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Mid Year Review of th Economy 1983

by

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Prolegomena

The mid year review of the Economy for the current year 1983-84, is based on the usual pluses and minuses. On the plus side should be listed the additional information- statistical and non statistical - made available in the Mid Term Appraisal of the Sixth Five Year Plan presented to Parliament on August 19, 1983. What was lost to the country in the one year delay in the presentation of the Appraisal document (which should have been placed before parliament in August 1982), was in a sense and to some extent partially compensated by the inclusion of information on the behaviour of the economy and its sub-sectors in the first quarter of this fourth year of the Sixth Plan. In addition there are the usual annual documents, namely, the Economic Survey 1982-83, the Annual Plan 1983-84, CSO Quick estimates 1982, and the Annual report of the Reserve Bank of India for 1982-83 which provide most of the data base for this review.

On the minus side there are some limitations to the data in that they are dated and except for the Mid Term Appraisal refer only incidentally and in passing to the current year which is the subject of review. In addition some of the data provided are selective and slanting. In the case of the Mid Term Appraisal document, for instance, Part I of the document written by the Planning Commission is atleast reliable in terms of the statistics quoted, as in the admission that 'as against the 1984-85 food grains production target of 149-154 million tonnes projected in the Plan, the achievement may be nearer the lower end of the range, ie, 146-148 million tonnes', though the interpretation of these facts is ambiguous as in the statement 'Turning to physical achievement, the mid term estimates indicate that the plan targets will be fulfilled in full or adequate measure in a number of areas including many in the sectors of agriculture and industry'. Part II of the appraisal document has been drafted by the ministries concerned and has an air of optimism, sometimes almost of euphoria, that is lacking in Part I. Thus the chapter on agriculture refers to a table (5.3) as 'an illustrations of the big leaps made in foodgrains production from peak to peak and the rate of increase registered at every stage'. This together with statements about new peaks as well as the latest trough being invariably higher than previous ones, providing 'a more reliable measure of the new strength acquired by the agriculture sector'[1] are in flat contradiction not only to Part I of the document but the comments on agriculture in the concluding chapter of the Economic Survey which states 'the fact remains that despite increases of 9 million hectares in the irrigation potential and about 2 million tonnes in fertiliser use during 1978-79 to 1982-83, there has not been any significant increase in the level of the production of foodgrains. There also appears to be an imbalance in the cropping pattern', calling for a comprehensive review of our agricultural strategy.[2] This means that some of the official data need a rescrutiny as they are selected and presented with extra technical issues in mind.

There are the usual problems of forecasting that the mid year review involves where a simple linear projection of the record of the first 3 or 6 months of the financial year for the year as a whole is not possible because of new elements that are unanticipated which have to be taken into account. To take just one example, the first quarter, April-June, recorded halting progress of the economy because of the delay in the monsoons on which the entire agricultural performance is dependent, but the second quarter July-September with the adequate and in some case abundant rains introduced qualitative changes.

Further 1983-84 is the penultimate of the Sixth Five Plan. Hence the review of the performance of the economy during the year in a sense get blurred with the economy's behaviour of the first 3 years and also involves some anticipation of what may be expected in the final year of the Plan. In other words there is a little more of the problem of maintaining the identity of the mid term review of the fourth year of the Five Year Plan than that of the previous years. This will be seen particularly in the review of the sectoral and sub sectoral performances of the economy.

Also there is the usual problem of relating this annual review to the long term trends characterising the economy. As last year 1982-83 was a year of poor overall and sectoral performance, this year's record will show a sharp percentage increase in parts of both areas, an increase which will have to be seen both as a measure of recovery from the previous year's decline rather than an augmentation over the long term trend as well as in light of the economy's trend rate over the past 3 decades of planning.

Economy

The performance of the economy in 1982-83 was lower than forecast in my mid term review which was an estimated low growth GNP rate of 2.5 per cent.[3] The Economic Survey forecast is a GNP growth rate of 2 per cent and so is that of the Planning Commission's Mid-Term Appraisal.[4] An even lower estimate of the rate of growth of the economy in 1982-83 is that of the Centre for Monitoring Indian Economy which is 1.5 per cent. The per capita growth of GNP for that year is estimated varyingly at -0.5 to -0.8 per cent.[5] The Annual Report of the Reserve Bank of India estimates the growth rate in the net national products in real terms in 1982-83 at between 1 and 2 per cent, in contrast to a growth rate of 5 per cent in 1982-83 and 8.1 per cent in 1980-81.[6]

For 1983-84 with the adequate and favourable South West monsoon as referred to earlier which is the major assumption of the Plan for the satisfactory performance of the economy, the rate of growth for the current year is likely to be 5 per cent, with the per capita growth rising to 2.7 per cent. The trend rate of GNP growth from 1970-71 to 1982-83 continues to be 3.5 per cent over all and 1.2 per cent per capita.

One of the problems brought out in the estimates of the national income and its growth is the increasing and somewhat alarming gap between the national income both aggregate and per capita, expressed in current prices and constant prices. For instance CSO estimates that GNP at factor cost at constant prices rose from Rs.47002 crores in 1979-80 by 13.7 per cent to Rs.53424 crores in 1981-82, while at current prices it near tripled (at 37.6 per cent) during that period, increasing from Rs.95023 crores to Rs.1,30,795 crores. While for the economist the concept of constant prices is of use in making possible comparative analysis, in the real world of men and women who earn, spend and consume and save, it is current prices which are the reality. The enormous increase in the GNP at current prices registered in just 2 years between 1979-80 to 1981-82 means that those who had access to these increased resources profited at the cost of those who had no such access. The same configuration is seen in the per capita NNP repoted by CSO which in constant prices recorded an increase of 8.6 per cent from Rs.662.5 in 1979-80 to Rs.719.9 in 1981-82 but in current prices the increase near quadrupled from Rs.1332.9 to Rs.1749.5 in these two years.[7] Further the contrast between these per capita figures and those established for the poor, who form about 50 per cent of the country, by Sixth Five Year Plan, at Rs.912 per capita per annum in rural and Rs.1056 in urban areas[8] confirm the distortion in access to goods and services engendered by the growth of national income expressed as they should be in current prices.

The Sixth Plan and the Annual Plan 1984-85

The Planning Commission's Mid Term Appraisal shows that Sixth Plan is likely to attain an annual average GDP growth rate of 4.98 per cent against the targeted 5.27, which is what I estimated in the Mid Term Review last year. The agricultural growth for the Plan at an annual average 3.89 per cent is well above the 2 to 2.5 per cent that I forecast, while the industrial growth is estimated at 6.32 per cent, a little below the 6.6 per cent forecast in the Mid Term Review.[9] But it is in the short fall of the public sector investment forecast which I estimated at 10 per cent but which the Planning Commission's Mid Term Appraisal places at 15-20 per cent and the short fall in the attainment of physical targets which I estimated at 15-20 per cent but is more wide ranging as set forth in the 134 items of the Appendix I to chapter 12 on industry and minerals of the Appraisal document that the most serious differences occur as between the two reviews of the Sixth Plan.

The most serious lag in the VI Plan is in regard to Public Sector outlays and resource mobilisation, which requires some further analysis. The total investment in the Sixth Plan was estimated at Rs.158,710 crores of which Rs.97500 was to be the public sector outlay. In the first four years of the Plan Rs.79,880.26 crores have been the public sector outlay which is 81.95 per cent of the total Plan outlay. If the fifth year outlay is Rs.30,000, the total Sixth Plan public sector outlay will amount to Rs.1,09,880 crores, which is well above the target. But the Mid Term Appraisal states that because of the rise in the investment cost index at 11 per cent in 1980-81 and 14 per cent in 1981-82 (which are higher than the GDP deflators for these years), the real rate of growth of the public sector outlay was 8 per cent per annum against the nominal growth rate of 21 per cent per annum and the Plan assumption of 16.5 per cent. In fact a more comprehensive study which takes into account the rise in the investment cost index for the third year 1982-83, at 6 per cent and for the fourth year, 1983-84, at 10 per cent shows that Rs.79,880.26 crores of the first four years of public sector outlay amounts in real terms to Rs.56,997 crores, which is an erosion of 28.7 per cent, and if the same 10 per cent investment deflator is used for the fifth year, when the aggregate nominal public sector Plan outlay will amount Rs.109,880 crores as just noted, the shortfall in the Plan will be 24 per cent and not 15-20 per cent as estimated by the Planning Commission appraisal document.[10]

On resource mobilisation, the Appraisal document reports that the record both by the union and states is likely in the first four years to exceed the targets for the whole of the Sixth Plan which was Rs.12,290 crores for the Union and Rs.9012 crores for the states and which by 1980-84 amounted to Rs.12681 crores and Rs.9235 crores respectively. However in real terms there has been a short fall in the union's additional resource mobilisation due to the rise in prices noted earlier, which together with the various wage increases, tranches of dearness allowance granted, the increase in defence expenditure, and the augumentation of subsidies have resulted in the 15 per cent short fall of its investment target; and in the case of the states the shortfall in their investment targets which will be around 30 per cent will be due to the deterioration in their resources because of the State Electricity Board and State Road Transport Corporation not achieving their target of surplus as well as the increased expenditure in the service sector.

The Mid Term Appraisal ought to lead to some corrections. Atleast five are indicated. First the resource and investment short fall which results in the short fall of the physical target can in part be corrected if a further Rs.10,000 crores is raised over and above the estimated public sector outlay of Rs.109,880 crores referred to above. For this, the time is short and the necessary decisions needs to be made by Planning Commission to raise additional resources, both budgetary and extra budgetary, now. Second the additional resources should be made available to the core sector - power, railways, coal, steel, non ferrous metals - as well as to textiles, jute and electronics. Here again the decision to increase their allocations should be made now. Third the inefficient use of capital resulting in the high capital output ratio of 6:1 needs to be corrected by sound management and in particular the public sector capital output ratio which at 7.4:1 is near double that of the private sector at 3.8:1 needs urgent attention. Even as resources are pumped into the public sector enterprises, their managements should be given the freedom to make the most efficient use of the resources made available to them. Fourth the rise in GNP at current prices needs to be corrected, as under it the poverty of the poor majority increases and the other measures to reduce poverty need to be strengthened. Fifth the continuous increase in non plan expenditure at both union and state levels need to be halted by reining in of expenditure on defence and subsidies and improving the performance of state electricity boards and transport bodies and blocking further increase in the services sector.

The Annual Plan for 1983-84 is Rs.25,480.32 crores, divided into Rs.13870.17 crores for the union and Rs.11,610.15 for the states and union territories.[11] This represents an increase of 21 per cent over the previous year's plan, which as the Mid Term Appraisal document states is an increase of 12 per cent in real terms. The largest increases are in the energy sector by Rs.1586 crores at Rs.8323 crores (a rise of 19 per cent), industry and minerals by Rs.470 crores at Rs.3492 crores (a rise of 13.5 per cent), communications by Rs.97 crores at Rs.704 crores (a rise of 13.8 per cent) transport by Rs.300 crores at Rs.3033 crores (a rise of 10 per cent), and health and family welfare by Rs.160 crores at Rs.798 crores (a rise of 20 per cent). The poverty amelioration programmes which are clubbed under Rural Development show an increase of Rs.44 crores at Rs.1278 crores (a rise of 3.4 per cent). This Plan of Rs.25480.32 crores is to be financed from domestic resources to the extent of Rs.22015, including Rs.1980 crores as additional resources to be mobilised during the year. Compared to 1982-83 there is a decline in the resources generated by the railways and posts and telegraphs and a continuing heavy decline in revenue from public enterprise of the states (at -Rs.1537 crores).

The Annual Plan shows not only the inadequacy of the financial allocations for the priority sectors in which the poverty amelioration programme should be included but the manner of its construction and presentation indicates that the Plan magnitude is determined on the basis of the resources expected to be available after the main non plan expenditures of defence, subsidies, wages and DA increases are allowed for, instead of first deciding what should be the increased physical achievements that should be aimed at and the necessary resources - budgetary and extra budgetary that should be raised. The fact that the annual plan is formulated in this manner to fit into the resources which are estimatedto be available after deducting what are regarded as essential (non Plan) expenditures can be seen from the small amount of budgetary support that the Plan receives (of around 60 per cent in 1983-84) but also from the declining trend in the budgetary support over the six plans. (For the second year Annual Plan 1981-82 the budgetary support was 73 per cent). The Plan should create resources, not only from its past investments but also through additional resource mobilisation efforts for which there is scope, if the Plan is used to mobilise resources rather than be limited by an apriori determination of estimated resources.

Fiscal Policy

The 1983-84 budget's aim as set forth in the budget document is aimed at a) raising production without fuelling inflation, which resulted in the various tax concessions given to production, b) promoting exports and limiting imports, which resulted in the extended provision for tax free export zones and enterprises and raising of customs duties both on some commodities like viscose staple fibres and some chemicals like caustic soda and soda ash as well as the all round five per cent increase; c) curbing of conspicuous consumption through increased indirect taxes on luxury items and d) encouraging savings which the new tax on 30 per cent of the company's profit provides for being deposited in IDBI, and the revised tax base on actual statutory liabilities, on actual excise duty paid and actual employers contribution paid into the provident fund and state insurance scheme. The fiscal policy represented by this year's budget, however, raise some basic issues. First for the first time more revenue for the government is raised outside the budget by executive decisions than by the budget as approved by parliament. As against the Rs.716 crores of revenue from net additional taxation raised by the budget, by executive decision on the prices of petroleum products, post and telegraph services and through various excise levies on cigarettes, coal, metals and 5 per cent auxiliary customs, double that amount (about Rs.1400 crores) have been raised outside the budget. This limits the role of the annual budget and the fiscal authority and responsibility of Parliament. Some of this extra budgetary revenue raising which was undertaken a couple of months before the budget was presented to Parliament was perhaps aimed at reducing the rather large budget deficit which was looming and incidentally led to some consumer goods going off the retail market shelves due to the uncertainties on the extent of excise levies involved.

A second feature of the fiscal policy is again for the first time the entire additional of revenue raised by the budget, Rs.716 crores, was from indirect taxes, with customs duties contributing Rs.393 crores and union excise taxes contributing Rs.325 crores. On the direct tax side, the increased tax on corporations and its changes which will yield an additional Rs.104 crores is cancelled by the revenue lost on the reduced interest tax amounting to Rs.104 crores and the concession on personal income tax reducing its revenue by Rs.2 crores. Another aspect of this role of indirect taxes in the economy's fisc is that its share of the total union revenue is increasing every year, from 76 per cent in 1982-83 to 79 per cent in 1983-84, with its forming 83 per cent of the total combined revenue of the union and the states. Some features of this preponderant role of indirect taxation in our economy may be briefly noted. First this seems to be against the lessons of economic history. On the eve of independence not only was the share of direct taxes of the total governmental revenue 55 per cent, with indirect taxes contributing 45 per cent, the percentage contribution of direct taxes was increasing with the years from 36 per cent in 1938-39 to 55 per cent in 1944-45.[12] The economic history of countries shows that as countries develop from an agricultural to industrial society the dominance of indirect taxes gives way to direct taxes. In India we seem to be moving in reverse gear. Second while indirect taxes, particularly on specific goods and services, can be subjected to the principle of progressivity, the effects of such taxes on inputs, intermediates and capital goods bear heavily on the poor majority of the country. As the major part of excises and customs is on this class of goods and services, there is a presumption that this growing reliance on indirect taxation imparts the regressivity feature to our fiscal system.

A third element of the fiscal policy is the worrisome problem of union-states financial relations. There is the overall question of the inadequate financial resources available to the states in relation to the rather large and heavy development functions assigned to them by the constitution, which is one reason for their being perennially in debt to the union government and periodically run into large overdrafts as in 1982-83 when the union advanced to them loans amounting Rs.1743 crores to clear their RBI over drafts as of 31 March 1982, and made further advances of Rs.787 crores to clear their overdrafts from 1 April to 30 June 1982. On this, two comments may be made. First this means that real revised deficit for 1982-83 was not the Rs.1375 crores announced in the budget estimates for 1983-84 but Rs.3678 crores because atleast the first group of loans to the states amounting to Rs.1743 crores should be added to it. This is important because this is primary money that we are dealing with and its impact on prices and the economic and social distortions it causes need attention. Second the fiscal policy expressed both in the 1983-84 budget and in previous union budgets treats these overdrafts as a) the result of financial recklessness of the states and b) a temporary one, short affair which will not occur again. On the first count, the states are at fault in their mis-management of their public sector enterprises like their electricity boards, transport corporations, irrigation finances and in not raising revenue from agricultural incomes. These can and should be remedied. There are of course even worse derelictions on the side of the union government both in what is left untaxed or undertaxed and in the public sector management. This is one reason why a national public expenditure commission has been recommended to examine the constitutional functions and their financial implications and the actual expenditures of the union and state governments and recommend corrective fiscal measures.[13] On the second count, fiscal policy is grievously in error in treating the states' over drafts and deficits as an occasional aberration, as a one shot affair. These over drafts and deficits of the state government flow from the imbalance between their constitutional developmental functions and the resources available to them. This is one of major issues before the Sarkaria Commission whose deliberation and recommendation on union-state financial relations would be enlightened by the work and conclusions of the national expenditure commission just referred to. More immediately the 1983-84 budget worsens the union-state financial relations first by its greater reliance on the revenue from increases it effected in the prices of good and services as noted earlier in which the states do not share, and second by making tax proposals which reduce the state's share as in the case of income tax and its case on the corporate tax. In fact the states share of the total tax revenue has declined over the years - from 28.5 per cent in 1979-80 to 25 per cent in 1983-84, which means that the states will receive Rs.800 crores less this year. The fiscal policy does not promote the financial viability of the states.

