounting to Rs. 800 crores the Second Plan had anticipated withdrawals to the tune of Rs. 200 crores from foreign exchange reserves and net inflow of Rs. 100 crores of foreign capital in the private sector.

5.40. As regards the estimated gap of Rs. 400 crores in the resources, the Second Plan Report had stated that, "The gap has ultimately to be filled by raising additional domestic resources, and given the limits to deficit financing, as also the fact that the scheme of financing as outlined here relies heavily on borrowings, the only possible source that can be drawn upon for meeting this gap is taxation, and, to the extent possible, profits of public enterprises."

5.41. It was stressed in the Plan Report that in order to obtain for the Plan the estimated amount of Rs. 350 crores from revenues at existing rates it would be necessary to keep "a careful watch on non-developmental expenditure."

5.42. Further, while setting the target for additional taxation at at Rs. 450 crores, the Plan document indicated that actual realisations from additional taxation may have to be of a much higher order. It was stated in this connection, "considering the needs of the Plan on the one hand and the degree of reliance that is being placed on borrowings and deficit financing, the conclusion is inescapable that the target for additional taxation has to be raised from Rs. 450 crores to around Rs. 850 crores. This will reduce the dangers of any serious inflationary situation developing and will represent a step in the right direction from the more long range point of view of strengthening the investment potential of the public sector."

5.43. In regard to deficit financing it was stated that against the proposed deficit financing of Rs. 1200 crores "we must set off the drawing down of sterling balances by Rs. 200 crores. The remaining deficit of Rs. 1000 crores represents the net addition to currency in response to Governmental budgetary operations."

5.44. It is seen from the Table showing the 'Financing of the Second Plan outlay in the Public Sector', that the resources actually mobilised fell short of the Plan target by Rs. 128 crores. The most significant shortfall was in respect of 'Surplus from current revenues at existing rates of taxation', the actual surplus amounting to only Rs. 11 crores against the Plan target of Rs. 350 crores. *Primâ facie*, the shortfall would appear to indicate an increase in non-developmental expenditure. In fact, non-developmental expenditure increased from about Rs. 614 crores in 1955-56 to Rs. 913 crores in 1960-61. The contribution of small savings was also less than expected. However, receipts from additional taxation showed a sharp rise and were much above the level expected in the Plan. External assistance received was also higher than anticipated. It may also be mentioned that as against the

anticipated draft of Rs. 200 crores on the country's foreign exchange reserves, the actual draft was of the order of about Rs. 600 crores.

(3) *Priorities and Pattern of Outlay*

5.45. The Second Plan accorded high priority to industrialisation. As stated in the Plan Report, while the Second Plan was "in one sense a continuation of the developmental effort commenced in the First Plan" there was "inevitably a shift in priorities with a larger accent on industrialisation, especially the development of heavy industry, and the necessary ancillaries like transport."

5.46. The principal objectives of the Second Plan were defined as under:

(a) a sizeable increase in national income;

(b) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(c) a large expansion of employment opportunities; and

(d) reduction of inequalities in income and wealth and a more even distribution of economic power.

5.47. In conformity with the above objectives and the Industrial Policy Resolution of 1956, the Plan envisaged that the State would "assume direct resonsibility for the future development of industries over a wider area." It emphased that "the public sector has to grow rapidly and the private sector has to conform to the requirements of the Plan."

5.48. The following Table indicates the pattern of the Second Plan outlay in the Public Sector:

Pattern of Second Plan Outlay in the Public Sector

	Amount (in crores)		Percentage distribution	
	Plan provision	Actual outlay	Plan resources	Actual outlay
Agriculture and Community Development . . .	568·0	549·0	11·8	11·7
Irrigation and Power . .	913·0	882·0	19·0	18·9
Industry and Mining . .	890·0	1125·0	18·6	24·1
Transport and Communication	1385·0	1261·0	28·9	27·0
Social Services and Miscellaneous	1044·0	855·0	21·7	18·3
TOTAL . .	4800·0	4672·0	100·0	100·0

5.49. It is seen that while on the whole the actual outlay fell short of the Plan target by Rs. 128 crores, the amount actually expended on the development of industry and mining exceeded the Plan provision by about 26 per cent. The actual outlay on other major heads, including 'agriculture and community development' and 'irrigation and power', was smaller than originally provided for.

5.50 A comparison of the distribution of the public sector outlays as envisaged in the First two Plans indicates the relative shift in priorities as between the First Plan and the Second Plan. Thus, industry and mining claimed 18.6 per cent of the total public sector outlay envisaged in the Second Plan as against 8 per cent in the First Plan. On the other hand, the share of 'agriculture and community development' declined from 15 per cent of the total outlay in the First Plan to 11.8 in Second Plan. Similarly, the share of 'irrigation and power' in the total plan outlay fell from 27 per cent in the First Plan to 19 per cent in the Second Plan. The shift in emphasis becomes even more pronounced if the actual outlays during the two plans are taken into consideration. For example, the actual outlay on 'irrigation and power' during the First Plan period constituted 30 per cent of the total outlay as against 27 per cent contemplated in the Plan report, while during the Second Plan the actual outlay under this head was, in terms of percentage, slightly less than the anticipated 19 per cent. Again, in the case of 'industry and mining' the actual outlay during the First Plan was only 5 per cent of the total outlay, but it went up to 241 per cent during the Second Plan period.

5.51. Even in absolute terms the proposed Second Plan outlays on 'Agricultural programmes' and 'irrigation' were smaller than the revised outlays in these two sub-heads under the First Plan. The position is indicated below:

(Rs. crores)

	First Plan provision	Second Plan provision
Agricultural programme	197	170
Irrigation	284	381

5.52. However, inspite of the smaller outlays on agricultural programmes and irrigation, the Second Plan Report recognised that increased production of food and raw materials must remain for several years a major desideratum.

(4) *Investment in the Public and Private Sectors*

5.53. The Second Plan's emphasis on the growth of the public sector was reflected in the distribution of investible resources as between the public and the private sectors, envisaged in the Plan document. Of the total expenditure of Rs. 4,800 crores in the public sector, visualised in the Second Plan Report, about Rs. 3,800 crores reperesented 'investment' and Rs. 1,000 crores what may be broadly called 'current developmental expenditure'. Investment in the private sector was esetimated at Rs. *2,400 crores. Actual investment during the Plan period was about Rs. 3,731 crores in the public sector and Rs. *3,100 in the private sector. Thus, the share of the public sector in the total investment rose from 46.4 per cent during the First Plan period to 54.6 per cent in the Second Plan period, while that of the private sector declined from 53·6 per cent to 45·4 per cent. It is to be noted, however, that in both the Plan periods actual investment in the private sector was considerably higher than what was anticipated in the Plans, while investment in the public sector was somewhat below Plan expectations.

5.54. The major point of departure in the Second Plan was to precedence that was accorded to the public sector in industrial and mineral development. In the First Plan, a total provision of Rs. 94 crores was made for the establishment of large scale industries in the public sector as against an estimated programme of new investment of Rs. 233 crores in private sector industry. In the Second Plan, provision of Rs. 690 crores was made for large scale industries and mining (including scientific research) in the public sector as compared to an estimated new investment of Rs. 575 crores for industries and mining in the private sector. Practically the whole of the proposed Second Plan outlay of Rs. 690 crores for large scale industry and mining was for the development of basic industries such as ison and steel, coal, fertilisers, heavy engineering and heavy electrical equipment. It was expected that during the Plan period (1956—61) three steel plants of one million tons ingot capacity each would be established in the public sector. The bulk of the investment in the private sector was also for the development of basic industries.

(5) *Targets and Achievements*

5.55. The size of investment in the public and private sector during the Second Plan period has been indicated above. It is seen that actual total investment in the economy during the five year period was about Rs. 6831 crores as compared to Rs. 6200 crores anticipated. It has been stated that as assumed in the Second Plan Report the rate of investment increased from 7 per cent of the

*Exclusive of transfers from public to private sector.

national income at the beginning of the Plan period to 11 per cent. However, the actual increase in national income over the Second Plan was only 20 per cent as against the target of 25 per cent.

5.56. A statement showing important targets and achievements of the Second Plan is reproduced in Appendix VI. It is seen that actual production in 1960-61 exceeded the Plan targets in the case of foodgrains, sugar cane and tea; in the case of cotton and oilseeds the targets were nearly achieved; but production of jute was only 4.1 million bales as against the target (revised) of 5.5 million bales. On the whole, agricultural production is stated to have gone up by about 20 per cent during the Second Plan period, as compared to an increase of 18 per cent visualised in the Plan Report.

5.57. The achievement in regard to irrigation lagged much behind the target. In terms of acres, the total area under irrigation is stated to have increased from 67 million acres at the end of the First Plan period to about 70 million acres in 1960-61, the net addition during the Second Plan period being only 3 million acres whereas the Second Plan Report had expected an additional 21 million acres to be brought under irrigation by the end of the Plan period.

5.58. In the industrial sphere, there were significant shortafalls in the production of coal, finished steel, cotton cloth (mill), cement, aluminium, cement machinery, steel structural fabrications, railway locomotives, fertilisers, sulphuric acid, caustic soda, soda ash and by some 41 per cent. It was mentioned that the Second Plan sulpha drugs. In general, industrial production rose during 1956—61 by some 41 per cent. It may be mentioned that the Second Plan document did not provide any targets in terms of the general index of industrial production, but the net output of factory establishments was expected to go up by 64 per cent and that of small enterprises by 30 per cent.

C. Third Five Year Plan

(1) *Investment and Rate of Growth*

5.59. It will be recalled that in the model of growth envisaged in the First Plan Report the level of national income in 1950-51 was expected to be doubled by 1970-71 aud that of *per capita* income by 1977-78. In the Second Plan Report, the target dates for doubling the national income and the *per capita* income were advanced respectively to 1967-68 and 1973-74. It was stated in the Third Plan Report that, "Having regard to the increase in population and the likely trends, even with a sustained rate of growth in national income of around 6 per cent per annum, it would be difficult to fulfil the intention expressed in the Second Plan of doubling the 1950-51 level of income

per head by the middle of the Fifth Plan." After taking into account the difficulties faced in implementing the Second Plan and the revised projections of population growth (an increase of more than 2 per cent per annum during 1961-76), the Third Plan set 1976-77 as the target date for doubling the level of *per capita* income obtaining in 1950-51.

5.60. The Table below indicates the revised perspective of development, as presented in the Third Plan document:

	1960-61	1965-66	1970-71	1975-76
National income (at 1960-61 prices Rs. crores)	14500	19000	25000	33000 to 34000
Population (millions at the end of year, *i.e.* 1 March)	438	492	555	625
Per capita income (Rs. per annum)	330	365	450	530
Net investment as percentage of national income	11	14-15	17-18	19-20
Domestic savings as percentage of national income	8·5	11·5	15-16	18-19

5.61. With regard to the growth of national income it was stated that "if all the programmes included in the Plan can be completed in time, national income (at 1960-61 prices) will go up by about 34 per cent." However, the Plan document noted that "for realizing the estimated increase of about 34 per cent in national income many difficult conditions have to be fulfilled." One of the most important of these conditions related to "the total investment to be taken," others were: "maintenance of conditions of economic stability and keeping down of the costs of living for the bulk of the population, adequacy and timely availability of external resources, mobilisation of domestic savings of the order of over 12 per cent of national income; fully co-ordinated execution of connected programmes under industry, transport and power; efficient implementation, at all levels, of agricultural and other programmes and, finally improved techniques, for planning and for evaluation of performance". Keeping in view that not all these conditions might be fulfilled, it was estimated that "national income should go up by about 30 per cent and *per capita* income by about 17 per cent" over the five years of the Third Plan.

5.62. The programmes of development in the public sector included in the Third Plan were estimated to involve an outlay of about Rs. 8000 crores. However, considering the resources in sight at the time of framing the Plan as also the possibility of part of the outlays spilling over into the Fourth Plan, the total financial outlays in the public sector during the Plan period were taken at Rs. 7500 crores. Of this, investment was estimated at Rs. 6300 crores and current outlay, representing expenditure on staff, subsidies etc. at Rs. 1200 crores. Invesment by the private sector during the Plan period was estimated at Rs. 4100 crores. It was stated that an investment of the order of Rs. 10,400 crores over the five year period meant a stepping up of the rate of investment from the level of about 11 per cent at the end of the Second Plan to about 14 per cent. Allowing that part of this investment would be financed through external assistance, the Plan Report indicated that "the rate of domestic savings will have to be raised from the current level of 8.5 per cent of national income to about 11.5 per cent by the end of the Third Plan."

5.63. As visualised in the Third Plan Report, the rate of investment increased during the Plan period to 13.8 per cent of the national income, but domestic savings rose to only 10.5 per cent of the national income as against the ratio of 11.5 per cent envisaged in the Plan. National income in real terms is stated to have increased at a rate around 2.5 per cent per annum as against the growth rate of 6 per cent per year assured in the Plan. As the population continued to grow at the rate of 2.5 per cent per annum there was hardly any increase in *per capita* real income by the end of the Third Plan. In absolute terms, national income in 1965-66 is estimated to be only Rs. *15,441 crores at 1960-61 prices, as compared to the Third Plan target of Rs. 19,000 crores.

(2) *Resources, Savings and Consumption*

5.64. The resources available for the Third Plan were taken at Rs. 7500 crores although the cost of implementing all the public sector programmes, included in the Plan, was estimated to be over Rs. 8000 crores.

5.65. Noting that the financial requirements of the Third Plan were "distinctly higher than the estimates of the resources at present available", the Plan document stressed that "to be able to force the pace of development, there must be continuing effort to mobilise financial resources on a large scale." In this connection, it was also emphasised that "It will be essential to restrain the consupmtion of relatively non-essential goods and services. Along with this in planning the pattern of production, care must be taken to avoid the use

*As per information furnished by the Ministry of Finance at the factual verification stage.

of limited resources available in the production of relatively non-essential goods and services." These measures, it was stated, were important not only for securing rapid development under conditions of economic stability but were also necessary for the mobilisation of the domestic resources and the foreign exchange needed for the successful implementation of the Third Plan. The Plan Document further noted that "the extent to which the resources required for the Plan can be raised is in no small measure dependent on the manner in which it is implemented, especially the efficiency with which projects are constructed and operated, the extent to which the available capacities in agriculture, industries, power, transport and elsewhere are utilised, and the intensive use of the country's manpower resources."

5.88 The Table below shows the pattern of financing the Third Plan as originally envisaged and as it has actually worked out on the basis of the latest estimates.

Financing of Third Plan Outlay in the Public Sector

	Rs. crores		Percentage distribution	
	Third Plan Scheme	Likely Actuals	Third Plan Scheme	Likely Actuals
Balance from current revenues at existing rates of taxation	550	—470	7	—5·4
Railway contribution	100	80	1	0·9
Surpluses of other public enterprises	450	395	6	4·6
Additional taxation	1710	2880	23	33·4
Public loans (net)	800	915	11	10·6
Small savings	600	585	8	6·8
Provident Funds (net)	265	340	4	3·9
Compulsory deposits and annuity deposits (net)		115	..	1·4
Steel Equalisation Fund (net)	105	35	1	0·4
Balance of miscellaneous capital receipts over non-plan disbursements	170	150	2	1·7
Deficit financing	550	1150	7	13·3
External Assistance (including PL-480 assistance)	22·0	2455	29	28·4
TOTAL	7500	8631	100	100

5.67. It is seen that the balance from current revenues at 1960-61 rates of taxation have actually shown a deficit of Rs. 470 crores as against a net yield of Rs. 550 crores envisaged in the Third Plan document, representing a reduction of Rs. 1020 crores. The reduction has been attributed to the fact that all increases in non-plan expenditure (such as defence and additional emoluments and allowances to Government employees) have been allowed for in calculating the balance from current revenues at 1960-61 rates of taxation. There were also shortfalls in the contribution made by the railway and other public enterprises and in yields from small savings.

5.68. On the other hand, the resources actually mobilised from additional taxation and deficit financing were significantly higher than the Plan estimates. It has been stated that the yield from additional taxation measures adopted by the Centre was about Rs. 2270 crores, which was more than twice the amount of Rs. 1100 crores envisaged in the Plan. In the case of States, the yield was about Rs. 610 crores, or approximately the same as indicated in the Plan. It may be mentioned in this connection that during the first three Plan periods the ratio of tax receipts to national income has increased steadily from 6·6 per cent in 1950-51 to 9·6 per cent in 1960-61 and over 14 per cent in 1965-66.

5.69. Explaining how the actual yield from additional taxation during the Third Plan period came to be very much higher than the level provided for in the Plan, the representative of the Ministry has stated during evidence, "Towards the end of 1962 we had to step up our defence expenditure. The decision then taken was that we should go on with both defence and development and additional resources have to be found for both activities.....This decision was taken at the highest level that the defence effort and plan effort must continue and that we must bear the resulting strain."

5.70. With regard to deficit financing it may be mentioned that while fixing the limit for deficit financing during the Third Plan period at Rs. 550 crores the Plan report had clearly spelled out the limitations of this mode of augmenting resources and the dangers of excessive recourse to deficit financing. It was stated in the Plan report:

> "Deficit financing in the Second Plan has been within the limits set in the Plan. Part of this deficit financing was offset by the drawing down of foreign exchange reserves. The rise in prices that has occurred despite this indicates that the scope for further deficit financing in the coming years is limited."

In view of the rise in prices that has occurred during the Second Plan period and the fact that, unlike in the Second Plan there is no cushion of foreign exchange reserves that can be drawn upon as an offset to deficit financing in the Third Plan to the minimum warranted by the genuine monetary needs of the economy..... Deficit financing within moderate limits has a place in developmental planning but it adds to purchasing power unduly at a time when the need is to keep it down so as to restrict consumption within the limits provided for in the Plan, the consequences to the economy can be highly deleterious."

5.71. However, as against the limit of Rs. 550 crores envisaged in the Plan report actual deficit financing during the Plan period was of the order of Rs. 1150 crores. In terms of percentage distribution of resources for financing the Third Plan, deficit financing contributed as much as 13.3 per cent of the actual Third Plan outlay in the public sector.

5.72. The Third Plan was formulated on the basis that it would be advantageous from the point of view of India as well as the donor countries "to plan for substantial amounts of external assistance for a relatively short period rather than to proceed in terms of varying and uncertain amounts of assistance over an indefinite period." The hope was expressed in the Plan document that, "as a result of the support which India's developmental plans are receiving from friendly countries and from the International Bank of Reconstruction and Development and other international agencies, the shortage of foreign exchange may not be a major impediment in the realisation of the goals of the Third Plan." Total external assistance for the Third Plan was taken at Rs. 3200 crores (including PL 480 assistance of the order of Rs. 600 crores). However, in the statement of financial resources for the Plan credit was taken for only Rs. 2200 crores against the item 'Budgetary receipts corresponding to external assistance'. The difference, it was explained was due to the fact that the entire amount of Rs. 3200 crores would not go to the public exchequer. Rs. 450—500 crores of the total receipts of external assistance would go towards repayments of loans maturing during the Third Plan, about Rs. 300 crores might go directly to the private sector by way of private capital inflows or loans from international agencies, while another Rs. 200 crores might represent agreed retentions of rupee resources by the U.S. authorities and additions to buffer stocks from PL 480 imports.

5.73. It may be noted that the contribution of external assistance towards financing the Third Plan is tentatively placed at Rs. 2,455 crores as against the Plan estimate of Rs. 2,200 crores. It may also be mentioned that the contribution of external assistance to the total outlay in the public sector rose during the Third Plan period to 28.4 per cent as compared to 22·5 per cent during the Second Plan period.

(3) *Priorities and Pattern of Outlay*

5.74. One of the principal aims of the Third Plan was to achieve self-sufficiency in foodgrains and increase agricultural production to meet the requirements of industry and exports. Explaining that in the scheme of development during the Third Plan period "the first priority necessarily belongs to agriculture" the Plan document stated:

> "Experience in the first two plans, and especially in the Second, has shown that the rate of growth in agricultural production is one of the main limiting factors in the progress of the Indian economy. Agricultural production has, therefore, to be increased to the largest extent feasible, and adequate resources have to be provided under the Third Plan for realising the agricultural targets."

5.75. The Plan Report also stressed that the expansion of basic industries like steel, chemicls, industries, fuel and power, and establishment of machine-building capacity was "fundamental to rapid economic growth". The objective of the Plan was to expand basic industries so that the requirements of further industrialisation can be met within a period of ten years or so mainly from the country's own resources." It was stated that programmes for industrial development, included in the Plan, had been drawn up from the point of view of the needs and priorities of the economy as a whole, the public and private sectors being considered together. It was emphasised, however, that "the role of the public sector in the development of the economy will become even more dominant. An expanding public sector, engaged specially in developing large surpluses for development, will itself be one of the most important factors determining the rate at which the economy can grow".

5.76. The pattern of outlay as proposed in the Third Plan and the likely expenditure on each head by the end of the Plan is indi-

cated below:

Pattern of Third Plan Outlay in the Public Sector

(Rs. crores)

	Plan provision	Likely outlay
Agriculture and Community Development	1068	1103
Major and Medium Irrigation	650	657
Power . . .	1012	1262
Village Small Industries .	264	224
Industries and Minerals	1520	1735
Transport and Communications	1486	2116
Social Service and Miscellaneous	1300	1534
Inventories . .	200	*
TOTAL .	7500	8631

5.77. It is seen that the actual outlay in the public sector during the Third Plan period was Rs. 8,631 crores which was Rs. 1131 crores more than the original provision in the Plan. Actual expenditure exceeded the Plan provisions considerably in the case of Transport and Communications, Power and Organised Industry and Mining, while in the Agricultural sector the excess expenditure was only marginal. It has been stated during official evidence that "a good deal" of the increase in the public sector outlay during the Third Plan period was "due to rise in prices". The Draft Outline of the Fourth Plan states in this connection, "An appreciable part of it (the increase in public sector outlay) was neutralised as a result of the rise in prices. Progress in physical terms was much slower than expected in many fields."

5.78. Further, replying to a question as to why inspite of increased outlays there had been shortfalls and stagnation in many spheres during the Third Plan period, the Ministry have stated:

> "The shortfall in the production targets of foodgrains is mainly due to inadequate supplies of chemical fertilisers and shortfall in the irrigated areas (from major and medium

*Expenditure in respect of inventories is distributed under various heads.

irrigation). Other factors contributing to the shortfall in the targets are lack of adequate supplies of improved seeds and shortfall under urban compost and green manuring, weather conditions have also contributed to the shortfalls. The factors responsible for the shortfall in the targets of foodgrains are also applicable in the case of commercial crops like cotton, and oilseeds.

Shortfall in production (in the industrial sphere) is generally attributable partly to delay in completion of the new projects (including expansion schemes) and partly to inadequate availability of imported and scarce raw materials and components due to tight foreign exchange situation. Thus, for example, shortfall under steel is on account of non-implementation of the Bokaro Steel Plant and delay in the completion of the expansion programme of Rourkela and Durgapur Steel Plants. The aluminium production fell short of the target on account of the delay in the implementation of schemes licensed in the private sector. The shortfall in nitrogenous fertilisers is on account of the delay in the implementation of some of the public sector and private sector projects and in some cases the virtual abandonment of projects in the private sector. Shortage of scarce materials such as sulphur, non-ferrous metals and components have also affected production in several industries during 1965-66.

In the field of transport shortfalls have occurred in the case of freight traffic on railways and commercial vehicles on road. As regards railways, the shortfall in traffic is mainly due to the fact that the production of coal and steel fell short of the targets laid down in the Thrid Five Year Plan. As regards shortfall in the target for commercial vehicles on the road the main reason is shortfall in the production of commercial vehicles."

(4) *Investment in the Public and Private Sectors*

5.79. As already noted, the Third Plan aimed at strengthening the public sector so that its role in the development of the economy became 'even more dominant' than it was at the commencement of the Plan. In keeping with this approach the Plan document visualised that a major part of the anticipated investment during the Plan period would be in the public sector. In concrete terms, of the total anticipated investment of Rs. 10,400 crores, the share of the public sector was expected to be Rs. 6,300 crores and that of the private sector Rs. 4,100 crores. Data regarding the actual in-

vestment in the two sectors during the Third Plan period are not yet available. However, according to the Economic Survey 1966-67, the public sector is today responsible for "roughly two-thirds of the national investment". It may be recalled that the share of the public sector in the total investment was 46·4 per cent during the First Plan period and 54·6 per cent during the Second Plan period. Assuming that actual investment in the two sectors during the Third Plan period has been in conformity with the Plan estimates, it will be seen that total investment in the public sector during the first three Plans has been of the order of about Rs. 11,591 crores as against Rs. 9,000 crores in the private sector.

5.80. During the three Plan periods there has been a substantial increase in the investment in industry. The following table indicates the distribution of this investment as between the public and private sectors:

Investment in Industry

(Rs. crores at current prices)

	First Plan	Second Plan	Third Plan (envisaged)
Public Sector	55	938	1520
Private Sector	233	850	1050

5.81. It is seen that during the three Plan periods there has been an investment of about Rs. 2,513 crores in industrial undertakings in the public sector. As against this, private sector investment in industry has been of the order of Rs. 2,133 crores.

(5) *Physical Targets and Achievements*

5.82. The Third Plan Report had envisaged that over-all agricultural production as well as production of foodgrains would increase over the Plan period by 30 per cent. In fact, except for one year, *viz.* 1964-65, agricultural production did not show any increase and in 1965-66, the last year of the Third Plan, the index of agricultural production was at the same level as in 1959-60. Even if the figures for 1964-65 (when farm output recorded its highest level for the Third Plan period) are taken, agricultural production would show a growth of only 2:8 per cent per year on an average as compared to the plan target of a 6 per cent increase per year. Industrial pro-

duction is stated to have increased during 1961—66 by 40* per cent as against the planned target of 70 per cent.

5.83. A table showing the Third Plan targets and achievements in respect of important items is reproduced in Appendix VII. It is seen that there have been heavy shortfalls in respect of many items in the agricultural and industrial sectors. Thus, production of food grains in 1965-66 was only 72:3 million tonnes against the Plan target of 100 million tonnes and the 1960-61 level of 82 million tonnes. Likewise, actual production of oilseeds, cotton and jute was also substantially less than the Plan targets. Tea and coffee production was also below Plan expectations. As regards irrigation, the likely increase in the net area irrigated, (including minor irrigation) has been estimated at only 7 million hectares as against the targetted increase of about 12 million hectares.

5.84. In industry and mining there were heavy shortfalls in fertilisers, sulphuric acid, soda ash, caustic soda, paper and paperboard, cotton cloth (mill), vanaspati, chemical pulp, coal, iron ore, finished steel, cement, aluminium, many types of industrial machinery, automobolies and tractors. In the sphere of transport, there were shortfalls in respect of the freight carried by the Railways and the number of commercial vehicles on road.

D. Fourth Five Year Plan (Draft Outline)

5.85. Taking note of the failure of the Third Plan in achieving its original targets of production and the higher cost of imported equipment and materials and of debt servicing charges resulting from devaluation, the Draft Outline of the Fourth Plan states, "Both savings and investment rates will have to be higher in the revised perspective. Further, if we are to reduce our indebtedness, the savings rate will have to be higher than the investment rate, as savings, have not only to be sufficient for creating maintenance imports but also (for bridging) the balance of payments gap arising from interest and debt repayment charges in the Fifth Plan period."

5.86. The Draft Outline proposes for the Fourth Plan a total outlay of Rs. 23,750 crores, consisting of Rs. 16,000 crores in the public sector and Rs. 7,750 crores in the private sector. Of the public sector outlay of Rs. 16,000 crores, Rs. 13,600 crores would represent investment and the balance (Rs. 2,400 crores) current outlay. Total investment in the economy during the Fourth Plan period would thus amount to about Rs. 21,350 crores. It has been estimated that this would imply an increase in the rate of investment to 17-18 per cent of the national income and in the rate of domestic savings to 15-16 per cent of the national income.

*As per information furnished by the Ministry of Finance at the factual Verification Stage.

5.87. As regards increase in national income, it has been assumed that if the targets envisaged for the Fourth Plan are fully achieved national income at 1960-61 prices would rise from Rs. 16,630 crores in 1964-65 and Rs. 15,930 crores in 1965-66 to Rs. 23,900 crores in 1970-71. In this connection, it has been stated that "Since 1965-66 was an abnormal year, the increase between 1965-66 and 1970-71 appears rather large. It would be more realistic to look at the increase in terms of the rise over 1964-65. On this basis, the compound rate of growth for the period 1964-65 to 1970-71 would be about 5.5 per cent per annum."

5.88. The estimates of resources for financing the proposed public sector outlay of Rs. 16,000 crores are indicated below:—

Estimates of Resources for the Fourth Plan

	(Rs. crores)
Balance from current savings at pre-Plan rates of taxation	3010
Contribution of Railways at pre-Plan rates of fares and freight charges	260
Surplus of other public enterprises on the basis of pre-Plan prices of products	1085
Loans from Public (net)	1500
Small Savings	1000
Unfunded debt (net)	565
Compulsory deposits and annuity deposits (net)	150
Miscellaneous Capital Receipts (net)	665
Budgetary Receipts corresponding to external credits	
(a) Other than those under PL-480	4340*
(b) PL-480	360*
Economies in non-Plan expenditure	335@
Additional Mobilisation of Resources	2730
Deficit Financing	nil
TOTAL	16000

5.89. It is to be noted that the scheme of financing the Fourth Plan has been framed on the basis that there would be no recourse to deficit financing. Further, for the first time, economies in the non-Plan expenditure have been specifically mentioned as a source

*These figures are at the post-devaluation rate of exchange.

@Of this, economies at the Centre have been placed at Rs. 85 crores and economies in the States at Rs. 250 crores.

for augmenting the finances required for the Plan. An amount of Rs. 335 crores is expected to be made available through such economies for Plan purposes during the period.

5.90. The following Table shows the pattern of outlay in the public sector as visualised in the Draft Outline of the Fourth Plan:

Pattern of Public Sector Outlay as proposed for the Fourth Plan

	(Rs. crores)
Agriculture, Community Development and Cooperation	2410
Irrigation	964
Power	2030
Village and Small Industries	370
Organised Industry and Mining	3936
Transport and Communications	3010
Social Services and other programmes	3280
TOTAL	16000

5.91. It is seen that of the total public sector outlay proposed for the Fourth Plan period Agriculture and allied programmes would get about 15 per cent, Irrigation about 6 per cent, Power a little over 12.5 per cent, organised Industry and Mining nearly 25 per cent, Transport and Communications about 19 per cent and Social Services and other programmes 20·5 per cent.

5.92. The Draft Outline of the Fourth Plan lays stress on the need for "the most efficient and economic phasing of the Plan programmes" and, in particular, on careful annual planning. The Annual Plan for 1966-67, the first year of the Fourth Plan period, was finalised in March, 1966. The outlay proposed for the year constituted 14 per cent of the total plan outlay, that is, Rs. 2240 crores. The Budget estimates for 1966-67 envisaged a lower level of Plan expenditures and only a marginal rise in non-Plan developmental outlays, compared to last year of the Third Plan. The following Table indicates the size of developmental outlays for 1965-66, 1966-67 (Budget and Revised estimates) and 1967-68 (Budget estimates):

Development Outlays 1965—68

	1965-66 (Accts.)	1966-67 (B.E.)	1966-67 (R.E.)	1967-68 (B.E.) (interim)
Plan	2374	2081	2212	1711*
Non-Plan	1114	1300	1439	1944**
TOTAL	3488	3381	3651	3655

*Includes only plan provision at the Centre including Central assistance to States.
**Includes Plan Outlay to be met from States own resources.

5.93. It is seen that inspite of a decline in Plan expenditure the revised figures for total developmental outlay during 1966-67 show an excess of Rs. 163 crores over 1965-66. This has been so because of a large increase in non-plan developmental expenditure over the 1965-66 level.

5.94. The need for keeping public sector outlays in check in the context of the continuing inflationary conditions has been underlied in the Economic Survey 1966-67 as follows:

> "While a distinction, no doubt needs to be drawn between those outlays of Government which contribute to development and those which do not (except very indirectly) it should be recognised that the inflationary psychology cannot be brought to an end without a determined effort to curtail non-developmental outlays and a willingness to enforce economy in development expenditure and even postpone such expenditures to the extent feasible."

5.95. The increase in developmental outlays over the budget estimates of 1966-67 has been explained in the Survey as follows:

> "This increase reflects the impact of exceptional circumstances rather than any relaxation in the general policy of fiscal restraint. The main extraordinary factor making for higher outlays was devaluation and Government's decision to facilitate the economy's adjustment to the new exchange rate through selected subsidies. The rupee cost of Plan projects went up to the extent of their import component. Further more, Government decided to subsidise temporarily the cost of imported fertiliser and raw jute. Also selected export items were allowed a cash subsidy. (These subsidies, unlike the subsidy on food, have been included under development outlays). In the absence of these extraordinary factors, public sector development outlays in 1966-67 would have been only marginally higher compared to the previous year."

5.96. The Economic Survey (1966-67) further states, "Judged by Government outlays in terms of 1960-61 prices, the volume of developmental activity in 1966-67 was in all probability a little lower than in the previous year. The temporary set-back in developmental activity was the result of a deliberate policy decision to control the expansionary impact of public expenditure in the context of general inflationary conditions."

5.97. With regard to the proposed developmental outlay for 1967-68 the Economic Survey states:

> "Interim budgets for 1967-68 were formulated on the premise that the general economic situation made it necessary to

continue the policy of fiscal discipline. In the case of the Central Government, developmental outlays were strictly limited to resources in sight, on the basis of existing tax legislation. Taken together with developmental outlays provided in the interim State budgets, total developmental outlays of the public sector budgeted for 1967-68 exceed last year's revised estimates by Rs. 4 crores only.*

E. Comments and suggestions

5.98. The salient features of the strategy of the Five Year Plans and the results achieved therefrom in terms of rate of growth and production in important sectors have been reviewed in the earlier sections of this chapter. It may be recalled that during the First Plan period the actual outlay in the public sector amounted to Rs. 1960 crores which was Rs. 109 crores less than the provision made in the Plan document. Total investment in the economy during 1951—56 has been estimated at Rs. 3360 crores, of which the public sector accounted for Rs. 1560 crores and the private sector for Rs. 1800 crores. Inspite of the shortfall in public sector outlay, national income rose during the Plan period by about 3.7 per cent a year as against 2.2 per cent per annum envisaged in the Plan. As stated in the Third Plan Report "The First Plan involved a sizeable step up in investment from about 5 per cent of national income to over 8 per cent. The substantial increases—both in agricultural and industrial production—that were recorded during the Plan period made it possible to achieve this step up in investment without causing any significant strain on the domestic price level or on the balance of payments."

5.99. The Second Plan had envisaged an outlay of Rs. 4800 crores in the public sector of which Rs. 3800 crores represented investment. Along with this, investment of Rs. 2400 crores was assumed in the private sector. It has been stated that the inflationary pressures and the balance of payments difficulties that emerged in the early stages of the Second Plan necessitated a reassessment of the resources outlook and it was decided "to limit the Plan outlay in the public sector to Rs. 4500 crores or so, to mobilise external assistance on a large scale and to concentrate effort on the implementation of 'core' projects." Actual outlay in the public sector during the Second Plan period was of the order of Rs. 4672 crores, that is, Rs. 128 crores short of the original Plan target. Total investment in the economy was however, over Rs. 600 crores higher than the Plan target of Rs. 6200 crores due to the fact that investment in the private sector was much larger than anticipated. Actual increase in national income over the Second Plan was only 4 per cent per annum as against the Plan target of 5 per cent a year. It has been acknowledged that the develop-

ment tasks of the Second Plan "involved a greater strain on the economy, especially on the balance of payments."

5.100. The scale of outlays and investment envisaged in the Third Plan was significantly larger than in the Second Plan. The public sector outlay proposed in the Third Plan Report was Rs. 7500 crores, while the total investment during the Plan period was expected to be of the order of Rs. 10400 crores. In practice, the actual public sector outlay during 1961—66 has exceeded the Plan estimate by as much as Rs. 1131 crores. It has been estimated that as a percentage of national income the developmental outlays in the public sector increased from 11.8 per cent in the last year of Second Plan to 17 per cent in the last year of the Third Plan.

5.101. National income, in real terms, is estimated to have grown at the rate of 4.8** per cent a year during the first four years of the Third Plan, but in 1965-66, the last year of the Plan, it is stated to have declined by 4.79** per cent. Taking the Third Plan period as a whole, the rate of growth achieved was only 2.75** per cent per annum as against 6 per cent assumed in the Plan. As the population also continued to grow at the rate of 2.5 per cent per year, per capita real income remained almost stationary over the Third Plan period. The Committee have been informed by the Ministry of Finance at the factual verification stage that the level of national income in 1966-67 (at 1960-61 prices) was Rs. 15706 crores which was lower as compared to the level reached in 1964-65 when population was about 5 per cent smaller.

5.102. Along with the rapid increase in developmental outlays in the public sector, the three Plan periods have also witnessed a considerable rise in non-developmental civil expenditure. The following Table furnished by the Ministry of Finance at the factual verification stage indicates the growth of non-developmental expenditure (excluding defence expenditure) since 1950-51:

Non-Developmental Expenditure
(Excluding Defence Expenditure)

Years.	Non-Developmental Expenditure (in Rs.) crores.	Percentage of National Income
1950-51	337	3·5
1955-56	390	3·9
1960-61	555	4·1
1965-66	1280	6·1
1966-67 (RE)	1634*	6·8

*Ignoring accounting adjustments on account of additional rupees subscription to IMF etc. consequent on devaluation.

**As per information furnished by the Ministry of Finance at the factual verification stage.

5.103. It is seen that non-developmental Civil expenditure has increased rapidly, particularly in the Third Plan period, not only in absolute terms but also as a proportion of the national income. Explaining this trend, the Ministry have stated.

"A major reason for the increase in the ratio of non-developmental expenditure to national income has been the rather large increase in debt service, which is estimated at about Rs. 473 crores for 1966-67 as against Rs. 52 crores in 1950-51. The proportion of debt service to national income is estimated at 1.9 per cent for 1965-66 as against 0.5 per cent in 1950-51.

As regards other non-developmental expenditure, a part of the increase over the past several years is explained by the revision of pay scale and allowances for Government employees and grants to local bodies etc. for the revision of emoluments of their employees. A study undertaken in the Economic Division of Planning Commision recently indicates that the total cost in 1965-66 of the revision of pay scales and allowances for Government employees, school teachers etc. announced during the Third Plan period alone amounts to as much as Rs. 108 crores for the Centre, Railways and P&T, and to Rs. 152 crores for State Governments.

The total expenditure on tax collection and administrative service is estimated at about Rs. 454 crores for 1966-67 as against Rs. 153 crores for 1950-51. The ratio of such expenditure to national income works out to 2.2 per cent for 1965-66 as against 1.6 per cent for 1950-51. It may be noted that the expenditure on police and external affairs has increased at faster rates than in the case of tax collection, general administration, etc. The faster growth rate in the case of expenditure on police is explained primarily by the need for strengthening and reorganising the police in most of the States as also for the expansion of the police force in border areas. The reasons for the faster growth rate in the case of expenditure on external affairs are quite obvious.

It might be mentioned here that the increase in the expenditure on tax collection is explained partly by the expansion of the coverage of taxes and strengthening of the tax collection machinery. The increase in the expenditure on general administration and other administrative services

is accounted for partly by the expansion of activities connected with the formulation and execution of the Plans *e.g.* in respect of headquarter staff, audit etc.

As regards other non-development expenditure, the items which show rather large increases include currency and mint, famine relief write-back to revenue account of the losses on foodgrains initially met from capital account, export subsidies, transfers to local bodies consequent on the establishment of Panchayati Raj institutions, etc."

5.104. The failure to achieve the rate of growth visualised in the Third Plan reflects the cumulative effect of shortfalls in production. While the Plan document had assumed that agricultural production would increase over the Plan period by about 30 per cent, actually it showed no increase except for one year *viz.*, 1964-65, and in the last year of the Plan receded to the level of 1959-60. Industrial production increased by 39 per cent as against the planned target of 70 per cent. As the shortfalls in domestic production occurred at the same time as aggregate spending in the economy was rising in both the public and private sectors, the Third Plan witnessed a steep increase in prices. Much the greater part of the price increase was concentrated in the three year period 1963-64—1965-66. It is understood that during this period the general price index rose by 36 per cent. Over the year 1966-67, the general index of wholesale prices is stated to have risen further by 16.5 per cent that is at about the same rate as in the preceding year.

5.105. Due to the rapid and continuing rise in prices the economy has been under great strain for a number of years. In the Annual Report of the Reserve Bank for the year ended June 30, 1965 it was stated, "The imbalance generated as a result of rapidly mounting expenditure on defence and development in a situation of a relatively slower growth of output and export earnings has caused intense pressure on the price level and the foreign exchange resources, and affected the country's capacity to undertake larger plan expenditure commensurate with the needs of the economy." The Report stressed that continuation of the rising trend of prices "which may feed upon itself and become progressively steeper" was likely "to create serious difficulties in implementation of the country's future development Plans" and called for firm and decisive action to halt and reverse this trend. However, the position did not improve and inflationary pressures mounted further during 1965-66.

5.106. In the Economic Survey, 1966-67, it has been stated that the exceptional strains experienced by the economy during the last two

years have been "essentially, the result of two national disasters and two wars." More recently, the Deputy Prime Minister and Finance Minister, Shri Morarji Desai, has also attributed the present state, of the economy to the aggression committed by China and Pakistan and the drought for two years in succession.

5.107. It may be mentioned here that prior to the Chinese aggression of 1962 India's defence expenditure was very low. In 1950, it amounted to only 1.8 per cent of the national income, rising slowly to 1.9 per cent in 1955 and 2.1 per cent in 1961. Following the Chinese aggression, defence expenditure rose to the level of 4.6 per cent of the national income in 1963-64, but declined to 3.9 per cent of the national income in 1964-65. According to the latest estimates furnished by the Ministry of Finance, the level of defence expenditure in 1965-66 and 1966-67 was, respectively, 4.2 per cent and 3.9 per cent of the national income*.

5.108. The following Table indicates the proportion of defence expenditure to national income in certain selected countries:

Defence expenditure as per cent of national income

Country	1955	1961	1964	1965**
Burma	8·1	7·8	6·8	NA
Israel	3·4	7·6	10·6	9.2
Pakistan	4·5	3·4**	3·2	6.2
Turkey . .	3·4	4·6	4·8	4·4
U.K.	10·2	8·2	7·4	7·5
U.S.A. .	12·2	11·9	10·0	9.0

It is seen that even as compared to other developing countries India's defence expenditure is not very high.

(1) *Defence, Droughts and the Plans*

5.109. The Committee note that the achievements of the Second Plan were below expectations. The Third Plan's performance has been highly unsatisfactory—the progress of the economy has been uneven and very much slower than what was envisaged and for the most part of the plan period, as well as in 1966-67, the economy has operated under great strain due to mounting inflationary pressures. The Committee realize that the last six years have been in a sense a rather abnormal period as the country had to face external aggression twice and two successive droughts. While adverse weather

*Vide information furnished by the Ministry of Finance at the factual Verification Stage.

**Figures furnished by the Ministry of Finance at the factual Verification stage.

conditions and the stepping up of the defence expenditure after the Chinese aggression have undoubtedly added to the pressures on the economy, the Committee strongly feel that the failure of the Third Plan in achieving its principal targets and objectives and the present state of the economy cannot be attributed wholly to these two factors. They would like to add that planning cannot be said to be sound and realistic if its success requires that the country would have ideal weather conditions all the time or that it would not be called upon to take all necessary measures to protect its soverignty and terirtorial integrity from external dangers. The Committee are of the view that with more careful and realistic planning and better implementation it should have been possible to impart the economy greater strength and provide it with a safety margin to offset the effect of uncontrollable and uncertain factors like war and bad weather.

5.110. So far as the effect of defence expenditure on the country's development effort is concerned, the Committee would like to point out, in the first place, that in spite of the increased defence expenditure since the Chinese aggression, the developmental outlay in the public sector during the Third Plan period has exceeded the Plan target by as much as Rs. 1131 crores. It is evident that there was no diversion of resources from development to defence and that, therefore, the slow rate of economic growth during the Plan period cannot be attributed to the increase in defence expenditure. Secondly, even the present level of defence expenditure in India—about 4 per cent of the national income—cannot be considered very high if it is remembered that certain other developing countries like Turkey, Pakistan, Burma and Israel have been devoting an equally high or much higher proportion of their national income to defence. Thirdly, the Committee would like to note that although there could have been no doubt about China's aggressive postures towards us after the construction of the Aksai Chin road by the Chinese and their repeated intrusions in Ladakh, during 1956—60, India's defence expenditure in 1961 was still only 2:1 per cent of the national income. Similarly, the threat from Pakistan had been there all along.

5.111. In view of the above, the Committee would like to emphasize that if defence expenditure had to be stepped up abruptly after the Chinese aggression, it was only because it had been kept at an unrealistically low level in the earlier years. They are constrained to observe that the country's defence needs did not receive the attention they deserved, during the first two Plan periods. The Committee would urge that if abrupt and steep increase in defence expenditure, which inevitably intensify the inflationary pressures,

are to be avoided in future, it would be necessary to ensure effective integration between the requirements of defence and economic development. The Commit ee, therefore, suggest that the size and priorities and pattern of investment of the Five Year Plans should be determined after carefully assessing and taking into account the country's overall defence needs. Positive measures should also be taken to secure proper co-ordination and integration between civilian and defence production so that the industrial capacity available within the country is put to optimum use and reliance on foreign sources for supply of defence requirements is kept to the unavoidable minimum.

(2) *Failure of Agriculture—Its consequences and Remedial Measures required*

5.112. The Committee are of the view that the most important single factor responsible for the continuing strains on the domestic economy as well as on the balance of payments is the failure of the agricultural sector. The setback in agriculture has had far reaching repercussions on the economy. It has not only depressed industrial growth,—a substantial part of India's industrial production being accounted for by indutries based on agriculture but it has also hampered the country's export effort and necessitated increased imports, and aggravated the inflationary pressures generated by the over-growing Governmental expenditure.

5.113. The Committee would like to recall that the First Plan had accorded the top-most priority to agriculture and irrigation on the ground that it was essential "to strengthen the economy at the base" by creating "conditions of sufficiency and even plentitude" in respect of food and raw materials as these were "the wherewithals for further development" and without substantial increase in their production "it would not be possible to sustain a higher tempo of industrial development." Although agricultural production during the first two Plan periods was above Plan targets, large imports of foodgrains and other agricultural commodities. notably cotton and jute, had to be made from year to year to meet domestic requirements. Foodgrains imports above overaged Rs. 120 crores a year during the First Plan period and Rs. 160 crores a year during the Second Plan period. It is evident that at the end of the First Plan period the Country was far from having reached the stage of self sufficiency in respect of food and raw materials for industry, which the First Plan report had regarded as a pre-requisite for a higher tempo of industrial development. Nonetheless, in the Second Plan the first priority was given to rapid industrialisation, "especially the development of heavy industry and the necessary ancillaries

like Transport" while Agricultural and Irrigation programmes were relegated to a secondary place. Thus, the share of 'Agriculture and Community Development' and 'Irrigation and Power' in the total public sector outlay (actual) declined, respectively, from 15 per cent and 30 per cent during the First Plan period to 11·7 per cent and 18:9 per cent during the Second Plan period, while that of 'Industry and Mining' increased from 5 per cent to 24·1 per cent and of 'Transport and Communications' from 26 per cent to 27 per cent. Although the Third Plan Report recognised that the rate of growth in agricultural production had proved to be one of the main limiting factors in the progress of the economy and purported to give the first priority to agriculture, it is observed that of the total public sector outlay of Rs. 8631 crores during the Plan period 'Agriculture and Community Development' have got only 12·7 per cent and Irrigation 7·6 per cent whereas 20 per cent has gone to 'Industry and Minerals' and 24.3 per cent to "Transport and Communication'.. The Committee regret to note that the importance and high priority attached to the development of agriculture in the Third Plan Report has not been reflected in the actual pattern of outlays. The heavy shortfalls in the Third Plan's programmes for imigation and fertiliser production provide further evidence of the lack of a serious concern for achieving 'self-sufficiency in food grains' and increasing agricultural production to meet the requirements of industry and exports, which were among the principal aims of the Plan.

5.114. The Committee feel that the shift in emphasis, in the Second Plan, from agriculture to heavy industry was premature and ill-advised as it sought to build an imposing industrial superstructure on an obviously weak base and without the requisite wherewithals which only a high rate of growth in agriculture could provide. The Committee are surprised at the lack of realization on the part of the Planning Commission and the Government that the enormous outlays on heavy industries, transport and communications, and social services, envisaged in the Plans, could not but lead to spiralling of prices unless the increase in the purchasing power in the economy was offset by a rapid growth in agricultural production.

5.115. The Committee cannot too strongly urge that to remove the chronic imbalances and strains to which the country's economy, in general, and its balance of payments, in particular, have been subject for long, the first and foremost objective of planning today should be to achieve an early and enduring breakthrough in agriculture. The aim should be not only self-sufficiency in foodgrains but a substantial increase in overall agricultural production to meet

the growing requirements of essential consumer industries and attain a much higher level of agriculture based exports than has been found feasible so far.

5.116. To achieve the above aims the Committee urge that Government should, at a very early date, draw up a comprehensive programme to step up per acre yields in foodgrains and the main commercial crops (such as jute, cotton, sugarcane, oilseeds, tobacco) and also set up, in cooperation with the States, an effective machinery to ensure the proper implementation of the programme and the attainmeent of the physical targets laid down. The progress of the programme in each State and all over the country should be evaluated periodically preferably every half year, so that any deficiencies revealed can be removed in time.

5.117. The Committee would also like to make it clear that the programme for agricultural development should on no account be allowed to be slowed down for want of adequate resources. They would like the Government to re-examine and revise the pattern of public sector outlays envisaged in the Draft Outline of the Fourth Plan so that requisite resources are made available for programmes of agricultural development by making, if necessary, appropriate cuts in other sectors where expenditure is not likely to contribute directly and immediately to higher production.

5.118. The Committee are of the view that the most essential condition for increasing agricultural production is a substantial expansion of irrigation facilities. They regret to note that the net additional area brought under irrigation has consistently fallen short of the Plan targets during each of the first three Plan periods and are particularly distressed to find that of an estimated 270 million acres under food crops today only 60 million acres are believed to be irrigated. The Committee need hardly stress the urgent need of an all-out effort to extend irrigation facilities to the maximum extent possible. They would suggest that top priority should be given to the completion of the major and medium irrigation projects in hand as also to the fullest utilization of irrigation potential already created. Every effort should also be made to accelerate minor irrigation schemes and to exploit underground water resources particularly in areas where canal irrigation is not considered feasible.

5.119. The Committee would like to state further that the areas with assured water supply offer very great scope for increasing agricultural yields per acre provided the needed inputs are made available to the farmar on reasonable terms. They would like the Gov-

ernment to formulate a well-coordinated scheme for ensuring adequate supplies of high-yielding varieties of seeds, fertilisers, pesticides and improved agricultural implements to farmers in such areas.

5.120. In view of the heavy shortfalls in fertiliser production during the Third Plan period large imports of chemicals fertilisers may be unavoidable for some time. The Committee however, feel that extensive use of fertilizers will not be possible unless at least the bulk of the requirements are produced indigenously and cheaply. They hope that Government would take vigorous measures to attain self-sufficiency in fertilisers and to bring down the cost of production in the fertilizer industry, particularly in units in the public sector.

(3) *The Size of the Plans*

5.121. The Committe feel that planning in India has suffered from an undue emphasis on the size of the Plans and more specifically, of the outlays in the public sector, the presumption of the Planners being that an increase in the plan outlays would automatically lead to a higher rate of growth. Thus, with the enormous increase in plan outlays, provided for in the Second and Third Plans, national income was expected to go up from 3.7 per cent per annum during the First Plan period to 5 per cent per annum during the Second Plan period and 6 per cent per annum during the Third Plan period. The expectations were not fulfilled. The experience of the Third Plan period, when the rate of growth achieved was less than half of that anticipated inspite of the fact that the actual public sector outlay was considerably higher than what was originally envisaged, would appear to show that much more important than the size of the Plan is its contents and implementation. The Committee are glad to note that Government now recognise the need to enforce economy in development expenditures, and even, postpone such expenditure to the extent feasible. They would like to urge, however, that while outlays on projects and schemes which do not contribute to development except indirectly or in the long run might well be kept to the minimum or deferred, postponement of developmental activities intended to raise the production of essential consumer goods and export commodities will only aggravate the present economic difficulties. The Committee hope that Government/Planning Commission will keep these considerations in view while determining the size of the Fourth Plan and its pattern of outlays.

(4) *Non-Developmental Civil Expenditure*

5.122. The Committee note with concern the rapid increase in non-developmental Civil expenditure from Rs. 337 crores, or 3.5 per cent

of the national income, in 1950-51 to an estimated amount of Rs. 1280* crores, or 6.1 per cent of the national income, in 1965-66. In 1966-67, such expenditure is stated to have gone up further to about Rs. 1634 crores or* 6.8 per cent of the national income due largely to higher service charges on external debt, resulting from devaluation, increased subsidy on foodgrains and increases in dearness allowances of public employees. The Committee also note that a very substantial part of the non-developmental civil expenditure is accounted for by debt servicing and expenditure on tax collection and administrative service. Between 1950-51 and 1966-67, debt-servicing charges are stated to have risen from Rs. 52 crores to Rs. 473 crores and expenditure on tax collection and administrative services from Rs. 153 crores to Rs. 454 crores. Revision of pay scales and allowances of Centre and State employees, announced during the Third Plan period alone, is stated to have increased the cost of administration by about Rs. 260 crores a year.

5.123. The Committee understand that Government have requested the Aid India Consortium to consider some form of debt re-scheduling in respect of foreign loans. They hope that negotiations in this behalf will succeed, but they would like to emphasise that rescheduling of external debt payments, if agreed to by the lending countries, can only provide a temporary relief.

5.124. The Committee are unhappy to note that expenditure on tax-collection and administrative services has continued to grow at a fast rate although the need for curtiling it is recognised on all hands. In view of the difficult resources position and the adverse effect of increase in non-productive expenditure on the price situation, the Committee strongly urged that Government should at least now take firm measures to bring down the present level of expenditure on the administrative services.

(5) *Performance of the Public Sector*

5.125. It has been noted earlier that in conformity with the emphasis placed on the expansion of the public sector since the Second Plan, investment in the public sector has risen rapidly during the last two Plan periods. Thus, the share of the public sector in the total investment in the economy increased from 46.4 per cent during the First Plan period to 54.6 per cent during the Second Plan, while at present the public sector is believed to account for "roughly two-thirds of the national investment." Total investment in the pub-

*vide information furnished by the Ministry of Finance at the factual verification stage.

lic sector during the first three Plan periods has been of the order of about Rs. 11,581 crores* as against Rs. 9,000 crores* in the private sector. It may also be recalled that large investments have been made, during the Second and Third Plan periods, in industrial under takings in the public sector. Total investments made in such undertakings during 1951—66 amount to about Rs. 2513 crores.* The corresponding figure for private sector industry is Rs. 2,133 crores.*

5.126. The Draft Outline of the Fourth Plan maintains that, "In a country aiming at a socialist society, the public sector has progressively to occupy the commanding heights in the economy." According to the pattern of investment envisaged in the Draft Outline, the public sector will account for 64 per cent of the total investment in the Fourth Plan. In absolute terms, investment in the public setcor during the Fourth Plan period will amount to Rs. 13,600 crores as compared to an investment of Rs. 7,750 crores in the private sector. Investment in organised industry and mining is expected to be of the order of Rs. 6,286 crores, of which the public sector will get Rs. 3,936 crores and the private sector Rs. 2,350 crores.

5.127. The Third Plan Report recognised that "the enlargement and ploughing back of profits of public undertakings have an important contribution to make to the financing of development." The Report estimated that public enterprises (other than Railways) would yield, at 1960-61 prices of their products, a surplus of Rs. 450 crores during the Plan period. Of this, about Rs. 300 crores were expected to be provided by Central Government enterprises, namely, iron and steel, fertilisers, oil companies, refineries, posts and telegraphs etc. and the balance by enterprises of the State Governments, namely, electricity boards, transport undertakings etc. The actual surplus generated by all the Centre and State enterprises (excluding the Railways), during the Third Plan period, is estimated to have amounted to Rs. 395 crores.

5.128. The following Table based on data given in the Draft Outline of the Fourth Plan, indicates the additional resources that were

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*These figures are based on the actual investment in the first two Plans and the 'anticipated' investment in the Third Plan. It is understood that actual investment in the public sector during the Third Plan period is likely to be higher than that anticipated—Fourth Plan Draft Outline—p. 42.

mobilised during the Third Plan period through additional taxation and measures to increase the surplus of public enterprises:

(Rs. crores)

	Additional yields from Measures taken during Third Plan period
A. *Centre*	
Taxes	
Railway fares and freights	211
Postal revenue	17
TOTAL—A.	2270
	(Rs. crores)
B. *State*	
Electricity duty	46
Changes in Electricity Tariffs and charges of public transport undertakings	17
Other duties, Taxes etc.	547
TOTAL—B	610
GRANDxTOTAL A & B'	2880

5.129. It is seen that the only 'public enterprises' which have made some contribution to additional resources mobilisation during the Third Plan period are the Railways and Postal services of the Centre and the electric and transport undertakings of the State.

5.130. It is well known that the majority of public sector projects have taken longer to complete than was initially estimated, benefits from them have come later than expected, the capital costs have been higher than originally planned and, consequently, returns on capital have been smaller than was expected when the projects were approved. A recent study made by the Committee on Plan projects (Planning Commission) states:

> "If the development of public sector undertakings is reviewed in detail, it becomes apparent that a large number of the projects are taking longer in construction and to reach full production than originally envisaged and at a cost much in excess of the original estimates.

