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Consumption, Savings and Investment

More than anything else, the low output per head in India reflects the acute shortage of capital available for use in industry or agriculture. It is ultimately a dreadful vicious circle of low amount of capital per head, low amount of output, low quantum of saving and investment, low amount of capital per head and so on. If there is progress, it is detectable only over long periods of time like a quarter or half a century. When wars, bad harvests or unexpected growth of population occurs, the economy appears at a standstill or even stagnates.

The volume of savings and ensuing capital formation have been estimated by some authorities at 4-5 per cent of the gross national product or between 4-5 billion rupees out of a gross national product of 95 billion rupees for 1950-51. Four or five per cent is rather a low proportion compared with what is estimated for other countries in low income groups and is justified on the ground of low gross product and the pressure of urgent needs of life. The proportion of gross product saved in other countries like ____________________ is placed as high as ____________________. For Japan which falls midway between high and low income groups, the proportion is estimated as high as 14 per cent. Colin Clark estimates Indian savings at 10 per cent of the gross product.

Estimates of savings are beset with many difficulties not the least of which is the difficulty of defining savings itself. In a modern community, savings fall under three heads--Personal, Corporate, and Public or Government. Personal savings are defined with a fair degree of preciseness as surplus of current income over expenditure--although even in this case it is a little difficult to allow for depreciation of durable goods, owner-occupied houses, etc. Corporation savings involve the acute difficulty of the basis on which depreciation is properly calculated. It is not easy to make out whether profits out of which allocations are made to depreciation and reserves are genuine or paper profits. Apart from the fact that government surpluses are in some measure nothing more than mere transfer of savings from private into public hands--which of course does not affect the total arithmetic of savings, the ultimate character of these resources as savings or consumption depends very much on how the government actually uses these resources. To pass from the test of intention to actual use raises the further ultimate difficulty of demarkation between capital goods and consumption goods.

The practical difficulties of estimating savings are not less acute. A fraction of the community's savings travels through public institutions and reaches its destination in forms of investment which are visible and ascertainable. But not a little of the savings is undertaken and automatically invested by the saver himself in forms which are not ascertainable. The difficulty would not be so significant if the proportion between ascertainable and unascertainable savings and investment could be assumed to be stable. But in times like war and post-war years, when normal channels of investment are suspended, freedom to use resources is restricted or habits of holding savings in different forms undergo important changes , these proportions must be subject to violent fluctuations. A broad picture of the structure of savings in India brings out how great these difficulties are.

Personal Savings	Corporation Savings	Public Savings
Time Deposits Bullion absorption Small Savings Premium Income of Insurance Companies Public Loans (minus Reserve Bank, Banks, Insurance Cos.) Currency Hoards	Paid-up capital of joint stock companies (minus bonus shares, liquidated companies) Retained Earnings	Govt. surplus (and deficits?) Govt. deposits and Social Insurance Funds (?) Rly. Surplus.

From 1945-46 to 1951-52, the total ascertainable returns under these heads appear to have fluctuated between $250-300 million to $450-500 million. Apart from inaccuracies inherent in the statistics themselves, the instability is not surprising since important heads of investment have no counterpart in these items of savings. Investments of individuals and partnerships in workshops, inventories and stocks, house-construction and repairs, improvements in land, etc. must be very large and liable to considerable fluctuations.

Consumption-Schedules in India: How much an individual or community saves depends on a large number of factors among which level of incomes and propensity to consume rather than save may be distinguished as more important. It is highly probable that on the whole consumption in India tends to be rather rigid for expansion of incomes and rather flexible for fall of incomes. Within each social group or community, the consumption-pattern shows remarkable uniformity but from group to group, varies in an equally remarkable manner. In matters of food, apparel, etc., what is included or avoided in the consumption-pattern is influenced not only by climate or income but also by religious or ethical beliefs in attitudes like use of beef, pork, meat, fish, vegetables, liquors, etc. The ordinary life of the individual has for its frame of reference not only his income but also the social group. Conspicuous or wasteful consumption also tends to be prescribed and shaped as to manner, occasion, etc. by similar social forces. Marriages, funerals, festival days, social obligations for relatives, etc. are the usual causes for departures from ordinary life and extra expenditures while growth of free and individualistic modes of life is causing substantial deviations from old consumption-patterns, it is true by and large that consumption responds but tardily in India to expansion of incomes.