One further facet of the fiscal policy needs attention, and that is in relation to the question of non resident Indian investment in the country. With a view to attracting funds from non resident Indians defined as Indian citizens or those with an Indian ancestry, on the urging of the Indian business community, the government in the 1982-83 budget allowed non resident tax free deposits and special savings certificate and capital investment bonds, investment with repatriation rights, and in the 1983-84 budget carried further these incentives by allowing them port folio investment, subject to a flat rate tax of 22.5 per cent inclusive of surcharge on their income, the same flat rate also on long term capital gains, along with exemption from wealth and gift taxes. On the basis of these provisions, as at May 1983, about Rs.70 crores has come in from non resident Indians (which include overseas companies, partnership firms, societies and other corporate bodies owned to the extent of atleast 60 per cent by non residents of Indian nationality or origin as well as overseas trusts in which at least 60 per cent of the beneficial interest is irrevocably held by such persons). This fiscal provision to attract non resident Indians funds is now involved in a controversy because one Indian of UK nationality used these incentives to purchase some 7.5 per cent to 13 per cent of shares of 2 reputed North Indian companies, leading to the business community approaching the government to modify these incentives. Accordingly the government has modified its budget provisions as of May 2 by a) restricting non resident Indian holdings to five per cent of the shares of a company, b) requiring permission of the Reserve Bank for exceeding this five per cent ceiling and c) assuring companies which are well managed that the term lending institutions (which hold 40-50 per cent of the shares of over 300 corporate sector companies) would not be a party to charging of managements. The companies involved, on their side, have refused to register the shares purchased by the non-resident Indian and charged him with violating the rules laid down for the purchase in regard to sources of funds used, the structure of the overseas company etc. In return the latter has called in question the management capacity and the integrity of the two companies. The Reserve Bank at first blocked the transfer of Rs.1 crore by one of the public sector banks for purchase of shares by him but later granted the necessary permission. The stock market meanwhile has had a field day, one company's shares shooting up from Rs.33 per share in January to Rs.105 in June and the other from Rs.41 to Rs.84. In the midst of this chaotic situation, certain issues stand out. First the concessions have not attracted non resident Indian funds but have become the occasion for some quite barren controversy. Second what foreign funds have come in have not been for investment in new areas or companies nor have they brought in needed technology. Third the provisions are standing invitation for unaccounted money to flow out of India and when laundered to come back as non resident funds. This is assured with the governments statement in parliament that it will not enquire into the source of funds of non resident investments. In fact,more generally, this year's fiscal policy turns a blind eye to the parallel economy and the growing role of unrecorded money and wealth (which I have elsewhere placed at around 30 per cent of the recorded). Fourth the issue raised by the purchase of shares in the 2 companies is not a question of not destabilising the management which have a satisfactory record. There could be a case for change of good managements in the interest of even better management. The question to be put is whether these purchases of shares in existing companies is in the interest of the economy and country. Can we afford to add to our balance of payments problems through these developments etc. Finally there are other minor issues raised by the 5 per cent ceiling and the RBI's permission for breaking the ceiling. Why 5 per cent, why not as in the US 1 per cent, or as in some developing countries 10 per cent? On what basis is RBI to permit investments above the ceiling? On the basis of the record to date, I am of the view that this part of our fiscal policy - the special tax incentives for non resident Indian funds should be dropped and these funds should take their place along side of other foreign funds.

Prices

The whole sale price index has been falling during the first 3 years of the Plan both on an annual average and on a point to point basis (except for 1982-83) as follows:

	Annual average	Point to point
1980-81	18.2	16.7
1981-82	9.3	2.4
1982-83	2.5	6.5

The trend in the consumer price index is, however, more mixed.

	Annual average	Point to point
1980-81	11.4	12.6
1981-82	12.5	8.8
1982-83	7.8	9.9

The behaviour of prices last year 1982-83 was in the words of the Economic Survey 'one of the more encouraging features of the economic scene in 1982-83'. In fact in April 1982, the week ending April 17, a zero rate of inflation was recorded, as pointed out in my review of the economy last year, though the later two month rise of 3.5 per cent led to a wrong forecast of a whole sale price rise of 10 per cent.[14] The low rate of inflation in 1982-83 stands out because it was a year which recorded a) sharp decline in agricultural output as well as a slackening in industrial growth while there was a rapid monetary expansion as the Reserve Bank points out. M_1 increased by 12.3 per cent in 1982-83 compared to 10.4 per cent in the previous year and M_3 increased by 15.3 per cent compared to 12.9 per cent in 1981-82.*[15] In part this is explained by the sharp increase on aggregate deposits at 16.1 per cent compared to the 13.8 per cent increase in 1981-82. Within the increase the use in Time deposits was marked and in part is due

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*These are the Reserve Bank year which runs from June end to June end.

to the falls in demand for food and primary articles by the poor majority in face of its relatively high price rise at 3.7 per cent as compared to the 0.3 per cent rise in manufactures. Within the food group, non cereals prices (pulses) rose the highest and so there was a shift from them to regular cereals and as their prices rose, there was a further shift to coarse cereals.

For 1983-84, there has been a steady rise in both whole sale and consumer prices. The whole sale price for April rose by 2 per cent, for May by 1.5 per cent, for June by 1.9 per cent, for July 1.2 per cent, and for August by 1.2 per cent. The consumer price index for April rose by 1.2 per cent, for May by 2 per cent, and for June by 2.2 per cent. This has meant an average rise of 6.9 per cent in the whole sale price index for the first 5 months of 1983-84.

In forecasting the rate of inflation for the present year several factors need to be taken into account. The first is the monetary policy and supply. As noted earlier but on the March-April fiscal basis, M3 increased by 15 per cent in 1982-83, the effects of which will be seen in 1983-84. Further M_1 increased by Rs.812 crores in April 1983 but even more disturbingly by 2.4 per cent at Rs.691 crores during the first month of 1983-84 slack season, namely May 1983. At this stage, the currency component of this expansion of M_1 was a high 82 per cent, due in part to the need to maintain larger money balances to meet the higher cost of transactions caused by the resumed inflation, and in part to the rapid rate at which government and the commercial sector injected currency into the economy which stayed as currency holdings. This also gave rise to problems of the currency notes and coins shortages witnessed during these months. Thus during the first 2 months of 1983-84 M_1 expanded by Rs.1503 crores (5.3 per cent) which was due to increased credit to government amounting to Rs.934 crore in May and increased credit to the commercial sector of Rs.414 crores. The M_1 expansion comprised the currency increase referred to earlier, demand deposits (of Rs.217 crores) and a rather large rise in Time deposits.[16] This trend RBI had not foreseen to that extent. Against an expected Rs.4000 crores increase in time deposits during April-September 1983, by April-July such deposits rose by Rs.4357 crores compared to Rs.2125 crores increase in the same 4 months in 1982-83 and Rs.3777 crores during that period in 1981-82. These together with the large expansion of bank credit to government and the commercial sector led the Reserve Bank to raise the Cash Reserve Ratio which had been raised to 7.5 per cent from May 27, 1983 and to 8 per cent from 29 July 1983 to 8.5 per cent from August 27, 1983.[17] Thus already in the first 5 months of this year the Cash Reserve Ratio has been changed thrice. Apart from the uncertainity to trade, industry and the banks that such frequent changes in the Cash Reserve Ratio introduces, the question of using preferably a more flexible instrument of credit control such as open market operation arises. The Statutory Liquidity Ratio determines the direction of credit flows and does not affect its volume, which is established rather rigidly by the Cash Reserve Ratio. The liquidity situation of the economy as at the opening months of this year will change during the following months of the busy season, when the Cash Reserve Ratio will have to be brought down, introducing discontinuity in credit flows and creation. A more appropriate instrument is open market operations which may involve breaking the ceiling of bank credit to government as promised to IMF, which is preferable and can be done.

In discussing this first cause, namely increase in monetary and credit supplies, for the reappearance of inflation in the first five months of this year, some questions about the role of monetary policy in countering inflation and in the economy more generally are raised by the Reserve Bank's occasional paper published in June 1982. First the linear relationship between money supply and price movement is questioned with empirical evidence given of years when money supply increased and prices remained stable and sometimes decreased. In this context, the more important part played by supply of goods and services rather than money in relation to the behaviour of prices is referred to. Second the conventional RBI instruments of monetary control referred to earlier-- the Statutory Liquidity Ratio as the indicator of the direction of credit flows and the Cash Reserve Ratio as the indication of ceilings on credit creation in relation to reserve money are reported to be not very effective as price control instruments, because they are ignored by the banks when they find the controls too rigid in relation to their requirements. This rather shocking statement is repeatedly documented in the study. Third this somewhat heavy reliance on the supposed controls which monetary policy exercises on prices has led to overlooking an equally if not more fundamental objective of monetary policy which is to promote increased production and growth. Only in one year in the seventies was monetary policy addressed to this end, but both the Reserve Bank and industry regret that this facet of monetary policy is not regularly used. Fourth the unpredictable movements of foreign remittances of foreign exchange reserves introduced an uncertain element. This makes the Reserve Bank control over Reserve money difficult. Fifth the real content of monetary policy is outside the Reserve Bank's purview and is determined by government and government decisions through its decision on a) bank financing food and other procurements and buffer stocks, b) the priority sectors and the amount of bank credit (40 per cent) which must flow to them and c) the reserve money created by RBI credit to the government, determined by the budgetary deficit of government.[18]

A second issue explaining the return of inflation in the first half of this year, 1983-84, is as just noted the reserve money created by government deficits. Here the total budget deficit is much larger than the union budget deficits which are readily available and known. To the union deficits should be added the state governments deficits. The Reserve Bank reports that the combined union and state deficits for 1981-82 were Rs.2413 crores, for 1982-83 was Rs.2741 crores to which the loan assistance to the states of Rs.1743 crores, to which it calls attention, should be added, and for 1983-84 is Rs.2108 crores (as set forth in the budget estimates). This is all what the Reserve Bank calls Reserve money which in terms of credit creation has a multiplier effect and has the most direct effect on prices (more than the bank instruments of SLC and CRS as noted earlier). Further, as pointed in last year's review, deficit financing which includes other bank credit to government in addition to the deficit in budget makes the total deficit finance for 1981-82 Rs.2413 crores + Rs.3572 crores, ie, Rs.5983 crores, for 1982-83 Rs.2741 crores + Rs.2522 crores, ie, Rs.7006 crores, and for 1983-84 Rs.2108 crores + Rs.2134 crores (as of August 1983) ie, Rs.4242 crores.[19] These are really large magnitudes that the prices for 1983-84 will reflect unless steps are now taken to cut back on the budget deficit and rein in deficits financing.

Third in the price rise in the first 5 months, the most disturbing element has been the sharp rise in the prices of essential commodities. In August the government admitted in parliament that for 49 commodities of the 66 essential commodities there had been price rises and only in the case of 8 commodities had there been a decline.[20] In the first five months of financial year, the whole sale price index shows a rise of 13 per cent for primary food articles, which was over 60 per cent of the overall index rise. What is equally disturbing is that while part of this increase is due to last year's production slow down, some part of the increased prices is arranged by the government. In last year's review I cited the case of sugar whose price was allowed to shoot up in December - February 1982-83 despite a record sugar production, by government restricting the releases.[21] The same development have occurred this year already in the first five months of 1983-84, in the case of sugar (against a second year of bumper production), as well as paper and rubber. To these should be added the rise in administered prices of railway freights, electric parts, coal, steel, and petroleum products which raise input costs and so consumer prices.

On the basis of these factors and on the assumption that action will be taken to damp down further price rises, as suggested earlier and by the Reserve Bank and Planning Commission, I estimate that our whole sale prices will rise by around 7-8 per cent and consumer prices by 10-11 per cent during 1983-84. The higher rise in consumer prices continues the trend reported earlier and is an index of the deprivation that the poor majority will be subjected to.

Agriculture

1982-83 was a poor agriculture year, with 48 million hectares of cropped area in 15 states affected by failure of the South West monsoon, as a result of which the kharif food grains declined by 10 million tonnes from 79.1 million tonnes in 1981-82 to 69 million tonnes in 1982-83. Through intense effort to maintain and extend minor irrigation facilities and increased fertiliser distribution and consumption (by 6 per cent) over the previous year, the rabi output of food grains attained a record level of 58 million tonnes (about 4 million tonnes more than the 1981-82 rabi output), so that the total food grains production is estimated at 127 million tonnes, which would be 5 million tonnes less than that of 1981-82. In the Mid Term Appraisal document, in the Economic Survey and in several official document,of the union agricultural ministry, there is a comparison of the effects of the drought in 1979-80 which affected 41 million hectares and resulted in a lower food grain production of 110 million tonnes with the better results in the other drought year 1982-83 in the following words: 'the year 1982-83 could be considered as marking a turning point in Indian agriculture for a very valid reason. For the first time in Indian agriculture the new production technology based on modern inputs and a well coordinated approach could stand the challenge of natural calamities and emerge from it with comparatively less damage. The short fall in production of food grains during the current year (1982-83) compared to the preceding is expected to be only 5 per cent or 6.20 million tonnes as against a drop of 16.8 per cent or 22.2 million tonnes in 1979. This can be taken as a fair measure of the inherent strength and the much desired resilence developed by Indian agriculture in recent years.'[22] I shall revert later to this question of resilence, but here the fact that the 1979-80 drought unlike the 1982-83 one hit the important food producing states more and that the former drought hit both the kharif and rabi crops, as pointed out by the Reserve Bank, must be noted.

The non food crops performance in 1982-83 was also not satisfactory. Jute and Measta production declined by 12 lakh bales at 72 lakh bales compared to 84 lakh bales in 1981-82, oil seeds to 11 million tonnes compared to the previous year's 12.1 million tonnes, sugar cane at 17.7 million tonnes compared to the previous year's 18.7 million tonnes and cotton at 80 lakh bales against the previous years 84 lakh bales.

The position with regard to food stocks during 1982-83 was not unsatisfactory, with 7.1 million tonnes of kharif rice and 8.2 tonnes of rabi wheat procured and the import of 40 lakh tonnes of US wheat. The offtake of foodgrains from the public distribution system in 1982-83 was 16.8 million tonnes compared to the offtake in 1981-82 of 11.8 million tonnes. The food grains stock was 16.5 million tonnes at June end 1983, compared to 15.5 million tonnes in June end 1982.

At this point the question of the agricultural strategy to be followed in the future arising from the reference to the strength and resilence of Indian agriculture need to be examined. The evidence on our agricultural performance over the last five years indicates that we have reached a plateau in our production. The index of aggregate production with the base for the triennium ending 1969-70 at 100 records 132.7 for 1977-78, 137.8 for 1978-79, 117.2 for 1979-80, 135.2 for 1980-81, and 137.8 for 1981-82. I am leaving out 1982-83 as it was an unusual drought year. If 1978-79 is taken as the base (and not as the Sixth Plan does 1979-80) there is stagnation in the index as well as in the gross cropped area which was 175.18 million hectares in 1978-79 and the same 175 million hectares in 1981-82. With the increase in the irrigated potential of the order of 10 million hectares during this period, the stagnant volume of production over the same gross cropped area also means that agricultural productivity has been stagnant. This allows for the fact that some states, Punjab and Haryana, show steadily improved yields including in rice output, that some cereals like wheat are doing better than rice, and that rice is doing better than millet and pulses as the Mid Term Appraisal points out. The Reserve Bank analysis is in some ways similar to that of the union ministry of agriculture, that peaks follow troughs, that new peaks are higher than the previous one, and that there is no evidence of the deceleration of the agricultural growth rate. Only the 2.50 per cent annual growth rate in the last decade is too near the rate of population increase for comfort, the per capita food grains availability being unchanged. Against this peaks analysis, the two peak years 1978-79 and 1981-82 may be taken during which period irrigation increased by 7 million hectares (14 per cent), HYV areas increased by 6.3 million hectares (16 per cent) and fertilisers use increased by 1 million tonnes (20 per cent), while food grain production increased by 1 million tonnes, which is less than 1 per cent. What is the relation between the inputs increases and outputs stagnation during these 2 periods bounded by the peaks? This lack of congruence between inputs and outputs is further seen when the period between previous peak 1975-76 is taken with the 1978-79 peak when the increased food grains output of 10 million food grains was attained with about the same level of inputs except for fertilisers. The moral of these differing analyses by the agriculture ministry, the Planning Commission, the Reserve Bank and that made here is that the future agriculture strategy should not simply be more of the same - irrigation, HYV and fertilisers - but should ensure

a) a change in the cropping pattern which will correct the current over production of sugar cane and long staple cotton production and underproduction of oil seeds and coarse cereals, b) extending the technological revolution to the dry farming area which covers over 70 per cent of the gross cropped area and c) real and unwasteful use of the irrigation potential created, research on and transfer to the farmer of drought resistant varieties of seeds, and effective field service reaching out to the small and marginal farmer. In the short run for the remaining one and half years life of the Sixth Plan concentration on point (c) of the strategy and its effective execution is necessary if even the reduced food grain target from 149-154 million tonnes to 146-148 million tonnes is to be attained.