Although many steps have been taken to ensure that the construction and operation of public sector projects is under-

taken in the most expeditious manner, little attempt has been made to strike at one of the major causes of these problems—an incompletely conceived Plan and estimate at the outset of the project."

"Another problem that has been injuring the public sector is that of under-utilised capacity. There are in the country today a number of projects which are not working at the capacity originally planned. Insufficient or poorly organized management of resources is a common reason behind this problem, but an important reason has been a poor analysis of the demand for the product.

5.131. The Draft outline of the Fourth Plan also admits that "Due partly to delays in execution of projects and partly to operational deficiencies, the surpluses generated by the (public) enterprises, which could be considered as available for reinvestments, have not been commensurate with the potentialities of the enterprises." It stresses "the urgent necessity of securing improvements both in implementation of new projects and operation of the running concerns" and calls for concerted efforts to reduce costs in the public enterprises so that "a rate of return on capital employed—of not less than 11 to 12 per cent—can be achieved without undue increases in the prices of products or services sold by public enterprises."

5.132. The Audit Report (Commercial) for 1967 reveals that sixty-eight Government Companies with a total investment of Rs. 2,225.88 crores gave a return of only Rs. 53.03 crores or 2.4 per cent in 1965-66. Purely on the basis of profits and dividends, these companies, with a total paid-up capital of Rs. 1,187.90 crores made a net profit of Rs. 9.92 crores against Rs. 10.31 crores in the previous year. Only 19 of them declared a dividend working out to 6.42 per cent on their paid-up capital of Rs. 37.50 crores. For the Government companies as a whole, the dividend worked out to 0.2 per cent According to the Report even running concerns showed lower profits —1.1 per cent against 2.9 per cent in 1964-65. They earned a profit of only Rs. 12.08 crores compared to Rs. 23.18 crores in the previous year. In the case of promotional and developmental undertakings, a profit of Rs. 7.81 lakhs in 1964-65 turned into a loss of Rs. 11.73 lakhs. The Report discloses the grant of an interest holiday to the Hindustan Steel Limited loans amounting to Rs. 357.10 crores upto March 31, 1962; the recovery so waived amounted to Rs. 39.71 crores. Government have also granted to a number of companies moratorium on repayment of loans for periods ranging from two to ten years. The Report also cites instances of infructuous expenditure, machines and

manpower lying idle, losses incurred because of delays in commissioning units etc. The Committee are also informed that Government have from time to time granted subsidies to certain undertakings for meeting operational deficits. The total of such subsidies paid upto 31st March, 1965 is estimated to be around Rs. 17 crores.

5.133. A recent study, brought out by a non-official research organisation, makes the following points on an assessment of the relative performance of the industrial and trading concerns of the Central Government and corresponding private sector enterprises over the seven year period 1958-59 to 1964-65:

> "In case of public sector undertakings, the marginal return on capital for all industry groups (excluding steel) works out at 6 per cent as against 19 per cent in respect of corresponding private sector enterprises. If the steel industry is included, the return obtained by Government undertakings turns out to be only 3 per cent." "If return on capital employed is considered to be an inadequate measure for assessing efficiency, an alternative index, *viz.* income generated (or net output) per unit of capital employed, may be used."

> "The income (*i.e.* value added by manufacture) generated per unit of capital employed has been declining since 1958-59 in state-owned undertakings, whereas it has been steadily rising in the private sector industry. In 1958-59 every 100 rupees invested in the public sector enterprises yielded an annual income of Rs. 13.4; in 1963-64, the income was Rs. 10.2 only (or Rs. 7.8, if Hindustan Steel's results are included). In the private sector, the level of income produced ped unit of capital has increased steadily from 0.266 in 1958-59 to 0.346 in 1964-65. Roughly speaking, a hundred rupees invested in the private sector now yield an income of Rs. 34.6 against Rs. 26.6 in 1958-59."

> "The yield gap or the "income differential" between the private and public sectors is now 0.27. This means that for every hundred rupees invested in the public sector in preference to the private sector, there is now a national loss of about Rs. 27 (as against Rs. 13 seven years ago). The average "income differential" for the last seven years works out at 0.22."

> "On this basis, the yearly (*notional loss* in industrial output at the end of the Second and Third Plans works out at Rs. 206

and Rs. 382 crores respectively. Therefore, it is possible to say that the yearly, national loss at the end of the Third Plan had reached a level of Rs. 588 crores, or nearly 15 per cent of the industrial output in 1965-66."

5.134. The Study notes that the manufacturing and trading enterprises of the Government absorb only a relatively small proportion of the total plan outlay, there are a number of other activities—agriculture, electricity, irrigation etc.—managed by Government. Assuming that the efficiency of these enterprises is as low, if not lower than, in manufacturing, the Study suggests that it should be possible to calculate the notional loss in total economic output on the same basis (i.e, an income differential of 0.22 between the private and public sectors). Thus, taking the economy as a whole, the Study estimates that "the notional loss in total output was of the order of Rs. 2,400 crores per year."

5.135. It may be pointed out that the Study covers only industrial and trading concerns of the Central Government which have been expressly described as 'running' concerns, the average 'post-running' period being about six years. The private undertakings covered include both running concerns as well as those under construction. Promotional and developmental undertakings of the Government have been excluded as they are not governed solely by commercial considerations.

5.136. The Committee are greatly distressed to find that the majority of the public enterprises have suffered from delays in execution of projects, high capital costs, long gestation and operational difficulties as a result of which the returns on capital have been much below expectations. They note that even the manufacturing and trading concerns of the Central Government, which are supposed to be guided by sound commercial considerations, have, in 1965-66, given a return of only 2.4 per cent—Rs. 53.03 crores on a total investment of Rs. 2,225.88 crores—as compared to a marginal return of 19 per cent for all industry groups in the private sector. What is even more disconcerting is that, inspite of substantial concessions like supply of capital on easy terms, interest holidays, moratoriums on loan repayments, etc., the performance of industrial enterprises in the public sector has deteriorated perceptibly over the years. Thus, in 1965-66, the running concerns in the public sector showed a profit of only 1.1 per cent against 2.9 per cent in the previous year. Again, the income (i.e. value added by manufacture) generated per unit of capital employed in state—owned undertakings is stated to have dec-

lined from Rs. 13:4 per 100 rupees invested, in 1958-59, to Rs. 7:8 in 1963-64. The record of the numerous promotional and developmental enterprises in the public sector, which are not governed solely by commercial considerations, is likely to be as unsatisfactory, if not more, as that of the manufacturing concerns. As the bulk of the investible resources available during the Second and Third Plans have been appropriated for the expansion of the public sector, it would be only reasonable to hold that the declining trend in the rate of growth of the national economy is, in no small measure, attributable to the poor performance of the public enterprises. The Committee urge that before making heavy investments in the public sector Government should make a concerted effort to consolidate and rationalise the existing public enterprises and devise dependable measures to ensure a satisfactory rate of return on the capital invested in such enterprises.

(6) *Resource Mobilisation*

5.137. A study of the pattern of resource mobilisation during the first three Plans reveals some interesting facts, viz:

(i) Increasing recourse to taxation and deficit financing for financing the public sector outlays.

(ii) Declining share of small savings and, during the Third Plan, also of public loans in the total resources mobilised.

(iii) Increased reliance on external assistance to cover the growing gap between investments and domestic savings.

(i) *Increase in Taxation*

5.138. An amount of Rs. 1052 crores was raised for Plan purposes through additional taxation measures introduced during the Second Plan period. During the Third Plan period, additional taxation is estimated to have provided as much as Rs. 2880 crores for the Plan.

5.139. The following Table gives an indication of the rising trend in tax revenues over the three Plans:

Combined Tax Revenues of Centre, States and Union Territories

(Rs. crores)

	1950-51	1955-56	1960-61	1965-66*
Income-tax	133·9	132·0	168·7	271·8
Corporation tax	39·3	36·5	109·7	304·8
Other direct taxes	57·4	90·6	123·7	157·5
Union Excise duties.	67·5	145·3	416·4	897·9
Customs	157·2	166·7	170·0	539·0
Other indirect taxes	171·4	196·5	361·9	750·6
TOTAL	626·7	767·6	1350·4	2921·6

5.140. It is seen that between 1955-56 and 1965-66 total tax revenues have risen sharply from Rs. 767.6 crores to Rs. 2921.6* crores, *i.e.** by about 280.6 per cent. Plan-wise, tax revenues in the last year of the Second Plan were about 76 per cent higher than in the closing year of the First Plan. Similarly, between the end of the Second Plan and the last year of the Third Plan there was a further increase in tax revenues by about 116.4* per cent. It has been entimated that the ratio of tax receipts to national income has increased from 6.6 per cent in 1950-51 to 9.6 per cent in 1960-61 and over 19* per cent in 1965-66. It may be recalled that national income increased by about 18 per cent in the First Plan, 20 per cent in the Second Plan and 12.5 per cent in the Third Plan. *Per capita* income rose in the First Plan by 8.2 per cent in the Second Plan by 8.6 per cent, but remained static during the Third Plan period. Taking the Three Plan periods as a whole national income and *per capita* income have risen by about 65 per cent and 17·5 per cent, respectively, over the 1950-51 level.

5.141. It may also be noted that the increase in revenues from indirect taxes is much higher than in the case of direct taxes. In 1965-66, total revenue from direct taxes at Rs. 740.7 crores was about 221.7 per cent higher than the 1950-51 level of Rs. 230.6 crores. But the yield from indirect taxes increased between 1950-51 and 1965-66, from Rs. 396.1 crores to Rs. 2112·9 crores, that is, by about

*Information furnished by the Ministry of Finance at the factual Verification Stage.

433 per cent. Thus, of the Rs. 2226.9 crores increase in total revenues between 1950-51 and 1965-66, indirect taxes, which ultimately affect the people at large, account for Rs. 1716:8 crores or about 77 per cent. Proportionately, the increase in yields has been highest in the case of union excise duties, the revenue from which has shot up from a meagre Rs. 67.5 crores in 1950-51 to Rs. 861.4 crores in the last year of the Third Plan. Next comes, corporation tax which yielded Rs. 330 crores in 1965-66 as compared to Rs. 39:3 crores in 1950-51.

5.142. It may also be mentioned that in 1950-51 only 15 commodities were subject to union excise duties. Their number increased to 72 in 1965-66. The incidence of excise duty on selected commodities as in the year 1965-66, is indicated below:

Incidence of Union Excise Duty on Selected Commodities, 1965-66.

Name of commodity	Incidence of excise duty as percentage of *Ex*-factory price
Sugar	40*
Cotton fabrics	24·7
Kerosene (*i*) Superior	172·1
(*ii*) Inferior	133·8
Unmanufactured tobacco	89·3
Paper	21·1
Matches	141·6
Cosmetics	30
Chinaware	12·6
Refrigerating and Air-Conditioning appliances	28·4
Wireless Receiving Sets	12
Motor Vehicles.	12
Gramophone and parts.	15

5.143. It is seen that the incidence of duty is quite high in the case of certain articles of mass consumption (like sugar, cotton, fabrics, kerosene and tobacco) while it is comparatively low in the case of certain other commodities, such as, chinaware, refrigerating and airconditioning appliances, motor vehicles, etc., which are used only by people in the higher income group.

*It was 30·8% in February, 1966 but rose to 40% in March, 1966 as a result of Budget proposal for 1966-67 *vide* informotion furnished by the Ministry of Finance at the factual Verification Stage.

5.144. It is widely held that every enhancement of commodity taxes results in increasing prices. The heavy incidence of indirect taxation is also considered an important reason for the high cost of goods prevailing in the country. As regards direct taxes, the present level of income tax and corporation tax is considered very high in certain quarters. Further, the high incidence of corporation tax and tax on dividend is stated to have adversely affected capital inflow into the corporate sector.

5.145. The Committee note that there has been a tremendous increase in the range and incidence of taxation since the commencement of the Second Plan. They feel that in a planned economy a continuing rise in taxes has to be justified and sustained by a satisfactory rate of growth in national and *per capita* incomes, particularly the latter as it provides a more reliable measure both of the success of planning and the people's capacity to pay for it. In India, the position has been very different. During the Second Plan, the tax burden rose by 76 per cent, but national income increased by only 20 per cent—against the target of 25 per cent—and *per capita* income at a still lower rate of 8.6 per cent. In the Third Plan tax revenues increased further by about 116.4 per cent and additional taxation provided for Plan purposes as much as Rs. 2,880 crores which was Rs. 1,170 crores more than what was anticipated in the Plan document. In contrast, the total increase in national income during the Third Plan period was only12.5* per cent as compared to the targeted increase of 30 per cent. Even this small increase in national income was neutralised by the rise in population with the result that *per capita* income remained at the same level at which it stood five years earlier.

5.146. The Committee consider that with *per capita* income remaining static over a period of five years the burden of taxes on the economy and on the common man was already too high at the end of the Third Plan. They are also of the view that the successive increases in commodity taxes have been, in the context of acute shortages, an important factor contributing to the rise in the prices of essential commodities many of which, like sugar, cotton fabrics, kerosene and tobacco bear a higher burden of duty than non-essential or luxury goods like cosmetics, chinaware, wireless receiving sets, refrigerating and air-conditioning appliances, etc. Further, the high incidence of direct taxes has an adverse effect on the capacity to save and consequent capital formation for financing productive enterprises outside the public sector. It has also encouraged tax-evasion.

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*Or 13·75 per cent according to figures supplied by the Ministry of Finance at the factual verification stage (See para 5·101 of the Report.)

5.147. The Committee note that although the economic situation continues to be as difficult as it was at the end of the Third Plan—aggregate production of goods and services has been virtually at a standstill for the past two years—the tax burden in 1966-67 was heavier by nearly Rs. 300 crores as compared to the previous year. The budget for 1967-68 provides for further levies. The Committee feel that, Government should re-orientate their fiscal policy with a view to hold the price line and stimulate savings and production. They feel that the temporary sacrifice of revenue that such re-orientation may entail can be made up by economies in Plan and non-Plan expenditure and higher returns from public enterprises. Moreover, as the economy picks up again—with concerted efforts this should not take long—and individual and corporate earnings increase, yields from taxes are bound to improve. Government may also be able to obtain larger resources than hitherto by mobilising small savings.

(ii) *Deficit Financing*

5.148. It has been noted that a substantial part of resources for the first three Plans was obtained through deficit financing. According to the revised data furnished by the Ministry of Finance, the total valume of deficit in the First Plan was Rs. 260* crores; it rose to Rs. 1177* crores in the Second Plan and Rs. 1133* crores in the Third Plan. Deficit financing was particularly large in 1965-66, when it amounted to Rs. 398* crores. It may be recalled that the Third Plan Report had fixed a limit of Rs. 550 crores for deficit financing during the Plan period. In doing so that Report had warned that the consequences of excessive deficit financing could be highly deleterious, particularly when prices were rising and there was no cushion of foreign exchange reserves that could be drawn upon as an offset to deficit financing.

5.149. The Draft Outline of the Fourth Plan also lays stress on the need to avoid deficit financing and its estimates of financial resources are based on the assumption that there would be no recourse to deficit financing during the Plan period. However, in the very first year of the Fourth Plan *i.e.*, 1966-67 the total budgetary deficits of the Central and State Governments have amounted to an estimated Rs. 206* crores.

5.150. The Committee need hardly stress that in view of the price increases and the other strains which have developed in the economy it is of the utmost importance to avoid further deficit financing. They are unhappy that in spite of the clear understanding

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**vide* information furnished by the Ministry of Finance at the factual verification stage.

that there would be no deficit financing during the Fourth Plan, large budgetary gaps in the very first year of the Fourth Plan made it necessary for the Government to have recourse to deficit financing on an extensive scale. The Committee are of the view that if deficit financing is to be eschewed, immediate measures must be taken to curtail non-developmental expenditure both at the Central and State levels. Further, developmental outlays should be strictly limited to resources in sight on the basis of existing taxation. Government must also take effective measures to check the practice of the States' overdrafting on the Reserve Bank, as this is an important factor necessitating recourse to deficit financing by the Centre.

(iii) *External Assistance*

5.151. The pattern of financing the Plans reveals a growing gap between investment and domestic savings which, in turn, has necessitated increasing reliance on external assistance to meet the requirements of the Plans.

5.152. In the First Plan, the bulk of the investment was financed from domestic savings which amounted to 7 per cent of the national income as against the total investment of 8 per cent of national income. The position changed materially in the Second Plan when the ratio of investment to national income rose to 11 per cent while the ratio of domestic savings to national income rose at a slower rate—to about 8·5 per cent. During the Third Plan period, investment rose further to about 14 per cent of the national income while savings amounted to only 10.5 per cent. Explaining the difference between the rate of investment and the rate of savings, the Fourth Plan Draft Outline says:

> "These disparate trends in the investment and savings ratio arise from the fact that in subsequent years (*i.e.* during the Second and Third Plan periods) a part of the investment within the country has been financed by means of a drawal upon the foreign exchange reserves accumulated in the War years as well as utilisation of credits secured from abroad .... During the initial years of the Second Plan, these past savings (the foreign exchange reserves) were drawn upon heavily to sustain an accelerated growth of domestic investment, while in the later years investment in excess of domestic savings has been financed through external loans and grants. The relative importance of external credits in financing investment increased further during the Third Plan, because

of slower increase in domestic savings as a result partly of smaller increases in national output than had been anticipated, and partly of unavoidable increases in public consumption expenditure."

5.153. It may be recalled that the proportion of public sector plan outlay covered by net budgetary receipts from foreign aid rose from 9 per cent in the First Plan to 22.5 per cent in the Second Plan and 28.4 per cent in the Third Plan. According to the latest available data external assistance utilised till the end of the Third Plan amounts to Rs. 4515.11 crores. It may also be mentioned that with the increase in India's external debt her debt-servicing obligations towards the aid-giving countries and institutions have also grown rapidly. Thus, the return flow of interest and amortization absorbed nearly 19 per cent of gross official assistance during the Third Plan compared to 8 per cent during the preceding five years. The total volume of external assistance anticipated for the Fourth Plan is about Rs. 6000 crores,* while the total outflow on account of debt servicing would be of the order of Rs. 2284 crores. This means that more than 38 per cent of the external assistance that may be received during the Fourth Plan period would have to be utilised for servicing the external debt.

5.154. The Committee have pointed out in Chapter III that the mounting burden of servicing the external debt is one of the principal causes of the basic disquilibrium in India's balance of payments. Moreover, the country has to pay higher prices than those ruling in the world market for commodities which are required to be imported from the aid-giving countries under the terms of aid. This along with other factors, has resulted in raising the cost of production in many industries above the international cost of similar articles and has thereby, inhibited the prospects of exports on a comptitive basis.

5.155. The Committee would like to emphasise here that increasing dependence on foreign aid for executing the Plans has tended to make the whole planning process uncertain and made the economy vulnerable to external pressures. That this is not just a hypothetical fear has been amply proved by the abrupt suspension of even

*According to Fourth Five Year Plan —A Draft Outline, the gap between external payments and receipts, during the Fourth Plan period, would be of the order of Rs. 6300 crores. The gap would have to be covered by the inflow of external credit. The Outline explains that "A part of this gross inflow will be in the form of direct foreign investments principally in the private sector. Such direct investment in the Third Plan period has been estimated at approximately Rs. 150 crores; it is expected that in the Fourth Plan period an amount larger than this will be available in this form. For the remainder of gross credit requirments, arrangements will have to be made for loans and grants from developed countries and international institutions."

pledged aid following the outbreak of the Indo-Pakistan conflict in September, 1965. The impact of this hiatus was reflected in the immediate tightening of import restrictions and the resulting slow-down in industrial production. The Committee regret that Government should not have paid adequate heed to the very clear warning of the risks involved in excessive reliance on foreign aid, contained in the First Plan Report.

5.156. In this connection the Committee would like to commend the following observations made by the Central Board of Directors of the Reserve Bank in their Annual Report for the year ended June, 1966:

> "Continuation of foreign exchange difficulties and the resultant dependence on foreign aid not only imparts an element of rigidity to the plans but it also makes the whole planning process uncertain. Decisions to undertake projects become dependent on whether the aid for them is forthcoming and not according to priorities laid down in the plan. Project costs also depend on the country-wise availability of aid. The shift that has taken place in recent years in favour of non-project assistance would help to reduce such distortions to some extent. But this should not lead as to overlook the urgency of making our development process independent of the availability of external assistance. This is all the more imperative if the future of such assistance is viewed in a wider perspective. The trends in world economic and political climate, the growing demand for development assistance from the developing countries, the particular economic difficulties an aid-giving country may be faced with all point out to the need to achieve self-reliance as early as possible."

5.157. Further, cautioning against too much reliance on non-project assistance, the Report states:

> "There is a danger that greater availability of non-project assistance may reduce the tempo of import substitution and thus provide a set-back to the objective of self-reliance and make non-project assistance a chronic necessity. Every effort has to be made to avoid reaching such state of affairs."

5.158. The Committee hope that Government would realize the urgency of making the country's development process independent of the availability of external assistance. The Committee recognise that foreign aid can help in accelerating the pace of economic progress, but it can lead to this result only if there is reasonable certainty of its continuity and the terms on which it is made available, do not burden the country with onerous debt servicing obligations and costly imports. They feel that while it may be possible to get some concessions in respect of repayment liabilities for existing debts and the financial terms of future aid, in view of our recent experience it would be too optimistic to hope that the flow of aid would not be affected by political developments. The Committee would, therefore, like the Government to take concerted measures to achieve self-reliance so that dependence on foreign aid may be avoided as early as possible.

5.159. The Committee note that the increased reliance on external assistance for financing investment during the Second and Third Plans was essentially due to the growing gap between investment and domestic savings. It is evident that if the country's development process is to be freed from dependence on foreign aid the gap between investment and domestic savings will have to be removed. The Committee have no doubt that this can be accomplished provided appropriate changes in the techniques of planning and the implementation of the plans are introduced, without delay, so as to obtain the optimum results from the available domestic resources. Various suggestions in this behalf have been made in the earlier parts of this chapter, viz., (i) greater stress on the development of agriculture which incidentally will make it possible to achieve a higher rate of economic growth than has been attained hitherto as the capital output ratio is more favourable in agriculture then in other sectors; (ii) substantial reduction in public expenditure by keeping non-developmental outplays to the minimum, strict economy in the implementation of plan projects and postponment of schemes which have no immediate bearing on productivity; (iii) improving the performance of public enterprises; (iv) avoidance of deficit financing to check inflation and the consequential strains on the economy; and (v) suitable changes in fiscal policy to stimulate production and voluntary savings. If in addition to these measures sustained efforts are made to boost exports and accelerate the process of import substitution the Committee see no reason why the country cannot dispense with foreign aid within a short time.

(iv) *Restraint on Consumption*

5.160. The First Plan Report had suggested that restraint on consumption was essential for accelerating the pace of investment and

that fiscal policy could play an effective role in achieving this objective. It had stressed, however, that there was clearly far more scope for cutting down consumption expenditure in the higher income groups than for tightening of the belt in the lower income ranges. Conspicuous consumption, the Plan document stated, might have a place in rich countries where rapid expansion of consumption in all directions was in a way essential to the maintenance of a high level of economic activity, but it was seriously detrimental in the conditions of an under-developed country, for it not only increased discontent in the community but also indirectly discouraged saving in the economy as a whole by initiating a process of wasteful emulation. The Second Plan document had also emphasised the need for holding increases in consumption in check for realising the required rate of investment. The Third Plan Report maintained that for mobilising domestic resources and the foreign exchange needed for the implementation of the Plan, it would be essential to restrain the consumption of relatively non-essential goods and services and to avoid the use of limited resources available in the production of relatively non-essential goods and services. Reiterating the need for restraining non-essential consumption, the Draft Outline of the Fourth Plan states, "Neither relative price stability nor adequate development will be possible unless the domestic savings required for planned developing can be assured out of the current national income. Consequently, all the policies and measures that are needed for enlarging public as well as private savings and channeling these into priority investment will have to be adopted." It further suggests that tax policy should aim at preventing scarce resources—whether domestic or external—going into the production of relatively non-essential commodities.

5.161. Asked to specify the measures that Government had taken to restrain domestic consumption, the representatives of the Ministry of Finance and Planning Commission stated during evidence, "The only effective way of restraining consumption is by excise duties. There is no other way....If the restraint has not been enough, it only means there is room possibly for increasing duty."

5.162. The Committee regret to note that although the fullest mobilisation of resources and the channeling thereof into priority investment is the very raisen d' etre of planning, Government have not been able to evolve in all these years of planning purposive measures to restrain non-essential consumption and prevent diversion of scarce resources to the production of non-essential commodities. They would like to recall that the First Plan Report while

calling for restraint on consumption to accelerate the pace of development, had emphasised that "there is clearly far more scope for cutting down consumption expenditure in the higher income groups than for tightening of the belt in the lower income ranges." The Report had also underlined the need to check conspicuous consumption which not only "discourages saving in the economy as a whole by initiating a process of wasteful emulation" but also "increases discontent in the community". This is the direction in which restraint on consumption should have been sought. But, as will be explained presently, Government have adopted an altogether different course.

5.163. The Committee are unable to agree with the view of the Government that the only effective way of restraining consumption is by imposing excise duties. In the first place, so far as articles of mass consumption are concerned, per capita consumption is already so low due to scarcity and high prices that any further increase in the range and incidence of excise duties, or for that matter of any other indirect taxes, will only add to the hardships of the people in the low income ranges without bringing in any significant reduction in aggregate consumption. Secondly, excise duties do not touch the problem of diversion of resources to the production of non-essential goods and services. In fact, the primary objective of restraining consumption being to encourage savings, it is strange that Government should, in the first instance, allow scarce resources to be used for producing non-essential goods and then dissuade people from buying such goods so that the savings thus effected could be available for investment. From the point of view of mobilising resources it would be obviously more rational to check or prevent the production of non-essential goods.

5.164. Thus, as a means of restraining consumption, the utility of excise duties would appear to be limited to such "relatively non-essential goods" as are being allowed to be produced. This being so, it is surprising that quite a few of the relatively non-essential goods, like cosmetics, chinaware, refrigerating and air-conditioning appliances, etc. are subject to a lower rate of excise duties than essential goods like sugar, cotton fabrics, kerosene etc.

5.165. The Committee are constrained to observe that Government's entire approach to the question of restraint on consumption has been ineffective for while it has added to the privations of the common man, who can barely afford to meet even his most essential needs, it has made hardly any difference to non-essential consumption and has not even endeavoured to come to grips with the major problems of conspicuous consumption and diversion of resources to

the production of non-essential goods and services. The Committee feel that the first pre-requisite for an effective restraint on consumption is to ban the production and import of non-essential goods. This has been recognised in the Plan documents but never seriously pursued. The Committee hope that Government will at least now realize the colossal waste of savings and resources involved in the consumption and production of non-essential goods. They expect Government to take effective measures to ensure that scarce resources—whether domestic or external—will not hereafter be allowed to be diverted for producing goods and services which have no relevance to the needs of the common people or to the requirements of economic development. The Committee would also like the Government to consider the feasibility of raising the excise duties on non-essential goods, which are already being produced, with a view to restrain consumption and augment public savings (i.e., revenue).

5.166. As regards conspicuous consumption, the Committee need hardly stress that it is steadily on the increase. The fast growing luxury houses in the big cities, the growing clientele of expensive restaurants, hotels and clubs, the ready market which foreign consumer goods, whether imported or smuggled, command in spite of their high prices, the rising demand for cars, air-conditioners, refrigerators, television sets, etc., the lavishness which marks the social functions of the rich, are a few examples of the trend. The Committee feel that to deal with the problem of conspicuous consumption it is necessary to go to its root causes. They are of the view that the main factors contributing to this phenomenon are (a) a widespread feeling that saving and investment are not worthwhile due to the high rates of taxes on profits and dividends and the continuing erosion in the value of money; (b) various perquisites and amenities, enjoyed by higher functionaries in both the public and private sectors; (c) unaccounted money and (d) the human tendency to emulate which impels even those who can ill-afford it to go in for conspicuous consumption. The Committee have already dealt with the need to reorientate fiscal policy to stimulate savings and investment.

5.167. As regards perquisites and amenities attached to high offices (such as those in regard to housing, medical aid, travel or telephone facilities etc.), the Committee would like to state that these tend to encourage conspicuous consumption by providing the beneficiaries, who are even otherwise quite well to do, a large measure of insulation from the effects of inflation. It is also pertinent to remember that such facilities are susceptible to misuse

because they are free or nearly so, and that the cost thereof has to be borne either by the public exchequer or, in the case of the private sector, ultimately by the consumer. In view of these considerations the Committee would like the Government to take appropriate measures to limit perquisites and amenities, in both the public and private sectors, to the minimum.

5.168. By far the most important cause of conspicuous consumption is unaccounted money which is unable to find its way into productive investment. Unaccounted money owes its origin to various illegal or irregular practices ranging from tax-evasion, blackmarketing, smuggling and corruption to profiteering in cars and scooters by those who, by reason of their position or resourcefulness, are able to get the necessary permits more easily than others. It is also the main source of anti-social activities like hoarding, speculation, smuggling, black-marketing etc. The Committee feel that the volume of unaccounted money in the country is fast assuming menacing proportions and that the problem can no longer be ignored. They hope that Government will address themselves to the problem without delay and take firm measures not only to deal with the unaccounted money already in existence but also to curb the various illegal or irregular practices which are the sources of unaccounted incomes.

VI

EXPORTS AND EXPORT PROMOTION

A. Trends in Exports 1951—67

(1) *Exports During the First Three Plans*

6.1. It has been noted in Chapter III that India's exports were virtually stagnant during the period of the first two Plans. According to the data supplied by the Ministry of Finance, average export earnings actually declined from Rs. 622 crores a year during the First Plan to Rs. 613 crores a year in the Second Plan. Over the decade India's share in world exports declined from 2·1 per cent in 1950 to 1·2 per cent in 1960.

6.2. The stagnancy in exports witnessed during the 1951—60 decade was broken during the Third Plan period, and exports showed a degree of buoyancy from the very first year. In 1961-62, exports amounted to Rs. 668·3 crores as compared to Rs. 630·5 in the preceeding year. In 1962-63 and 1963-64, they rose further to Rs. 680·9 crores and Rs. 801·7 crores. However, the spurt in exports witnessed in the first three years of the Third Plan was not maintained in the last two years of the Plan. Exports in 1964-65 at Rs. 802·7 crores were only nominally higher than in the previous year, while in 1965-66, the last year of the Third Plan, they declined to Rs. 781·8 crores.

6.3. In a Commerce Ministry paper reviewing India's foreign trade, the fluctuations in the country's export performance during the the Third Plan period have been explained as follows:—

> "Exports showed a significant rise during the first three years of the Plan. This increase was brought about particularly by increased exports of important items like jute goods, vegetable oils, sugar, cashew kernels, oil cakes, leather, unmanufactured tobacco and mineral ores. In the last two years, however, unfavourable seasons and drought conditions affected production of most of the export oriented items like vegetable oils, tobacco, walnuts etc., and the loss in these items had wiped out the gains made in others. Added to this, exports to certain neighbouring

countries had suffered, although for short period, due to hostilities with Pakistan in the last year of the Plan. Decline in international prices of items like sugar also brought down our export earnings."

6.4. Taking the Third Plan period as a whole, India's total exports during the five years amounted to Rs. 3735·4 crores which was close to the export target of Rs. 3700 to 3800 crores envisaged in the Third Plan Report. Thus, on an average, annual export earnings during the Third Plan amounted to Rs. 747 crores, that is, Rs. 134 crores higher than the Second Plan. However, in spite of this increase, India's share in world exports declined from 1·2 per cent in 1960 to 1·0 per cent in 1965. As stated in the Economic Survey 1966-67, world exports increased at the rate of 8·7 per cent per annum during the first of the sixties when India's exports increased at a slower rate of about 4 per cent on an average.

(2) *Fourth Plan (Draft Outline) Targets and Achievements in* 1966-67

6.5. The Draft Outline of the Fourth Plan envisaged total exports during the Fourth Plan period of the order of Rs. 5·100 crores in pre-devaluation rupees or Rs. 8030 crores at post-devaluation rates. It was tentatively assumed that exports in 1966-67 would be of the order of Rs. 825 crores (Rs. 1300 crores in post devaluation terms) and in 1970-71 Rs. 1225 crores (Rs. 1929 crores in post devaluation terms). On this basis the level of exports is expected to register an increase of 51·2 per cent over the Fourth Plan period.

6.6. The principal increases in exports envisaged during the Fourth Plan period are in respect of tea, iron ore, engineering goods, jute manufactures, fruits and vegetables (including cashew kernels), vegetable oils (non-essential), oilcakes, fish, tobacco (unmanufactured), cotton fabrics, iron and steel, chemicals and allied products. Some-what smaller increases are anticipated in the case of sugar, Coffee, spices, coir yarn and manufactures and handicrafts.

6.7. According to the 'Annual Plan 1967-68' exports during the year 1966-67 amounted to Rs. 1557·9 million—Rs. 1168·4 crores in post-devaluation terms or about Rs. 744·3 crores in pre-devaluation terms. It is seen that as compared to 1965-66, exports have suffered a decline of Rs. 37·5 crores in 1966-67.

Further, actual export performance in 1966-67 was far below the level of Rs. 825 crores (Rs. 1300 crores in post-devaluation terms) visualised in the Draft Outline of the Fourth Plan. As noted earlier

(*See* Chapter IV, under 'Exports since Devaluation'), exports during the period June 1966 to March 1967, were 11 per cent lower as compared to the same period of 1965-66.

B. Export Promotion Measures

6.8. Export promotion measures taken during the First and Second Plan periods have been reviewed in Chapter III*. It has been stated that during the Third Plan period a number of institutional fiscal and other measures were adopted to promote exports. A new Department of International Trade was set up in the Ministry of Commerce early in 1962 and a high level Board of Trade was constituted to review all aspects of trade and commerce and to advise Government on export promotion. A new institution called the Indian Institute of Foreign Trade was set up as an autonomous organisation for developing programmes of training, research and markets studies. A number of new Export Promotion Councils were set up during the Third Plan, raising their total number to 19. The Committee have been informed by the Ministry that the Export Promotion Councils (a) undertake intensive studies of export promotion possibilities and problems of the commodities with which they are concerned; (b) advise the manufacturers and exporters about market prospects abroad, the facilities available to them for export, the regulations applicable to the import of these commodities into different markets etc.; (c) implement export promotion programmes which *inter alia* include surveys of foreign markets and market research, the sending of delegations and study teams, participation in Indian and international exhibitions, the carrying out of publicity schemes and the implementation of pre-shipment inspection and quality control schemes.

6.9. It has also been stated that a scheme of according Government recognition to Export Houses was initiated in 1961. Originally Export Houses were thought of as establishments solely or mainly dealing in exports. Later, on the basis of the recommendations of Selectivity Committee under the Chairmanship of Shri Ramaswami Mudaliar, a revised resolution was issued in September, 1965 limiting recognition to companies with a good record of exports of non-traditional goods to non-traditional markets.

6.10. A Marketing Development Fund was established in July 1963 and specified sums were provided in the Central budgets from 1963-64 onwards for grants to the Export Promotion Councils for financing schemes and projects for development of foreign markets for Indian export commodities. Fiscal incentives in the form of

*See Chapter III under heading 'Trade policy' in Section B.

draw-back of import duty and refund of excise duty were extended to a number of commodities during the Third Plan period. The export duty on tea was reduced by stages and finally abolished altogether. Beginning with the Central Budget for 1962-63 certain direct tax concessions were extended to exporters. In the Central budget for 1965-66 the Government announced a scheme for the issue of tax credit certificates to exporters, ranging from 2 per cent to 15 per cent of the value of such exports. Twenty-two export items were initially listed as qualifying for tax credits.

6.11. By far the most important of the export incentive schemes in operation during the Third Plan were the import entitlement schemes whereby exporters became entitled to import acarce raw materials and components in addition to those allocated to them through the normal control system. These schemes were first introduced during the Second Plan period, but were modified from time to time. There were numerous variations in the schemes as applying to individual items. Normally, the items allowed for import were those which were used as inputs in the exported commodity. The import entitlement normally varied between 20 per cent and 75 per cent of F.O.B. value of exports and was generally pegged at twice the value of import content. The incentive to export arose from the opportunity to expand production for the domestic market beyond the level which would have been permitted by the availability of imported inputs through normal allocation procedures. The import entitlement schemes were originally meant for industries producing export goods. The extension of this facility, in later years, to merchant exporters gradually led to the relaxation whereby these entitlements came to be transferred to actual users. Subsequently, a specified shopping list of scarce commodities were also allowed to be imported under these schemes. The Committee are informed that during the year 1964, exports of the value of Rs. 158 crores qualified for assistance under these entitlement schemes. It has been stated in the Economic Survey 1966-67 that although the import entitlement schemes "played a notable role in imparting dynamism to the export sector, their administration was cumbersome and vulnerable to abuse." Moreover, these schemes "generated an incentive which was uncertain in magnitude and which was dependent on the severity of qualitative restrictions on imports....The entitlement schemes also discriminated in favour of import-intensive exports." After the devaluation of the Rupees in June 1966 all special export promotion schemes based on import entitlements were abolished.

6.12. In order to ensure that commodities exported from the country are of the requisite quality, the Export (Quality control and

Inspection) Act was passed by Parliament in 1963. The Act came into force with effect from 1st January, 1964. The Committee have been informed that by the end of October 1966, 84 per cent of export goods had been brought under the purview of the Act. The goods so covered relate to 293 items of exports including (i) 36 items of agricultural produce; (ii) 29 items of engineering products; (iii) 16 items of steel products; (iv) 14 items of minerals and mineral products; (v) 78 items of chemicals and allied products (including agro-chemicals, rubber products, paints and allied products, refractories, salt, etc.); (vi) Jute and coir products; and (vii) cotton, silk, man-made fibre and woolen textiles.

6.13. The framework of the export policy underwent a basic change with the devaluation of the rupee in June 1966 since it was expected that devaluation would give a fillip to the large number of exports which were getting little or no benefit under the earlier schemes as well as to newer exports which might be developed in course of time. Important changes in export policy introduced simultaneously with or soon after the announcement of devaluation have been received in Chapter IV of the report.* Briefly, the important post-devaluation follow-up measures which have a bearing on exports are:—

(a) All special export promotion schemes whether based on tional items such as tea, jute manufacturers, coffee, iron taneously with devaluation.

(b) Export duties have been imposed on a number of traditional items such as tea, jute manufacturers, coffee, iron ore, manganese ore, raw hides and skins etc. The original list covered twelve commodities. Subsequently some more commodities have been made liable to export duties. According to the Economic Survey 1966-67, the items subjected to these duties since devaluation accounted for roughly 60 per cent of the total exports in 1965-66.

(c) A liberal import scheme for 59 priority industries—many of which have significant export potential was introduced. Certain raw materials needed primarily for export production (*viz.* hides and skins, tanning substances such as wattle bark and wattle extracts, and cashew nuts) were placed under O.G.L.

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*See Chapter IV under heading "Follow-up Measures".

(d) Registered exporters were made eligible for single import content, including wastage in manufacturing process; the import content to be determined by D.G.T.D., and notified to the registered exporters by C.C.I & E.

(e) High priority was accorded to the allotment of capital goods and equipment to exporting industries.

(f) Allotment of indigenous raw materials (such as pig iron, prime steel nd steel sections, tin plates, cotton and cotton yarns etc.) to exporting units was to be accorded highest priority.

(g) It was announced that immediate steps would be taken to secure high levels of production of raw jute, tea, coffee, cashewnuts, cardamom and iron ore. In pursuance of this decision the Central Government have set up an Inter-Ministerial Committee to formulate, and generally supervise the implementation of, programmes for development of the production of the principal export-oriented agricultural commodities. It was also contemplated that a "Steel Sales Promotion Division" would be set up to develop export marketing as well as production of the required types of specifications and standards of steel for foreign markets.

(h) In view of the abolition of the export promotion schemes based on import entilements and tax credits immediately after devaluation, it was considered necessary to provide exporters of industrial products some special assistance to enable them to meet competition in foreign markets. Under the new cash assistance scheme, announced on the 16th August, 1966, cash assistance at specified rates was to be provided to selected engineering goods, steel scrap and iron and steel. The range of assistance varied from 10 per cent to 20 per cent of the F.O.B. value of exports in the case of engineering goods. It was fixed at 10 per cent for steel scrap and woollen carpets while for iron and steel assistance at the rate of 15 per cent of the total exports of these commodities was to be placed at the disposal of the Iron and Steel Controller who would determine the actual quantum of assistance to be given to different categories of steel products. Subsequently, on September 7, 1967, Government have announced extension of cash assistance, to certain new items, such as, china clay, plywood and timber products, absorbent cotton and specified steel products. Simultaneously, the rates of assistance to certain items, such as wire ropes, diesel

engines, electric fans, light bars and railway wagons have been increased.

6.14. It has been stated that the new export policy, introduced after devaluation, "recognises that a measure of differentiation in the structure of incentives is necessary from the standpoint of minimising foreign exchange revenues." Under the new export policy three broad categories of commodity exports may be identified. These have been described in the Economic Survey 1966-67 as under:—

"The most favoured group consists of the products of engineering, chemical and plastic industries for which world demand conditions are very favourable and in which India expects to acquire a competitive standing in the forseeable future. However for the present, the cost of production of many of these manufacturers is higher than that abroad, owing to various factors of a temporary nature. To assist these industries to enter world markets and to facilitate their growth during the developmental phase, the new export policy offers cash subsidies. Engineering goods have been divided into three groups, which are subsidised at the rate of 10, 15 and 20 per cent of the f.o.b. value of exports. In principle, subsidy is related to the domestic component of the production cost; rates have, however, been expressed in terms of f.o.b., values for administrative convenience. In addition, steel scrap and woollen carpets get a subsidy of 10 per cent. Iron and steel products and sugar are also subsidised. Altogather, the subsidised items constituted about 7·5 per cent of total exports in 1965-66.

The intermediate group of exports are those which are neither eligible for subsidy nor liable to export duty. Included in this category are cashew kernels, cotton and art silk fabrics, marine products, handicrafts as well as other items. Altogether they accounted for about 32·5 per cent of total exports in 1965-66.

Finally, there is the group of traditional staples which bear duties. Relative to other exports, these commodities are characterised by somewhat unfavourable demand conditions. For many of these products, the world market is not expanding rapidly. Also, for some commodities—jute manufacturers, tea, pepper mica—India has a considerable share in the global market. Therefore, export duties were levied to protect international prices to the extent possible and desirable.

To a smaller extent, export duties are also justifiable when domestic supplies cannot be augmented rapidly so that a part of the windfall gain accruing to exporters as a result of the change in the exchange rate may well be channelled to the public exchequer. Although, the dutiable items account for roughly 60 per cent of total exports in 1965-66, the incidence of duty is not evenly spread, and those bearing a substantial incidence, such as tea and jute goods, accounted for 37 per cent of exports."

C. Pattern of Exports during Third Plan

6.15. Details regarding the structure of India's exports during the first two Plans have been indicated in chapter III. It will be recalled that the pattern of the countries exports did not change to any significant extent over the first decade of planning. As in the period, 1948—51, jute manufactures, tea and cotton manufacturers, continued to account for 50—55 per cent of the total export earnings. Vegetable oils, raw cotton, hides and skins, metallic ores, spices and cashew kernels between them accounted for the next 20—25 per cent. Thus, about three-fourths of the export trade was divided between these nine commodities and the remaining one-fourth was contributed by all other commodities. However, among the principal commodities there were widespread shifts. For instance, while certain traditional commodities such as jute and cotton manufacturers, raw cotton and vegetable oils brought in lower earnings during the Second Plan as compared to the First Plan, items like iron ore, cashew-kernals and oilseeds tended to acquire increasing importance in the country's export trade.

6.16. The pattern of exports during the Third Plan as given in the Draft Outline of the Fourth Plan, is indicated in the following Table:—

*Exports of Principal commodities during the Third Plan**

(Value—Rs. Crores)

Commodity	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	Total Third Plan
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Vegetable oils (non-essential) . .	8·5	5·8	13·2	19·9	7·1	4·1	50·1
Oilcakes . .	14·3	17·3	31·1	35·4	39·8	34·6	158·2

*It may be stated that the figures of total annual exports during the Third Plan period indicated in this Table are not comparable with those quoted earlier in this Chapter and in Chapter III which are based on the balance of payment data supplied by the Ministry of Finance. This in compatibility in the two sets of data is, however, likely to make any significant difference to the broad pattern of exports.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Tobacco (unmanufactured) . . .	14·6	14·0	18·0	21·1	24·4	19·6	97·1
Spices	16·6	17·5	13·8	16·0	16·7	23·1	87·1
Sugar . .	2·4	14·6	16·9	26·0	21·2	11·3	90·0
Fruits and Vegetables .	26·0	25·5	26·7	30·1	36·7	34·7	153·8
Fish	4·6	3·9	4·0	5·7	6·8	6·8	27·2
Tea .	123·6	122·6	129·8	123·4	124·6	114·8	615·2
Iron Ore . .	34·0	35·4	35·3	36·4	37·3	42·1	186·5
Cotton piece goods	57·6	48·3	48·2	54·6	57·6	55·2	263·6
(a) mill made .	52·8	43·3	41·5	47·5	48·0	46·9	227·2
(b) Handloom . .	4·8	5·0	6·7	6·8	9·6	8·3	36·4
Jute manufactures.	135·2	145·9	149·5	154·2	168·2	182·9	800·7
Engineering Goods	5·6	6·9	8·0	14·9	14.3	20·0	64·1
Iron & Steel .	5·5	4·0	1·0	1·9	4·4	8·3	19·6
Chemicals & allied products . . .	3·4	3·7	3·9	4·0	6·8	9·1	27·5
Other exports	208·3	214·3	214·2	249·9	250·4	242·9	1171·7
Total exports including re-exports . .	660·2	679·7	713·6	793·2	816·3	809·6	3812·4

6.17. It is seen that during the Third Plan India's exports did not show any marked diversification away from agricultural and mineral products and, as during the preceding two plan periods, an owerwhelming proportion of the country's export earnings arose from agricultural products and simple manufacturers based on them. However, although the three traditional commodities, *viz.*, tea, cotton textiles and jute manufactures continued to be the principal export earners, their share in total exports declined from 48 per cent in 1960-61 to 43 per cent in 1965-66. The Third Plan saw considerable expansion in the exports of certain commodities, *viz.*, jute manufactures, oil cakes, tobacco (un-manufactured), Iron-ore, sugar, iron and steel, handloom fabrics, engineering goods and chemical and allied products. The increases in the exports of engineering and chemical products were significant. However, the share of these goods in

the Country's total exports was still quite small at the end of the Third Plan. Exports of vegetable oils (non-essential) and tea showed a marked decline towards the end of the Third Plan.

D. Trends in Commodity Exports since Devaluation

6.18. It has been stated in the Annual Plan, 1967-68, that exports of certain commodities, *viz.*, leather, manufactures, iron and steel, fish and fish products, raw jute, pulses, cashew nuts, and iron and steel scrap have registered an improvement in 1966-67. However, these increases were more than offset by substantial declines in some of the traditional exports, *e.g.* jute manufactures, tea, cotton fabrics, tobacco unmanufactured, vegetable oils, spices, raw cotton and raw wool, etc. The following Table, based on the latest data available indicates India's exports of principal commodities during June 1966—March, 1967 as compared to the corresponding period of the preceding year:

India's Exports of Principal Commodities

(in $ Million)

	June---March		Percentage Variation Col. II over Col. I
	1965-66 (1)	1966-67 (2)	
1	2	3	4
1. Jute Manufactures	328·2	277·2	—15·5
2. Tea	228·2	197·1	—13·6
3. Cotton Manufactures	111·1	82·1	—26·1
4. Iron ore	69·3	76·0	+9·7
5. Leather and Leather Manufactures	49·8	68·8	+38·2
6. Oil cakes	59·9	54·1	—9·7
7. Cashew Kernel	47·3	49·5	+4·7
8. Crude animal & vegetable material	41·8	39·5	—5·5
9. Spices	41·2	33·7	—18·2
10. Iron & Steel	21·8	29·6	—35·8
11. Tobacco	31·3	18·8	—39·9
12. Pearls and precious stones	26·5	24·9	—6·0

1		2	3	4
13.	Sugar & Sugar preparations	17·4	14·3	—17·8
14.	Miscellaneous mfrd. articles	29·0	20·7	—28·6
15.	Cotton fibres	21·6	18·9	—12·5
16.	Fish and Fish preparations	12·0	19·9	+65.8
17.	Hides and skins	17·2	19.1	+11·0
18.	Coffee	21·6	16·1	—25·5
19.	Machinery & transport equp.	18·5	17·5	—5·4
20.	Chemicals	20·0	16·4	—18·0
21.	Coir products	22·0	16·5	—25·0
22.	Manganese Ore	19·1	14·8	—22.5
23	Mica	20·0	16·0	—20·0
24	Petroleum products	12·0	11·2	—6·7
25.	Cotton yarn	12·6	10·8	—14·3
26.	Footwear	10·3	10.5	+1·9
27.	Jute fibres	5·0	10·1	+10190
28.	Fruits and Vegetables	10·5	10·8	+2·9
29	Manufactures of metals	8·2	6·0	—26·8
30.	Others	102·5	83·3*	—18·5
	TOTAL	1435·9	1285·2	—10·5

6.19. It is seen that the country's three major export earners, namely, jute manufactures, tea and cotton textile (which together accounted for about 42 per cent of India's total exports in 1966-67) have fared rather badly in the ten months after devaluation. Exports of jute manufactures were lower by 15.5 per cent in the post-devaluation ten month period compared with the corresponding period of the previous year. Similarly, export earnings from tea declined by 13.6 per cent. Cotton textiles were the worst hit by devaluation, exports thereof during June 1966—March, 1967 being 26·1 per cent lower than during June 1965—March 1966. Other commodities the exports of which have suffered considerable setback since devaluation are: tobacco, metal manufactures, miscellaneous manufactured articles, coffee, coir products, manganese ore, mica, sugar and sugar preparations, chemicals and cotton

*Inclusive of Rs. 1·4 crores adjusted against value of articles under reference.

yarn. It has been estimated that taken together the commodities whose exports have been adversely affected since devaluation account for about 70 per cent of the country's total exports.

6.20. The commodities which have improved their export performance after devaluation are leather and leather manufactures, hides and skins, fish and fish preparations, iron-ore, iron and steel, jute fibres, footwear and cashew-kernels. These commodities, which have apparently benefited from devaluation, account for 22 per cent of India's export trade.

E. Comments and Suggestions

(1) *Decline in India's Exports*

6.21. The Commitee note with concern the persistent decline in India's exports during the last two years. Compared to the peak level of Rs. 802.7 crores attained in 1964-65 the Country's export earnings in 1965-66 amounted to only Rs. 781.8 crores and dropped further to about Rs. 744.3 crores (in pre-devaluation terms) in 1966-67. They are particularly perturbed to note that although devaluation was expected to stimulate exports, actual exports during the ten months following devaluation have been 11 per cent lower as compared to the same period of 1965-66.

6.22. The Committee also note that during the 15 year period covered by the first three Plans, India's share in world exports has declined from 2.1 per cent in 1950 to one per cent at the end of the Third Plan. This is because India's exports have been rising at a much slower rate than world exports. Thus, even during the Third Plan period when Indian exports were appreciably higher than in the preceding two Plans, India's exports increased only by about 4 per cent per annum on an average whereas world exports increased at a rate of 8.7. per cent per annum. The Committee would also like to point out that the rate of growth in India's exports does not compare favourably with that of many developing countries. According to the data contained in the U.N. 'Yearbook of Interational Trade Statistics 1965' the increase in India's exports during the period 1960 to 1965 works out to 23.4 per cent. During the same period Israel's exports increased by 94.3 per cent, Thailand's by 53.6 per cent, Syria's by 52.7 per cent, Uganda's by 49 per cent, Pakistan's by 37 per cent and Kenya's by 30 per cent (See Appendix VIII). On the whole, the exports of 'Economic Class II* Countries'—a category which covers

*The category 'Economics Class II' includes all countries and regions other than (a) United States, Canada, Western Europe, Japan, Australia, New Zealand and South Africa (all 'Class I' countries) and USSR, Eastern Europe, China (mainland), Mongolia, Northern Korea and North Vietnam (all Class III countries).

most of the developing countries—rose between the years 1960—65 from 27300 million U.S. dollars to 36400 million U.S. dollars, that is, by about 33 per cent or 6.6 per cent a year.

(2) *Need to increase production and Productivity*

6.23. The Committee feel that the main reasons for India's poor export performance, perticularly during the last two years, are:

(i) Inadequate export surpluses resulting from the slow rate of development in agriculture. This difficulty has been aggravated by the failure of crops during the last two years and the low output recorded by agriculture-based industries.

(ii) Domestic inflation which has resulted in diversion of supplies to the home market and also in increased cost of exports.

(iii) Lack of export motivation. Domestic producers have no urge to export because of the existence of a sellers' market at home, which in turn, is partly the result of inflation and partly of import restrictions necessitated by the difficult foreign exchange position.

(iv) High cost of production. It is well-known that many of India's exports, notably manufactures, find it difficult to compete in the world markets due to their high costs. Apart from inflation this is largely attributable to:—

(a) High cost of indigenous raw materials (e.g., jute, cotton, sugarcane) due to low per acre yield.

(b) Some of our export products depend upon imported raw materials and components, the cost of which is high due to import duties, cost of transport and recently devaluation.

(c) Lack of cost consciousness among manufacturers. This again is largely due to the existence of a sellers' market at home.

(d) Idle capacity in many industries because of shortage of raw materials, both imported and indigenous.

(e) Many of our exporting units do not have economies of scale due to their relatively small size.

(f) Resistance to modernization of plants and adoption of scientific techniques of production. The textile industry is a case in point.

(g) Low productivity of labour. This is partly due to the scarcity of skilled labour and partly due to the relatively higher labour absenteeism.

(v) The withdrawal of certain export incentives and the imposition of export duties on a number of commodities after devaluation have also tended to make Indian exports uncompetitive.

6.24. The Committee note that the Draft Outline of the Fourth Plan envisages total exports during the Fourth Plan period of the order of Rs. 5100 crores in pre-devaluation rupees or Rs. 8030 crores in post-devaluation rupees. They need hardly stress that the most essential pre-condition for the fulfilment of the export programme is the realisation of the production targets set for exportable commodities in the agricultural, industrial and mineral sectors. Secondly, for achieving export objectives, it is necessary not only to create the surpluses for exports, but also to ensure that the surpluses become available at prices competitive with those of other suppliers in the international markets. The need for bringing down costs in agricultural industrial and mineral production is, therefore, obvious.

6.25. Considering that the bulk of the Country's Export consists of agricultural commodities and manufactures based on agriculture whose increase requires a long-term investment, the Committee suggest that a comprehensive operational plan should be prepared for each of the agricultural and plantation crops which are important from the point of view of exports (such as, jute, tea, cotton, tobacco, coffee, cashew nuts, oilseeds etc.). Such a plan should indicate the inputs in the shape of fertilisers, irrigation, area of planting and replanting, amount of investment and loans required from year to year and relate these to specific annual targets of production, increases in per acre yields and exports.

6.26. An integrated programme of the type indicated above would naturally call for a high degree of coordination between the Central and State Governments to ensure that State policies-land and agriculture are State subjects do not run counter to the Central Government's efforts to create adequate surpluses for feeding the export markets. The Committee feel that the existing institutional arrangements for securing uniformity of policy in this sphere between the Central Government and the State Governments require to be improved. The

Inter-Ministerial Committee on export-oriented agricultural commodities, set up by the Central Government in December 1966, may be quite competent to prepare detailed programmes for the development of the production of the principal export-oriented agricultural commodities. However, as that body consists of Central officers only, it is doubtful whether it can secure the necessary coordination between the Centre and the States which is a pre-requisite for the successful implementation of these programmes. The Committee, therefore, suggest the creation of a high level, Coordination Committee consisting of the Ministers in charge of Finance, Commerce and Agriculture, Government of India, and the concerned Ministries of those State Governments where the export commodities are predominantly grown. The main object of this body should be to secure the cooperation of the States in implementing the production programmes in respect of specific export-oriented agricultural commodities. It may meet periodically to review the progress of the various programmes, take decisions on remedial measures that may be considered necessary to remove any bottle-necks, and resolve any differences that may arise between the Central and State Governments in regard to the scope or the implementation of the production programmes.

6.27. Though the traditional export commodities like tea, jute, textiles, have a potential for registering significant increases, it is recognised that India will have to diversify its exports and promote the export or industrial products the international demand for which is increasing at a rapid rate. The Draft Outline of the Fourth Plan envisages a large increase in the export of manufactures, particularly in the metallurgical, engineering and chemical fields. An important condition of success in this area is that costs and quality of Indian manufactures should be competitive with those of foreign suppliers. The various factors responsible for the high cost of India's manufactured exports have been indicated earlier in this Chapter.

6.28. Considering the magnitude of the Country's foreign exchange requirements and the fact that the bulk of her exports, being based on agriculture, are subject to strong seasonal influences, the Committee can hardly overstress the need for boosting up the exports of industrial products, particularly of products of engineering, metallurgical, chemical and plastic industries for which world demand conditions are considered to be very favourable. As many of India's manufactures are handicapped by high prices compared to international prices, the need for bringing down costs in the important export industries becomes obvious. The problem of inflation—which is an important factor contributing to the high cost structure of our

industries—has been dealt with at some length in Chapters IV and V. Further, so far as the agriculture-based exports are concerned increases in the production and productivity of the respective crops (as suggested in Chapter V and earlier paras of this chapter) may also help in reducing the costs of the manufactured products to some extent. However, the Committee feel that action on a wide front would be necessary to place the cost structure of Indian manufactures on a sound footing to enable them to hold their own against foreign goods in the highly competitive world markets.