It is very probable that the extent to which the psychology of consumption and manner of earning incomes are interdependent tends to be overlooked. When incomes are earned not by sustained labour and small degrees, incomes tend to be less cherished and spent liberally and extravagantly. Speculators and operators in farm and markets are more prone to scatter money when they make it. The relationship of labour to incomes is not very different for big traders and businessmen--it is not vividly felt and is apt to be out of proportion. India is however a country of peasants and small traders who earn every rupee literally with the sweat of their brows. Except when he falls victim to some addiction, the peasant is extremely careful of his expenditure. The outlook of the middle-classes, particularly those who live in villages is very similar. The net outcome of all these facts is low rather than high propensity to consume.

Not less important to the volume of savings--particularly long-term savings is the fact that motives to accumulate and hold liquid assets are much weaker in India than elsewhere. In other countries, not a little saving is undertaken with the desire to acquire durable consumer goods which account for quite a high proportion of domestic expenditure. In India, climate and social preference make durable goods a much smaller proportion of the total household equipment and acquisitions. As for unforeseen and unforeseeable emergencies, liquid assets held against them tend to be rather limited.

The social forces and attitudes which make saving not merely an act of ordinary prudence but a moral necessity play by no means an unimportant role. The sense of insecurity which arises from fear of premature death is probably an inheritance from the past destined to disappearance in the near future. Much more operative particularly with the middle-classes is the limited scope for employment of women except at unskilled or peasant labour level and the general disinclination to place on the married woman the load of being a servant in addition to the load of being a wife and a mother. A middle-class widow with children is a position very different from what it is elsewhere.

<u>Social Structure of Personal Savings</u>: From the standpoint of savings and investment, Indian people fall broadly into three or four classes. The largest class is composed of owner-cultivators and agricultural classes generally who contribute about 50 per cent of the G. N. P. Their standards of consumption are perhaps more rigid than those of other sections of society. Although small per head, their aggregate savings must be quite appreciable. What they save, they prefer to hoard, in the form of currency or to invest in silver and to a smaller extent in gold or to utilize for improvement of land.

The middle classes are largely urban, heterogeneous in composition and distinguished by wider disparities of income. The important elements among them are the small section of professional classes, the larger section of salaried employees particularly under the government and the largest section of small and medium size traders. Although culturally at somewhat different levels, urban life brings them closer together and makes economic assimilation easier. These form the largest proportion of the less than one million persons etc. assessed to the income tax but the number below the minimum income tax exemption level must be several fold. The standard of life of these classes is much more elastic than in the case of the agricultural sector but the motives to saving--prudence, foresight, ideas of culture and respectability are very strong. When incomes are steady and employment good, these classes save steadily and invest much. Their greatest misfortune is inflation rather than deflation. It is probable that in times of unemployment, the saving capacity of those who continue in employment increases more than in proportion to the fall of prices and incomes and counterbalances the loss due to unemployment. What damages their aggregate capacity for saving and investment much more is rise of prices out of proportion to their incomes. It is improbable that fuller employment which accompanies rise of prices works as adequate compensation for deterioration in their standard of life and saving capacity.

It is difficult to assess the position of the labouring classes in urban areas and in factory-production in relation to savings and investment . The average earnings of the factory-labourer is twice as high and even more than the income of the worker in agriculture and domestic industry. The total wage-roll for 1950-51 amounted to more than \$2 billion out of a G. W. P. of \$95 billion--perhaps not a very appreciable fraction. Even then it is remarkable that family budgets of factory labourers compiled in different parts of the country show very little excess after expenses of living are covered and an invariable deficit if the remittances which the urban labourer makes as a rule to his village-folk are taken into account. It is certain that the bulk of these remittances is meant for the support of the village-folk out of season and only a small part for investment in land or repayment of agricultural and other indebtedness.