Foodgrains

As the South West monsoon has been adequate throughout the country except in parts of Himachal Pradesh, Tamil Nadu and Kerala, the kharif prospects in 1983 are good. The kharif food grain output could amount to 75 million tonnes and rabi production could be 60 million tonnes amounting to 135 million tonnes for 1984-85 against the year's target of 142 million tonnes. Within this output, pulses production will continue at 12-12.5 million tonnes, lagging 1-1.5 million tonnes behind the target. Pulses, being the poor man's protein diet faces a falling price and growth rate problems, which an increase in its support price and incentives to switch over its production to irrigated areas might arrest. The major problem faced in the first half of the year in regard to food grains is the increased offtake on the one hand (from 1.2 million tonnes a month in 1982-83 to 1.6 million tonnes a month in 1983-84), with the share of rice being 40 per cent of the offtake. Of the 16.5 million tonnes of food grains stock, rice formed only 3.5 million tonnes. The public distribution has been under pressure in all states and there has been mutual recrimination between the union and states on the responsibility for this situation. In the case of Tamil Nadu, the Mettur reservoir not being opened till August meant that its kharif production was about one quarter of a normal year and together with the 2 year droughts that it has faced its public distribution has had to cut its rations and the state has had to purchase rice wherever it could. A similar situation applies with relation to Kerala and West Bengal, and the rural areas generally where apart from Kerala the public distribution system does not function. There are two issues that arise in the food grains field. First the shortage of food grains in the public distribution system is related to our agricultural strategy as analysed earlier, and is not simply a fall out of the drought problem but is a long term problem calling for the long term strategy suggested earlier. Second and in the short run there will have to be marginal imports of wheat - amounting to 2-4 million tonnes a year. The import of rice in the early part of this year is hopefully a temporary phenomenon, as the country is normally self sufficient in rice and exports an annual 10 lakh tonnes.

Cotton and Jute

The cotton season of 1982-83 is ending in September 1983 and the usual problems to which I have called attention in the part 3 annual mid term reviews, continue to be devil estimates of cotton production. For the year ending September the estimate varies from 75 lakh bales which is the union agricultural ministry estimates, 78 lakh bales the cotton trade estimate, 79 lakh bales the textile industry estimate to 86 lakh bales the Maharastra State Marketing Cotton Federation estimate. This uncertainty which is bad for the cotton grower as well as the textile industry should be ended by establishing a central forecasting agency which can provide firm estimates of the crop on the basis of which cotton procurement prices can be fixed, the distribution of the crop between domestic and export purposes determined, and the needed credit facilities established.

A second problem of the cotton crop is the varietal imbalance, with the production of long and extra long cotton variety which forms about 50 per cent of Gujarat and Maharastra production (the two largest cotton growing states) being far in excess of the demand by the domestic textiles industry, while short and medium variety are in short supply and have to be imported to meet the industrys' demand. There is need here to establish precisely what varieties are needed and production assisted to meet the needed varieties. This raises the third problem of prices in which for the first time the union government announced the support prices for the 1983-84 marketing season starting in September 1983 of the 3 major varieties, leaving the textile commissioner the responsibility of fixing prices of other varieties. The prices are based on the APC recommendation which have raised further the 1982-83 prices which were fixed at 25 per cent above the 1981-82 prices. The prices are therefore quite remunerative particularly so as actual prices rule well above those minimum prices - as they do in all agricultural goods in our chronically short supply markets. For cotton growers to benefit from this adequate price situation, the marketing system needs attention. The major markets are the Gujarat State Cooperative Cotton Federation which operates in the largest cotton producing state and which announced on September 1, 1983 that it will purchase 4 lakh bales (25 per cent of the state cotton crop) at APC support price plus 25 per cent, the Maharastra State Cooperative Federation, operating in the second largest cotton producing state and operating a monopoly procurement scheme, offering the grower the guaranteed price plus bonus, and the Cotton Corporation of India handling an annual 8-10 lakh bales and which has been making large annual losses. There is need for this marketing structure to be rationalised to relate its operations to the price received by the grower and to establish some agreed relationship between the minimum support prices and the prices established by these bodies.

Jute production for the 1982-83 season is a low 72 lakh bales which is less than the target and normal output by 10 lakh bales. This sharp fall in output is due to drought and decline in the area of cultivation. One effect of the low output is a sharp rise in the price of raw jute which despite a 30 per cent moisture content is selling at Rs.400 per quintal against the statutory minimum price of Rs.250.50 per quintal. Parliament at its 1983 monsoon session has passed a Jute Development Council Bill which along with a cess on jute mills production is aimed at promoting an integrated approach to jute cultivation and marketing as well as to jute manufacture and R and D in jute goods. The central problem of ensuring that the jute grower receives most of the price at which the raw jute that he grows sells in the market as a means of preventing the switch from jute production to paddy and other agricultural goods is not solved by this legislative action. The question of the price received by the grower is a central issue to the future of the jute cultivation and needs adequate marketing arrangements. Only then will the 1983-84 target of 82 to 85 lakh bales of jute production be attained.

Oil seeds

The oil seeds production of 12.06 million tonnes in 1981-82 was due to the extended winter rains in April and May 1982 which damaged the wheat crop but which provided the oil seeds with the much needed irrigation. In 1982-83 oil seeds production is likely to be 10.8 million tonnes only, as the major oil seed, the summer groundnuts is not likely to pass 10 lakh tonnes. For 1983-84 the target is 12.5 million tonnes and with the good South West monsoon which if followed by winter rains may attain the 1981-82 level of 12 million tonnes. This includes the production of soyabeans to which special attention is being paid and the prospect of a major break through in this oil seed has led to fixing a target of 2 million tonnes. This is attainable but both the production of this and other oil seeds as well as the import of oil seeds instead of the import of edible oils, which is what all other industrialised and industrialising countries do - is constrained by problems created by the processing industry with its excess capacity, leading to its unviability and the problems of quality of our oil and oil extracts - on which further comments will be made under the industry sector in the edible oils sub sectors.

Plantation crops

The 1982-83 output of the plantation crops - tea, coffee, rubber, cardamom and cashew present a mixed picture. Tea production in 1983 in the South sharply declined because of the drought, by 50 per cent in May 1983 at 7.2 million kg compared to 14 million kg in May 1983. The decline was 10 million kg for the months January-May 1983 at 33.3 million kg. Tea production in the North, however, for the five months increased by 5 million kg to 68 million kg, so that the aggregate tea production in January-May 1983 was 101 million kg - a decline of 6 million kgs. Tea production in the South is picking up between June and September which will not however enable it to pick up fully on its earlier losses. It is the North India tea production which increases in the second quarter of the year, compensating for the decline in the South and thus helping to reach atlast last year's level of 565 million kg. There are long term problems concerning the volume of production and prices. Tea production, like food grains production, has been stagnant over the last four year 1980-83 - between 565-575 million kgs. On the other hand, domestic consumption is increasing by 50 per cent between 1970 and 1980, and from 321 million kg in 1981 to an estimated 380 million in 1983. This increase will continue into the future and has so far been met by lower exports, at for example 185 million kg in 1982 compared to 240 million kg in 1981, which was possible because of reduced inventories by wholesalers and retailers, and which are now leading to sharp price increases, both domestic and international, with no carry over stocks and reduced world tea production except in the case of China. In this situation the tea strategy should concentrate on a) increasing tea productivity in Darjeeling which is 650 kg/ha compared to all Assam yield of 1500 kg/ha and b) extending tea production to non traditional areas in Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland and Orissa and replanting in traditional areas. The latter involves planting on 4000 hectares yielding 2500 kg/ha, rejuvenating, pruning and improving field practice and c) replanting on 45000 hectares.

Coffee production for 1983-84 is unsatisfactory. Because of the drought, the production is estimated at 1,40,000 tonnes, which is 30,000 tonnes less than the year's target. The decline in coffee production and profitability in Karnataka, Tamil Nadu and Kerala being heavy, the Coffee Board has announced enhanced and liberalised crop loans on the basis of the average crop of the last 4 seasons, leaving out the 1983-84 poor crop, at Rs.13,500 (increased from Rs.8500) for arabico and Rs.12,000 (increased from Rs.7000) for robusta, with 80 per cent advance to small growers and 20 per to large growers. Here again a long term problem is the growing of coffee in non traditional areas as well as the Coffee Board's short term proposal to enhance replanting and expansion as one means of reaching the production target of 300,000 tonnes by 2000 AD. One of the new states growing coffee is Andhra Pradesh where the Andhra Pradesh Forest Development Corporation's two coffee expansion schemes of 4000 hectares at a cost of Rs.9 crores has been cleared by ARDC which, with existing area, total 11000 hectares producing 7000 tonnes.

Rubber production during the current tapping season June-August 1983 amounts to 35,500 tonnes compared to 30,320 in that period in 1982. Due to drought, there was a short fall of 8000 tonnes during April-May 1983. For 1983-84 the estimated production at 1.75 lakh tonnes which with the opening stock of 45000 tonnes will make 2.20 lakh tonnes available while the demand from the industry and rubber users is estimated at 2.03 lakh tonnes plus inventories, making for a total demand of 2.50 lakh tonnes. To close the supply-demand gap the government has asked STC to import 30,000 tonnes. Industry's complaints about the rubber supplied by STC being low quality, spoilt by rains during storage, and delayed deliveries continue, along with the demand for the industry itself to import rubber directly, which in view of the price differences might be hurtful to the indigenous rubber growers (in Kerala and Tamil Nadu). In fact because of the severe drought in Kerala, rubber production in 1983-84 may fall short of the earlier estimate by over 50,000 tonnes of 1.2 lakh tonnes. Anticipating some such short fall to which delays in STC's import programme should be added, rubber prices have been shooting up from Rs.14,000 a tonnes in April 1983 to Rs.21,000 a tonne in May 1983, while international prices are Rs.15,000 a tonne. The decision to import and cut back the import duty from 81.3 per cent to 35 per cent has resulted in a price fall of by Rs.1500 a tonne only. The long term problem is of course the increase of rubber production and for this the Rubber Board is financing the planting and replanting of high yielding varieties in large areas of the country. Around 63000 additional hectares have been covered during the last few years, attracted by the Rubber Board's package programme for financing new planting along with free technical advice and concessional delivery of inputs, particularly for the non traditional areas of Goa and Orissa. The Board also provides the financing of replanting, which is important for small growers of Kerala and which seems to be given a low priority. The short term problem is the sharp fluctuations in the price of rubber which very seriously affects the small grower in periods of decline and the industry of rubber users. To deal with this problem there is need in addition to the resort to imports, the question of buffer stocks. This buffer stocking as a means of dampening price fluctuations raises important questions of size, storage, costs and marketing stages. On all these, there is the All India Rubber Industries Association 1980 study completed by NCAER on which only decisions remain to be taken.

Cardamom production in 1982-83 declined by 33 per cent to 32000 tonnes (in 1981-82 4400 tonnes). The 1983-84 crops is estimated at an even lower level, pointing to the need for the Cardamom Board to take action to prevent this declining trend in production. Also in order to increase cardamom exports, imports from Gautemala were increased in order to mix it with the superior Indian variety. There was some mix up on this with government's order prohibiting cardamom imports for blending purposes. This was ultimately straightened but after a deal of expenditure of time and money. Cashew production in 1982-83 is estimated at 1.1 lakh tonnes and the production for 1983-84 is not likely to be much higher. The two problems in this area are that the capacity of the cashew processing industry is four times domestic production at 4.5 lakh tonnes which makes the industry heavily dependent on imports, whose prices the industry cannot pay. The other problem is that, namely the prices which the industry faced with a huge stock of Rs.50 crores of processed cashew and a falling export demand, resulting in offers at around Rs.3.50 a kg of raw cashew nuts. At this price, the grower will find it viable to cut down cashew trees, sell them for firewood and grow alternate crops such as cardamom, pine apple and tapioca. The cardamom growers face a serious situation and demand the attention of the Board and the union government.

Manufactures

While agricultural production in 1982-83 suffered a serious decline due in the main to the drought, the poor performance of the industrial sector at 3.7 per cent for the year is in the words of the Reserve Bank annual report disquieting.[23] And this decelerating growth performance worsened with each quarter. The average increase in the industrial index for the first quarter April-June 1982 was 6 per cent (in January-April it was 6.4 per cent) against 11.3 per cent in the first quarter of 1981-82; in the second quarter July-September, 1982 the industrial growth index was 2.1 per cent against 9.1 per cent in the second quarter of 1981-82 : in the third quarter, October-December 1982, the industrial growth recorded was 3.6 against 8 per cent in the third quarter of 1981-82 : and in the fourth quarter January-March 1983 it was 3.4 against 7 per cent in the fourth quarter of 1981-82. In this decelerating industrial performance, manufactures which carry a weight of 81 per cent in the index recorded a mere 2.2 per cent growth (the rise of the growth was carried by mining which did well at 10.5 per cent and electricity at 7.2 per cent). Further examining the performance of the manufacturing industries during 1982-83, the index shows a decline in the growth rate of capital goods industries at 3.9 per cent (against a rise of 7.7 per cent in 1981-82), a small increase in consumer goods industries at 0.6 per cent against a rise of 10.6 per cent in 1981-82, a moderate increase of 3.2 per cent in intermediate goods industries which recorded about the same at 3.3 per cent in 1981-82 and a good 8.4 per cent growth of basic industries compared to 11 per cent in 1981-82. The poor performance of manufactures in 1981-82 cannot be attributed to infrastructural constraints, because, except for electricity in some states, the infrastructural sector performed well as will be seen later. The Mid Term Appraisal attributes this deceleration to lack of demand, which, put more bluntly, is the recessionary trends which I analysed in some detail in last year's Mid year Review[24] to the slowing down of demand in consuming areas, the shortage of some key inputs, industrial unrest, liberalised imports which led to some dumping, inadequate credit and working capital funds, to which I would add poor management and wasteful use of capital seen in only 5 manufacturing sectors working to 90 per cent capacity, while 8 functioned at 80 per cent capacity, 9 at 60-70 per cent and two important sectors at 30 per cent. Against 30 industries which increased their capacity use, 34 decreased their capacity use.

The outlook for 1983-84 is a little better. In April 1983 the index of industrial production increased by 5 per cent over April 1982, according to CSO and the Centre for Monitoring Indian Economy estimates that for the first four months April-July 1983-84 the index of industrial production rose by 3.2 per cent compared to the corresponding period in 1982-83, with manufactures registering a growth of 3.2 per cent. For 1983-84 as a whole, it forecasts a growth rate of 4.5 per cent against the revised Plan target of 6.32 per cent.[25] Manufactures touched a low point last year and now with improved agricultural production and the retreat of recessionary forces, manufactures should record a growth rate nearer the Plan target. There is one general constraint and that is the effect on costs of manufactures of the increases in railway freights, postal and telegraph charges and prices of petroleum products, steel and coal. The effects of these increased input costs could lead to a further rise in prices and monetary policy, as earlier analysed, will have to keep this contingency in view.

The Public sector performance in 1982-83 as reported by the Bureau of Public Sector Enterprises records an overall net profit of Rs.600 crores in 1982-83 compared to Rs.488 crores in the previous year. The units under the Department of Heavy Industries report a turnover growth rate of that year compared to 24 per cent in the previous year. The government has decided that public sector units should not go in for commercial borrowings of foreign currency on their own, (though under the IMF credit arrangements, India is allowed borrowal of $1.6 billion in the foreign commercial market), because of a) the rapid rise in external commercial borrowing, b) the use of these loans to meet rupee expenditures rather recklessly and c) the mounting debt service burden for future years. As part of the poor management, if not of maladministration and corruption in the public sector, the report of the Parliamentary committee of papers laid on the table in August 1983 is important.

It calls attention to the large number of items of accounts of many public sector banks being left unreconciled, incomplete, and in arrears for several years. In the matter of reconciliation of inter branch accounts, the outstandings are of an alarming nature. As on December 1981 in respect of 18.95 lakh entries to the tune of Rs.38.378 crores, reconciliation of inter branch account in one nationalised bank was outstanding. This, the report says, is the result only of a sample study so that what it has found may be just the tip of the iceburg. In examination of the working of public sector units, little attention is paid to public sector financial institutions because they always record a profit. The parliament committee report calls attention to other facets of the malfunctioning of these institutions. Taking a long term view of all public sector enterprises with an investment of Rs.71,000 crores (as reported by CMIE units March 1983 review) and the problem of accumulated losses of over Rs.800 crores against an investment of Rs.24,761 crores in the public sector, as reported by the Bureau of Public Enterprises 1981-82, certain basic issues need attention. The basic problem, even after making full allowance for the fact that the public sector enterprises have social obligations relating to pricing of their product, purchase of their inputs, employment of weaker section of society, employee housing etc, is the ambigious position of the public sector manager. In the government's management or investment decisions, the 3 elements in the order of priority are the decisions made on grounds of a) political expediency, b) administrative desirability and c) managerial feasibility. This is just the obverse of the private sector management, in fact of any management system, and accounts for the basic dilemma and loss making nature of the public sector enterprises. Their culture demands documentation on every point, and a system of audit and preaudit which inhibits entrepreneurial judgment and risk taking, and the obsession with literal legality which does not allow for corporate planning and makes for primitive personnel and financial management styles. The public sector enterprises of the states not included in above investment figures have similar cost and financing patterns, and their management cultures are at even lower levels.