6.29. As already noted, Indian manufacturers generally lack cost consciousness due to the existence of a sellers' market at home. In view of this, the Committee consider it essential that a determined drive be made for improving productive efficiency through rationalisation of methods of production, better management, development of technology etc., leading to a reduction in the cost of the end-products of industries having significant export potential. This aspect of the export promotion has to be fully recognised by productive enterprises in both the public and private sectors. However, the matter cannot be left entirely to the discretion or convenience of the industry. The Committee would therefore, like the Government to set up specific machinery for dealing with the problems of cost reduction in the industrial sector—the need for which has also been recognised in the Draft Ooutline of the Fourth Plan.

6.30. Government should also give a lead by introducing modern production schedules and cost control systems in the public undertakings. This would help in creating cost and quality consciousness among other producers also.

6.31. In this connection, the Committee would also suggest that in industries which are important for developing exports, licensing policies should take due account of the economies of scales so that the cost of the exports may be kept as low as possible. With the same end in view expansion of existing units may be preferred to the establishment of new units.

6.32. Further, the cost factor should be given weight in determining the location of individual export-oriented units. As the level of cost has over-riding importance in these industries, the Committee urge that in the national interest this consideration should receive due precedence.

6.33. So far as the problem of idle capacity is concerned, the Committee note that, by and large, industries having export potential are

included among the 'priority industries' for which imports of raw materials, components etc. have been liberalised under the new import policy introduced after devaluation. Although the cost of the imported materials would be higher as a result of devaluation the Committee feel that this disadvantage can and should be overcome by optimum utilisation of installed capacity, determined efforts to improve productive efficiency and imaginative import substitution.

6.34. Imported raw material is only one of the bottlenecks hampering export efforts. Even some intermediates and raw materials which are being presently manufactured in India are not easily available besides being very costly by inter-national comparisons. In the Commerce Minister's statement on the 16th August, 1966, it was announced that allotment of certain indigenous raw materials (such as pig iron, prime steel and steel sections, tin plates, cotton-yarn, cotton fabrics for garments etc.) to exporting units would receive highest priority so that they could obtain the required indigenous raw materials for export promotion off the shelf. It was also stated that the STC and MMTC would stockpile some of the essential raw materials for export production in their raw material Divisions which would be made available to the exporting units and manufacturers. The Committee are informed that under the arrangements introduced in pursuance of the afore mentioned announcement 21 specified commodities can be allocated on a priority basis to the exporters. For this he has to apply to the Director of Export production who, in turn, asks the local producers to make the supplies available to the exporter at the earliest.

6.35. It has been brought to the notice of the Committee that the scheme for the allotment of of indigenous raw-materials and intermediates to export units on a priority basis has not been working satisfactorily. Many exporting units are stated to have complained that they were not getting timely supply of indigenous raw materials to execute export orders on schedule. There have also been complaints that the scheme does not cover certain items which are essential for some export commodities. In this connection, the Study Team on Economic Administration, set up by the Administrative Reforms Commission, has expressed the view, "Even with the best of efforts, the Director of Export Production cannot in the nature of things, arrange for an immediate supply of these commodities, as he has perforce to take into account the orders already pending with the manufacturer and the contractual obligations he has already entered into. To us, the only real solution can be found by organising some agency which could stock-pile these commodities for im-

mediate release against the orders of the Director of Export Production."

6.36. The Committee regret to note that although as far back as August 1966 Government had announced that allotment of indigenous raw materials to exporting units would receive highest priority "so that they can obtain the required indigenous raw material..... of the shelf", the actual arrangements made in this behalf are far from satisfactory. The Committee also note that the Commerce Minister's statement of August, 16, 1966 had, inter alia, envisaged that 'essential raw materials' (whether indigenous or imported) would be stock-piled in the raw materials Divisions of the STC and the MMTC for being made available to exporting units. This scheme does not seem to have been pursued with any effect, at least so far as indigenous raw materials are concerned. The Committee hope Government would lose no time in implementing this scheme and taking other appropriate measures to ensure adequate and regular supplies of indigenous as well as imported raw materials to exporting units.

6.37. The Committee would also like the Government to lock into high costs of the indigenous raw materials and intermediates and work out a suitable scheme to neutralise any disadvantage which India's manufactured exports may suffer due to the high cost of their indigenous content.

6.38. An important reason for the high cost of India's manufactured products is the low productivity of labour. Studies of the cement, jute, rayon, bicycles, electric motors and transformers industries, made by the National Productivity Council, show that productivity of labour (output per man hour, in Indian industry is very much lower than obtaining in industrially progressive countries. Compared to certain countries the output per man-hour in India in a few selected industries is stated to be "as low as one-sixth on an average." In general, output per man-hour varies from one-half to one quarter in most Indian industries as compared to similar industries in other countries. Thus, although wage rates are low in India the wage content of the cost of production is high.

6.39. Apart from low man-hour productivity industrial production in India is being increasingly hampered by strikes, lock-outs and lately by gheraos and Bandhs. The Committee are informed that rise industrial unrest and resort to violence cost the nation 10.5 million man-days of production during 1966, compared to 6.5 million man-days in 1965. In recent months, much loss to production and

exports has been caused due to labour unrest, particularly in West Bengal where many export-oriented industries are located. The following quotation from a recent statement by the Chairman of a large Iron and Steel company in West Bengal provides an example of how the country's export effort is being retarded by labour unrest:

> "One of the essentials in securing and retaining an export market is to rigidly adhere to the terms of the contract in regard to specification, special conditions such as surface finish, and the scheduled programme of delivery. All these preconditions require constant supervision at every stage of production, from the procurement and analysis of raw materials to the eventual packing and despatch. In view of the labour conditions prevailing ing your company's works, such supervision, no matter how desirable, has become noticeable by its almost total absence in as much as supervisory personnel are precluded from adequately performing their supervisory functions..... Due to the prevailing mood of labour, the issuing of instructions by the supervisory personnel to the workmen is fraught with grave hazard. . . Export markets secured by the expenditure of much effort and in the face of severe international competition are therefore in jeopardy."

6.40. The Committee note that labour productivity in Indian industries is as low as one-half to one-sixth as compared to industries in other countries. It is evident that man-hour output will have to be stepped up appreciably not only for increasing production of export goods but also for making them competitive.

6.41. Asked whether Government had set out any firm targets of man-hour productivity during the Fourth Plan and, if so, what measures did Government propose to achieve the same, the Ministry have stated:—

> "The Plan provides for evolution of norms of rapid productivity, specifically in repetitive tasks, and to achieve that end, enjoins on the managements of public enterprises to introduce proper incentive schemes. During the Fourth Plan, a concerted drive is to be made for achieving higher levels of productivity in all branches of industry. To this end, in relation to each industry, representative organisations of employers and workers are expected to evolve a broad and common approach for the guidance of industrial units. At the level of produc-

tion units, as an immediate step, simple incentive schemes are to be drawn up jointly by employers and workers in keeping with their specific requirements and circumstances. Objectives such as reduction in costs, economy in the use of materials etc. should be incorporated in the incentive schemes to the extent possible. The existence of satisfactory working conditions is necessary in any scheme of incentives, and provision exists in this regard for taking into account such contingencies as shortage of raw materials and possible intervals of unemployment. Apart from financial incentives, non-financial incentives like greater security of employment, job satisfaction and job status should be given due place. In the matter of human relations, so important in any scheme for increase in productivity, provision also exists for the welfare of workers and their families. Wider opportunities are also to be provided for workers by way of training and education and attainment of higher level of skills."

6.42. While the Committee generally agree with the above proposal for increasing labour productivity they would like to urge that the really important point is the speed and the manner in which these concepts will be implemented. They feel that not much progress in the desired direction can be expectd unless Government themselves take the initiative by securing the acceptance of these schemes by the concerned intersts, viz. representative bodies of workers and employers. The Committee would, therefore, like the Government to come forward. as early as possible, with concrete measures to improve labour productivity particularly in industries which are either directly manufacturing exportable goods or which produce intermediates, components etc. required for such goods. In particular, the Committee would suggest urgent action on the part of Government on the following points:

(a) Evolution of norms of productivity in the key industries, including those which are important from the point of view of exports.

(b) Formulation of simple incentive scheme industry-wise.

(c) Evoluation of suitable schemes for linking increases in wages with increases in productivity the need for such schemes has been recognised in the Draft Outline of the Fourth Plan.

(d) Formulation of schemes of non-financial incentives to workers.

(e) Provision of wider opportunities to workers by way of training and education and attainment of higher level of skills.

(f) Formulation and implementation of schemes for securing workers' participation in management.

6.43. The Committee hope that Government would present the various proposals for increasing labour productivity at a tripartite conference at an early date. They would like to add that while the proposals should be finalised only after full consultations with the concerned interests, no time should be lost thereafter to ensure their proper implementation.

6.44. For the promotion of productive efficiency on the part of workers as well as individual enterprises, it is necessary to secure the economy against interruptions to production by promoting a climate of industrial peace. The Committee feel that a better deal to labour through various incentives (suggested earlier) would go a long way towards ensuring industrial peace. With the same end in view, they would like the Government to take necessary steps to ensure (a) effective operation of the machinery for the indentification and speedy settlement of legitimate grievances, and (b) avoidance of unilateral action on the part of employers as well as workers, which might interrupt or otherwise adversely affect, production, e.g. lock-outs, lay offs, strikes Gherao's etc.

(3) *Quality Control over Exports*

6.45. It has been pointed out earlier that about 84 per cent of India's export goods are covered by the system of quality control introduced under the Export (Quality Control and Inspection) Act, 1963. In reply to a question the Ministry have stated that certain practical difficulties have been noted in the working of the inspection schemes under the Act. These have been described as follows:—

(i) Once the goods have been inspected and accepted, only the Customs are empowered to re-examine the commodities and not the Inspection Agencies. There are cases where such re-examination becomes necessary but the Export (Quality Control and Inspection) Act, 1963, does not empower the Inspection Agencies to re-open the consignments.

(ii) The Export (Quality Control and Inspection) Act, 1963, does not under the existing provisions empower either the Government or the Export Inspection Council (a statutory body) set up under the Act to inspect the goods themselves. The Export Inspection Council is also not authorised to levy fees for inspection from Export industry."

6.46. The Committee note that certain practical difficulties (like those enumerated in para 6.45) have been experienced in the working of the Export (Quality Control and Inspection) Act. They hope that Government will take early action to remove lacunae in the provisions of the Act or the Rules made thereunder.

6.47. The Committee would also urge that exportable commodities which are not yet covered by the scheme of quality control should be brought under the perview of the Export (Quality Control and Inspection) Act as early as possible.

(4) Need for changes in Export incentives

6.48. Import duties on raw materials and components and excise duties entering into the cost of manufacture constitute a significant portion of the F.O.B. cost in many cases. If not relieved, the burden of these duties would naturally handicap the country's exports. Government have, therefore, devised schemes for the drawback of these duties. The Committee are informed that for certain specified commodities a pre-determined rate of drawback is permissible and the exporter has only to produce the evidence of exports to be eligible for relief. For the majority of export goods, however, no such predetermined rate of drawback has been worked out. It has been stated that the rate of drawback on these commodities is "the total of the average customs duty paid on imported materials and the average central excise duty paid on the materials used for the manufacture of the export goods." The exporter is required to produce to the Customs or the excise officials all the relevant information to enable these authorities to calculate the rate of drawback.

6.49. There is a widely shared feeling that the procedure for the claiming of the drawback is far too complicated. The practice of putting the burden on the exporter to produce every minute detail about the incidence of customs and excise duties on the final products entering into the exports makes the system both cumbersome and dilatory. The process takes months and meanwhile the exporter is not certain whether he will get a drawback at all. Due to this uncertainty he is unable to decide the price at which he should quote.

6.50. Asked to indicate the steps taken by Government to facilitate drawback of duties on export, the Ministry have stated, "It is the policy now to fix more and more 'All Industry' rates, in that case the manufacturer/exporter will not have to submit the data etc. The rates are also being fixed on percentage of F.O.B. value."

6.51. The Commitee feel that in cases where the rules do not provide for a pre-determined rate of drawback of import and excise duties, the existing procedure for claiming drawback is too complex and dilatory. They would like the Government to vigorously pursue that new policy of fixing more and more 'All Industry, rates of drawbacks so that the facility of pre-determined rates of drawbacks becomes available to most of the Country's exports before long.

6.52. It is well known that the incidence of sales tax on many exportable goods is quite high. It has been stated that "Even though the Government of India is willing to exempt export products from the burden of these taxes, the complication arises because it has a bearing on the revenue of the State Governments. The Government of India can undertake to provide relief by way of drawback of sales tax only if it is reasonably certain that the State Governments will not go on enhancing the rate of sales-tax mounting up the Central Government's liability." In this connection the Study Team on Economic Administration, set up by the Administrative Reforms Commission, has suggested:

> "For a few selected important export items the Government of India should seek to bring about uniformity in the rate of sales tax in the State Governments concerned and provide an *ad hoc* relief by way of drawback. There need be no prolonged and interminable calculations to relate the rate of relief to the actual incidence of sales tax on a particular product. This will be feasible if the State Governments agreed not to enhance the rate of sales tax on these commodities in future. The commodities which are given this *ad hoc* relief will then case to be qualified for the refund of the sales tax from the concerned State."

6.53. The Committee commend the above suggestion. They hope that Government would soon work out, in coordination with the State Governments, an effective scheme to ensure that the export effort of the country is not hampered by unduly high and varying rates of sales taxes.

6.54. The Commitee also note that the scheme of issuing tax credit certificates to exporters, introduced in 1965, has been abolished

after devaluation. In view of the persistently adverse trend in exports since devaluation, the Committee feel that direct tax concessions to exporters may be helpful in stimulating exports and investment in export-oriented industries. They would like the Government to examine this matter carefully and formulate a comprehensive and integrated scheme in this behalf.

(5) *Exports by Public Undertakings*

6.55. Dealing with the role of public undertakigs in developing exports the Draft Outline of the Fourth Plan states:

> "In view of the increased production achieved by public sector undertakings in metallurgical, engineering and other fields in the last few years and also in view of the additional investment that is planned to be made, the public sector enterprises are expected to be in a position to make a more positive contribution to exports during the Fourth Plan period. In order to do this, the public sector enterprises will need to reorient their production programme and organisational set up suitably, including the establishment of special overseas sales departments."

6.56. In reply to a question the Ministry have informed the Committee, "Total investment (equity and long-term loans) in 66 Public Sector Undertakings of the Government of India amounted to Rs. 2037 crores at the end of 1964-65. The current level of exports by these undertakings is of the order of Rs. 4 crores but it is expected to go up many times in the course of the next few years." The Committee are further informed that at its meeting held on the 30th April, 1966, the Board of Trade laid down a target of Rs. 100 crores for annual exports by public undertakings to be reached by the end of the next five to seven years, that is, 1970-72. In accordance with this decision of the Board of Trade the following unit-wise targets are stated to have been communicated to the individual undertakings and the administrative Ministries concerned:

Exports targets for Public Undertakings

Name of the Undertaking	Target for 1970-72
	(Rs. in crores)
1. Hindustan Steel Ltd.	30
2. Hindustan Machine Tools	10

Name of the Undertaking	Targets for 1970-72
	Rs. crores
3. Integral Coach Factory	15
4. Mazagaon Docks	5
5. Garden Reach Workshops	
6. Praga Tools Ltd.	
7. Bharat Electronics	
8. Hindustan Aeronautics Ltd.	
9. (Atomic Energy Commission (Rare Earths Ltd)	2·50
10. Hindustan Antibiotics Ltd.	5
11. Indian Drugs & Pharm. Ltd.	10
12. National Insturments Ltd.	target under examination.
13. Hindustan Teleprinters	-do-
14. Indian Telephone Indust.	10
15. Heavy Engineering Corp.	10
16. Indian Oil Corp. Ltd.	2·50
	100

6.57. The Committee note that against an investment of over Rs. 2000 crores in 66 public sector undertakings the level of exports by these undertakings in 1965-66 was of the order of only Rs. 4 crores. Considering that a very large part of this investment has been made in metallurgical engineering and other industries which are known to have significant export potential, the Committee are constrained to observe that the export performance of public sector industries so far has been far from satisfactory. They feel that the target of Rs. 100 crores for annual exports by public undertakings be reached by 1970—72 is quite modest and would urge that every effort should be made to reach and, if possible, to exceed this targets. The Committee need hardly stress that the realisation of the export targets would require a large measure of coordination between the public undertakings and the Administrative ministries concerned. In particular, adequate arrangements will have to be made for periodical review of the progress made by individual units to achieve the targets. The Committee hope that these and other requisite measures to ensure the achievement of the targets will be taken by Government without delay.

(6) *Decline in Exports of Jute, Tea and Cotton Textiles.*

6.58. India's share in world exports of jute, tea and cotton textiles-the country's principal foreign exchange earners-has gone down considerably in recent years. This adverse trend has been further aggravated since devaluation. Thus, India's share in world exports of jute manufactures has dropped from 83 per cent in 1957 to 58.5 per cent in 1966. India's loss roughly corresponds to Pakistan's gain, for, during the same period, Pakistan's share in world exports of jute manufactures has gone up from 6.8 per cent to 33.5 per cent. India had also dominated the world export trade in tea for many years, but during 1965 it lost this position to Ceylon. India's share in world exports of tea fell from 45 per cent in 1951 to 34 per cent in 1965, while during the same period Ceylon's share increased from 30.2 per cent to 39.2 per cent. The cotton textile industry is the third largest foreign exchange earner in India, coming next only to jute and tea. According to the data furnished by the Ministry of Finance, India's share in world exports of cotton cloth came down from 17.2 per cent in 1957 to 8.7 per cent in 1963. Since 1963-64 India's exports of cotton cloth have been more or less stagnant.* As noted earlier, during the ten month period since devaluation (June 1966-March 1967) the country's exports of jute manufactures, tea and cotton textiles have declined, respectively, by 15.5 per cent, 13.6 per cent and 26.1 per cent as compared to the corresponding period of the previous year. The reasons for these adverse trends are cosidered in the following paragraphs.

6.59. It will be recalled that following devaluation export duties were imposed on a number of traditional items, including jute manufactures and tea. Together the dutiable items accounted for about 60 per cent of the country's total exports in 1965-66. The export duties were levied mainly for two reasons *viz.* (i) protect international prices to the extent possible and desirable and (ii) to mop up part of the windfall gains which were expected to accure to exporters as a result of the change in the exchange rate.

6.60. Simultaneously with the devaluation of the rupee Government levied an export duty of Rs. 900 per tonne on hessians and Rs. 600 per tonne on other jute manufactures. On a review, the export duty on cotton baggings was reduced to Rs. 200 per tonne with effect from the 11th February 1967. The decline in exports of jute manufactures since devaluation has been attributed to higher prices of imported raw jute due to devaluation, imposition of heavy export duties following devaluation and aggressive Pakistani salesmanship backed by export incentive schemes including the well-

*See Table of "Exports of Principal Commodities during the Third Plan" reproduced in para—*ante*

known bonus vouchers available on the export of jute goods. Further, Pakistan jute mills have a formidable cost advantage over their Indian counterparts in raw jute. According to data furnished by the Ministry, the average to data furnished by the Ministry, the average price of Assam Bottom Variety of Indian jute on 30th September 1966 was Rs. 128.60 per quintal as against Rs. 107.17 per quintal for comparable variety of jute in Pakistan. It has been stated that poor off-take has resulted in the accumulation of disturbingly large stocks of jute goods. Thus, at the end of July 1967 stocks of sacking alone had shot up to 64,000 tonnes or approximately seven weeks's production.

6.61. The Committee note that India has been fast losing ground to Pakistan in the export of jute manufactures. They are also concerned at the sharp decline in India's exports of this commodity since devaluation. The Committee feel that unless Government take prompt steps to counteract Pakistani undercutting, export prospects of the country's largest foreign exchange earning industry might be permanently damaged. In the long run the country's jute industry can be put in a position of competitive strength in relation to Pakistan only by achieving self-sufficiency in raw jute and reducing manufacturing costs. However, as an immediate measure to arrest the continuing fall in export since devaluation the Committee suggest that the export duties on jute manufactures by suitably readjusted so as to leave a reasonable margin to the exporter. The Commitee would also like the Government to introduce positive measures to assist the jute industry in building buffer stocks of jute goods and disposing of its accumulated stocks through exports.

6.62. Following devaluation a specific export duty of Rs. 2 per kg. was levied on exports of tea. It was found that "this level of duty exercised an adverse effect on exports, particularly on lower priced tea." As a result exports from India suffered a decline. The position was reviewed later and a slab scale of Rs. 0.80 per kg. to Rs. 3 per kg. was introduced with effect from 11th November, 1966. At the sixth meeting of the Export-Import Advisory Council held in April 1967, a suggestion was made that in place of the slab system, a 20 per cent *ad-hoc* duty subject to a ceiling of Rs. 2.00 per kg. be fixed so as to give relief to the better varieties of tea. It was stated in this connection that while the slab system, introduced in November 1966, gave some relief for common and medium teas "an extra burden of impost was retained on better teas." It was also pointed out at the meeting that while India's share of world tea exports was de-

clining, there was a general glut in the world tea market. It was therefore necessary to take vigorous steps to promote exports of Indian tea.

6.63. Explaining the decline in tea exports since devaluation a spokesman of the Tea Association of India has pointed out that following devaluation not only an export duty on tea was imposed, but the tax credit scheme and the facility for refund of excise duty on tea exports were also withdrawn. Moreover, additional tax burdens have been imposed on the tea industry in 1967. These are, an increase in the excise duty on tea, which continues to be non-refundable on tea exports, and a cess of 4 paise per kg. on all teas produced. During 1966 the cost of production of tea has also increased considerably as a result of increase in wages, bonus, higher rates of freights, insurance charges, etc.

6.64. There has also been considerable criticism of Government's efforts to promote the sales of tea abroad. As a concrete case attention has been drawn to the fact that while India's share in the U.K. tea market has been declining in recent years, Ceylon's tea exports to that country have increased considerably. This, it has been stated is due to the fact that "while Ceylon supported the Tea Council's campaign to promote tea in general, she did not overlook or ignore to increase the consumption of Ceylon tea in the U.K. India suffered particularly because of lack of funds."

6.65. The Committee are concerned to note the persistent decline in India's share in world tea exports. There is a feeling that the benefits which might have accrued to the tea industry from devaluation have been largely offset by the export duties and additional taxes imposed since devaluation and the increased cost of production resulting from higher wages, bonus, higher freight charges, etc. The position has been further aggravated by the glut in the world tea market. As a result exports of tea since devaluation have been considerably lower than in the year preceding devaluation. In view of this, the Committee urge the Government to re-examine the matter in the light of the latest trend in tea exports and provide, if necessary, suitable fiscal relief to the tea industry so as to strengthen its competitive position in the world market. Government should also take immediate measures to promote the sale of Indian tea abroad through vigorous publicity and propaganda.

6.66. The continuing fall in India's share in world exports of cotton textiles has been attributed to the following factors:

(i) The growth of textile industries in a number of countries of Asia and Africa and the consequential action on their part to raise tariff walls and restrictions against imports.

(ii) The growing foreign exchange difficulties of a number of countries like Burma, Indonesia and Ceylon and their switch over to bilaterial trade agreements, particularly with the Central Trading countries.

(iii) Domestic production of cotton textiles during the Third Plan period has been much below the plan targets. Consequently, the excessive pressure of domestic demand over available production has been a serious deterrent to export promotional efforts.

(iv) The extremely low per acre yield of cotton and the use of outmoded machinery by the textile mills have made Indian textiles un-competitive. It has been stated that the yield per acre of cotton in India is the lowest among the cotton producing countries in the world. As for machinery, of the total loomage of 205,000 in India, only 23,594 looms are said to be automatic. The balance are plan looms, considerable number of which are very old.

(v) Fierce competition from Hongkong, Japan, Pakistan and China.

(vi) Imposition of quantitative restrictions on textile imports by developed countries such as U.K., France, West Germany and the U.S.A.

6.67. As regards the sharp decline in cotton textile exports since devaluation the main reasons advanced are:—

(i) Following devaluation, the rupee cost of imported cotton and other imported raw materials, such as, dyes, chemicals and machinery components rose by 57.5 per cent. Price of domestic cotton has also increased by about 20 per cent because of a smaller crop. Wages have also gone up. These factors have neutralised to a considerable extent the advantages accruing from devaluation.

(ii) Secondly, simultaneously with devaluation export incentives (cotton textile industry was one of the best beneficiaries from those incentives) which ranged from 25 per cent to 90 per cent of the F.O.B. value of exports were

withdrawn. As a result, export business in items where the pre-devaluation incentives were in excess of approximately 57 per cent suffered severely.

6.68. At its meeting held on November 26, 1966, the Board of Trade emphasized that taking into account all the factors, it was necessary to provide concrete assistance to the cotton textile industry so as to at least maintain the overall yearly exports of cotton textiles, yarn and cotton garments, of Rs. 100 crores at the post-devaluation value. The Board apprehended that if assistance of a modest character was not granted urgently exports worth Rs. 30 to 45 crores of cotton cloth, yarn and garments would be lost. As noted earlier exports of cotton textiles in the first ten months after devaluation have been 26.1 per cent lower than in the corresponding period of the previous year. According to latest reports this declining trend has not been arrested till the end of July 1967.

6.69. The Committee cannot but view with concern the continuing decline in India's share of world exports of cotton manufacturers. It is obvious that India's ability to compete in the external textile market is in the ultimate analysis bound up with increased domestic production of raw cotton and the modernization of the textile industry. However, in view of the precipitous fall in cotton textile exports since devaluation the Committee would urge the Government to evolve in the light of experience a purposeful scheme of export assistance to the textile industry. They regret that effective measures in this behalf have not been taken in time although as far back as November 1966, the Board of Trade had strongly recommended the need for concrete assistance to the industry to avoid a fall in textile exports.

(7) *Recession and Exports*

6.70. In Chapter II of their Ninth Report (Fourth Lok Sabha) on the subject of Industrial Licensing the Committee have drawn attention to the high percentage of idle capacity in many industries, including some priority industries. In recent months many industries have been forced to cut down their production further due to the slackening of demand and consequent accumulation of unsold stocks. Important among the industries which have been seriously affected by recession are the steel, capital goods and engineering industries. Thus, the current recession is stated to have brought about a situation in which the steel industry is not able to sell even 60 to 70 percent of its production. Similarly, most producers in the engineering industry are said to be working only 50 per cent of their installed capacity.

6.71. The Committee feel that the current recessionary trends in certain industries call for all out efforts to promote the exports of the products of the affected industries. While the scheme of cash assistance to exports of engineering goods, iron and steel, steel scrap etc. may be useful as a temporary expedient to develop exports the Committee would like to caution that too much reliance on this method would not only encourage inefficient units and add to the budgetary burdens of the Government but may also provoke retaliatory measures by other countries. The Committee would, therefore, urge the Government to pay immediate attention to cost reduction and quality improvement in the important export-oriented industries particularly those which are faced with recession.

6.72. The Committee would also like the Government to take energetic measures to explore new markets for India's capital goods and engineering products. They feel that the developing countries of Asia and Africa offer a promising market for a number of such goods (e.g. capital goods for cement and sugar industries, light engineering goods) which India is in a position to supply. These avenues offer the added advantage of a continuous flow of spare parts and components till the entire range of manufacturing activity is established in these countries.

6.73. In this connection, the Committee would like the Government to consider the feasibility of organising industry-wise consortia of manufacturers from both the public and the private sectors for selling complete industrial plants abroad for manufacturing cement, sugar, iron and steel, chemicals and other end-products.

(8) *Australian Scheme of Preferential Tariffs for Developing Countries*

6.74. The Committee have been informed that a scheme of preferential treatment for imports from the less developed countries was introduced by the Government of the Commonwealth of Australia in April 1966. The salient features of this scheme are:

(i) Allocation of quotas for import of a wide range of products from less developed countries at preferential rates of duty; and

(ii) Duty-free entry of a range of hand-made traditional products of the cottage industries of less developed countries (commonly known as handicrafts). These products, apart from being duty free, were also not subject to any quota restrictions.

6.75. The Committee welcome the scheme of preferential treatment for imports from developing countries introduced by the Government of the Commonwealth of Australia in April 1966. They hope that Government would take all necessary measures (e.g. extensive publicity to the Australian scheme within the country, publicity for the concerned Indians products in Australia, studies of the tastes and requirements of Australian consumers, etc.) to ensure the fullest utilisation of the scheme to push up exports to Australia. The Committee would also urge the Government to persuade other developed countries to extend similar concessions to developing countries.

VII

INVISIBLES

A. Definitions and Explanatory Notes

7.1. Receipts and payments arising from the sale or purchase of current services to and from foreigners constitute the current invisible account in the balance of payments. In the balance of payment data complied by the Reserve Bank of India service transactions are classified under the following heads:—

(i) Foreign travel;

(ii) Transportation;

(iii) Insurance;

(iv) Investment income;

(v) Government not included elsewhere;

(vi) Miscellaneous; and

(vii) Donations/Transfer payments.

The scope and coverage of these items are indicated in the paragraphs following.

7.2. *Foreign Travel.*—It has been stated that receipts under this head are generally incomplete and are partly included under 'miscellaneous' receipts pending certain adjustments. This is so because most of the receipts under travel are in amounts less than the minimum prescribed for receipts in respect of which purpose-wise details have to be supplied to the Exchange Control Department. Hence the estimates of travel receipts are based mainly on Surveys of Foreign Travel Receipts and Unclassified Receipts. On the debit side full details are readily available in the Exchange Control records. The debit figures represent mainly expenses incurred for private and official travel and also for educational expenses abroad; but in most cases these figures exclude passenger fares.

7.3. *Transportation.*—This item covers all receipts and payments arising out of international transportation services on freight and shipping account except for the freight on imports, invoiced c.i.f. or c.f. The credit figures include three types of receipts: (a) Freight

paid in advance by exporters on behalf of importers abroad and subsequently recovered, (b) operating expenses of foreign steamship and aircraft companies in India, and (c) Freight and passenger fare earnings abroad of Indian transport companies. The debit entries relate mainly to (a) operating expenses abroad of Indian shipping and airline companies, (b) surplus funds remitted abroad by foreign shipping and airlines companies and (c) other payments which include charter higher payments and freight separately paid on imports, invoiced f.o.b. In a note supplied to the Committee the Ministry have drawn attention to "some peculiarities associated with our recording of transportation receipts and payments." It has been stated, "First as far as receipts are concerned, not all the estimated reimbursements of freight on exports represent India's earnings, as a large part of the exports is carried in foreign ships and the freight in reality 'accrues' to foreign companies. However, for want of necessary details they are shown as India's receipts under transportation, thereby overstating the receipts. Secondly, since imports are recorded mainly on a c.i.f. basis, freight payments figure under imports instead of transportation and to that extent payments under transportation account are under-estimated."

7.4. *Insurance.*—The entries against this item cover receipts and payments on life and general insurance as well as reinsurance, but the payments side does not include all the transactions relating to marine insurance, as insurance payment in respect of imports invoiced c.i.f. are booked under import payments. Remittances of surplus funds by foreign insurance companies are also excluded and treated as capital payments.

7.5. *Investment Income.*—Income on investments of the Reserve Bank of India account for a large part of the credits under this head. The debit entries relate to remittances of profits, interest and dividends accruing to foreigners, including profits of the petroleum sector, and servicing charges on loans obtained by the Indian Government, including interest and commitment charges on borrowings from the International Monetary Fund.

7.6. *Government, not included elsewhere.*—Receipts accruing to the Government of India (Central and States) not shown elsewhere are included on the credit side. A substantial portion of these receipts represent certain adjusting transactions between the Governments in India and Governments in the Sterling and Dollar Area countries which cannot be readily broken down according to purposes. Besides these, the credits include identifiable diplomatic expenditures of foreign Governments in India, and from 1956-57

they also cover U.S. Embassy expenditure in India from the rupee proceeds of sales of U.S. surplus agricultural commodities. The data for the latter are obtained from debits to the U.S. rupee account. In addition, the credits from 1956-57 onwards include refunds in respect of the 50 per cent of the freight on PL 480 imports, initially borne by the Indian Government but subsequently refunded by the U.S. Government under PL 480 Agreements. However, from April, 1965 the receipts data exclude refund of freight on PL 480 imports. On the debit side, the item covers India's diplomatic expenditure abroad, contribution to international bodies as also certain unclassified payments on Government account mainly to the sterling area countries.

7.7. *Miscellaneous.*—Explaining the scope of this item the Ministry have stated that "Apart from transactions which in view of the limitation of the available data cannot be classified and are, therefore, shown separately as 'unclassified' there are a number of other service transactions which though identifiable are too small to merit a separate classification. All such services are aggregated under this item which covers, among others, transactions recorded as and estimated to be in the matter of agency services, technicians' services and royalty payments, film rentals and commission on imports and exports."

7.8. *Donations/Transfer Payments.*—

(i) *Official.*—Credits represent cash receipts (grants) and contra entries for aid received in kind from foreign Governments and institutions. Since April, 1964 receipts and payments of pension on Government account and contribution to the international organisation are included under this head.

(ii) *Private.*—The item covers migrants' transfers, savings, remittances for family maintenance, upkeep of religious missions, etc. It has been stated that figures on the credit side are largely estimates based on the Survey of Unclassified Receipts. Since April, 1964 receipts and payments of pension, retirement benefits etc. on private account are included.

B. Overall Trends in Invisibles

7.9. From the balance of payments data reproduced in Chapter III (see paras 3.38 and 3.44) it is seen that net earnings from invisibles

(excluding official donations) during each year of the First and Second Year Plans were as follows:—

Net Earnings from invisibles (excluding Official Donations) during First and Second Plans

First Plan		Second Plan	
Year	Rs. crores	Year	Rs. crores
1951-52	64·9	1956-57	117·1
1952-53	80·5	1957-58	100·3
1953-54	80·5	1958-59	90·4
1954-55	77·4	1959-60	81·3
1955-56	87·6	1960-61	37·6
TOTAL	390·9	TOTAL	426·7

7.10. Thus, during the First Plan period net earnings from invisibles (excluding official donations) aggregated Rs. 391 crores or Rs. 78.2 crores a year on an average. During the Second Plan period net earnings under this head increased marginally, the annual average for the period being about Rs. 85.4 crores. It is to be noted, however, that net earnings on the invisible account started declining from 1957-58 onwards. In 1960-61, these amounted to only Rs. 37.6 crores as against Rs. 117.1 crores in 1956-57.

7.11. In view of the falling trend in net receipts from invisibles during the Second Plan period, the Third Plan document had assumed a nil figure under this head in its estimates of foreign exchange resources. The Plan document had anticipated some improvement in gross invisible receipts, particularly under foreign travel, transportation and insurance. It was thought, however, that this improvement would be more than offset by the increase in interest liabilities on foreign loans and the payment of 50 per cent of the freight on PL 480 imports.

7.12. As regards the actual trend in invisibles, during the Third Plan period there are marked differences in the annual figures relating to invisibles (net) in the balance of payments data furnished by the Ministry of Finance in June 1966 (supplemented by a statement on 'India's Balance of Payments 1965-66' supplied in the course of official evidence in October-November, 1966) and those forwarded by it subsequently in June 1967 the latter being reproduced from the

Economic Survey 1966-67. The yearly figures for invisibles (net) during the Third Plan period, as indicated in these two sets of data, are shown below:

Invisibles (Net): Third Plan

Balance of Payments data furnished in June 1966		Balance of Payments data furnished in June 1967
Year	(Rs. crores)	(Rs. crores)
1961-62	—21.9	—29.5
1962-63	—27.8	—48.6
1963-64	—10.1	—42.8
1964-65	+28.6	—88.6
1965-66	+13.6	—69.2
Total	—74.8	—278.7

7.13. With regard to the data furnished by the Ministry in June 1967, it has been pointed out that the 'Receipts' under Invisibles exclude: receipts on account of freight on PL 480 imports initially borne by India but subsequently refunded by the U.S. authorities; all grants under Colombo Plan and PL 480 Titles I, II and III; U.S. Embassy expenditure out of PL 480 Title I funds and miscellaneous receipts out of PL 665.* The large difference in the two sets of figures given in the preceding paragraph is presumably attributable to this change in the presentation of the balance of payments statistics.

7.44. The Committee commend the change in the presentation of balance of payments statistics whereby certain receipts (like refund of freight on PL. 480 imports, U.S. Embassy expenditure in India out of PL. 480 funds, various grants) which are more in the nature of external assistance have been excluded from the 'Invisibles' head. They are of the view that the inclusion of such receipts under Invisibles tends to give an inflated and unrealistic picture of invisible earnings. The Committee suggest that the practice of excluding such receipts from invisible earnings should be uniformly adhered to in the presentation of balance of payments data.

7.15. Asked why the Third Plan estimates regarding invisibles had gone wide of the mark, the Ministry of Finance have stated:

> "The assumption made in the Third Plan Report that there would be improvement in gross receipts under foreign

* See Economic Survey 1966—67—Table 6.2, footnote 2.

travel, transportation and insurance has not fully materialised. Payments for royalties, technical fees and other miscellaneous items have been more than estimated and so have been remittances of dividends. There was also some under-estimation of interest liability. These factors account for the substantial worsening in the invisible account during the Third Plan".

7.16. In reply to another question the Ministry have further explained the deterioration in the invisible account during the Third Plan period as follows:—

"In 1961-62 as in 1962-63 the most powerful single factor responsible for deterioration was investment income* which fell as a result of lower receipts from our foreign securities and higher payments on account of debt servicing. The fall in receipts from our foreign investments reflects depletion of our sterling balances with the Bank of England while debt servicing charges have gone up with rising indebtedness."

"Receipts on private account have been declining over the Second Plan period and thereafter, due to factors such as (i) increasing restrictions imposed by neighbouring countries in the East on current and capital payments which have made repatriation of profits and interest difficult, (ii) heavier taxation in India which has been discouraging inflow of earnings into India, (iii) greater profitability of reinvesting earnings abroad as in India and (iv) growing tendency to repatriate earnings through free market channels rather than official channels."

"Payments (on private account) have been increasing since the beginning of the Second Plan period.....The improved climate for foreign investment has led to increased foreign business investment and in turn increased dividend and interest payments."

7.17. It may be recalled that prior to the devaluation of the rupee in June, 1966, the overvaluation of the rupee was officially recognised as an important reason for the worsening of the position on the invisible account. It has been stated that the overvaluation of the rupee had given rise to leakage of foreign exchange through various anti-social practices, such as, sale of travellers' cheques in the un-

*This is also true of the last three years of the Third Plan.

official markets, remittances through unauthorised channels, retention of illegal earnings abroad, under-invoicing of exports and over-invoicing of imports, smuggling etc. Moreover, foreign investors who had earned substantial profits were able to remit their profits at the overvalued rate, thus involving the country in an undue drain of foreign exchange. Devaluation was expected to improve the country's position on the invisible account. Dealing with the effect of devaluation on invisible earnings and payments, the Finance Minister had stated in his broadcast of June 5, 1966, "Remittances into India will be encouraged and remittances out of India will be discouraged. The foreign exchange burden arising from repatriation of profits, capital and royalty payments by private foreign investors will automatically go down. On the other hand, new private investors who bring foreign exchange into the country will be able to realise more rupees and this would serve to encourage new foreign investment in the fields in which we desire it. Similarly, India will become more attractive to foreign tourists whereas foreign travel by Indians will become more costly and, therefore, less attractive." The Finance Minister, had also mentioned that as a result of devaluation anti-social practices, which resulted in leakage of foreign exchange through unofficial channels, would become "substantially less attractive and, therefore, less widespread."

7.18. Detailed data regarding the behaviour of invisibles during the year 1966-67 are not yet available. The following table, based on data contained in the Economic Survey, 1966-67, shows receipts and payments under invisibles during April-June and July-September, 1966:

Overall trends in Invisibles in the Quarters preceding and following Devaluation

	April-June 1966	July-September 1966
	(in million U. S. dollars)	
Receipts	97·9	77·3
Payments	138.8	122.9
Net	—41.0	—45.6

7.19. It is seen that while invisible payments during the three months following devaluation were smaller than in the quarter preceding devaluation, this was accompanied by a steeper decline in receipts with the result that the net outflow on the invisible account increased from 41 million U.S. dollars in April-June 1966 to 45.6

million dollars in July-September 1966. It may also be mentioned that receipts in July-September 1966 were about $7 million dollars lower as compared to the corresponding period of 1965.

7.20. The Committee note with concern the sharp deterioration in the country's invisible account during the Third Plan period. Invisible items were a net source of foreign exchange earnings in the preceding Plan periods, the annual average of net receipts from invisible (excluding official donations) being Rs. 78.2 crores in the First Plan period and Rs. 85.4 crores in the Second Plan period. However, during the Third Plan period, these items caused a net outflow of Rs. 278.7 crores, or Rs. 55.7 crores a year, from the country's foreign exchange resources. In fact, a declining trend in net earnings from this source had set in as far back as 1957-58 and had continued unchecked throughout the rest of the Second Plan period. The position was further aggravated during the Third Plan period when net receipts gave way to net payments.

7.21. The Committee also note the Ministry's admission that the continuing deterioration in the invisible account during the Third Plan period was due, inter alia, **to:**

(i) **Heavier taxation in India which discouraged inflow of earnings into India;**

(ii) **Greater profitability of reinvesting earnings abroad as compared with profitability of investment in India;**

(iii) **Growing tendency to repatriate earnings through free market channels rather than official channels and leakage of foreign exchange through various other antisocial practices, such as retention of illegal earnings abroad, sale of travellers' cheques in the unofficial markets, under-invoicing of exports and over-invoicing of imports, smuggling etc.**

7.22. From the limited data available it appears to the Committee that official expectations that devaluation would bring about an improvement in the invisible account by encouraging increased remittances and discouraging outward remittances as well as irregular practices resulting in leakage of foreign exchange through unofficial channels have not been fulfilled. On the other hand, the net outflow on account of invisible (current account) transactions during the three months following devaluation has, in fact been larger than in the preceding quarter, while recepits have been substantially smaller.

7.23. The Committee are of the view that the devaluation of June 5, 1966 by itself cannot reverse the adverse trend in invisi-

bles. They feel that the solution to the problem really lies in the adoption of fiscal and economic policies which would create a healthy climate for investment. The Committee need hardly stress this point as the Government have themselves recognised that the continuing and increasing losses on account of invisible items are in no small measure due to heavy taxation and relatively lower profitability of investment in India. They would, however, suggest that in addition to general measures for improving the climate for investment in the country, Government should devise special incentives to encourage (a) foreign companies to re-invest their earnings in India and (b) repatriation of foreign exchange earned or held abroad by Indian nationals.

7.24. So far as the problem of leakage of foreign exchange through various constituents of invisibles is concerned, the Committee have made certain suggestions for the more effective enforcement of exchange control in Chapter X.

C. Trends in Individual Items

7.25. The trends in respect of certain individual items constituting the invisible account which have significant potential for increasing the country's foreign exchange earnings are considered in the paragraphs that follow.

(i) *Foreign Travel*

(a) *Receipts and Payments*

7.26. The following table, based on data supplied by the Ministry of Finance, indicates receipts and payments on account of foreign travel during each year of the Second and Third Five Year Plans:

Foreign Travel—Second and Third Five year Plans

Year	Receipts	Payments	Net
	Second Plan (Rs. crores)		
1956-57	14.7	12.4	+2.3
1957-58	13.1	7.1	+6.0
1958-59	12.2	7.8	+4.4
1959-60	13.6	9.5	+4.1
1960-61	15.3	12.1	+3.2
	Third Plan (Rs. crores)		
1961-62	15.0	11.4	+3.6
1962-63	15.6	11.8	+3.8
1963-64	16.6	10.5	+6.1
1964-65	13.9	10.2	+3.7
1965-66	1.4	10.6	—9.2

7.27. With regard to the fall in receipts under foreign travel in 1964-65 and 1965-66 the Ministry of Finance have explained that the apparent decline is attributable to the incompleteness of the balance of payments statistics. In this connection it has been stated that to "reduce statistical burdens to manageable dismensions" banks have been exempted from recording the details of the purpose of a foreign exchange receipt obtained in the case of non-export transaction when the individual receipt is of less than £750 or Rs. 10,000 (before devaluation). For all amounts above these limits, the banks have to state the purpose for which the money was received. The preliminary figures recorded in the balance of payments statement as receipts under foreign travel show the total of only such large amounts where the bank knows and has classified the purpose as foreign travel. Travel receipts of smaller magnitude are merged with similar other small receipts, which are initially booked under 'miscellaneous receipts.' At the time of revising balance of payments data, the 'foreign travel' component of such unclassified receipts are segregated on the basis of the results of 'Travel Surveys', and necessary adjustments are made in receipts under "Travel" and "Miscellaneous" heads by the Reserve Bank. The Ministry have further clarified that the receipt figures for the Third Plan, shown above, are final for the first three years and partially revised for the fourth year. The figures for 1965-66 are apparently 'preliminary' and represent an incomplete allocation as between 'Foreign Travel' and 'Miscellaneous'.

(b) *Number of Tourist Arrivals*

7.28. In reply to a question, the Department of Tourism has furnished the following data regarding the number of foreign tourists visiting India in each year from 1956 to 1965:

Year	No. of tourists
1956	65,887
1957	80,544
1958	92,202
1959	109,464
1960	123,095
1961	139,804
1962	134,360
1963	140,821
1964	156,673
1965	147,900

7.29. According to the Department of Tourism, the decrease in the number of tourists in 1962 and 1965 "may be attributed partly to uncertain conditions in the country on account of external aggression." However, the *Ad-hoc* Committee on Tourism (1963) has pointed out that out of the decrease of 5,444 in tourist arrivals in 1962, as compared to 1961, a decrease of 3,444 had taken place during the first ten months of the year, that is before the emergency created by the Chinese aggression. Thus, the emergency or 'uncertain conditions on account of external aggression' had "only accentuated the decline which was already in evidence from the beginning of 1962" when conditions were completely normal.

7.30. Comparing the progress made by India in attracting tourists with that of certain other countries the *Ad-hoc* Committee on Tourism observed:

> "While there has been a steady increase in the number of tourists coming to India, the figure increasing from about 16,800 in 1951 to 139,804 in 1961, when we compare the figure with that of other countries, the picture does not appear to be at all bright. Italy got 18.9 million tourists in 1961 and earned $575 million or Rs. 359 crores. Britain earned $576 million or about Rs. 274 crores from tourists in 1961. Yugoslavia and Greece have performed what is regarded as a miracle in tourist circles, having increased their earnings by about 900 per cent, between 1952 and 1962. No doubt these countries have one major advantage over us, in that quite a large number of tourists come to them from neighbouring countries who have to spend relatively little on actual transportation costs and who do not have any foreign exchange restrictions on their travel. Countries in Asia are not equally well placed in this respect. But our performance, even in comparison with certain countries in Asia, which have taken special steps to encourage tourists, is by no means satisfactory."

7.31. The table below indicates the increase in India's tourist traffic between 1958 and 1964 *vis-a-vis* that of four other countries of Asia:

Country	No. of Tourist (in lakhs) 1958	1964	Annual Average Increase
India	0.92	1.56	12%
Thailand .	0.55	2.24	51%
Hongkong .	1.03	3.93	47%
Japan .	1.52	3.60	23

7.32. Emphasising the need for the development of foreign tourism in India to augment the country's foreign exchange resources, the Prime Minister, Shrimati Indira Gandhi, made the following points at a 'Round-table on Tourism' held in New Delhi on October 28, 1966:

(i) International tourism in world's single largest 'export' industry and enjoys the highest rate of growth. In 1965, 115 million tourists spent $ 12 billion.....India's share was a mere half per cent.

(ii) Tourism is now the leading industry in Eastern Europe. Yugoslavia, for example, has received over 12 million tourists in the first eight months of 1966. Last year its tourist earnings totalled 150 million dollars. By 1970, they hope to reach 500 million dollars.

(iii) Nearer home, the city of Bangkok alone attracts more tourists than the whole of India.

(iv) Only a fraction, say 10 per cent, or less, of the air and sea traffic transisting through India disembarks in the country. It should be our aim to capture a larger share of this existing transit traffic even if it is for short halts of a few days or the week-end.

(v) Given adequate organisation, facilities and publicity, there is no reason why India should not aspire to earn Rs. 200—Rs. 300 crores or more from tourism by 1975—80.

(c) *Measures to promote Tourism*

7.33. The programme for the development of tourism in the Second Five Year Plan aimed mainly at providing accommodation, transport and recreational facilities at some important tourist centres. The

very modest nature of this programme and its rather unenthusiastic implementation are admitted. As stated in the Third Plan Report, "considerable time was taken in finalising the schemes in the Second Five Year Plan. They were mostly in the nature of building projects and the progress had been rather slow except in Jammu and Kashmir where most of the provision of about Rs. 1 crore had been utilised."

7.34. In the Third Plan a provision of Rs. 8 crores was made for the development of tourism. Slightly less than one half of this amount was to be made available for schemes to be taken up by the Central Department of Tourism and for grants to the State Governments and the remaining amount was to be spent as part of the State Plans. The schemes in the Central sector were to provide for facilities at centres which were important from the point of view of foreign tourism while those in the State Plans were intended mainly for home tourism. It has been stated that as in the Second Plan, the programme in the Third Plan concentrated largely on provision of facilities for accommodation and transport. The Committee have been informed that the total expenditure incurred on the development of tourism during the Third Plan period was Rs. 4.63 crores which constituted 57.5 per cent of the total outlay. In reply to a question the Department of Tourism has stated that "the shortfall in expenditure was due to slowing down of the tourist schemes as a result of national emergencies declared twice during the Third Plan period. Some of the schemes had also to be dropped as a measure of economy."

7.35. The Draft Outline of the Fourth Plan makes a provision of Rs. 25 crores for tourism. Of this, Rs. 20 crores will be for programmes of the Central Department of Tourism and Indian Tourism Corporation and Rs. 5 crores for programmes to be taken up as part of the State Plans. In reply to a question, the Department of Tourism has stated that total earnings from tourism for the Fourth Plan period are tentatively estimated at Rs. 137 crores. The anticipated earnings in different years of the Fourth Plan are given below:

Year	Estimated earnings (including earnings from visitors from Pakistan)
	(Rs. crores)
1966	22.48
1967	24.68
1968	27.09
1969	29.75
1970	32.68
TOTAL	136.68

It has been stated that in making the above forecasts "the normal rate of growth i.e. 10 per cent annually has been assumed."

7.36. Among the measures taken recently for promoting foreign tourism in India mention may be made of the setting up of the Indian Tourism Development Corporation in October, 1966. The Corporation has been set up with an authorised capital of Rs. 5 crores by the merger of three Corporations—Indian Tourism Corporation, India Tourism Transport Undertaking and the Hotel Corporation of India. It will take over all the commercial activities of the Department of Tourism, which these three Corporations were carrying on since 1965.

7.37 It is recognised on all hands that until recently not enough was being done to attract foreign tourists to India. On the contrary, as stated in the Report of the *Ad-hoc* Committee on Tourism, "many things which we do, discourage the tourist from coming to India." Refernece has been made particularly to the number of time-consuming formalities which a tourist is subjected to and the lack of accommodation and transport facilities.

7.38 The Committee note that foreign exchange earnings from tourism have remained almost stagnant over the Second and Third Plan periods. Thus, total receipts from this source in 1963-64 amounted to only Rs. 16.6 crores as against Rs. 14.7 crores in 1956-57. Final figures for receipts under foreign travel in the last two years of the Third Plan are not yet available. However, in view of the decline in the number of tourist arrivals in 1965, there is hardly any ground to expect that receipts in 1965-66, the closing year of the Third Plan, could be higher than in 1963-64. From the data supplied by the Department of Tourism the Committee also note that the rate of increase in tourist traffic to India has perceptibly slowed down during the Third Plan period. The Committee feel that the poor progress made by India in attracting foreign tourists is primarily due to lack of recognition of the value of tourism in augmenting the country's foreign exchange earnings. The fact that the total expenditure on development of tourism during the whole of the Third Plan period was only Rs. 4.63 crores, or 57.5 per cent of the outlay proposed in the Third Plan, is itself an evidence of the low priority attached to this work by Government. The Committee cannot but regret that although the actual total outlay on the Third Plan was Rs. 1130 crores higher than what was originally proposed (i.e. Rs. 7500 crores) Government thought it necessary, for reasons of economy, to drastically curtail the Plan outlay on tourism development schemes which might have helped the country to earn much needed foreign exchange.

7.39. Keeping in view the remarkable progress made by a number of countries, notably, Yugoslavia, Thailand, Italy and Greace, in increasing their earnings from foreign tourism, the Committee have no doubt that given adequate organisation, facilities and publicity the amount of foreign exchange that India can earn through tourists can be increased considerably which can make substantial improvement in her balance of payments. The Committee feel that the present target for earnings from foreign tourists--Rs. 13.7 crores for the whole of the Fourth Plan period (i.e. 1966—71)—is far too modest and should be raised upwards. They also urge that Government should accord the highest priority to the development of tourism and take imaginative measures to attract an increasing number of foreign tourists to India with a sense of paramount urgency.

7.40. The Committee are of the view that the first task to which urgent attention has to be bestowed is that of ensuring that every tourist who comes to India, goes away satisfied and happy with his stay. This requires a speedy improvement of the facilities at our airports which are, as a rule, both the first and the last points of contact between the tourist and the country and a simplificaion of the formalities which a tourist has to comply with when coming and leaving, as well as during his stay in the country.

7.41. Secondly, urgent measures should be taken to augment hotel accommodation for tourists. It is understood that the present total bed capacity in hotels considered suitable for foreign tourists is less than 7,500 beds for the entire country. To reach a modest target of 300,000 tourists a year, an additional 7,500 beds would be needed. The Committee would like the Government to draw a firm plan for providing a minimum of 7,500 additional beds for foreign tourists within a short time. They need hardly stress that this can be achieved only through a concerted effort of both the private and public sectors.

7.42. Thirdly, efforts should be made to improve transport arrangements and shopping facilities for foreign tourists.

7.43. Lastly, publicity arrangements abroad should be strengthened to attract foreigners to India. Few countries in the world can offer such a wide range of attractions to the tourists as India with her ancient monuments, landscapes of exceptional beauty, opportunities for game and mountaineering etc. The need is to bring these to the notice of people in other lands. The Committee would like the Government to launch aggressive publicity campaigns abroad, particularly in the affluent countries, by such methods as

opening tourists offices, enlisting the cooperation of travel agencies and inviting foreign travel editors, leading broadcasting and T.V. personalities, columnists, authors, writers etc. to visit India as Government guests. Appropriate publicity efforts should also be made to attract a larger number of visitors from countries of the East for whose people India's holy places, especially those associated with the Buddha, are of special interest.

(2) *Transportation*

(a) *Receipts and Payments*

7.44. Receipts and payments on account of transportation during each year of the Second and Third Five Year Plans are indicated below. The data have been taken from written information furnished by the Ministry of Finance:

Year	Receipt	Payments	Net
	Transportation : Second Plan		
	(Rs. crores)		
1956-57 . .	46.2	16.1	+30.1
1957-58 . .	47.4	19.0	+28.4
1958-59 . . .	45.1	18.0	+27.1
1959-60 . .	45.1	21.5	+23.6
1960-61 . .	44.6	24.61	+20.0
TOTAL .	228.4	99.2	129.2
	Transportation : Third Plan		
1961-62 . .	47.6	26.5	+21.1
1962-63 . .	49.3	27.8	+21.5
1963-64 . .	57.4	28.5	+28.9
1964-65 . .	56.4	32.7	+23.7
1965-66 . .	53.5	27.8	+25.7
TOTAL .	264.2	143.3	+120.9

7.45. It is seen that while gross receipts from transportation have increased from Rs. 228.4 crores during the Second Plan period to Rs. 264.2 crores in the Third Plan this has been accompanied by a larger increase in payments from Rs. 99.2 crores in the Second Plan to Rs. 143·3 crores in the Third Plan. In the result, net earnings from this source declined from Rs. 25·8 crores a year during the Second Plan to Rs. 24·2 crores in the Third Plan. It may also be pointed out that the surplus on transport account is more apparent than real. This is because (a) as far as receipts are concerned, not all the estimated

reimbursements of freight on exports represent India's earnings; since a large part of the exports is carried in foreign ships and (b) since the country's imports are recorded mainly on a c.i.f. basis, freight payments figure under 'imports' and not under 'transportation' and to that extent payments under transportation are under-estimated. If these factors are also taken into account, the overall position under transportation may, in fact, show a considerable outflow from year to year.

(b) *Proportion of Foreign Trade carried by Indian Ships*

7.46. The table below indicates the proportion of India's foreign trade carried by Indian vessels in each year of the Second and Third Plans:

(Figures in lakhs)

Year	Total Import/Export tonnage of India's Foriegn trade	Import/Export tonnage carried by Indian ships	Percentage of (b) to (a)
1956-57 .	171.58	14.56	8.4
1957-58 .	228.13	16.66	7.3
1958-59 .	223.35	20.18	9.0
1959-60 .	222.38	21.34	9.6
1960-61 .	244.94	22.10	9.0
1961-62 .	232.17	26.04	11.2
1962-63 .	336.13	28.30	8.2
1963-64 .	337.43	34.92	10.3
1964-65 .	375.90	42.05	11.2
1965-66 .	429.00	55.00	12.9

7.47. It is seen that the import/export tonnage carried by Indian shipping companies has increased progressively from 14.56 lakh tonnes in 1956-57 to 55 lakh tonnes in 1965-66. However, the proportion of India's foreign trade carried by Indian ships at the end of the Third Plan was still only 12.9 per cent, the remaining being carried by foreign vessels.

