

MONETARY DYNAMICS OF THE ECONOMY

OBJECTIVES OF MONETARY POLICIES:

OUR ANALYSIS OF THE INDIAN ECONOMY LEADS TO THE FOLLOWING CONCLUSIONS.

THE INDIAN ECONOMY HAS AN INHERENT BIAS OF SHORT FALL OF INVESTMENT RELATIVELY TO SAVINGS. THE REMEDIAL MEASURES HAVE TO BE TWO-FOLD.

THE GOVERNMENT SHOULD SEEK TO INTERCEPT THE SAVINGS OF THE HOARDING CLASSES BY MEANS OF TAXATION. THIS MEANS ADJUSTMENT OF OUR TAX-SYSTEM SO AS TO MAKE RURAL AND AGRICULTURAL CLASSES CONTRIBUTE MORE TO PUBLIC RESOURCES FOR INVESTMENT. AS RURAL AND AGRICULTURAL INCOMES ARE AT A LOW LEVEL, DIRECT TAXATION LIKE AGRICULTURAL INCOME TAX AND ADDITION TO THE LAND REVENUE IMPOST COULD ACHIEVE ONLY A PART OF THE OBJECT. THE MAIN RELIANCE WILL HAVE TO BE PLACED ON INDIRECT TAXES LIKE IRRIGATION CHARGES, PRICES CHARGED FOR TRANSPORT AND OTHER STATE SERVICES IN RURAL AREAS, ETC.

GOVERNMENT AND PUBLIC AUTHORITIES MUST UNDERTAKE AND EXECUTE LARGE INVESTMENT SCHEMES NOT ONLY AS PART OF SPECIFIC, SPECIAL PLANS BUT PERMANENT CONTINUOUS ECONOMIC POLICY. INVESTMENT SCHEMES SHOULD BE CONCENTRATED AS FAR AS POSSIBLE IN THE SECTORS OF AGRICULTURE AND DOMESTIC INDUSTRY SINCE THESE SECTORS SUFFER MOST FROM UNDERINVESTMENT. WHEN MONETARY CIRCUMSTANCES ARE FAVORABLE, DEFICIT FINANCING AND CREDIT-CREATION IN MODERATE DEGREES WOULD BE QUITE A LEGITIMATE MEANS TO RAISE NEEDED RESOURCES.

IN THE PRESENT INSTITUTIONAL SET-UP OF INDIA, DEPRESSIONS AND DEFLATIONARY TRENDS HAVE NOT THE SAME DIRE SIGNIFICANCE AS IN OTHER WORLD ECONOMIES. ITS MAIN CONSTITUENTS VIS. PEASANT PROPRIETORSHIP AND CRAFTS AND COTTAGE INDUSTRY SHOULD BE WIDENED AND STRENGTHENED AND NOT CURTAILED. EVILS OF DEPRESSION SHOULD BE COMBATED BY REMEDYING AND ALLAYING MALALIGNMENT OF PRICES OF DIFFERENT CLASSES OF GOODS AND INCOMES OF DIFFERENT CLASSES OF PRODUCERS. SPECIAL MEASURES MIGHT BECOME NECESSARY FOR THE SPECIAL DIFFICULTIES OF FACTORY

LABOUR AND MIDDLE-CLASSES.

FLEXIBLE RUPEE RATE: INFLATION AND RISING PRICES ARE NOT DESIRABLE AS THEY TEND TO SHIFT INCOMES FROM THOSE CLASSES WHICH SAVE AND INVEST TO THOSE CLASSES WHICH SAVE AND HOARD. DEFLATION AND FALLING PRICES ALTHOUGH NOT EQUALLY BAD AND EVEN FAVOURABLE TO SAVING AND INVESTMENT, MAY HAVE UNDESIRABLE PSYCHOLOGICAL EFFECTS IN OUR GROWING AND VITAL FACTORY PRODUCTION SECTOR AND CERTAIN UNEMPLOYMENT POSSIBILITIES IN LIMITED SECTIONS OF THE POPULATION. A POLICY OF MORE OR LESS STABLE PRICES IN CONFORMITY WITH UNDERLYING ECONOMIC TRENDS AND STABLE AGGREGATE EXPENDITURE APPEARS TO BE THE GOLDEN MEAN OF ECONOMIC PREFERENCES PROVIDED IT DOES NOT STABILISE INEFFICIENCY IN TECHNIQUE, ENCOURAGE MONOPOLIES OR SUPPORT EXCESSIVE WAGE-DEMANDS AND LABOUR INTRANSIGENCE.

THIS MEANS IN PRACTICE FLEXIBLE EXCHANGE RATES TO INSULATE THE INDIAN ECONOMY FROM THE OUTSIDE-WORLD. IN OUR DISCUSSION OF INDIAN TRADE-BALANCE WITH PARTICULAR REFERENCE TO PLANNED INVESTMENT, OUR CONCLUSION IS THAT HIGH RATHER THAN LOW EXCHANGE RATE IS LIKELY TO SERVE OUR PRESENT INTERESTS BETTER. OUR PRESENT ARGUMENT IN FAVOUR OF FLEXIBLE EXCHANGE RATES INDICATES THE LIMITS WITHIN WHICH A POLICY OF HIGH EXCHANGE RATE MUST OPERATE. OUR OTHER CONCLUSION REGARDING A POLICY OF HIGH EXCHANGE RATE VIS THAT IT MUST BE A COMMON POLICY FOR THE WHOLE AREA OF THE INDIAN OCEAN IS NOT LESS RELEVANT OR VITAL TO OUR PRESENT THESIS.

RISING WORLD PRICES MIGHT EXERT AN INFLATIONARY PRESSURE ON INDIA EITHER BECAUSE OF INFLATION, PURE AND SIMPLE, OR BECAUSE THE WORLD RATIO OF EXCHANGE BETWEEN OUR EXPORT COMMODITIES AND OTHER COMMODITIES IS RISING IN FAVOUR OF THE FORMER. IN CASE OF INFLATIONARY TRENDS AS IN WAR AND AFTER-WAR YEARS, IT WOULD BE WISDOM TO RAISE THE EXCHANGE RATE FROM TIME TO TIME AND ALLOW THE RISE OF WORLD PRICES TO BE ABSORBED IN A HIGHER EXCHANGE RATE. BUT THE SITUATION WOULD BE DIFFERENT IF THE THREATENED RISE IN DOMESTIC PRICES ARISES OUT OF AN

APPRECIATION OF OUR EXPORT COMMODITIES -- WHICH ARE GENERAL AGRICULTURAL PRODUCE OR SPECIAL AGRICULTURAL PRODUCE -- IN THE WORLD MARKETS RELATIVE TO NON-AGRICULTURAL GOODS. A HIGH EXCHANGE RATE IN THIS CASE WILL NO DOUBT PREVENT THE RISE OF THE AVERAGE PRICE-LEVEL TO AN EXTENT BUT WILL NOT PREVENT THE FALL IN THE RELATIVE PRICES OF NON-AGRICULTURAL PRODUCE AND IMPORT GOODS AND THEREFORE AN EFFECTIVE RISE IN THE INCOMES OF AGRICULTURAL CLASSES. IN VIEW OF THE SAVING-INVESTMENT RELATIONSHIPS IN INDIA, SUCH A SHIFT OF INCOMES IN FAVOUR OF THE SAVING BUT HOARDING CLASSES IS TO BE DEPRECATED. THE APPROPRIATE REMEDY FOR THIS SITUATION WOULD BE TO LEAVE THE EXCHANGE RATE UNDISTURBED BUT TO IMPOSE EXPORT DUTIES ON APPRECIATING PRODUCTS AND USE THE PROCEEDS FOR INVESTMENT.