Private sector

Private sector units performance as reviewed by RBI, Economic Times and IDBI show a sound all round performance. The RBI study of 1011 companies shows a 7.7 per cent increase in production, 7.6 per cent increase in sales and 11.5 per cent increase in gross assets formation in 1977-78.[26] The Economic Times survey show that in 1980-81 220 large companies record a rise of 15.3 per cent in their gross fixed assets, a rise of 20.7 per cent in their total inventories, an increase of 19.6 per cent in capital formation, and a 10.8 per cent in retained profits, besides using various concessions to reduce their effect rates of taxation from 42.4 per cent to 40.3 per cent of profits before tax.[27] Similarly a survey by IDBI of 401 public limited companies drawn from its portfolio for 1979-80 to 1981-82 shows a continuing up trend in sales (from 18.9 per cent in 1980-81 to 21.3 per cent in 1981-82), in value of production (by 11.4 per cent, Rs.2305 crores), level of profits (by 8.8 per cent), fixed capital formation (at 19.2 per cent) and gross value added (at Rs.3215 crores). The industry ministry reported in June 1983 that out of the Rs.17,582 crores which the private sector was to invest in the Sixth Plan, Rs.9436 crores had been invested in the first two Plan years. In this connection the study group on the financing of the corporate sector states that Rs.8639 crores will be generated by the sector internally, and that the balance of Rs.7446 crores will be mobilised from term lending institutions, banks, capital market and public deposits. While the overall target will be met, individual corporate units and industries will face problems in mobilising internal and external resources and for this it recommends the abolition of surtax on company profits, postponment of the whole or part of excise subject to a limit of 15 per cent of clearance of new companies, and advance investment allowance in respect of amounts deposited with IDBI by small and new companies. It has had its attention called to the fact that the Rs.17,582 crores investment it is expected to make at 1979-80 prices amounts to Rs.30,000 crores in current prices. It has recommended that well established companies should move towards financial self reliance, that to encourage the flow of household savings in corporate securities, the infrastructure of the capital market should be improved, that the functioning of stock exchange should be studied in depth, and that the 6-9 months time lag in raising funds by the corporate sector should be reduced. It has not recommended reduction in the corporation tax rates. These recommendations are sound short term measures, but the report lacks any scheme of long term reform of the system. In May 1983 the government issued guidelines on the debt: equity ratio for industrial investments, at 1:1 and 1.5:1 in projects of less than Rs.5 crores, at 1.5:1 and 2:1 in Rs.5 crores - Rs.10 crores, and 2:1 in the case of projects above Rs.10 crores. These guidelines are less favourable to large houses, but are favourable in the case of capital intensive industries. The total capital raised from the market through shares, debentures and right shares was Rs.432.2 crores in 1981-82 and Rs.369.3 crores in 1982-83, which was a 12.7 per cent decline. In 1982-83 drug multinationals were granted endorsement of their actual installed capacity only in the case of high technology area and have been given an inducement to reduce their foreign equity participation to 40 per cent to slip out of the FERA net. The resulting unloading of their shares on the stock exchange is part of a continuing process which started with the phenomenal inflation rates and run away stock prices, followed by new issues on attractive conversion terms by established companies on to the flurry caused by non resident investment, the purchase by Indian business of Indian based companies held abroad and the various amalgamations and Indian take over battles. In all this, the government is forced to intervene, unlike in other countries, and that intervention is not always in the interest of the private sector itself. A study of the functioning of the industrial licensing system based on the annual reports of 2000 private corporate sector companies states that: 1) there is an ambiguity as to whether the industrial licensing is required for a particular company because it belongs to the small scale sector, or because it does not fall under the schedule, or because it has special exemption, 2) there is identity between licensed and installed capacity because they were established before the licensing regulations came into force, 3) a number of licenses do not specify the capacity permitted in volume, 4) the license and the goods are stated in terms which are vague and admit of a variety of interpretation, like so many packets or tablets etc, 5) many reporting companies do not give licensed and installed capacities and production figures in the same measurement units, and 6) the vagueness of the concept of capacity, despite the 1975 effort to bring it on a uniform basis. The reports recommends that the licensing regulations be clarified and tightened in light of its findings.[28]

Industrial sickness

The annual report of the Reserve Bank for 1982-83 states that sick units with credit limits of Rs.1 crore and above numbered 439 involving aggregate outstanding bank credit of Rs.1728.40 crores as at June 30, 1982. Both the numbers and the credit locked up are on the increase from 422 units with credit outstanding of Rs.1453.29 crores on June 30, 1981. In addition as at June 1982 26,973 small scale sick units owed the banks Rs.393.67 crores compared to 22260 units owing Rs.321.52 crores at the end of June 1981. Of the sick units in 15 states, the largest number are in West Bengal (106 owing Rs.371.7 crores) followed by Maharastra (84 owing Rs.341.9 crores), Gujarat (37 with Rs.118.5 crores), Uttar Pradesh (55 owing Rs.120.5 crores) and Tamil Nadu (35 owing Rs.174.5 crores). Sickness is also fairly wide spread by industrial sector with textiles (owing Rs.454 crores) leading followed by engineering (Rs.321 crores), chemicals (Rs.173 crores), Jute (Rs.110 crores), Iron and Steel (Rs.99 crores) and sugar (Rs.74 crores). In March 1983 the government announced its decision to tackle industrial sickness, involving not nationalising sick industries but evolving and applying a new policy, with new responsibilities for each sector, including financial institutions to monitor incipient institutions. Lead Banks are to initiate indepth studies to determine the potential viability of sick units and suggest remedial measures, including a packet of concessions involving deferment of dues recovery, charging concessional interest rates, conversion of over due interest into equity capital and parts of working capital finance into term loans etc. Not much has happened on this policy so far, except the further spread of sickness. The Reserve Bank reports that of 429 large sick units identified by banks, viability studies have been completed on 374 units, of which 320 units are considered potentially viable and 275 units put under a nursing programme. Of small scale units, 5316 are considered viable and 1982 put under nursing programmes and 14,576 units are found nonviable. The causes of sickness and remedies have been set forth in earlier mid term reviews. Now the need is to act promptly on these conclusions of the studies, including selling off and closing down unviable units.

Technology policy

The government released in January 1983 a statement of the guidelines for import and development technology as follows: (a) technology import will be allowed only where the need was established, the technology does not exist within the country and the time taken to generate the technology indigenously would delay the achievement of development targets; (b) the government may from time to time identify areas of high national priority for which simplified procedures would be used for the timely acquisition of technology. There must be a firm commitment for absorption, adaptation and development of imported know how, through adequate investment in R and D to which the Technology import will be expected to contribute: (c) in acquiring technology, consideration will be given to the choice and sources of technology, alternative means of acquiring it, its role in meeting major felt needs, selection and relevance of products, costs and related conditions. A national register on foreign collaboration will be maintained to provide analytical inputs at various stages of technology acquisition: (d) technology assessment systems will be reviewed and an assessment mechanism consisting of competent groups will render advice in all cases of technology import relating to highly sophisticated technology, large investments and national security. Aspects of employment, energy efficiency and environment will be kept in view: (e) human resources constitute India's richest endowment, and conditions will be created for fullest expression and utilisation of scientific talent. Measures will be taken for identification and diffusion of technologies that can progressively reduce the incidence of poverty, unemployment and regional inequalities: (f) use of science and technology for the improvement of the standard of living of those engaged in traditional activities will be promoted, particularly household technologies. Technologies relevant to the cottage, village and small industries sector will be upgraded in the decentralised sector, labour must be diversified and all steps taken to reduce drudgery. In all sectors the potential impact on employment will be an important criterion in the choice of technology: (g) the fullest support will be given to the development of indigenous technology to achieve technological self-reliance and reduce dependence on foreign inputs, particularly in critical and vulnerable areas and in high value added items in which the domestic base is strong: (h) as for upgradation of technology to prevent obsolescence, a strong central group will be constituted to undertake technology forecast, and technology assessment studies and it will, among other things, draw up programmes of purposeful research. Arrangement will be made to provide high level scientific advice in major sectors of the economy. Where big investments are involved or a large volume of production is envisaged, it will be incumbent on the ministry or agency concerned to provide a technology forecast of its requirements over a 10 year or longer period and evolve a strategy for development based on priorities: (i) since the country has invested heavily in setting up research and development facilities as well as design consultancy and engineering capabilities, the technological potential inherent in this system of interlinked capabilities must be fully utilised and in turn provide a fillip to further development from within the system. Incentives will be provided to users of indigenously developed technology and for products and processes resulting in such use: (j) in view of the cost of technology development and the time required for successful marketing of a new or improved product, indigenously developed items are invariably at a disadvantage compared with imported technologies and brand names. Support must, therefore, be provided through fiscal and other measures, for a limited period, to products made through indigenously developed technologies, care being taken to ensure quality. Suitable financial mechanisms will be established to facilitate investment on pilot plants, process demonstration units, and prototype development in order to enable rapid commercial exploitation of technologies developed by laboratories. Linkages between scientific and technological institutions and development banks will be strengthened: (k) gaps in technology will be identified and corrective measures taken with adequate funds. Fiscal incentives will be provided in particular to promote inventions, increase the use of indigenously developed technology, enhance in-house R and D in industry, and efforts directed at absorbing and adapting to imported technology. In the 7 months that have passed since the publication of this Technology policy statement, there is no evidence of its execution. One gap in the statement is the identification of industries where technological upgradation is urgent and others where sophisticated technology is inescapable.

A brief review of the major manufacturing sectors may now be undertaken.

Steel

Saleable steel production by SAIL was 5.671 million tonnes in 1982-83 against the target of 6.3 million tonnes. Throughout the year the plants were dogged by power cuts. In 1983-84 for the first 4 months, April to July, saleable steel production was 1.78 million tonnes which was even lower than the 2.12 million tonnes produced during the first four months of 1981-82. The main problems facing the industry are: 1) shortage of power faced by all the plant particularly Bokaro and Durgapur, leading to less than 70 per cent capacity use. The need to establish captive power plants in Bokaro and Durgapur to start with is established: ii) In July steel prices were raised as the seventh price revision between July 1980 and July 1983 for various categories, pushing up some steel prices by 280 per cent. This continuing price rise plus the April 1983 railway freight revision is hurting both the steel industry and industrial steel users and should stop. The demand elasticity for steel needs careful study and in place of the two options facing the government, whether to raise prices or keep them low, the government can give consideration to reducing the steel companies contribution to the steel development fund, which can atleast stop this rising price trend: iii) steel inventories in early 1983-84 are reported at 1.5 million tonnes, though during the following months there has been some reduction. The real issue is not, however, the problem of the large stock nor whether exports are decreasing (SAIL has decided to reduce its exports of HR coils), but whether the problem of glut would not have arisen if the product mix had been right. It altered its product mix in 1982-83 with more emphasis on structurals, plates, rails and thinner HR coils and made cut in semis and thicker HR coils. But this was in response to the demand recession. There is need to review the product mix again to ensure that supply equates the flagging demand: and iv) finally as long term steel policy, there is need to review the methods used for projecting the long term demand for steel, comparable to the short term strategy to change production to match customer demand which has brought down inventories from 1.7 million tonnes to 1.2 million tonnes. Till the long term strategy is decided and operationalised, plans for expanding capacity, such as the plans to expand Bhilai from 2.5 million tonnes to 4 million tonnes at Rs.1605 crores, Bokaro to 4 million tonnes and at Rs.1637 crores, modernise Rourkela at a cost of Rs.1700 crores and TISCO at a cost of Rs.300 crores do not rest on firm foundations.

Non ferrous metals

The 1982-83 production performance shows that aluminium at korba, copper at Khetrie ghatsila, zinc at Vishakapatnam, lead at Tundo recorded increases, while Dehari zinc and Visag mills showed losses contributing to overall losses of the mines sector of Rs.93 crores. BALCO plans to increase its output from 43,450 tonnes in 1982-83 to 55,000 tonnes in 1983-84, and increase its fabrication facilities of extruded sections from 4000 tonnes to 6000 tonnes and rolled products from 10,000 tonnes to 18,000 tonnes. Hindustan zinc plans to increase its production from 44,000 tonnes in 1982-83 to 60,000 tonnes in 1983-84 and lead production from 15,000 tonnes to 30,000 tonnes in 1983-84. Hindustan Copper plans to increase its blister copper production from 34,000 tonnes in 1982-83 to 40,000 tonnes in 1983-84. The non ferrous metals production is slowly expanding and meeting a part of the essential demand of the economy. It needs further resources and updating of technology, which the Orissa Aluminium complex with French collaboration will begin to provide, though here there is a serious problem on the offtake side.

Cotton textiles

Cotton textiles production in 1982-83 was 11 per cent lower than in 1981-82 in yarn and 29 per cent in fabrics. This decline is largely attributed to the Bombay textiles mills strike which lasted for over a year (the whole of 1982-83 in fact) as well as other factors such as the high price of cotton, high taxes and wages which the industry states all put together eats up 85 to 95 per cent of its value added. And the poor performance of manufactures in 1982-83 is attributed to this low production of cotton textiles with its weight of 17.43 per cent in the manufactures weight of 81.08 per cent. In turn the poor performance of manufactures contributed to the low overall economic performance in 1982-83. There are a number of questions to be raised about the role of cotton textiles in the low manufactures growth rate in 1982-83. First there was no shortage of supply in relation to the demand for cotton cloth in 1982-83, primarily because there was a rather sharp increase in cotton cloth produced in the decentralised sector, particularly by the rapidly increasing small power looms which enjoy the same tax concessions and wage levels as the handloom subsector. Even before the textiles strike, as the Economic survey 1982-83 shows, the production of cotton fabrics in total cotton fabric production increased from 46.7 per cent in 1970-71 to 63.4 per cent in 1981-82 and that of blended fabrics from 37.4 per cent to 42.9 per cent.[29] In 1982-83 the Bombay textile mills strike speeded up this trend. Second this increased contribution of the decentralised sector is however not reflected in the distribution of the 17.43 weightage of textiles between the mill and decentralised sectors, where against the evidence of the contribution of the latter as given in the Economic Survey table, the cotton and blended/mixed fabrics of the mill sector is given over 20 times the weight of the decentralised sector at 5.3407 to 0.0688. This distortion hides the large contribution being made by the decentralised, particularly the power looms sector. Production of cotton and blended fabrics and yarn in the first four months of 1983-84 was 2 per cent higher than in 1982-83. Further as at July end, it is reported that the increased production of fabrics with no improvement in despatches has led to increase in the mills of unsold stocks of fabrics from 249 million metres in June end to 271 million metres in July end, mainly because of the increased production of the power looms sector as just noted. The per capita availability of fabrics is about 15 metres and even the plan target is just 16.4 metres which is less than a tenth of the world per capita average. Even the low Plan per capita target of 16.4 metres in 1984 is based on a cotton crop forecast of 92 lakh bales which on the basis of the performance in

1982-83 has been reduced to 90-92 lakh bales by the Mid Term Appraisal, and there is little chance of attaining. In this situation the question is posed as to why more viscose fibre, which is suited to our climate and which can help produce cloth cheaply for the poor masses, is not being produced. There is no reason for the very low capacity use of the viscose industry at 40 to 60 per cent (45,000 tonnes produced in 1982-83 out of the installed capacity of 1.05 lakh tonnes), the demand for viscose being about double indigenous production, the gap being filled by imports. At a time when there is acute shortage of foreign exchange, this large import of viscose fibre is inexcusable, when that can be produced within the country as internationally comparable prices as the Gwalior Rayon's South Asian plant shows. The multinationals who are dumping viscose fibre in India should be prevented from doing so by taking anti dumping measures and by making fuller use of capacity. This would also be a means of raising the low per capita cloth availability in the country. Finally a word about sickness in the textile industry which is in the first rank of sick industries, as noted earlier. In total, some 45 per cent of the total spinning capacity and 60 per cent of weaving capacity are from sick mills. The existence of this large scale scale sickness covering 25 per cent of the private sector and all of NTCs 112 mills if found side by side with the establishment of 200 new mills in the past decade. This means that the explanation for sickness given by the mills, namely, high cotton prices and taxes, rapid obsolescence and preference given to the decentralised sector are less important than the diverting of the firms' finances by the concerned managements - through statements of inflated costs, discounts, commissions and making more money from cotton purchases than from cloth sales etc. How else can the setting up on the average of 20 new mills a year be explained for the cotton cloth mill area is a money spinning area. Once more the suggestion must be made that the mills which are sick and unviable should be closed and sold, while the pace of modernisation of the others, which is really needed should be speeded.