(c) *Shipping-Targets and Achievements (Plan-wise)*

7.48. The targets and achievements in regard to shipping in each of the first three Plans are indicated below:

	Tonnage target	Tonnage in operation at the end of the Plan period	Tonnage under construction at the end of the plan period
	GRT	GRT	GRT
First Plan . .	6,00,000	4,80,000	1,20,000
Second Plan .	9,00,000	8,57,000	65,000
Third Plan (Original Target) . .	10,80,000	15,40,000*	5,00,000
Final Revised Target	13,20,000		

Explaining the progress in the development of shipping, the Ministry of Transport and Shipping have stated, "Taking into account the tonnage under construction at the end of each of the Plan periods, the targets set in the First and Second Plan periods were achieved during those Plan periods. The Third Plan period target was revised upwards but even the revised targets was far exceeded." The Ministry have further stated that the improvements in the tonnage target in the Third Plan period was possible for three reasons (i) within the allocated amount funds were available for purchase of more ships because of the deferred payment terms on which ships are to be bought, thereby reducing the initial outlay for procurement of ships in the Plan period, (ii) Second-hand ships were also bought which cost much less and, therefore, more tonnage could be added, (iii) a number of new shipping companies were also floated during the Plan period which were able to acquire tonnage.

7.49. The shipping development programme for the Fourth Plan envisages doubling of the tonnage in the country from 1.5 million grt. at the end of the Third Plan to about 3 million grt. at the end of the Fourth. Including replacement of obsolete tonnage aggregating to about 200,000 grt. the total addition to shipping tonnage during the Fourth Plan period is expected to be of the order of 1.7 million grt. According to the Draft Outline of the Fourth Plan, of the total addition of 1.7 million grt. about 200,000 grt. would be available from indigenous sources. The Outline places the cost of shipping development programme in the Fourth Plan at Rs. 267 crores. It adds, "Since ships to be procured from abroad are expected to be acquired on deferred

*This figure was supplied by the Ministry of Finance at the factual verification stage. The original figure supplied to the Committee was 1.5 million tons.

payment basis, the total payments over the period of the Plan including payments against past commitments are estimated at Rs. 140 crores. About Rs. 50 crores are expected to be provided from the balance available in the shipping development fund and the resources of the Shipping Corporation of India and a provision of Rs. 90 crores is made in the Plan for advances to the Fund."

7.50. In reply to a question the Ministry have informed the Committee that the foreign exchange earnings from shipping during each of the first three Plan periods were as under:

	Gross overseas earnings	Net foreign exchange earnings (at 33-1/3% of the gross earnings
	(Rs. crores)	(Rs. crores)
First Plan	55	18
Second Plan	118	39
Third Plan	221	74

Estimates of overseas earnings of Indian shipping during each year of the Fourth Plan are given below:

	Gross overseas earnings	Net foreign exchange earnings
	(Rs. crores)	(at 33-1/3% of gross earnings Rs. crores
	(at pre-davaluation rate of exchange)	
1966-67	75	25
1967-68	90	30
1968-69	105	35
1969-70	120	40
1970-71	135	45
TOTAL	525	175

7.51. The Ministry have explained that the above estimates are based on two assumptions (a) gross earnings of Rs. 5 crores per lakh of GRT employed in overseas trade and (b) the net addition of 1·5 million grt. to the overseas tonnage during the plan period would be spread out evenly over each year.

7.52. The Committee note that in 1965-66 Indian shipping with a total tonnage of 1.5 million grt. was able to carry only 12.9 per cent, or slightly more than one-eighth, of the country's foreign trade. Since dependence on foreign shipping for carrying the bulk of the country's overseas trade results in an enormous drain of foreign exchange from year to year, the Committee need hardly emphasise the importance of securing a speedy expansion of India's merchant navy. Apart from the fact that investment in shipping represents a 'must' for earning or saving foreign exchange the Committee feel that the case for the fast expansion of Indian shipping is further strengthened by factors such as:

(i) As Indian shipping is carrying at present only a Small portion of the country's large and expanding sea-borne trade gainful employment for Indian ships is reasonably assured.

(ii) Unlike some other projects with export potential there is no gestation period in respect of a vessel which starts earning from the day it is put into operation.

(iii) It has been authoritatively stated that if 'down payment' to the extent of 15 per cent to 20 per cent of the total price can be arranged, no additional burden in terms of foreign exchange is involved in the acquisition of new ships from abroad on deferred payment terms over 7-8 years. The net foreign exchange earnings of vessels so acquired pay fully for the capital cost of the vessels as well as the interest on the deferred instalments within the period of the deferred payment, and thereafter each vessel makes a distinct contribution to the country's foreign exchange pool.

7.53. The present Fourth Plan target for shipping is 3 million grt. As the volume of India's foreign trade is expected to increase considerably during the Fourth Plan period it would appear that even with the attainment of the proposed target Indian shipping would be able to carry only about 20 per cent of the country's foreign trade at the end of the Fourth Plan. In view of the considerations set out in the preceding paragraph the Committee suggest that the shipping development programmes for the Fourth Plan should aim at a higher target so that by the end of the Plan period (1970-71) India's merchant navy is able to handle at least one-third of the country's overseas trade. The Committee need hardly stress that the Government should aim at Indian shipping handling almost fifty per cent of the country's overseas trade as early

as possible. While any foreign exchange spent on the acquisition of ships from abroad would be fully justified by the larger earnings or savings in terms of foreign exchange that an expanded fleet would bring in, the Committee feel that the expenditure of foreign exchange on the expansion of shipping can and should be greatly reduced by the accelerating the development of the indigenoous ship-building industry. This aspect is considered at some length in the paragraphs that follow.

(d) *Ship-building Industry*

7.54. The Hindustan Shipyard, Vishakhapatnam—a Government of India Undertaking—is at present the only major ship-building unit, in operation, in the country. The shipyard was established in 1941. By the end of the Third Plan it is stated to have built and delivered 44 ships (including a few small craft) contributing to Indian shipping over 3,00,000 dead weight tons or about 2,30,000 gross registered tons. This was equivalent to about 15 per cent of the total tonnage under the Indian flag.

7.55. The table below indicates the actual achievements of the Hindustan Shipyard during the Second and Third Plan periods:

Year	Production	Value of ships constructed
	(in DWT)	(Rs. in lakhs)
Second Plan		
1956-57	15,330	290.93
1957-58	17,786	333.91
1958-59	7,197	333.73
1959-60	18,255	389.62
1960-61	9,582	456.33
TOTAL	68,150	1804.52
Third Plan		
1961-62	31,385	448.67
1962-63	24,773	483.68
1963-64	24,788	459.78
1964-65	13,426	417.52
1965-66	38,123	524.90
TOTAL	132,495	2334.55
Total for Second & Third Plan	2,00,645	4139.07

7.56. Thus, the total tonnage constructed at the Hindustan Shipyard during 1956—66 comes to 2,00,645 dwt. or about 1,53,000 grt. The total value of the ships constructed by the Shipyard during the decade comes to Rs. 41.39 crores. From the 14th Annual Report of the Shipyard it is seen that the number of ships delivered by it during this period was 26. This may be compared with the tonnage and the cost of ships acquired in the two Plan periods from abroad.

7.57. The table below, based on a statement furnished by the Government, indicates the number of ships purchased from abroad during the Second and Third Plans and their tonnage and price:

	No. of vessels acquired	G.R.T.	Price (Rs. lakhs
Second Plan	67	3,94082	5675·89
Third Plan . .	94	8,61703	7074·91
Total for Second and Third Plans . . .	161	12,55,785	12750·80

7.58. The Committee note that during the Second and the Third Plans, the Hindustan Shipyard—the only major ship-building unit in the country—was able to deliver only 26 ships. The total tonnage constructed by the shipyard during the decade was 1·53 lakhs grt., the aggregate value of the ships constructed being Rs. 41·39 crores. During the same period 161 vessels with a total tonnage of 12·55 lakhs grt. were acquired from abroad involving an expenditure of Rs. 127·50 crores in foreign exchange.

7.59. In their Survey Report on the Hindustan Shipyard M/s Dayashankar & Associates (Consultants) have stated that as against purchase of ships abroad construction of ships in India "could save upto 50 per cent. of foreign currency expenditure, in the purchase of ships, even at present rates of import content." From a statement furnished by the Government it is seen that the percentage of indigenous component of materials used in the ships constructed by the Hindustan Shipyard during the Third Plan period has varied from 12·68 to 29·97. In other words, the import content has been as high as 70.3 to 87.42 per cent.* It is obvious that considerable saving in foreign exchange could be achieved by intensification of the Indian ship-building programme and accelerating the pace of import substitution in the indigenous ship-building industry.

*At the factual verification stage the Ministry of Transport and shipping have stated that the percentage of imported and indigenous components in ships constructed by the Hindustan shipyard in 1967 has amounted to 68.23% and 31.77% respectively.

7.60. The working of the Hindustan Shipyard has been examined recently by the Committee on Public Undertakings (Third Lok Sabha) in their Thirty-seventh Report. In reply to a question the Government have informed the Estimates Committee that the reorganisation of the Hindustan Shipyard is proposed to be taken in hand to increase the production from two|three ships a year to six ships a year. To further augment the ship-building capacity in the country Government have lately sanctioned the establishment of a second shipyard at Cochin. It may be mentioned that the proposal to establish the Second Shipyard at Cochin was first approved by the Union Cabinet as far back as November 1959. The report submitted by M|s. Mitsubishi Heavy Industries Ltd. of Japan, which conducted an extensive basic survey of the proposed site for the Second Shipyard in Cochin, envisaged the construction of the project in two stages. In this connection, the Committee have been informed by the Ministry of Transport and Shipping that "The Project Report of the M.H.I. has since been considered by Government and taking into account the present trend in the bulk carriers|tankers, the future requirements of Indian Shipping, the pattern of India's seaborne trade, and the port facilities available in India, Government have decided to build in the Second Shipyard bulk carriers of 66,000 DWT class. Similarly considering the ship-repair facilities that would be needed for Indian ships, it is proposed to construct a repair dock to accommodate ships upto 85,000 DWT. It is now estimated that the revised cost of the Project will be Rs. 36 crores with a foreign exchange component of Rs. 5 crores. In the revised project as now envisaged the production would be confined to 2 ships of 66,000 DWT per year. It is expected that the building dock will be commissioned and the first keep laid on 1971-72. The first ship, it is expected will be completed and delivered in 1974-75. The ship-repair dock is expected to be completed and commissioned in 1973-74."*

7.61 In view of the considerable saving in foreign exchange that would accrue from the construction of ships in India the Committee consider it imperative that the development of the indigenous shipbuilding industry should be accorded the highest priority. They would like the Government to take urgent measures to promote efficiency and improve productivity at the Hindustan Shipyard whose performance so far has been far from satisfactory. Government should also take all requisite measures to ensure the speedy completion of the Second Shipyard at Cochin and its efficient working.

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*Vide Information furnished by the Ministry of Transport and Shipping at the factual verification stage.

7.62. As regards import substitution in the ship-building industry, the Committee have been informed that the Ship Ancillary Industries Committee has been set up specifically to advise Government on the measures to be taken for promoting the indigenous production of materials and equipment required by the ship-building and ship-repairing industries. That Committee has recommended *inter alia* that a phased programme of indigenous production of equipment should be drawn up and an order of priorities laid down so that India may attain a state of self-sufficiency. It was also recommended that a "Development Cell" should be set up jointly by the three public sector undertakings, namely the Hindustan Shipyard, the Garden Reach Workshops, Calcutta, and the Mazagon Dock, Bombay, and that they should pool their resources, and in consultation with the shipowners and manufacturers, decide upon the type, design and size of ships and their equipment and take necessary steps for development of items by placing advance orders. From the Ministry of Transport Report for the year 1966-67 it is seen that Government have issued orders constituting the "Development Cell" suggested by the Ship Ancillary Industries Committee.* The Committee have also been informed by the Ministry of Transport and Shipping that "Government have set up a high-powered Implementation Committee which will examine the recommendations made by the Ship Ancillary Industries Committee and take necessary steps for the speedy implementation of the recommendations with regard to the indigenous manufacture of various ancillary items in the country".

7.63. The Committee would like to stress that the need for accelerating the pace of import substitution in the ship-building industry has become all the more imperative in view of the higher cost of imports resulting from devaluation and the growing requirements of an expanded ship-building programme. The Committee urge that Government should lose no time in drawing up and executing a practical programme of indigenous production of materials, equipment and components needed by the ship-building industry so that the degree of dependence on foreign sources for the supply of these goods is substantially reduced within a short period, say in two to three years.

***Vide addition suggested by the Ministry of Transport and shipping at the factual verification stage.**

VIII

IMPORTS AND IMPORT SUBSTITUTION

A. Trends in Imports 1951—67

(1) *Imports during the First Three Plans*

8.1. The trends in imports during the first three Plans have been reviewed at some length in Chapter III. Briefly, imports rose sharply from an average of Rs. 730 crores a year during the First Plan to Rs. 1080 crores a year during the Second Plan (*see* para 3.45). It may be recalled that the steep spurt in imports during the Second Plan and the consequent depletion of the country's foreign exchange reserves led to an unprecedented foreign exchange crisis in 1957-58. Besides, to meet the payments arising out of excess of imports over exports, the country had to go in for external assistance on an extensive scale (see para 3.91). The main factors contributing to the foreign exchange crisis of 1957-58 were much larger imports or iron, steel and machinery, foodgrains and consumer goods than were provided for in the Second Plan document. (see paras 3.100 and 3.101).

8.2. During the Third Plan imports witnessed a further increase. According to the balance of payments data furnished by the Ministry of Finance (see paras 3.103 and 3.105) total imports during the Third Plan period aggregated Rs. 5988.5 crores which gives an average of Rs. 1197.6 crores a year. However, according to the customs data, quoted in the Draft Outline of the Fourth Plan, total imports during the Third Plan amounted to Rs. 6208.6 crores which means Rs. 1241.7 crores a year on an average.

(2) *Imports in* 1966-67.

8.3. Imports during the year 1966-67 amounted to $2691.1 million as against $2962.6 million during the previous year, showing a decline of 9 percent. In the twelve month period following devaluation, *viz.* June 1966—May 1967, total imports have been of the order of $2,717 million, that is $303 million or about 10 per cent lower as compared to the corresponding period of 1965-66. It may be mentioned that the decline in imports has occurred in spite of the policy of liberalised imports introduced soon after devaluation. In fact, import licences issued in the period subsequent to devaluation are stated to have been much higher in value than in the previous year. In the Report of the Central Board of Directors of the Reserve Bank for the

year ended June 30, 1967, the fall in imports since devaluation has been attributed to the following factors:

"First, there is normally a considerable lag between the issue of an import licence and its actual utilisation; thus the level of imports in the post-devaluation twelve months reflects the strict import policy pursued in 1965-66 rather than the effects of the recent liberalisation.

Secondly, the liberalisation resulted in virtual disappearance of premia on import licences and with the simplification in procedure, the need for excessive inventories was obviated.

Thirdly, the higher costs of imports consequent to devaluation necessitated a reassessment of production plans based on imported inputs.

Fourthly, the recessionary conditions in some industries were reflected in a decline in the demand for imported inputs."

B. Import Policy

8.4. In Chapter III the Committee have drawn attention to the absence, during the years 1948—61, of a purposive import policy aimed at ensuing the most beneficial use of available foreign exchange resources in accordance with well-defined priorities (see para 3.97). During the period 1948—55 substantial amounts of foreign exchange were spent on the import of 'consumer goods other than food' which included many non-essential items. The successive liberalisations of import policy during the last two years of the First Plan were an important cause of the foreign exchange crisis of 1957-58 (see paras 3.98 to 3.100).

8.5. It has been stated that during the Third Plan period there was a progressive tightening of import restrictions. This was intended along with other measures (such as various forms of assistance to exports, curb on foreign travel etc.) to correct the disequilibrium in the balance of payments which had persisted since the commencement of the Second Plan. Further, to reinforce the physical restrictions by fiscal rstraints, the cost of imports was put up by progressive increases in import duties. Thus, in February 1965 a regulatory import duty of 10 per cent *ad valorem* was imposed on all imports except foodgrains, fertilisers, pesticides, books and accessories for family planning. Inspite of these restraints imports reached a record level of Rs. 1349* crores in 1964-65 marking an increase of Rs. 127 crores over the previous year. The heavy pressure on reserves which

*Vide customs data quoted in the Draft outline of the Fourth Plan.

was caused by this in 1964-65* necessitated further tightening of import restrictions in the subsequent year.

8.6. On account of the uncertainty regarding the availability of foreign aid, the import policy announcement for 1965-66 was postponed by three months, and the issue of fresh licences against free foreign exchange resources during April-June, 1965 was severely restricted. The difficult balance of payments position, in fact, necessitated the imposition of two months' ban (July—August 1965) on fresh licensing of imports except for food and defence. By the import policy announced in July 1965 imports of about 60 items, including, among other, spare parts of oil crushing and refining machinery, petroleum and gas engines, motor vehicle parts, well-drilling equipment etc., all indigenously produced, were completely banned and quotas for a few others reduced. The Supplementary budget of August, 1965 made an across-the-board rise in import duties. It has been stated that the increases in duties, "besides raising additional revenue were aimed at rationalising the tariff structure so as to suit the requirements of planned development and help import substitution". Despite the restrictive import policy the balance of payments position continued to be critical during the first four months of 1965-66. The situation was further aggravated following the sudden pause in external assistance soon after the outbreak of Indo-Pak. conflict. As a result a drastic reduction in the import bill had to be made in the latter half of 1965-66. As pointed out in Chapter IV, the severe cuts in imports created difficulties for sectors of industry dependent on imports and it became increasingly evident that it would not be possible "to continue import restrictions on the same scale as in 1965-66 without inviting the danger of a substantial fall in industrial production". (see para 4.2). Devaluation was expected to be followed by resumption of foreign aid which had in the circumstances become indispensable for financing the much needed imports (see paras 4.32 and 4.81).

8.7. Following the devaluation of the rupee in June 1966 a new policy of liberalised imports was initiated with the help of non-project aid from Consortium countries. Under this policy, 59 priority industries were assured supplies of imported raw materials, components and spares required for production upto full capacity for six months. Certain raw materials (raw hides and skins, tanning substances and cashewnuts) needed primarily for export production were allowed to be imported on open General Licence. A special scheme for registered exporters was introduced in August 1966 to replenish the import content in terms of raw materials, components and spares against the exports of specified products. The basic aim of the new

*Vide customs data quoted in the Draft outline of the Fourth Plan.

import policy has been stated to be "to provide imported raw materials, components and spares so as to sustain higher production levels in export-oriented and other essential industries." The import liberalisation, initiated originally for six months, was later continued further during the remaining months of 1966-67. The Committee have been informed that under the import policy for 1967-68, announced in May 1967, licensing for the priority industries has been "further simplified and an element of continuity introduced by enabling units in the priority sectors to obtain further licences as and when necessary."

C. Structure of Imports during Third Plan Period

8.8. Details regarding the structure of India's imports during the first two Plans have been indicated in Chapter III (see paras 3.49 to 3.52). The table below, reproduced from the Draft Outline of the Fourth Plan, indicates the trends in imports of principal commodities during the Third Plan period as compared to 1960-61, the last year of the Second Plan:

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	Total Third Plan 1960-61
1	2	3	4	5	6	7	8
cereal and cereal preparations	181.4	117.9	144.3	179.6	282.1	309.1	1033.0
Cashewnuts of which: PL 480 foodgrains	150.0	71.0	112.0	173.0	225.0	268.0	849.0
Cashewnuts	9.6	6.7	9.1	10.9	16.4	15.1	58.2
Raw cotton other than linters	81.7	62.7	56.9	49.0	58.0	46.2	272.8
Jute raw	7.5	5.3	3.0	1.9	7.3	5.6	23.1
Fertilizers crude and manufactured	12.1	15.0	30.0	37.6	32.9	44.8	160.3
Mineral fules, lubricants and related materials	69.5	95.9	88.0	104.5	68.7	68.3	425.4
Chemical elements and compounds	39.3	35.6	38.1	32.1	34.0	35.8	175.6
Medical and pharmaceutical products	10.5	11.3	9.3	8.6	8.2	8.8	46.2
Dying, tanning and colouring materials	10.5	14.5	12.1	8.0	9.2	6.6	50.4

1	2	3	4	5	6	7	8
Synthetic Plastic materials . . .	5.7	7.8	6.5	4.7	6.5	5.8	31.3
Crude rubber and rubber manufactures . .	14.0	13.6	12.0	11.7	6.8	6.0	51.1
Paper, paper board and manufactures thereof	12.1	16.0	13.6	12.5	13.1	13.4	68.6
Art Silk yarn	11.1	9.4	7.1	3.5	2.7	0.8	23.5
Base metals	169.9	157.3	144.2	148.2	163.4	166.4	779.5
(i) iron and steel	122.6	108.0	89.0	93.3	105.0	97.8	493.0
(ii) non ferrous metals	47.3	49.3	55.2	55.0	58.4	68.6	286.5
Machinery and parts thereof . . .	260.6	304.2	315.3	365.9	404.2	419.5	1809.1
Transport equipment .	72.4	64.6	72.0	71.0	73.5	70.0	351.2
Others	171.8	169.3	174.1	173.1	162.0	171.8	850.3
Total imports	1139.7	1107.1	1135.6	1222.9	1349.0	1394.0	6208.6

8.9. It is seen that the major increases in imports during the Third Plan period were in respect of cereals, fertilisers and machinery, spares and components. The trends under major heads of imports are brifley described in the following paragraphs:

(i) *Cereals and other agricultural imports*

8.10. Imports of cereals and cereal preparations showed a continuously rising trend from Rs. 117.9 crores in 1961-62 to Rs. 309.1 crores in 1965-66. Total imports of cereals and cereal preparations during the Third Plan amounted to Rs. 1033 crores. Other major agricultural imports during the Third Plan were cotton and raw jute, total imports of which during the Plan period amounted, respectively, to Rs. 272.8 crores and Rs. 23.1 crores. The aggregate value of imports of food, cotton and jute during the Third Plan period would thus work out to Rs. 1328.9 crores. It may be mentioned that according to Import|Export data given in the Draft Outline of the Fourth Plan the total trade deficit during the Third Plan period was of the order of Rs. 2396 crores. It

would be seen that but for the imports of food, cotton and raw jute the trade deficit would have been of a much smaller magnitude of about Rs. 1067 crores.

8.11. It is recognised on all hands that the large scale imports of foodgrains and other agricultural commodities were an important factor contributing to the balance of payments difficulties in the Third Plan. As stated in the Supplement to the Economic Survey 1966, although the bulk of these imports had been financed by aid under PL 480 these had, nevertheless, put a pressure on the country's balance of payments as "a substantial amount of free foreign exchange resources had to be committeed for commercial purchases of wheat and rice, freight payments on these as well on PL 480 imports, imports of raw jute, raw cotton and vegetable oils." In 1965-66 alone, free foreign exchange expenditures on commercial purchases of food and freight on food shipments amounted to Rs. 66 crores ($138 million).

(ii) *Base Metals*

8.12. *Iron and Steel*: Imports of iron and steel declined during the first two years of the Plan but increased in the following two years. There was again a decline in these imports during the last year of the Plan. Total imports of iron and steel during the Third Plan period amounted to Rs. 493 crores, giving an average of Rs. 98·6 crores a year as compared to an annual average of Rs. 113 crores during the Second Plan period. It has been stated that India's imports of iron and steel showed a continuously rising trend from 1½ lakh tons in 1951-52 to 1·7 million tons in 1957-58. Thereafter the rate of imports declined somewhat to 1·2 million tons a year for the rest of the Second Plan period. During the Third Plan period iron and steel imports amounted to roughly 1 million tons a year. Bulk of the imports consisted of mild steel with special and alloy steel making up the balance. It has been stated that with the increase in the domestic production of finished steel from 1 million tons 1950-51 to 4·4 million tons in 1965-66, the proportion of imported mild steel in the total availability declined from 41 per cent at the beginning of the Second Plan to 18 per cent at the end of the Third Plan.

8.13. *Non-ferrous metals.*—In the case of non-ferrous metals the trend in imports was continuously upward during the Third Plan period. Total imports during the Plan period amounted to Rs. 286·5 crores. The annual average works out to Rs. 57·5 crores as compared to Rs. 35 crores during the Second Plan period.

(iii) *Machinery and Equipment*

8.14. It is seen that total imports of machinery, spares and transport equipment amounted to Rs. 2160 crores during the Third Plan period. Of this total, a sizeable amount is stated to have consisted of replacement machinery and spares. For a clearer picture it would be desirable to consider imports of (a) complete machinery and equipment and (b) maintenance goods, separately.

8.15. The following table, reproduced from a Ministry of Commerce publication indicates the trends in import of complete machinery and equipment and maintenance inputs during the Third Plan period:

(Value in crores of Rs.)

Head	1961-62	1962-63	1963-64	1964-65	1965-66	Total
1. Complete machinery and equipment.	197.14	196.70	215.11	207.17	208.62	1024.74
2. Maintenance Imports						
(a) Raw materials, components and intermediate goods for Machine Building Industry	189.29	204.03	223.57	275.70	285.59	1178.18
(b) Raw materials, components and intermediate goods for all other industries, projects and services excluding Machine Building Ind.	385.38	382.89	386.16	363.28	369.92	1887.63
(c) Metals	145.07	128.63	142.40	162.92	166.28	745.3
Total 2 (a b & c)	719.74	715.55	752.13	801.90	821.79	3811.11

8.16. It is seen that total imports of complete machinery and equipment during the Third Plan period amounted to Rs. 1024.74 crores. Imports under this head rose from Rs. 197 crores in the first two years of the Plan to Rs. 215 crores in the Third year, but came down to around Rs. 208 crores in last two years. It has been stated that "In the field of construction of heavy machinery and production of basic materials, Government had a larger share reflecting the increase in aid utilisation and correspondingly the acceleration in public sector investment. Important public sector projects which had been carried over the Second Plan to the Third Plan period and

which required import of complete machinry included Heavy Machinery Plant and Foundry Forge Plant at Ranchi, Mining Machinery Plant at Durgapur, steel projects, fertiliser plants. etc."

8.17. Imports under the group 'complete machinery and equipment' consisted of non-electrical machinery; electrical machinery apparatus and appliances, tele-communication apparatus; transport equipment; tools; and scientific, optical, measuring and controlling instrument and apparatus. The bulk of the imports during the Third Plan were accounted for by (i) non-electrical machinery (ii) electrical machinery, apparatus and appliances and transport equipment. Year-wise imports of these items are indicated below:

Rs. crores

	1961-62	1962-63	1963-64	1964-65	1965-66	Total
(i) Non-Electrical Machinery	108.35	106.45	124.03	121.22	134.72	594.77
(ii) Electrical Machinery Apparatus & Appliances .	48.16	43·94	55.89	53.04	44.32	245.35
(iii) Transport equipment	12.38	15.69	6.51	0.51	0.13	35.22

(iv) *Maintenance of Imports*

8.18. It is seen that there was a rising trend in maintenance imports. Imports of this category aggregated Rs. 3811:11 crores during the Third Plan period and constituted about 60 per cent of the total import trade of the country. It is to be noted, however, that while maintenance imports for Machine Building Industries rose steadily from Rs. 189·29 crores in 1961-62 to Rs. 285·59 crores in 1965-66, those for 'other industries' showed a decline in the last two years of the Plan.

(v) *Imports of consumer goods other than cereals*

8.19. It has been stated that imports of consumer goods other than cereals and cereal preparations were reduced to the barest minimum during the Third Plan period. Imports of this category constituted only 1·1 per cent of total imports during the Plan period.

D. Fourth Plan Estimates of Imports

8.20. In the Draft Outline of the Fourth Plan the total requirements of imports during the Fourth Plan, excluding PL 480 imports have been estimated at Rs. 7650 crores in pre-devaluation rupees (or Rs. 12,049 crores in post devaluation rupees). Of this, the requirements of maintenance imports, including imports of components needed for the domestic manufacture of machinery and equip-

ment as well as imports of replacement machinery and spares, have been put at Rs. 5200 crores at pre-devaluation rate of Rs. 8190 crores in post-devaluation rupees. The remainder—Rs. 2450 crores in pre-devaluation rupees or Rs. 3859 crores in post-devaluation rupees is accounted for by project imports, comprising mainly whole machinery and equipment required for the implementation of the projects included in the Plan. According to the Draft Outline the great bulk of the requirements for project imports is accounted for by the three sectors of industries and minerals, transport and communications and irrigation and power. Together, their project import requirements are expectd to constitute about 90 per cent of the total.

8.21. It has been stated that the greater part of the requirements of maintenance imports during the Fourth Plan period—about two-thirds of the total—would be on account of iron and steel, non-ferrous metals, petroleum and petro-chemical products, fertilizers (including fertilizer raw materials), and components and spares for machinery and transport equipment. As for the year-to-year phasing, the Draft Outline of the Fourth Plan states, "It is expected that imports of iron and steel, non-ferrous metals, fertilizers and fertiliser raw-materials, and components and spares for machinery and transport equipment will increase appreciably in the course of the Plan period. On the other hand, imports of petroleum and petroleum products and vegetable oils are not expected to register any significant increase over the present levels. Again, in the case of chemicals, drugs and dyes, textile fibres and paper, paperboard and newsprint, imports are likely to decline moderately in the course of the Plan period.

8.22. The estimates of maintenance import requirements in the Draft Outline of the Fourth Plan are based on a number of assumptions. First, it has been assumed that steps will be taken to ensure that the targets of production set out in the Plan are fully realised. To the extent there is any slide-back in the Plan schedule of production from year to year, particularly important sectors like steel and fertilisers, the requirements of maintenance imports will increase. A second assumption is that the present restrictions on imports of consumer goods—durable as well as non-durable—will continue during the Plan period. Thirdly, as for raw materials, required by consumer goods industries, it has been postulated that imports of raw materials for these industries will also continue to be restricted except to the extent they are specifically required for the production of export commodities. Fourthly, in regard to non-

ferrous metals for which India has inadequate or no natural resources, it is assumed that all possible measures will be taken to economise their use by the adoption of processes which require less of these metals per unit of output and by the substitution of imported metals by domestically produced metals, *e.g.*, zinc and copper by aluminium. Fifthly, in regard to capital goods industries, the assumption is that, in pursuance of the policy of import liberalisation, the demand of these industries for imported raw materials and components will be met in full. At the same time, it is expected that effective and prompt policy measures would be taken to ensure the maximum use of indigenously produced machinery. It will also be necessary to ensure that, in regard to the components themselves, a progressively larger part of the supply comes from domectic manufacturers, and the import content of whole machinery produced in the country is significantly reduced.

E. Measures to effect savings in Imports

(1) *Need to curtail Imports*

8.23. It has been stated that for quite some time past, most of the machinery and equipment has been imported only on the basis of finance provided by foreign aid. According to the Economic Survey, 1966-67, net external aid financed 37 per cent of the India's commodity imports during the Third Plan compared to 27 per cent during the Second Plan. It is well know that the country has to pay higher prices than those ruling in the world market for commodities which are required to be imported from the aid-giving countries under the terms of aid. For instance, the Draft Outline of the Fourth Plan itself admits that "the restricted choice in the procurement of imported capital equipment against tied credits has been a factor contributing to the upward revision of project costs." Asked in the course of official evidence whether in cases of imports financed by tied aid Government tried 'to bargain with the aid-giving country pointing out that their rates are higher compared to other countries', the representative of the Ministry of Supply and Technical Development stated, "wherever possible an effort is made, but very often we are unable to bring rates down substantially, because they say this is the price at which they can offer."

8.24 The Committee note that due to the increasing dependence on foreign aid to finance imports the country has to pay a much higher price for its imports of machinery and goods than would be the case otherwise. In view of this and the persistent balance of payments difficulties the Committee urge the Government to take well thought out and determined measures to keep down imports

to as low a level as possible consistently with the requirements of food, defence and economic development.

8.25. There are many ways in which savings in imports can be effected. In the paragraphs that follow, the problem is being considered broadly under the following heads:

(i) Import Substitution,

(ii) Project imports,

(iii) Imports of goods indigenously produced, and

(iv) Import of non-essential goods.

(2) *Imports Substitution*

2.26 The importance of import substitution in conserving foreign exchange and accelerating economic development can hardly be over-emphasized. The Committee would, however, like to caution against idiscriminate import substitution which might either result in production of excessively high cost goods or entail dissipation of scarce resources by their application to the production of relatively non-essential commodities. Keeping this in view, the Committee would like the Government to formulate a well defined import substitution policy which would aim on the one hand at speedy achivement of self-reliance in selected spheres and on the other at preventing the diversion of resources to non-priority areas.

(i) *Agricultural imports*

8.27. The greatest scope for import substitution lies obviously in the field of agriculture. The Committee note that imports of cereals; cotton and raw jute during the Third Plan period amounted to Rs. 1328:9* crores. They would like to add that had it been possible to avoid these imports, the total trade defiicit during the Third Plan period would have been only about Rs. 1067 crores as against the actual trade deficit of Rs. 2396 crores. It is evident that the continuing balance of payments difficulties of the country have been largely due to the failure in the key sector of agriculture and cannot be explained away—as is some time done—as an inevitable feature of economic development. The Committee would, therefore, like to reiterate the urgent need for all-out efforts to develop agriculture so that the country may be able to dispense with imports of cereals and other agricultural commodities, such as cotton, jute and oilseeds etc., at an early date.

*For break-up of this figure into food, cotton and iute imports please see para 8.8.

(ii) *Maintenance Imports*

8.28. The Committee note that during the Third Five Year Plan maintenance imports, valued at Rs. 3811 crores, accounted for about 60 per cent of the country's import bill. Maintenance imports for Machine Building Industries registered a marked rise. In fact, the value of such imports during the Third Plan period (Rs. 1178.18 crores) was considerably higher than that of imports of complete machinery and equipment (Rs. 1024:74 crores). Imports of non-ferrous metals also showed an upward trend their total value for the Plan period being Rs. 286.5 crores. Iron and steel imports, though marginally lower than during the Second Plan, were still sizeable and entailed an outflow of Rs. 493 crores during the Third Plan period. Imports of fertilizers also registered a significant increase (from Rs. 15 crores in 1961-62 to Rs. 44.8 crores in 1965-66), their aggregate value during the Plan period being Rs. 160.3 crores. In the Draft Outline of the Fourth Plan, maintenance import requirements for the Fourth Plan period have been placed at Rs. 8190 crores in post-devaluation terms. It has been estimated that nearly two-thirds of this total would be accounted for by imports of iron and steel, non-ferrous metals, petroleum and petro-chemical products, fertilisers and components and spares for machinery and transport equipment.

8.29. The Committee are greatly concerned at the growing volume of maintenance imports required to keep the country's industries running. It cannot be gainsaid that with her difficult balance of payments position the country can ill-afford this recurring drain on her foreign exchange resources. The Committee feel that the present situation necessitating heavy maintenance imports is mainly due to faulty planning. Had greater priority been given in the Five Year Plans to the development of basic raw materials, intermediates and ancillary industries concurrently with the setting up of basic and heavy industries on a phased basis, the country's industrial growth would have been basically sound and the requirements of maintenance imports would have been much lower.

8.30. A conspicuous example of bad planning is provided by the steel industry. From the Economic Survey 1966-67, the Committee note that output of finished steel in April—December 1966 was lower than in the corresponding period of the previous year, but unsold stocks rose sharply. The position is known to have further worsened in recent months. Thus, while the indigenous steel industry is faced with a serious marketing problem, the country continues to spend sizeable amounts of foreign exchange every year on the import of certain varieties of steel. This situation could have been

avoided had the development of the steel industry been planned realistically to suit the pattern of domestic demand.

8.31. The Committee hope that Government would lose no time in rectifying these anomalies of planning and initiating imaginative import substitution measures with a view to minimise imports of iron and steel, non-ferrous metals, components and spares for machinery and transport equipment, fertilisers and petroleum and petro-chemical products. They would like to stress that wherever possible, the objective of replacing imports should be achieved by diversifying the pattern of production in existing units. In this connection the Committee would also like to draw the attention of the Government to the recommendations made by them in regard to the development of certain important industries (such as, heavy engineering industries, non-ferrous metals, special steel and fertilisers) and import substitution in Chapters II and IV (paras 4.19 and 4.20) of their Ninth Report (Fourth Lok Sabha) on the Ministry of Industrial Development and Company Affairs—Industrial Licensing.

(3) *Project Imports*

8.32. The Economic Survey 1966-67 points out that at present, the rate of utilisation of capacity in some of the newly created engineering industries is not high. Particularly affected by insufficient demand are such industries as railway wagons, commercial vehicles, light and heavy structurals, industrial boilers, castings and forgings, machine tools, thermal and hydro-generation sets etc. The Survey also notes that although the annual growth rate in capital goods industries during the last 3 years was less than half that secured in the early sixties marketing had become a recognisable problem in several capital goods industries. It further states that in the field of infrastructure, mainly transport and power, considerable expansion has taken place and although further investment will be required as the economy develops the present position is not one of accumulated arrears. On the whole the railways have a comfortable margin of excess carrying capacity. As regards electric power, with the commissioning of 18 new stations during 1966-67, the total generating capacity is stated to have expanded by about 12 per cent. The generating capacity is expected to be further expanded appreciably in the near future as a result of the commissioning of a number of power projects which are in an advanced stage of construction.

8.33. As noted earlier in this Chapter, project imports for the Fourth Plan are estimated to cost about Rs. 3859 crores in post-devaluation rupees. The great bulk of these requirements is ac-

counted for by the three sectors of industries and minerals, transport and communication and irrigation and power.

8.34. In view of the problems of idle capacity and unsold stocks in the capital goods industries, the Committee feel that project imports for the Fourth Plan can be pruned to a level considerably below that envisaged in the Draft Outline of the Fourth Plan. The Committee hope that in sanctioning new projects Government would take care to ensure that excessive capacity, involving wasteful blocking up of rupee or foreign exchange resources, is not created in any sector. They would also like to stress the need to ensure the maximum use of existing capacity in the machine-making industries to meet the requirements of new projects.

(4) *Imports of Goods Indigenously Produced*

8.35. In Chapter IX the Committee have drawn attention to the fact that in many cases public undertakings had placed orders abroad for items which (or whose close substitutes) were indigenously available. It is well known that both the public and the private sectors in India, traditionally prefer imported machinery, parts or components. The reasons for this preference have been succintly brought out in the Report on the Annual Plan 1967-68. Explaining that the under-utilization of capacity in the engineering industries is in large measure due to lags in the switch over from foreign to domestic sources for the supply of plant and equipment, the Report states:

> "As was natural, in the initial stages of industrialisation, the bulk of the required plant and equipment had to be imported. However, particularly as from the launching of the Second Plan, significant progress has been made with the creation of machine-building capacity. By the beginning of the Fourth Plan period, the country had reached the stage when a rapidly rising proportion of capital goods requirements could be met from domestic sources. There are, however, problems in the way. During the period of large scale import of plant and equipment contacts have been established and built-in preferences have been developed which tend to favour reliance on foreign suppliers rather than domestic sources. Availability of foreign credits and investments for the purpose, on the one hand, and the inconvenience and risks involved in resorting to domestic sources, on the other, also work in the same direction. A determined planning and organisational effort to overcome all these adverse factors is

now urgently required if full use is to be made of domestic machine building capacity which has been built up at great cost in foreign exchange and rupee resources. The insufficient utilisation of this capacity has, for some time now, been a factor hampering growth of industrial production. The problem has been under active consideration for sometime and the Government contemplate a number of fiscal, monetary, administrative and other measures to help the capital goods industries suffering from insufficient demand by promoting the exports and domestic offtake of their products."

8.36. The Committee entirely agree with the views and suggestions contained in the above excerpts from the Annual Plan 1967-68. They would only like to add that built-in preferences for imports exist not only in regard to capital goods but also other materials, spares and components. The Committee hope that Government would soon initiate concrete measures, on the lines suggested in the above passage from the Annual Plan 1967-68, to curb the imports of goods which (or whose close substitutes) are available indigenously.

(5) *Imports of Non-Essential Goods*

8.37. Dealing with import substitution an eminent economist has stated that "Through import substitution in consumer goods production (not necessarily of the type of 'necessaries') we have become increasingly dependent on imports of materials, spares and components, this dependence being considered 'crucial' because if their imports are cut the existence of certain industries is threatened".

8.38. It has been noted earlier in this chapter that imports of consumer goods other than cereals and cereal preparations constituted about 1·1 per cent of the country's total imports during the Third Plan period. Precise data regarding expenditure of foreign exchange on non-essential consumer goods have not been furnished to the Committee. In reply to a question the Ministry of Finance have stated, "Figures of foreign exchange spent on essential or non-essential consumer goods are not available. However, due to difficult foreign exchange situation imports of non-essential consumer goods have been reduced to the minimum". In reply to another question the Ministry have stated, "Imports of raw materials and spares of non-essential luxury commodities are even at present of marginal value. This will further decline during the Fourth and Fifth Five Year Plans and except for such raw materials which are not available in the country, it should be possible to do away with imports

and the marginal imports required of such raw materials which are not available will be more than made good by exports of such non-essential luxury commodities."

8.39. From the 'Brochures of Statistics Imports and Exports—Third Five Year Plan', brought out by the Ministry of Commerce, it is seen that consumer goods, such as, perfumery, cosmestics and toilet preparations, glassware, cutlery and pottery, photographic cameras, television broadcast receiver sets, radio and transistor receiver sets, radio phonographs, watches and clocks, toys, games and baby carriages, etc., have been listed under the category "Essential finished goods." The Brochure also indicates that sizeable amounts of foreign exchange have been spent for imports of raw materials and components for a number of items which can hardly be treated as 'essential'. These include spares and components for domestic refrigerators, domestic washing machines and electro-mechanical appliances, television and radio broadcast receivers; sanitary, plumbing, heating and lighting fixtures and fillings, zip fasteners, studs and fancy carved articles, etc.

8.40. In Chapter V the Committee have stressed that an essential pre-requisite for an effective restraint on consumption is to ban the production of non-essential goods as well as imports of such goods and raw materials required for the manufacture thereof. The need for this has been recognised in the Plan documents but the objective has never been seriously pursued. The Committee have, in that chapter, urged the Government to take effective measures to ensure that scarce resources—whether domestic or external will not hereafter be allowed to be diverted for producing goods and services which have no relevance to the needs of the common people or to the requirements of economic development.

8.41. The Committee would like to emphasise that in view of the acute overall shortage of resources, Government should take positive measures to discourage the establishment of low priority industries, particularly if foreign exchange is required not merely for initial establishment but also for maintenance of production subsequently.

8.42. The Committee would also like to express their disagreement with the categorisation of items like domestic refrigerators, domestic food processing appliances, T.V. sets, toys, wash-basins, etc., as 'essential' goods. They feel that in the context of the difficult foreign exchange position there can be no justification for spending foreign exchange on imports of consumer goods which cannot be classed as 'necessaries' for the common people.

IX

FOREIGN EXCHANGE BUDGETING

A. Need for Foreign Exchange Budgeting

9.1. The nature of foreign exchange budgeting and the need therefor have been explained in a note furnished by the Ministry as follows:

> "A foreign exchange budget is primarily an estimate of receipts and expenditures of foreign exchange for a given future period. For a rational operation of any system of foreign exchange control, a knowledge of expected exchange availabilities and expenditure is essential for a country attempting to ration the use of its available resources. Such account of the exchange transactions takes the form of a forecast of a country's balance of payments for that period of time."

9.2. The introduction of foreign exchange budgeting in India was first necessitated after World War II by the blocking of her sterling balances by the U.K. Government, and the first foreign exchange budget was prepared for the shipping period July—December, 1947. It has been stated by the Ministry that with the improvement in India's balance of payments position, the system of foreign exchange budgeting "fell into desutude after 1953", but when the strain on the country's foreign exchange resources became acute from the beginning of the Second Plan period, foreign exchange budgeting had to be reintroduced in 1957.

9.3. In the course of official evidence it was pointed out to the representative of the Ministry that India's overall balance of payments in 1954-55 had shown a deficit of Rs. 18:1 crores; in 1955-56, there was a small surplus of Rs. 10:5 crores but this was possible only with official loans and donations amounting to Rs. 61·3 crores. Asked whether, in view of the balance of payments position in 1954-55 and 1955-56, foreign exchange budgeting should not have been discontinued, the representative of the Ministry stated, "There was no reason for the system being discontinued as such. Actually, this fell into desuetude in the sense of lapse from being fully prepared, but there was no concrete case for its being given up." In reply to a further question he agreed that" in a planned economy foreign exchange

budgeting should be done on a regular basis keeping in view the long term requirements of the economy to the extent one can see them."

9.4. That the discontinuance of foreign exchange budgeting during 1953—57 was a mistake has been admitted at the highest level. Speaking in the Lok Sabha on March 18, 1958, the Late Shri Jawaharlal Nehru, then Prime Minister, stated:

> "We used to have a kind of foreign exchange budget some years ago. It is not quite clear to me how it lapsed. It lapsed about four five years ago I forget when, partly I suppose because we were actually gaining in foreign exchange and there was a certain period of boom and a period of optimism—the first Five Year Plan succeeded and there was more production, more agricultural production—and so it lapsed. It was wrong that it lapsed, but there it was. Therefore, different Ministries went on budgeting things and nobody knew the entire picture for some time, neither the Planning Commission nor the Finance Ministry. Since the beginning of 1957, a strict budgeting of foreign exchange is now kept."

9.6. It has been stated by the Ministry that under the present **budgeting during 1953—57. As foreign exchange is a key resources for development the Committee cannot overstress the necessity of regular and systematic foreign exchange budgeting to ensure the most productive use of the limited foreign exchange available to the country.**

B. Existing system of Foreign Exchange Budgeting

9.6. It has been stated by the Ministry that under the present system of foreign exchange budgeting, followed by the Government, every half year an assessment is made of the foreign exchange resources available to the country for meeting the existing obligations and for distribution of the balance amongst the various competing demands for foreign exchange expenditure. The foreign exchange allocations are presented on a half yearly basis "because (i) of the difficult foreign exchange position that has persisted since 1957 and (ii) because of the inherent difficulties in the matter of forecasting foreign exchange receipts and payments over longer period." However, exceptions have been made as in the case of fertilisers, newsprint etc. for which allocations are being made on an annual basis; also in 1965-66 allocations had to be spread to full one year as the net availability of free foreign exchange was not sufficient to meet the demand for the half year April—September, 1965. **Explaining the distinction between the foreign**

exchange budget and the rupee budget, the Ministry have stated, "Unlike the latter, the foreign exchange budget is a 'commitment' budget, while the rupee budget proceeds on the basis of cash receipts and cash payments over an annual period. This distinction is necessary because the control that can be exercised over foreign exchange expenditure can only be at the stage when commitments are entered into with foreign parties."

9.7. As regards the procedure for determining the availability of foreign exchange during a particular period and for allocating the available foreign exchange amongst the various users, the Ministry of Finance have stated:

"The foreign exchange budget has to be considered from a dual point of view, *viz.*, (i) the new foreign exchange commitments that might be permitted in a given period of time; and (ii) the actual balance of payments position that will emerge during that period (*i.e.* the net result of the actual income and outgo), as a result of the commitments and obligations (partly old and partly current) actually materialising. As regards the first aspect, careful assessment is undertaken every six months on the basis of project-wise information and data called for from the Ministries/Departments of the Government of India and the State Governments, relating to their estimates of expenditure, and of receipts from the Reserve Bank of India during that period. Six monthly budgets are then framed with the help of this data for the periods from April to September and from October to March, each year. The Government of India's policy for licensing of imports also follows the same basis and is based on the availability of foreign exchange allotted for the purpose in the budgets. The second objective is to make an assessment over the remaining years of the Plan period, of the likely foreign exchange resources that can be mustered from proceeds of exports, earnings from invisibles (foreign investments, shipping, tourism, investment income, *etc.*), as well as of whatever receipts can be expected from foreign loans and grants, whether negotiated or still to be negotiated. From the total resources so computed, deductions have to be made to provide for payments of obligatory character, *e.g.*, payments arising out of the trade commitments already entered into, payments that have to be incurred to utilise foreign credits received, payments that have to be incurred by virtue of continuing contracts and payments like those

required to be incurred on such obligatory items as imports of foodgrains and cotton under normal marketing obligations undertaken in connection with PL 480 supplies. Making further deductions on account of expected invisible payments of all kinds, both on current as well as on capital account (travel, transportation, interest on capital liabilities, etc.) it is possible to arrive at the balance of resources available for fresh import commitments. These resources would relate to the remaining period of the Plan. For purposes of the six monthly budgets, therefore, a suitable proportion of this figure is worked out on the basis of the pattern of utilisation of import licences, which represents the limit upto which fresh import commitments can be entered into, both for the public and the private sectors, during the six monthly period concerned. Similar availabilities are also worked out in respect of foreign aid (already committed or likely to be committed) and in respect of USSR and other East European Countries for imports under the Trade Plan. It is necessary to go through this drill known as the "Availability Exercise" rigorously and cautiously, as this is the foundation on which the entire structure of foreign exchange budgeting stands.

The chief problem, thereafter, is of making the best possible allocations of this balance to cover the demands for commercial imports and those for the public sector. The foreign exchange position being tight, it is impossible to meet all the demands made. It therefore, becomes necessary to establish some kind of priorities. We have been guided in this matter by the considerations that the first priority has to be given to what is required for the maintenance of the economy and the security of the country. Import of foodgrains, defence equipment, P.O.L., and commercial imports fall in this category. Secondly, attention has to be given to imports of fertilisers and iron and steel. The balance of the resources has to be distributed for the import of balancing items like spare parts, replacement items etc. Imports of capital equipment are normally allowed only against some foreign loans/credits, though a few exceptions have to be made here and there. In recent years, it has become increasingly necessary to utilise a substantial part of the aid resources (non-project loans) for maintenance of the economy. The suggested allocations for various purposes are discussed with the Ministries and the Planning Commission before they are

finalised and approved by the cabinet. The foreign exchange so allotted is of the nature of budgetary allocation for which, before the Ministries are allowed to incur any foreign exchange expenditure, it is necessary to obtain specific approval of the Department of Economic Affairs. This Department considers each application in detail at this stage in the light of specific principles prescribed for controlling foreign exchange expenditure *e.g.*, indigenous availability, technical feasibility, competitive purchase etc. Certain powers are however delegated to the Ministries upto which they can enter into foreign exchange commitments with the approval of their attached financial advisers, without getting the prior approval of the Department of Economic Affairs. In case of tied projects, however, there is no such problem of working of availability for a licensing period. Once the agreements for loans/credits are signed with the foreign Governments/International Agencies etc., and projects tied/earmarked to be accommodated against such loans/credits, our foreign exchange branches go on releasing foreign exchange on receipts of demand from the concerned Ministries/Departments for import of a particular item of equipment as and when required. For private imports, an import licence is required from the C.C.I. in accordance with the half-yearly import policy, laid down in the Red Book. This is also true of imports of P.O.L. and Iron and Steel where the Ministry of Petroleum and Chemicals and the Department of Iron and Steel operate on their own respectively and licences are issued without referring individual cases to the Department of Economic Affairs. In the case of expenditure on private invisibles (like private foreign travel) the Reserve Bank of India's approval is necessary. In the case of demands in the public sector for 'invisible' expenditure, the approval of the Department of Economic Affairs has to be taken, like that for 'visible' expenditure as already explained above."

9.8. It was claimed by the representative of the Ministry during evidence that since 1957 foreign exchange budgeting was being done 'fairly well' and 'fairly tightly'. Asked why, if this was so, had the balance of payments calculations of the Second Plan gone radically wrong, he replied, "The calculations went wrong so far as the expectations in the Second Plan were concerned. But if we take the foreign exchange forecast from year to year as prepared in the Finance Ministry and compare it with actuals, I do not think the conclusion would be that we were far wrong." In reply to another question as to

whether in framing the annual foreign exchange budget the Plan estimates were consulted so that it would remain more or less within the limits of the Plan, the Secretary of the Ministry stated:

> "The foreign exchange budget has to be as realistic as possible for the year in question. And just as the General Budget is framed in accordance with the Plan.... the foreign exchange budget in that sense is also framed in accordance with the Plan. If at the time of budgeting we know that something slightly different is happening, realism requires that we take into account what is really happening or what is supposed to be happening. In actual practice, foreign exchange budget falls into two parts. Take the estimated demands from the various Ministries. It is in the scrutiny of the demands of the various Ministries that the Plan comes in. If Ministries demand foreign exchange for having things which are not in the Plan then that is not correct. Therefore, in the scrutiny of demands what is proposed is a check that ought to be extended according to the Plan. Even so, our experience each year is that their demands both for plants and machinery as well as for maintenance are incidentally not fully covered cent per cent by the Plan because of our annual variations. (Thus) we get one side of the picture. Then the other side is realistic assumption of the resources available. And a delicate tailoring operation between these has to be done and it is attempted to be done."

9.9. The Committee note that at present foreign exchange budgeting is primarily a system of estimating the receipt and expenditure of foreign exchange over a given period. They would like to recall that during the first three plan periods the actual plan-wise balance of payments varied considerably from what was anticipated in the Plan documents. During the Second and Third Plan periods particularly the calculations of the planners were seriously upset by recurring foreign exchange crises which could have been avoided by better management of the country's foreign exchange resources. The Committee would like to urge that if such situations are to be avoided in future the size and the composition of the development plans should be determined on the basis, *inter alia* **of a realistic assessment of foreign exchange availability and demand. It is also imperative that the method of operation as well as the criteria adopted by the foreign exchange budget should be integrated with the requirements of the overall Plan. This would imply that the foreign exchange budget should not merely provide estimates of re-**

sources and requirements over a given period but also attempt to allocate scarce foreign exchange resources among competing users on the basis of the order of priorities laid down in the Plan. The Committee would like the Government to suitably modify the character and scope of the foreign exchange budget in the light of these considerations.

C. Need for Better Balance of Payment Data

9.10. It has been admitted in the course of official evidence that the balance of payments data, as presently compiled, contain a large element of guess-work. The Study Team on Economic Administration, set up by the Administrative Reforms Commission, has also expressed the view that the data which forms the basis for the foreign exchange budget has numerous limitations. Some of these limitations have been described by the Team as follows:

> "In the balance of payments statistics, exports are estimated on the basis of actual payments. The Reserve Bank's accounts do not distinguish between debts repayable in foreign exchange and debts repayable in rupees. Most transactions are recorded only when they are finalised in the accounting stage and, therefore, the picture presented is not up-to-date. Imports without payment, i.e. financed either by short-term debt or by direct private investment are not recorded at all. Consequently, repayments of suppliers' credits are recorded as imports. Trade statistics cannot be reconciled with balance of payments data."

> "Making allocations is not just a simple matter of authorising imports equivalent to the foreign exchange estimated to become available through exports and foreign aid minus debt repayments during the current period. It also involves making estimates of the foreign exchange which will be absorbed by past allocations during the current period and by the proportion of the current allocation which will result in cash payment during the current period. The only statistical basis on which these estimates are founded is a study made by the Reserve Bank which does not distinguish between the categories of imports and areas of origin. The knowledge of the behaviour of payments of each category of imports does not go much further than the general knowledge that the bulk import of food grains, petroleum products, new points and fertilisers are readily translated into payments. Thus, for lack of adequate knowledge during any given period,

the foreign exchange budget cannot prevent sudden increases or decreases in payments unrelated to the value of licences issued during that period."

9.11. Emphasizing that the foreign exchange budget, whose utility largely depends on accurate forecasts of the country's balance of payments, "becomes a series of intelligent guess-work due to the imperfect data available to the administration", the Team observes, "periodical crises in foreign exchange are a sad commentary on our management techniques and forecasts based on an inadequate data have a limited operational utility." The Team has therefore, recommended that "the system of data collection in the Reserve Bank should be improved so as to provide a more reliable basis for estimating the availability and expenditure of foreign exchange."

9.12. The Committee entirely agree with the view of the Study Team on Economic Administration (A.R.C.) that periodical crises in foreign exchange are a sad commentary on the Government's management techniques in relation to foreign exchange. They also endorse the Study Team's recommendations for improving the system of compiling and processing balance of payment data so as to provide a reliable basis for estimating the availability and expenditure of foreign exchange. The Committee would like to urge the Government to take expeditious measures in this behalf. They hope that with the introduction of an improved data processing system Government will be able to ensure avoidance of periodical foreign exchange crisis, which are often attributable to the bunching of past commitments during a particular period.

D. **Presentation of Balance of Payment data to Parliament**

9.13. At present, the balance of payments position of the country is indicated by Government annually in the Economic Survey presented at the time of the annual budget. In Britain, the estimates of balance of payments are presented by Government to the Parliament half-yearly. Asked, in the course of official evidence, whether it would not be advantageous to follow the British practice in this behalf so as to apprise members of Parliament of the balance of payments position twice a year, the Secretary of the Ministry stated, "The balance of payments in the very nature of things contains very much more of guess-work . . . (But) I personally see no objection at all to making available periodically for general information, reasonable balance of payment data . . . In fact, it would be for the dissemination of sound economic information. From that point of view we can have periodical publications of balance of payments data with very clear economic explanations and with a repeated

statement of the limitations and reservations which are inherrent in these; I see no objection to presenting it in that manner." He also agreed that "such a presentation would give an opportunity to the Members of Parliament to have some discussion, and there may be some very useful suggestions also in the course of the discussion."

9.14. The Committee hope that Government would soon adopt the practice of presenting balance of payments estimates to Parliament every half year. They would like to suggest that these estimates should be accompanied by suitable explanatory notes bringing out the significance of the data presented.