A FLEXIBLE, I.E. LOWER, EXCHANGE RATE WOULD BE QUITE USEFUL THOUGH NOT EQUALLY PEREMPTORY IF THE WORLD DEVELOPS DEFLATIONARY TRENDS DUE TO GENERAL CAUSES LIKE THE GOLD STANDARD, BANKING BREAK-DOWNS, FAILURE OF INVESTMENT TO KEEP PACE WITH SAVINGS, ETC. IN CASE OF RAPID AND SEVERE DEFLATION, IT WOULD EVEN BECOME PEREMPTORY AS THE BEST COMPROMISE OF CONFLICTING INTERESTS, AGRICULTURAL AND NON-AGRICULTURAL. BUT THE SITUATION WOULD AGAIN BE DIFFERENT IF THE DEFLATIONARY PRESSURE ON INDIA DEVELOPS THROUGH THE RELATIVE DEPRECIATION OF HER EXPORTS IN THE WORLD-MARKETS. IN THIS CASE A LOW EXCHANGE RATE WOULD BE VERY DESIRABLE TO MAINTAIN THE MONEY-INCOMES OF THE AGRICULTURAL CLASSES BUT IN VIEW OF THE SAVING-INVESTMENT RELATIONSHIP, NO STEPS TO MAINTAIN THE REAL OF VALUE OF THESE INCOMES BY SUBSIDIES OR IMPORTS ARE DESIRABLE. THE MAINTENANCE OF MONEY INCOMES OF AGRICULTURISTS IS VITAL BECAUSE OF THE DEPENDENCE OF OTHER SECTORS OF THE ECONOMY ON THE PURCHASING POWER OF THE AGRICULTURAL CLASSES.

THE RATIO OF EXCHANGE MUST BE WATCHED VERY CAREFULLY FROM TIME TO TIME. WHEN THE FIRST WORLD WAR ENDED, THE RATIO WAS IN FAVOUR OF MANUFACTURED PRODUCTS

AND WAS STILL MOUNTING TILL IT TOUCHED $1\frac{1}{2}$ IN 1922 AS COMPARED WITH THE PREWAR YEAR 1914. IT BEGAN TO FALL THEREAFTER TILL JUST BEFORE THE ONSET OF THE GREAT DEPRESSION THE PREWAR PARITY OF AGRICULTURAL AND MANUFACTURED GOODS WAS ALMOST REACHED. IT IS ARGUABLE THEREFORE THAT ON THIS GROUND ALONE AGRICULTURAL PRICES OR EXCHANGE RATE SHOULD HAVE BEEN RELATIVELY LOWER RATHER THAN HIGHER IN INDIA. ACTUALLY, ON QUITE OTHER GROUNDS, A HIGH EXCHANGE RATE WAS ADOPTED AND THE PRICE-LEVEL STRUCTURE ALMOST UNWITTINGLY UNDERMINED. THE GREAT DEPRESSION UPSET AGAIN THE ACCRUING EQUILIBRIUM AND ONCE MORE THE RATIO VEERED IN FAVOUR OF MANUFACTURED PRODUCTS TILL IT WAS ABOUT $1\frac{1}{2}$ BY 1932. THE TIMELY ABANDONMENT OF THE GOLD STANDARD AND DEPRECIATION OF THE STERLING CORRECTED THE DETERIORATING RATIO AND BY 1937 IT HAD ONCE MORE ATTAINED THE 1914 PARITY.

WORLD WAR II UNLEASHED QUITE UNEXPECTED INFLUENCES. DURING THE WAR, CONTROLS ETC. MAINTAINED SOME PARITY BETWEEN THE TWO CLASSES OF GOODS. BUT THE END OF THE WAR SAW A DIFFERENT SITUATION IN OPERATION. A GOOD PROPORTION OF EASTERN EUROPE WHICH WAS AN IMPORTANT SOURCE OF AGRICULTURAL PRODUCE FOR THAT WHOLE AREA WAS SEALED OFF FROM THE REST OF THE WORLD. RECONSTRUCTION AND REHABILITATION MADE LARGE DEMANDS ON FOOD AND RAW MATERIAL RESOURCES OF THE WORLD. IN THE GREATEST SINGLE SOURCE OF SUPPLIES, THE U.S.A., POLITICAL AUTHORITY AND FINANCIAL RESOURCES WERE PLEDGED TO MAINTAIN A HIGHER RATHER THAN LOWER PARITY BY WITHDRAWAL OF SUPPLIES TO ANY EXTENT NECESSARY. AFTER MANY YEARS SINCE THE OUTBREAK OF WORLD WAR I, THE RATIO TURNED HEAVILY IN FAVOUR OF FOOD AND RAW MATERIALS I.E. GENERALLY THE EXPORTS OF INDIA. IF THE WORLD POPULATION CONTINUES TO GROW AS ESTIMATED AT THE RATE OF 1% TILL ABOUT 1970 AND AGRICULTURAL TECHNIQUE ETC. REMAIN WHAT THEY ARE, THIS TREND MUST CONTINUE. IN OTHER WORDS, TO THE EXTENT OF THIS TREND, HIGH PRICES OR HIGH EXCHANGE RATE WOULD BE THE MORE APPROPRIATE POLICY IN THE PRESENT ERA.

FLEXIBLE EXCHANGE RATES WHICH PROVOKE COMPLAINT AND RETALIATION FROM

FOREIGN COUNTRIES MUST TEND IN THE LONG RUN TO DEFEAT THEMSELVES. WITH WORLD PRICES RISING, HIGHER EXCHANGE RATE MIGHT NOT EVOKE RESISTANCE AND RETALIATION. BUT WHEN DEFLATION IS UNDER WAY, LOWERED EXCHANGE RATE IS APT TO INVITE SUSPICIOUS AND COUNTER MEASURES. HOWEVER SOUND IN ITSELF, A POLICY OF FLEXIBLE EXCHANGE RATES MUST CARRY THE CONSENT OF OTHER COUNTRIES IF IT IS NOT TO CAUSE DESTRUCTION OR ARBITRARY CANALISATION OF INTERNATIONAL TRADE AND ULTIMATELY GENERAL IMPOVERISHMENT AND EVEN POLITICAL EXPLOSIONS. SUCH POLICIES WOULD BE SAFE ONLY IF IMPLEMENTED THROUGH AN INTERNATIONAL AUTHORITY LIKE THE I.M.F. WHICH IS THE PROPER FORUM FOR SPECIAL PLEAS.