This is even more remarkable when we recall what has been said before about the rural counterpart of urban labour viz the landless agricultural labour. His family income is not even one-third of the earnings per worker in factory production. Yet the agricultural labourer out of employment for a 100 days in a year shows a small surplus over his expenditure--the surplus which evaporates when bad harvests befall him.

A substantial proportion of the visible and identifiable personal savings (and investment) proceed from big businessmen, industrial promoters and financiers, successful market speculators and operators, etc. Allowing for unavoidable overlapping, these should include about 20 thousand or 8 per cent of all shareholders who hold among them 60 per cent of the shares and stocks of joint stock companies; 146 individuals, firms and undivided families who receive a per capita income of 5½ hundred thousand rupees and more per annum and whose share in the total income assessed to income tax was 180 million rupees out of ____________ million rupees; those 10 per cent among less than 1 million income tax assessees who with an annual per capita income of 15,000 rupees and above appropriated more than 40 per cent of the gross income before tax-deduction; those account-holders in our banks who held the 2¼ million fixed and current accounts.

As personal savings form such a large proportion of total savings, it would be instructive to have before our minds a broad picture of the social structure which underlies savings. The statistics given below are arranged in such order that the element of overlapping due to the same individual contributing to savings under different heads progressively diminishes.

	Amount Rs.	Number of Persons 000s	Proportion of Total
.... Per capita Postal Savings (1949)	433	34.26	
Average size of Life Insurance Policy			
(1947) Indian Cos.	2177		
Non-Indian Cos.	6170		
Paid-up Capital of Stock Cos. per Share-Holder ( )			
Average	.2510	17.74	
Big 8 per cent	18835	1.41	60%
Small 92 per cent	1091	16.32	40%
Average Size of Deposit Bank Account (1950)			
Time	4620	22.63	
Demand	7253		
Savings	710	19.22	

Income-Tax Assessees-:

Institutional Frame-Work of Savings

It is generally presumed that consumption tends to be more stable than income particularly at higher levels and therefore savings show as great instability as incomes. Even for countries where incomes are above the line of poverty and decency, the alleged stability of consumption requires more proof than has been forth coming. For countries like India, the argument seems to suggest that consumption should be rigid for fall and very elastic for rise in incomes. On a priori grounds, the assumption seems largely unfounded and is guilty of overlooking the physical and psychological adaptability of human beings.

The aggregate stability or instability of savings must depend on the relative proportions of three major elements--Personal Savings, Corporate Savings and Government Savings; the factors which influence behaviour in regard to these three elements; the response of income-distribution among these three to each phase of trade and business.

The break-up of savings gives the following picture in India and elsewhere.

	Percentage of Savings		
	India	U. K.	U.S.A.
Personal.	48	5-10	70
Corporate	26 (incl. depreciation)	50 (incl. depreciation)	20
Government	26 (incl. Social Insurance and Funds)	30 (incl. Social Insurance Funds)	10 (excl. Social Insurance Funds)

It must not be overlooked that these patterns of savings are more or less of recent origins--particularly in India where post-war attitudes as reflected in the Five Year Plan are changing very materially. It is clear that in the future public policy must affect both the size and pattern of savings in a very decisive manner. Nevertheless for many years to come, personal savings must continue to be the main bulwark and bastion of economic progress. This is all the more so since our statistical analysis excludes savings made and automatically invested for such major activities like house repairs, construction, etc.

Consumer Expenditure: But for public policy, all gross income falls into the hands of individuals as individuals or in their representative capacity as directors of companies, etc. and is allocated by them either to consumption or saving. Consumer expenditure for the community is expenditure of gross income after allotment to saving and investment is deducted. The distribution of consumer expenditure over different needs should be an important clue both to the propensity to consume and even the aggregate volume of savings. Any inter-country comparison is subject to serious statistical adjustments which have to be made both because of difference in the bases of compilation and the peculiarities of consumption habits.