E. Allocation of Foreign Exchange between Public and Private Sectors

9.15. It has been stated by the Ministry that prior to 1951 foreign exchange ceilings were fixed only for commercial imports every half-year and there were no ceilings for Government imports. Allocation for defence imports was made for the first time in the half-year January—June 1950. Allocations for the import of aeroplanes and ships were made for the first time during the July—December 1951 period. During the period July 1952 to December 1953 allocations were also made for P.O.L. and ships besides the commercial imports. The procedure of half-yearly allocations for P.O.L., defence imports and ships besides approval of the Commercial imports policy continued to be made by the Finance Ministry during January 1954 to December 1956. However, the first systematic statements of foreign exchange ceilings covering not only the commercial imports but also those on Government account were prepared for the first time during January—June 1957. It has been stated by the Ministry that under the system of foreign exchange allocations, introduced in 1957, "control both of Government and Commercial imports was made comprehensive and effective." Explaining the new system the Ministry have stated:

> "Apart from limiting the expenditure to the ceilings prescribed, the Ministries/Departments had to come to the Ministry of Finance for specific releases of imports except where certain powers were delegated to the Ministries/Departments.
>
> Before any individual release of foreign exchange was agreed to by the Department of Economic Affairs the following main tests were applied:—
>
> (1) Whether the item was cleared from the indigenous angle. For this purpose the Ministries/Departments

concerned got clearance from the Director General of Technical Development.

(2) Whether foreign exchange allocation for the purpose was available.

(3) Whether the Associate Finance had recommended the case from all of those including the reasonableness of the price.

(4) Whether the foreign exchange expenditure was unavoidable and could not be postponed.

(5) Whether fresh foreign exchange was required or the expenditure could be met from the credits available or under the rupee payment arrangements.

(6) Whether the project had been cleared by Planning Commission (who also satisfy about the technical feasibility) and if so the priority it enjoyed.

The tests prescribed above continued to be followed thereafter and are still being followed. In 1964-65 the allocations were made separately for "Maintenance and additions". The Ministries/Departments were not authorised to interchange the two ceilings without the prior approval of the Ministry of Finance. Another change introduced in this year was that no allocations were made in respect of the aid which was forthcoming against tied projects. The practice is still continuing."

9.16. The Ministry have further stated that with the dwindling of the foreign exchange resources, restrictive allocation and licensing was introduced. The restrictions on the import policy were further increased in 1965-66 when in the context of extremely low level of foreign exchange reserves and the uncertainty regarding the availability of foreign aid, a virtual freeze on imports had to be imposed for two months during May and June 1965. No commitments of foreign exchange were allowed except for items like foodgrains, fertilisers, P.O.L. and defence. Restricted allocations were issued, however, in July 1965 for the whole year 1965-66 instead of the usual 6-monthly period. But, in the wake of the hostility with Pakistan even these meagre allocations had to be suspended where licences had not been issued.

9.17. Asked to indicate the procedure for the allocation of foreign exchange to (a) public sector units and (b) private sector units, the Ministry have stated that so far as the basic units in the public sector

are concerned the foreign exchange requirements are included in the demands prepared for the respective allocation period by the Ministries controlling the public sector and the allocation, is considered along with the allocation for the Ministry. As for the other public sector units, a lumpsum is placed at the disposal of the concerned Ministry and allocation to the various public sector units controlled by each Ministry is done by that Ministry. After the concerned Ministry has sub-allocated the foreign exchange, the public sector units are informed. They make their plans for utilisation of the foreign exchange and thereafter approach the Chief Controller of Imports and Exports for the issue of import licence.

9.18. In the case of the private sector units, foreign exchange for maintenance imports in respect of the allocation period is made in bulk to the Economic Adviser of the Ministries of Industry and Commerce in consultation with the representatives of the Ministry of Industry and Directorate General of Technical Development. The Economic Adiver communicates the break-down of the total allocation to the various wings of the DGTD such as the Engineering Directorate, the Chemical Directorate, etc. In each Directorate applications are received from the various units. Depending upon the total foreign exchange available to the Directorate and the applications received for import licences, a unit-wise allocation is made by the officers of the D.G.T.D. and the recommendations are sent to the CCIE. The CCIE issues licences on the basis of these recommendations.

9.19. In an obvious reference to the difference in the procedures for allocating foreign exchange to the public sector and the private sector units the Ministry have stated, "In current year (*i.e.* 1966-67) steps have been taken to treat the public sector and the private sector units alike. In the case of public sector units also, for those falling in the category of priority industries, the units have been asked to follow the same procedure as the private sector units and send their applications to the D.G.T.D. for recommending to the CCIE import licences for covering six months' requirements of maintenance imports for full production."

9.20. It is to be noted that one of the tests for releasing foreign exchange for the import of any item is whether that item has been cleared from the 'indigenous angle' by the D.G.T.D. Obviously, the object of this condition is to ensure that foreign exchange is not frittered away in importing things which are indigenously available. However, in reply to a question the Ministry have admitted, "There have been many instances where (public sector) project authorities have placed orders abroad for items which (or whose

close substitutes) were indigenously available." Asked what steps Government had taken to avoid the recurrence of such cases the Ministry have stated:

> "As a result of recent changes in import control policy, all applications for imports of components and raw materials by the public sector units in the 59 priority industries are treated in exactly the same manner as applications from private sector units. The applications are routed through the DGTD so that they may be enabled to ensure that banned items are not allowed to be imported. It is also the intention that the DGTD's scrutiny at this stage would ensure that phased manufacturing programmes drawn up for the public sector units are being adhered to. As for the import applications from public sector units in respect of the component and raw materials requirements of industries other than the priority 59, however, the detailed scrutiny by the GDTD from the point of view of indigenous availability continues as before. All applications for imports of capital equipment are also screened by DGTD from the view points of indigenous availability."

9.21. In this connection reference may also be made to the high level of inventories in the public undertakings. In their Fortieth Report on Materials Management in Public Undertakings, the Committee on Public Undertakings (Third Lok Sabha) have pointed out that the value of inventories in 22 industrial running concerns in the public sector as on the 31st March, 1965 was Rs. 229 crores. On an average the inventories worked out to 11 months cost of production. In five cases the inventories held were equivalent to more than 24 months cost of production while in the case of one of the concerns the inventories amounted to 39 months cost of production. As against this, overall inventories of 1,333 selected medium and large concerns in the private sector were equivalent to only 3.6 months value of production in 1963-64. Keeping these facts in view, the Committee on Public Undertakings have emphasized the need for bringing down the level of inventories in public undertakings, as follows:—

> "Even granting that the inventories in any concern vary according to the nature of the undertaking and the type of materials required and thus the average inventory holdings in the private sector companies may not be quite comparable with those in the public sector undertakings, the holding of inventories to the extent of 15 months value of production can by no means be justified. It needs

hardly any emphasis that the reduction of inventories can help in releasing the capital so scarce in the country and in conserving valuable foreign exchange. Any avoidable locking up of capital in inventories deprives some other essential project or programme of finance. Further, inventories also cost a good deal by way of interest charges, cost of storage and handling, deterioration and obsolescence costs. Even on a conservative estimate, the cost of carrying inventory is estimated at a minimum of 15 per cent per annum. To the extent that there are excessive inventories, the cost of production as well as the profitability of a concern is affected.

Thus, if the inventories of industrial running concerns could be reduced to 6 months production—which would by no means be difficult—it would mean release of capital to the extent of Rs. 104 crores, which ould be gainfully employed either in the undertaking or to finance some other essential project or programme. Further, leaving aside the profit which might have been earned on this investment, this would have resulted in reducing the inventory carrying cost to the extent of Rs. 15.60 crores. (On the basis of 15 per cent inventory carrying cost). It is significant to note the effect of this saving on the profitability of the public undertakings. The net profit of these 22 undertakings was only Rs. 10.19 crores during the year 1964-65. With proper inventory control alone the profit would have been two and a half times of the present profit of these concerns."

9.22. The question of inventories in the public undertakings was also discussed in the course of official evidence before the present Committee. Asked as to whether any norms had been laid down in regard to stock-piling of raw materials by the public undertakings the representative of the Ministry of Finance stated, "We have not laid down any norms for stockpiling from the point of view of imports." He agreed, however that holding up of imported raw materials for 40 months or so was certainly 'excessive.' To this the Secretary of the Ministry added, "Inventories in the public sector are certainly larger and this is reflected also in the budgeting situation. When they lock up money in this way, that means the budget has to provide more money for the development work. The whole thing is being studied by the Bureau of Public Enterprises."

9.23. The Committee regret to note that in spite of the difficult foreign exchange situation there have been many instances where

public undertakings have placed orders abroad for items which (or whose close substitutes) were indigenously available. They cannot too strongly urge that the machinery for screening import applications should be suitably tightened to avoid the recurrence of such cases, for Government's policy of accelerating the pace of self-reliance through import substitution can have little meaning if their own undertakings are allowed to fritter away scarce foreign exchange on avoidable imports. In this connection the Committee would also like to suggest that the D.G.T.D. should maintain detailed and upto date information regarding the equipment that is actually being manufactured in the country or is likely to be manufactured in the near future, say within a year. This information would be a useful aid for screening applications for imports.

9.24. The Committee are also concerned at the high level of inventories in the public undertakings. As those inventories have a large import content it is obvious that they have resulted in unnecessary locking up of foreign exchange. The Committee endorse the suggestions for reducing the inventories in public undertakings made by the Committee on Public Undertakings (Third Lok Sabha) in their Fortieth Report, paras 11, 12, 13 and 15. They would like the Government to take speedy measures to reduce inventories in the industrial concerns in the public sector. As a rule, the inventories in the running industrial concerns should not exceed six months production.

9.25. The Committee are glad to note that as a result of recent changes in import policy all applications for imports of components and raw materials by the public sector units in the 59 priority industries are now being treated in exactly the same manner as applications from private sector units. They would like this practice to be continued and implemented strictly so as to ensure unit to unit parity between the public and the private sector so far as maintenance imports are concerned. However, in view of the large stockpiles of raw materials and components with many of the public undertakings and the need to bring down the same, the Committee consider it necessary that before taking a decision on an application for import of raw materials or components by a public undertaking the D.G.T.D. should fully take into account the existing inventory stock with such undertaking.

X

EXCHANGE CONTROL

A. General

(1) *Definition and Objects of Exchange Control*

10.1. Exchange control has been described as "monopolistic control of the foreign exchange market". Like many other forms of monopoly, it is generally condemned and widely used. Exchange control is regarded as a useful and flexible instrument of Commercial Policy which is widely exercised can enable a country to increase or even maximize, the gain from external trade. The German experience of 1930's, which epitomized exchange control and discriminatory bilateralism, illuminates the causes, growth, operation and economic effects of exchange control. German monetary authorities successfully manipulated the foreign exchange market to alter the composition, direction, and terms of international trade, thus exploiting the international market as a discriminatory monopolist and enhancing the economic welfare of Germany.

10.2. Exchange control occupies a significant place in the economies of almost all countries of the world today. With relatively few exceptions, the basic reason for the establishment and maintenance of modern exchange control systems has been the protection of the balance of payments. Most exchange control systems today provide for controls over both current and capital transactions. Even in the absence of need to control current transactions, most countries would certainly exercise some control over outward capital movements. Disturbed political and economic conditions both at home and abroad render all but the financially strongest countries subject to "hot money flights which can do serious damage to their stock of international reserves and to their domestic monetary structure". Apart from this, most countries are anxious to mobilise their domestic savings for productive investments at home and do not feel themselves in a position to make investments abroad except on terms which would provide special advantages to their foreign commerce.

(2) *Cost* Vs *Quantitative Exchange Restrictions*

10.3. There are two general means by which the demand for or the supply of foreign exchange can be controlled through restirc-

tions on the operation of free exchange market. One is to place quantitative limits or prohibitions on certain types of transactions; the second is to control the volume of particular types of transactions by establishing differential rates for the foreign exchange which is purchased or sold. Experts have pointed out that quantitative restirctions involve complex administrative problems of allocation of foreign exchange, and frequently they are ineffective in stimulating exports in particular directions. For this reason many exchange control systems rely partly or mainly upon cost restrictions, involving artificial price or cost differentials in the foreign exchange market. By making the foreign exchange required for certain imports cost more than that demanded for other imports it is possible to control the allocation of exchange for different purposes. Also, by varying the local currency price for the sale of foreign exchange to the banks, it is possible to subsidise certain exports which may require special encouragement. The use of differential foreign exchange prices or multiple exchange rates can also influence the source of imports and destination of exports. The popularity of multiple exchange rate systems seems to have increased in the post second world war period. Even countries which maintain unitary rate systems employ exchange arrangements which give rise to 'implicit' multiple exchange rates in the sense that they have the same economic effects as multiple rates. Thus many countries permit exporters of certain commodities or those who export for certain currencies such as the dollar or the Swiss france, to retain a portion of their export proceeds which they may use to purchase imports they might not otherwise be able to buy. Since such imported commodities as exporters are able to buy under these arrangements usually sell in the home market substantially above cost, the exporters obtain a special monetary inducement which is said to involve an implicit multiple exchange rate. These arrangements are called "export retention quotas."

B. Exchange Control in India

(1) *Genesis of Exchange Control in India*

10.4. A system of exchange control was set up in India on the outbreak of war in September, 1939 for the purpose of "conserving and directing to the best uses the limited supplies of foreign exchange available." The control was made effective through a series of rules under the Defence of India Act, 1939. These rules which expired on 30th September, 1946 were retained in force for six months under the Emergency Provisions Continuance Ordinance, 1946. Before the six months' period was over, the exchange

control provisions of the Defence of India Rules were replaced by legislation in the shape of the Foreign Exchange Regulations Act, 1947 which came into force with effect from the 25th March, 1947. The need for the legislation was explained, in the Statement of Objects and Reasons appended to the Foreign Exchange Regulation Bill, 1946, as follows:

> "The shortage of foreign exchange is likely to continue in view of the disruption of the economy of so many nations, and the interruption of established channels of trade. It is therefore necessary that the system of exchange control should be continued in the general interests of the country. Also, the adherence of India to the International Monetary Fund requires her to take certain measures to regulate transactions in foreign exchange in order to fulfil the obligations of membership. Legislation is therefore necessary to give to Central Government powers to continue to control transactions in foreign exchange, securities and gold."

10.5. The Statement of Objects and Reasons further stated that the Bill embodied the financial provisions of the Defence of India Rules relating to exchange control together with such modifications, amendments and additions as experience had shown to be desirable "in the interests of clarity and effectiveness". It was also claimed that the provisions of the Bill had been drafted "in such a manner that the degree of restriction on foreign exchange transactions can be relaxed or increased by executive orders, either generally or for particular foreign currencies, in accordance with the needs of trade and finance or international agreements thus ensuring that flights of capital or wild speculation, which proved so injurious to foreign trade between the two wars, can be immediately controlled". According to the preamble of the Act, the Act is intended to regulate (a) certain payments, (b) dealings in foreign exchange and securities and (c) the import and export of currency and bullion.

10.6. The Act was originally a temporary measure. It was to remain in force for five years only, but the Central Government could, by notification in the Official Gazette, extend its life "for a further period not exceeding three years". By an amendment Act of 1952 (Act VIII of 1952) the validity of the Foreign Exchange Regulations Act was extended upto 31st December 1957. Finally, in 1957, exchange control was put on a permanent basis by suitably amending section I of the principal Act. The reasons for this amendment were explained in the Statement of Objects and Rea-

sons appended to the Foreign Exchange Regulation (Amendment) Bill, 1957, as follows:

"When it (Foreign Exchange Regulation Act) was enacted, it was hoped that the world trade and economic conditions would stabilise themselves after the initial post-war period, but this anticipation has not been fulfilled. India still contious to be short of foreign exchange and it is necessary to ensure that our foreign exchange resources are conserved in the national interest. The trend of events in this and other countries further indicates that the shortage is likely to continue for an indefinite period, and it is difficult to visualise at this stage that in any foreseable future it will be possible to dispense with exchange control altogether. Another important factor is the development programme under the Second Five Year Plan which compels us to husband and utilise our external resources properly. In the circumstances, the continuance of the Foreign Exchange Regulation Act has become unavoidable and it is proposed to place it on a permanenting footing."

(2) *Functions of Department of Economic Affairs in relation to Exchange Control*

10.7. Asked to describe the functions of the Department of Economic Affairs in relation to exchange control, the Ministry have stated, "Exchange Control, which is designed to conserve and augment the exchange resources of India with the least obstruction to trade and its financing, is one of the main functions of the Department of Economic Affairs. Besides the control exercised by the Chief Controller of Imports and Exports organisation, Banks and Customs, the control is mainly exercised through the medium of Exchange Control Division of the Reserve Bank of India. The statutory basis for the control is the Foreign Exchange Regulation Act, 1947.....The Department of Economic Affairs is concerned with the administration of the provisions of the Foreign Exchange Regulation Act, 1947. This includes not only the Act itself but also the regulations made under the provisions of the Act. The Department of Economic Affairs lays down the broad policies which the Reserve Bank of India and others implement. Apart from this the Department of Economic Affairs deals with all cases where Government is concerned directly or Government's interests are involved. Normally all applications from private individuals concerning exchange control matters are dealt with by the Reserve Bank of India. The Bank, whenever they are of the view that a particular application

is not covered by the normal policy or where the Bank have been asked specifically to take Government's approval, refer such cases to the Department of Economic Affairs for instructions. The E.F. (Investment) Section of the Department of Economic Affairs exercises control on remittances of profits, dividends, royalties etc. and repatriation of capital."

(3) *Important Provision of the Foreign Exchange Regulation Act*

10.8. Since its enactment in 1947 the Foreign Exchange Regulation Act has been amended on a number of occasions.* The last amendments, made in 1964, came into force on the 1st April, 1965. The important provisions of the Act and the Rules, notification etc. issued thereunder are noted below.

Authorised dealers in Foreign Exchange

10.9. Section 3 of the Act empowers the Reserve Bank, on an application made to it in this behalf, to authorise any person to deal in foreign exchange either generally or in particular foreign currencies or for particular transactions. An authorisation may be effective for a specified period or within a specified amount. The Reserve Bank may revoke an authorisation for reasons 'appearing to it sufficient'. Authorised dealers in foreign exchange may exercise the following powers within the limits of the circulars and notifications issued by the Reserve Bank from time to time:

(a) to deal in foreign currencies and for that purpose to open and maintain accounts in such currencies;

(b) to approve applications from residents for purchase of foreign currencies; and

(c) to maintain rupee accounts in the names of non-residents and to pass debits and credits to such accounts.

10.10. Under section 20 of the Act the Reserve Bank is empowered to issue directions *inter alia* to authorised dealers for the purpose of securing compliance with the provisions of the Act and any rules, orders or directions made thereunder. It is incumbent upon an authorised dealer to comply with such directions and under section 23(1) of the Act contravention of any such direction is made penal. Also, under Section 19H, inserted by the Amendment Act of 1964, the Central Government and the Reserve Bank have a right to have inspection to be made by one or more of their officers of the books of account and other documents of any authorised

*For instance, in 1947 itself, 1950, 1952, 1957 and 1964.

dealer. If an authorised dealer or his agent or when the authorised dealer is a company or a firm, any director, partner or other officer of the authorised dealer in relation to its business, fails to produce any books of account or other documents or furnish any statement or information or answer any question relating to the business, he shall be deemed to have contravened the provisions of the Act.

Restrictions on Dealings in Foreign Exchange

10.11. Section 4 lays down certain restrictions on dealings in foreign exchange. The section, as it now stands, reads:

> 4. (1) Except with the previous general or special permission of the Reserve Bank, no person other than an authorised dealer shall in India, and no person resident in India other than an authorised dealer shall outside India, buy or otherwise acquire or borrow from or sell or otherwise transfer or lend to or exchange with, any person not being an authorised dealer, any foreign exchange.
>
> (2) Except with the previous general or special permission of the Reserve Bank, no person whether an authorised dealer or otherwise, shall enter into any transaction which provides for the conversion of Indian currency into foreign currency or foreign currency into Indian currency at rates of exchange other than the rates for the time being authorised by the Reserve Bank.
>
> (3) Where any foreign exchange is acquired by any person other than an authorised dealer for any particular purpose or, where any person has been permitted conditionally to acquire foreign exchange, the said person shall not use the foreign exchange so acquired otherwise than for that purpose or, as the case may be, fail to comply, with any condition to which the permission granted to him is subject, and where any foreign exchange so acquired cannot be so used or, as the case may be, the condition cannot be complied with, the said person shall without delay sell the foreign exchange to an authorised dealer.
>
> (4) Nothing in this section shall be deemed to prevent a person from buying from any post office, in accordance with any law or rules made thereunder for the time being in force, any foreign exchange in the form of postal orders or money orders.

This section corresponds to Rule 91 of the Defence of India Rules 1939 which, *inter alia* laid down:

> (2) No person resident in British India shall acquire any foreign exchange, or transfer rupees, gold coin or bullion

or securities with a view, directly or indirectly, to the acquisition of any foreign exchange except from a person authorised by the Reserve Bank of India to deal in foreign exchange.

(3) No person shall buy or borrow from, or sell or lend to, any person not authorised by the Reserve Bank of India in this behalf, any foreign exchange other than gold sovereign.

10.12. It may be mentioned that under section 4, as orginally enacted, the restrictions on dealing in foreign exchange covered only (i) buying or borrowing from, (ii) selling or lending to and (iii) exchanging with any person other than an authorised dealer. This was a departure from the provisions of Rule 91 (2) of the Defence of India Rules 1939, which prohibited acquisition of foreign exchange in any manner except from persons duly authorised in this behalf. The lacuna was removed by the amending Act of 1964 which inserted the words 'otherwise acquire' and 'otherwise transfer' in sub-section (i) of section 4. The use of the words 'otherwise acquire' shows that acquisition of foreign exchange, except from authorised dealers or with the permission of the Reserve Bank is prohibited, whatever the manner of acquisition, that is, whether by way of inheritance, settlement or gift or remuneration for services, etc. The prohibition on transactions in foreign exchange except with authorised dealers is intended to ensure that control over all foreign exchange dealings can be exercised by the Reserve Bank acting for the Central Government.

10.13. By a notification issued on April 1, 1965, the Reserve Bank has granted general permission for acquisition of foreign exchange by way of:

(1) Scholarship or stipend from a charitable trust or educational institution, foundation or from a foreign Government, provided the receipient makes a report to the Reserve Bank giving details of the foreign exchange so acquired, within thirty days of acquisition.

(2) (i) remuneration for services whether in or outside India;

(ii) income on assets held outside India;

(iii) settlement of any lawful obligation;

(iv) inheritance, settlement or gift.

Provided the amount so acquired is surrendered within thirty days of its receipt to an authorised dealer against payment in rupees.

However, in the case of a person resident outside India, the obligation to surrender to an authorised dealer foreign exchange earned by such person by way of remuneration for services rendered outside India "shall not arise unless such person ceases to be resident outside India and shall extend only to the amount of such foreign exchange owned by him when he ceases to be resident outside India."

10.14. Section 4(2) lays down that all transactions in foreign exchange in India shall be done at rates authorised by the Reserve Bank. Sub-section (3) provides that when a person, other than an authorised dealer acquires foreign exchange, for any particular purpose, or conditionally, he shall not use the foreign exchange so acquired for any other purpose or fail to comply with the condition laid down. If the foreign exchange so acquired cannot be used or the conditions cannot be complied with, the said person must sell the foreign exchange to an authorised dealer without delay.

Restriction on Payments

10.15. Control over all foreign exchange transactions would be incomplete unless transactions in rupees in India by persons resident outside the country are also regulated. The purchase or sale of rupee exchange in a foreign country results in a payment in rupees in India. Restrictions on such payments have, therefore, to be imposed similar to those covering actual transactions in foreign currency. Section 5 of the Foreign Exchange Regulation Act, as originally enacted, prohibited payment to, for or on behalf of persons resident outside India except with the permission of the Reserve Bank. The section was similar to the previous Defence of India Rule 92A except that it prohibited transactions with any person resident outside India, while the Defence of India Rule only prohibited transactions with persons resident outside the sterling area. Section 5 was amended in 1964. As it now stands, the section prohibits persons in India from doing any of the following acts unless they have obtained a general or special exemption from the Reserve Bank:

(i) Making of any payment to or for the credit of any person resident outside India. This prohibition covers payment both in rupees and foreign currency.

(ii) Receiving otherwise than through an authorised dealer any payment by order or on behalf of any person resident outside India. This prohibition was introduced for the first time by the Amendment Act of 1964 with a view to prohibit receipt of compensatory payments through unauhorised sources.

(iii) Drawing, issuing or negotiating any bill of exchange or promisory note or acknowledging any debt so that a right whether actual or contingent to receive a payment is created or transferred in favour of any person resident outside India.

(iv) Making any payment to or for the credit of any person by order or on behalf of any person resident outside India. In other words, payments by persons resident outside India through medium of agents in India are prohibited.

(v) Placing any sum to the credit of any person resident outside India.

(vi) Transfers of rupees between persons resident in India against transfers of money or property outside India.

(vii) Transfers of securities between persons resident in India against transfers of money or property outside India.

10.16. In pursuance of sub-section (1) of Section 5 the Reserve Bank has issued a notification (No.; F.E.R.A. 119/53-R.B., dated the 30th July, 1953, as amended upto 2nd March 1962) which grants general permission to make payments to or for the credit of any person resident outside India out of funds held—

(a) in an account expressed in the currency of any country or territory outside India for the time being specified in schedule* annexed to the notification.

Provided that: ....

(i) in the case of an account expressed in currency other than that of Pakistan such account was in existence prior to the 8th July 1947 and the payment is made out of balances held as on the 8th July 1947.

(ii) in the case of an account expressed in the currency of Pakistan, such account was in existence prior to the 27th day of February, 1951; or

(b) in an account maintained in accordance with the provisions of the Notification.

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*The countries specified in the Schedule are : any country within the Commonwealth (except Canada), the Irish Republic, British Trust Territories, British Protectorates and Protected States, Burma, Iceland, the Hashmite Kingdom of Jordan Kuwait, Libya, S. Africa, S. W. Africa, Western Samoa.

No. F.E.R.A. 23/47-R.B. dated the 8th July, 1947.*

Restrictions on Import and Export of certain Currency and Bullion

10.17. Prior to the coming into force of the Foreign Exchange Regulation Act, restrictions on the import and export of currency notes and bullion, which are necessary for the effective control of foreign exchange, had been imposed under the Sea Customs Act. As these restrictions related more to monetary control than the control of commodities, opportunity was taken to incorporate the same in the Foreign Exchange Regulation Act, 1947. Section 8(1) of the Act empowers the Central Government to prohibit by order imports of gold or silver or any currency notes or bank notes or coin whether Indian or foreign. Under Section 8(2) the export of gold, jewellery or precious stones or Indian currency or foreign exchange (other than foreign exchange obtained from an authorised dealer) is prohibited except with general or special permission of the Reserve Bank. In exercise of the powers conferred by Section 8(1) Government have issued from time to time a number of notifications to prohibit/regulate the import of gold, silver and currency. Similarly, various notifications have been issued under Section 8(2) by the Reserve Bank giving general permissions to export jewellery, precious stones, gold, currency notes, cheques, drafts, etc.

Acquisition by Central Government of Foreign Exchange

10.18. Section 9, corresponding to Rule 92 of D.I.R. (1939), empowers the Central Government to order, by a notification in the Official Gazette, every person in, or resident in, India owing or holding such foreign exchange, as may be specified in the notification, to offer it or cause it to be offered for sale to the Reserve Bank on behalf of the Central Government or to such person as the Reserve Bank may authorise, at such price as the Central Government may fix, being a price which, in the opinion of the Central Government, is not less than the market rate of the foreign exchange when it is offered for sale. It may be mentioned that originally section 9 applied only to persons who 'own' foreign exchange. The amendment Act of 1957 widened the scope of the section to bring 'holders' of foreign exchange also within its purview.

10.19. Clause (b) of section 9 empowers the Central Government to order every person in, or resident in, India entitled to receive such foreign exchange, as may be specified in the notification

*According to this Notification the prohibition imposed by Section 4(1) of the Foreign Exchange Regulation Act, 1947 "shall not apply to the maintenance of and operations on an account, expressed in a foreign currency by a person who is in or resident in India but is not domiciled therein".

issued in this behalf, to transfer that right to the Reserve Bank on payment of such consideration therefor as the Central Government may fix.

10. 20. It has been stated that the provisions of section 9, empowering the Central Government to acquire holdings of foreign exchange, serve two purposes, *viz.*, (a) to strengthen the foreign exchange resources of the country and (b) to prevent dealings in foreign exchange by persons other than authorised dealers.

10.21. On March 25, 1947 the Central Government issued a notification directing every person resident in India who owns foreign exchange, whether held in India or abroad, in the currency of the United States of America and the Phillipine Islands to offer the same within one month from the date of the order (or in the case of a person becoming such owner after the date of notification, within one month of the date of his so becoming), for sale to an authorised dealer against payment in rupees at the rate for the time being authorised by the Reserve Bank.

10.22. The above notification has since been superseded by another notification issued on the 25th September, 1958. The latter notification widens the scope of the earlier one which was restricted to two specific currencies. In effect, persons resident in India who own or hold any foreign exchange (except foreign exchange expressed in the currencies of a few countries such as Pakistan, Burma and Ceylon) are required to surrender the same to an authorised dealer within one month of the date of the notification (or of becoming the owner or holder of the foreign exchange) against payment in rupees at rates authorised by the Reserve Bank. This requirement is, however, not applicable to:—

(i) Foreign Exchange held by authorised dealers within the scope of their authority;

(ii) Persons authorised by the Reserve Bank to hold foreign exchange for business or other purposes within the scope of the authorisation in their favour;

(iii) Maintenance of, and operations on any account in foreign currency maintained outside India by persons in or resident in India but not domiciled therein;

(iv) Any sum held as on 8th July, 1947, in an account expresed in pound sterling and in existence prior to that date; and

(v) Any sum held in any account opened on or after 8th July 1947, and expressed in pound sterling provided the general or special permission has been granted by the Reserve Bank for the maintenance of such account.

10.23. It may be stated that under the notification dated 25th September, 1958, as originally enacted, the exemption in respect of pre-8th July, 1947 sterling accounts was applicable to "any sum held in an account expressed in pounds sterling provided that such account was in existence prior to the 8th July 1947". Thus, what was exempted from the requirement of surrender to authorised dealers was any amount provided the account was in existence prior to 8th July 1947, *viz.*, a pre-zero account. Since the said notification exempted an account, and not any particular amount, it was realised that the notification was likely to be abused by people who had pre-zero account. Accordingly, on the 6th April, 1960, the aforesaid exemption was modified so as to exempt only "any sum held as on 8th July, 1947, in an account expressed in pounds sterling and in existence prior to that date".

10.24. The Committee note that under the notification dated the 25th March, 1947 issued under section 9 of the Act, the only obligation which was cast upon a person was to surrender to authorised dealers the currency of the United States and Phillipine Islands of which he was or became owner. Thus, until the promulgation of the subsequent notification dated 25th September, 1958, there was no obligation cast upon any one to surrender the foreign exchange of any other country acquired in any manner. The Committee are surprised that Government did not consider it necessary to assume wider powers to acquire foreign exchange holdings of persons in, or resident in India, till the end of September 1958, inspite of the fact that the country's external resources had been under heavy strain since the commencement of the Second Plan in April 1956.*

10.25. The Committee also note that even under the notification dated 25th September 1958, Government's powers to acquire foreign exchange holdings do not extend to (a) holdings expressed in certain currencies like those of Pakistan, Burma and Ceylon and (b) sums held as on 8th July 1947, in an account expressed in pound sterling and in existence prior to that date. Further, accounts expressed, in pound sterling opened on or after the 8th July 1947 are also to be exempted from the requirement of surrender provided general or special permission has been granted by the Reserve Bank for the maintenance of such accounts. The Committee are unable to appreciate why holdings of foreign exchange, expressed in certain currencies, should be wholly exempted from the requirement of surrender especially when this requirement is not applicable to accounts in foreign currency maintained outside India by 'persons

*India's foreign exchange reserves declined by Rs. 221.3 crores in 1956-57 and Rs. 259.9 crores in 1957-58.

in or resident in India but not domiciled therein'. They would like the Government to consider whether the afore-mentioned exemptions, particularly those in respect of holdings of Pakistani currency and accounts in pound sterling, should not be withdrawn in view of the need to strengthen the country's foreign exchange resources and prevent dealings in foreign exchange by persons other than authorised dealers.

10.26. Asked to indicate the annual value of foreign exchange acquired by the Government under the order dated the 25th September 1958, the representative of the Ministry stated during evidence:

> "It is an automatic process which goes on. We have 2000 branches of Exchange Bank in India and no reports are required by the Reserve Bank except when the amount involved exceeds Rs. 10,000. Such reports come in statements thrice a week.....quite a formidable number. But that is reflected in the invisible information that has been given in the statement of receipts and spending of foreign exchange."

10.27. The position has been explained further in a note furnished by the Ministry as follows:

> "The coverage of the mandatory provisions of this Section (Section 9 of the Foreign Exchange Regulation Act) and of the Government Notification which has been issued thereunder is co-extensive with the entire field of operation of the Foreign Exchange Regulation Act itself. The Act provides under different sections that certain activities connected with foreign exchange can be undertaken only under the prescribed manner and by following procedures as indicated for each such provision in the Act. The purpose of Section 9 and of the Government Notification issued thereunder is really to reiterate the general position that all foreign exchange earned in any manner by any one who is resident in India really belongs to the foreign exchange pool of the country and that all such exchange must be surrendered within one month of the party acquiring it. So far as the figure work is concerned, *viz.* that of the amounts repatriated each year and the number of persons repatriating such amounts, it would not be possible, in the nature of things to ascertain any such figures. From one point of view it could be logically

stated that the entire foreign exchange that has been earned by Indians whether as exporters or in any other manner and which they have repatriated to India ever since 1947, when the enactment was made, is all in pursuance of this section read with other sections as may be applicable. However, to give an idea of the dimensions, it could be safely stated that the figures run into hundreds of crores every year and thousands of persons would be repatriating foreign exchange. This is almost an automatic process because of the imposition of exchange control in India and it would not be quite appropriate to take the view that it is section 9 and the notification issued thereunder which is achieving all this by itself."

10.28. The Committee are unable to share the Ministry's views as to the meaning, scope and effect of Section 9 of the Foreign Exchange Regulation Act.

10.29. The Ministry have stated that, "the Act (the Foreign Exchange Regulation Act) provides under different sections that certain activities connected with foreign exchange can be undertaken only under the prescribed manner and by following procedures as indicated for each such provisions in the Act. The purpose of section 9 and of the Government Notification issued thereunder is really to reiterate the general position that all foreign exchange earned in any manner by any one who is a resident in India really belongs to the foreign exchange pool of the country and that all such exchange must be surrendered within one month of the party acquiring it.... This is almost an automatic process because of the imposition of exchange control in India and it would not be quite appropriate to take the view that it is section 9 and the notification issued thereunder which is achieving all this by itself." This amounts to saying that section 9 is more or less superfluous since what it seeks to achieve, viz. the compulsory repatriation of foreign exchange owned or held by persons in, or resident in, India is already ensured by other provisions of the Act realing with specific activities connected with foreign exchange. The Committee cannot accept this interpretation.

10.30. The Committee are of the opinion that the object, scope and effect of section 9 are clearly distinguishable from other provisions of the Foreign Exchange Regulation Act. They would like to emphasise that section 9 was enacted with the specific objective of enabling Government, to assume, as and when necessary, special and over-riding powers to strengthen the foreign exchange resources

of the country. Once a notification under Section 9 is issued by Government, it becomes incumbent upon "every person in, or resident in, India who owns or holds such foreign exchange as may be specified in the notification", to offer it, or cause it to be offered for sale to the Reserve Bank on behalf of the Central Government or to such person as the Reserve Bank may authorise for the purpose, within the period stipulated in the notification. No other provision of the Act casts a similar obligation on all those who happen to own or hold foreign exchange. For instance, Section 4 provides, inter alia, that no person in, or resident in India, shall "buy or otherwise acquire or borrow or sell or otherwise transfer or land etc." any foreign exchange except to or from an authorised dealer. Unlike Section 9, Section 4 does not make it obligatory or any one to divest himself of the foreign exchange owned or held by him. It is also to be noted that Section 9 applies not only to future acquisitions of foreign exchange but also to all such foreign exchange as is owned or held by any person at the date of the issue of a notification under that section.

10.31. The Committee would like to stress that after the issue of the notification under Section 9 on the 25th September 1958, no person in, or resident in, India can own or hold foreign exchange beyond a specified period (that is, one month from the date of the notification if the foreign exchange was owned or held on 25-9-1958 and one month from the date of a person becoming the owner or holder of the foreign exchange in other cases) unless permitted to do so by the said notification itself. The effect of this prohibition should have been reflected in significantly higher earnings under invisibles in the period following the notification due to compulsory repatriation of both the pre-zero holdings and subsequent acquisitions of foreign exchange... This, however, does not appear to have come about.

10.32. From the data regarding invisibles furnished by the Ministry it is seen that gross receipts under private 'capital' and 'investment income' in 1958-59 were only 34.4 crores and Rs. 16.3 crores as against Rs. 49.5 crores and Rs. 23.3 crores in the preceding year. In general, as stated by the Ministry, receipts on private account have been declining over the Second Plan period and thereafter due, *inter alia*, to "heavier taxation in India which has been discouraging inflow of earnings into India, greater profitability of reinvesting earnings abroad as compared with profitability of investment in India and growing tendency to repatriate earnings through free market channel, rather than official channels." It is admitted on all hands that there is considerable leakage of foreign exchange due

to anti-social practices like under-invoicing of exports, over-invoicing of imports, retention of illegal earnings abroad, smuggling, etc.

10.33. In view of the declining trend in invisible receipts on private account and the admitted leakage of foreign exchange through the so-called free market, the Committee are constrained to infer that efforts have not been made to strictly enforce the Order promulgated by the Government on the 25th September 1958 in exercise of their powers under Section 9 of the Foreign Exchange Regulation Act. They need hardly add that an Order of this nature has little meaning unless effective measures are taken to detect and deter violations. This aspect has been considered in some detail in the comments on Section 23 of the Act.

Duty of persons entitled to receive Foreign Exchange

10.34. Section 10 of the Act makes it obligatory on a person to whom a payment is due from a person outside India not to delay the receipt of the payment. The object of the section is to ensure that the country receives the full payment due to it and that individuals do not hoard foreign exchange. The section also empowers the Reserve Bank to give directions for securing the receipt of foreign exchange.

Payment for Exported Goods

10.35. The major portion of the country's earnings of foreign exchange are obtained from the proceeds of exports. It is, therefore, of the greatest importance to ensure the receipt of full foreign exchange value of goods exported. Section 12 of the Act, which corresponds to Rule 92D of the Defence of India Rules (1939), empowers the Central Government to issue notifications prohibiting the taking or sending out by land, sea or air of any goods or class of goods from India to any place outside India unless a declaration supported by such evidence as may be prescribed is furnished by the exporter to the prescribed authority that the amount representing the full export value of the goods has been or will within the prescribed period be paid in the prescribed manner [*vide* sub-section (1) of section 12]. Where any export of goods has been made to which such a notification applies it is an offence to adopt any methods whereby the sale of goods is delayed to an extent which is unreasonable having regard to the manner or course of the trade. It is equally an offence if payment for the goods is made otherwise than in the prescribed manner or the payment does not represent the full amount payable by the foreign buyer [*vide* sub-section (2) of section 12 read with section 23]. Further, if the period prescribed has expired and the goods have not been sold the Reserve Bank is en-

title to give directions for the assignment of such goods to such person as may be specified including the Central Government, provided that where any goods have been so assigned the Central Government shall pay to the person assigning the goods such sum in consideration as it may determine [*vide* sub-section (3) and (4) of section 12] Sub-section (5) of section 12 provides:—

> "Where in relation to any such goods [*i.e.*, goods to which the notification under sub-section (1) applies] the value as stated in the invoice is less than the amount which in the opinion of the Reserve Bank represents the full export value of those goods, the Reserve Bank may issue an order requiring the person holding the shipping documents to retain possession thereof until such time as the exporter of the goods has made arrangements for the Reserve Bank or a person authorised by the Reserve Bank to receive on behalf of the exporter payment in the prescribed manner of an amount which represents in the opinion of the Reserve Bank the full export value of the goods."

10.36. For the purpose of ensuring compliance with the provisions of section 12 and any orders or directions made thereunder the Reserve Bank is also empowered to require any person making any export of goods (to which a notification under sub-section (1) applies to exhibit contracts with his foreign buyer or other evidence to show that the full amount payable by the said buyer in respect of the goods has been or will within the prescribed period be, paid in the prescribed manner. [*Vide* sub-section (6) of section 12].

10.37. In exercise of their powers under sub-section (1) of section 12, the Government of India have issued notification [Nos. 12(17), FI|47 and 12(18)FI|47 dated 4th August, 1947, as amended upto 1st April, 1965], prohibiting the export of any goods directly or indirectly to any place outside India, other than Nepal and Bhutan, unless a declaration that the full value of the goods has been or will be realised is furnished to the prescribed authority. The various forms, in which the declaration should be furnished, have been prescribed under the Foreign Exchange Regulation Rules, 1952, issued by the Government of India. The requirement of declaration on one of the prescribed forms does not apply to the following categories of exports:—

(a) trade samples supplied free of payment;

(b) personal effects of travellers, whether accompanied or unaccompanied;

(c) ships' stores carried on board vessels for their own use during voyages;

(d) transhipment cargo *i.e.*, goods shipped from countries outside India and transhipped in Indian ports for destinations outside India;

(e) goods exported by any mode under orders of the Military, Naval and Air Force authorities in India for Military, Naval or Air Force requirements or under orders of the Central Government or of such officers as may be appointed by the Central Government in this behalf;

(f) parcels despatched by post or air-freight and accompanied by a declaration, given by the sender in the form of a letter addressed to the Post Office accepting the parcel or the Customs authorities, to the effect that the contents of the parcel are less than Rs. 50/- in value and that the despatch of the parcel does not involve any transaction in foreign exchange;

(g) parcels despatched by cost and accompanied by a certificate to the effect that the parcel does not involve any transaction in foreign exchange signed by a Gazette Officer or any person entitled to use service postage stamps;

(h) parcels despatched by post or air-freight and covered by a certificate issued by an authorised dealer in foreign exchange in India that the export of the parcel does not involve any transaction in foreign exchange; and

(i) goods in respect of which the Reserve Bank has waived the requirement of declaration.

10.38. Rule 4 of the Foreign Exchange Rules 1952 provides that the original declaration in regard to realisation of the full value of exported goods shall be furnished to the Collector of Customs provided that when export is by post the original of the declaration shall be furnished to the postal authorities. Further, the documents pertaining to every export passed by the customs have to be submitted to the authorised dealer mentioned in the relevant declaration within 21 days from the date of export. Under Rule 6, three months from the date of export in the case of shipments to Pakistan and Afghanistan, and six months from the date of export in the case of shipments to other countries, have been prescribed as the period within which export proceeds must be realised. Discretion is however vested in the Reserve Bank for sufficient and reasonable cause shown to extend the said period of three months or six months as the case may be.

Regulation of Export and Transfer of Securities

10.39. Section 13 of the Act, which is based on similar provisions contained in the Defence of India Rules, 1939 (Rule 93), regulates the export and transfer of securities. The need for the provision was explained in the Foreign Exchange Regulation Bill, 1946 (as introduce) as follows:

> "Restrictions on the export of securities are needed to prevent export of capital. Restrictions on the transfer and issue of securities are necessary (a) to ensure that payment for the securities is received from the purchaser and that the securities are not being transferred as a means of acquiring foreign exchange for a purpose, which is contrary to the regulations and (b) to control foreign investments in India."

10.40. It may be mentioned that two important changes in section 13, as originally enacted, were made by the Foreign Exchange Regulation (Amendment) Act, 1957. These were (i) addition in sub-section (1) of a new clause (3) which prohibits acquisition, holding and disposal of foreign securities except with the permission of the Reserve Bank; and (ii) insertion of a new sub-section 4A whereby transfer of shares of a company registered in India from one non-resident to another non-resident requires confirmation by the Reserve Bank. Further, by the Amendment Act of 1964 a new clause (c) was added in section 4, which prohibits transfer of any share from a register outside India to a register in India except with the permission of the Reserve Bank.

10.41. In brief, under section 13, the following transactions are prohibited, unless the general or special permission of the Reserve Bank has been obtained:

(a) taking or sending any security to any place outside India;

(b) transfer of any security or any interest in a security to or in favour of a person resident outside India;

(c) transfer of any security from an Indian register to a foreign register;

(d) the substitution for any security which is either in, or registered in, India of any security which is either outside India or registered outside India;

(e) issue of any security registered in India to a person resident outside India;

(f) acquisition, holding or disposition of any foreign security;

(g) transfer of any share from a register outside India to a register in India.

10.42. Two notifications have been issued by the Reserve Bank of India in pursuance of the provisions of sub-section (1) of section 13. One of these, dated the 17th August 1951, permits any person to transfer any security expressed to be payable in Indian currency or create or transfer any interest in such a security to or in favour of a person resident in Nepal or to issue any such security to any such person. The effect of the other notification, which was issued on the 12th August 1959, is that a foreign national resident in India is granted general permission by the Reserve Bank to continue to acquire, hold or dispose of any foreign security, if such security is acquired by him as his own property or is held by him for or on behalf of any other person not domiciled in India.

10.43. The provisions of section 13 regulate export and transfer of securities. With a view to ensuring strict observance of these provisions, section 14, sub-section (1) empowers the Central Government by notification in the Official Gazette to order every person by whom or on whose behalf a security or certificate of title to a security specified in the notification is held, to cause such security or certificate of title to be kept in the custody of an authorised depository named in the order. Sub-section (4) of section 14 lays down that except with the general or special permission of the Reserve Bank no person shall buy, sell or transfer any security or certificate of title to a security, covered by an order under sub-section (1), unless such security or certificate of title has been deposited in accordance with the order. Further, every authorised depository is prohibited from parting with any notified security except to another depository (*vide* sub-section (2). Under Sub-section (6), the Central Government is empowered by a notification to specify the persons who may be authorised to accept the custody of securities and documents of titles to securities.

10.45. The Committee understand that no notifications under section 14 have been issued by the Government so far.

10.45 The Committee note that the object of section 14 of the Foreign Exchange Regulation Act is to ensure strict observance of the restrictions on the export and transfer of securities provided for under section 13. It is, therefore, rather surprising that the powers vested in the Government under section 14 should have remained unused for all these twenty years since the Foreign Exchange Regulation Act was enacted.

10.46. Section 15 deals with bearer securities. As these securities are transferred by hand it was considered desirable to have powers to place special restrictions on such transfers so that the transfer of bearer securities to non-residents might not take place in contravention of section 13. Section 15 empowers the Central Government to order, by notification in the Official Gazette, that except with the general or special permission of the Reserve Bank no person shall in India and no person resident in India shall, outside India, create or issue any bearer certificate or coupon or so alter any document that it becomes a bearer certificate or coupon. The Central Government has by a notification dated the 5th December, 1957 implemented the provisions of Section 15.

10.47. Section 16 makes provision for the acquisition of foreign securities by the Central Government. The section corresponds to Rule 94 of the Defence of India Rules 1939. Regarding the need for such a provision it was stated in the Foreign Exchange Regulation Bill 1946, as introduced, that "as in the case of acquisition of holdings of foreign currencies, the acquisition of securities may have to be undertaken to strengthen the foreign exchange reserves of the country." Section 16(1) provides that subject to any exemptions that may be contained in the notification the Central Government may, "if it is of the opinion that it is expedient so to do for the purpose of strengthening its foreign exchange position", by notification in the Official Gazette:

(a) order the transfer to itself of any foreign securities specified in the notification at a price which in the opinion of the Central Government is not less than the market value of the securities on the date of the notification; or

(d) Direct the owners of any such foreign securities to sell or procure the sale of the securities and thereafter to offer the net foreign exchange of the proceeds of the sale to the Central Government or to the Reserve Bank at such price as may be fixed by the Central Government being a price which is in the opinion of the Central Government not less than the market rate of the foreign exchange when it is offered for sale.

Under sub-section (2) of Section 16 immediately on the issue of a notification by the Central Government, the ownership of the securities specified in the notification vests in the Central Government free from any mortgage, pledge or charge and the Central Government can deal with such securities in any manner that it may think fit. The Central Government is also empowered to pass all ancillary orders to see that apart from the delivery of securities, dividends and interest also are made payable to the Central Government.

10.48. The Committee have been informed by the Ministry that "there has been no occasion to avail of the powers under section 16 after the present Act was placed on the statute book". However, during the Second World War period when exchange control was being administered through the Defence of India Rules similar powers were availed of to issue a direction that all dollar securities should be converted and held in sterling. It has been stated that "this measure had become necessary at that time because of the 'dollar gap' which the sterling area was then facing.

10.49. Asked as to why Government have not made use of their powers to acquire foreign exchange under section 16 of the Foreign Exchange Regulation Act, the Ministry have stated:

"The securities held abroad by Indian residents whether individuals or juristic persons are held abroad with the approval of the Reserve Bank under section 13 of the Act and the Reserve Bank are always in a position to refuse such approval, or even to withdraw it. As a rule, the Reserve Bank does not allow fresh securities to be acquired abroad. For securities already held abroad, they have already issued standing instructions to the following effect:

(i) Income arising from these securities investments should not be reinvested and such income should be repatriated to India.

(ii) Whenever securities are redeemed, the redemption proceeds should not be reinvested and they should be repatriated to the country.

Beyond this, a wholesale direction has not been issued for repatriation of all securities held abroad. The reason for this is that in many instances securities are held in countries where because of balance of payments difficulties, in any case, those countries do not permit repatriation of the sale proceeds. Again, Corporations like the L.I.C. have foreign liabilities abroad and they have of necessity to keep some securities there both with a view to creating confidence amongst the clients and also to be able to service the liabilities from time to time. This may still leave a sector where it might be possible to issue a direction that all securities should be repatriated to India. However, such pre-emptory orders have not been issued as it may lead to distress sale causing loss of foreign exchange. The standing instructions, as indicated above, already provide for gradual repatriation."

10.50. The Committee note that the power to compulsorily acquire foreign securities vested in the Central Government under section 16 of the Foreign Exchange Regulation Act has not been availed of so far. They would also like to recall that during the Second World War period smiliar powers available to Government under the Defence of India Rules were made use of to issue a direction that all dollar securities should be converted and held in sterling. This measure was considered necessary in view of the 'dollar gap' which the sterling area was then facing. According to the Ministry, the reasons for not invoking the provisions of section 16 are that "a wholesale direction for repatriation of all securities held abroad" could not be issued because (a) "in many instances securities are held in Countries where because of balance of payments difficulties, in any case, those countries do not permit repatriation of the sale proceeds," and (b) "Corporations like the L.I.C. have foreign liabilities abroad and they have of necessity to keep some securities there." The Ministry have further stated that even in that sector where it might be possible to issue a direction that all securities should be repatriated to India, "such pre-emptory orders have not been issued as it might lead to distress sales causing loss of foreign exchange." The Committee feel that the Ministry's explanation is not very convincing. In the first place, there is no warrant for the presumption that an order issued by the Government under section 16 has necessarily to be in the nature of what the Ministry call "a wholesale direction for repatriation of all securities held abroad". Section 16 authorises the Government not only to limit the application of such an order to 'the foreign securities specified in the notification' but also to grant such exemptions as it may consider necessary even in respect of the notified securities. Secondly, keeping in view that the provisions of the Defence of India Rules (1939), relating to acquisition of foreign securities, were actually used during war time to help the sterling area cover its dollar gap, it is difficult to agree with the Ministry's stand that similar action under section 16 of the Foreign Exchange Regulation Act has not been taken because of any insuperable difficulties, or adverse consequences that might result from such action.

10.51. In view of the above, it is evident that had Government really desired to avail of the power to compulsorily acquire foreign securities vested in them under section 16 of the Foreign Exchange Regulation Act they might well have done so by issuing appropriate orders in this behalf making due allowance for any practical difficulties. The Committee regret to note that although the statute has conferred this power on the Government explicitly "for the purpose of strengthening its foreign exchange position", Government could find no use for it in dealing with the extremely difficult

foreign exchange position which the country has been facing for nearly a decade. The Committee hope that Government would give thought to the need of taking effective action under section 16 to strengthen the country's foreign exchange reserves.

Restriction on Settlement

10.52. Section 17 prohibits persons residing in India from settling or making gifts of property in favour of persons who at the time of settlement or gift are resident outside India, except with the permission, general or special, of the Reserve Bank. It has been stated by the Ministry that there are twin considerations underlying this section. This has been explained as under:

> "One is that it is quite possible that people who are resident in India may try to transfer money abroad by using this device, making a gift to non-residents and other similar modus operandi, whereby the real beneficiary, although in an illegal manner, may be the donor himself. Such cases may not be many but it is only the existence of such a stautory provision that enable us to minimise attempts of this type. The other consideration is that even where a case is fully bonafide, viz., where we are satisfied that the donor is making a gift etc. in favour of a non-resident party out of natural love and affection or other valid considerations, we may yet find that the sums involved are so large that in our difficult foreign exchange situation, we could ill-afford to provide remittance facilities. In such cases either the request may be totally turned down or if the beneficiary abroad is in difficult circumstances, then limited remittance facilities may be allowed keeping in view the humanitarian angle."

Certain Provisions as to Companies

10.53. Section 18 seeks to control and regulate companies incorporated in foreign countries which are directly or indirectly controlled by Indians. Under this section the Reserve Bank can require any person who is resident in India and who has in the opinion of the Bank an authority or control over such a company to secure compliance by the company with any of the following requisitions:

(i) To furnish either to the Central Government or to the Reserve Bank particulars of the assets and business of the company.

(ii) To sell or procure the sale to an authorised dealer of any foreign exchange referred to in the notice being foreign

exchange which the company is entitled to sell or of which it is entitled to procure sale.

(iii) To declare and pay such dividend as may be mentioned in the notice.

(iv) To realise any of its assets in such manner as may be mentioned in the notice.

(v) To refrain from selling or transferring or doing anything which affects its rights or powers in relation to any instruments or securities mentioned in the notice.

10.54. Further, persons resident in India are prohibited from doing any of the following acts except with the general or special permission of the Reserve Bank:

(a) any act whereby any business which is controlled by persons resident in India ceases to be so controlled;

(b) transferring an interest in a business situate in India, or creating any interest in such business, in favour of a national of a foreign State;

(c) giving a guarantee in respect of any debt or other liability of a person resident outside India;

(d) lending any money to any firm or company (other than a banking company) which is directly or indirectly controlled by persons resident outside India.

10.55. Section 18 also lays down that a transfer of a business situate in India, or of any interest therein, by a person resident outside India to another person resident outside India is invalid unless confirmed by the Reserve Bank.

10.56. The Committee are informed that in pursuance of sub-section (3B) of section 18, the Reserve Bank has issued a notification (No. FERA 164/5B-R.B. dated the 12th September, 1958) granting general permission to the "transfer of any security or the creation or transfer of any interest in a security by any person resident in India, to or in favour of a national of a foreign State who is resident in India, in so far as such transfer or creation amounts to a transfer or creation of an interest in any business in India."

10.57. The Committee note that sub-section (3B) of the Section 18 of the Foreign Exchange Regulation Act prohibits persons resident in India from transferring any interest in any business in India, or creating any interest in such business, to or in favour of ' national of a foreign State'. They feel that the use of the words 'national

of a foreign State' in sub-section(3B) in preference to the expression 'person resident outside India' (which has been used in other sub-sections of section 18) is significant inasmuch as it makes the provision applicable to cases involving even foreigners who may be resident in India but continue to be nationals of foreign States.

10.58. The Committee consider that the general permission in respect of transfer of securities, etc. to foreign nationals resident in India, granted under the Reserve Bank notification No. FERA 164/ 5B-RB., dated the 12th September, 1958, is capable of being misused. They would like the Government to consider whether it would not be safer to require the special permission of the Reserve Bank for all transactions coming within the purview of sub-section (3B) of section 18 of the Foreign Exchange Regulation Act.

10.59. Section 18A, which was added by the Amending Act of 1964, lays down that a company (other than a banking company) which is not incorporated in India or which is controlled by persons resident outside India, or any branch or office of any such company in India, or a firm consisting wholly or in part of persons resident outside India, shall not accept appointment as—

(a) agent in India of any person, company or firm in the trading and commercial transactions thereof; or

(b) technical or management adviser in India of any person, company or firm;

except with the general or special permission of the Central Government or the Reserve Bank; and where such appointment is accepted without requisite permission, it shall be void.

10.60. It has been stated by the Ministry that the object of section 18A is to regulate the appointment of foreign controlled companies as agents "so that unnecessary drain of foreign exchange by way of profit remittances, etc. may be avoided." Moreover, it had been found that regulations relating to collaboration by Indian companies with foreign companies which aimed at minimising foreign exchange expenditure on this account, were being circumvented by foreign companies by opening branches in India and by providing consultancy services through such branches. Payment for such services was made initially in rupees, but since branches of foreign companies were permitted to transfer their profits, the regulations regarding foreign investments| collaboration were thereby circumvented. In order to fill in this lacuna in the law Section 18A regulates the appointment of foreign controlled companies as agents or advisers.

10.61. By another provision, Section 18B, also introduced by the Amendment Act of 1964, airline and shipping companies and travel agents are prohibited from booking passages for journeys which will be wholly or partly outside India unless they are permitted to do so by the Reserve Bank. It has been stated that the need of such a provision was felt "as the tightening of the regulations relating to booking of passages to and from foreign countries had given rise to unscrupulous travel agencies resorting to malpractices."

Power to Call for Information

10.62. Section 19 vests the Central Government with power to call for returns of holdings of foreign exchange from the owners of such holdings. The object of the provision is to enable Government "to estimate the foreign exchange reserves of the country outside the holdings of the Reserve Bank and authorised dealers." Under sub-section (2) of section 19 the Central Government or Reserve Bank can call upon a person to furnish any information, book or document which is either in the possession of such person or can be obtained and furnished by him.