HOW DO THESE CONCLUSIONS APPEAR IN THE LIGHT OF PAST EXPERIENCE? HISTORICALLY, INDIA HAS HAD RECENT EXPERIENCE OF (i) APPRECIATION OF THE RUPEE WHEN THE RATE WAS RAISED FROM A POST-WAR LOW OF 1s-2d TO 1s-6d BETWEEN 1920 AND 1927, (ii) DEPRECIATION OF THE RUPEE BUT IN COMPANY WITH THE STERLING, ONCE AFTER 1931 AND A SECOND TIME AFTER 1949. THE EPISODE FROM 1873 TO 1900 MAY BE EXCLUDED AS IT WAS A PROCESS OF EVOLVING A NEW STANDARD FROM THE EXISTING SILVER STANDARD.

IT IS CLEAR FROM THESE FACTS THAT INDIA HAS NEVER HAD EXPERIENCE IN RECENT TIMES OF SIMULTANEOUS RUPEE-DEPRECIATION AGAINST ALL MAJOR CURRENCIES OF THE WORLD. THE REASONS FOR THIS THROW IMPORTANT LIGHT ON THE CHARACTER OF THE GENERAL PROBLEM AND THE CHANGES WHICH HAVE TAKEN PLACE RECENTLY.

THERE CAN BE NO DOUBT THAT THE EXIGENCIES OF THE INDIAN BUDGET WEIGHED HEAVILY WITH THE BRITISH IN THE FORMULATION OF INDIAN CURRENCY POLICIES. TILL THE OUTBREAK OF WORLD WAR II, INDIA HAD ON THE BALANCE TO MAKE ANNUAL PAYMENTS TO ENGLAND FOR ADMINISTRATIVE PERSONNEL OR STERLING LOANS SUPPLIED. A DEPRECIATION OF THE RUPEE MEANT EMBARRASSING DEFICITS AND AN UPWARD ADJUSTMENT OF TAXATION WHICH IN THE CIRCUMSTANCES OF INDIA WAS NOT EASY. WHILE DEPRECIATION AGAINST STERLING WAS AVOIDED FOR THIS REASON, APPRECIATION AGAINST STERLING AND OTHER CURRENCIES WAS NOT UNWELCOME — IT BROUGHT WINDFALLS TO THE TREASURY, TO

THE BRITISH ADMINISTRATIVE PERSONNEL AND BRITISH BUSINESSMEN IN INDIA. WITH THE SEPARATION OF STERLING LOANS AND ADVENT OF INDEPENDENCE, THIS ARGUMENT AGAINST DEPRECIATION HAS LOST MUCH FORCE. BUT TO THE EXTENT THAT INDIA INCURS FOREIGN OBLIGATIONS, THIS FACTOR MUST BE RECKONED WITH.

THE NEED FOR INVESTMENT OF FOREIGN CAPITAL, WHICH TILL RECENTLY MEANT BRITISH CAPITAL, HAS BEEN CITED FREQUENTLY AS AN ARGUMENT AGAINST DEPRECIATION IN GENERAL AND IN RELATION TO THE STERLING IN PARTICULAR. THIS ARGUMENT WOULD NOT HOLD TRUE FOR BORROWING BY GOVERNMENT OR PUBLIC BODIES ON INDIAN BUSINESSES. THE FOREIGN LENDER COULD ALWAYS PROTECT HIMSELF BY STIPULATING REPAYMENT IN HIS OWN CURRENCY. IT HOLDS TRUE IF AT ALL OF INVESTMENT UNDERTAKEN BY FOREIGN PRIVATE BUSINESSMEN ON THEIR OWN ACCOUNT. THERE IS NO DOUBT THAT AN ASSURED EXCHANGE RATE IS CONDUCIVE TO INFLOW OF FOREIGN CAPITAL IF ANY IS FORTHCOMING, AND SUCH INFLOW IS MUCH TO BE DESIRED. BUT THE EXTENT OF ITS OPERATIVE INFLUENCE MUST NOT BE EXAGGERATED. IT NEED HARDLY BE POINTED OUT THAT ASSURED POLITICAL CONTROL IMPLIED IN IMPERIALISM WAS MUCH THE MORE IMPORTANT FACTOR IN BRITISH INVESTMENT THAN AN ASSURED EXCHANGE RATE. WITH THE CURRENCY EXPERIENCES OF THE WORLD AFTER WORLD WAR I, IT IS INDEED TO BE WONDERED HOW FAR PRIVATE BUSINESS ITSELF EXPECTS SUCH ASSURED FIXITY OF EXCHANGE RATE AND WHETHER IT WOULD NOT PREFER TO ADOPT ITS OWN PROTECTIVE MEASURES, LIKE ADEQUATE RESERVES, ETC. THE FACT THAT LATIN AMERICA AND EUROPE DEFAULTED AFTER WORLD WAR I AND PARTICULARLY AFTER THE DEPRESSION ON MORE THAN 3/4THS OF PUBLIC AND PRIVATE DEBT OBLIGATIONS - SOMETIMES NOT WITHOUT GOOD CAUSE AND MORE OFTEN BECAUSE OF IMPOSSIBLE ECONOMIC POLICIES OF THE LENDING COUNTRIES THEMSELVES - SUGGESTS THAT EFFICIENT GOVERNMENT, FAIR LAWS, AND PROPER APPLICATION OF BORROWED FUNDS ARE A FAR MORE IMPORTANT ATTRACTION TO FOREIGN CAPITAL THAN ASSURED EXCHANGE RATES WHICH ARE PERHAPS IMPRACTICABLE IN THE EXISTING WORLD SET-UP.

WITH THE WITHDRAWAL OF BRITISH IMPERIALISM FROM INDIA AND THE SHIFT IN ECONOMIC POWER, THE PROBLEM OF FOREIGN INVESTMENT HAS BECOME MUCH MORE COMPLICATED.

IT IS A QUESTION NOW, NOT OF BRITISH CAPITAL MERELY, BUT OF CAPITAL FROM THE U.S.A. AND OTHER COUNTRIES WHICH CHOOSE TO LEND ON INTEREST. ASSURANCE TO ONE CURRENCY AREA LIKE STERLING IS AN ONEROUS OBLIGATION. BUT ASSURANCE TO ALL OR DIFFERENT CURRENCY AREAS IS ALMOST IMPOSSIBLE. IN ANY CASE, SO LONG AS THE LEADING CAPITAL-LENDING COUNTRIES OF THE WORLD ARE MEMBERS OF THE I.M.F., THE ONLY ASSURANCE THE PRIVATE FOREIGN INVESTOR CAN LEGITIMATELY SEEK MUST DEPEND ON HIS OPINION ABOUT AND FAITH IN THE IMPARTIALITY AND AUTHORITY OF THAT ORGANISATION.

SELECTIVE CREDIT CONTROLS: WHILE FLEXIBLE EXCHANGE RATES HOLD BACK INFILTRATION OF DEFLATION OR INFLATION FROM OUTSIDE, INTERNAL MONETARY POLICY MUST STRIVE TO ASSURE THE NORMAL WORKING OF THE ECONOMY. MONETARY POLICY CAN ACHIEVE ITS OBJECTIVES EITHER BY SELECTIVE CONTROLS DIRECTED AT PARTICULAR POINTS OF THE ECONOMY OR BY THE GENERAL REGULATION OF MONEY SUPPLY AND ITS BEHAVIOUR. IN PRACTICE, SELECTIVE CONTROLS MEAN CANALISATION OF BANKING CREDIT TO PARTICULAR OBJECTIVES. A GENERAL REVIEW OF THE USE OF CREDIT IN INDIA SHOULD INDICATE WHAT SUCH CANALISATION OF CREDIT COULD OR COULD NOT ACHIEVE UNDER THE EXISTING CIRCUMSTANCES.