Consumer Expenditure - Group Distribution

	India	U. K.	U. S. A.	U. S. A. (1939).
Food	60	29	22	25 (2.5 tobacco).
Clothing	9.8	9.9	8.5	9.4
Housing (Public and Private)	6.0	11.8	14.1	-
Transportation	3.2	6.6	8.8	-
Services (incl. Education)	6.5	11.3	17.3	35.3 (incl. housing)
Durable Consumption Goods (i.e. lasting over two years)	-	-	-	8.8

of the people and their unfamiliarity with higher standards of life. It is therefore not unreasonable to conclude that the high proportion of expenditure on food in India is only partly related to low incomes but is partly the mere obverse of the fact that expenditure on many non-food items is unnecessary.

Consumer expenditure is gross national product minus saving and depreciation. If 60 per cent is anywhere near the true and steady proportion of expenditure of Indians on food, it suggests an important clue to the proportion of savings in India. Agriculture contributes less than 50 per cent of the gross national product. This contribution is composed partly of food products and partly non-food products. The non-food products are raw materials like cotton, jute, oilseeds etc. Only a part of which is exchanged for food grains from abroad. If to be entirely on the safe side, the whole output of agriculture were assumed to supply us with nothing but food products, our total consumption expenditure would be equal to $\frac{1}{2}$ of G. N. P = food expenditure + $\frac{1}{2}$ x 2/3 ($\frac{\text{40 non-food}}{\text{60 food}}$) of G. N. P. = non-food expenditure i. e. total 5/6ths of G. N. P. This gives us a ratio of 1/6th of G. N. P. i. E. about 16 per cent as the fund set apart annually for saving and depreciation. As the proportion of consumer expenditure used in the calculation as well as the proportion of agricultural output to total G. N. P. Are both not free from doubt, it would not be unreasonable to place the volume of savings somewhere between 4 to 5 per cent given by the __________, 10 per cent suggested by the statistics of visible and identifiable savings and 16 per cent arrived at by our present calculation. In other words, the proportion of all savings in India should fall between 10 to 15 per cent of G. N. P.

Propensity to Invest

Investment to Offset Savings.

For analytical purposes, two kinds of investment may be distinguished although in modern communities at any particular time both kinds of investment are taking place and are hard to distinguish one from the other. A certain volume of investment is necessary just to assure stable employment and full use of productive resources. In technologically advanced societies with high standards of life, priority is naturally given to such stabilization rather than further economic betterment. Their main preoccupation is to find adequate offsets to saving which tends to take place at high rate.

Secondly, investment takes place or becomes necessary to maintain or expedite the rate of progress. Growth of population which is independent in a certain measure of output is the more steady cause of much investment of this kind. It is also possible for a community to desire and devise measures to secure a higher standard of life for the future at the expense of present consumption. Finally inventions and innovations cause from time to time massive increases in investment. Capital saving inventions are not unknown but most of the spectacular strides in output have been the result of labour-saving improvements. Inventions and innovations can and do occur independently of the economic process but in general, they have a tendency to be exploited simultaneously in response to favourable economic environment and rising profitability.

The normal inducements to investment are volume of consumption, replacement and repair of depreciation, rate of obsolesance, and expanded foreign demand for a country's exports. At any particular moment, the relationship between a volume of consumption and the investment induced by it is purely a technical one but is apt to vary materially with social and scientific progress overtime. In India, with its predominance of peasant farming and domestic industry, the technical relation between output and investment is not very close and has varied but slowly overtime.

As for replacement of wear and tear and depreciation generally, no class of producers and businessmen can be accused of excessive and generous provision. Fortunately for land replacement is largely automatic--the excrescences land and cattle having little use except as fertilizers. Workers in the sector of domestic industry and crafts use but little fixed capital and are thus protected in a measure from serious consequences of ignorance of accountancy and business practice. It is to be expected that with progress in the near future in both these sectors, this investment will assume great importance. As for factory production, balance-sheets can always claim to be paragons of economic virtue so long as economists and accountants never agree on what an adequate basis for calculation of depreciation should be. By and large, Indian industry has had till now a fairly consistent record of declaring and distributing paper profits without much forethought or concern about the future.