Enforcement Machinery

10.63. Under the provisions of the Foreign exchange Regulation Act Government have set up a separate authority—the Directorate of Enforcement attached to the Ministry of Finance for enforcing the provisions of the Act. The Directorate came into existence in 1957 and is headed by the Director of Enforcement. The Director of Enforcement adjudicates infringements of certain provisions of the Act. He has also power to make complaints to criminal courts in respect of infringements of the Act; and he conducts prosecutions for such infringement. By section 2A, inserted by the Amending Act of 1964, the Central Government has been empowered to appoint besides a Director of Enforcement as many Deputy and Assistant Directors of Enforcement and such other officers at it thinks fit for the purpose of enforcing the provisions of the Act. Under section 2B any officer of Enforcement or any officer of Customs or Central Excise or Police Officer or any other Officer of the Central Government or a State Government can be delegated the powers conferred by the Act on the Director of Enforcement or any other Officer of Enforcement. Thus, power to search suspected persons, power to arrest, power to stop and search conveyance, power to summon persons to give evidence and produce documents, etc., can by order of Central Government be delegated to any of the aforementioned officers. Moreover, under section 25A officers of Customs Department, Central Excise Department, Police, Central or State Government Officers employed at any

post or airport and other officers notified in the official Gazette are empowered and required to assist officers of Enforcement in enforcement of the Act.

10.64. Sections 19A to 19F, which were added by the Amendment Act of 1964, confer certain police powers upon the Director of Enforecement and Officers subordinate to him. These powers are indicated below:

(i) To search any person if there is reason to believe that he has secreted about his person any document (including Indian currency, foreign exchange and books of account) will be useful for or relevant to any proceedings under the Act;

(ii) To arrest a person who, in the belief of the arresting officer, has been guilty of an offence punishable under the Act;

(iii) To stop and search any conveyance if there is reason to believe that such conveyance is being, or is about to be used, in the commission of an offence under the Act or that any document which will be useful for or relevant to any proceeding under the Act is secreted therein;

(iv) To search any premises if there is reason to believe that any document which will be useful for or relevant to any proceeding under the Act is secreted therein, and to sieze such documents.

(v) To require any person to produce or deliver any document relevant to any inquiry in connection with any offence under the Act and to examine any person acquainted with the facts and circumstances of the case.

(vi) To summon persons to give evidence and produce documents in connection with an inquiry pertaining to any offence under the Act.*

10.65. Under section 19(4) of the Act, as originally enacted, all information gathered from documents furnished in pursuance of the provisions of the Act was treated as confidential. This sub-section was deleted by the Amendment Act of 1964 which brought in a new provision, section 191, prohibiting disclosure of documents or information except in certain cases. Section 191 provides:

*Under the relevant provisions of the Act (ss, 19E and 19F) these powers have been conferred only on the Director of Enforcement. But in view of the provisions of section 2B, it would appear that these powers could also be delegated to other officers.

(1) If in the course of an inquiry under this Act, the Director of Enforcement is of the opinion that the contents of any document in his possession or control would be useful for, or relevant to, any proceeding which is in progress or may be started under any other law for the time being in force, he may disclose such document or any information contained therein as he thinks fit to an officer duly authorised by or under such other law.

(2) If any officer of Enforcement, except in the discharge in good faith of his duty as such officer in accordance with sub-section (1), or in compliance with any requisition made under any law for the time being in force, discloses any document or information obtained by him in his official capacity in the course of any inquiry under this Act, he shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.

10.66. It is to be noted that under sub-section (1) the Director of Enforcement has full authority to disclose documents in his possession or control to customs, central excise, Income-tax, Sales-tax and other authorities of the Central and State Governments. Under sub-section (2) it is penal for an officer of Enforcement to disclose the contents of any documents except in accordance with sub-section (1) or in compliance with any requisition made under a law in force.

Penalty and Procedure

10.67. Under the Defence of India Rules (1939) infringements of the various Rules relating to Exchange Control were punishable with imprisonment extending to five years or with fine or with both. In addition to such punishment Rule 90B provided that in cases of contravention of the restriction on export of money and gold "the money or gold in respect of which the offence has been committed shall be confiscated to the Central Government and delivered to the customs for disposal."

10.68. The Foreign Exchange Regulation Act, as originally enacted, provided under section 23 that contravention of any of the provision of the Act or of any rule, direction or order made thereunder would be punishable with imprisonment extending to two years or with fine or with both. Further, a court trying any such contravention could, if it thought fit and in addition to any sentence which it might impose for such contravention, direct confiscation of any currency, security, gold or silver, or goods or other property in respect of which

the contravention had taken place. However, no court could take cognizance of any offence punishable under section 23, except upon complaint in writing made by a person authorised in this behalf by the Central Government or the Reserve Bank.

10.69. Important changes in Section 23 were made by the Amendment Acts of 1957 and 1964. The section, as it now stands, reads:

23 (1) If any person contravenes the provision of section 4, section 5, section 9, section 10, sub-section (2) of section 12, section 17, section 18A or section 18B or of any rule, direction or order made thereunder, he shall—

(a) be liable to such penalty not exceeding three times the value of the foreign exchange in respect of which the contravention has taken place, or five thousand rupees, whichever is more, as may be adjudged by the Director of Enforcement in the manner hereinafter provided, or

(b) Upon conviction by a Court, be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

(IA) If any person contravenes any of the provisions of this Act or of any rule, direction or order made thereunder, for the contravention of which no penalty is expressly provided, he shall, upon conviction by a court, be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

(IB) Any court trying a contravention under sub-section (1) or sub-section (IA) and the authority adjudging any contravention under clause (a) of sub-section (1) may, if it thinks fit, and in addition to any sentence or penalty which it may impose for such contravention, direct that any currency, security, gold or silver, or goods or any other money property, in respect of which the contravention has taken place, shall be confiscated to the Central Government and further direct that the foreign exchange holdings, if any, of the person committing the contravention or any part thereof shall be brought back into India or shall be retained outside India in accordance with the directions made in this behalf.

Explanation:—For the purposes of this sub-section, property in respect of which contravention has taken place shall include deposits in a bank, where the said property is converted into such deposits.

(2) Notwithstanding anything contained in section 32 of the Code of Criminal procedure, 1898 (Act 5 of 1898) it shall be lawful for any Magistrate of the first class, specially empowered in this behalf by

the State Government and for any Presidency Magistrate to pass a sentence of fine exceeding two thousand rupees on any person convicted of an offence punishable under this section.

(3) (a) No Court shall take cognisance of any offence punishable under sub-section (1) except upon complaint in writing made by the Director of Enforcement, or

(a) (a) of any offence punishable under sub-section (2) of section 19I.

(i) Where the offence is alleged to have been committed by an officer of Enforcement not lower in rank than an Assistant Director of Enforcement, except with the previous sanction of the Central Government;

(ii) Where the offence is alleged to have been committed by officer of Enforcement lower than an Assistant Director of Enforcement except with the previous sanction of the Director of Enforcement, or

(b) of any offence punishable under sub-section (1A) of this section or section 23F except upon complaint in writing made by the Director of Enforcement or any officer authorised in this behalf by the Central Government or the Reserve Bank by a general or special order:

Provided that where any such offence is the contravention of any of the provisions of this Act or any rule, direction or order made thereunder which prohibits the doing of an act without permission, no such complaint shall be made unless the person accused of the offence has been given an opportunity of showing that he had such permission.

(4) Nothing in the first proviso to section 188 of the Code of Criminal Procedure, 1898 (Act 5 of 1898), shall apply to any offence punishable under this section."

10.70. It may be mentioned that sub-sections (1). (IA), (IB), (3) and (4) had been substituted by the Amendment Act of 1957 for the original sub-section (1). Subsequently, certain modifications in sub-sections (1) and (IA) were made by the Amendment Act of 1964.

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*Under the first proviso to section 188 of the Cr. P. C. the sanction of the state Government (or the olitical Agent, if any) has to be obtained before a charge as to any offence is inquired into.

10.71. The Amendment Act of 1957 also introduced three new sections in the Act, *viz.*, Sections 23D, 23E and 23F. Another new provision, section 23EE was added by the Amendment Act of 1964.

10.72. SIection 23D lays down that for the purpose of adjudging under section 23 (1) (a) whether any person has committed a contravention, the Director of Enforcement shall hold an inquiry in the prescribed manner* after giving reasonable opportunity to the person proceeded against and if after such inquiry he is satisfied that the person has committed the contravention, impose such penalty, as he thinks fit in accordance with the provisions of section 23. However, if at any stage of the inquiry, the Director of Enforcement is of the opinion that having regard to the circumstances of the case the penalty which he is empowered to impose would not be adequate, he can, instead of imposing any penalty himself, make a complaint in writing to the Court. It has also been provided in section 23D that any sum paid by way of penalty or any currency, security, gold etc. confiscated under section 23 shall vest in the Central Government.

10.73. Section 23E, as amended in 1964, provides for the constitution of an Appellate Board, consisting of a Chairman and two other members to be appointed by the Central Government for hearing appeals against the orders of the Directorof Enforcement made under section 23. The section lays down, *inter alia*, that deposit of the amount of penalty is a condition precedent to the entertainment of an appeal by the Appellate Board. The period of limitation for filing an appeal is forty-five days from the despatch of the order.

10.74. Section 23EE provides that an appeal shall lie to the High Court only on questions of law from any decision of the Appellate Board. It is to be noted that the section does not prescribe any period of limitation for such an appeal.

10.75. Under section 23F, if any person fails to pay the penalty imposed by the Director of Enforcement or the Appellate Board or the High Court or fails to comply with any of their directions or orders, he shall, on conviction before a court, be punishable with imprisonment for a term which may extend to two years, or with fine, or with both. It may be mentioned that though 'failure to pay penalty' is itself an offence under section 23F punishable with imprisonment or fine, the Act prescribes no mode for the recovery of penalty.

10.76. Thus, the Foreign Exchange Regulation (Amendment) Acts of 1957 and 1964 have made many important changes in the procedure

*The procedure for inquiries held under the Act has been prescribed in 'The Adjudication Proceedings and Appeal Rules, 1957'.

for adjudication and penalty. Briefly under section 23, as originally enacted, any contravention of the provisions of the Act or of rules, directions and orders issued thereunder attracted a prosecution in a court on a complaint being made by a person authorised in this behalf by the Central Government or the Reserve Bank, and the maximum punishment that could be given was two years' imprisonment and unlimited fine. The main changes in the procedure for adjudication of offences effected by the Amendment Acts of 1957 and 1964 are indicated below:

(i) For contraventions of the provisions of sections 4, 5, 9, 10, 12 (2), 17, 18A and 18B or any rules, notifications or directions made thereunder, an offender can be proceeded against either in a criminal court or before the Director of Enforcement. It is left to the discretion of the Director of Enforcement as to which of these alternative courses should be adopted in any particular case or whether the offender should at all be proceeded against.

(ii) In cases of contravention of any of the provisions of the Act, rule, direction or order other than those referred to above party can be prosecuted and punished only after a complaint is filed in an appropriate court. Here again, whether or not proceedings will be initiated is left to the discretion of the Director of Enforcement or any officer authorised in this behalf by the Central Government or the Reserve Bank. By a notification issued under section 23 (3) the Central Government has authorised certain officers of Customs and Central Excise to make complaints in writing in cases of import or export of any gold, silver, currency or bank notes, whether Indian or foreign, in contravention of section 8 of the Act.

(iii) Even in cases where a person is proceeded against before the Director of Enforcement, the latter can at any stage, if he is of the opinion that the penalty which he is empowered to impose, would be inadequate, stops the adjudication proceedings and make a complaint to the Court.

(iv) When a person is being tried by a Court he may be punished with imprisonment for a term extending to two years and|or fine in any amount. However, when a person is proceeded against by the Director of Enforcement he cannot be sentenced to imprisonment and the maximum penalty that can be imposed upon him cannot exceed three times the value of the foreign exchange involved in the commission of the offence or Rs. 5,000 whichever is

more. From the language of clause (a) of sub-section (1) of section 23 it would appear that where an offence does not involve foreign exchange (for instance, payment in Indian currency to or for the credit of any person resident out-side in contravention of section 5(1) (a), settlement of a property in favour of non-resident without complying with the provisions of section 17) the maximum penalty that can be imposed by the Director of Enforcement is Rs. 5,000.

(v) An Appellate Board has been set up to hear appeals against the orders of the Director of Enforcement.

(vi) Under a new clause added in section 27 by the Amendment Act of 1964 Government is empowered to publish names of persons held guilty of any contraventions of the provisions of the Act.

10.77. It may be mentioned that under section 23B of the Act, an attempt to contravene any of the provisions of the Act or of any rule, direction or order made thereunder is deemed to be a contravention of that provision, rule, direction or order, as the case may be. However, there is no express provision in the Act making it an offence to aid, abet or counsel violations of the Act or rules, orders etc. made thereunder.

10.78. Reference may be made here to the penalties and procedure in respect of foreign exchange offences laid down in the Exchange Control laws of Britain and Pakistan. In the English Exchange Control Act, 1947, the 'general provisions as to offences' are set out, in part II of the Fifth Schedule. These provisions are applicable to all offences under the Act except those relating to Import and Exports. Part II provides, *inter alia,* that "Any person in or resident in the United Kingdom who contravenes any restriction or requirement imposed by or under this Act, and any such person who conspires or attempts or aids or abets, counsels or procures any other person, to contravene any such restriction or requirement as aforesaid, shall be guilty of an offence unishable under this Part of the Schedule. Any person committing an offence punishable under this Part is liable (a) on summary conviction to imprisonment for not more than three months or to a fine or to both; (b) on conviction on indictment, to imprisonment for not more than two years or to a fine or to both. In addition, if the offence is concerned with any currency, security, gold, goods or other property, the court may, if they think fit so to do, order the currency, security etc. to be forfeited. It is further provided that no proceedings for an offence punishable

under Part II shall be instituted "in England, except by or with the consent of the Director of Public Prosecutions, or, in Northern Ireland, except by or with the consent of the Attorney General for Northern Ireland."

10.79. As in India, the statutory basis for exchange control in Pakistan is provided by the Foreign Exchange Regulation Act, 1947, which came into force before Partition. Like India Pakistan has also amended the original provisions relating to penalty and procedure in respect of offences against the Act. However, as a result of the amendments, the position in regard to the procedure for adjudication of exchange control offences in Pakistan is very different from that obtaining in India. The relevant provisions of the Foreign Exchange Regulation Act (Pakistan), inserted by an amendment in 1957, are reproduced below:—

23. Penalty and Procedure—(i) Whoever contravenes, attempts to contravene or abets the contravention of any of the provisions of this Act or of any rule, direction or order made thereunder, shall notwithstanding anything contained in the Code of Criminal Procedure, 1898 (Act V of 1898), be tried by a Tribunal constituted by section 23A, and shall be punishable with imprisonment for a term which may extend to two years or with fine or with both, and any such Tribuntl trying any such contravention may, if it thinks fit, and in addition to any sentence which it may impose for such contravention, direct that any currency, security, gold or silver or goods or other property in respect of which the contravention has taken place shall be confiscated.

(2) Notwithstanding anything contained in the Code of Criminal Procedure, 1898 (Act V of 1898), any offence punishable under this section shall be cognizable for such period as the Central Government may from time to time by notification in the official Gazette, declare.

(3) A Tribunal shall not take cognizance of any offence punishable under this section and not declared by the Central Government under the preceding sub-section to be cognizable for the time being, or of an offence punishable under section 54 of the Income-tax Act, 1922 (XI of 1922), as applied by section 19, except upon complaint in writing made by a person authorised by the Central Government or the State Bank in this behalf:

Provided that where any such offence is the contravention of any of the provisions of this Act or any rule, direction

or order made thereunder which prohibits the doing of an act without permission and is not declared by the Central Government under the preceding sub-section to be cognizable for the time being, no such complaint shall be made unless the person accused of the offence has been given an opportunity of showing that he had such permission.

(4) Where the person guilty of an offence under this Act is a company or other body corporate, every director, manager, secretary and other officer thereof who is knowingly a party to the offence shall also be guilty of the same offence and liable to the same punishment.

23A. Tribunal, its powers, etc.—(1) Every Session Judge shall for the areas within the territorial limits of his jurisdiction, be a Tribunal for trial of an offence punishable under section 23.

(2) A Tribunal may transfer any case for trial to an Additional Sessions Judge within its juridiction who shall, for trying a case so transferred, be deemed to be a Tribunal constituted for the purpose.

(3) A Tribunal shall have all the powers of a Magistrate of the First Class in relation to criminal trials, and shall follow as nearly as may be the procedure provided in the Code of Criminal Procedure, 1898 (Act V of 1898), for trials before such Magistrate, and shall also have powers as provided in the said Code in respect of the following matters, namely:—

(a) Directing the arrest of the accused;

(b) issuing search warrants;

(c) ordering the police to investigate any offence and report;

(d) authorising detention of a person during police investigation;

(e) ordering the release of the accused on bail.

(4) All proceedings before a Tribunal shall be deemed to be a judicial proceeding within the meaning of section 293 and 298 of the Pakistan Penal Code (Act XLV of 1860), and for the purposes of section 196 thereof, and the provisions relating to the execution of orders and sentences in the Code of Criminal Procedure, 1898 (Act V of 1898),

shall, so far as may be, apply to orders and sentences passed by a Tribunal.

(5) As regards sentences of fine, the powers of a Tribunal shall be as extensive as those of a Court of Session.

(6) The State Bank of Pakistan or any other person aggrieved by a judgement of a Tribunal may, within the months from the date of the judgement, appeal to the High Court.

(7) Save as provided in the preceding sub-section, all judgements and orders passed by a Tribunal shall be final."

10.80. It will be seen that the above provisions differ from the corresponding provisions of the Indian Act in certain important respects. Thus, in Pakistan abetment of a contravention of any of the provisions of Foreign Exchange Regulation Act and orders etc. has been expressly made an offence; in India Act is silent on the point. Secondly, whereas in India no court can take cognizance of an exchange control offence except upon a complaint by the Director of Enforcement who is also vested with power to adjudicate certain offences himself, in Pakistan every Session Judge, who functions as a Tribunal for the trial of offences under the Foreign Exchange Regulation Act, is empowered fully and unconditionally to take cognizaance of such of these offences as have been declared to be cognizable. Thirdly, in Pakistan a time limit of three months is laid for an appeal from the judgment of the Tribunal to the High Court and save for such appeals, all judgments and orders passed by these Tribunals are treated as final. In India, the Act does not prescribe any period of limitation for an appeal from the decision of the Appellate Board.

10.81. In November, 1958, the President and the Chief Martial Law Administrator of Pakistan promulgated a Regulation—The Foreign Exchange (Surrender and Declarations) Regulation, 1958 (Martial Law Regulation No. 45)—which came into force immediately "notwithstanding anything inconsistent therewith in any other law." The main provisions of this Regulation—paragraphs 3, 4 and 6—are reproduced below:—

3. Any person who holds any foreign exchange in any country other than Pakistan and who has reason to believe that such holding of foreign exchange is not lawful may surrender it to any authorised dealer, or declare it to the State Bank of Pakistan, in the manner prescribed in paragraph 5 within the period mentioned in paragraph 4.

No action of any kind whatsoever shall be taken against a person in respect of the holdings so surrendered or declared, and no tax of any kind whatsoever shall be levied on or in respect of the amounts so surrendered or declared.

4. The period mentioned in the foregoing paragraph for persons who are in Pakistan on November 3, 1958, shall extend up to December 1, 1958, and for persons who are out of Pakistan on November 3, 1958, it shall be 30 days from the day of their entry into Pakistan, including the day of entry.

6. Any person who is found to be holding any foreign exchange in contravention of any law and who has not surrendered or declared it in accordance with the provisions of paragraph 3 of this Regulation shall be punished with rigorous imprisonment, which may extend to seven years, and with confiscation either of the whole or a part of his property in Pakistan.

Any person who when called upon by the State Bank of Pakistan to surrender any foreign exchange which he declares in accordance with the provisions of paragraph 3 of this Regulation fails to do so in accordance with the direction given by the State Bank in that behalf shall be punished with rigirous imprisonment which may extend to seven years and with confiscation of either the whole or part of his property."

It is seen that in Pakistan drastic measures have been taken to ensure repatriation of foreign exchange held by residents or nationals of Pakistan. Nothing comparable seems to have been done in India.

10.82. In the course of official evidence the representatives of the Ministry of Finance were asked to give an estimate of the extent to which the provisions of the Foreign Exchange Regulation Act were being evaded. In reply the Director of Enforcement stated:—

"It is only in cases where the export proceeds are not being repatriated within the time permitted (the initial period being six months which may be extended by the Reserve Bank on an application made to it), and when an ultimate stage is reached where the man is unable or refuses to repatriate that the matter is reported to the Enforcement Directorate and the Enforcement Directorate take proceedings under section 12(2). So far as action under section 12(2) is concerned, it is restricted only to such

class of cases which are reported to it by the Reserve Bank and in respect of which there is alleged non-repatriation. Before 1965 the amount was only a few crores of rupees. Immediately I took charge there was a crop of cases in South India where we found that the amount which had not been repatriated was over Rs. 5 crores or Rs. 6 crores. Immediately we took action and we have about Rs. 2 crores....Excepting for that very large batch of cases and one or two cases in Banaras as well as in Bombay where the evasion or suspected non-repatriation is of the order of Rs. 2 crores to Rs. 3 crores, it has not been found possible so far, as far as our Directorate is concerned, to estimate the total amount because as I told you, it is only in respect of the reports made by the Reserve Bank that we have been taking action. It will be rather difficult to estimate the aactual loss that is likely to have been incurred by the country as a result of non-repatriation."

10.83. In reply to another question as to how far the exchange control system and the Foreign Exchange Regulation Act had served the object of conserving and directing to the best use limited supplies of foreign exchange available, the Secretary of the Ministry of Finance stated during evidence, "By and large the legislation has served its purpose and as in all laws as we go on finding loopholes amendments are made to plug them, there is a constant chase between the evader and the administration and it is tightened up from time to time."

10.84. As to the adequacy of the penal provisions of the Foreign Exchange Regulation Act, the Secretary of the Ministry of Finance stated:—

"The law is complicated enough, it has blocked most loopholes and the enforcement is like the enforcement of any other law. In my personal view there is only one important lacuna in the penal provisions for which we are giving some thought. If some one has foreign exchange abroad, the Government has got a right to proceed against him, and punish him and fine him but there is no means of getting hold of that foreign exchange and repatriate it because that means action in the other country also to a certain extent. Our laws can only have jurisdiction and extend over our territory and over our nationals.....It is absolutely impossible to pass any law which will have jurisdiction in all countries. If the man is obdurate, it

is difficult to make him do the actual repatriation of the foreign exchange. We have to devise ways and means to secure it.

1085. During official evidence, the representatives of the Ministry of Finance were also asked to indicate in respect of each of the preceding ten years (i) the number of persons convicted under the Foreign Exchange Regulation Act, (ii) the total value of foreign exchange in respect of which the contraventions took place, (iii) the total amount realised by way of penalties for contraventions of the Act or rules, orders etc. issued thereunder and (iv) a the total value of currency, securities, gold etc. confiscated for such contraventions. In reply to this question the Ministry have, in August 1967, furnished a statement which is reproduced in Appendix VIII. It is seen that the statement does not indicate the value of foreign exchange in respect of which the contraventions took place. Some interesting points emerging from the information contained in the statement are:—

(i) While the number of cases registered for violations of exchange control has increased considerably since 1956-57, many of the cases were closed and did not result in proceedings being initiated.

(ii) The total number of cases adjudicated by the Director of Enforcement increased from 10 in 1957-58 to 853 in 1964, but declined to 670 in 1965. The statement does not show how many of these cases resulted in the imposition of penalties.

(iii) Since 1957-58, when the Director of Enforcement was vested with adjudicating powers, very few cases have been taken to the Courts. In fact, in five consecutive years (1958-59 to 1962) no prosecutions were launched in the Courts for violations of the Foreign Exchange Regulation Act, rules, orders etc.

(iv) Total fine imposed in the cases adjudicated between 1957 to 1965 comes to about Rs. 2,634 crores. Of this, fines imposed in 1965 alone account for Rs. 1,392 crores or more than half. In most other years the total fine imposed was much less even when the number of cases adjudicated was larger than in 1965. For instance, in 1964 the fine imposed amounted to only Rs. 20·15 lakhs, the number of cases adjudicated being 853 against 670 cases in 1965.

(v) During the 10 years, 1956 to 1965, the total amount ordered to be repatriated to India was about Rs. 2·46 crores.

However, the bulk of this amount (Rs. 2:09 crores) is accounted for by a single year, 1965. No order for repatriation was made in four years, 1956-57 to 1959-60.

(vi) The amount of Indian and foreign currencies confiscated is rather negligible.

10.86. The Committee note that the information furnished by the Ministry in regard to cases involving violations of Exchange Control does not indicate the total value of foreign exchange involved in such cases although this information was specifically sought by the Committee. However, from what has been stated during official evidence it would appear that the total foreign exchange involved in cases where proceedings were initiated by the Directorate of Enforcement amounted in 1965-66, to only Rs. 7 crores to Rs. 9 crores; in earlier years the foreign exchange involved in such cases was much less. The Committee also note that in the 10 years since 1956, the total fine imposed in cases of contraventions of the Foreign exchange Regulation Act, orders, Rules, etc. amounts to only Rs. 2.634 crores; the total foreign exchange ordered to be repatriated to India during the same period comes to no more than Rs. 2.46 crores while the amount of Indian and foreign currencies confiscated is negligible. When these facts are considered in the context of the widespread prevalance of various malpractices resulting in the admitted leakage of foreign exchange and the retention of foreign exchange abroad by Indian nationals, it becomes evident that there is something lacking in the law relating to exchange control and the machinery for its enforcement.

10.87. The Committee are surprised that although the Foreign Exchange Regulations Act has been amended a number of times it has not been found possible to devise suitable ways and means either for securing re-patriation of foreign exchange held abroad by citizens and residents of India or for preventing the malpractices which result in leakage of foreign exchange. They regret to observe that all that could and should have been done to make exchange control really effective has not been done. For instance, in Pakistan, under a Martial Law Regulation promulgated in 1958, failure to surrender or declare foreign exchange held in contravention of any law was made punishable with rigorous imprisonment extending to seven years and with confiscation of either whole or part of the property of the offender in Pakistan. In contrast, in India, inspite of the critical foreign exchange position and inspite of the wide powers available to the Government under the emergency, Government have been content with making a few changes in Foreign Exchange Regulations Act which do not touch basic problems, like the non-repatriation of foreign exchange held abroad, at all.

10.88. The Committee consider it highly anomalous that while on the one hand Government stand committed to the reduction of economic inequalities, on the other hand they have been taking a rather lenient view of Indian citizens building up or retaining large balances, securities, etc. abroad. The Committee feel that a two-pronged approach is necessary to deal with the problem of leakage and non-repatriation of foreign exchange. First, a healthy climate for investment has to be created in the country by offering special incentives to encourage people to repatriate and surrender their foreign exchange holdings to the Reserve Bank of India. Secondly, the law relating to exchange control should be modified so as to plug all loopholes and provide deterrent punishment for violations; further, the law should be rigidly enforced whoever might be the offender.

10.89. To make the law relating to exchange control fool-proof and to ensure its proper implementation the Committee recommend that Government may appoint at an early date a high powered Commission to review the working of exchange control in India with a view to indentifying its shortcomings and suggesting appropriate remedial measures (including changes in the law) to make exchange control an effective instrument of conserving and augmenting the country's foreign exchange resources. The Commission may be headed by a retired Supreme Court Judge and include an adequate number of independent public men and economists and legal experts having intimate knowledge of exchange control.

10.90. As the Commission suggested above might take some time to report, the Committee would like the Government to take urgent measures for removing obvious deficiencies and lacuna in the provisions of the Foreign Exchange Regulation Act relating to penalties and procedure in respect of violations of the Act and rules, directions and orders made thereunder, Some of these shortcomings and the changes, which the Committee consider necessary, are indicated, in general terms, in the paragraphs that follow.

10.91. At present, the maximum punishment for exchange control offences is two years' imprisonment. The Committee feel that this is not sufficiently deterrent. They recommend that section 23 of the Act may be suitably amended so as to raise the punishment provided for thereunder to five years rigorous imprisonment and also to make it obligatory on the Courts to pass a minimum sentence of one years' imprisonment in cases of serious contraventions. The amended section may also provide for punishment in the form of confiscation either of the whole or a part of the property of the offender in India. The Committee feel that provision on these lines is essential to get

over the difficulties faced by the administration in securing repatriation of foreign exchange held abroad.

10.92. There is no provision in the Act for penalising persons who conspire, or aid, or abet or counsel, or procure any other person, to contravene the restrictions or requirements imposed by or under the Act. This lacuna should be removed by introducing a suitable provision in the Act.

10.93. The Committee note that under section 23 of the Act it is left to the Director of Enforcement to decide whether or not proceedings will be taken up against a person who has committed an offence under the Act. The Director is also free to decide whether he would himself proceed against the alleged offender or make a complaint to the appropriate court. It may be mentioned that when a person is tried in a court the sentence on conviction may be that of imprisonment and fine in any amount, but if he is proceeded against before the Director of Enforcement, he cannot be sentenced to imprisonment and the maximum fine that can be imposed upon him cannot exceed three times the value of foreign exchange involved in the offence or Rs. 5000 whichever is more. The Committee cannot approve of the wide and unfettered discretion which section 23 of the Act confers upon the Director of Enforcement. In particular, they can see no reason why initiation of proceedings for violations of exchange control should be subject to the veto of the Director of Enforcement.

10.94. The Committee need hardly stress that the very object and purpose of the Foreign Exchange Regulations Act would be defeated unless effective arrangements exist for bringing offenders to justice. They suggest that offences against the provisions of the Act, and rules, directions and orders issued thereunder, should be made cognizable and every Sessions Judge should be declared to be a Tribunal for the trial of such offences. As a corollary, the Director of Enforcement would have to be devested of his judicial functions and a complaint by him would no longer be an essential precondition for the initiation of proceedings in cases of violations of exchange control. The Committee would like the Directorate of Enforcement to function as the main agency for investigation and prosecution of foreign exchange violations. To strengthen intelligence and investigation arrangements in regard to breaches of exchange control the Directorate of Enforcement should work in close cooperation with officers of the Customs Department, Central Excise and Police, particularly the Central Bureau of Investigation. Further, it should be made obligatory on the part of the Directorate of Enforcement to report to the CBI all serious cases of violations of Exchange Control. A duty

should also be cast on officers of Enforcement, police officers and such other officers as may be sepcified in this behalf by the Central Government to launch prosecutions wherever there is a prima facie case of contravention of exchange control provisions.

10.95. The Committee feel that the existing provisions relating to appeal, sections 23E and 23EE of the Foreign Exchange Regulations Act, contribute to protracted litigation. They would like these provisions to be replaced by one on the following lines:

(1) Any person aggrieved by a judgment of a Tribunel may, within three months from the date of the judgment, appeal to the High Court.

(2) Save as provided in the preceding sub-section, all judgments and orders passed by a Tribunal shall be final."

10.96. In this connection a reference may also be made to an amendment in Section 27 of the Foreign Exchange Regulation Act which became effective from 1st April, 1965. This amendment empowers the Central Government to provide, by rules, for the publication of the names and other particulars of persons who have been found guilty of any contravention of the provisions of the Act, or of any rule, order of direction made thereunder. Asked whether Government had made use of this provision and, if so, on how many occasions, the Ministry have stated in a reply furnished on August 14, 1967, "so far Government have not notified any names".

10.97. The Committee feel that publication of names and other particulars of persons who have been found guilty of contraventing the provisions of the Foreign Exchange Regulation Act or rules, directions or orders made thereunder would act as a salutary check on exchange control violations. They would like the Government to give full publicity to all such cases decided since April 1, 1965. For future, Government should ensure that the names and other particulars of all persons held guilty of foreign exchange offences during a particular period, say a quarter, are regularly published in the Official Gazette and othe media considered appropriate for the purpose.

XI

CONCLUSION

11.1. Independent India started her career with sizeable foreign exchange reserves. At the end of March 1948, these reserves, commonly known as Sterling Balances, stood at Rs. 1612 crores. But the end of the Third Plan period (March 1966) the country's foreign exchange reserves had come down to Rs. 299.5 crores as against the minimum of Rs. 200 crores required as statutory cover for currency issue. This heavy decline in reserves has occurred in spite of the fact that the country has incurred a huge foreign debt since independence. Upto the end of the Third Plan India had utilised external assistance amounting to Rs. 4515.11 crores (including PL 480 assistance) and, in addition, borrowed $287.5 million (or Rs. 136.85 crores in predevaluation terms) from the I.M.F. The aggregate of the decline in foreign exchange reserves, utilisation of external assistance and borrowings from I.M.F., which works out to Rs. 5964.46 crores, represents the gap between India's foreign exchange earnings and expenditure during 1948—66. The total foreign exchange expenditure incurred by the country during this period would include besides these three elements (draft on reserves, external assistance and borrowings from I.M.F.), the earnings from exports (Rs. 11625.3 crores) and gross receipts from Invisibles which were also utilised for meeting the payments on account of imports and invisible items.

11.2. It may be recalled that during the eighteen inter-war years (1921—1939) India normally had a fairly large surplus on her trade account with which she met her payments on account of various items such as servicing charges on sterling debt, interest and dividends on foreign investments, Government pensions payable in sterling, etc. During World War II the normal trade surplus improved substantially as demand from abroad for many of the country's export articles increased while imports declined. Partition changed the position as West Punjab the granary of undivided India and some areas of commercial crops cultivation, went over to Pakistan. In the new set up, brought about by partition, large scale imports of certain raw materials, notably, jute and cotton, became necessary for some of the largest established industries in India.

11.3. In the three year period (1948—51) preceding the commencement of planning India's foreign exchange reserves suffered a decline of Rs. 583 crores. A large part of this draft was attributable to certain special transactions arising from the Indo-U.K. Financial Agreements and the partition settlement with Pakistan. For the three year period as a whole the country incurred a trade deficit of Rs. 377 crores. The adverse trade balance was due mainly to large imports of foodgrains, cotton and raw jute. However, there was an improvement in the balance of trade from year to year inasmuch as the trade deficit declined from Rs. 283.8 crores in 1948-49 to only Rs. 3.5 crores in 1950-51. The net current account position was further helped by favourable changes in invisibles which brought in net earnings of Rs. 115 crores during the three years.

11.4. During the First Plan period the country's balance of payments position was on the whole satisfactory. The actual draft on foreign exchange reserves during the period was only Rs. 127 crores as against Rs. 290 crores anticipated in the First Plan document. For the whole of the First Plan period the country had a deficit of Rs. 542 crores on trade account. But, due to a marked improvement in the behaviour of invisible items (excluding official donations) which resulted in a net inflow of Rs. 391 crores (giving an annual average of Rs. 78·2 crores as against Rs. 38·2 crores during 1948—51) the current account deficit during the five years came to only Rs. 151 crores. Year-wise, the trade deficit declined from Rs. 232.8 crores in 1951-52 to Rs. 31 crores in 1952-53 and Rs. 52 crores in 1953-54, but it again rose to the level of Rs. 132.8 crores in 1955-66. Import of foodgrains showed wide fluctuations from year to year. In the last year of the Plan they amounted to only Rs. 48·1 crores as against Rs. 100.9 crores in 1954-55, Rs. 66.7 crores in 1953-54 and Rs. 230.3 crores in 1951-52. Total food imports during the Plan period amounted to Rs. 601.5 crores. Imports of cotton and jute were lower as compared to the period 1948—51, but cotton imports were still quite sizeable and their total value for the First Plan period came to Rs. 386.3 crores. A significant feature of the country's foreign trade during the First Plan period was the increase in the import of consumer goods other than food'. The annual average value of these imports increased from Rs. 147·6 crores in 1948—51 to Rs. 176 crores during 1951—56. The fact that imports of this category were brought down from the high level of Rs. 224 crores in 1954-55 to only Rs. 60.2 crores a year during the Second Plan period, would show that many of these consumer goods imported during the First Plan were of a non-essential character.

11.5. It has been admitted that the relatively comfortable balance of payments position during the First Plan was largely the result of fortuitous factors like the Korean War boom and a few favourable monsoons. It did not reflect a permanent improvement in productivity in the economy. In any case, at the end of the First Plan the country had still a long way to go to reach the stage of 'sufficiency and plentitude' in respect of food and raw materials which the First Plan report had rightly regarded as a pre-requisite for a higher tempo of industrial development. Apart from this consideration which ought to have been treated, but was not, as a decisive factor in determining the pattern and priorities of the Second Plan, it may be stated that but for the large imports of non-essential consumer goods during 1948—56, the country's foreign exchange reserves at the end of the First Plan would have been much larger than they actually were.

11.6. In retrospect, the Committee would like to state that the large foreign exchange reserves, built up at considerable sacrifice during World War II, were a valuable asset which could have been used, in the early years of planning, to strengthen the agro-industrial base of the economy. This was, unfortunately, not done and till about the end of the First Plan large amounts of foreign exchange were frittered away, year after year, on imports of non-essential goods which the country might well have done without.

11.7. Soon after the commencement of the Second Plan India's balance of payments came under heavy pressure. Heavy imports of machinery, iron and steel and foodgrains as also 'much larger import of consumer goods than was either allowed in the Plan or could be considered essential' resulted in a trade deficit of Rs. 1031.5 crores during the first two years of the Plan and the foreign exchange reserves registered a sharp fall of Rs. 481·2 crores (as against the total draft of Rs. 200 crores which the Plan document had envisaged for the whole Second Plan period). This precipitate decline in reserves created a foreign exchange crisis and in the wake of the serious ways and means position arising from the crisis Government were obliged to scale down the Second Plan, make special efforts to secure foreign assistance, and effect drastic cuts in respect of imports of non-essential consumer goods. In spite of these measures the foreign exchange reserves, which were already quite low, declined further by Rs. 117.6 crores during the last three years of the Second Plan. Thus, at the end of the Second Plan India's foreign exchange reserves stood at only Rs. 303.6 crores as against Rs. 902 crores at the end of the First Plan and Rs. 1029 crores in March 1951.

11.8. Throughout most of the Third Plan period, the balance of payments situation remained difficult. Although there was a spurt in exports during the first three years of the Third Plan these gains were offset by a larger increase in imports and a deterioration on the invisibles account. Thus, the current account deficit increased from Rs. 357.5 crores in 1961-62 to Rs. 456.1 crores in 1963-64. The position worsened during the last two years of the Plan as exports suffered a setback while payments on account of imports and invisibles increased. Taking the Third Plan period as a whole, current and capital transactions showed a net deficit of Rs. 3012.6 crores. This deficit was financed largely by external assistance. However, in spite of the progressive increase in the utilisation of external assistance, pressure on the country's foreign exchange reserves, which were at a very low level even at the commencement of the Third Plan, intensified particularly during the last two years of the Plan. This necessitated frequent borrowings from the I.M.F., thus running down the second line of reserves to a large extent.

11.9. The balance of payments difficulties of the Third Plan were only a reflection of 'a basic disequilibrium in our balance of payments' caused mainly by two continuing factors, namely, a growing trade deficit and the mounting burden of servicing the external debt. Of the total current and capital account deficit of Rs. 3012.6 crores during the Plan period as much as Rs. 2914·9 crores was accounted for by the trade deficit (Rs. 3253·1 crores) and servicing of the external debt (Rs. 661.8 crores).

11.10. Various measures taken by Government from time to time, such as the export incentive schemes and cuts in imports, failed to provide a corrective to the basic disequilibrium in the country's balance of payments. In 1964-65, the foreign exchange reserves fell by Rs. 56.2 crores. This was followed by a rapid decline of about Rs. 20 crores in the first four months of 1965-66. It was against this background that the abrupt suspension of external assistance in the wake of Indo-Pak hostilities brought into sharp focus a very weak point in the country's economy—its inability to finance even essential import needs from its own resources.

11.11. After a brief recovery, made possible mainly by the severely restrictive import policy and increased remittances from abroad under the National Defence Remittance Scheme, the balance of pay-

ments again showed a deficit in the quarter April-June 1966. There was no evidence of any marked uptrend in exports. At the same time, the drastic cut in imports, necessitated by the pause in foreign aid, had seriously affected industrial production and even threatened to jeopardize the agricultural programme which required large imports of fertilisers. In fact, the foreign exchange position was so difficult that unless aid began to flow soon in adequate quantities there was every danger of the economy receiving a serious setback. Moreover, the country had reached a stage when it had to 'incur fresh debts in order to pay off old ones', even the finalisation of the Fourth Plan could not be undertaken in the absence of reasonable prospects of aid. However, external assistance was not readily forthcoming as the lending countries|institutions seemed to require 'demonstrable evidence of our determination and capacity to push up exports and improve the external viability of our economy.

11.12. It was in these circumstances that Government decided to devalue the rupee in June 1966. The principal reason advanced by Government for this step was that due to heavy inflationary pressures and consequent decline in the purchasing power of the rupee the parity of the rupee or the rate of exchange had become unrealistic and had impeded efforts to improve the balance of payments. The adverse effects of inflation had been felt in all the major constituents of the balance of payments—exports, imports and invisibles. Thus, inflation had meant not only higher costs for exporting industries, as a result of which Indian exports were priced out in foreign markets, but also diversion of investment as well as supplies to meet domestic demand. The effects of inflation had been equally harmful in regard to imports. Despite a progressive increase in import duties, imported goods continued to command a premium as Indian prices of comparable goods were well above world prices. This hampered the progress of import substitution. Similarly, the overvaluation of the rupee (resulting from inflation) adversely affected the position on the invisible account, particularly as it gave rise to leakage of foreign exchange through various anti-social practices, such as, under-invoicing of exports, over-invoicing of imports, retention of earnings abroad, smuggling etc.

11.13. Devaluation was expected to provide "a stable and enduring solution to our balance of payments". Its main objective, as envisaged by Government, were:

(i) That it would bring about a steady and appreciable increase in exports by providing an enduring and stable stimulus to the export effort and investment in export industries;

(ii) That it would discourage imports and encourage import substitution;

(iii) That it would improve the country's position on the invisible account by (a) encouraging remittances into India and discouraging outward remittances and (b) reducing the leakage of foreign exchange due to various anti-social practices.

11.14. The trends in India's balance of payments since devaluation show that the above expectations have not been fulfilled so far. According to a Reserve Bank publication, the country's foreign exchange reserves have suffered a decline of $ 159 million (Rs. 119·3 crores) in the twelve month period following devaluation. Exports during the ten months since devaluation have been 11 per cent lower as compared to the same period of 1965-66. Imports in the period June 1966—May 1967 have also been about 10 per cent lower as compared to the corresponding period of 1965-66. However, this has been so not only because of higher costs of imports (an intended result of devaluation) but also because of the onset of recessionary conditions in various industries. There is also no evidence of any improvement in the invisibles account as a result of devaluation.

11.15. The Committee feel that the expected improvement in the country's balance of payments, as a result of devaluation, has not materialised so far mainly because of three factors viz. (i) continuing inflation, (ii) the lack of adequate export surpluses and (iii) the abrupt withdrawal of predevaluation export-incentive schemes and imposition of export duties on many important items of export. According to the Annual Plan 1967-68, the overall index of wholesale prices has risen by 15.7 per cent in 1966-67. This abnormal rise in prices—the highest annual increase experienced so far since the commencement of planning—has naturally neutralised to a great extent the usefulness of devaluation which was meant to be a corrective to the chronic disequilibrium in the balance of payments resulting from the earlier erosion in the value of the rupee under inflationary pressures.

11.16. The Committee would like to reiterate that the most essential condition for bringing about an enduring improvement in the country's balance of payments is to keep inflationary pressures firmly under control. To do so, it is necessary to identify and eliminate the factors contributing to inflation. The Committee are of the view that the most important cause of inflation lies in the size, strategy and implementation of the Five Year Plans. In brief, the Plans have led to inflation because the enormous outlays made thereunder have

not been matched by a corresponding increase in production. Rapid increases in non-developmental expenditure have further aggravated the inflationary pressures.

11.17. To remedy the situation it would be necessary, in the first place, to limit public expenditure to the resources Government can mobilise without recourse to deficit financing which aggravates inflation. This means that considerable economies have to be made in both developmental and non-developmental outlays. Secondly, to eliminate the all round shortages, responsible for the spiralling up of prices concerted measures will have to be taken to bring about a rapid increase in production particularly of essential consumer goods and export commodities. In view of the difficult resources position this would imply that expenditure on schemes which do not contribute to development except indirectly or in the long run will have to be kept to the minimum or deferred so as to cater fully to the developmental needs of agriculture and important consumer and export industries. Thirdly, fiscal policy will have to be reoriented with a view to hold the price line and stimulate savings and investment for higher production. Fourthly, early steps will have to be taken to improve the efficiency of the public sector enterprises so that they are able to attain higher levels of production and productivity and yield adequate returns on the large investments made in them.

11.18. The Committee would also like to reiterate the urgent need of increasing exports and accelerating the pace of import substitution particularly in respect of maintenance inputs which account for the bulk of the country's imports at present. They need hardly stress that enduring results in regard to exports can be achieved only by bringing down costs of production of our products, which are, at present, quite high by international standards. Meanwhile, the export effort will have to be supported by various forms of incentives and assistance.

11.19. In regard to exports, mention may also be made of the recent devaluation of the pound sterling and several other smaller currencies. *Prima facie*, due to the essentially 'import inhibitive' aspect of devaluation exports to Britain and the other devaluing countries will hereafter be more difficult and less attractive. Apart from this, India's major exports, jute, tea and cotton textiles, which have suffered a serious setback during the last year, will now have to face even stiffer competition from her main competitors— Pakistan (jute), Ceylon (tea) and Hong Kong (cotton textiles). While Ceylon and Hong Kong have devalued their currencies in the wake of the British devaluation, Pakistan has adjusted its export duty rate and in-

centives for jute exports to neutralize any disadvantage from the the devaluation of the pound sterling.

11.20. The Committee would like the Government to act with speed in assessing the impact of the recent devaluation of the pound sterling and other currencies on India's exports and take timely measures to counter any adverse effects that these developments may have on the country's export effort.

11.21. Finally, the Committee note the Government's decision to postpone the commencement of the Fourth Plan to April 1969. They would like the new Plan to embody a pragmatic approach to the pressing economic problems facing the country viz., rising prices, recurring balance of payments difficulties, and fall in production and the rates of domestic savings and investment. To strengthen people's faith in planning, which has been shaken by the unsatisfactory performance of the Third Plan and the growing economic difficulties, it would be necessary to ensure that the principal targets of the Plan are realistic and are such as can be achieved without producing fresh distortions and strains in the economy which may result in aggravating the lot of the common people. With this object in view, the Committee would suggest that the new Plan should not only lay down physical targets of achievements in various sectors but also set out practical and concrete measures to bring about the targated increases in production, exports, savings etc. They would also suggest that the formulation of the new Plan may be preceded by an objective assessment of the reasons for the failure of the Third Plan so that the errors in planning which have led to the present difficulties in both the internal and external sectors of the economy may be avoided.

NEW DELHI-1.
January 30, 1968.
Magha 10, 1889 (*Saka*).

P. VENKATASUBBAIAH,
Chairman,
Estimates Committee.

APPENDIX I

(*Vide* para 4.41)

Press Note dated June 5, 1966—*Ministry of Commerce.*

ALL EXPORT PROMOTION SCHEMES ABOLISHED ALTERNATIVE SCHEMES BEING WORKED OUT

It has been decided to abolish with immediate effect all special export promotion schemes providing for grant of import entitlement licences, whether operated through the various Export Promotion Councils and Commodity Boards or any other organisations, as well as the minor schemes embodied in Annexure II of Appendix 23 of the Import Trade Control Policy Book for the year April, 1966 to March, 1967 (Red Book) administered by the Import Licensing Authorities.

Alternative schemes for export promotion are being worked out by a Committee of Secretaries to ensure adequate allotment for imports of raw materials, components, machinery and equipment to exporters.

APPENDIX li

(*Vide* para 4.41)

Notification Issued by Ministry of Finance (Department of Revenue & Insurance) dated the 6th June, 1966.

GSR—In exercise of the powers conferred by section 280ZE of the Income-tax Act, 1961 (43 of 1961), read with section 290ZC thereof and of all other powers enabling it in this behalf, the Central Government hereby makes the following further amendment to the Tax Credit Certificate (Export) Scheme, 1965, namely:—

In the said Scheme, paragraph 3 shall be renumbered as sub-paragraph (1) of that paragraph and after sub-paragraph (1) as so renumbered, the following sub-paragraph shall be inserted, namely:—

"(2) No certificate shall be granted under sub-paragraph (1) in respect of any sale proceeds referred to in that sub-paragraph or part of such sale proceeds, received after the 5th day of June, 1966 in India in accordance with the Foreign Exchange Regulations Act, 1947 (7 of 1947) and the rules made thereunder."

APPENDIX III

(*Vide paras* 4.41 *and* 4.43)

Press Note, dated June 5, 1966—*Ministry of Finance (Department of Revenue and Insurance)*

EXPORT DUTIES IMPOSED ON TWELVE ITEMS

DOWNWARD ADJUSTMENTS ON BASIC IMPORT DUTIES ON SEVERAL ITEMS

Following the change effected in the par value of the Rupee, export duties are being imposed on the following items at the rates indicated against each item:—

	Description	Rates
1.	Jute Manufacture :	
	(i) Hessains	Rs. 900 per metric tonne
	(ii) Sacking, and all other sorts	Rs. 600 per metric tonne
2.	Tea	Rs. 2 per kilogram
3.	Coffee	Rs. 50 paise per kilogram
4.	Black Pepper, all Sorts	Rs. 1.25 per kilogram
5.	Oil cakes other than copra cakes	Rs. 125 per metric tonne
6.	Tobacco unmanufactured : (full excise rebate to continue)	75 paise per kilogram
7.	Raw cotton	Rs. 1,000 per metric tonne.
8.	Cotton waste	30 paise per kilogram
9.	Raw wool	Rs. 1 per kilogram
10.	Mica all sorts	50 paise per kilogram
11.	Hides, skins and leather tanned and untanned all sorts but not including manufacture of leather	10 per cent *ad valorem*
12.	Coir and coir maunfactures	10 per cent *ad valorem*

2. Simultaneously downward adjustments are also being made in the effective rates of basic import duty on a large number of items covered by the Import Tariff Schedule. Broadly speaking the

rates on machinery and primary raw materials are being revised to 27½ per cent *ad valorem* and on other raw materials and intermediates to 50 per cent *ad valorem*. The basic rates of duty on most consumer goods as well as agricultural equipment and appliances remain unchanged.

3. The regulatory duties have been withdrawn for all items.

4. Foodgrains, fertilizers, books and journals, newsprint, family planning accessories, sulphur and rock phosphate will be entirely free of duty. On certain essential categories of steel, mainly plates and electrical steel sheets, the basic duty has been brought down to 15 per cent. Counter-vailing Excise duties where leviable, will continue to be levied as hitherto on all items.

5. The specific duties on unmanufactured copper, zinc and lead remain unchanged.

6. Certain downward adjustments have also been made in the basic excise duties in respect of the major petroleum products. Additional excise duties on these products are also being readjusted. The effect of these changes will be that the consumer prices of products like kerosene, diesel oils, furnace oil and motor spirit will remain unchanged.

7. Tariff values fixed for Imported commodities are being suspended in most cases.

8. The Export Tax-Credit Scheme is also being withdrawn but provision is being made to ensure that the credits are issued in respect of foreign exchange already received and accounted for in accordance with the provisions of the Foreign Exchange Regulation Act, 1947 and the rules made thereunder.

9. All these changes take effect from Monday, the 6th June, 1966.

APPENDIX IV

(*Vide* para 4.46)

Liberalisation of Imports—

List of priority industries issued on June 21, 1966

Industries engaged in the manufacture of:

1. Motor Cycles.
2. Scooters.
3. Bicycles.
4. Mopeds.
5. Agricultural Tractors.
6. Agricultural machinery and implements.
7. Pumps.
8. Fertilizers.
9. Pesticides.
10. Basic metal-iron and steel, copper, aluminium, zinc and lead.
11. Industrial and mining machinery.
12. Iron and steel castings, forgings, pipes and structures.
13. Internal combustion engines.
14. Machine tools and accessories.
15. Workshop machinery and equipment other than machine tools.
16. Small tools including cutting tools, power tools and other workshop tools.
17. Coated and bonded abrasives and polishing wheels.
18. Industrial furnaces.
19. Welding electrodes.
20. Ball and roller bearings.
21. Transformers, switchgears, motors, generators.
22. Electrical cables and wires.
23. Storage batteries, dry batteries.
24. Electronic components.
25. Construction and earth moving equipment.

26. Cranes and hoist blocks.
27. Industrial fasteners.
28. Wire ropes.
29. Scientific and Industrial instruments.
30. Cement.
31. Organic and inorganic heavy chemicals.
32. Fine chemicals.
33. Pulp, paper and newsprint.
34. Synthetic rubber.
35. Tyres and tubes.
36. Industrial explosives.
37. Industrial gases.
38. Drugs.
39. Medical and surgical equipment and appliances.
40. Electro-medical and X-ray equipment.
41. Refractories, fire bricks and insulators.
42. Commercial vehicles including jeeps and three wheelers.
43. Automobile ancillaries.
44. Trawlers, dredgers and fishing boats.
45. Leather and leather goods.
46. Optical and laboratory glass and glass wool.
47. Jute textiles.
48. Tea.
49. Coffee.
50. Canned and preserved fish.
51. Sanitary cans.
52. Paints and varnishes and enamels.
53. Man-made fibres.
54. Matches
55. Telecommunications equipments.
56. Wagons.
57. Industrial refrigeration equipment.
58. Sugar.
59. Cotton textiles.

APPENDIX V†

(*Vide* para 5.27)

First Five Year Plan: Physical Targets and Achievements

		1948-49	1950-51	1955-56 Targets	1955-56 Achievements
Foodgrains	million tonnes	52.6	54.9*	62.6	66.9
Cotton	million bales of 180 Kgs. each	1.8	58.5** 2.9	4.1	4.0
Jute	million bales of 180 Kgs. each	2.1	3.3	5.4	4.2
Sugarcane (gur)	million tonnes	5.0	5.7	6.4	6.1
Oilseeds	million tonnes	4.6	5.2	5.6	5.7
Irrigation and Power					
Area irrigated (net)	million hectares	18.9	20.9	24.3†‡	22.7
Electrical energy (installed capacity)	million kwh	1.8	2.3	3.6	3.4
Industry					
Coal	million tonnes	30.3	32.3	39.6	39.0
Finished steel	million tonnes	0.9	1.0	1.7	1.3
Cement	million tonnes	1.6	2.7	4.9	4.7
Aluminium	'000 tonnes	3.5	4.0	12.2	7.4
Ammonium Sulphate	'000 tonnes	35.8	47.0	457.2	400.3
Superphosphates	'000 tonnes	21.7	56.0	182.9	71.1
Locomotives	numbers		7	142	179
Cotton yarn	million Kgs.	1,447	1,178	1,640	1,640
Handloom cloth	million metres	972	678	1,554	1,295
Cotton cloth (mill)	million metres	3,950	3,401	4,298	4,665
Jute manufactures	'000 tonnes	1,105	837	1,219	1,071
Bicycles	'000 numbers	55	99	530	513
Sewing machines	'000 numbers	20	33	92	11
Sugar (Nov-Oct)	million tonnes	1.0	1.1	1.5	1.9
Paper and paperboard	'000 tonnes	100	116	203	190
Vanaspati	'000 tonnes	145	170	305	280
Electric transformers	'000 kva	82	178	450	625
Electric motors	'000 h.p.	60	99	320	272
Electric fans	'000 nos.	160	197	320 350	287
Automobiles	'000 tonnes	21.8*	16.5	30.0	25.3

†Source : Pocket Book of Economic Information 1956, Ministry of Finance.

*For 1949-50.

**Corresponding estimates of production adjusted for changes in statistical coverage and methods of estimation.

‡Arrived by adding to the base year's figure the additional area of 3.4 million hectare expected to be irrigated from major and medium projects.

§Relates to 1949.

		1950-51	1955-56 Targets	1955-56 Achievements
	Shipping			
Coastal	'000 GRT	217	325	240
Overseas	'000 GRT	174	285	240
	Roads			
Surfaced roads	'000 kilometres		157	183

APPENDIX VI†

(*Vide* para 5.56)

Second Five Year Plan—Physical Targets and Achievements

		1955-56	1960-61 Targets	1960-61 Achievements
Agriculture				
Foodgrains	million tonnes	66.9	76.2 (81.8)	82.0
Cotton	million bales of 180 kgs. each	4.0	5.4 (6.5	5.3
Sugarcane (gur)	million tonnes	6.1	7.2 (7.9)	11.1
Oilseeds	million tonnes	5.7	7.1 (7.7)	7.0
Jute	million bales of 180 Kgs. each	4.2	5.0 (5.5)	4.1
Tea	million Kgs. ¶	285	318	321
NOTE :—Figures in bracket indicate the revised targets.				
Irrigation and Power				
Area irrigated (net)	million hectares	22.7	27.5	24.6
Electricity (capacity)	million kwh	3.4	6.9	5.7
Electricity (generated)	million kwh	10,777	22,000	20,023
Community Development				
Blocks	number	1,075	3,088	3,137
Villages covered	'000 nos.	143	386	364
Population served	million	69	n.a.	203
NOTE:—Population coverage is based on 1951 census.				
Industry and Mining				
Coal	million tonnes	39.0	61.0	55.5
Iron ore	million tonnes	4·3	12.7	11·0
Finished steel	million tonnes	1·3	4.4	2·4
Pig-iron (for sale)	million tonnes	0·4	0·8	1·1
Cement	million tonnes	4·7	13·2	8·0
Aluminium	'000 tonnes	7·4	25·4	18·3
Cement machinery	Rupees million	4	20	6
Sugar machinery	Rupees million	2	25	44
Machine tools	Rupees million	8	30	70
Steel structural fabrications	'000 tonnes	203	508	229
Electric motors 200 h.p. & below	'000 h. p.	272	600	728
Electric transformers (33 kv and below)	'000 kva	625	1,360	1,392
Electric cables (ACSR conductors)	'000 tonnes	8.8	18·3	24·0

†*Source* : Pocket Book of Economic Information 1966, Ministry of Finance.