IN REGARD TO THE SUPPLY OF SHORT-TERM CREDIT, INDIAN BANKING TOUCHES THE ECONOMY AT BUT A FEW POINTS. INDIAN BANKING HAS TAKEN ITS CUE FROM THE BANKING PRACTICES AND STANDARDS OF ENGLAND. ALTHOUGH THE HIGH PROPORTION OF GOVERNMENT SECURITIES IN INVESTMENT OF FUNDS HAS ALTERED THE BASIC CONCEPT OF DEPOSIT BANKING, THE SELF-LIQUIDATING LOAN STILL CONTINUES TO BE THE NORM OF SAFETY AND LIQUIDITY IN RELATION TO PRIVATE TRADE AND BUSINESS.

IT IS NOT SURPRISING THEREFORE THAT CONSUMER CREDIT IN THE FORM OF INSTALMENT CREDIT OR OTHERWISE HAS HARDLY ANY PLACE IN THE SUPPLY OF CREDIT BY BANKS. UNFAMILIARITY WITH THE USE OF DURABLE GOODS, SOCIAL AVERSION TO BEING IN DEBT, MARKED INSTABILITY OF CONSUMER INCOMES, PERHAPS LACK OF VENTURE AND

BUSINESS TECHNIQUE ON THE PART OF BANKS ARE IMPORTANT OBSTACLES. FROM THE GENERAL STANDPOINT, ITS ANTICYCLICAL BEHAVIOUR MAY EVEN CLASS IT AS AN UNDESIRABLE PRACTICE. BUT THE MAIN REASONS FOR ITS ABSENCE IS NO DOUBT EXPLAINED BY THE DOMINANCE OF THE SELF-LIQUIDATING LOAN IDEA. TO THIS GENERAL PICTURE THE SMALL, NON-SCHEDULED BANKS WHICH OPERATE LARGELY IN SMALLER PLACES AND HOLD ABOUT 10 - 15 PER CENT OF THE TOTAL DEPOSITS OF THE COUNTRY PRESENT AN EXCEPTION TO A CERTAIN EXTENT. THESE BANKS ARE APT TO OFFER SOME CREDIT HARDLY DISTINGUISHABLE FROM CONSUMPTION LOANS.

PERSONAL AND PROFESSIONAL LOANS WHICH ARE VERY AKIN TO CONSUMER CREDIT ABSORB ABOUT 7 - 8 PER CENT OF TOTAL LOANS AND ADVANCES. WITH NON-SCHEDULED, I.E., SMALL BANKS, THE PROPORTION IS VERY MUCH HIGHER, 26 - 27 PER CENT. ONE FACTOR WHICH MATERIALLY FACILITATES THIS KIND OF CREDIT IS NO DOUBT THE MUCH CLOSER PERSONAL CONTACT WHICH EXISTS BETWEEN SMALL BANKS AND LOCAL SOCIETY. IT IS A DRAWBACK OF INDIAN BANKING AND SOCIAL CONDITIONS GENERALLY THAT NO EFFORTS HAVE BEEN MADE BY INDIAN BANKS TO ENCOURAGE ACTIVELY SOCIAL CONTACTS ON THE PART OF THEIR EXECUTIVE OFFICERS.

THE BANKING SYSTEM AS A WHOLE HAS NO CONTACT WITH HOUSE-BUILDING ACTIVITY AS SUCH. LOANS FOR REAL ESTATE PURPOSES ARE ALMOST NIL WHILE LOANS SECURED BY REAL ESTATE DO NOT AGGREGATE TO MORE THAN 3 - 4 PER CENT. EVEN SMALL BANKS DO NOT VENTURE IN THIS FIELD. THOUGH IN THE ABSENCE OF ANY BETTER SECURITY IN THE AREAS IN WHICH THEY OPERATE, 23 PER CENT OF THEIR LOANS ARE SECURED AGAINST REAL ESTATE AND 17 PER CENT AGAINST GOLD AND SILVER. IN EITHER CASE, THE LOANS REPRESENT MORE CONSUMPTION THAN TRADE AND CONSTRUCTION ACTIVITIES.

THE BULK OF THE SHORT TERM CREDIT SUPPLIED BY THE BANKS AS LOANS AND ADVANCES IS ABSORBED BY WHOLE-SALE AND RETAIL TRADE. THE PROPORTION IS APT TO BE AS HIGH AS 45 - 50 PER CENT. THIS IS ALSO BORNE OUT BY THE FACT THAT WHEN CLASSIFIED FOR SECURITY, LOANS AND ADVANCES SECURED BY MERCHANDISE AGGREGATE TO 60 PER CENT OF THE TOTAL. THIS IS PERHAPS INEVITABLE IN AN AGRICULTURAL COUNTRY

WHERE STOCKS HAVE TO BE HELD OVER MUCH LONGER PERIODS FROM SEASON TO SEASON.

IT IS CLEAR FROM THIS THAT NO CONTROL CAN BE EXERCISED OVER CONSUMER EXPENDITURE DIRECTLY THROUGH THE BANKING SYSTEM. THIS IS, HOWEVER, NO DIS-ADVANTAGE UNDER THE EXISTING INSTITUTIONAL SET-UP. AS WE HAVE ALREADY NOTED, THE VOLUME OF CONSUMPTION IN INDIA HAS BUT A LIMITED TECHNICAL RELATIONSHIP TO THE VOLUME OF INVESTMENT. EXPANSION OR CONTRACTION OF THE VOLUME OF CONSUMPTION IS NOT LIKELY TO BRING RELIEF TO THESE SECTORS OF PRODUCTION LIKE DOMESTIC INDUSTRY WHICH SUFFER FROM MAL-ALIGNMENT OF PRICES AND INCOMES.

IN REGARD TO THE SUPPLY OF MEDIUM OR LONG TERM CREDIT, POINTS OF CONTACT OF THE BANKING SYSTEM WITH THE ECONOMY ARE STILL FEWER AND IN THE AGGREGATE NOT SIGNIFICANT. TERM LOANS OR MEDIUM TERM CREDIT DOES NOT COMMEND ITSELF TO INDIAN BANKS. THERE IS HARDLY ANY PARTICIPATION ON THEIR PART IN HOUSING CONSTRUCTION - PERHAPS THE BEST AND BIGGEST OBJECT OF SUCH CREDIT IN COUNTRIES LIKE THE U.S.A. AS A MATTER OF FACT, REAL ESTATE IS NOT ACCEPTABLE FOR PURPOSES OF SECURITY EVEN - NOT EVEN 3-4 PER CENT OF ALL LOANS AND ADVANCES BEING SECURED BY REAL ESTATE. IT IS DOUBTFUL WHETHER SMALLER BANKS EVEN ARE PREPARED TO VENTURE INTO THIS FIELD - THOUGH BECAUSE OF THE CHARACTER OF THE AREAS AND SOCIAL STRATA IN WHICH THEY OPERATE 23 PER CENT OF THEIR LOANS AND ADVANCES ARE SECURED BY REAL ESTATE AND 17 PER CENT BY GOLD AND SILVER.