<u>Chemicals</u> Chemical and chemical products production has been going through a low, almost stagnant, level of production during 1981-82 and 1982-83, and the first four months of 1983-84 record similar low levels. In some areas like antibiotics, alkali products, petro-chemicals, plastics and polyester fibre have been actual declines and in the case of dyestufs there is the danger of stoppage of production. The reasons given by the industry for this declining production situation is the liberalised import policy and the effects of OGL imports, the high price of raw materials and low export demand. On the danger from imports, there is some exaggeration as they are 5-10 per cent of the aggregate Indian production which is protected 100 per cent. The real problems faced by the chemical industry and accounting for its low production is its use of obsolescent technology in place of the cost effective, fuel efficient and non polluting technology that is available. Equally important is the lack of a policy on fuel for the industry which pays the high naptha prices for available gas and which itself will lead to wrong technological options. Finally there is the small scale on which the industry operates for which the government with its policy of industrial dispersal and preferences for small scale units is responsible. But this question of scale in some areas of this industry is not always in favour of the large scale, as the chemical multinationals in the west find, with their large scale operation, high fixed cost and break even point facing a depressed market. On the other hand, the Indian dyestuff units now facing problems operate on a small scale and yet compete gainfully with multinationals in Asian markets. There is need for government policy on technology for this area to supplement the general technology policy statement

that it has made and which was reviewed earlier. Some specific parts of the chemicals and chemical products industry may now be referred to.

<u>Pharmaceuticals</u> The 1982-83 production of bulk drugs at Rs 325 crores (+12.5 per cent) and formulations at Rs 15.45 crores (+8.0 per cent) represent increases in absolute terms but were half the percentage increase of 1981-82. Even so production particularly of anti biotics, vitamins, analgesics, and other essential drugs has increased and is increasing which in part is due to the price rises (10.4 per cent between March 1982 - March 1983) accorded to bulk drugs and intermediates going into formulations. Formulation prices also were raised during that period by 8 per cent. This means in real terms there was no increase in drugs and formulation prices. Imports of bulk drugs and pharmaceuticals continue at a high level: while in 1974-75 these imports amounted to Rs 25 crores, in 1981-82 they were Rs 137 crores and in 1982-83 Rs 150 crores. Indian and foreign companies, which were against the 1978 drug price control order because of low prices and drug shortages, are still unable to meet the plan targets. Against the 1984-85 target of Rs 2425 crores formulations, the 1982-83 production was about two thirds of that. The targets for 20 types of drugs have not been attained. In this situation some issues to be faced are: (a) the non production of bulk drugs of foreign firms and non observance of the ratio of 1:5 bulk drugs to formulations, their actual ratio in 1982-83 being 1:10. They need to be brought into line: (b) the public sector and the Indian firms also are lagging in drug production which need correction: and (c) dual pricing has been proposed, but what is needed is the restructuring of the entire drug policy which should address itself to real regulations and control.

Fertilisers Production of nitrogenous fertilisers was higher at 3.4 million tonnes in 1982-83 (target of 3.6 million tonnes), in phosphatic fertilisers the target of 1 million tonnes was fulfilled. In the production side, the problem is industrialisation of capacity which is at less than 60 per cent at a time when there is a large supply demand-gap which is made up by Rs 500-600 crores of imports which the country can ill-afford. An equally distressing problem is the 5 per cent decline in the rate of growth of fertiliser consumption in 1982-83, reversing the 10 per cent increase registered in 1981-82. Fertiliser consumption in 1982-83 was 6.4 million tonnes against the target of 7.2 million tonnes and in 1981-82 was 6million tonnes. The government announced in parliament that as at August 1983 there was a two year old stock which had accumulated of 1.3 million tonnes of urea and DAP and to ensure its use (a) set a target of 41 per cent of increase in fertilisers consumption and (b) cut fertiliser prices by 7.5 per cent in July and additionally in August ordered the sale at a special rebate of 10 per cent. This makes the total fertiliser subsidy Rs1000 crores and raises the question of how far the price of fertiliser and its subsidy is a necessary and sufficient condition for its growing use. That it is a necessary condition may be conceded, particularly in irrigated areas and areas which use HYV seeds as empirical studies have shown. Even here the extent to which farmers actually benefit from the price cut and subsidy in the absence of price control is in question. Further those who have access to irrigation, particularly major as well as pumpset water, are not the small and marginal farmers who therefore are outside the reduced price frame. There is reason to believe that fertiliser use is also discouraged by the 70 per cent of the cropped area being dry farming, by the wasteful use of fertiliser by those who have access to water in the absence of indications of optimal doses of fertilisers for different soils and water conditions, and finally by the problem of the access to and cost of credit which fertilisers involve. It is to these variables in addition to the price and subsidy factor that the government and farmers need to turn their attention.

Soda ash Soda ash production declined from 6.14 lakh tonnes in 1981 to 5.95 lakh tonnes in 1982 and to a further 1,27,550 tonnes in the first quarter of 1983 as against 1,46,300 tonnes in the first quarter of 1982. Capacity use which was 74 per cent in 1981 has fallen to 68 per cent in 1982. This declining production trend is attributed by the industry to a fall in the demand by the major users, namely the aluminium, textiles and rayon industries and to power shortages. But this production and supply decline is accompanied by a rise in price of Rs 800 at Rs 3000 per tonne in July 1983 compared to July 1982, hits the many small and unorganised consumers very hard. There is a decline in stocks to 40,000 tonnes and a demand for accelerated protection to the domestic industry which comprises five firms which have been bringing oligopolistic pressure on the government against dumping of soda ash by East European countries. This lead to a customs duty of 45 per cent in 1981, revised to 108 per cent in early 1982 and to 137.23 per cent in the 1983-84 budget, along with physical control of every import. It is therefore timely and appropriate that the government has set up two committees, one chaired by secretary of the Ministry of Chemicals and Fertilisers and the other by Director of the Bureau of Industrial Costs and Prices to examine and make recommendations on demand, production, distribution, cost and price structure of soda ash and soda ash based industries, along with the import policy issues.

Engineering The engineering industry in 1982-83 recorded

-0.5 per cent growth, which was serious as its weight in the manufactures index is 14 per cent. The very poor performers were electrical machinery (-1.6 per cent), metal products (-4.1 per cent) and transport equipment (-2.5 per cent), while miscellaneous industries did well (11.2 per cent). This poor performance was fore-seen as in the first 2 quarters of 1982-83 the growth was a mere 1.8 per cent and in the last 2 quarters negative rates were recorded. This decline was reflected also in its export performance which fell short of the years target of Rs 1500 crores by Rs 100 crores, and which has for that reason been given the same target for 1982-84. The poor performance of the industry is attributed to (a) de-clining demand for the engineering products from the power, coal, transport and basic industries run by government, b) power shortage, c) raw materials prices and constraints, and d) the results of decline in the real rate of growth of public investments. However the industry should do better this year with the help it is receiving from pig iron being brought into the price reimbursement scheme, and the supply to it of carbon steel, HR coils and CR sheets at international prices. Further with the improved infrastructure, the economic recovery beginning in the industrialised world, and the new machinery demands of the oil and gas sector and atomic energy sector, there are new perspectives opening up. On its side the industry and individual firms need to update their technology and plan on the basis of a long term strategy.

Machine tools The above generalities are specifically illustrated by the machine tools industry which produced Rs 334 crores tools in 1982 (+21 per cent). The demand for machine tools is assessed at Rs 400-450 crores in 1983-84 and Rs 450-500 crores in 1984-85. The good performance to date of machine tools, however, faces some serious problems in face of this growing demand. First the capacity of the industry in the organised sector is Rs 300 crores and small scale sector Rs 50 crores. Letters of intent and licenses have been issued for Rs 72 crores. With all this, it is clear that the domestic units will not be able to meet the demand in the country, and so imports which have increased from Rs 40 crores to Rs 115 crores will continue this year and next at a little higher level. Second these imports are related to the question of technology which was referred to earlier and discussed in last year's mid year review.[30] As the country's modernisation and expansion programmes in commercial vehicles, (TELCO and Ashok Leyland), passenger cars (Maruti-Suzuki), two and three wheelers (Bajaj), the 50 railway workshops (expanding and modernising with the World Bank loan), and defence production units renovations go ahead, it is estimated that the demand will be for 48,000 machine tools of various types between 1982-86, and even more important the machine tools in demand will be those with advanced technology, higher productivity, and operational efficiency. For the present, the user industries are relying on imported machine tools to provide the high precision and sophisticated technology tools. There is need for the domestic industry not only to expand and diversify its capacity which become possible with the governments conceding on July 21, 1983 its demand for a flexible and liberalised licensing system in 15 groups and its including of machine tools in Appendix I of the industrial policy which allows FERA and MRTP companies to enter this important production field: even more the Indian units should now update their technology with foreign collaboration if needed to move more rapidly in import substitution of high technology tools.

Cement Cement production in 1982 was 23 million tonnes against the target of 26 million tonnes, and for 1982-83 was 21.9 million tonnes, which continued short of demand.

Imports were 1.2 million against the target of 2 millions. The cement scene presents some problems. First there was an impressive increase of installed capacity in 1982-83 from 32 million tonnes to 36 million tonnes. This leaves 4 million tonnes to be constructed in 1984-85 to attain the Sixth Plan target. This increase in target is not however leading to adequate increase in supplies and certainly is quite far away from the revised Sixth Plan production target of 34.5 million tonnes. In the first 2 months of 1983-84 cement production has picked up at 41 lakh tonnes (+17.1) per cent, but the short fall in relation to demand continues. The second problem is the skewed manner in which the dual pricing system is functioning and the persistent demand of the industry for an increase in the levy price. When partial decontrol of cement was introduced in 1981, the industry agreed to a free market price of Rs 60 per bag (of 50 kgs) in 3 states and in the North East, and Rs 56 per bag in other states. But to start with almost all of the production was moved into the open market, and later when, on the government's insistence, the industry had to make up the levy arrears, the free market supplies dwindled and prices shot up to Rs 90 per bag and has remained at a level were the industry's profits are high. In fact this led to the 1983-84 budget proposal to increase the basic cement excise levy from Rs 135 to Rs 205 per tonne which the producers have however passed on to consumer by raising the free market price by Rs 5 per bag to Rs 70. Once more levy arrears have increased, and in some deficit areas the allocations are not even 50 per cent of the levy. The industry attributes this to slow production increase which it traces to power shortage leading to 65-70 per cent capacity use. Power shortage has been part of the national scene, but in one of the worst years, 1979-80, the cement industry attained 90 per cent capacity use. There is really no reason why this should not now be the case, unless there is a decision to go slow on production to push up prices. The industry's plea for a rise in levy price has been referred to the Bureau of Industrial Costs and Prices as the case made by the industry is not continuing.

Sugar The production of sugar for the 12 months October 1982 - September 1983 of the sugar season was 832 lakh tonnes against 83.44 lakh tonnes in that period in 1981-82. The Agricultural Prices Commission (APC) has recommended a sugar cane price of Rs 165 per tonne for the 1983-84 season, but the government has maintained it at the previous year's level of Rs 120 per tonne. In the sugar area there are three problems. First the minimum cane price announced by government has little relation to the prices paid to the cane growers by the mills because the prices fixed by the states range between Rs 200 - 220 a quintal. The union attempted in December 1982 to get state governments to stand by the union price, but in February 1983 gave the state governments back their freedom. So the only function of the minimum support price announced by the union government is that the price of levy sugar is based on it. The industry's insistence that the government raise the support price to APC's level will mean that levy price will have to be increased. Second is the problem of cane arrears in August, the industry states is Rs 400 crores (caused by the high state government prices at which sugar cane has to be purchased and low levy prices). The government, however, reports that arrears to cane growers is only 13.9 per cent of total purchases, at Rs 202 crores and believes that it can be reduced to less than 10 per cent by the end of August. Meanwhile it has asked the Reserve Bank to change its system of valuation of stocks held by the mills to make available to them additional credit to clear the balance of arrears expeditiously. Third there is the problem of the large accumulated stocks carried by the mills, amounting to 45-48 lakh tonnes and involving finances of the order of Rs 1500 to Rs 1700 crores. This is a heavy burden on the mills and the buffer stock of 5 lakh tonnes established by the government does not really meet the problem. The industry wants the buffer to be raised to 15 lakh tonnes. Fourth there is the problem free sugar prices. Despite the large record production for 2 years running, free sale sugar prices have been ruling high (the government announced in parliament in August that it will not allow the free price to fall below Rs 5 a kg). Since January sugar prices have been rising because of restricted monthly releases. In February the price rose by Rs 20 a quintal because of a cut in the March quota. There was some lowering in June, because of the larger free sale release for July. Fifth there is the problem of exports. STC is planning to export 9 lakh tonnes in 1983-84 against the previous year's 4.10 lakh tonnes. India's ISO quota is 6.5 lakh tonnes and for 1984 India has asked for a quota of 10 lakh tonnes. If exports are to be one effective way of relieving the industry of vast stocks, then the need to modernise the mills and reduce costs by 50 per cent in inescapable, as otherwise the present absurd situation of exports being subsidised to the extent of 50 per cent will continue. Sixth there is the problem of sickness in the industry. The banks reports 107 mills as sick, so that the proposal to nationalise the mills means that the government and people will be taking on units which have been made unviable by their owners. Here again what is needed is to close unviable mills and help modernise and update the others in the industry. Finally an analysis of the rising sugar production - now averages 80 lakh tonnes for 3 years including this year - and domestic sugar consumption which seems to range from 50-60 lakh tonnes over the quinquennium 1978-79 to 1982-83 points to the need for the adoption of an agricultural strategy under which contrary to what is happening in Maharashtra and the southern states, there is need contract the area growing sugar cane and expand that growing oil seeds and pulses. This has implications also for agricultural product prices. From this point of view the reported decline in the sugar cane acreage because of the heavy dues to the farmer which may lead to a reduction in sugar production in 1983-84 is a welcome development.

Jute textiles Jute textiles in 1982-83 were 12.5 lakh tonnes which was 1 lakh tonnes lower than production in 1981-82. In the first four months of 1983-84 jute manufactures amounted 3.9 lakh tonnes. The industry is in deep crisis. Production is declining. The price of raw jute, as noted earlier, even with a 30 per cent moisture context has risen to Rs 400 per quintal against the statutory minimum price of Rs257.50. As a result the raw material cost has risen to Rs 3900 per tonne and conversion and power costs have also risen, making total sacking production cost Rs 7000 per tonne. This means the costs are Rs 700 per 100 bags, while the ruling market price is Rs 535 per 100 bag. Hence most of 71 jute mills are faced with a liquidity crisis, 19 have closed down and 60,000 badli workers have been laid off. Production costs can be brought down only through modernisation, but modernisation will lead to retrenchment in its work force, which both the trade unions and state government resist. The cost of modernisation of the mills was estimated Rs 250 crores in 1977 but is now over Rs 400 crores. Domestic demand absorbs about 65 per cent of production and so the viability of the industry depends on its ability to export the residual 35 per cent, and in this it faces low international prices, competition from synthetics and from a neighbour, Bangladesh. As noted under the agriculture section under jute, the government has got parliament to pass legislation setting up a Jute Development Council and for collecting access to improve manufactures and intensify R and D. This could be of partial help. The real answer to this crisis is once more the clear but harsh one of closing down the unviable mills and punishing the delinquent managements, modernising the rest and accepting some decline in employment.

Paper Paper and paper board production in 1982-83 was 13 lakh tonnes and the reports on the performance of the industry in the first four months of 1983-84 indicates that the year's target of 14 lakh tonnes may be attained and the Plan target at 15.5 lakh tonnes will be reached with the Hindustan Paper Corporation's two plants at Nowgong and Cachar, with an aggregate capacity of 2 lakh tonnes going on stream this year and the next. The Sixth Plan will end with capacity of 20 lakh tonnes. But in the long run, the Planning Commission has estimated the demand and output at 30 lakh tonnes in 1994-95, and if capacity use is 75 per cent, then installed capacity will have to double by then, which may not be possible because of the long gestation period and the sizeable investment of Rs 4000 crores at 1982-83 prices that will be required. There are also problems of raw materials requests which the denundation of our forest resources raises, the continuous price rises (in March the government raised the administered price of paper by Rs 1200 per tonne) which evoke consumer resistence, and the worsening of the competitive position of small paper producers.

Electronics Electronics production in 1982 was Rs 1205 crores against Rs 8650 crores in 1981 (a growth of 40.7 per cent). The 1982 production figures include Rs 40 crores of colour TV receivers which were assembled in the country during the Asian Games. The 1982 growth without this item of colour TV sets comes to 36 per cent and about a third of it has also to be attributed to price increases since 1980. In 1982 the production of consumer electronics items was Rs 337 crores, computers control and instrumentation Rs 242 crores, communication and broadcasting equipment Rs 480 million. For 1983-84 and the following years the government placed before parliament in August a package of measures intended to facilitate the growth of the electronics industry.[31] The package consists of promotional measures to rationalise and liberalise licensing and the capacity creation policy, to reduce input costs through a rationalised duty structure, to invest by government units in critical and strategic areas such as silicon, micro wave tubes, large scale integrated circuits, R and D for electronic switching systems. Considerable attention is to be paid to developing electronics application in agriculture, medicines and education in addition to TV, satellites, micro processor based computer aided instruction, and other electronic equipment which will change the literacy and educational profile of the country. Licensing of capacities in electronics is to be governed by techno-economic considerations and has been applied for producing colour TV sets. To rationalise fiscal policies and reduce input costs, the customs duties, excise duties and depreciation rates have been reduced, details of which were notified by the ministry of finance as involving (a) reduction of basic excise from 5 to 40 per cent on group of items, (b) full exemption from special excise of electronic goods and (c) a number of customs concessions to 11 types of inputs entering the electronics industry. As a result the revenue loss to the government will be Rs 98 crores in a full year. The policy is sound and will lead to improved production in the short run. In the long run for the policy to succeed in its objective there is need to resolve (a) the contradiction between the use of high technology and the development of backward areas, (b) the contradiction between the stress on small industry and high technology, (c) the contradiction between self reliance and rapid obsolescence, (d) the contradiction and the spin off effects of defence, electronics and the narrow domestic market, (e) the differences between DOE and other departments like defence, atomic energy, and (f) the contradiction between the policy of self reliance and import substitution and the liberalised import policy which is not limited only to capital goods, but extended to components and raw materials and costs the country Rs 4000 crores annually.

