SWARAJYA

(Founded by KHASA SUBBA RAU)

Vol. XIX. No. 41 MADRAS, APRIL 12, 1975 Price 40 p.

INFLATION AND PUBLIC EXPENDITURE

R. VENKATARAMAN

THE ALARMING rate of inflation during the last two years has caused untold misery and distress to the country. Between January 1973 and November 1974, the working class cost of living index (1960-61-base 100) rose from 210 points to 331 points, an increase of 58 per cent. In other words, if one had invested Rs 1,000 on 1-1-1973 in a two-year fixed deposit, he received on maturity only Rs 420 in terms of purchasing power. Such plummeting in the value of the rupee shakes public confidence in the monetary system and accentuates the tendency to hoarding not only among the traders but even among the consumers. If, instead of selling scrap and storing money, people sell money and store scrap, it is a retreat from civilization and a return to primitive living. Unless effective measures are taken to avert the dangerous trend, our national economy will soon collapse.

In the search for the culprit, the Government blames the drought and anti-social elements like hoarders, blackmarketeers and speculators; the Opposition parties condemn the Government for extravagance, inefficiency and corruption, labour curses the employer for profiteering and ostentatious spending, and employers accuse labour of inefficiency and low productivity and so on. Everyone seems to be engaged in the proverbial search for the black cat in a dark room with eyes blinded.

In a situation of acute imbalance between money supply and goods and services (which causes the inflationary spiral), it is obvious that the goods and services cannot be increased in the short run. Perhaps, if there was no constraint of foreign exchange, the supply of goods may be increased by imports, but that remedy is inconceivable in our national context. The Government, therefore, launched on (a) credit squeeze, (b) immobilization of a part of incomes, (c) public savings through taxation and (d) large-scale market borrowings. Though it is conceded that the measures have made some impact on prices during the last quarter of 1974, they have caused other distortions deleterious to the economy. For instance, as a result of restrictions on dividends, private companies are unable to raise fresh capital in the market. The credit squeeze has driven producers to the necessity of borrowing monies at usurious rates of interest with inevitable consequences on prices, or, alternatively, to curtail production and lay off workers, thereby accentuating the misery of the workers. Furthermore, these measures have created a psychology of recession and a general disinclination to start new ventures or expand production. It cannot be assumed from the slight halt in the price spiral during the last three months that the inflationary situation has eased. As against the drop of wholesale index from 328.9 in September 1974 to 316.9 in December 1974, the working class index number for food articles registered a rise from 364 to 383

points during this period. The need, therefore, for a continuing watch on the price trends and also for further measures to contain them appears to be imperative.

The war on inflation has to be fought relentlessly on two fronts: (1) regulating the money supply, taking care to see that investments and production are not affected, on the one side and maximizing production, particularly, of wage goods, on the other. A multi-pronged thrust to increase agricultural production, efficiency of public sector enterprises, productivity of labour in all sectors, utilization of installed capacity regardless of the sector or the size of the business houses, operational efficiency of transport and communications, among others, is urgently called for.

But none of these measures will have an appreciable impact so long as squander-mania persists in the Government. Extravagant and reckless spending by the Government has been the bane of our economy since Independence. Dr Mahalanobis and his school of thought believed in the Keynesian doctrine of stepping up of investment through deficit financing without realizing the difference between developed economies suffering from trade cycles of depression and boom to which the Keynesian doctrine is applicable and developing economies struggling to create new capacities for production. While in developing economies, the time lag between investment and return is short, in less developed countries, the time lag is very long. Consequently, the fresh investment in developed economies is quickly absorbed by the goods and services produced, while in the less developed economies the investment exerts pressure on prices over a considerable period of time and causes inflationary conditions. This is illustrated by the cumulative deficits incurred by our Government ever since the planning era started, leading to the present critical situation.

The First Five-Year Plan resorted to deficit financing of the order of Rs 330 crores, the Second Rs 950 crores, the Third Rs 1,100 crores and the three annual Plans Rs 1,006 crores. On the top of these cumulative deficits, the estimated amount of deficit financing during the Fourth Plan period is about Rs 3,000 crores. If we take the last ten years, it will be observed that during the period 1965-66 to 1969-70, the total deficit of the Government of India was about Rs 983 crores, but during the current five years the actual deficit was Rs 285 crores for 1970-71; Rs 519 crores for 1971-72; Rs 550 crores (according to R.E.) for 1972-73; Rs 650 crores (according to R.E.) for 1973-74 and Rs 625 crores (according to R.E.) for 1974-75; making a total of more than Rs 2,600 crores.

Miss Parveen Arjan Singh, III year B.A. student of Lady Shri Ram College for Women, New Delhi, was awarded the first prize of Rs 250 in the 18th All-India Essay Competition for college students arranged by the Forum of Free Enterprise for the academic year 1974-75. The other prize winners were: Miss N. Uma, of Stella Maris College, Madras—second prize of Rs 150; Mr Parikshit Basu, of Narendrapur Ramakrishna Mission Residential College, Jalpaiguri—third prize of Rs 100. The competition was sponsored by Jyoti Limited, of Baroda.

If the sum of Rs 421 crores given to the States in 1972-73 for clearing overdrafts is included, the deficit reaches the staggering figure of Rs 3,000 crores in the last five years alone. This figure is equal to the total deficit of Rs 3,000 crores incurred by the Government of India for the 20-year period, 1950-1970.

It is interesting to observe the price behaviour during the same period. While the index of wholesale prices (1961-62-base 100) rose from 98.2 to 181 in the 20-year period from 1950 to 1970, prices escalated from 183.3 in January 1971 to 316.9 in December 1974, thus reinforcing the conclusion that Government extravagance has been a major cause of the inflationary spiral.

It is argued that with adult franchise, it is hardly possible to reduce expenditure on social welfare, education, health, medical services, etc., that defence is paramount and that reduction of expenditure in this field can only be effected at national peril, that for implementing the Directive Principles of State Policy embedded in our Constitution, namely, the prevention of concentration of economic power, massive investments in the public sector cannot be avoided and that militant trade unions, particularly among the white-collared in banks, secretariat, insurance, etc., force wages and dearness allowance higher and higher. In short, it is a plea of helplessness on the part of the Government to restrain expenditure and to contain it. The mere fact that defence is a sensitive area or that development expenditure is an imperative for backward economies cannot place it beyond the pale of regulation. The enormous growth of the secretariat calls for an assessment of strength and structure of that service.

Certain guidelines for undertaking industrial development expenditure like profitability, gestation period, coordination with the installed capacity, avoiding duplication of investment, optimum size of the undertaking, etc., may be indicated, so that development expenditure itself does not cause inflationary pressures. Likewise, regular pruning of non-development expenditure by setting up yardsticks, work-load, reduction of costs in the higher echelons of the general services, etc., are called for.

Though several committees and commissions have been appointed by the Government of India, there has been none on public expenditure since the Inchcape Committee in 1922. It is time that a thorough and comprehensive probe of public expenditure was undertaken and that clear policies and guidelines were laid down authoritatively by a high-power national commission.