SCOPE FOR EMPLOYMENT OF MONETARY WEAPONS: THE ALTERNATIVE TO SELECTIVE CONTROLS IS REGULATION OF INTEREST-RATE-SHORT-TERM RATES AND THROUGH THEM LONG-TERM RATE AND LIQUIDITY-PREFERENCE OF THE PUBLIC. THERE ARE SPECIAL REASONS WHY THE INDIAN MONETARY AUTHORITIES ARE TODAY IN A FAR STRONGER POSITION TO CONTROL MONEY AND ITS BEHAVIOUR THAN BEFORE WORLD WAR II. AT THE SAME TIME, THE INDIAN MONETARY AND CREDIT STRUCTURE SUFFERS FROM CERTAIN LIMITATIONS WHICH MUST NOT BE OVERLOOKED.

IN 1950, NOTES IN CIRCULATION AMOUNTED TO LESS THAN RS 12 BILLION WHILE TIME AND DEMAND DEPOSITS AGGREGATED TO ABOUT RS 9 1/3 BILLION. THE PROPORTION OF DEPOSITS IN THE TOTAL MONEY SUPPLY BECAME UNFAVOURABLE DURING WAR AND POST-WAR YEARS AND MAY IMPROVE IN COURSE OF TIME. THIS PREPONDERANCE OF CURRENCY NOTES MEANS NOT THAT MONEY SUPPLY MUST LACK ELASTICITY, BUT ONLY THAT INITIATIVE AND POLICIES OF COMMERCIAL BANKS CANNOT GO VERY FAR IN ALTERING TOTAL MONEY SUPPLY. WITH THE ABOLITION OF DOMESTIC CONVERTIBILITY OF THE CURRENCY NOTE INTO A TOKEN COIN OF APPRECIABLE SILVER CONTENT AND FOREIGN EXCHANGE RESERVES BEING MAINTAINED FOR EXTERNAL CONVERTIBILITY ONLY, THE VOLUME OF CURRENCY NOTES CAN NOW BE ADJUSTED WITHIN MUCH WIDER LIMITS. AS WAS WELL DEMONSTRATED DURING WORLD WAR II, THERE WAS HARDLY ANY LIMIT TO THE EXPANSION OF NOTE ISSUE ONCE THE ULTIMATE CHECKS OF INFLATION AND TRADE UNBALANCE TO WHICH INFLATION LEADS HAD BECOME INOPERATIVE. THE PREPONDERANCE OF NOTES IN CIRCULATION NOW MEANS THAT THE RESERVE BANK OF INDIA HAS AS DIRECT AND EFFECTIVE CONTROL OF MONEY SUPPLY AS IN COUNTRIES WITH MOST ADVANCED BANKING SYSTEMS. THE RESERVE BANK BEING THE SOLE SOURCE OF SUPPLY OF CURRENCY NOTES, THE COMMERCIAL BANKS ARE FORCED TO APPROACH IT AT A MUCH EARLIER STAGE THAN IN OTHER COUNTRIES WHERE A SMALL LOWERING OF THE RESERVE RATIOS CAN ACHIEVE A MULTIPLE CREATION OF CREDIT WITHOUT CREATING EXCEPT AFTER MUCH DELAY A SIMULTANEOUS DEMAND FOR MORE LEGAL TENDER.

WHAT MAKES CONTROL OF NOTE-ISSUE EVEN MORE EFFECTIVE IS THE FACT THAT THE TOTAL MONEY SUPPLY IS NOT EVENLY DISTRIBUTED BETWEEN AREAS AND CLASSES OF PRODUCERS. WHILE THERE ARE IN THE COUNTRY ABOUT 4000 TOWNS, I.E., PLACES WITH A POPULATION OF 5000 OR MORE, BANKING FACILITIES EXIST IN ABOUT 1600 TOWNS ONLY. FOR A POPULATION OF 360 MILLIONS, THE NUMBERS OF BANK ACCOUNT HOLDERS IN 1950 WAS A LITTLE MORE THAN 3 MILLION, AND MORE THAN HALF OF THEM HELD UNCHECKABLE SAVINGS ACCOUNTS. IF TIME DEPOSIT ACCOUNTS BEEN ALSO EXCLUDED, THE NUMBERS WILL BE ONLY JUST A LITTLE OVER ONE MILLION. THE VILLAGES NUMBERING ABOUT SIX

MILLION ARE OF COURSE OUTSIDE THE BANKING PALE. OVER THE WHOLE OF RURAL INDIA, THE CURRENCY NOTE IS THE ONLY FORM OF MONEY WHILE CHEQUES ARE IN USE ONLY IN THE URBAN AREAS INDICATED JUST NOW. THIS DOES NOT MEAN THAT CHANGES IN PURCHASING POWER IN HANDS OF THE URBAN POPULATION PER CENT OF 360 MILLIONS WILL NOT PERCOLATE TO RURAL AREAS. BUT WHEN THEY DO PERCOLATE, THE DEMAND IS FOR CURRENCY NOTES AND NOTHING ELSE.

IMPLEMENTATION OF MONETARY POLICIES SO FAR AS BANK MONEY IS CONCERNED IS RELATIVELY EASIER AND MORE EFFECTIVE THAN IN U.S.A. AND OTHER COUNTRIES FOR ANOTHER REASON. INDIAN BANKING STRUCTURE IS BASED ON BRANCH BANKING AND IS QUITE HIGHLY CONCENTRATED. SEVEN BIGGEST BANKS WITH BRANCHES HOLD ALMOST 67 PER CENT OF THE COUNTRY'S DEPOSITS AND FOURTEEN OTHERS OF MEDIUM SIZE HOLD 15 TO 16 PER CENT MORE. BRANCH-BANKING ENABLES WIDE DISTRIBUTION OF RISKS AND EASY FLOW OF SURPLUS CAPITAL TO DEFICIT AREAS. THERE IS LITTLE DOUBT THAT THIS IS THE TRUE CAUSE OF THE STRENGTH AND STABILITY WHICH WERE WELL PROVED DURING THE GREAT DEPRESSION WHICH THE INDIAN BANKING SYSTEM SURVIVED UNSCATHED WHEN SO MANY OLDER AND BIGGER BANKING SYSTEMS ROCKED AND ALL BUT PERISHED. FOR ABOUT 1600 PLACES OF BUSINESS, THERE EXIST IN INDIA WELL OVER 4300 BANK OFFICES AND BRANCHES. THE NON-SCHEDULED OR SMALL BANKS ARE IN NUMBER AND ARE GENERALLY SPEAKING OF THE UNIT TYPE FOR WHICH THERE IS A LARGE SCOPE IN THE RURAL AREAS.