Tyres and Tubes The production of tyres and tubes began moving up in 1982-83, with rates registered in giant tyres (6.1 per cent) and bicycle tyres (3.4 per cent), mainly because of an increase in the demand from the relevant equipment manufactures, and because of the replacement demand as stocks were depleted. But tractor tyres continue their decline (-8.4 per cent) as did scooter tyres (-14.0 per cent). The production in 1983-84 will grow even faster in view of the sharp increases in the production of heavy and light commercial vehicle and passenger cars. Proposals to increase the capacity is based on the fact that the current capacity is for the production of 9.1 million tyres and with the 25 per cent capacity expansion amount to 11 million tyres. The Mid Term Appraisal presents the revised target at Plan end at 12 million tyres and production at 10.5 million tonnes. The demand at that time is estimated at 12-14 million tyres and hence the increase in capacity is needed and will introduce a competitive element as far as tyre prices are concerned, a sore point with individual truck owner-drivers.

Vanaspathi and oil seeds Vanaspathi production was 8.75 lakh tonnes against a capacity of 14.15 lakh tonnes in 1982-83, and in 1983-84 the targeted production is 9 lakh tonnes against the capacity of 14.6 lakh tonnes. A number of questions arise in connection with this area. First there is as the above figures show, a vast gap between installed capacity and its use which is an indication of the restraints on production that the country is responsible for with the resulting profiteering prices. Second the amount of vanaspathi produced is unrelated to the domestic availability of indigenous edible oils. In the last 8 years, 1975-1982 vanaspathi supplies have doubled while domestic indigenous edible oils supplies have been stagnant. Third about 60 per cent of the vanaspathi industry's needs have been met by imports which for the past decade have been at the annual level of 10 lakh tonnes of edible oils at a cost of Rs 600/700 crores per year. In 1980 imported oil was 90/95 per cent of the industry's output. This allocation of imported oil to the vanaspathi industry at a price which is Rs 5000/6000 a tonne lower than indigenous mustard/rape seed, groundnut and coconut oil is justified on the grounds that otherwise it will send up the price index. There is not only waste of scarce foreign exchange in importing edible oils and allocating it at low prices to the vanaspathi industry, there is also the question of social justice; only one third of the product is consumed by the poor sector of North Indian society, so that this subsidising of the vanaspathi industry is for the benefit for the well to do in society. Fourth the subsidised price does not go to the consumer because the industry does not sell it at below the liquid oil prices. These latter prices are ruling high. In August ground nut oil is selling at an unheard of Rs 21/22 a kg and nothing-neither the certainty of a good kharif groundnut crop assured by the good south west monsoon nor the large releases of imported oils by STC to the vanaspathi industry (the allocation of which has been increased from 60 to 80 per cent in June) - has been able to bring the prices down. This price rise is not due to seasonal factors or short fall in the 1982-83 supply of groundnut oil, but is due mainly to restraints on the inter state movement of groundnut oil. As a result there are reports of adulteration of groundnut oil by the cheaper cotton seed and rape seed oil. Less excusable is the government's lack of action to dampen this price rise by using its 10 lakh tonnes of edible oils - which would also bring down the prices of coconut and gingelly oil which is ruling at an even higher level. Finally given the fact that the country faces a long term problem of short supply of indigenous edible oils, the country can follow the examples of oil deficit countries, and that is to import 10 lakh tonnes of oil seeds - sunflower seed, rape seed, and soya bean which can be processed into edible oils with the triple advantage of (a) having edible oil of improved quality at lower prices, (b) recovering at least one third of the foreign exchange expended on oil seed imports through exports of meal from the processed oil seeds, and (c) enabling our solvent industry to use part of the 55 per cent of idle capacity that it is presently nursing.

Infrastructure

Electricity Electricity generation in 1982-83 increased by 7 per cent (thermal by 13.5 per cent and hydel by 2.6 per cent reflecting the drought conditions). In billion units (bu) against the target of 140 bu the generation was 139.5 bu. In capacity addition against the target of 3482 MW, 3060 MW (+9.6 per cent) was created. Also the plant load factor improved marginally from 47 per cent in 1981-82 to 50 per cent in 1982-83. However in relation to demand, there was a short fall of 10 per cent, which involved heavy power cuts in Kerala, Karnataka, Tamil Nadu, Gujarat, West Bengal, Rajasthan and parts of Maharashtra, involving a loss of Rs 3000 crores in industrial production. The power deficit worsened in 1982-83 in seven states, even though the growth in the demand for power fell by 5.9 per cent in 1982-83 compared to the rise of 7.6 per cent in 1981-82. This is important because it shows that the overall power supply growth outpaced the growth in power demand which is what enabled the government to state that the gap between supply and demand declined from 10.8 per cent in 1981-82 to 9.2 per cent in 1982-83. The long term trend of physical achievement in electricity is declining from 84 per cent of the target in the First Plan, to 64.3 per cent in the Second Plan, 67 per cent in the Third Plan, 49.8 per cent in the Fourth Plan, and 66.4 per cent in the Fifth Plan, with an anticipated 66 per cent in the VI Plan. Further the union government reports that funds for creating power transmissions and distribution facilities (Rs848.03 crores in 1982-83) are being diverted (only Rs 800 crores actually spent) to meet the revised targets of power generating capacity (Rs 1773.80 crores spent on creating new generating capacity against an allocation of Rs 1739.52 crores). In 1983-84 against the target of 4.57 MW for installed capacity and 154 bu for generation, in the first five months of 1983-84, April-August, 55 bu have been generated which is 2.6 per cent above the generation in 1982-83. Due to the good south west monsoon, all major hydel reservoirs are at or near their full level mark so that power generation is expected to increase by 8 per cent during the year, with thermal increasing by 10 per cent and hydel by 5 per cent. However the short fall in relation to demand will still continue at 10-12 per cent (because of the increase in the industrial activity and structures), and there will be power cuts in the last quarter of 1983 and the first quarter of next year. The states most affected are Bihar, Orissa, Karnataka, Rajasthan, Tamil Nadu, West Bengal. In this situation captive units are being set up in public coal mines and steel plants, and in one state proposals from a consortium of private firms for setting up two plants with generation of 110 MW each have been forwarded by the state government to the union. The ministry estimates that a massive Rs 50,000 crores investment in the power sector will be required to commission the additional 25000 MW foreseen in the Seventh Plan. Even for the present plan, the Mid Term Appraisal calls for sizeable increases in outlay if the tempo of work is not to slow down and effect results in the seventh plan.[32]

Coal Coal production in 1982-83 at 130.6 million for the first time in the Sixth Plan was lower than the revised target of 133 million tonnes, (the original target was 135 million tonnes). Equally disturbing is the lower off-take of coal than predicted at 109.8 million tonnes against the assessed demand of 119.8 million tonnes in 1980-81, at 122.5 million tonnes against the assessed demand of 127 million tonnes in 1981-82 and at 128 million tonnes against the assessed demand of 132 million tonnes for 1982-83, due to slow pace of industrial development and the slow growth in the major coal consuming areas of steel, power and cement. On the one hand the production short fall due to power constraints, labour unrest and delayed equipment supply needs correction. The short fall in offtake results in large pit-head stocks (18.2 million tonnes in 1980-81, 21 million tonnes in 1981-82 and 23.3 million tonnes in 1982-83) and calls for attention to demand-supply management. The disturbing increase in pit head stocks can be corrected by following a systems approach and improving rail transport. Another problem to which I have called attention in last year's review is the declining under ground production of quality coal from 77.40 million tonnes in 1981-82 to 75.29 million tonnes in 1982-83, while poor quality open cast coal is continuously increasing from 47.50 million tonnes in 1981-82 to 55.36 million tonnes in 1982-83. For 1983-84 the target has been lowered from 152 million tonnes to 142 million tonnes against the assessed demand and of 147 million tonnes, the balance being met from the pit head stocks and 1.2 million tonnes of imports of coking coal. The achievement of this production of 142 million tonnes calls for an additional outlay over and above the Rs 946.17 crores provided in the current year's Plan. The production lag is noticeable in the first quarter of 1983-84, April-June when production was 29.09 million tonnes lower than 29.68 million tonnes produced in the first quarter of 1981-82. On the resources side, the coal sector has used Rs 2913.99 crores in the first 4 years of the Sixth Plan against the planned outlay of Rs 2870 crores for the entire 5 years of the Plan. Hence if 1984-85 target now revised down from 165 million tonnes to 154 million tonnes is to be attained, the sector will have to be given an additional Rs 1000 - Rs 1200 crores in the last year of the Plan. One last comment, the time and cost over runs of the mining projects are disturbing. Of the 99 projects under execution, less than 50 per cent are on schedule, and 28 are delayed by 3-5 years mainly due to poor feasibility reports and non availability in time of land and machinery. This has resulted in a cost escalation of around 35 per cent.

Crude The increase in the rate of growth and in absolute volume of the production of crude oil is one of the bright spots in the economic scene. In 1980-81 crude production was 10.51million tonnes in 1981-82, it was 16.19 million tonnes (both of which were on target), for 1982-83 the target was revised up from 20.5 million tonnes to 22. 65 million tonnes, and the actual production was 21.06 million tonnes and for 1983-84 the target is 26.25 million tonnes. In the first quarter of 1983-84 crude production was 5.76 million tonnes (3.65 million tonnes offshore and 2.11 million tonnes onshore), which means for the current year, it will surpass 25 million tonnes. The crude throughput in refineries in the first quarter also rose by 9 per cent at 8.22 million tonnes. At this level of production, net crude imports were reduced from 12.61 million tonnes (imports 16.96 mt minus exports of 4.35 mt) and 4.22 million tonnes of petroleum products, valued at Rs 4433 crores in 1982-83 to net imports of 7.29 million tonnes of crude (import 14.10 mt - export 6.81 mt) and 6.27 petroleum products together valued at Rs 3402 crores in 1983-84. Thus a saving of Rs 1000 crores in our import bill comes from crude imports. This is a satisfactory picture. Certain questions need to be raised however, in the crude production area. First the amount of gas that has been developed is much more than anticipated, and unless additional investment is provided to use this additional gas, it will have to be flared and wasted. Second the domestic refining capacity cannot take the increased crude production, part of which will have to be exported and sold and exchanged in the current volatile international market. Third the reduction in the crude import bill of Rs 1000 crores is entirely due to increased domestic crude production, particularly Bombay High which has increased its output from 5 million tonnes in 1980-81 to 12.8 million tonnes in 1982-83. No part of the reduction in the import bill has come from economy in the consumption of this extremely expensive energy. On the other hand the government reports that consumption of petroleum production rose by 9.7 per cent in 1981-82, by 7.6 per cent in 1982-83 and is expected to increase by 8.6 per cent in 1983-84. This rate of increase is completely unacceptable. Inspite of the solemn assurance of the Sixth Plan document to the contrary, the wasteful use of high speed diesel continues in the fuel inefficient transport sector where its use is expected to rise by 26 per cent from 11.5 million tonnes in 1982-83 to 14.5 million tonnes in 1983-84. Again there is no evidence of economy in the use of petroleum, fuel oil etc inspite of various recommendations to that effect made by the Fuel Research Association, As for alternate energy sources they are still in the talking and laboratory stage so that a start has yet to be made on economising on this costly energy source, as I have been pleading in every annual review. Finally there is need for public and parliamentary discussion on our proven crude reserves and how long they will last. As far as I know, our proven reserves as set forth in the Sixth Plan document at 360 million tonnes still hold good, and if this is so, then they will last for 13 or 15 years depending on whether the 1982-83 or 1983-84 output is taken as the yardstick. In light of this, the raising of the Sixth Plan target from 51 million tonnes to 61 million tonnes does not seem a very responsible decision.

Railways

The railways report carrying 254 million tonnes originating traffic and 228 million tonnes of revenue earning traffic in 1982-83. The modest 3 per cent growth over 1981-82 is a reflection of the low 1.5 to 2 per cent GNP growth that year, and that of other constraints that railways faced to be referred to later. Even so there were serious complaints of the non delivery of coal by the railways from thermal plants of Tamil Nadu, the textile mills of Gujarat, and cement factories in the country - continuing into this year. The Ahmedabad textile mills did not receive a single wagon of coal in May 1983, Tamil Nadu reports that the coal was not delivered to its Ennore thermal plant till July 1983, and many industrial units had to arrange for coal movement by road at 3 times the cost of moving it by rail, resulting in cost escalation of their products. For 1983-84 the originating traffic target is 282 million tonnes and revenue earning target is 241 million tonnes. In the first two months of 1983-84, the railways have moved 37 million tonnes against the target of 40 million tonnes, and there are similar future short falls feared, particularly if the economy gathers momentum and registers a 5 per cent growth rate. There are gaps in management such as in ensuring a quick turn around of wagons, wagons KMs and loading per day. But the essential reason for the various short falls and lacks in the performance of the railways is that at 1979-80 prices, the Plan expenditure and outlays have been declining every year (1980-81 Rs 887 crores, 1981-82 Rs 875 crores 1982-83 Rs 823 crores and 1983-84 outlay Rs 745 crores). Even in current prices the 1982-83 expenditures were Rs 1332 crores and the 1983-84 outlay Rs 1342 crores. The results is that the railways are not able to undertake renewal of 18,000 km. of outworn tracks (which in part accounts for railways derailments and accidents), to overhaul an annual 30,480 passenger coaches and 1.14 lakh wagons instead of 25,500 coaches and 1 lakh wagons actually overhauled, to replace 32,000 sick wagons, to procure 1 lakh wagons instead of some 70,000 by the end of the Plan and to undertake the electrification of the 2800 kms planned. In other words the railways will not be able to provide the passenger services which the people and freight services which industry will need in the coming years because we are eating into the railway capital.

Irrigation In 1982-83 0.09 million hectares of major and medium irrigation and 1.44 million hectares under minor irrigation were attained and for 1983-84 0.94 million hectares under major and medium irrigation and 1.43 million hectares under minor irrigation are established as targets. The irrigation infrastructure which is a vital input to our agricultural performance presents the following features at this point of time. First at this rate, the Sixth Plan target of creating 13.74 million hectares of additional irrigation which would provide a total of 70 million hectares is unlikely to be attained, the Sixth Plan short fall being 2.3 million hectares. Second the time and cost over runs of the major irrigation projects are high and increasing. Out of the 65 major projects which continue from April 1976 and which were expected to be completed by the end of the Sixth Plan, only 38 will be completed and the other 27 will spill over into the Seventh Plan. Time and cost over runs are increasing for Nagajunasagar, Gandi, Kosi, Malaprabha and Kallada. Third in the utilisation by the farmers of the potential created by major and medium projects there is a similar lag. Of the 2.6 million hectares of the potential created by the major and medium projects, utilisation was only 2 million hectares which the ministry attributes to (a) lack of field channels to individual farmers' fields, (b) lack of land levelling and shaping, and (c) lack of control structureness to ensure and regulate the flow of water to the tail end. To counter this wastage, the command area development programme should concentrate on construction of field channels and extend the canal system. Fourth the minor irrigation programmes with its target of 8 million additional hectares is, as noted earlier, doing well, and will attain atleast 7 million hectares, the only reason for this shortfall being lack of funds and short fall in the energisation of pumpsets. Here the disparity between the financing of major and medium irrigation projects on which Rs 8448 crores is being expended to create 5.7 million hectares additional potential and of the minor irrigation projects on which Rs 3510 crores is being spent to create 8 million hectares should be noted. This difference of spending 76 per cent of funds on major and medium irrigation to create 49 per cent of irrigation and expending 24 per cent of the outlay to create 51 per cent of the irrigation potential calls for revising the irrigation financial strategy in the Seventh Plan.

New Energy sources

As noted earlier, a slow start is registered in 1983-84 in developing new sources of energy to relieve the high cost crude energy and the limited electric energy in the country. In the area of biogas development, slow progress is being made with 25,369 units set up in 1981-82, 57,498 in 1982-83 and 75,000 planned for 1983-84, along with the community bio gas plants, each of which will provide energy to 60-100 families and for which the Sixth Plan target of 1000 has been fixed, but as at July 1983 only 24 completed. There is no reason for this slow pace of expansion of the biogas programme which uses known technology and which our neighbour China shows can be set up at four to five times the rate at which it is being done in India. The other area where commercial production is being attempted is solar energy, where some 25 solar water heating systems have been completed by July 1982, and some solar timber kilns, paddy dryers and cold storage plants are being set up. 10,000 solar cookers have been manufactured and sold under the subsidy scheme. The subsidy should now be withdrawn. The other solar energy programmes - the solar thermal pump, the Thermal Energy Centre, and solar cells and modules are in the laboratory or pilot plant stage. The energy plantation programme along with two biomass research centres are under way and will produce results in the Seventh Plan. Wind energy for pumping water through 400 wind mills, ocean energy, geothermal energy and chemical sources of energy are being investigated. The time has now arrived to expand the Plan provision of Rs100 crores for this potentially important programme.