In some modern communities, obsolescense caused by changes of taste and fashion is perhaps equal and probably more than equal to mere physical wear and tear and a very significant outlet for continuous investment. Even if inventions and innovations in productive technique abate for a time, the investment required to keep pace with changes of taste and style supplies no small part of the steam power and impetus of the economy. Under Indian conditions, this constant inducement to invest is, it is to be feared, relatively very weak. Indians are an ancient people deeply-rooted in their soil, their social reflations and therefore their standards of taste and proprieties, their attitude towards consumption as towards life and society is marked by conservatism, desire for durability and stability. When the average Indian builds a house, it is to last for a hundred years at least and to be used by several generations. The equipment of his kitchen--mostly pots and pans--is distinguished for its durability of material and construction, its variety of pattern and style which go back to almost forgotten times. What few pieces of furniture he has got have been probably in the family for some generations. Even the more expensive articles of apparel are more often than strangers can imagine proud heirlooms in the tradition of the grandfather clock. Things are no doubt slowly changing particularly in the highly urbanized areas and for particular classes of people, but by and large the picture is not much different from what it was half a century ago. To a people like this, changes of taste and fashion which make the apparel of one season an an object of shame in the next, the car model of the last year a social anachronism of the current year, houses approximate more and more to trailors and not more solid and durable in construction, screaming newspaper advertisements, judges on art, culture and civilization must appear not as proofs of initiative and progress but as perturbing evidences of moral and mental instability. Perhaps, this stability of artistic and moral values exacts its own price in economic progress.

Increased demand for Indian exports is not at present a significant factor in investment. Three quarters of Indian exports are made up of agricultural products or finished products arising out of agricultural produce. Increased foreign demand for these goods does not tend to have much direct effect on output or investment. Under existing agricultural conditions it can cause a change in the ratio of exchange, a shift in the distribution of income and, as explained elsewhere, an adverse effect even on investment. As Indian exports become more diversified , agriculture becomes more flexible and responsive to economic incentives, exports as a factor in investment will no doubt play a much larger role in investment than at present.

<u>Investment for Progress</u>: It is to be feared that while the motives to and outlets for normal investment are even weaker.

The Indian economy has never experienced till now any investment booms due to the exploitation of inventions and innovations. Indian entrepreneurship has always received its inspiration either from changes of government policies like tariffs etc. or world economic events.

It has rarely undertaken research or endowed research (with a few exceptions here and there). The causes of this attitude which is now changing in an imperceptible manner have been already indicated. In the agricultural sector and in domestic industry, initiative in technique is hardly to be expected from the peasant or the craftsman. Irrigation works and supply of power which should be the foundation of these sectors of our economy could come into existence only from outside initiative.

These limiting conditions of special investment are well exemplified in the relationship between population and output over the last fifty years. Whether output has kept pace with population or has actually fallen short of it is a controversial point. Statistics of gross national product indicate fall while consumption of particular commodities suggests small improvement. It is clear that new capital formation has certainly not been on a scale sufficient to bring about any material alleviation of poverty. This outcome may be contrasted with the course of development in a country like Japan where real national income has doubled itself every twenty-five years despite growth in population.

Stagnation Bias of Indian Economy: Capital-starved and technology-starved as the Indian economy is, our analysis leads to the conclusion that the forces at work tend to make it more and more capital-starved and technology-starved. Despite low incomes, the tendency of the economy is towards a higher rather than lower level of savings, relatively speaking. At the same time, the inducements to normal investment are markedly weaker rather than stronger. If year after year savings made tend to exceed investment expenditure does not cover the output, a cumulation cycle of low incomes, lower savings, still lower investment and so on should make its appearance. To put it in the Keynsian phrase, "the less you spend, the less you have to spend."

If savings fail to be invested, the first question to be answered is what happens to these savings. In a closed and cost-price production economy, such uninvested savings will cause equivalent business losses and will finally disappear in the financing of these losses. But India is not a closed economy and therefore prices and incomes are governed by world factors. As will be pointed out presently, there exists over the greater area of the economy no cost-price relationship in the sense that business losses emerge and must be financed out of sale of assets and absorption of savings.