		1955-56	1960-61 Targets	1960-61 Achievements
Railway locomotives	numbers	179	400	272
Fertilizers :				
Nitrogenous	'000 tonnes of N.	80	290	99
Phosphatic	'000 tonnes of P205	12	122	54
Sulphuric acid	'000 tonnes	167	478	368
Caustic Soda	'000 tonnes	36	137	101
Soda Ash	'000 tonnes	82	234	152
Sulpha drugs	tonnes	84	449	147
D.D.T.	tonnes	288	2,845	2,831
Sewing machines	'000 nos.	111	200	303
Bicycles	'000 nos.	513	1,000	1,071
Automobiles	'000 nos.	25.3	57·0	55·0
Cotton cloth (mill)	million metres	4,665	4,892	4,649
Sugar*	million tonnes	1·9	2.3	3·0
Petroleum products	million tonnes	3·4	4·4	5·8
Paper and paper board	'000 tonnes	190	356	350
Transport and Communications				
Railways				
Passenger train kilometres**	million	175	200	193
Freight originating	million tonnes	116	165	156
Surfaced roads	'000 kilometres	183	224	236
Shipping	million GRT	0·5	0·9	0·9
Post Offices	'000 numbers	55	75	77
Telegraph Offices	'000 numbers	5·1	6·3	7·0
Telephones connections	'000 numbers	278	458	463

*During sugar season (Nov-Oct.)

**Including electrical multiple units.

APPEIDIX VII†

(*Vide* para 5.83)

Third Five Year Plan—Major Physical Targets and Achievements

		1960-61	1965-66	
		Achieve-ments	Targets	Likely Achieve-ments
Agriculture				
Foodgrains	million tonnes	82·0	100·0	72·3
Cotton	million bales*	5·3	7·0	5·4
Jute	million bales*	4·1	6·2	4·5
Sugarcane (gur)	million tonnes	11·1	10·2	12·3
Oilseeds	million tonnes	7·0	10·0	7·5
Tea	million kgs.	321	408	376
Coffee	'000 tonnes	68	80	75
Rubber	'000 tonnes	26·1	45·7	50·8
*Bale-180 Kgs.				
Irrigation and Power				
Major and medium irrigation schemes :				
Potential at cnannel outlets	milliom hectares:	4·7	11·9	7·7
Utilisation	million hectares	3·4	9·2	6·1
Area irrigated (net)*	million hectares	24·6	36·4	31·7
Electricity (installed capacity)	million kwh	5·7	12·7	10·5
Number of towns and villages electrified	'000 numbers	24·7	43·0	52·3
*Includes minor irrigation.				

†Source : Pocket Book of Economic Information 1966, Ministry of Finance.

		1960-61		1965-66			
		Achievements		Targets		Likely Achievements	
		Capacity	Output	Capacity	Output	Capacity	Output
Industry and Mining							
Coal	mil tonnes		55·5		97·0		70·0
Iron ore	—do—	..	11·0		30·0*	..	24·0*
Finished steel	—do—	4·6	2·4	7·6	6·9	5·6	4·5
Pig iron (for sale)	—do—	1·1	1·1	1·5	1·5	1·2	1·2
Cement	—do—	9·3	8·0	15·3	13·2	12·0	10·8
Aluminium	'000 tonnes	19·1	18·3	88·5	81·0	73·3	60·5
Industrial Machinery :							
Cotton textiles	Rs. million	120	104	220	200	400	215
Cement	—do—	11	6	45	45	178	32
Sugar	—do—	116	44	150/160	140	175	76
Paper	—do—	37	neg.	85	65/70	73	15
Steam Boilers	—do—	37	5	290	250	168	80
Machine Tools	—do—	80	70	300	300	427	295
Steel & chemical machinery	'000 tonnes			80	15/20	60	45
Coal mining machinery	—do—	..	..	45	20	n. a.	12
Structural fabrication	—do—	508	225	1170	1016	300	300
Precision Instruments :							
Industrial & Scientific	Rs. million	35	30	230	70	400	90
Locomotives :							
Steam	numbers	300	272	300	1191**	250	203
Diesel	—do—			n.a.	115**	150	58
Electric	—do—	..	..	72	164**	72	64
Automobiles	'000 nos.	53·7	55	100	100	74	71
Motor cycles and scooters	—do—	23	18	48	50	75	50
Tractors	—do—	neg.	neg.	12	10	15·5	6·6
Ship building	'000 DWT	25/30	9·5	50/60	50/60	50@	50@

*Including Goa.
**Figures relate to five year period.
@Figures in 000 GRT :

		1960-61				1965-66	
		Achievements		Targets		Likely Achievements	
		Capacity	Output	Capacity	Output	Capacity	Output
Industry and Mining (*contd.*)							
Heavy Electrical Equipment:							
Turbines-steam	M.K.W					0.6	
Turbines-hydro	—do—		..			0·5	
Generators-Thermal	—do—		..			0·6	
Generators-Hydro	—do-					0·5	
Motors above 150 KW	—do—					0·5	..
Traction motors	numbers					800	n.a.
Transformers 66 KV and above	M.KVA		..			4·0	n.a.
Switchgear and control gear	Rs. million		..			180	n.a.
Electric transformers (below 33 KV.)	million KVA	1·4	1·4	4·3	3·5	3·0	3·5
Electric motors (200 h.p. and below)	million H.P.	1·1	0·7	3·0	2·5	1·4	1·8
Electric fans	million nos.	0·9	1·1	2·8	2·5	1·5	1·4
Bicycles	—do—	1·12	1·07	2·2	2·0*	1·7	1·6
Sewing Machines	'000 tones	267	303	700	700**	470	428
Radio Receivers	—do—	279	282	900	800	392	605
Fertilizers :							
Nitrogenous	'000 tonnes	160·5	99	1016	812	477	227
Phosphatic	'000 tonnes of P2 05	57·9	54·0	508	406	206	123
Sulphuric acid	'000 tonnes	490·7	368	1778	1524	1165	653
Soda ash	—do—	272·3	152	540	457	363	330
Caustic Soda	—do—	126	101	406	345	269	218
Drugs & Pharmaceuticals	Rs. million	n.a.	n.a.	n.a.	n.a.	1750	1750
Paper & paper board	'000 tonnes	416·6	350	833	711	644	559
Newsprint	—do—	30·5	23	152	122	30	30
Petroleum products	m. tonnes	6·0	5·8	10·8	9·9	10·5	9·5
Cotton cloth	m. metres	2·0@	4649	2·25@	5300@	2·18@	4401
Jute textiles	'000 tonnes	1219	1071	1219	1321	1219	1301
Rayon Filament	million Kgs.	23·7	21·3	63·5	63·3	43·4	40·0
Staple Fire	—do—	21·8	21·8	34·1	34·1	25·5	34·0
Chemical pulp	'000 tonnes	..	..	100	100	48·0	44·0
Sugar	ml. tonnes	2·29	3·03	3·55	3·25	3·55	3·50
Vanaspati	'000 tonnes	477·5	340	550	500	584	401

*In addition the small scale sector is expected to produce 500,000 bicycles.

**In addition the small scale sector is expected to produce 150,000 sewing machines.
@Lakh looms.

		1960-61 Achievements	1965-66 Targets	1965-66 Likely Achievements
Transport and Communications				
Railway : Freight originating	million tonnes	156	249	205
Surfaced roads	'000 kilometres	235·8	275·8	284·0
Commercial vehicles on roads	'000 nos.	224	365	328
Shipping	million GRT	0·9	1·1	1·5
Major ports (capacity)	million tonnes	37·5	49·8	50·2
Post Offices	'000 nos.	77	94	98
Telegraph Offices	'000 nos.	7·0	9·0	8·6
Telephone connections	'000 nos.	463	763	873

APPENDIX VIII

(*Vide* para 6.21)

*Exports of some Developing Countries**

	Value in Million US Dollars 1960	1965	Percentage increase between 1960—65
Burma	226	226	nil
India	1367	1688	23·4
Israel	211	406	94·3
Jordan	11	25	127·2
Kenya	112	145	30
Pakistan	393	528	37
Philippines	560	768	37
Syria	110	168	52·7
Taiwan	164	450	174·4
Thailand	408	627	53·6
Uganda	120	179	49
United Arab Republic	568	605	605

*Source : Yearbook of International Trade Statistics, 1965, United Nations, New Yark, 1967, PP17-18

APPENDIX IX

(*Vide* para 10.85)

Cases Involving Violations of Foreign Exchange Regulation Act

ENFORCEMENT DIRECTORATE

MINISTRY OF FINANCE

(Department of Revenue and Insurance)

GOVERNMENT OF INDIA

	1956-57	1957-58	1958-59	1959-60	1960
(a) No. of Cases registered	543	722	997	1241	1695
(b) No. of Cases closed	435	380	347	313	1454
(c) No. of Caess Adjudicated	..	10	177	223	289
(d) Total fine imposed in the cases adjudicated (in Rs.)		65,950	8,61,343	57,29,327	2,16,565
(e) Total amount of foreign currency confiscated (in Rs.)		..	1,01,196·62	30,720·23	32,523·46
(f) Total amount of Indian (in Rs.) currency confiscated					
(g) Total amount ordered to (in Rs.) be repatriated to India	..	..			3,18,000
(h) No. of Cases prosecuted	26	6			..
(i) No. of Cases ending in conviction		25		1	
(j) No. Cf cases ending in acquittal.		4	..	2	..

	1961	1962	1963	1964	1965
(a) No. of Cases Registered	1941	3034	3455	2458	3420
(b) No. of Cases closed	1466	2215	2094	642	1354
(c) No. of Cases Adjudicated	409	720	832	853	670
(d) Total fine imposed in the cases adjudicated (in Rs.)	10,88,911	10,20,735	14,25,972	20,15,115	1,39,22,023
(e) Total amount of foreign currency confiscated (in Rs.)	37,328·69	17,108	3,31,675	2,12,556·72	63,646
(f) Total amount of Indian (in Rs.) currency confiscated			86,559	2,13,836	4,94,528
(g) Total amount ordered to (in Rs.) be repatriated to India	4,10,000	9,20,000	13,60,000	6,05,016	2,09,95,357
(h) No. of Cases prosecuted	..		3	12	14
(i) No. of Cases ending in conviction		..	1	5	8
(j) No. of Cases ending in acquittal.		—	—	5	4

The amounts include refunds subsequently by the order of Supreme Court or other affiliated bodies

APPENDIX X

Summary of Conclusions/Recommendations

Serial No.	Reference to Para No. of the Report	Summary of Conclusions/Recommendations
1	2	3
1	3.89	The Committee note that the value of import of consumer goods (other than food) increased from an average of Rs. 147.6 crores per year in 1948-51 to Rs. 176 crores per year in the First Plan.
2	3.91	(i) On a review of India's balance of payments during the years 1948-61, the Committee note that India had an adverse balance of trade throughout these thirteen years, though the size of the trade deficits varied from year to year. Briefly, the aggregate and average annual trade deficits during the three periods—the pre-plan period (1948-51), the First Plan period (1951-56) and the Second Plan period (1956-61)—covered in this span of thirteen years, were as under:

(Rs. crores)

Period	Trade Balance	(Annual Average
1948-51	(—) 377	—126
1951-56	(—) 542	—108
1956-61	(—) 2336	—467

The impact of the trade deficits on the country's balance of payments was to some extent softened by net receipts from Invisibles. But earnings from invisibles being generally very small compared to the size of the trade deficits, the country had a negative current account in all but two years, *viz.*, 1952-53 and 1953-54, the annual ave-

1	2	3	4
		rage current account deficit being Rs. 88 crores in 1948-51, Rs. 30 crores during the First Plan period and Rs. 382 crores during the Second Plan period. The recurring trade and current account deficits inevitably led to the erosion of the country's foreign exchange reserves, which declined from Rs. 1612 crores at the end of March 1948 to Rs. 303.6 crores at the end of the Second Plan period. Besides, to meet the payments arising out of excess of imports over exports the country had to go in for external assistance on an exetensive scale.	
	3.92	(ii) The Committee feel that the persistent current account deficits during the period 1948 to 1961 were due mainly to failure to evolve and implement a consistent trade policy which would maximise exports and minimise imports.	
3	3.93	(i) The Committee note that during the period 1948-51 the policy relating to exports was, by and large restrictive, guided as it was, by the need to ensure adequate supplies to meet the home demand. Although exports rose during this period from Rs. 482.5 crores in 1948-49 to Rs. 646.8 crores in 1950-51, the increase in export earnings was purely fortuitous being largely due to higher prices resulting from rising world demand occasioned by the Korean War boom of 1950-51.	
	3.94	(ii) During the First Plan period the export policy was liberalised somewhat by reducing or removing export duties, liberalising export quotas and removing destinational restrictions in the case of certain commodities. The annual average exports during the plan period amounted to Rs. 622 crores as against Rs. 548 crores during 1948-51, marking an increase of about 14 per cent. It has to be noted, however, that the improvement was largely accounted for by the fact that under the impact of the Korean War boom exports had reached an all-time peak of Rs. 730 crores in 1951-52. With the tapering off of the Korean War boom, exports again came down and the annual average for the remaining four years of the First Plan period was only Rs. 594.5 crores.	
	3.95	(iii) The Second Five Year Plan while anticipating a large foreign exchange gap had stres-	

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		sed that "the accent of policy must necessarily be on maximising export earnings and economising to the utmost on imports." However, in the balance of payments estimates of the Plan annual average exports during 1956-61 were assumed to amount to only Rs. 593 crores, *i.e.* Rs. 29 crores lower than the level attained during the preceding plan period. It is significant that even after the drastic fall in foreign exchange reserves in the first two years of the Second Plan had focussed attention on the need to promote exports and certain promotional measures to step up export earnings were initiated, exports failed to pick up appreciably. In fact, the level of export earnings in the last four years of the Second Plan was lower than that in the first year of the Plan. The annual average of actual exports during the Second Plan period was only Rs. 613 crores which was Rs. 9 crores less than the average for the First Plan period.
	3.96	(iv) The Committee are distressed to note that in spite of a decade of planning exports had remained stagnant during the first two Plans. They consider it regrettable that in spite of the large foreign exchange requirements of the two Plans, no serious effort was made to earn additional foreign exchange through increased exports. In fact, till the cushion provided by the accumulated sterling balances very nearly disappeared in 1957-58, there was hardly any awareness that exports had an effective role to play in augmenting the country's foreign exchange resources. In the Third Plan document itself, it has been stated, "One of the major drawbacks (of export promotion) in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five Year Plans."
4	3.97	The Committee also regret to note the absence, during the years 1948—61, of a purposive import policy aimed at ensuring the most beneficial use of available foreign exchange resources in accordance with well-defined priorities which are indispensable for a country engaged

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		in bringing about rapid development in a planned manner with scarce resources. They would like to recall that during 1948—61 the import policy was frequently changed from 'rigid' to 'liberal' and *vice versa*. For instance, in July 1948 the rigid import policy pursued in the first half of that year was relaxed as the foreign exchange position was believed to be comfortable, but as the liberalisation of imports resulted in the emergence of a large trade deficit (of Rs. 283.8 crores) in 1948-49, the import policy was again tightened in 1949 in successive stages. An improvement in the current account position in 1950-51 (in this year there was a net receipt on current account of Rs. 36.8 crores although the trade balance had shown a deficit of Rs. 3.5 crores) again led to the adoption of a liberal import policy in 1951—the first year of the First Plan. The relaxation resulted in a record flow of imports (Rs. 962.9 crores) and a large trade deficit (Rs. 232.8 crores) in 1951-52. This again led to some tightening of import controls in the second half of 1952 and in 1953. In the last two years of the First Plan the import policy was said to be "one of progressive but controlled liberalisation." The effects of the successive liberalisations of import policy were felt in the first year of the Second Plan when an unprecedented gap between imports (Rs. 1102.1 crores) and exports (Rs. 635.2 crores) brought about a sharp fall of Rs. 221.3 crores in the foreign exchange reserves in spite of net drawings of Rs. 54.7 crores from the IMF. The serious foreign exchange position in the opening year of the Second Plan necessitated a drastic cut in imports of non-essential consumer goods and the adoption of a stringent import policy. However, in the second half of 1958-59 the import policy again became less restrictive and imports of a number of non-essential consumer goods were liberalised.
5	3.98	The Committee would also like to point out in this connection that during the years 1948-55 substantial amounts of foreign exchange were spent on the import of 'consumer goods other than food'. The annual average value of imports of this category and their average percentage to the

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total imports during 1948-51, the First Plan period and the Second Plan period was as under:

(Value in Rs. crores)

	1948-51	1951-56	1956-61
Annual Average Value	147·6	176	60·2
Average Percentage .	22·8	24·8	6·26

3.99 Imports of such goods reached their highest level in 1954-55 when they amounted to Rs. 224 crores and formed 34.1 per cent of the total imports. Considering that the imports of 'consumer goods other than food' were brought down from an average of Rs. 176 crores a year during the First Plan period and Rs. 224 crores in 1954-55 to only Rs. 60.2 crores per year during the Second Plan period, the Committee cannot but infer that during the period preceding the foreign exchange crisis of the Second Plan substantial amounts of foreign exchange were expended on avoidable imports of consumer goods consisting of various non-essential items. They are particularly unhappy that even after the country had embarked on a course of planned development as much as Rs. 176 crores a year on an average were spent on imports of this category of goods. The Committee need hardly stress that had the drastic cuts in imports of non-essential consumer goods, which the Government were obliged to enforce during the Second Plan period, been introduced earlier the foreign exchange crisis of 1957-58 might have been avoided.

6 3.100 The Committee are of the view that the foreign exchange crisis that overtook the Second Plan was the result mainly of:

(i) Successive liberalisations of import policy in 1954-55 and 1955-56, the effects of which were felt in the first year of the Second Plan.

(ii) Heavy imports of iron and steel and machinery.

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		(iii) Permitting the private sector to import a much larger quantum of capital and semi-finished goods than visualised in the Plan.
		(iv) Permitting a much larger import of consumer goods than was either allowed in the Plan or could be considered essential.
		(v) Larger imports of foodgrains than provided for in the Plan.
		(vi) Under-estimation of the import requirements of the Plan projects.
7	3.101	The Committee would like to mention here that actual imports in 1956-57, the first year of the Second Plan, were of the value of Rs. 1102 crores against Rs. 783 crores estimated in the Plan document. Since imports occurring in 1956-57 must have been licensed earlier, it is evident that while making their estimate of imports in the first year of the Second Plan the framers of the Plan were unaware of the imports that had been ordered in the preceding year. The Committee are, therefore, constrained to observe that one of the reasons why the foreign exchange estimates of the Second Plan proved so wide of the mark was an unfortunate lack of coordination between the Planning Commission, the Ministry of Finance and the Ministry of Commerce and Industry.
8	3.113	The Committee note that even with larger PL 480 imports than were anticipated at the time of the formulation of the Third Plan the actual total trade deficit during the Plan period was lower than the Plan estimates by Rs. 396.9 crores. Exclusive of PL 480 imports, the actual trade deficit was Rs. 651.6 crores less than the deficit envisaged in the Plan document.
9	3.118	The Committee note that while the Third Plan document had assumed that receipts and payments under the head 'invisibles (excluding official donations)' "would more or less balance" during the Plan period, transactions on this account over the five years of the Third Plan have actually resulted in net outflow of Rs. 278.7

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		crores from the country's foreign exchange resources. The Committee are surprised that the Plan estimates in this behalf should have proved so unrealistic. Considering that the adverse trend in respect of 'invisibles excluding official donations' became noticeable in the very first year of the Third Plan and continued to aggravate in subsequent years, the Committee cannot but regret that effective measures to improve the position were not taken in time.
10	3.121	The Committee note that the margin of 'errors and omissions' has been very large in certain years. They feel that with better collection and processing of balance of payments data it should be possible to reduce the size of 'errors and omissions' to the minimum.
11	3.122	The Committee also note that as against the total outflow of Rs. 550 crores on capital transactions (excluding official donations) contemplated in the Third Plan document the actual outflow on this account together with 'Errors and Omissions' had amounted, during 1961—66, to Rs. 496.8 crores.
12	3.133	(i) The Committee note that throughout most of the Third Plan period, the balance of payments situation remained difficult and that inspite of 'a progressive increase in the utilisation of foreign aid' periodic crises in the balance of payments necessitated frequent recourse to the I.M.F. and drawing down of the foreign exchange reserves.
	3.134	(ii) The Committee feel that the balance of payment difficulties of the Third Plan were essentially only a reflection of 'a basic disequilibrium in our balance of payments', caused mainly by two continuing factors, namely, a growing trade deficit and the mounting burden of servicing the external debt. This is evident from the fact that the balance of payments situation 'deteriorated sharply' only in 1964-65 as exports remained stagnant while 'payments for imports and debt repayments mounted up rapidly'. In this connection the Committee wish to draw attention to the following figures indicating the

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magnitude of the trade deficits and debt servicing payments during the Third Plan period:

(Rs. crores)

	1961-62	1962-63	1963-64	1964-65	1965-66	Total 1961—66
(a) Trade deficit . .	328	398·1	413·3	560·2	553·5	2253·1
(b) External debt servicing amortization . . .	106·3	111·8	123·6	150·0	170·1	661.8
Total (a) and (b) .	434·3	509·9	536·9	710·2	723·6	2914.9

They would also like to mention that according to the Draft Outline of the Fourth Plan external debt servicing payments during the period 1966-71 are expected to amount to Rs. 2284 crores, that is, about Rs. 457 crores a year.

3.135 (iii) The Committee regret that although the foreign exchange crisis of the Second Plan had amply demonstrated the adverse effects of large and recurring trade deficits, the Third Plan tacitly assumed that such deficits were essential and would be fully covered by foreign aid. The actual trade deficit during the Plan period has turned out to be smaller than that estimated in the Plan document by Rs. 396.9 crores, which only means that the foreign exchange position would have been much worse had the import targets envisaged by the planners been achieved.

13 3.136 (i) The Committee need hardly stress that large trade deficits are not indispensable to the economic growth of an under-developed country, for they might well arise from shortfalls in domestic production, inflation and other similar setbacks in the internal economy.

3.137 (ii) In the ultimate analysis, the disequilibrium in the balance of payments can be removed only by:

(i) reducing the outflows on account of imports and invisibles.

(ii) increased earnings from visible and invisible exports.

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14	3.138	The Committee consider that the balance of payment difficulties during the Second and Third Plan periods mainly arose on account of the following: (i) Heavy inflation particularly during the Third Plan period on account of deficit financing and other factors. It is significant to note that the quantum of deficit financing which was envisaged at Rs. 550 crores in the Third Plan actually mounted to Rs. 1,150 crores. (ii) Failure to attain self-sufficiency in foodgrains and consequential need to import foodgrains both under PL 480 and with free foreign exchange resources. This was obviously due to failure to take effective steps to modernise agriculture and boost up food production. (iii) Heavy investments in projects having long gestation period with the result that while there was no return from these projects, the products intended to be manufactured in these projects continued to be imported. (iv) Lack of integrated programme of industrialisation which resulted in creating the demands for heavy maintenance imports. This would be evident from the fact that out of total imports amounting to Rs. 12049 crores (in post devaluation rupees) envisaged for the Fourth Plan as much as Rs. 8,190 crores (i.e. 78%) have been estimated for maintenance imports. With the setting up of industries, no serious effort appears to have been made to create indigenous capacity for the production of components, intermediaries and raw materials required by these industries which largely depended upon imports for their maintenance requirements. (v) Non-attainment of the targets of production (*e.g.* fertilisers, non-ferrous metals) envisaged in the various sectors of economy during the various Plan periods,

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		leaving wide gaps which had to be filled up by imports.
		(vi) High costs of setting up of industries on account of tied foreign aids, as well as various other factors. The result has been that the unit cost of production in the country is much higher than the international cost of similar articles thereby inhibiting the prospects of exports on competitive basis.
		(vii) The existence of sellers' market in the country, leaving no incentive to industrialists to export their products and to improve the quality of their goods.
		(viii) Failure to link imports with the capacity to generate surpluses for exports required to repay the loan servicing charges.
		(ix) Import of non-essential consumer goods particularly during the First and Second Plan periods.
15	3.139	The Committee urge that the problems posed by the chronic disequilibrium in the country's balance of payments call for a realistic approach to planning and fiscal policy and should not be viewed, in isolation, as mere problems of trade.
16	4.80	(i) The Committee note that in spite of considerable external assistance the country's foreign exchange reserves, which amounted to Rs. 1612 crores at the end of March 1948, had suffered heavy erosion, particularly during the Second Plan period, and had remained at a precariously low level for most of the Third Plan period. At the same time, while exports had ceased to grow and had even shown a declining trend in 1965-66, imports had remained at a high level despite controls. On the invisibles account too payments had grown while receipts had continued to fall off. There was thus a basic disequilibrium in the country's balance of payments. Despite the progressive increase in the utilisation of external assistance, there had been recurring crises in that balance of payments during the Second and Third Plan periods.

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	4.81	(ii) Following the outbreak of the Indo-Pak conflict in September, 1965, there was a sudden pause in fresh authorisations of external assistance and the magnitude of fresh assistance authorised during 1965-66 was only Rs. 604 crores as compared to Rs. 744 crores in the previous year. In the latter half of 1965-66, government were obliged to impose a drastic cut in imports. The Committee also note that after a brief recovery, the balance of payments had again shown a deficit in the quarter April—June 1966. There was no evidence of any marked uptrend in exports. Further, the drastic cut in imports, imposed in the latter half of 1965-66, had adversely affected industrial production. In fact, the foreign exchange position was so difficult that unless aid began to flow soon in adequate quantities there was every danger of the economy receiving a serious setback. Moreover, the country had reached a stage when it had to 'incur fresh debts in order to pay off old ones'; even the finalisation of the Fourth Plan could not be undertaken in the absence of reasonable prospects of aid. However, external assistance was not readily forthcoming as the lending countries/institutions seemed to require 'demonstrable evidence of our determination and capacity to push our exports and improve the external viability of our economy'. It has been acknowledged that action in regard to devaluation "could not be postponed as all further aid negotiations hinged on it."
	4.82	(iii) The fierce reaction both in Parliament and outside to Government's decision to devalue in June 1966 is indicative of the far-reaching repurcussions of this measure on the Indian economy. It should have been possible for Government to foresee in the beginning of Second Plan the critical position which was bound to be reached in the balance of payments, if timely and effective measures were not taken to generate enough export surpluses to pay for large imports and to service heavy loans which were being taken from foreign countries and international bodies, to force the pace of industrialisation.
17	4.83	(i) The Committee feel that the chronic and growing deficits in India's trade and invisibles

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		accounts were essentially due to inflation and the attendant overvaluation of the rupee.
	4.84	(ii) Inflation had meant not only higher costs for exporting industries, as a result of which Indian exports were priced out in foreign markets, but also diversion of investment as well as supplies to meet domestic demand. The selective export incentive measures in operation before devaluation, such as import-entilements, tax credit certificates, subsidised etc. had proved clearly inadequate considering that exports in 1964-65 were almost at the same level as in the previous year while in 1965-66 they actually registered a slight fall. Moreover, in the context of the inflationary situation, these incentive schemes had called for periodic increases in their range and quantum, they also lacked the potential for bringing about a lasting solution in the form of increases in output or lowering of the costs of production. It became evident that these *ad hoc* measures could not provide an enduring solution to the country's export problems.
	4.85	(iii) The effects of inflation had been equally harmful in regard to imports. Despite a progressive increase in import duties, imported goods continued to command a premium as Indian prices of comparable goods were well above world prices. This hampered the progress of import-substitution. The relative cheapness of imports also gave rise to severe import restrictions which affected the growth of industrial production and enabled importers to make large profits without any benefit to the consumer.
	4.86	(iv) The over-valuation of the rupee had also adversely affected the position on the invisibles account. Private foreign investors, who had earned substantial profits as a result of scarcity, were able to remit their profits at the over-valued rate, thus involving the country in an undue drain of foreign exchange. Moreover, over-valuation had given rise to leakage of foreign exchange through various anti-social practices, such as, under-voicing of, exports, over-invoicing of imports, retention of illegal earnings abroad, smuggling etc.

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18	4.87	The Committee are glad to note that Government recognise the imperative need of observing the 'necessary discipline' to keep inflationary pressures under control so that the country is not again faced with a situation where further devaluation becomes unavoidable. They regret to observe, however, that judging by results there has been little evidence so far of Government's determination to hold inflation in check.
19	4.88	The Committee also note Government's decision to affect a modest economy of Rs. 101 crores in the expenditure during 1966-67 as a post-devaluation measure. They would, however, like to underline the very distressing fact that, in sharp contrast to 1949 when devaluation was followed by voluntary cuts in salaries of Ministries and schemes of compulsory savings or cut in salaries applicable to all Government employees, the present devaluation has been followed by increases in emoluments of Government employees all over the country necessitated by the spiralling up of prices.
20	4.89	(i) The Committee need hardly stress that if inflationary pressures continue to grow, as they have during the past year, the usefulness of devaluation might get eroded.
	4.90	(ii) The Committee would like Government to take speedy and effective measures to attack the root causes of the malady of inflation which can be traced to over-ambitious Plans which have tended to emphasis requirements rather than resources and are not moderated in the light of actual achievements and resources available from year to year. More specifically. the Committee consider that the size and the contents of the Third Plan should have been reviewed pragmatically in 1962 when Chinese aggression and the growing menace of Pakistan made it abundantly clear that defence requirements had to be given top priority in the interest of national security. Government should at that time have curtailed non-developmental civil expenditure specially on schemes which held out little promise of return so as to accommodate perceptible increase in the outlay on defence. It is evident that if inflation

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		is to be curbed effectively the size, contents and strategy of the Fourth Plan would have to be radically changed so as to enforce economic discipline by curtailing expenditure on non-developmental schemes and accord the highest priority to agricultural production and industries catering to the basic requirements of the common man *viz.*, food, clothing and shelter. Simultaneously, concerted efforts would have to be made to develop the exports of the country to pay for heavy imports of capital goods and machinery and to service large loans which have been taken from foreign countries and International institutions.
	4.91	(iii) The Committee would like to stress the imperative need of securing an appreciable increase in production and productivity in both agriculture and industry so as to augment export supplies and also provide an enduring solution to the problem of rising prices in the context of persistent scarcity conditions. They hope that Government would lose no time in initiating suitable measures in this behalf.
21	4.92	The Committee feel that time has come when the Plan will have to accord with economic realities and be flexible enough to be rolled forward or back in the light of achievements from year to year.
22	4.93	The Committee would also like to drew attention to the inordinate delay in the setting up of a high-powered Inter-Ministerial Committee to work out the details of the 'various programmes for development of the production of the principal export-oriented agricultural commodities' and to supervise the implementation of these programmes. The constitution of such a committee was envisaged in the 'Selected Immediate Programmes to help and devlop exports' announced by the Minister for Commerce in his statement of August 16, 1966, but the committee was actually set up only on December 13, 1966, that is, nearly four months after the announcement of the 'Immediate Programme' and over six months after the devaluation of the rupee.

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23	4.94	(i) The Committee would like to recall that the main objectives of devaluation were: (i) That it would bring about a steady and appreciable increase in exports by providing an enduring and stable stimulus to the export effort and investment in export industries; (ii) That it would discourage imports and encourage import substitution; (iii) That it would improve the country's position on the invisibles account by (a) encouraging remittances into India and discouraging outward remittances and (b) reducing the leakage of foreign exchange due to various unhealthy practices which would become "substantially less attractive" with the change in the rate of exchange.
	4.95	(ii) The Committee need hardly emphasize that the desirability and efficacy of devaluation and the follow-up measures taken by Government can be judged only by the effect they have on the country's exports, imports and invisible earnings and payments.
24	4.96	(i) Considering that one of the main objects of devaluation was to provide a boost to exports, the Committee cannot but feel concerned that exports during the ten months following devaluation were nearly 11 per cent lower even as compared to the corresponding period of 1965-66 which itself was a 'bad year' from the point of view of exports. They note that the downward trend in exports since devaluation is at least, partly attributable to delays in introducing requisite follow up measures. First while Pre-devaluation export incentive schemes were abolished simultaneously with the devaluation of the rupee, new schemes of export assistance were announced more than two months after devaluation. Secondly, the admitted delay in settling the transitional problems arising in respect of trade with rupee payment countries, created understandable difficulties for Indian exporters.

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	4.97	(ii) In view of the adverse trend in exports since devaluation the Committee would like the Government to keep a continuous watch on the behaviour of the country's exports and the trends in international trade and take timely and effective measures to ensure that Indian goods are not priced out of world markets due to such factors as high export duties or inadequate assistance.
25	4.98	The Committee cannot help concluding that the economy of the country is at present undergoing a heavy strain on account of inflation and balance of payment difficulties. They would like to reiterate that the situation calls for strict economic discipline to curtail all avoidable non-developmental expenditure and a determined effort to achieve a break-through in agriculture which would make the country not only self-sufficient in foodgrains but also provide a broad base for development of industries, particularly those which are export-oriented.
26	5.109	The Committee note that the achievements of the Second Plan were below expectations. The Third Plan's performance has been highly unsatisfactory—the progress of the economy has ben uneven and very much slower than what was envisaged and for the most part of the plan period, as well as in 1966-67, the economy has operated under great strain due to mounting inflationary pressures. The Committee realize that the last six years have been in a sense a rather abnormal period as the country had to face external aggression twice and two successive droughts. While adverse weather conditions and the stepping up of the defence expenditure after the Chinese aggression have undoubtedly added to the pressures on the economy, the Committee strongly feel that the failure of the Third Plan in achieving its principal targets and objectives and the present state of the economy cannot be attributed wholly to these two factors. They would like to add that planning cannot be said to be sound and realistic if its success requires that the country would have ideal weather conditions all the time or that it would not be called upon to take all necessary measures to protect its sovereignty and territorial integrity from external dangers. The Committee are of the view that

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		with more careful and realistic planning and better implementation it should have been possible to impart the economy greater strength and provide it with a safety margin to offset the effect of uncontrollable and uncertain factors like war and bad weather.
27	5.110	(i) So far as the effect of defence expenditure on the country's development effort is concerned, the Committee would like to point out, in the first place, that inspite of the increased defence expenditure since the Chinese aggression, the developmental outlay in the public sector during the Third Plan period has exceeded the Plan target by as much as Rs. 1131 crores. It is evident that there was no diversion of resources from development to defence and that, therefore, the slow rate of economic growth during the Plan period cannot be attributed to the increase in defence expenditure. Secondly, even the present level of defence expenditure in India about 4 per cent of the national income—cannot be considered very high if it is remembered that certain other developing countries like Turkey, Pakistan, Burma and Israel have been devoting an equally high or much higher proportion of their national income to defence. Thirdly, the Committee would like to note that although there could have been no doubt about China's aggressive postures towards us after the construction of the Aksai Chin road by the Chinese and their repeated intrusions in Ladakh, during 1956—60, India's defence expenditure in 1961 was still only 2.1 per cent of the national income. Similarly, the threat from Pakistan had been there all along.
	5.111	(ii) In view of the above, the Committee would like to emphasize that if defence expenditure had to be stepped up abruptly after the Chinese agression, it was only because it had been kept at an unrealistically low level in the earlier years. They are constrained to observe that the country's defence needs did not receive the attention they deserved, during the first two Plan periods. The Committee would urge that if abrupt and steep increases in defence expenditure, which inevitably intensify the inflationary pressures, are to be avoided in future, it would be necessary to ensure effective integration between the requirements of defence and economic development.

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		The Committee, therefore, suggest that the size and priorities and pattern of investment of the Five Year Plans should be determined after carefully assessing and taking into account the country's overall defence needs. Positive measures should also be taken to secure proper coordination and integration between civilian and defence production so that the industrial capacity available within the country is put to optimum use and reliance on foreign sources for supply of defence requirements is kept to the unavoidable minimum.
28	5.112	(i) The Committee are of the view that the most important single factor responsible for the continuing strains on the domestic economy as well as on the balance of payments is the failure of the agricultural sector. The setback in agriculture has had far reaching repercussions on the economy. It has not only depressed industrial growth,—a substantial part of India's industrial production being accounted for by industries based on agriculture but it has also hampered the country's export effort and necessitated increased imports, and aggravated the inflationary pressures generated by the ever-growing Governmental expenditure.
	5.113	(ii) The Committee would like to recall that the First Plan had accorded the topmost priority to agriculture and irrigation on the ground that it was essential "to strengthen the economy at the base" by creating "conditions of sufficiency and even plentitude" in respect of food and raw materials as these were" the wherewithals for further development" and without substantial increase in their production" it would not be possible to sustain a higher tempo of industrial development". Although agricultural production during the first two Plan periods was above Plan targets, large imports of foodgrains and other agricultural commodities, notably cotton and jute, had to be made from year to year to meet domestic requirements. Foodgrains imports alone averaged Rs. 120 crores a year during the First Plan period and Rs. 160 crores a year during the Second Plan period. It is evident that at the end of the First Plan period the country was far from having reached the stage of self sufficiency in

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		respect of food and raw materials for industry, which the First Plan report had regarded as a pre-requisite for a higher tempo of industrial development. None-theless, in the Second Plan the first priority was given to rapid industrialisation, "especially the development of heavy industry and the necessary ancillaries like Transport" while Agricultural and Irrigation programmes were relegated to a secondary place. Thus, the share of 'Agriculture and Community Development' and 'Irrigation and Power' in the total public sector outlay (actual) declined, respectively, from 15 per cent and 30 per cent during the First Plan period to 11·7 per cent and 18·9 per cent during the Second Plan period, while that of 'Industry and Mining' increased from 5 per cent to 24.1 per cent and of 'Transport and Communication' from 26 per cent to 27 per cent. Although the Third Plan Report recognised that the rate of growth in agricultural production had proved to be one of the main limiting factors in the progress of the economy and purported to give the first priority to agriculture, it is observed that of the total public sector outlay of Rs. 8631 crores during the Plan period 'Agriculture and Community Development' have got only 12.7 per cent and Irrigation 7.6 per cent whereas 20 per cent has gone to 'Industry and Minerals' and 24.3 per cent to 'Transport and Communication'. The Committee regret to note that the importance and high priority attached to the development of agriculture in the Third Plan Report has not been reflected in the actual pattern of outlays. The heavy shortfalls in the Third Plan's programmes for irrigation and fertiliser production provide further evidence of the lack of a serious concern for achieving 'self-sufficiency in food grains' and increasing agricultural production to meet the requirements of industry and exports, which were among the principal aims of the Plan.
5.114		(iii) The Committee feel that the shift in emphasis, in the Second Plan, from agriculture to heavy industry was premature and ill-advised as it sought to build an imposing industrial superstructure on an obviously weak base and without the requisite wherewithals which only a high rate of growth in agricultural could provide. The Committee are surprised at the lack of realization

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		on the part of the Planning Commission and the Government that the enormous outlays on heavy industries, transport and communications, and social services, envisaged in the Plans, could not but lead to spiralling of prices unless the increase in the purchasing power in the economy was offset by a rapid growth in agricultural production.
29	5.115	(i) The Committee cannot too strongly urge that to remove the chronic imbalances and strains to which the country's economy, in general, and its balance of payments, in particular, have been subject for long, the first and foremost objective of planning today should be to achieve an early and enduring break through in agriculture. The aim should be not only self-sufficiency in foodgrains but a substantial increase in overall agricultural production to meet the growing requirements of essential consumer industries and attain a much higher level of agricultural based exports than has been found feasible so far.
	5.116	(ii) To achieve the above aims the Committee urge that Government should, at a very early date, draw up a comprehensive programme to step up per acre yields in foodgrains and the main commercial crops (such as jute, cotton. sugarcane, oilseeds, tobacco) and also set up, in corporation with the States, an effective machinery to ensure the proper implementation of the programme and the attainment of the physical targets laid down. The progress of the programme in each State and all over the country should be evaluated periodically preferably every half year, so that any deficiencies revealed can be removed in time.
30	5.117	The Committee would also like to make it clear that the programme for agricultural development should on no account be allowed to be slowed down for want of adequate resources. They would like the Government to re-examine and revise the pattern of public sector outlays envisaged in the Draft Outline of the Fourth Plan so that requisite resources are made available for programmes of agricultural development by making, if necessary, appropriate cuts in other sectors where expenditure is not likely to contribute directly and immediately to higher production.

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31	5.118	The Committee are of the view that the most essential condition for increasing agricultural production is a substantial expansion of irrigation facilities. They regret to note that the net additional area brought under irrigation has consistently fallen short of the Plan targets during each of the first three Plan periods and are particularly distressed to find that of an estimated 270 million acres under food crops today only 60 million acres are believed to be irrigated. The Committee need hardly stress the urgent need of an all-out effort to extend irrigation facilities to the maximum extent possible. They would suggest that top priority should be given to the completion of the major and medium irrigation projects in hand as also to the fullest utilization of irrigation potential already created. Every effort should also be made to accelerate minor irrigation schemes and to exploit underground water resources particularly in areas where canal irrigation is not considered feasible.
32	5.119	The Committee would like to state further that the areas with assured water supply offer very great scope for increasing agricultural yields per acre provided the needed inputs are made available to the farmer on reasonable terms. They would like the Government to formulate a well-coordinated scheme for ensuring adequate supplies of high-yielding varieties of seeds, fertilisers, pesticides and improved agricultural implements to farmers in such areas.
33	5.120	In view of the heavy shortfalls in fertiliser production during the Third Plan period large imports of chemical fertilisers may be unavoidable for some time. The Committee however, feel that extensive use of fertilizers will not be possible unless at least the bulk of the requirements are produced indigenously and cheaply. They hope that Government would take vigorous measures to attain self-sufficiency in fertilisers and to bring down the cost of production in the fertiliser industry, particularly in units in the public sector.
34	5.121	The Committee feel that planning in India has suffered from an undue emphasis on the size of the Plans and more specifically, of the outlays in

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		the public sector, the presumption of the Planners being that an increase in the plan outlays would automatically lead to a higher rate of growth. Thus, with the enormous increase in Plan outlays, provided for in the Second and Third Plans, national income was expected to go up from 3.7 per cent per annum during the First Plan period to 5 per cent per annum during the Second Plan period and 6 per cent per annum during the Third Plan period. The expectations were not fulfilled. The experience of the Third Plan period, when the rate of growth achieved was less than half of that anticipated inspite of the fact that the actual public sector outlay was considerably higher than what was originally envisaged, would appear to show that much more important than the size of the Plan is its contents and implementation. The Committee are glad to note that Government now recognise the need to enforce economy in development expenditures, and even, postpone such expenditure to the extent feasible." They would like to urge, however, that while outlays on projects and schemes which do not contribute to development except indirectly or in the long run might well be kept to the minimum or deferred, postponement of developmental activities intended to raise the production of essential consumer goods and export commodities will only aggravate the present economic difficulties. The Committee hope that Government|Planning Commission will keep these considerations in view while determining the size of the Fourth Plan and its pattern of outlays.
35	5.122	(i) The Committee note with concern the rapid increase in non-developmental Civil expenditure from Rs. 337 crores, or 3.5 per cent of the national income, in 1950-51 to an estimated amount of Rs. 1280 crores, or 6.1 per cent of the national income, in 1965-66. In 1966-67, such expenditure is stated to have gone up further to about Rs. 1634 crores or 6.8 per cent of the national income, due largely to higher service charges on external debt, resulting from devaluation, increased subsidy on foodgrains and increases in dearness allowances of public employees. The Committee also note that a very substantial part of the non-developmental civil expenditure is accounted for by debt servicing

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		and expenditure on tax collection and administrative service. Between 1950-51 and 1966-67, debt-servicing charges are stated to have risen from Rs. 52 crores to Rs. 473 crores and expenditure on tax collection and administrative services from Rs. 153 crores to Rs. 454 crores. Revision of pay scales and allowances of Centre and State employees, announced during the Third Plan period alone, is stated to have increased the cost of administration by about Rs. 260 crores a year.
	5.123	(iii) The Committee understand that Government have requested the Aid India Consortium to consider some form of debt rescheduling in respect of foreign loans. They hope that negotiations in this behalf will succeed, but they would like to emphasise that rescheduling of external debt payments, if agreed to by the lending countries, can only provide a temporary relief.
36	5.124	The Committee are unhappy to note that expenditure on tax-collection and administrative services has continued to grow at a fast rate although the need for curtailing it is recognised on all hands. In view of the difficult resources position and the adverse effect of increases in non-productive expenditure on the price situation, the Committee strongly urge that Government should at least now take firm measures to bring down the present level of expenditure on the administrative services.
37	5.136	The Committee are greatly distresed to find that the majority of the public enterprises have suffered from delays in execution of projects, high capital costs, long gestation and operational difficulties as a result of which the returns on capital have been much below expectations. They note that even the manufacturing and trading concerns of the Central Governments which are supposed to be guided by sound commercial considerations, have, in 1965-66, given a return of only 2.4 per cent—Rs. 53.03 crores on a total investment of Rs. 2,225.88 crores—as compared to a marginal return of 19 per cent for all industry groups in the private sector. What is even more disconcerting is that, inspite of substantial concessions like supply of capital on easy terms, interest holidays, moratoriums on loan repay-

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		ments, etc., the performance of industrial enterprises in the public sector has deteriorated perceptibly over the years. Thus, in 1965-66, the running concerns in the public sector showed a profit of only 1.1 per cent against 2.9 per cent in the previous year. Again, the income (*i.e.* value added by manufacture) generated per unit of capital employed in state—owned undertakings is stated to have declined from Rs. 13.4 per 100 rupees invested, in 1958-59, to Rs. 7.8 in 1963-64. The record of the numerous promotional and developmental enterprises in the public sector, which are not governed solely by commercial considerations, is likely to be as unsatisfactory, if not more, as that of the manufacturing concerns. As the bulk of the investible resources available during the Second and Third Plans have been appropriated for the expansion of the public sector, it would be only reasonable to hold that the declining trend in the rate of growth of the national economy is, in no small measure, attributable to the poor performance of the public enterprises. The Committee urge that before making heavy investments in the public sector Government should make a concerted effort to consolidate and rationalise the existing public enterprises and devise dependable measures to ensure a satisfactory rate of return on the capital invested in such enterprises.
38	5.145	(i) The Committee note that there has been a tremendous increase in the range and incidence of taxation since the commencement of the Second Plan. They feel that in a planned economy a continuing rise in taxes has to be justified and sustained by a satisfactory rate of growth in national and *per capita* incomes particularly the latter as it provides a more reliable measure both of the success of planning and the people's capacity to pay for it. In India, the position has been very different. During the Second Plan, the tax burden rose by 76 per cent, but national income increased by only 20 per cent—against the target of 25 per cent—and *per capita* income at a still lower rate of 8.6 per cent. In the Third Plan tax revenues increased further by about 116:4 per cent and additional taxation provided for Plan purposes as much as Rs. 2880 crores which was Rs. 1170 crores more than what was antici-

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		pated in the Plan document. In contrast, the total increase in national income during the Third Plan period was only 12.5 per cent as compared to the targeted increase of 30 per cent. Even this small increase in national income was neutralised by the rise in population with the result that *per capita* income remained at the same level at which it stood five years earlier.
	5.146	(ii) The Committee consider that with *per capita* income remaining static over a period of five years the burden of taxes on the economy and on the common man was already too high at the end of the Third Plan. They are also of the view that the successive increases in commodity taxes have been, in the context of acute shortages, an important factor contributing to the rise in the prices of essential commodities many of which, like sugar, cotton fabrics, kerosene and tobacco bear a higher burden of duty than non-essential or luxury goods like cosmetics, china-ware, wireless receiving sets, refrigerating and air-conditioning appliances, etc. Further, the high incidence of direct taxes has an adverse affect on the capacity to save and consequent capital formation for financing productive enterprises outside the public sector. It has also encouraged tax-evasion.
	5.147	(iii) The Committee note that although the economic situation continues to be as difficult as it was at the end of the Third Plan—aggregate production of goods and services has been virtually at a standstill for the past two years—the tax burden in 1966-67 was heavier by nearly Rs. 300 crores as compared to the previous year. The budget for 1967-68 provides for further levies. The Committee feel that Government should re-orientate their fiscal policy with a view to hold the price line and stimulate savings and production. They feel that the temporary sacrifice of revenue that such reorientation may entail can be made up by economies in Plan and non-Plan expenditure and higher returns from public enterprises. Moreover, as the economy picks up again—with concerted efforts this should not take long—and individual and corporate earnings increase, yields from taxes are bound to improve. Government may also be able to obtain larger

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		resources than hitherto by mobilising small savings.
39	5.150	The Committee need hardly stress that in view of the price increases and the other strains which have developed in the economy it is of the utmost importance to avoid further deficit financing. They are unhappy that inspite of the clear understanding that there would be no deficit financing during the Fourth Plan, large budgetary gaps in the very first year of the Fourth Plan made it necessary for the Government to have recourse to deficit financing on an extensive scale. The Committee are of the view that if deficit financing is to be eschewed, immediate measures must be taken to curtail non-developmental expenditure both at the Central and State levels. Further, developmental outlays should be strictly limited to resources in sight on the basis of existing taxation. Government must also take effective measures to check the practice of the States' overdrafting on the Reserve Bank, as this is an important factor necessitating recourse to deficit financing by the Centre.
40	5.155	(i) The Committee would like to emphasise that increasing dependence on foreign aid for executing the Plans has tended to make the whole planning process uncertain and made the economy vulnerable to external pressures. That this is not just a hypothetical fear has been amply proved by the abrupt suspension of even pledged aid following the outbreak of the Indo-Pakistan conflict in September, 1965. The impact of this hiatus was reflected in the immediate tightening of import restrictions and the resulting slowdown in industrial production. The Committee regret that Government should not have paid adequate heed to the very clear warning of the risks involved in excessive reliance on foreign aid, contained in the First Plan Report.
	5.158	(ii) The Committee hope that Government would realize the urgency of making the country's development process indepedent of the availability of external assistance. The Committee recognise that foreign aid can help in accelerating the pace of economic progress, but it can lead to this result only if there is reasonable certainty

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		of its continuity and the terms on which it is made available, do not burden the country with onerous debt servicing obligations and costly imports. They feel that while it may be possible to get some concessions in respect of repayment liabilities for existing debts and the financial terms of future aid, in view of our recent experience it would be too optimistic to hope that the flow of aid would not be affected by political developments. The Committee would, therefore, like the Government to take concerted measures to achieve self-reliance so that dependence on foreign aid may be avoided as early as possible.
41	5.159	The Committee note that the increased reliance on external assistance for financing investment during the Second and Third Plans was essentially due to the growing gap between investment and domestic savings. It is evident that if the country's development process is to be freed from dependence on foreign aid the gap between investment and domestic savings will have to be removed. The Committee have no doubt that this can be accomplished provided appropriate changes in the techniques of planning and the implementation of the plans are introduced, without delay, so as to obtain the optimum results from the available domestic resources. Various suggestions in this behalf have been made in the earlier parts of this chapter, *viz.* (i) greater stress on the development of agriculture which incidentally will make it possible to achieve a higher rate of economic growth than has been attained hitherto as the capital output ratio is more favourable in agriculture than in other sectors, (ii) substantial reduction in public expenditure by keeping non-developmental outlays to the minimum, strict economy in the implementation of plan projects and postponement of schemes which have no immediate bearing on productivity; (iii) improving the performance of public enterprises; (iv) avoidance of deficit financing to check inflation and the consequential strains on the economy; and (v) suitable changes in fiscal policy to stimulate production and voluntary savings. If in addition to these measures sustained efforts are made to boost exports and accelerate the process of import substitution the

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		Committee see no reason why the country cannot dispense with foreign aid within a short time.
42	5.162	(i) The Committee regret to note that although the fullest mobilisation of resources and the channeling thereof into priority investment is the very *raison d' etre* of planning, Government have not been able to evolve in all these years of planning purposive measures to restrain non-essential consumption and prevent diversion of scarce resources to the production of non-essential commodities. They would like to recall that the First Plan Report while calling for restraint on consumption to accelerate the pace of development, had emphasised that "there is clearly far more scope for cutting down consumption expenditure in the higher income groups than for tightening of the belt in the lower income ranges." The Report had also underlined the need to check conspicuous consumption which not only "discourages saving in the economy as a whole by initiating a process of wasteful emulation" but also "increases discontent in the community". This is the direction in which restraint on consumption should have been sought. But, as will be explained presently, Government have adopted an altogether different course.
	5.163	(ii) The Committee are unable to agree with the view of the Government that the only effective way of restraining consumption is by imposing excise duties. In the first place, so far as articles of mass consumption are concerned, per capita consumption is already so low due to scarcity and high prices that any further increase in the range and incidence of excise duties, or for that matter of any other indirect taxes, will only add to the hardships of the people in the low income ranges without bringing in any significant reduction in aggregate consumption. Secondly, excise duties do not touch the problem of diversion of resources to the production of non-essential goods and services. In fact, the primary objective of restraining consumption being to encourage savings, it is strange that Government should, in the first instance, allow scarce resources to be used for producing non-essential goods and then dissuade people from buying such goods so that the savings thus effect-

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		ed could be available for investment. From the point of view of mobilising resources it would be obviously more rational to check or prevent the production of non-essential goods.
	5.164	(iii) Thus, as a means of restraining consumption, the utility of excise duties would appear to be limited to such "relatively non-essential goods" as are being allowed to be produced. This being so, it is surprising that quite a few of the relatively non-essential goods, like cosmetics, chinaware, refrigerating and air-conditioning appliances, etc. are subject to a lower rate of excise duties than essential goods like sugar, cotton fabrics, kerosene etc.
43	5.165	The Committee are constrained to observe that Government's entire approach to the question of restraint on consumption has been ineffective for while it has added to the privations of the common man, who can barely afford to meet even his most essential needs, it has made hardly any difference to non-essential consumption and has not even endeavoured to come to grips with the major problems of conspicuous consumption and diversion of resources to the production of non-essential goods and services. The Committee feel that the first pre-requisite for an effective restraint on consumption is to ban the production and import of non-essential goods. This has been recognised in the Plan documents but never seriously pursued. The Committee hope that Government will at least now realize the colossal waste of savings and resources involved in the consumption and production of non-essential goods. They expect Government to take effective measures to ensure that scarce resources—whether domestic or external—will not hereafter be allowed to be diverted for producing goods and services which have no relevance to the needs of the common people or to the requirements of economic development. The Committee would also like the Government to consider the feasibility of raising the excise duties on non-essential goods, which are already being produced, with a view to restrain consumption and augment public savings (*i.e.* revenue).
44	5.166	As regards conspicuous consumption, the Committee need hardly stress that it is steadily on

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		the increase. The fast growing luxury houses in the big cities, the growing clientele of expensive restaurants, hotels and clubs, the ready market which foreign consumer goods, whether imported or smuggled, command inspite of their high prices, the rising demand for cars, air-conditioners, refrigerators, television sets, etc., the lavishness which marks the social functions of the rich, are a few examples of the trend. The Committee feel that to deal with the problem of conspicuous consumption it is necessary to go to its root causes. They are of the view that the main factors contributing to this phenomenon are (a) a widespread feeling that saving and investment are not worthwhile due to the high rates of taxes on profits and dividends and the continuing erosion in the value of money; (b) various perquisites and amenities, enjoyed by higher functionaries in both the public and private sectors; (c) unaccounted money and (d) the human tendency to emulate which impels even those who can ill-afford it to go in for conspicuous consumption. The Committee have already dealt with the need to reorientate fiscal policy to stimulate savings and investment (see para 5.147).
45	5.167	As regards perquisites and amenities attached to high offices (such as those in regard to housing, medical aid, travel or telephone facilities etc.), the Committee would like to state that these tend to encourage conspicuous consumption by providing the beneficiaries, who are even otherwise quite well to do, a large measure of insulation from the effects of inflation. It is also pertinent to remember that such facilities are susceptible to misuse because they are free or nearly so, and that the cost thereof has to be borne either by the public exchequer or, in the case of the private sector, ultimately by the consumer. In view of these considerations the Committee would like the Government to take appropriate measures to limit perquisites and amenities, in both the public and private sectors, to the minimum.
46	5.168	By far the most important cause of conspicuous consumption is unaccounted money which is unable to find its way into productive investment. Unaccounted money owes its origin to various illegal or irregular practices ranging from tax-

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		evasion, blackmarketing, smuggling and corruption to profiteering in cars and scooters by those who, by reason of their position or resourcefulness, are able to get the necessary permits more easily than others. It is also the main source of antisocial activities like hoarding, speculation, smuggling, black-marketing etc. The Committee feel that the volume of unaccounted money in the country is fast assuming menacing proportions and that the problem can no longer be ignored. They hope that Government will address themselves to the problem without delay and take firm measures not only to deal with the unaccounted money already in existence but also to curb the various illegal or irregular practices which are the source of unaccounted incomes.
		E. Comments and Suggestions
		(1) *Decline in India's Exports*
47	6.21	(i) The Committee note with concern the persistent decline in India's exports during the last two years. Compared to the peak level of Rs. 802.7 crores attained in 1964-65 the Country's export earnings in 1965-66 amounted to only Rs. 781.8 crores and dropped further to about Rs. 744.3 crores (in pre-devaluation terms) in 1966-67. They are particularly perturbed to note that although devaluation was expected to stimulate exports, actual exports during the ten months following devaluation have been 11 per cent lower as compared to the same period of 1965-66.
	6.22	(ii) The Committee also note that during the 15 years period covered by the first three Plans, India's share in world exports has declined from 2.1 per cent in 1950 to one per cent at the end of the Third Plan. This is because India's exports have been rising at a much slower rate than world exports. Thus, even during the Third Plan period when Indian exports were appreciably higher than in the preceding two Plans, India's exports increased only by about 4 per cent per annum on an average whereas world exports increased at a rate of 8.7 per cent per annum. The Committee would also like to point out that the rate of grawth in India's exports does not compare favourably with that of many developing countries. According to the data contained in

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		the U.N. 'Yearbook of International Trade Statistics 1965' the increase in India's exports during the period 1960 to 1965 works out to 23.4 per cent. During the same period Israel's exports increased by 94.3 per cent, Thailand's by 53.6 per cent, Syria's by 52.7 per cent, Uganda's by 49 per cent, Pakistan's by 37 per cent and Kenya's by 30 per cent. On the whole, the exports of 'Economic Class II Countries'—a category which covers most of the developing countries—rose between the years 1960-65 from 27300 million US dollars to 36400 million US dollars, that is, by about 33 per cent or 6.6 per cent a year.
48	6.23	(i) The Committee feel that the main reasons for India's poor export performance, particularly during the last two years, are: (i) Inadequate export surpluses resulting from the slow rate of development in agriculture. This difficulty has been aggrevated by the failure of crops during the last two years and the low output recorded by agriculture-based industries. (ii) Domestic inflation which has resulted in diversion of supplies to the home market and also in increased cost of exports. (iii) Lack of export motivation. Domestic producers have no urge to export because of the existence of a sellers' market at home, which in turn, is partly the result of inflation and partly of import restrictions necessitated by the difficult foreign exchange position. (iv) High cost of production. It is well-known that many of India's exports, notably manufactures, find it difficult to compete in the world markets due to their high costs. Apart from inflation this is largely attributable to:— (a) High cost of indigenous raw materials (*e.g.* jute, cotton, sugarcane) due to low per acre yield. (b) Some of our export products depend upon imported raw materials and com-

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		ponents, the cost of which is high due to import duties, cost of transport and recently devaluation. (c) Lack of cost consciousness among manufacturers. This again is largely due to the existence of a sellers' market at home. (d) Idle capacity in many industries because of shortage of raw materials, both imported and indigenous. (e) Many of our exporting units do not have economies of scale due to their relatively small size. (f) Resistance to modernization of plants and adoption of scientific techniques of production. The textile industry is a case in point. (g) Low productivity of labour. This is partly due to the scarcity of skilled labour and partly due to the relatively higher labour absenteeism. (v) The withdrawal of certain export incentives and the imposition of export duties in a number of commodities after devaluation have also tended to make Indian exports uncompetitive.
	6.24	(ii) The Committee note that the Draft Outline of the Fourth Plan envisages total exports during the Fourth Plan period of the order of Rs. 5100 crores in pre-devaluation rupees or Rs. 8030 crores in post-devaluation rupees. They need hardly stress that the most essential precondition for the fulfilment of the export programme is the realisation of the production targets set for exportable commodities in the agricultural, industrial and mineral sectors. Secondly, for achieving export objectives, it is necessary not only to create the surpluses for export, but also to ensure that the surpluses become available at prices competitive with those of other suppliers in the international markets. The need for bringing down costs in agricultural, industrial and mineral production is, therefore, obvious.