Savings and Investment

In light of the report of the working group on savings (chaired by KN Raj), I set forth the savings and investments estimate of the country from 1970-71 and also set side by side the estimates of the Reserve Bank. The estimates of the working group, like the estimates of the Planning Commission, are expressed as percentage of Gross Domestic Product (GDP), while those the Reserve Bank are expressed as percentage of Net National Product (NNP). These estimates are identical with those set forth in my last year's and earlier mid term reviews of the economy, except for corrections after 1980-81 introduced by corrections by CSO or the Reserve Bank in their estimates of GDP or NNP.

Year	Percentage of GDP At current prices Savings	Investment	1970-71 Savings	Investment	Percentage of NNP Savings	Investment	GNP growth	Industrial growth
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1970-71	16.8	17.8		17.8	12.3	13.1	6	4.2
1971-72	17.3	18.4		18.3	11.4	12.9	1.6	3
1972-73	16.2	16.9		17.3	12.6	13.4	-1.1	-3
1973-74	19.3	20.0		21.4	11.8	13.8	5	-3
1974-75	18.2	19.1		19.3	14.6	15.6	1.2	2
1975-76	20.0	19.9		18.3	16.1	15.9	9.6	9.8
1976-77	22.0	20.4		19.3	18.4	16.7	0.8	5.3
1977-78	21.6	20.0		19.1	18.3	17.7	8.9	6.9
1978-79	23.9	23.7		21.4	20.1	19.7	5.7	7.7
1979-80	21.2	21.8		19.7	17.2	17.8	-4.8	-1.4
1980-81	27.2	24.9			16.1	18.0	8	4.1
1981-82	22.8	25.3			16.5	19.1	5.2	8.2
1982-83	22.9	24.8			16.8	18.8	2	3

Source: Columns 2-5 upto 1979-80 working group on savings, and for later years CSO and Planning Commission
Columns 6 and 7 Annual Reports of Reserve Bank of India
Columns 8 and 9 Economic Surveys 1970-71 to 1982-83

First the savings rate at current prices is between 22-23 per cent of GDP during the last three years in the table and has increased from 16.8 per cent in 1970-71 to near 23 per cent in 1982-83. The working group points to a number of estimational errors derived from the weak data base of the household sector savings, the residual methods of computing the gross capital formation of the unorganised sector, the indirect sources of data in estimating changes in stocks, the effects of price rises, the savings of financial enterprises against those of non financial, non departmental enterprises in the public sector etc but its broad conclusion is that the estimates are on the whole reliable. To quote the report: 'on the whole the improvement thus achieved in the series on gross capital formation and savings over the last two decades, as a part of the more comprehensive series on national income and expenditure have made these estimates almost as good as they can be expected to be, given the nature of the economy and the difficulties inherent in securing adequately reliable data. It is doubtful if the estimates for any other country at a similar stage of development have a much firmer foundation'. In support of our estimates being as good as that of any country, the report quotes from a US Congress committee report 'The inadequacy of the underlying data for this sector of the economy ('unincorporated enterprises) effects the reliability of practically every important component of the accounts; eg saving, capital expenditures, depreciations sales, inventories, and many others but particularly that of profits.[33]

Second the working group makes a number of suggestions for improvements in the estimates of savings and investments. These include the suggestion to disaggregate the estimate for the household sector through estimating saving and capital formation separately for farm households, for unincorporated enterprises etc, to provide for depreciation or capital consumption and for capital losses and destruction, to improve estimates of inventories and the public sector, and to build regional estimates of capital formation on which firm national estimates can rest. Also it has suggested updating many of the norms and ratios which go back to the 1950s and 1960s. Some of the surveys on which these proportions are based and are being used are dated 1962 and 1964. This section on means of correcting the estimational errors particularly organising nation wide field survey to obtain the data on norms and ratios, is perhaps the best, strongest and most practical part of the report.

Third as noted at the start there is a marked rising trend in the rate of savings of the country. In order not to load this review with statistics, I have not quoted from the reports' three yearly moving averages of the rate of savings(table 5.8 and statistical Annexure -5) which show that the rate more than doubled from less than 10 per cent of GDP in 1950 to near 23 per cent in the late seventies, with the rate registering increases in both the public and private sector, particularly in the household subsector, notably in the form of financial assets. The reasons for this increase are multiform which the working group traces to higher profits rates obtained from investment in the small scale sector of industry, trade and transport and in real estate, which accounts for the rapid increase in household sector incomes and savings: to higher financial savings traced to various growing financial intermediations and the compulsory deposits scheme;to shift in terms of trade against agriculture with its low marginal propensity to save: and to the increase in the real income of middle class and upper class households and large governmental foodgrain purchases and rising foreign remittances.

Fourth another valuable recommendation of the working group is one which I have been making in my annual mid year reviews, namely to stop the publication of different estimates of savings and investment, based on different basis by CSO, Planning Commission and Reserve Bank, which the above table reflects. Now CSO and the Planning Commission have joined together and they bring out a single estimate. It is the Reserve Bank which still continues a different methodology. The working group has made recommendation to reconcile the methods of estimation used by the Reserve Bank and CSO and if these are acted upon, then the only difference would be the time element - the Reserve Bank running between June-July and published in August and the CSO Planning Commission running from April to March and published in July. This uniformity would be of help to government, the business community and researchers.

Fifth the savings rate for 1982-83 shows a marginal rise, from 22.8 per cent of GDP in 1981-82 to 22.9 per cent in 1982-83 and from 16.5 per cent of NNP in 1981-82 to 16.8 per cent in 1982-83 due to the low NNP in 1982-83 which rose by 1.2 per cent. The break up of this savings, investment and flow of foreign resources is given in the following table of the Reserve Bank.[34]

Estimate of Net Domestic Saving and Investment as percentage of NNP at current prices

Sector	Financial Years 1980-81	1981-82	1982-83
1. Household sector	13.4	12.6	13.7
at which saving in financial assets	6.8	6.2	8.0
2. Public sector	2.1	3.3	2.5
3. Domestic corporate sector	8.6	0.6	0.6
4. Total net domestic saving	16.1	16.5	16.8
5. Inflow of foreign resources	1.9	2.6	2.0
6. Aggregate Net Investmnet	18.0	19.1	18.8

Note: The ratios for 1980-81 and 1981-82 differ from those given in last year's Annual Report because of the substantial revision in the estimates of national income and savings and investment due to the availability of further data.

The near stagnation is domestic saving in 1982-83 is due to the fall in the saving of the public sector which was -0.8, compensated by the 1.1 per cent rise in the household sector savings. The savings of the private corporate sector have been stationary for three years at 0.6 per cent. The increase in the financial asset saving of the household sector has increased by 1.8 per cent due to increase in households' savings in currency and deposits. Further the Reserve Bank reports that households' saving in the form of currency rose from 0.7 of NNP in 1981-82 to 1.3 per cent in 1982-83 and savings in deposits at an even higher level from 4.3 per cent to 5.1 per cent. The fall in public sector savings is due to dissaving in union and state government administrations and their departmental enterprises.

Sixth the table in the previous page shows that investments, depend, since 1979-80 on foreign savings and their inflow averaging around 2 per cent of GDP and NNP. The original Fifth Plan objective of zero net aid seems to have receded and we now regard the aid India consortium pledges as part of our national investments entitlement, in which also the World Bank assists us. I am of the view that it is high time that we ended this dependence on 'aid' or concessional loans assistance and step up our own savings, as we did between 1975-76 to 1978-79, and go to the foreign commercial markets for financing foreign technology and capital imports.

Seventh the one major gap in the report of the working group and in fact in all our analysis and thinking about savings and investment (and the working of the economy generally) is the blind eye turned to the parallel economy. The working group calls attention to this lacuna in the estimates (chapter 8 para 8.10) and proposes an intelligence unit within CSO to undertake studies on the under reporting of wealth, incomes and production, the forms in which savings so generated tend to be held and regular investigation into unincorporated enterprises in manufacturing industry, transport, trade etc. It refers to the need to clear the confusion on how far the concealed income and wealth are held in highly liquid assets like gold and currency, the extent of their link with bank deposits and real estate, and how they are all part of the current production activities, that is the 'flows' of the economy. Until this part of the analysis is completed, the savings and investment picture of the country will continue to be an incomplete one.

Finally the working group attempts a partial and in my view incomplete answer to the puzzling contradiction between the high rate of investment and the low rate of industrial and the stagnation of the economy as columns 8 and 9 of the first table bring out and which I have called attention to in my earlier annual mid year reviews. The working group points out that while the rate of investment (gross fixed capital formation) has increased two and half times between 1950 and 1979-80 (from 10 per cent to near 24 per cent) in current prices, in constant prices the rate of investment in 1979-80 was 18 per cent of GDP (see column 5) which it was already in the middle of the 1960s. It also discounts the force of the agreement that we are using our capital resources wastefully as seen in the rising capital output ratio by ascribing this to our resort to capital intensive, high capital output ratio industries such as fertilisers, electricity from mid 1960s and petroleum, steel, coal and non ferrous metals in the seventies. But this is an incomplete and partial explanation. The shift in investment to capital intensive sectors has been gradual and has been maintained at a balanced investment level for an industrialising economy like ours. Even more, the constant price rate of investment of 18 per cent represents a 60 per cent rise from the start of 11 per cent investment in 1950-51, and the question needs to be put again, what happened to this high rate of investment? Further if this increasing (real) rate of investment ending with 18 per cent of GDP in 1979-80 is juxtaposed with the fact that our economic growth during this period has stagnated at 3.5 per cent, the question of the relation or lack of relation between the increase in the rate of investment and the stagnation of the economy and low growth of industry takes us back to the facts of poor management, under use of capacity, inefficient and wasteful uses of scarce capital. The high rate of savings and investment may also be related to the skewed income and wealth distribution which favours the well to do who have a high propensity to save, and whose savings are diverted to various forms of capital consumption. This presumption needs empirical testing.

Foreign Trade

Deducting the export of crude oil exports caused, as noted earlier, by the country's crude mix and the capacity of the refineries, as well as crude or POL imports under balancing arrangements in 1982-83 the country's exports were Rs8000 crores and imports Rs 13,950 crores against the target of Rs8650 crores exports and Rs 14,000 crores imports. The trade deficit for 1982-83 is therefore Rs 5750 crores against the deficit of Rs 5849 crores and Rs 5836 crores in the two previous years. The export performance in 1982-83 was poor against the euphoria of the ministry over the first six months performance. There was no increase in exports on any item except in regard to crude oil which should be excluded in arriving at the export-import effort. Its inclusion in the ministry statistics causes confusion as when it was announced to parliament in August that the 1982-83 exports were Rs8680 crores, registering a 17 per cent rise over the 1981-82 exports and the imports were Rs 14,047 crores which was a 7.1 per cent increase. The Reserve Bank's Annual report for 1982-83 also repeats these gross figures. The Planning Commission, however, in both the Annual Plan 1983-84 document and in the Mid Term Appraisal document deducts the crude oil exports and balancing imports to arrive at a correct assessment of the foreign trade status of the country.

The sluggishness in exports is attributed by the Planning Commission to exogenous factors such as slack demand, recessionary conditions in industrialised countries, protectionist barriers faced by our non traditional exports such as engineering goods, chemicals, leather goods and garments. But there are also internal and other factors at play accounting for the year's poor export showing, such as ready made garments which recorded an export of Rs 650 crores in 1981 and only Rs 633 crores in 1982 against a target of Rs 750 crores because, though faced with protectionist barriers, the Indian cost and price structure were not competitive compared to that of Pakistan which increased its export. Or again Indian ready made garments' use of the US and EEC quota fell by 6-10 per cent because of the over emphasis on fashion garments instead of regular ones which faced the constraint of limited polyester/cotton blended fabrics supply, and because the East European market was neglected. On the other hand in 1982-83 Indian exports to West Europe and US fell by 10 per cent, that to Asia also declined and exports to East Europe and Africa increased by 20 per cent. But the surplus in the rupee trade areas could not pay for the deficit that the country faced in the free currency areas, which is accelerating at Rs 1400 crores in the 1980-81, Rs 1900 crores in 1981-82 and Rs 2200 crores in 1982-83. The trade deficit with Asia also increased from Rs 3500 crores in 1981-82 to Rs 4500 crores in 1982-83. All the various incentives and concessions given to our exporters - producers such as the increased imports of chemicals, steel and capital goods and machinery have not only accelerated exports from the units which benefited from these imports. In the case of cotton and man made fabrics, ready made garments, leather goods, machinery and transport equipment there was a deceleration of exports. A specific cause for disquiet is the performance of the free export zones such as SEEPZ which reports exports in 1982-83 of Rs 54.37 crores against a target of Rs 35 crores. Apart from the fact that the export figure of 1982-83 ought to have been reached in 1976-77 according to the plans made when the zone was established, the major component of this export amounting to over 71 per cent was computer parts and components which required import of components, so that the value added by the SEEPZ exports is about Rs 20 crores only. On top, of its 45 operating units, 13 account for 50 per cent of the exports, 32 for the other 50 per cebt (each exporting about Rs 80 lakhs) and are suspected to be sick. Another example of poor export performance due to `actors which can be corrected is the case of exports of groundnut extractions, cotton seed extraction, castor oil and HPS groundnut, where the government has conceded all the demands of the industry and trade, decanalising exports from STC, dropping the Rs 125 export levy, and delinking the 5 per cent cash assistance to target. Despite all these concessions, the 1982-83 target of Rs 400 crores was not achieved and the Rs 750 crores for 1983-84 is not a serious proposition. There is a very great demand for rice bran extractions which however is not being made available, as the state governments are continuing with the compulsory levy of rice bran extraction at low prices, and the alleged presence of aflatoxin in groundnut and cotton seed extractions alleged by exporters has not been analysed and disproved by the government.

For 1983-84 the Import-Export policy announced by the government in mid April 1983 continues the liberal framework of the 1982-83 policy which had been promised to to IMF in the Finance Minister's letter in 1981 which stated that 'it is our intention that the import policies for 1982-83 and 1983-84 will contain significant steps aimed at liberalising imports ... Specific measures contemplated include increasing access to import of restricted and banned items permitted under automatic import licenses as well as changes in the classification of items under the restricted, banned and open lists'. This is repeated in the Finance Minister's letter of 8 June 1983 to the Managing Director of IMF: 'the policy providing liberal access to imports of raw materials, intermediates and capital goods is being maintained and where appropriate strengthened. Accordingly, significant steps have been taken in the import policy for 1983-84 to further liberalise access to imports ... The import policy for 1983-84 thus preserves the structure of liberal access to imports and strengthens it in important areas'. Accordingly the import for technological upgradation was liberalised, DST recognised research units being allowed to import Rs 1 crore technology each. The liberalisations provided are to benefit exports, specifically 'the 100 per cent export oriented units', permitting them to use OGL to import in addition to new capital goods, components and raw materials. Second-hand capital goods, diesel generating sets, consumables and packing materials, OGL imports of capital goods are permitted to other units producing exclusively for exports. More items have been added to the Duty Exemption Scheme for import of raw materials manufacture of intermediate products. The scheme pertaining to duty free import of raw materials and components for deemed exports has been made easier. The scope of the Duty Free Scheme for imports against REP (import replenishment) license have been enlarged ... Manufactures - exporters having annual exports of atleast 50 per cent of their production of select products ... will have a much wider choice in the selection of items to be imported within the value of their REP licenses. The flexibility in the utilisation of REP licenses ... has now been extended to trading houses and export houses ... incentives has been provided for exports to new markets or new products ... actual users exporting atleast 25 per cent of their products ... have been allowed to utilise their automatic and supplementary licenses on a repeat basis ... additional provisions have been made for in the policy to provide facilities for technology upgradation ... 144 new items of industrial machinery ... and 80 new items of raw materials, components and consumables have been allowed for import under OGL ... 38 items of raw materials and components have been taken out of OGL, 40 items ... have been shifted from the Automatic Permissable list to the Limited Permissable list or banned list ... 14 items of capital goods have been moved to the banned list' ...[35] With the view to dealing with complaints of dumping, the system of prior registration of import contracts for OGL items already in force for man made fibres etc has been extended to soda ash, PVC resin, raw wool, caustic soda and synthetic rubber. A special procedure has been introduced to regulate the import of DGTD units, imports of spares for after sales service have been discouraged. Exporters are encouraged to surrender their REP licenses by treating the surrendered licenses as exports in computing export performances.