What happens is this. In times of good prices for agricultural produce as during the first World War and second World War and its aftermath, the peasants make large savings which they keep in the form of currency notes year after year. This explains how in inflationary periods prices lag very much behind the expansion in money supply. Both peasants and middle classes, when the latter also experience good employment, hold a portion of their surplus incomes in precious metals--silver in the case of peasants and gold in the case of middle classes--imports of gold and silver are a form of investment the stimulating effects of which however are directly felt by the metal-producing countries and only tardily and partially by metal-consuming India through its foreign trade. It is likely that the prohibition of imports of precious metals and restrictions on house-building during and after World War II reinforced the middle-class tendency to hoard currency and such bank balances as they hold. Peasants and middle classes are sometimes joined in hoarding of currency and bank balances and absorption of precious metals by business classes when as happened during and after World War II they have strong motives to conceal incomes and evade taxation. The bank balances of business classes then become stagnant because consumption, expenditure, and illegal business transactions are then both financed out of illegal resources.

If aggregate consumption and investment expenditure is not equal to output because investment is less than savings, incomes and output must fall, savings must fall still lower till the economy is balanced at a lower level of activity. If investment again falls short of savings, the cycle must again repeat itself. It is reasonable therefore to ask why such a cycle is not visible in the Indian economy. There are three reasons which prevent the emergence of such a cumulative tendency.

Over the greater sector of the Indian economy, there is nothing like a technical relationship between investment and output. In a system of small farms and owner cultivation, agricultural output depends primarily on monsoon conditions.

Whether times are good or bad, the peasant investment in his crop varies but little. In domestic industry also, the capital investment is small and inelastic. The main factor in output is the labour of the craftsman which is fairly rigid so long as he stays in his occupation.

Secondly, what causes large fluctuations in the volume of investment and therefore output in advanced economies is the prospects of profits which depend on the alignment of costs and prices. Costs, particularly wage-costs, are not easily revised to meet adverse prices. In two large sectors of the Indian economy, agriculture and domestic industry, the problem of pecuniary losses does not exist. Self-employment and non-contractual incomes far outweigh in importance wage-employment and contractual incomes. The proportion of self-employed peasants and craftsmen to workers is as high as 75 to 80 per cent. This may well be compared with an industrialized and appreciably farming country like the U. S. A. In the pre-war year 1939, 68 per cent of "income payments to individuals". . . . which of course include transfer payments like interest on public debt was labour income paid to employees. The non-contractual incomes of farmers, shopkeepers and professional persons--the self-employed people--amounted to only 16 per cent.

Over the greater part of production in the Indian economy therefore the the aligmment of costs and prices is automatic and takes the shape of a fall in standard of life. Of course, there are a few costs like burden of indebtedness, etc. which are rigid even for these Indian producers. But these elements are unimportant--the labour-cost of the producer being flexible and his investment in capital-equipment being small. The main source of the difficulty and distress lies in the failure of prices to reach their proper relative levels. The grower of food crops might suffer more because the prices of any non-food products he purchases do not fall to the extent that food prices have fallen. The grower of non-food products might suffer because food and industrial products are not as cheap as his own produce. If relative prices were to adjust themselves quickly, depression in such an economy would not bear even a fraction of the dire complications it has for highly industrialized countries. In fact, under Indian conditions, the contrast between production for use and production for profit is not a propaganda slogan of doubtful theoretical validity but a working actuality of the economy. "Profit" or no "profit", production for use continues.

Apart from the freedom from the technical relationship between output and investment and the absence of the problem of profitability over the larger sector of the Indian economy, what prevents the tendency to further cumulative depression is the interdependence between Indian economy and the world economy. So long as the major economies of the world are on an even keel, agricultural prices and therefore the larger sector of incomes from agriculture and domestic industry are well supported. The gravest danger to the Indian economy is always the collapse of world prosperity. The utmost an independent economic policy could achieve would be to cushion the effects of the misbehaviour of major world economies.