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49	6.25	(i) Considering that the bulk of the Country's exports consists of agricultural commodities and manufactures based on agriculture whose increase requires a long-term investment, the Committee suggest that a comprehensive operational plan should be prepared for each of the agricultural and plantation crops which are important from the point of view of exports (such as, jute, tea, cotton, tobacco, coffee, cashew nuts, oilseeds etc.). Such a plan should indicate the inputs in the shape of fertilisers, irrigation, area of planting and replanting, amount of investment and loans required from year to year and relate these to specific annual targets of production, increases in per acre yields and exports.
	6.26	(ii) An integrated programme of the type indicated above would naturally call for a high degree of coordination between the Central and State Governments to ensure that State policies—land and agriculture are State subjects—do not run counter to the Central Government's efforts to create adequate surpluses for feeding the export markets. The Committee feel that the existing institutional arrangements for securing uniformity of policy in this sphere between the Central Government and the State Governments require to be improved. The Inter-Ministerial Committee on export-oriented agricultural commodities, set up by the Central Government in December 1966, may be quite competent to prepare detailed programmes for the development of the production of the principal export-oriented agricultural commodities. However, as that body consists of Central officers only, it is doubtful whether it can secure the necessary coordination between the Centre and the States which is a pre-requisite for the successful implementation of these programmes. The Committee, therefore, suggest the creation of a high level Coordination Committee consisting of the Ministers in charge of Finance, Commerce and Agriculture, Government of India, and the concerned Ministers of those State Governments where the export commodities are predominantly grown. The main object of this body should be to secure the cooperation of the States in implementing the production programmes in respect of specific export-oriented agricultural commo-

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		dities. It may meet periodically to review the progress of the various programmes, take decisions on remedial measures that may be considered necessary to remove any bottle-necks, and resolve any differences that may arise between the Central and State Governments in regard to the scope or the implementation of the production programmes.
50	6.28	Considering the magnitude of the Country's foreign exchange requirements and the fact that the bulk of her exports, being based on agriculture, are subject to strong seasonal influences the Committee can hardly overstress the need for boosting up the exports of industrial products, particularly of products of engineering, metallurgical, chemical and plastic industries for which world demand conditions are considered to be very favourable. As many of India's manufactures are handicapped by high prices compared to international prices, the need for bringing down costs in the important export industries becomes obvious. The problem of inflation—which is an important factor contributing to the high cost structure of our industries—has been dealt with at some length in Chapters IV and V. Further, so far as the agriculture-based exports are concerned increases in the production and productivity of the respective crops (as suggested in Chapter V and earlier paras of this chapter) may also help in reducing the costs of the manufactured products to some extent. However, the Committee feel that action on a wide front would be necessary to place the cost structure of Indian manufactures on a sound footing to enable them to hold their own against foreign goods in the highly competitive world markets.
51	6.29	As already noted, Indian manufacturers generally lack cost consciousness due to the existence of a sellers' market at home. In view of this, the Committee consider it essential that a determined drive be made for improving productive efficiency through rationalisation of methods of production, better management, development of technology etc., leading to a reduction in the cost of the end-products of industries having

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		significant export potential. This aspect of the export promotion has to be fully recognised by productive enterprises in both the public and private sectors. However, the matter cannot be left entirely to the discretion or convenience of the industry. The Committee would therefore, like the Govtrnment to set up specific machinery for dealing with the problems of cost reduction in the industrial sector—the need for which has also been recognised in the Draft Outline of the Fourth Plan.
52	6.30	Government should also give a lead by introducing modern production schedules and cost control systems in the public undertakings. This would help in creating cost and quality consciousness among other producers also.
53	6.31	The Committee would also suggest that in industries which are important for developing exports, licensing policies should take due account of the economics of scales so that the cost of the exports may be kept as low as possible. With the same end in view expansion of existing units may be preferred to the establishment of new units.
54	6.32	Further, the cost factor should be given weight in determining the location of individual export-oriented units. As the level of costs has overriding importance in these industries, the Committee urge that in the national interest this consideration should receive due precedence.
55	6.33	So far as the problem of idle capacity is concerned, the Committee note that, by and large, industries having export potential are included among the 'priority industries' for which imports of raw materials, components etc., have been liberalised under the new import policy introduced after devaluation. Although the cost of the imported materials would be higher as a result of devaluation the Committee feel that this disadvantage can and should be overcome by optimum utilisation of installed capacity, determined efforts to improve productive efficiency and imaginative import substitution.
56	6.36	The Committee regret to note that although as far back as August 1966, Government had

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		announced that allotment of indigenous raw materials to exporting units would receive highest priority "so that they can obtain the required indigenous raw materials....off the shelf", the actual arrangements made in this behalf are far from satisfactory. The Committee also note that the Commerce Minister's statement of August 16, 1966, had, *inter alia,* envisaged that 'essential raw materials' (whether indigenous or imported) would be stock-piled in the raw materials Divisions of the STC and the MMTC for being made available to exporting units. This scheme does not seem to have been pursued with any effect, at least so far as indigenous raw materials are concerned. The Committee hope Government would lose no time in implementing this scheme and taking other appropriate measures to ensure adequate and regular supplies of indigenous as well as imported raw materials to exporting units.
57	6.37	The Committee would also like the Government to look into high costs of the indigenous raw materials and intermediates and work out a suitable scheme to neutralise any disadvantage which India's manufactured exports may suffer due to the high cost of their indigenous content.
58	6.40	The Committee note that labour productivity in Indian industries is as low as one-half to one-sixth as compared to industries in other countries. It is evident that man-hour output will have to be stepped up appreciably not only for increasing production of export goods but also for making them competitive.
	6.42	(i) While the Committee generally agree with the Government's proposal for increasing labour productivity (quoted in para 6·41 of the Report) they would like to urge that the really important point is the speed and the manner in which these concepts will be implemented. They feel that not much progress in the desired direction can be expected unless Government themselves take the initiative by securing the acceptance of these schemes by the concerned interests, *viz.,* representative bodies of workers and employers. The Committee, would, therefore, like the Government to come forward, as early as possible,

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		with concrete measures to improve labour productivity particularly in industries which are either directly manufacturing exportable goods or which produce intermediates, components etc. required for such goods. In particular, the Committee would suggest urgent action on the part of Government on the following points:—
		(a) evolution of norms of productivity in the key industries, including those which are important from the point of view of exports.
		(b) Formulation of simple incentive schemes—industry-wise.
		(c) Evolution of suitable schemes for linking increases in wages with increases in productivity—the need for such schemes has been recognised in the Draft Outline of the Fourth Plan.
		(d) Formulation of schemes of non-financial incentives to workers.
		(e) Provision of wider opportunities to workers by way of training and education and attainment of higher level of skills.
		(f) Formulation and implementation of schemes for securing workers' participation in management.
	6.43	(ii) The Committee hope that Government would present the various proposals for increasing labour productivity at a tripartite conference at an early date. They would like to add that while the proposals should be finalised only after full consultations with the concerned interests, no time should be lost thereafter to ensure their proper implementation.
59	6.44	For the promotion of productive efficiency on the part of workers as well as individual enterprises, it is necessary to secure the economy against interruptions to production by promoting a climate of industrial peace. The Committee feel that a better deal to labour through various incentives (suggested earlier) would go a long way towards ensuring industrial peace.

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		With the same end in view, they would like the Government to take necessary steps to ensure (a) effective operation of the machinery for the identification and speedy settlement of legitimate grievances, and (b) avoidance of unilateral action on the part of employers as well as workers, which might interrupt, or otherwise adversely affect, production, *e.g.*, lock-outs, lay offs, strikes Gherao's etc.
60	6.46	The Committee note that certain practical difficulties (like those enumerated in para 6·45) have been experienced in the working of the Export (Quality Control and Inspection) Act. They hope that Government will take early action to remove lacunae in the provisions of the Act or the Rules made thereunder.
61	6.47	The Committee would also urge that exportable commodities which are not yet covered by the scheme of quality control should be brough under the perview of the Export (Quality Control and Inspection) Act as early as possible.
62	6.51	The Committee feel that in cases where the rules do not provide for a pre-determined rate of drawback of import and excise duties, the existing procedure for claiming drawback is too complex and dilatory. They would like the Government to vigorously pursue that new policy of fixing more and more 'All Industry' rates of drawbacks so that the facility of pre-determined rates of drawbacks becomes available to most of the Country's exports before long.
63	6.53	The Committee commend the suggestion made by the Study Team on Economic Administration, set up by the Administrative Reforms Commission, for providing a measure of relief to export goods from sales taxes levied by State Governments. They hope that Government would soon work out, in coordination with the State Governments, an effective scheme to ensure that the export effort of the country is not hampered by unduly high and varying rates of sales taxes.
64	6.54	The Committee also note that the scheme of issuing tax credit certificates to exporters, introduced in 1965, has been abolished after devalua-

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		tion. In view of the persistently adverse trend in exports since devaluation, the Committee feel that direct tax concessions to exporters may be helpful in stimulating exports and investment in export-oriented industries. They would like the Government to examine this matter carefully and formulate a comprehensive and integrated scheme in this behalf.
65	6.57	The Committee note that against an investment of over Rs. 2000 crores in 66 public sector undertakings the level of exports by these undertakings in 1965-66 was of the order of only Rs. 4 crores. Considering that a very large part of this investment has been made in metallurgical engineering and other industries which are known to have significant export potential, the Committee are constrained to observe that the export performance of public sector industries so far as has been far from satisfactory. They feel that the target of Rs. 100 crores for annual exports by public undertakings to be reached by 1970—72 is quite modest and would urge that every effort should be made to reach and, if possible, to exceed this target. The Committee need hardly stress that the realisation of the export targets would require a large measure of coordination between the public undertakings and the Administrative ministries concerned. In particular, adequate arrangements will have to be made for periodical review of the progress made by individual units to achieve the targets. The Committee hope that these and other requisite measures to ensure the achievement of the targets will be taken by Government without delay.
66	6.61	The Committee note that India has been fast losing ground to Pakistan in the export of jute manufactures. They are also concerned at the sharp decline in India's exports of this commodity since devaluation. The Committee feel that unless Government take prompt steps to counteract Pakistani under-cutting, export prospects of the country's largest foreign exchange-earning industry might be permanently damaged. In the long run the country's jute industry can be put in a position of competitive strength in rela-

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		tion to Pakistan only by achieving self-sufficiency in raw jute and reducing manufacturing costs. However, as an immediate measure to arrest the containing fall in export since devaluation the Committee suggest that the export duties on jute manufactures be suitably readjusted so as to leave a reasonable margin to the exporter. The Committee would also like the Government to introduce positive measures to assist the jute industry in building buffer stocks of jute goods and disposing of its accumulated stocks through exports.
67	6.65	The Committee are concerned to note the persistent decline in India's share in world tea exports. There is a feeling that the benefits which might have accrued to the tea industry from devaluation have been largely offset by the export duties and additional taxes imposed since devaluation and the increased cost of production resulting from higher wages, bonus, higher freight charges, etc. The position has been further aggravated by the glut in the world tea market. As a result exports of tea since devaluation have been considerably lower than in the year preceding devaluation. In view of this, the Committee urge the Government to re-examine the matter in the light of the latest trends in tea exports and provide, if necessary, suitable fiscal relief to the tea industry so as to strengthen its competitive position in the world market. Government should also take immediate measures to promote the sale of Indian tea abroad through vigorous publicity and propaganda.
68	6.69	The Committee cannot but view with concern the continuing decline in India's share of world exports of cotton manufactures. It is obvious that India's ability to compete in the external textile markets is in the ultimate analysis bound up with increased domestic production of raw cotton and the modernization of the textile industry. However, in view of the precipitous fall in cotton textile exports since devaluation the Committee would urge the Government to evolve in the light of experience a purposeful scheme of export assistance to the textile industry. They regret that effective measures in this behalf have not been taken in time although as far back as

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		November 1966, the Board of Trade had strongly recommended the need for concrete assistance to the industry to avoid a fall in textile exports.
69	6.71	The Committee feel that the current recessionary trends in certain industries call for all out efforts to promote the exports of the products of the affected industries. While the scheme of cash assistance to exports of engineering goods, iron and steel, steel scrap etc. may be useful as a temporary expedient to develop exports the Committee would like to caution that too much reliance on this method, would not only encourage inefficient units and add to the budgetary burdens of the Government but may also provoke retaliatory measures by other countries. The Committee would, therefore, urge the Government to pay immediate attention to cost reduction and quality improvement in the important export-oriented industries particularly those which are faced with recession.
70	6.72	(i) The Committee would also like the Government to take energetic measures to explore new markets for India's capital goods and engineering products. They feel that the developing countries of Asia and Africa offer a promising market for a number of such goods (*e.g.*, capital goods for cement and sugar industries, light engineering goods) which India is in a position to supply. These avenues offer the added advantage of a continuous flow of spare parts and components till the entire range of manufacturing activity is established in these countries.
	6.73	(ii) In this connection, the Committee would like the Government to consider the feasibility of organising industry-wise consortia of manufacturers from both the public and the private sectors for selling complete industrial plants abroad for manufacturing cement, sugar, iron and steel, chemicals and other end-products.
71	6.75	The Committee welcome the scheme of preferential treatment for imports from developing countries introduced by the Government of the Commonwealth of Australia in April 1966. They hope that Government would take all necessary

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		measures (*e.g.*, extensive publicity to the Australian scheme within the country, publicity for the concerned Indian products in Australia, studies of the tastes and requirements of Australian consumers, etc.) to ensure the fullest utilisation of the scheme to push up exports to Australia. The Committee would also urge the Government to persuade other developed countries to extend similar concessions to developing countries.
72	7.14	The Committee command the change in the presentation of balance of payments statistics whereby certain receipts (like refund of freight on PL 480 imports, U.S. Embassy expenditure in India out of PL 480 funds, various grants) which are more in the nature of external assistance have been excluded from the 'Invisibles' head. They are of the view that the inclusion of such receipts under Invisibles tends to give an inflated and unrealistic picture of invisible earnings. The Committee suggest that the practice of excluding such receipts from invisible earnings should be uniformly adhered to in the presentation of balance of payments data.
73	7.20	(i) The Committee note with concern the sharp deterioration in the country's invisible account during the Third Plan period. Invisible items were a net source of foreign exchange earnings in the preceding Plan periods, the annual average of net receipts from invisibles (excluding official donations) being Rs. 78·2 crores in the First Plan period and Rs. 85·4 crores in the Second Plan period. However, during the Third Plan period, these items caused a net outflow of Rs. 278·7 crores, or Rs. 55·7 crores a year, from the country's foreign exchange resources. In fact, a declining trend in net earnings from this source had set in as far back as 1957-58 and had continued unchecked throughout the rest of the Second Plan period. The position was further aggravated during the Third Plan period when net receipts gave way to net payments.
	7.21	(ii) The Committee also note the Ministry's admission that the continuing deterioration in

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		the invisible account during the Third Plan period was due, *inter alia,* to: (i) Heavier taxation in India which discouraged inflow of earnings into India; (ii) Greater profitability of reinvesting earings abroad as compared with profitability of investment in India; (iii) Growing tendency to repatriate earnings through free market channels rather than official channels and leakage of foreign exchange through various other anti-social practices, such as retention of illegal earnings abroad, sale of travellers' cheques in the unofficial markets, under-invoicing of exports and over-invoicing of imports, smuggling, etc.
	7.22	(iii) From the limited data available it appears to the Committee that official expectations that devaluation would bring about an improvement in the invisible account by encouraging increased remittances and discouraging outward remittances as well as irregular practices resulting in leakage of foreign exchange through unofficial channels have not been fulfilled. On the other hand, the net outflow on account of invisible (current account) transactions during the three months following devaluation has, in fact, been larger than in the preceding quarter, while receipts have been substantially smaller.
74	7.23	The Committee are of the view that the devaluation of June 5, 1966 by itself cannot reverse the adverse trend in invisibles. They feel that the solution to the problem really lies in the adoption of fiscal and economic policies which would create a healthy climate for investment. The Committee need hardly stress this point as the Government have themselves recognised that the continuing and increasing losses on account of invisible items are in no small measure due to heavy taxation and relatively lower profitability of investment in India. They would, however, suggest that in addition to general measures for improving the climate for investment in the country, Government should

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		devise special incentives to encourage (a) foreign companies to re-invest their earnings in India and (b) repatriation of foreign exchange earned or held abroad by Indian nationals.
75	7.38	(i) The Committee note that foreign exchange earnings from tourism have remained almost stagnant over the Second and Third Plan periods. Thus, total receipts from this source in 1963-64 amounted to only Rs. 16.6 crores as against Rs. 14.7 crores in 1956-57. Final figures for receipts under foreign travel in the last two years of the Third Plan are not yet available. However, in view of the decline in the number of tourist arrivals in 1965, there is hardly any ground to expect that receipts in 1965-66, the closing year of the Third Plan, could be higher than in 1963-64. From the data supplied by the Department of Tourism the Committee also note that the rate of increase in tourist traffic to India has perceptibly slowed down during the Third Plan period. The Committee feel that the poor progress made by India in attracting foreign tourists is primarily due to lack of recognition of the value of tourism in augmenting the country's foreign exchange earnings. The fact that the total expenditure on the development of tourism during the whole of the Third Plan period was only Rs. 4.63 crores, or 57·5 per cent of the outlay proposed in the Third Plan, is itself an evidence of the low priority attached to this work by Government. The Committee cannot but regret that although the actual total outlay on the Third Plan was Rs. 1130 crores higher than what was originally proposed (*i.e.* Rs. 7500 crores) Government thought it necessary, for reasons of economy, to drastically curtail the Plan outlay on tourism development schemes which might have helped the country to earn much needed foreign exchange.
	7.39	(ii) Keeping in view the remarkable progress made by a number of countries, notably, Yugoslavia, Thailand, Italy and Greece, in increasing their earnings from foreign tourism, the Committee have no doubt that given adequate organisation, facilities and publicity the amount of foreign exchange that India can earn through tourists can be increased considerably which can make substantial improvement in her balance of

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		payments. The Committee feel that the present target for earnings from foreign tourists—Rs. 137 crores for the whole of the Fourth Plan period (*i.e.* 1966—71)— is far too modest and should be raised upwards. They also urge that Government should accord the highest priority to the development of tourism and take imaginative measures to attract an increasing number of foreign tourists to India with a sense of paramount urgency.
76	7.40	(i) The Committee are of the view that the first task to which urgent attention has to be bestowed is that of ensuring that every tourist who comes to India, goes away satisfied and happy with his stay. This requires a speedy improvement of the facilities at our airports which are, as a rule, both the first and the last points of contact between the tourist and the country and a simplification of the formalities which a tourist has to comply with when coming and leaving, as well as during his stay in the country.
	7.41	(ii) Secondly, urgent measures should be taken to augment hotel accommodation for tourists. It is understood that the present total bed capacity in hotels considered suitable for foreign tourists is less than 7,500 beds for the entire country. To reach a modest target of 300,000 tourists a year, an additional 7,500 beds would be needed. The Committee would like the Government to draw a firm plan for providing a minimum of 7,500 additional beds for foreign tourists within a short time. They need hardly stress that this can be achieved only through a concerted effort of both the private and public sectors.
	7.42	(iii) Thirdly, efforts should be made to improve transport arrangements and shopping facilities for foreign tourists.
	7.43	(iv) Lastly, publicity arrangements abroad should be strengthened to attract foreigners to India. Few countries in the world can offer such a wide range of attractions to the tourists as India with her ancient monuments, landscapes of exceptional beauty, opportunities for game and mountaineering etc. The need is to bring these

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		to the notice of people in other lands. The Committee would like the Government to launch aggressive publicity campaigns abroad, particularly in the affluent countries, by such methods as opening tourist offices, enlisting the cooperation of travel agencies and inviting foreign travel editors, leading broadcasting and TV personalities, columnists, authors, writers etc. to visit India as Government guests. Appropriate publicity efforts should also be made to attract a larger number of visitors from countries of the East for whose people India's holy places, especially those associated with the Buddha, are of special interest.
77	7.52	(i) The Committee note that in 1965-66 Indian shipping with a total tonnage of 1.5 million grt. was able to carry only 12.9 per cent, or slightly more than one-eighth, of the country's foreign trade. Since dependence on foreign shipping for carrying the bulk of the country's overseas trade results in an enormous drain of foreign exchange from year to year, the Committee need hardly emphasise the importance of securing a speedy expansion of India's merchant navy. Apart from the fact that investment in shipping represents a 'must' for earning or saving foreign exchange the Committee feel that the case for the fast expansion of Indian shipping is further strengthened by factors such as: (i) As Indian shipping is carrying at present only a small portion of the country's large and expanding sea-borne trade gainful employment for Indian ships is reasonably assured. (ii) Unlike some other projects with export potential there is no gestation period in respect of a vessel which starts earning from the day it is put into operation. (iii) It has been authoritatively stated that if 'down payment' to the extent of 15 per cent to 20 per cent of the total price can be arranged, no additional burden in terms of foreign exchange is involved in the acquisition of new ships from abroad on deferred payment terms over 7-8 years. The net foreign exchange earn-

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		ings of vessels so acquired pay fully for the capital cost of the vessels as well as the interest on the deferred instalments within the period of the deferred payment, and thereafter each vessel makes a distinct contribution to the country's foreign exchange pool.
	7.53	(ii) The present Fourth Plan target for shipping is 3 million g.r.t. As the volume of India's foreign trade is expected to increase considerably during the Fourth Plan period it would appear that even with the attainment of the proposed target Indian shipping would be able to carry only about 20 per cent of the country's foreign trade at the end of the Fourth Plan. In view of the considerations set out in the preceding paragraph the Committee suggest that the shipping development programmes for the Fourth Plan (1966-67) should aim at a higher target so that by the end of the Plan period (1970-71) India's merchant navy is able to handle at least one-third of the country's overseas trade. The Committee need hardly stress that the Government should aim at Indian shipping handling about fifty per cent of the country's overseas trade as early as possible. While any foreign exchange spent on the acquisition of ships from abroad would be fully justified by the larger earnings or savings in terms of foreign exchange that an expanded fleet would bring in, the Committee feel that the expenditure of foreign exchange on the expansion of shipping can and should be greatly reduced by accelerating the development of the indigenous ship-building industry.
78	7.58	(i) The Committee note that during the Second and the Third Plans, the Hindustan Shipyard—the only major ship-building unit in the country—was able to deliver only 26 ships. The total tonnage constructed by the shipyard during the decade was 1.53 lakhs grt., the aggregate value of the ships constructed being Rs. 41.39 crores. During the same period 161 vessels with a total tonnage of 12.55 lakhs grt. were acquired from abroad involving an expenditure of Rs. 127.50 crores in foreign exchange.
	7.61	(ii) In view of the considerable saving in foreign exchange that would accrue from the construction of ships in India the Committee con-

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		sider it imperative that the development of the indigenous ship-building industry should be accorded the highest priority. They would like the Government to take urgent measures to promote efficiency and improve productivity at the Hindustan Shipyard whose performance so far has been far from satisfactory. Government should also take all requisite measures to ensure the speedy completion of the Second Shipyard at Cochin and its efficient working.
	7.63	(iii) The Committee would like to stress that the need for accelerating the pace of import substitution in the ship-building industry has become all the more imperative in view of the higher cost of imports resulting from devaluation and the growing requirements of an expanded ship-building programme. The Committee urge that Government should lose no time in drawing up and executing a practical programme of indigenous production of materials, equipment and components needed by the ship-building industry so that the degree of dependence on foreign sources for the supply of these goods is substantially reduced within a short period, say in two to three years.
79	8.24	The Committee note that due to the increasing dependence on foreign aid to finance imports the country has to pay a much higher price for its imports of machinery and goods than would be the case otherwise. In view of this and the persistent balance of payments difficulties the Committee urge the Government to take well thought out and determined measures to keep down imports to as low a level as possible consistently with the requirements of food, defence and economic development.
80	8.26	The importance of import substitution in conserving foreign exchange and accelerating economic development can hardly be over-emphasized. The Committee would, however, like to caution against indiscriminate import substitution which might either result in production of excessively high cost goods or entail dissipation of scarce resources by their application to the production of relatively non-essential commodities. Keeping this in view, the Committee would like

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		the Government to formulate a well defined import substitution policy which would aim on the one hand at speedy achievement of self-reliance in selected spheres and on the other at preventing the diversion of resources to non-priority areas.
81	8.27	The greatest scope for import substitution lies obviously in the field of agriculture. The Committee note that imports of cereals, cotton and raw jute during the Third Plan period amounted to Rs. 1328.9 crores. They would like to add that had it been possible to avoid these imports, the total trade deficit during the Third Plan period would have been only about Rs. 1067 crores as against the actual trade deficit of Rs. 2396 crores. It is evident that the continuing balance of payments difficulties of the country have been largely due to the failure in the key sector of agriculture and cannot be explained away—as is some time done—as an inevitable feature of economic development. The Committee would, therefore, like to reiterate the urgent need for all-out efforts to develop agriculture so that the country may be able to dispense with imports of cereals and other agricultural commodities, such as cotton, jute and oilseeds etc., at an early date.
82	8.28	(i) The Committee note that during the Third Five Year Plan maintenance imports, valued at Rs. 3811 crores, accounted for about 60 per cent of the country's import bill. Maintenance imports for Machine Buildings Industries registered a marked rise. In fact, the value of such imports during the Third Plan period (Rs. 1178.18 crores) was considerably higher than that of imports of complete machinery and equipment (Rs. 1024.74 crores). Imports of non-ferrous metals also showed an upward trend their total value for the Plan period being Rs. 286.5 crores. Iron and steel imports, though marginally lower than during the Second Plan, were still sizeable and entailed an outflow of Rs. 493 crores during the Third Plan period. Imports of fertilizers also registered a significant increase (from Rs. 15 crores in 1961-62 to Rs. 44.8 crores in 1965-66), their aggregate value during the Plan period being Rs. 160.3 crores. In the Draft Outline of the Fourth Plan, maintenance import requirements for the Fourth Plan period have been plac-

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		ed at Rs. 8190 crores in post-devaluation terms. It has been estimated that nearly two-thirds of this total would be accounted for by imports of iron and steel, non-ferrous metals, petroleum and petro-chemical products, fertilisers and components and spares for machinery and transport equipment.
	8.29	(ii) The Committee are greatly concerned at the growing volume of maintenance imports required to keep the country's industries running. It cannot be gain said that with her difficult balance of payments position the country can ill-afford this recurring drain on her foreign exchange resources. The Committee feel that the present situation necessitating heavy maintenance imports is mainly due to faulty planning. Had greater priority been given in the Five Year Plans to the development of basic raw materials, intermediates and ancillary industries concurrently with the setting up of basic and heavy industries on a phased basis, the country's industrial growth would have been basically sound and the requirements of maintenance imports would have been much lower.
	8.30	(iii) A conspicuous example of bad planning is provided by the steel industry. From the Economic Survey 1966-67, the Committee note that output of finished steel in April-December 1966 was lower than in the corresponding period of the previous year, but unsold stocks rose sharply. The position is known to have further worsened in recent months. Thus, while the indigenous steel industry is faced with a serious marketing problem, the country continues to spend sizeable amounts of foreign exchange every year on the import of certain varieties of steel. This situation could have been avoided had the development of the steel industry been planned realistically to suit the pattern of domestic demand.
	8.31	(iv) The Committee hope that Government would lose no time in rectifying these anomalies of planning and initiating imaginative import substitution measures with a view to minimise imports of iron and steel, non-ferrous metals, components and spares for machinery and transport equipment, fertilisers and petroleum and petro-chemical products. They would like to

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		stress that wherever possible, the objective of replacing imports should be achieved by diversifying the pattern of production in existing units. In this connection the Committee would also like to draw the attention of the Government to the recommendations made by them in regard to the development of certain important industries (such as, heavy engineering industries, non-ferrous metals, special steel and fertilisers) and import substitution in Chapters II and IV (paras 4.19 and 4.20) of their Ninth Report (Fourth Lok Sabha) on the Ministry of Industrial Development and Company Affairs—Industrial Licensing.
83	8.34	In view of the problems of idle capacity and unsold stocks in the capital goods industries, the Committee feel that project imports for the Fourth Plan can be pruned to a level considerably below that envisaged in the Draft Outline of the Fourth Plan. The Committee hope that in sanctioning new projects Government would take care to ensure that excessive capacity, involving wasteful blocking up of rupee or foreign exchange resources, is not created in any sector. They would also like to stress the need to ensure the maximum use of existing capacity in the machine—making industries to meet the requirements of new projects.
84	8.36	The Committee entirely agree with the views and suggestions contained in the Annual Plan 1967-68 regarding lags in switch over for foreign to domestic source, for the supply of plant and equipment. They would only like to add that built-in-preferences for imports exist not only in regard to capital goods but also other materials spare and components. The Committee hope that Government would soon initiate concrete measures, on the lines suggested in the Annual Plan 1967-68, to curb the imports of goods which (or whose close substitutes) are available indigenously.
85	8.41	The Committee would like to emphasise that in view of the acute overall shortage of resources, Government should take positive measures to discourage the establishment of low priority industries, particularly if foreign exchange is required not merely for initial establishment but also for maintenance of production subsequently.

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86	8.42	The Committee would also like to express their disagreement with the categorisation of items like domestic refrigerators, domestic food processing appliances, T.V. sets, toys, wash-basins, etc., as 'essential' goods. They feel that in the context of the difficult foreign exchange position there can be no justification for spending foreign exchange on imports of consumer goods which cannot be classed as 'necessaries' for the common people.
87	9.5	The Committee regret the discontinuance of foreign exchange budgeting during 1953—57. As foreign exchange is a key resource for development the Committee cannot overstress the necessity of regular and systematic foreign exchange budgeting to ensure the most productive use of the limited foreign exchange available to the country.
88	9.9	The Committee note that at present foreign exchange budgeting is primarily a system of estimating the receipt and expenditure of foreign exchange over a given period. They would like to recall that during the first three plan periods the actual plan-wise balance of payments varied considerably from what was anticipated in the Plan documents. During the Second and Third Plan periods particularly the calculations of the planners were seriously upset by recurring foreign exchange crises which could have been avoided by better management of the country's foreign exchange resources. The Committee would like to urge that if such situations are to be avoided in future the size and the composition of the development plans should be determined on the basis, *inter alia*, of a realistic assessment of foreign exchange availability and demand. It is also imperative that the method of operation as well as the criteria adopted by the foreign exchange budget should be integrated with the requirements of the overall Plan. This would imply that the foreign exchange budget should not merely provide estimates of resources and requirements over a given period but also attempt to allocate scarce foreign exchange resources among competing users on the basis of the order of priorities laid down in the Plan. The Committee would like the Government to suitably

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		modify the character and scope of the foreign exchange budget in the light of these considerations.
89	9.12	The Committee entirely agree with the view of the Study Team on Economic Administration (ARC) that periodical crises in foreign exchange are a sad commentary on the Government's management techniques in relation to foreign exchange. They also endorse the Study Team's recommendations for improving the system of compiling and processing balance of payments data so as to provide a reliable basis for estimating the availability and expenditure of foreign exchange. The Committee would like to urge the Government to take expeditious measures in this behalf. They hope that with the introduction of an improved data processing system Government will be able to ensure avoidance of periodical foreign exchange crises, which are often attributable to the bunching of past commitments during a particular period.
90	9.14	The Committee hope that Government would soon adopt the practice of presenting balance of payments estimates to Parliament every half year. They would like to suggest that these estimates should be accompanied by suitable explanatory notes bringing out the significance of the data presented.
91	9.23	The Committee regret to note that in spite of the difficult foreign exchange situation there have been many instances where public undertakings have placed orders abroad for items which (or whose close substitutes) were indigenously available. They cannot too strongly urge that the machinery for screening import applications should be suitably tightened to avoid the recurrence of such cases, for Government's policy of accelerating the pace of self-reliance through import substitution can have little meaning if their own undertakings are allowed to fritter away scarce foreign exchange on avoidable imports. In this connection the Committee would also like to suggest that the D.G.T.D. should maintain detailed and upto date information regarding the equipment that is actually being manufactured in the country or is likely to be manufactured

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		in the near future, say within a year. This information would be a useful aid for screening applications for imports.
92	9.24	The Committee are also concerned at the high level of inventories in the public undertakings. As those inventories have a large import content it is obvious that they have resulted in unnecessary locking up of foreign exchange. The Committee endorse the suggestions for reducing the inventories in public undertakings made by the Committee on Public Undertakings (Third Lok Sabha) in their Fortieth Report, paras 11, 12, 13 and 15. They would like the Government to take speedy measures to reduce inventories in the industrial concerns in the public sector. As a rule, the inventories in the running industrial concerns should not exceed six months production.
93	9.25	The Committee are glad to note that as a result of recent changes in import policy all applications for imports of components and raw materials by the public sector units in the 59 priority industries are now being treated in exactly the same manner as applications from private sector units. They would like this practice to be continued and implemented strictly so as to ensure unit to unit parity between the public and the private sector so far as maintenance imports are concerned. However, in view of the large stockpiles of raw materials and components with many of the public undertakings and the need to bring down the same, the Committee consider it necessary that before taking a decision on an application for import of raw materials or components by a public undertaking the D.G.T.D. should fully take into account the existing inventory stock with such undertaking.
94	10.24	The Committee note that under the notification dated the 25th March 1947 issued under section 9 of the Act, the only obligation which was cast upon a person was to surrender to authorised dealers the currency of the United States and Philippine Islands of which he was or became owner. Thus, until the promulgation of the subsequent notification dated 25th September 1958, there was no obligation cast upon any one to sur-

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		render the foreign exchange of any other country acquired in any manner. The Committee are surprised that Government did not consider it necessary to assume wider powers to acquire foreign exchange holdings of persons in, or resident in India, till the end of September 1958, in spite of the fact that the country's external resources had been under heavy strain since the commencement of the Second Plan in April 1956.*
95	10.25	The Committee also note that even under the notification dated 25th September 1958, Government's powers to acquire foreign exchange holdings do not extend to (a) holdings expressed in certain currencies like those of Pakistan, Burma and Ceylon and (b) sums held as on 8th July 1947, in an account expressed in pound sterling and in existence prior to that date. Further, accounts expressed in pound sterling opened on or after the 8th July 1947 are also to be exempted from the requirement of surrender provided general or special permission has been granted by the Reserve Bank for the maintenance of such accounts. The Committee are unable to appreciate why holdings of foreign exchange, expressed in certain currencies, should be wholly exempted from the requirement of surrender especially when this requirement is not applicable to accounts in foreign currency maintained outside India by 'persons in or resident in India but not domiciled therein'. They would like the Government to consider whether the afore-mentioned exemptions, particularly those in respect of holdings of Pakistani currency and accounts in pound sterling, should not be withdrawn in view of the need to strengthen the country's foreign exchange resources and prevent dealings in foreign exchange by persons other than authorised dealers.
96	10.28	(i) The Committee are unable to share the Ministry's views as to the meaning, scope and effect of Section 9 of the Foreign Exchange Regulation Act.
	10.29	(ii) The Ministry have stated that, "the Act (the Foreign Exchange Regulation Act) provides under different sections that certain activities connected with foreign exchange can be undertaken only under the prescribed manner and by

*India's foreign exchange reserves declined by Rs. 221.3 crores in 1956-57 and Rs. 259.9 crores in 1957-58.

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		following procedures as indicated for each such provision in the Act. The purpose of section 9 and of the Government Notification issued thereunder is really to reiterate the general position that all foreign exchange earned in any manner by any one who is a resident in India really belongs to the foreign exchange pool of the country and that all such exchange must be surrendered within one month of the party acquiring it... This is almost an automatic process because of the imposition of exchange control in India and it would not be quite appropriate to take the view that it is section 9 and the notification issued thereunder which is achieving all this by itself." This amounts to saying that section 9 is more or less superfluous since what it seeks to achieve, *viz.* the compulsory repatriation of foreign exchange owned or held by persons in, or resident in, India is already ensured by other provisions of the Act dealing with specific activities connected with foreign exchange. The Committee cannot accept this interpretation.
	10.30	(iii) The Committee are of the opinion that the object, scope and effect of section 9 are clearly distinguishable from other provisions of the Foreign Exchange Regulation Act. They would like to emphasise that section 9 was enacted with the specific objective of enabling Government, to assume, as and when necessary, special and over-riding powers to strengthen the foreign exchange resources of the country. Once a notification under Section 9 is issued by Government, it becomes incumbent upon "every person in, or resident in, India who owns or holds such foreign exchange as may be specified in the notification", to offer it, or cause it to be offered for sale to the Reserve Bank on behalf of the Central Government or to such person as the Reserve Bank may authorise for the purpose, within the period stipulated in the notification. No other provision of the Act casts a similar obligation on all those who happen to own or hold foreign exchange. For instance, Section 4 provides, *inter alia,* that no person in, or resident in India, shall "buy or otherwise acquire or borrow or sell or otherwise transfer or lend etc." any foreign exchange except to or from an authorised dealer. Unlike Section 9, Section 4 does not make it obligatory for any one to divest himself of the foreign exchange

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		owned or held by him. It is also to be noted that Section 9 applies not only to future acquisitions of foreign exchange but also to all such foreign exchange as is owned or held by any person at the date of the issue of a notification under that section.
	10.31	(iv) The Committee would like to stress that after the issue of the notification under Section 9 on the 25th September 1958, no person in, or resident in, India can own or hold foreign exchange beyond a specified period (that is, one month from the date of the notification if the foreign exchange was owned or held on 25th September, 1958 and one month from the date of a person becoming the owner or holder of the foreign exchange in other cases) unless permitted to do so by the said notification itself. The effect of this prohibition should have been reflected in significantly higher earnings under invisibles in the period following the notification due to compulsory repatriation of both the pre-zero holdings and subsequent acquisitions of foreign exchange. This, however, does not appear to have come about.
97	10.33	In view of the declining trend in invisible receipts on private account and the admitted leakage of foreign exchange through the so-called free market, the Committee are constrained to infer that efforts have not been made to strictly enforce the Order promulgated by the Government on the 25th September 1958 in exercise of their powers under Section 9 of the Foreign Exchange Regulation Act. They need hardly add that an Order of this nature has little meaning unless effective measures are taken to detect and deter violations. This aspect has been considered in some detail in the comments on Section 23 of the Act.
98	10.45	The Committee note that the object of section 14 of the Foreign Exchange Regulation Act is to ensure strict observance of the restrictions on the export and transfer of securities provided for under section 13. It is, therefore, rather surprising that the powers vested in the Government under section 14 should have remained unused for all these twenty years since the Foreign Exchange Regulation Act was enacted.

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99	10.50	(i) The Committee note that the power to compulsorily acquire foreign securities vested in the Central Government under section 16 of the Foreign Exchange Regulation Act has not been availed of so far. They would also like to recall that during the Second World War period similar powers available to Government under the Defence of India Rules were made use of to issue a direction that all dollar securities should be converted and held in sterling. This measure was considered necessary in view of the 'dollar gap' which the sterling area was then facing. According to the Ministry, the reasons for not invoking the provisions of section 16 are that "a wholesale direction for repatriation of all securities held abroad" could not be issued because (a) "in many instances securities are held in countries where because of balance of payments difficulties, in any case, those countries do not permit repatriation of the sale proceeds," and (b) "Corporations like the L.I.C. have foreign liabilities abroad and they have of necessity to keep some securities there." The Ministry have further stated that even in that sector where it might be possible to issue a direction that all securities should be repatriated to India, "such pre-emptory orders have not been issued as it might lead to distress sales causing loss of foreign exchange." The Committee feel that the Ministry's explanation is not very convincing. In the first place, there is no warrant for the presumption that an order issued by the Government under section 16 has necessarily to be in the nature of what the Ministry call "a wholesale direction for repatriation of all securities held abroad". Section 16 authorises the Government not only to limit the application of such an order to 'the foreign securities specified in the notification' but also to grant such exemptions as it may consider necessary even in respect of the notified securities. Secondly, keeping in view that the provisions of the Defence of India Rules (1939), relating to acquisition of foreign securities, were actually used during wartime to help sterling area cover its dollar gap, it is difficult to agree with the Ministry's stand that similar action under section 16 of the Foreign Exchange Regulation Act has not been taken because of any insuperable difficulties, or adverse consequences that might result from such action.

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	10.51	(ii) In view of the above, it is evident that had Government really desired to avail of the power to compulsorily acquire foreign securities vested in them under section 16 of the Foreign Exchange Regulation Act they might well have done so by issuing appropriate orders in this behalf making due allowance for any practical difficulties. The Committee regret to note that although the statute has conferred this power on the Government explicitly "for the purpose of strengthening its foreign exchange position", Government could find no use for it in dealing with the extremely difficult foreign exchange position which the country has been facing for nearly a decade. The Committee hope that Government would give thought to the need of taking effective action under section 16 to strengthen the country's foreign exchange reserves.
100	10.57	(i) The Committee note that sub-section (3B) of the Section 18 of the Foreign Exchange Regulation Act prohibits persons resident in India from transferring any interest in any business in India, or creating any interest in such business, to or in favour of 'a national of a foreign State'. They feel that the use of the words 'national of a foreign State' in sub-section (3B) in preference to the expression 'person resident outside India' (which has been used in other sub-sections of section 18) is significant inasmuch as it makes the provision applicable to cases involving even foreigners who may be resident in India but continue to be nationals of foreign States.
	10.58	(ii) The Committee consider that the general permission in respect of transfer of securities, etc. to foreign nationals resident in India, granted under the Reserve Bank notification No. FERA 164/5B-RB., dated the 12th September, 1958, is capable of being misused. They would like the Government to consider whether it would not be safer to require the special permission of the Reserve Bank for all transactions coming within the purview of sub-section (3B) of section 18 of the Foreign Exchange Regulation Act.
101	10.86	(i) The Committee note that the information furnished by the Ministry in regard to cases involving violations of Exchange Control does not

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		indicate the total value of foreign exchange involved in such cases although this information was specifically sought by the Committee. However, from what has been stated during official evidence it would appear that the total foreign exchange involved in cases where proceedings were initiated by the Directorate of Enforcement amounted in 1965-66, to only Rs. 7 crores to Rs. 9 crores; in earlier years the foreign exchange involved in such cases was much less. The Committee also note that in the 10 years since 1956, the total fine imposed in cases of contraventions of the Foreign Exchange Regulation Act, orders, Rules, etc. amounts to only Rs. 2.634 crores; the total foreign exchange ordered to be repatriated to India during the same period comes to no more than Rs. 2.46 crores while the amount of Indian and foreign currencies confiscated is negligible. When these facts are considered in the context of the widespread prevalence of various malpractices resulting in the admitted leakage of foreign exchange and the retention of foreign exchange abroad by Indian nationals, it becomes evident that there is something lacking in the law relating to exchange control and the machinery for its enforcement.
	10.87	(ii) The Committee are surprised that although the Foreign Exchange Regulations Act has been amended a number of times it has not been found possible to devise suitable ways and means either for securing repatriation of foreign exchange held abroad by citizens and residents of India or for preventing the malpractices which result in leakage of foreign exchange. They regret to observe that all that could and should have been done to make exchange control really effective has not been done. For instance, in Pakistan, under a Martial Law Regulation promulgated in 1958, failure to surrender or declare foreign exchange held in contravention of any law was made punishable with rigorous imprisonment extending to seven years and with confiscation of either whole or part of the property of the offender in Pakistan. In contrast, in India, in spite of the critical foreign exchange position and in spite of the wide powers available to the Government under the emergency, Government have been content with making a few changes in Foreign Exchange Regulations Act which do not touch basic problems, like the non-repatriation

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		of foreign exchange held abroad, at all.
	10.88	(iii) The Committee consider it nighly anomalous that while on the one hand Government stand committed to the reduction of economic inequalities, on the other hand they have been taking a rather lenient view of Indian citizens building up or retaining large balances, securities, etc. abroad. The Committee feel that a two-pronged approach is necessary to deal with the problem of leakage and non-repatriation of foreign exchange. First, a healthy climate for investment has to be created in the country by offering special incentives to encourage people to repatriate and surrender their foreign exchange holdings to the Reserve Bank of India. Secondly, the law relating to exchange control should be modified so as to plug all loopholes and provide deterrent punishment for violations; further, the law should be rigidly enforced whoever mignt be the offender.
102	10.89	To make the law relating to exchange control fool-proof and to ensure its proper implementation the Committee recommend that Government may appoint at an early date a high powered Commission to review the working of exchange control in India with a view to indentifying its shortcomings and suggesting appropriate remedial measures (including changes in the law) to make exchange control an effective instrument of conserving and augmenting the country's foreign exchange resources. The Commission may be headed by a retired Supreme Court Judge and include an adequate number of independent public men and economists and legal experts having intimate knowledge of exchange control.
103	10.90	(i) As the Commission suggested above might take some time to report, the Committee would like the Government to take urgent measures for removing obvious deficiencies and lacuna in the provisions of the Foreign Exchange Regulation Act relating to penalties and procedure in respect of violations of the Act and rules, directions and orders made thereunder. Some of these shortcomings and the changes, which the Committee consider necessary, are indicated, in general terms in the paragraphs that follow.

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	10.91	(ii) At present, the maximum punishment for exchange control offences is two years' imprisonment. The Committee feel that this is not sufficiently deterrent. They recommend that section 23 of the Act may be suitably amended so as to raise the punishment provided for thereunder to five years rigorous imprisonment and also to make it obligatory on the Courts to pass a minimum sentence of one years' imprisonment in cases of serious contraventions. The amended section may also provide for punishment in the form of confiscation either of the whole or a part of the property of the offender in India. The Committee feel that provision on these lines is essential to get over the difficulties faced by the administration in securing repatriation of foreign exchange held abroad.
	10.92	(iii) There is no provision in the Act for penalising persons who conspire, or aid, or abet or counsel, or procure any other person, to contravene the restrictions or requirements imposed by or under the Act. This lacuna should be removed by introducing a suitable provision in the Act.
	10.93	(iv) The Committee note that under section 23 of the Act it is left to the Director of Enforcement to decide whether or not proceedings will be taken up against a person who has committed an offence under the Act. The Director is also free to decide whether he would himself proceed against the alleged offender or make a complaint to the appropriate court. It may be mentioned that when a person is tried in a court the sentence on conviction may be that of imprisonment and fine in any amount, but if he is proceeded against before the Director of Enforcement, he cannot be sentenced to imprisonment and the maximum fine that can be imposed upon him cannot exceed three times the value of foreign exchange involved in the offence or Rs. 5000 whichever is more. The Committee cannot approve of the wide and unfettered discretion which section 23 of the Act confers upon the Director of Enforcement. In particular, they can see no reason why initiation of proceedings for violations of exchange control should be subject to the veto of the Director of Enforcement.

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	10.94	(v) The Committee need hardly stress that the very object and purpose of the Foreign Exchange Regulations Act would be defeated unless effective arrangements exist for bringing offenders to justice. They suggest that offences against the provisions of the Act, and rules, directions and orders issued thereunder, should be made congizable and every Sessions Judge should be declared to be a Tribunal for the trial of such offences. As a corollary, the Director of Enforcement would have to be divested of his judicial functions and a complaint by him would no longer be an essential precondition for the initiation of proceedings in cases of violations of exchange control. The Committee would like the Directorate of Enforcement to function as the main agency for investigation and prosecution of foreign exchange violations. To strengthen intelligence and investigation arrangements in regard to breaches of exchange control the Directorate of Enforcement should work in close cooperation with officers of the Customs Department, Central Excise and Police, particularly the Central Bureau of Investigation. Further, it should be made obligatory on the part of the Directorate of Enforcement to report to the CBII all serious cases of violations of Exchange Control. A duty should also be cast on officers of Enforcement, police officers and such other officers as may be specified in this behalf by the Central Government to launch prosecutions wherever there is a primafacie case of contravention of exchange control provisions.
	10.95	(vi) The Committee feel that the existing provisions relating to appeal, sections 23E and 23EE of the Foreign Exchange Regulations Act, contribute to protracted litigation. They would like these provisions to be replaced by one of the following lines: (1) Any person aggrieved by a judgment of a Tribunal may, within three months from the date of the judgement, appeal to the High Court. (2) Save as provided in the proceding subsection, all judgments and orders passed by a Tribunal shall be final.

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104	10.97	The Committee feel that publication of names and other particulars of persons who have been found guilty of contravening the provisions of the Foreign Exchange Regulation Act or rules, directions or orders made thereunder would act as a salutary check on exchange control violations. They would like the Government to give full publicity to all such cases decided since April 1, 1965. For future, Government should ensure that the names and other particulars of all persons held guilty of foreign exchange offences during a particular period, say a quarter, are regularly published in the Official Gazette and other media considered appropriate for the purpose.
105	11.6	In retrospect, the Committee would like to state that the large foreign exchange reserves, build up at considerable sacrifice during World War II, were a valuable asset which could have been used, in the early years of planning, to strengthen the agro-industrial base of the economy. This was unfortunately, not done and till about the end of the First Plan large amounts of foreign exchange were frittered away, year after year, on imports of non-essential goods which the country might well have done without.
106	11.15	The Committee feel that the expected improvement in the country's balance of payments, as a result of devaluation, has not materialised so far mainly because of three factors viz. (i) continuing inflation, (ii) the lack of adequate export surpluses and (iii) the abrupt withdrawal of pre-devaluation export—incentive schemes and imposition of export duties on many important items of export. According to the Annual Plan 1967-68, the overall index of wholesale prices has risen by 15.7 per cent in 1966-67. This abnormal rise in prices—the highest annual increase experienced so far since the commencement of planning—has naturally neutralised to a great extent the usefulness of devaluation which was meant to be a corrective to the chronic disequilibrium in the balance of payments resulting from the earlier erosion in the value of the rupee under inflationary pressures.
107	11.16	(i) The Committee would like to reiterate that the most essential condition for bringing about an enduring improvement in the country's balance of payments is to keep inflationary pres-

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		sures firmly under control. To do so, it is necessary to identify and eliminate the factors contributing to inflation. The Committee are of the view that the most important cause of inflation lies in the size, strategy and implementation of the Five Year Plans. In brief, the Plans have led to inflation because the enormous outlays made thereunder have not been matched by a corresponding increase in production. Rapid increases in non-developmental expenditure have further aggravated the inflationary pressures.
	11.17	(ii) To remedy the situation it would be necessary, in the first place, to limit public expenditure to the resources Government can mobilise without recourse to deficit financing which aggravates inflation This means that considerable economies have to be made in both developmental and non-developmental outlays. Secondly, to eliminate the all round shortages, responsible for the spirallling up of prices concerted measures will have to be taken to bring about a rapid increase in production particularly of essential consumer goods and export commodities. In view of the difficult resources position this would imply that expenditure on schemes which do not contribute to development except indirectly or in the long run will have to be kept to the minimum or deferred so as to cater fully to the developmental needs of agriculture and important consumer and export industries. Thirdly, fiscal policy will have to be reoriented with a view to hold the price line and stimulate savings and investment for higher production. Fourthly, early steps will have to be taken to improve the efficiency of the public sector enterprises so that they are able to attain higher levels of production and productivity and yield adequate returns on the large investments made in them.
108	11.18	The Committee would also like to reiterate the urgent need of increasing exports and accelerating the pace of import substitution particularly in respect of maintenance inputs which account for the bulk of the country's imports at present. They need hardly stress that enduring results in regard to exports can be achieved only by bringing down costs of production of our products, which are, at present, quite high by international standards. Meanwhile, the export effort will have to be supported by various forms of incentives and assistance.

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109	11.20	The Committee would like the Government to act with speed in assessing the impact of the recent devaluation of the pound sterling and other currencies on India's exports and take timely measures to counter any adverse effects that these developments may have on the country's export effort.
110	11.21	Finally, the Committee note the Government's decision to postpone the commencement of the Fourth Plan to April 1969. They would like the new Plan to embody a pragmatic approach to the pressing economic problems facing the country *viz.*, rising prices, recurring balance of payments difficulties, and fall in production and the rates of domestic savings and investment. To strengthen people's faith in planning, which has been shaken by the unsatisfactory performance of the Third Plan and the growing economic difficulties, it would be necessary to ensure that the principal targets of the Plan are realistic and are such as can be achieved without producing fresh distortions and strains in the economy which may result in aggravating the lot of the common people. With this object in view, the Committee would suggest that the new Plan should not only lay down physical targets of achievements in various sectors but also set out practical and concrete measures to bring about the targeted increases in production, exports, savings etc. They would also suggest that the formulation of the new Plan may be preceded by an objective assessment of the reasons for the failure of the Third Plan so that the errors in planning which have led to the present difficulties in both the internal and external sectors of the economy may be avoided.

APPENDIX XI

(*Vide* Introduction)

Analysis of Recommendations|Conclusions contained in the Report

I. CLASSIFICATION OF RECOMMENDATIONS

A. Recommendations for Improving the Organisation and Working:—

S. Nos. 10, 22, 24(ii), 27(ii), 29(ii), 37, 49(ii), 51, 52, 60, 61, 62, 65, 70(ii), 72, 76, 78(ii), 87, 88, 89, 90, 91, 93, 97, 98, 99, 100, 101, 102, 103, 104 and 109.

B. Recommendations for Effecting Economy:- Serial Nos. 25, 34, 36, 45, 83 and 92.

C. Miscellaneous Recommendations:—

Serial Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24(i), 26, 27(i), 28, 29(i), 30, 31, 32, 33, 35, 38, 39, 40, 41, 42, 43, 44, 46, 47, 48, 49(i), 50, 53, 54, 55, 56, 57, 58, 59, 63, 64, 66, 67, 68, 69, 70(i), 71, 73, 74, 75, 77, 78(i), 79, 80, 81, 82, 84, 85, 86, 94, 95, 96, 105, 106 107; 108 and 110.

II. ANALYSIS OF RECOMMENDATIONS DIRECTED TOWARDS ECONOMY

Sl. No.	S. No. as per summary of Recommendations Appendix X	Particulars
1	2	3
1.	25	Need for strict economic discipline and curtailing all avoidable non-developmental expenditure stressed.
2.	34	Outlays on projects and schemes which do not contribute to development except indirectly or in the long run may be kept to the minimum or deferred.
3.	36	Need for urgent and firm measures to bring down the present level of expenditure on administrative services stressed.

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4.	45	Need to limit perquisities and amenities, in both the public and private sectors, to the minimum.
5.	83	In view of the problems of idle capacity and unsold stocks in the capital goods, sector, project imports for the Fourth Plan can be pruned down to a level a considerably below that envisaged in the Draft Outline of the Fourth Plan.
6.	92	Need to bring down the level of inventories in the public undertakings emphasized.

Sl. No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27
28.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
30.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
32.	Hind Book House, 82, Janpath, New Delhi.	95
33.	Bookwell, 4, Sant Narankari Colony, Kingsway Camp, Delhi-9.	96

MANIPUR

Sl. No.	Name of Agent	Agency No.
34.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77

AGENTS IN FOREIGN COUNTRIES

35. The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON, W.C.—2.

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