The effects of the policy of liberal imports on exports remain to be seen. For 1983-84 export targets which was to increase by 8 per cent has been lowered to 5 per cent to earn Rs 9,000 crores, and the imports may be placed at 14,500 crores, both exports and imports being net of crude exports and crude balancing imports as in the statistics given for 1982-83. For the first two months, April and May 1983-84 exports were Rs 860 crores (net of crude exports) and imports Rs 1552 crores (also net of balancing crude imports), giving a deficit for the two months of Rs 692 crores. The trade deficit for 1983-84 at this rate will be well below the original government/IMF estimate of Rs 6000 crores and is likely to be between Rs 4000 - Rs 5000 crores. This trend of declining trade deficits is attributed to the decline in the volume of bulk imports in 1982-83, when crude output reached the 1984-85 (Plan end) target of 21 million tonnes, and fertilisers imports were reduced due to low offtake. In 1983-84 bulk imports-crude, fertilisers and steel - are expected to decline over the 9 per cent decline of the previous year because of the increase in the production of these articles.

At this point, the effect of the export-import policy summarised earlier on the production structure needs to be examined. It is not evident that the policy will promote industrial investment and development. The government states in its Annual Plan for 1983-84 that the policy is meant to support the growth of indigenous industry by facilitating technological upgradation with special emphasis on export promotion and energy conservation.[36] The OGL facilities and the further liberalisation of import of capital goods could, on the other hand, reduce capacity use in the Indian capital goods industries below their already low levels (in fact it is reported that between April 1979 - March 1983 for the first time since 1970-71 the capital goods imported exceed domestic capital goods production), increasing unit costs, exhausting their order books and making them unviable. There is the further problem that the capital goods imported embody outdated technologies, so that our industry is in danger of being tied in with obsolete technology and becoming dependent on import of capital goods whenever the technology is to be upgraded. Hence the export-import policy has to be sustained, corrected and supplemented by an industrial and investment policy which will provide the base for the growth of the economy and improved trade balance.

Another aspect of the export-import policy is to see how far it promotes the structural adjustment which the balance of payments situation of the country calls for. How far has the policy promoted exports? Here the evidence is not very encouraging. The rate of growth of export in the first three years of the Plan comes to 7.6 per cent in nominal terms and is 1.4 per cent in 1979-80 prices, is stagnant for 1982-83 and is targeted at a low 3 per cent for 1983-84. For the Sixth Plan the export growth target has been reduced from 7 to 4 per cent.[37] There is another curious feature about our export import scenario.

The major, if not the only purpose of exports (and the aim to expand them) is to pay for our imports, including the foreign loans used to finance imports. But in the Indian scene exports have become a major instrument and conduit for the flow of imports into the economy. Import licenses issued to registered exporters in the private sector expanded 8 fold in value between 1975-76 and 1981-82, from Rs 219 crores to Rs 1719 crores. Thus exports instead of paying for our imports, increase the value and volume of our exports. As for the question, is the policy reducing our imports, that question is somewhat theoretical in view of our commitment to a policy of liberalised imports. The rate of growth of imports over the first 3 years of the Plan was 14.6 per cent and in 1979-80 prices 4.5 per cent. This has meant an increasing deterioration in the term of trade. For the Sixth Plan the annual imports growth projection has been reduced from 8 per cent to 6 per cent. The deteriorating terms of trade has continued in the Sixth Plan projections of the depletion of resources of - Rs 2913 crores at 1979-80 prices, while the import elasticity during the first 3 years of Plan averaged 1.2 against the Plan assumption of 1.5.

Turning to the balance of payments position, the 1982-83 position was not very different from that of the previous year. While the trade balance deficit was marginally smaller than in 1981-82, the invisibles were less at Rs 2450 crores in 1982-83 compared to Rs 2586 crores in 1981-82. Hence the balance on current account was about the same - Rs 3300 crores in 1982-83 against - Rs 3250 crores in 1981-82 (which includes drawals of Rs 1891 crores from the IMF extended fund facility out of a total Rs 5349 crores). For 1983-84 the World Bank projection is that without deducting the crude exports element, exports will be Rs 9604 crores, imports Rs 14,957 crores, so that the trade deficit will be Rs 5353 crores, invisibles Rs 2477 crores and current account balance - Rs 2876 crores. Taking into account the drawing of Rs 1891 crores from the IMF credit and other capital inflows, the year ended with an increase in foreign exchange reserves of Rs 960 crores. This led the government to reduce its next drawing in July 1983 from the IMF from SDR 1.5 billion to SDR 1.2 million. The extent to which this decision to reduce the drawal on the IMF credit was voluntary and to what extent it was suggested by the Fund, which is itself under pressure from Latin American and other borrowers and potential borrowers, and the extent to which the increase in exchange reserves of Rs 960 crores at the end of 1982-83 is real and is not the result of book adjustment and postponement of payments on government account, are questions raised by the Mid Term Appraisal statement that the increase in reserves may be explained 'partly as a result of leads and lags in settlements (page 27 para 49)'. However the improvement of foreign exchange reserves by Rs 150 crores in April-May 1983 (compared to the decline in Rs 185 crores in the first two months of 1982-83) is reassuring.

That the balance of payments will continue to be under strain this year and the next year, the final year of the Plan is to be seen from an analysis of the current account position. The country's debt serviving will rise sharply from Rs 1400 crores in 1982-83 to Rs 1200 crores in 1983-84 and Rs 2400 crores in 1984-85, according to IMF projections, going on to Rs 3100 crores in 1986-87. While our exports are inadequate to pay for our exports, the problem of finding funds for the debt service liabilities can only be met from more loans and credits which can lead us into a debt trap. Of the four corrective measures for our balance of payment deficits proposed by the Mid Term Appraisal document and repeated in the 1983-84 Annual Plan document - namely reorienting the foreign trade policy to induce producers to plan for a rapid export growth, improving the infrastructure of railways, power, steel, fertilisers, cement, coal, and crude both to facilitate production and export increases and reduce bulk imports, undertaking intensive resource mobilisation to reduce the rate of foreign borrowings, and demand management, I would once more emphasise the decisive importance of the second and last correctives which are inter-related. I have shown in my last year's review that we can and must cut back not only on bulk imports but on 12 items of non bulk imports which is what demand management is, and which will save us Rs 1997 crores in imports, increase production and exports by Rs 1500 crores to reduce our current account deficit to 1 per cent of GDP - which is also the Planning Commission target.[38]

On concessional loans (mis termed aid), the 1982-83 receipts were Rs 2415 crores which was Rs 177 crores over that in 1981-82. For 1983-84 such foreign resources inflow are estimated at $3.6 billion, Rs 3.2 crores (the aid India consortium pledge). With the mounting debt service problem raised earlier, with the so called aid weariness of industrialised countries, with the question which we never face as to the extent to which these foreign resources are helping the countries providing them, and how many of the poor in our country it has brought above the poverty line, the question of continuing to ask and receive these concessional loans and their use should be squarely faced.

On international commercial market borrowings, the government reports that Rs 4324 crores have been borrowed in the 3 years since we started commercial borrowing from 1980-81 to 1982-83, which has been on the increase from Rs 1030 crores in 1980-81 to Rs 1204 crores in 1981-82 and Rs 2082 crores in 1982-83. These comprise 27 borrowings by public sector non financial enterprises, 7 by public sector financial institutions, and 256 by private sector firms and shipping companies, at repayment periods ranging from 3-9 years and interest rates averaging 10-16 per cent.[39] The rate at which commercial loans have been increasing has led the World Bank to warn India against resort to this high cost borrowing, and has led the government to tighten the approval procedures and issue a directive to public sector enterprises that they should use their own earned foreign exchange incomes or where available bilateral loans in preference to resort to international commercial banks, as over 50 per cent of such loans have to date been contrasted by the public sector. Further with some 4600 US banks and 500 European banks having lent some $400 billion to Latin American and some European and Asian countries (Mexico and Brazil alone owe the banks over $150 billion), which the countries are not able to repay, leading the US government to urge rescheduling of debts and even a new Brettenwoods conference, the Euro dollar market is ceasing to be attractive and easily accessible to borrowers from developing countries. The nded to return to the objective of self reliance in regard to the country's external financial relations is now stronger than ever.

Employment and Labour Relations

The Mid Term Appraisal document ends the chapter on Labour Manpower and Employment with the statement that 'there is no regular annual series of data to indicate employment generation in the entire economy' (para 9.14 page 121). I have called attention to this lacunae in every one of the last seven annual reviews and have suggested how information can be collected on the status of employment and unemployment particularly from the rural country side using universities, colleges, employment exchanges, district industrial centres etc. Nothing however has been done to develop such an information series. There are two somewhat unrelated pieces of information on employment. The Mid Term Appraisal states that as against the Sixth Plan objective of an increase in employment of 34 million standard person years, which is an increase of 4.17 per cent per annum,[40] based on provisional results of sectoral growth (which is a rather weak and hazardous base), employment was 157.75 million standard person years in 1980-81, 162.96 million standard person years in 1981-82, which was a rate of growth of 3.5 per cent for the two years against the Sixth Plan target of 4.2 per cent increase (12 million standard person years against the Sixth Plan 34 million standard person years), so that even on this rather uncertain estimational base, it is seen that unemployment is increasing. The Annual Plan 1983-84 document reports that under the National Rural Employment Programme 337.85 million mandays of employment was generated through social forestry, construction of irrigation and drinking water wells and village tanks, soil and water conservation, rural roads, and schools and balwadi buildings. The union government announces that it will be reducing the allocation to the states in 1983-84 under NREP because out of the Rs 541.62 crores made available to them in 1982-83 only Rs 246.58 crores were used and out of 4.46 lakh of food-grains allotted to them, only 1.07 lakh were used. The laggards in spending the funds were Bihar (allocated Rs 76.13 crores used only Rs 32.87 crores), Maharashtra (Rs 29.96 crores allocated and Rs 13.33 crores spent), Orissa (Rs 26.24 crores allocated and Rs 9.93 crores spent), UP (Rs 99.04 crores allocated and Rs 37.60 crores spent) and West Bengal (Rs 54.15 crores and Rs 26.13 crores spent). The union ministry plans to decentralise this programme and allot both resources and NREP works district wise to avoid future short falls in the spending of the resources. The live registers of the employment exchanges report that number of scientists and technologists looking for jobs is increasing from 3.87 lakh in 1980 December to 4.16 lakh in 1981 December to 4.48 lakh in December 1982. The registers show the total number of job seekers as 16.2 million in December 1980, 17.8 million in December 1981 and 19.1 million in December 1982. In August, on Independence Day the prime minister announced two further modified programmes to combat unemployment. One is for the rural landless under which one job is to be provided to each landless family. The scheme is an adaptation of Maharashtra's Employment Guarantee scheme: if one person from each agricultural labour household is given employment, Rs 3750 crores will be required annually: if one person in each family below the poverty line is given a job, the annual cost will be Rs 75,000 crores. So the programme is being started on a pilot basis with 3 lakh families. The second programme is for the urban educated unemployed under which some 2 to 2.5 lakh matriculates in the age group 18-35 in 30 districts will be helped by the District Industrial centres to obtain bank loans upto Rs 25,000 for each entrepreneur - youth.

The government announced in parliament that excluding the textile strike in Bombay 33.38 million man days were lost in 1982, involving a production loss of Rs 243.91 crores, the states most affected being AP, Maharashtra, and Gujarat. The Bombay textile strike from January 1982 to July 1983 involved the loss of 58.41 million man days and the production loss of 1310 million metres of cloth. There is also the human side. The 60 textiles mills, prior to the strike, employed 2 to 2.25 lakh workers, while today the 53 mills which have resumed production with most running the full 3 shifts, employ less than half the workers (1.1 lakhs), according to the Maharashtra government, with many of them being employed temporarily at about 1/3 of the normal wage. The employment of 51,000 permanent workers has been terminated, and in addition 15,000 have been replaced because of rationalisation and modernisation. Apart from the question of where the mills got the resources for this costly modernisation programme, the parlous position of 1 lakh workers who have been dispensed which need attention by the union, the governments and the mills. Further the reports on the millions of mandays lost in labour unrest need to be seen in perspective.

The labour ministrys' monitoring cell reports that the total number of mandays lost to the total number of mandays worked fell from 1.73 per cent in 1976 to 0.99 per cent in 1983. The number of bonded labourers rehabilitated till March 1982 was 81,930 and in 1982-83 the target for rehabilitation of bonded labourers is 35,828 leaving about 40,000 to be rehabilitated in 1983-84, according to the labour ministry. But these figures of bonded labour are far below the report on the number involved, resulting from the national survey conducted by the Bureau of Labour Statistics and Gandhi Peace Foundation in 1978. The minimum wages of agricultural labourers is to be reviewed every two years according to the decision of the 31st session labour ministers conference. Accordingly the union government revised the minimum wages in April and August 1982 for the union and union territories, and 6 states have taken similar action.

Poverty eradication

What does all this activity reviewed for 1982-83 and at this mid year point mean for the welfare of the masses of the people of the country -the people living below the poverty line. The Mid Term Appraisal, recalling that the Sixth Plan target to reduce the people living in poverty from 339 million (revised after the 1981 census) in 1979-80 to 215 million, estimates on a somewhat loose and questionable basis that, mainly on the basis of the NREP programme reviewed above and the Integrated Rural Development Programme, the total number of people below the poverty line at the end of the second Annual Plan in March 31, 1982 was reduced by 41.5 per cent and the poor now number 282 million. This means that 34 per cent of the Plan target of lifting 124 million has been achieved in the first two years. There are reasons to believe that this estimate is not correct. First under NREP, the union government reports that in every one of the

3 years there were large expenditure short falls. In 1980-81 20.48 lakh tonnes of foodgrains and Rs 127.40 crores in cash were made available and only 13.33 lakh tonnes and Rs 36.36 crores were used. The short falls in 1981-82 and 1982-83 were referred to earlier. Against this record, either the reported 300-400 million mandays of employment created by the states is not true, or there is very loose budgeting of the projects. Under the Integrated Rural Development Programmes operating in 5011 blocks in 1982-83 and assisting 600 families under the poverty line in each block, the expenditures have been better at Rs 156 crores in 1980-81, Rs 262 crores in 1981-82, and Rs 320.55 crores in 1982-83 along with bank credit being made available for the 3 years at Rs 37 crores, Rs 485 crores and Rs 660 crores. The number of beneficiaries assisted with 25 per cent of capital cost subsidy per small farmers, 33 1/3 per cent for marginal farmers and agricultural labourers and 50 per cent for tribal people was 5.6 million in the first two years. The problem faced by the programme is its inadequate manpower so that the overworked BDO tends to report that each beneficiary should be given a cow or some poultry. More serious, sample studies of the programme made in Kerala show that the beneficiaries have not crossed the poverty line, those in Gujarat show that in 194 blocks 156 families (about 10 per cent) crossed over, and the studies in Tamil Nadu report rather optimistically that 40 per cent crossed the poverty line. Under TRYSEM programme which trains rural youth for self employment, the youths trained in 1980-81 were 12.2 lakhs and of them 44,000 became self employed, in 1981-82 of the 20 lakh trained 98,000 became self employed, and in 1982-83 out of 18.5 lakh trained 95,000 were self employed.[41] As for the more general programme of agricultural development of food and cash crops, the major beneficiaries have not been the poor because while wheat and sugar cane and rice have shown increase in output, the Mid Term Appraisal document shows that the millets consumed by the poor and

dryland cultivation which was their cultivation were left behind. So too the industrial development reported both in the Mid Term Appraisal and the Annual Plan 1983-84 shows that the consumer goods of the middle classes and upper income groups increased, but not the goods called wage goods consumed by the poor. The impact of our production structure on the weaker section in the three years of the Plan has not been such as to lift them above the poverty.

Another programme addressed to the poverty eradication effort is the land distribution programme, which will give the poor beneficiary some self reliant activity. Here the Annual Plan for 1983-84 gives an account of the use of funds allotted to help the newly settled farmers. In 1980-81 Rs 3 crores were allocated and Rs 0.54 crores were used, in 1981-82 Rs3.98 crores were allocated and Rs 1.13 crores were used and in 1982-83 Rs 3.97 crores were allocated and Rs 0.98 crores were used. This record shows how seriously the programme is being taken, inspite of its being point No 4 of the revised 20 point programme. The Mid Term Appraisal document reports that as of July 1983, 43.31 lakh acres of land have been declared surplus, 29.45 lakh acres have been taken over and 20.05 lakh acres have been distributed among 14.82 lakh eligible rural poor. This is far from the Sixth Plan suggestion to distribute 5 per cent of holdings above 5 acres, which is 140 lakh acres - about 3 times of the declared surplus.[42] The Annual Plan 1983-84 document reports (p183) that under the urging of the Revised 20 point programme, there has been an increase of distribution of surplus land from 80,000 acres in 1981-82 to 2.55 lakh acres in 1982-83 which is about 10 per cent of the distribution to date. But even so it is less than half of the year's target of 5.30 lakh acres.

All this relates to substance of report on the poverty eradication which does not provide a firm foundation for the estimate of 57 million people having been raised above the poverty line. When we turn to the method followed by the Planning Commission in making this estimate, the doubts about the reliability of the estimate are reinforced. The Mid Term Document arrives at this figure, by assuming that the increase in real incomes in 1980-81 and 1981-82 is uniform in all expenditure classes. This assumption goes against the empirical evidence referred to under the section on prices and inflation earlier in this study and the last two mid year reviews, namely that the real income of the poor sections (the bottom 4 fractiles of society have increased in these 2 years. What is happening to our poverty amelioration objective and to the people living in poverty requires a more serious treatment and action atleast along lines set forth in the agreed Sixth Plan document.

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