It is even probable and indeed more than probable that the hoarding habit of the Indian peasant and the consumption of precious metals actually work as a counter-cyclical force. When times are good and prices tend to rise, hoarding of currency and refraining from investment must tend to check the boom. In periods of depression, expenditure out of hoards and sale of gold and silver supply a counterweight to the fall of incomes and expenditure. The years 1920-40, which were remarkable for rapid industrial growth and housing construction on a large scale, offer a significant experience from this standpoint. The abandonment of the gold standard in 1931 was a fortunate coincidence which activated gold and silver holdings just at a time when such replenishment of investment funds was likely to be most beneficial.

Our analysis till now leads to a significant conclusion about the implications of depression in India. In an economic structure like this, depression whether of domestic or foreign origin does not mean unemployment in the sense in which it is understood in highly industrialized and capitalistic countries. In times of depression, the incomes of food-growers, non-food cultivators and workers in domestic industry fall. There is distress and privation but no complete destitution to put it in other words, the distress and destitution of depressions tend to be spread over all workers more or less evenly and not concentrated on those unfortunate few who in other economies are laid off from their employment. To this general picture of economic life during depression, the small labour force of factory production is an important exception. But the magnitude of this exception is somewhat mitigated by the fact that even factory labour has still maintained its ties with land and village and the Indian social unit is far larger in its ambit of affection and moral obligation than the attenuated western family. The impact of depression falls largely on one sector of society---the middle classes with predominantly salaried employment.

The ultimate significance of an institutional set-up for human welfare is well illustrated by the experience of the U. S. A. during the important decade 1921-30. During these years, the gross national product increased more than in any decade of the present century except the forties; the margin above maintenance (i.e. consumption and depreciation) again was higher than in any decade except the forties; net capital increase after allowing for war and defence and increase of consumption was the highest of all decades; per capita consumer expenditure even was higher than in any decade except the forties. Yet 1921-30 were years of quite wide-spread unemployment and distress among the farmers and the additional input of man-hours of work was the lowest on record except for the depressed 1931-40. Progress in gross and average levels of output, consumption, etc. was achieved by improvement in productivity which equalled and perhaps exceeded even that of 1941-50. Yet, work is as much a necessity of life as income and technological progress in certain circumstances proves an enemy to both--if not for the community, then at least for the fraction of it which has to bear its full impact.[1]

If depression has a different meaning for and impact on the Indian economy, anti-depression measures must be adapted to its special circumstances. While public expenditure has to be undertaken, it must be directed to those points where maladjustments have to be corrected. For the owner-cultivator and agricultural classes generally, scaling down of debts incurred in years of higher prices and reduction of taxes on his necessaries of life would be one substantial means of alleviating distress. In so far as he is dependent for certain supplies on crafts and domestic industry, the measures should have reference to this sector rather than the agricultural sector. It is almost certain that in times of depression crafts and domestic industry are apt to suffer much more than agriculture. The more usual cause of their inability to reduce prices and maintain their markets is the failure of their raw-material like yarn, sheet metal, etc. to conform to the trend of agricultural incomes. Apart from measures to bring about lower prices of these raw materials, subsidization of raw material to this sector should be an appropriate object of public expenditure. It would be to the advantage both of modern industry and government to devise the appropriate channels through which such subsidized raw material could find its way to the crafts and cottage industry.

War and Post War Experience : From the standpoint of saving and investment, the money and income inflations of 1940-52 deserve to be analyzed closely from this angle. Although controls were imposed on many agricultural commodities like food grains, raw cotton, etc., the tendency was on the whole for agricultural incomes to rise much higher than the incomes of the middle classes. It is generally true to say that non-contractual incomes form the bulk of incomes in India. Much the

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[1] Productivity and Economic Progress -- Occasion Paper 38. F. C. Mills. National Bureau of Economic Research, Inc.

larger part of these non-contractual incomes is composed of incomes of owner-cultivators who cover perhaps ½ to 3/4 of these incomes. In other words, the inflated money incomes of 1940-1952 poured largely into the lap of classes who hoard money and refrain from investment.