THE EFFICIENCY OF THE INTEREST RATE AS A REGULATOR OF THE ECONOMY MUST BE JUDGED IN THE LIGHT OF EACH PARTICULAR SITUATION. IT HAS GOT TO BE ASSESSED IN RELATION TO PROSPECTS OF INDUSTRIAL INVESTMENT, HOUSING CONSTRUCTION, VALUES OF EQUITIES AND OTHER EXISTING ASSETS, POSITION OF BANKS AND INSURANCE COMPANIES, GOVERNMENT INDEBTEDNESS AND LEVELS OF STOCKS AND INVENTORIES. IT HAS BEEN ALREADY NOTED HOW THESE FACTORS PRESENTED SPECIAL DIFFICULTIES DURING THE INFLATIONARY AFTER-MATH OF WORLD WAR II. EVEN MORE IMPORTANT THAN THE EFFECTS ON THESE FACTORS IS THE STATE OF EXPECTATIONS WHICH THE RATE POLICY NECESSARILY INDUCES.

NOR MUST THE EFFECT OF INTEREST RATES ON SAVINGS BE OVERLOOKED IN THE SPECIAL INSTITUTIONAL SET-UP OF INDIA. THE BULK OF SAVINGS FALLS INTO THE PERSONAL CATEGORY AND THE INDUCEMENTS TO SAVE ARE MUCH STRONGER IN INDIA THAN ELSEWHERE. ANY LARGE FLUCTUATIONS IN SAVINGS IN RESPONSE TO INTEREST RATES AND ANY SHIFTS IN SAVING RESULTING THEREFROM MUST BEAR VERY IMPORTANT CONSEQUENCES TO THE ECONOMY.

SCOPE OF FISCAL POLICY: FOR SEVERAL REASONS INDICATED ABOVE, THE MAINTENANCE OF A STEADY VOLUME OF EXPENDITURE - CONSUMPTION AND INVESTMENT - IS NOT THE MOST PRESSING PROBLEM OF INDIAN ECONOMY AS IT IS IN OTHER INDUSTRIALISED ECONOMIES IN WHICH THE VOLUME OF OUTPUT HAS A CLOSE TECHNICAL RELATIONSHIP TO INVESTMENT, THE ELEMENT OF SELF-EMPLOYMENT HARDLY EXISTS AND WHICH FOR THESE REASONS, SUFFER FROM INSTABILITY OF BOOMS AND DEPRESSIONS. THE OBJECT OF MONETARY POLICY FOR INDIA SHOULD BE FIRSTLY A POLICY OF RUPEE RATE WHICH PREVENTS IMPORTATION OF INFLATIONS AND DEFLATIONS FROM OUTSIDE, SECONDLY, A POLICY OF EQUALISING SURPLUSES AND DEFICITS OF AGRICULTURAL OUTPUT OVER AGRICULTURAL CYCLES AND, THIRDLY, A POLICY OF PUBLIC AND PRIVATE INVESTMENT TO EQUALISE SAVINGS AND INVESTMENT WITHIN THE LIMITS OF THESE OBJECTIVES, SPECIAL STEPS SHOULD BE TAKEN WHEN THE NEED ARISES TO SUBSIDISE THE PRODUCTION OR SALE OF THE OUTPUT OF COTTAGE AND DOMESTIC INDUSTRY, TO SCALE DOWN THE LEGITIMATE INDEBTEDNESS OF THE OWNER-CULTIVATOR, TO EXPAND EMPLOYMENT FOR URBAN LABOUR AND PARTICULARLY URBAN MIDDLE CLASSES.

APART FROM THE OVERRIDING CONSIDERATION OF ACCELERATING THE TECHNOLOGICAL EFFICIENCY AND ENLARGING THE CAPITAL BASE OF THE ECONOMY, POLICY MUST BE GUIDED BY A PROPER APPRAISAL OF THE RELATIONSHIP BETWEEN VARIOUS FORMS OF INVESTMENT AND THE VARYING PHASES OF THE ECONOMY. IN TIMES OF AGRICULTURAL PROSPERITY AND RISING PRICES, THE MAIN PROBLEM IS TO ACTIVATE SAVINGS AND UNDERTAKE SUITABLE INVESTMENT. IN SUCH TIMES, THE INDUSTRIAL SECTOR NEEDS NO SPECIAL STIMULUS AND THE CLASSES DEPENDENT ON THAT SECTOR ARE WELL EMPLOYED. IT IS THEREFORE LOGICAL

AND REASONABLE THAT PUBLIC INVESTMENT SHOULD BE DIRECTED LARGELY TO THE BENEFIT OF AGRICULTURE AND RURAL AREAS GENERALLY. IRRIGATION AND POWER WORKS, COMMUNITY PROJECTS, IMPROVED TECHNIQUE OF CULTIVATION, ETC., ARE MOST APPROPRIATE TO THIS PHASE. DURING THE OPPOSITE PHASE, THE FALL OF AGRICULTURAL PRICES AND INCOMES IS APT TO BEAR HARD AND HEAVILY ON LAND-LESS AGRICULTURAL LABOUR, URBAN LABOUR, URBAN MIDDLE CLASSES AND WORKERS IN DOMESTIC INDUSTRY. THE HARDSHIP OF LAND-LESS AGRICULTURAL LABOUR COULD BE MET BY CONSTRUCTION OF ROADS AND OTHER MEANS OF COMMUNICATION IN THE RURAL AREAS AND BY THE PROMOTION OF IMPROVEMENTS LIKE DAIRY-FARMS. THE ERECTION OF SCHOOL-BUILDINGS AND EXPANSION OF EDUCATION, CONSTRUCTION OF ARTERY AND URBAN ROADS AND SANITATION WORKS, ETC., HAVE GREAT POTENTIALITIES FOR EMPLOYMENT OF URBAN LABOUR AND URBAN MIDDLE CLASSES. BUT MORE THAN ANYTHING ELSE, LARGE SCALE HOUSING PROGRAMMES TO ABSORB URBAN SAVINGS OFFER THE MOST EFFECTIVE STIMULUS BOTH TO INDUSTRY AND THE URBAN POPULATION. HOUSING IS AND MUST CONTINUE FOR MANY YEARS TO BE MAINLY AN URBAN ACTIVITY. PROVISION OF FAVOURABLE LOANS TO CERTAIN SECTIONS OF THE POPULATION, GOVERNMENT GUARANTEE FOR INSTALMENT AND OTHER KINDS OF LOANS GIVEN BY BANKS AND OTHER FINANCIAL INSTITUTIONS SHOULD PLAY AN IMPORTANT ROLE IN INVESTMENT POLICIES OF SUCH YEARS.

THIS OUTLINE OF INVESTMENT RESPONSIBILITIES DURING DIFFERENT PHASES OF THE ECONOMY FURNISHES THE FLEXIBILITY TEST WHICH OUR FISCAL STRUCTURE SHOULD SATISFY. DURING RISING AGRICULTURAL PRICES AND INCOMES, IT SHOULD RAISE RELATIVELY LARGER RESOURCES FOR INVESTMENT FROM THE AGRICULTURAL SECTOR. DURING THE DEFLATIONARY PHASE, THE BURDEN ON THE AGRICULTURAL SECTOR SHOULD AUTOMATICALLY FALL AND YET, THE PUBLIC AUTHORITIES SHOULD HAVE SUFFICIENT RESOURCES TO BUILD UP STOCKS, TO SUBSIDISE DOMESTIC INDUSTRY, AND TO UNDERTAKE URBAN PUBLIC WORKS.