The inflation improved to an extent the employment of the middle classes who receive the bulk of the contractual incomes in the country. But in the classes as a whole, it inflicted much more harm by crippling their savings capacity and lowering their standard of life. It might be supposed that the small traders stood to gain by rising prices. But such an inference is not well-founded. It is only traders who have large financial resources and therefore can increase the size of their stocks who reap the speculative profits of inflation. The small trader has by very definition limited financial resources. When prices rise astronomically his apparent high gain per unit of trade is counter-balanced by the smaller and smaller volume of stocks he can afford to lay in. Much the bulk of his profits are paper profits which are absorbed in maintaining his stocks anywhere near his accustomed levels. In the long run, his prosperity depends on the margin between buying and selling prices and not speculative gains.

The greatest beneficiary of the inflation was no doubt big business whether in trade or industry. Whether the country benefitted from this vast shift of incomes in their favour or not depends not only on the enlargement of incomes but the character of the persons. There is certainly no compulsion on them to save and invest or other than to live riotously. But apart from wasteful consumption other factors to be noted presently have sterilized or misdirected their well-gotten or ill-gotten gains.

The only factor which could have counterbalanced this shift of incomes in favour of the classes which save but hoard their savings and away from the classes which save and invest was taxation policy. But whether taxation increases the volume of savings in the country or not depends firstly on whom the taxation falls and secondly on the use for which the proceeds of taxation are intended.

During the war, taxation was intended only for financing the war and was therefore a procedure for converting savings and ordinary consumption into military services and materials. The question of using taxation to raise the savings of the country could arise only after war expenditure came to an end.

Apart from physical availability of investment goods outside or within the country, there have been other causes at work during the post-war era either misdirecting or keeping at a low ebb the volume of investment.

Inflation attracted enormous capital to stocks and inventories. The more prices rose, more businessmen sought to protect themselves by holding higher inventories or to make speculative profits by holding larger stocks. Higher the inventories and stocks they held, greater were the shortages and higher were prices lifted. Inflation fed stocks and inventories and was fed by them in a continuous spiral. It is difficult to say whether the price-break of early 1952 brought them to normal or reasonable levels. But this tendency of inflation to divert savings and investment into stock and inventories is an evil much more to be feared in an economy like ours than in other economies with more even rhythm of output and consumption.

The behaviour of the stock markets was not such as to create faith in equities and industrial finance. Without any change in the industrial situation or prospects of profits, equities were raised to twice their values--and in a few cases even more--within a year of the end of the war. When the unavoidable technical correction under way was later reinforced by political difficulties, antiinflationary taxation, social legislation, etc. [2], they fell to less than the pre-boom, war-end level. Stock market reform laws although announced and promised from time to time--with great damage of stock values--arrived only after the worst excesses were over. India has hardly any special investment intermediaries like investment trusts, etc.

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[2] Note: measures taken with date.

The record of war and post-war joint stock enterprise was also not such as to put more faith and confidence in the investor. War undermines moral standards and in no field of social life more than in trade and business. War places a premium of financial manipulation and creates a class of New Rich who are apt to invade and practise the same technique in industry and factory production. The management of Industry even in ordinary times was never generally above blame but during war and post-war years it touched lower depths. The reformation of company law was again promised very early, arrived very late and in a form which belied the hopes of the new era.

The Income-tax Investigation Commission--inevitable as it was--proved the extent of these malpractices. At the same time, its prolonged labours spread over several years meant arrest of enterprise and halt to investment of all those who still hoped to conceal part or whole of their ill-gotten gains. The investment-funds held back did not represent much real loss; but the holding back of enterprise did. Drastic but quick measures--even though unjust-- might in the long run have proved much the smaller evil.

Except for big businessmen and magnates, with whom it is more a matter of investment and income than self-use, house building is but to all other classes an automatic investment of savers themselves. During post-war years, the unavailability of materials, cement, steel and better classes of timber made this investment extremely difficult. But even more than unavailability, the high prices of these materials and wages placed this accustomed form of investment practically beyond the saving capacity of all but the capitalist builders. Inflation in the circumstances of India must make investment expensive at the very time that it attenuates the savings of the major sectors. Such a disproportion between saving capacity and costs of investment in particular forms creates the further danger of encouraging hoarding and unproductive forms of investment. Lower interest rate in a structure like this might stimulate capitalistic housing investment--which is always a small fraction of the whole but does little for the larger sector.