THE PRESENT STRUCTURE OF FEDERAL AND STATE TAX-REVENUES DOES NOT SATISFY THIS FLEXIBILITY TEST. IN OUR TAX-SYSTEM, INDIRECT TAXES GIVE ABOUT 75 PER CENT OF TOTAL TAX REVENUES. A CURSORY ANALYSIS OF THE CONSUMPTION ON WHICH THESE

INDIRECT TAXES BEAR WILL SHOW THAT THESE ARE LARGELY PAID BY THE URBAN CLASSES -- IN TIMES GOOD OR BAD. AS A MATTER OF FACT, THEY PROBABLY DO NOT TOUCH MORE THAN 20 OR 30 MILLIONS OUT OF TOTAL POPULATION OF 360 MILLIONS. THE AGRICULTURAL SECTOR CONTRIBUTES MAINLY BY WAY OF LAND REVENUE WHICH ACCOUNTS FOR ABOUT 10 PER CENT OF TOTAL TAX REVENUES AND LIQUOR EXCISE WHICH IS TENDING TO BE A FALLING PROPORTION OF 6 - 7 PER CENT DUE TO PROHIBITION POLICIES. LAND REVENUE BURDEN HAS BECOME QUITE LIGHT ON ACCOUNT OF FALL IN THE PURCHASING POWER OF MONEY AND SUFFERS FROM THE DISADVANTAGE OF INFLEXIBILITY. THE MOST PROMISING BALANCING FACTORS MIGHT BE FOUND IN CHARGES FOR TRANSPORT WHICH IS VERY LARGELY A STATE CONCERN AND SPECIAL SURCHARGES ON LAND REVENUE NOT AS TAXATION, BUT AS PART OF A SCHEME OF COMPULSORY SAVINGS TO BE ENFORCED IN GOOD TIMES AND SUSPENDED IN BAD TIMES.

OUTSIDE TAX-REVENUES, THE ONLY OTHER SOURCES FOR COUNTER-CYCLICAL EXPENDITURE ARE SOCIAL SECURITY FUNDS, PUBLIC LOANS AND DEFICIT FINANCE. INDIA HAS MADE ONLY A RECENT START WITH SOCIAL SECURITY ON A RELATIVELY NARROW FRONT. AS BY VERY DEFINITION THESE FUNDS ARE EARMARKED FOR SPECIFIC PURPOSES AND FOR THE BENEFIT OF SPECIFIC PERSONS, THERE IS LITTLE DISCRETION ABOUT THEIR USE. THE PRINCIPAL ISSUES OF POLICY WHICH SOCIAL SECURITY RAISES IS ITS EXTENSION TO WIDER PURPOSES AND OTHER CLASSES OF WORKERS. SELF-EMPLOYED WORKERS IN DOMESTIC AND COTTAGE INDUSTRY IN PARTICULAR PRESENT AT ONCE THE BIGGEST AND THE MOST DIFFICULT PROBLEM OF SOCIAL SECURITY. CENTRALISED PURCHASE AND SALE OF THE PRODUCTS OF THIS SECTOR OFFERS PROBABLY A MUCH BETTER FORM OF SECURITY FOR THIS SECTOR THAN SUBSIDISED RAW-MATERIAL OR UNEMPLOYMENT RELIEF. WHILE THE COMMERCIAL AND CO-OPERATIVE BANKS COULD WELL FINANCE THE HOLDING OF STOCKS UNDER STATE GUARANTEE, THE SUBSIDISATION OF SALES INEVITABLE IN DEPRESSED TIMES RAISES A MORE DIFFICULT PROBLEM OF SOURCES OF FUNDS FOR THE PURPOSES. IT IS NEITHER PRACTICABLE NOR INDEED JUST THAT THE SECTOR OF DOMESTIC INDUSTRY ITSELF SHOULD BEAR THE WHOLE BURDEN

OF SUBSIDISATION.

FOR FUNDS FOR INVESTMENT, THE PUBLIC AUTHORITIES MUST DEPEND IN DEPRESSED TIMES VERY LARGELY ON LOANS AND DEFICIT FINANCE. IN CASE OF LOW AGRICULTURAL PRICES, THE RATE OF HOARDING MUST DECLINE AND THE GENERAL LIQUIDITY OF THE ECONOMY MUST TEND TO BE HIGH RATHER THAN LOW. THIS LEADS TO THE CURIOUS INFERENCE THAT DEFICIT FINANCE IS A LESS ELIGIBLE MEANS OF INVESTMENT IN DEPRESSED THAN IN PROSPEROUS TIMES. THE SAME CIRCUMSTANCES SUGGEST THAT LOANS ARE NOT MERELY A FINANCIAL CONVENIENCE BUT A NECESSARY ECONOMIC MEASURE TO ACTIVATE SAVINGS TENDING TO REMAIN IDLE.

A LARGE PROPORTION OF AVAILABLE FINANCIAL RESOURCES MUST BE CONCENTRATED ON BUFFER STOCKS AND COOPERATIVE CREDIT SO AS TO TAKE CARE OF THE LARGEST SECTORS OF THE ECONOMY. IF THE PUBLIC AUTHORITIES ARE TO PLAY SUCH A LARGE FINANCIAL ROLE IN THESE TWO SECTORS, IT IS DIFFICULT TO SEE HOW THE COOPERATIVE SOCIETIES STRUCTURE CAN BE ALLOWED TO FUNCTION AS A WHOLLY, OR PREDOMINANTLY UNOFFICIAL ORGANISATION. IT MUST FUNCTION AS A DEMOCRACY WITHIN A LARGER DEMOCRACY WHICH SUPPLIES THE MEANS AND DIRECTS THE TECHNICAL MANAGEMENT.

WHILE A STRUCTURE OF REVENUES AND FINANCIAL RESOURCES OF THE REQUIRED FLEXIBILITY IS BUILT UP, IT WOULD ALSO BE NECESSARY TO HAVE A STRUCTURE OF PUBLIC EXPENDITURE WHICH ACCORDS WITH THE ECONOMIC POLICY IN VIEW. ACCORDING TO THE PRESENT DIVISION OF POWERS BETWEEN FEDERAL AND STATE GOVERNMENTS, LARGE SCALE INVESTMENT FALLS LARGELY WITHIN THE SPHERE OF THE CENTRAL GOVERNMENT. MORE PROMINENT AMONG SUCH OBJECTS OF INVESTMENT ARE RAILWAYS, IRRIGATION AND RIVER SCHEMES, MULTIPURPOSE SCHEMES, POSTS AND TELEGRAPHS, AVIATION, ETC. ALL INDUSTRY OUTSIDE THE SECTOR OF DOMESTIC AND COTTAGE INDUSTRY IS ALSO NATURALLY THE CARE OF THE FEDERAL GOVERNMENT. STATE GOVERNMENTS ARE ENTRUSTED WITH SERVICES LIKE EDUCATION, MEDICAL AND HEALTH, COOPERATION, SMALL SCALE INDUSTRY, URBAN SANITATION, URBAN AND RURAL ROADS, ETC. HOUSING ALSO FALLS VERY LARGELY WITHIN THE PROVINCE OF THE STATES. IT APPEARS FROM THIS THAT INVESTMENT DURING

THE PROSPEROUS PHASE WILL HAVE TO BE UNDERTAKEN MOSTLY BY THE FEDERAL GOVERNMENT. BUT DURING THE DEPRESSED PHASE, RESOURCES HAVE TO BE SHIFTED TO, AND EXPANSION VERY LARGELY UNDERTAKEN BY, THE STATE GOVERNMENTS. ALTERNATION OF FEDERAL AND STATE ACTIVITY OF SUCH KIND POSTULATES A MUCH HIGHER DEGREE OF COORDINATION OF FEDERAL AND STATE TECHNICAL PERSONNEL THAN IS PRACTISED AT PRESENT.

THE PRE FIVE YEAR PLAN DEVELOPMENT EXPENDITURE, FEDERAL AND STATE, GIVES SOME CLUE TO THE SCALE ON WHICH EXPENDITURE COULD BE VARIED TO IMPLEMENT THE ECONOMIC POLICIES INDICATED ABOVE. IN THE YEAR 1949-50, THE DEVELOPMENT EXPENDITURE OF THE FEDERAL GOVERNMENT AMOUNTED TO ABOUT $1 \frac{1}{4}$ BILLION RS WHILE THAT OF THE STATE GOVERNMENTS WAS A LITTLE LESS. IN THE BUDGET OF 1953-54, THE PROVISION IN THE FEDERAL BUDGET WAS $2 \frac{1}{3}$ BILLION RS WHILE THE BUDGETS OF THE STATES RECORDED A RISE TO $1 \frac{3}{4}$ BILLION RS ONLY. EVEN AFTER ALLOWING FOR SOME NORMAL GROWTH IN FEDERAL DEVELOPMENT EXPENDITURE, IT SHOULD NOT BE DIFFICULT TO ARRANGE FOR AN ADVERSE TIME SHIFT OF ABOUT 1 BILLION RS PER ANNUM FROM FEDERAL TO STATE EXPENDITURE FOR COMBATING THE SPECIFIC EVILS OF DEPRESSED TIMES.

PUBLIC DEBT AND LOANS: IN ANY FISCAL POLICY, GOVERNMENT LOANS AND PUBLIC DEBT MUST PLAY A LARGE ROLE. EXCEPT FOR AN OCCASIONAL HERETIC LIKE JAMES STUART, A LARGE AND GROWING VOLUME OF PUBLIC DEBT HAS BEEN ALWAYS DEPRECATED AS A GRIEVOUS LOAD ON THE ECONOMY - SOMETIMES AS A MEANS OF DIVERTING THE FRUITS OF INDUSTRY TO THE ENJOYMENT AND EXTRAVAGANCE OF THE IDLE. THESE FEARS SOMETIMES APPEAR EXAGGERATED BECAUSE THERE IS A TENDENCY TO OVERLOOK SEVERAL IMPORTANT FACTS VIS (I) THE PURPOSES FOR WHICH LOANS ARE RAISED MAY BE PRODUCTIVE IN THE STRICT ECONOMIC SENSE; (II) PUBLIC LOANS MAY DRAW INTO THE HANDS OF THE GOVERNMENT SAVINGS WHICH MIGHT OTHERWISE BE HELD IN CASH OR UNPRODUCTIVE

FORMS; (III) IN ALL EXCEPT VERY BACKWARD ECONOMIES, THE PROGRESS OF WEALTH AND INCOME MAKE PUBLIC DEBT INITIALLY BURDENSOME MORE AND MORE BEARABLE WITH PASSAGE OF TIME; (IV) FINALLY, AS MONEY TENDS ALWAYS TO FALL IN PURCHASING POWER, THE GOVERNMENT AND THE PUBLIC ESCAPE MUCH THE LARGER PART OF THEIR JUST OBLIGATIONS WITHOUT ANY FORMAL REPUDIATION. IF THESE FORCES WERE NOT OPERATIVE THERE WOULD BE LESS TENDENCY TO EQUATE A LARGE PUBLIC DEBT TO WEALTH OR OPULANCE, TO CONNECT IT WITH PROSPERITY AND FULL EMPLOYMENT, OR TO REGARD HEAVY TAXATION TO PAY INTEREST AS AN INNOCUOUS TRANSFER FROM ONE POCKET TO THE OTHER WITHOUT ANY SERIOUS AND ADVERSE PSYCHOLOGICAL REACTIONS. DEBTS PILED UP FOR WAR AND DESTRUCTION CAN HAVE NO MIRACULOUS VIRTUE OF ADVANCING HUMAN WELFARE.

THE EXISTENCE OF A HUGE PUBLIC DEBT ADDS NO DOUBT TO THE VOLUME OF LIQUID ASSETS AVAILABLE TO THE COMMUNITY. IT MAY BE THAT IT OFFERS AN ALTERNATIVE TO HOLDING OF ACTUAL CASH. TO THIS EXTENT, IT IS AN ANTI-DEFLATIONARY INFLUENCE. BUT PUBLIC DEBT IS NOT THE ONLY FORM OF LIQUID ASSET AND IT WOULD BE FANTASTIC TO URGE ITS EXPANSION OR ITS CONTINUANCE ON THE GROUND OF ITS INCIDENTAL USEFULNESS. THE EXTENT TO WHICH BANKS HOLD PUBLIC DEBT AND THEY ARE ABLE TO REPLACE IT WITH LOANS AND ADVANCES HAS ALSO AN IMPORTANT BEARING ON MONETARY TRENDS. IN AN INFLATIONARY PERIOD LIKE THE AFTERMATH OF WORLD WAR II, REPAYMENT OF DEBT HAD NO DEFLATIONARY IMPLICATIONS AS SECURITIES WERE LIQUIDATED TO BE REPLACED WITH LOANS. IN A DEFLATIONARY SITUATION, REPAYMENT MIGHT HAVE A DIFFERENT MEANING.

THE PUBLIC DEBT OF INDIA AGGREGATED IN 1950 TO RS 15 BILLION. AGAINST A TOTAL GROSS NATIONAL PRODUCT OF 90 BILLION RS. PER HEAD OF THE POPULATION, IT MEANT A DEBT BURDEN OF MORE THAN RS 40 ON AN ANNUAL INCOME OF RS 230 ONLY. IN ITS PRACTICAL EFFECTS, THE BURDEN IS MUCH LARGER AS OUT OF A POPULATION OF 360 MILLIONS, IT IS PROBABLE THAT ALMOST THE WHOLE TAXATION IS PAID BY ABOUT 15 TO 20 MILLION INDIVIDUALS. FORTUNATELY FOR INDIA, HOWEVER, ALMOST THE WHOLE

PUBLIC DEBT IS COVERED BY PRODUCTIVE ASSETS LIKE IRRIGATION-WORKS AND RAILWAYS
THE PUBLIC LOANS PLAY NOT A SMALL PART IN ACTIVATING SAVINGS OTHERWISE LIKELY
TO REMAIN DORMANT.