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BUDGETARY RELIEFS NEEDED FOR FURTHER ECONOMIC GROWTH

THE RESERVE BANK Report on Currency and Finance, 1975-76, reflects the satisfactory state of our economy during the year under review. Thanks to vigorous efforts, the price level between June 1975 and June 1976 declined by 3 per cent, in contrast to a rise of 27.8 per cent in 1973-74 and 0.7% in 1974-75. The monthly price indices recorded a fall of 6% during July, 1975 — June, 1976, as against an actual rise of 16.8 per cent in 1974-75. The price stability, in turn, created an environment of confidence, ensured increased availability of goods and induced a greater measure of savings and investment during the period. Agricultural production went up by 8% and industrial output by 4.4%, though a 10% growth in the output was achieved in the Core Sector.

Though money supply expanded by 11.7% during the year, as against 6.4% during 1974-75, the expansion was necessitated by the need for financing a larger agricultural and industrial output and for matching the sizable inflow of foreign exchange. It is noteworthy that the credit extended by the Reserve Bank to the Government had actually declined. The reversal of the inflationary trend helped to accelerate investment in the private sector by way of new capital issues and in the public sector through the upward revision of the Plan investments. As a result, the growth in the National income, in terms

of 1960-61 prices, is estimated at 5.5 per cent and in *per capita* income by 3.8%.

Our exports scaled new heights and reached Rs. 3,942 crores, recording an 18 per cent increase over those of last year, but our imports rose to Rs. 5,158 crores, resulting in a trade deficit of Rs. 1,216 crores as against Rs. 1,190 crores in the previous year. The foreign exchange reserves, however, stood at Rs. 1,592 crores, thanks to the withdrawals from I.M.F. and the spectacular inflow of aid during 1975-76. The foregoing summary of the economic indices encourages the hope that the economy is poised for a sound and steady growth.

However, the trends since June 1976 have been disturbing and call for vigil and caution. The wholesale price index which stood at 295.2 in the week ended Dec. 13, 1975, has risen to 315 in the week ended Dec. 11, 1976, registering an increase of 6.7%. The rise in prices since March 1975 has been about 10%, which cancels a considerable part of the price decline registered between September, 1974 and March, 1976. A scrutiny of the items discloses that while foodgrains, fresh fruits and vegetables, milk and milk products have registered a decline in prices since December 1975, the prices of edible oils have increased by 40 per cent, sugar and allied products by 14.3% and fish and meat by nearly 5%. Among industrial materials, che-

micals registered a decline of 10 per cent, while industrial materials have gone up by 30 per cent. It would, therefore, appear that the price increases are 'sectional' rather than general and that measures have to be taken to tackle the situation on that basis. The Government has already initiated remedial action such as import of edible oils, staggering of sugar exports, etc. The need today is to increase supplies of materials in shortage, rather than lighten money supply, causing needless monetary stringency and curbing productive activities. With a fair agricultural crop in prospect and a handsome buffer stock of 16-18 million tonnes, the base is strong and sound and only the shortages in specified fields call for remedial measures.

The Reserve Bank estimates the rise in industrial output between January and August 1976 at 12% and a final overall growth of 9% during the year. The report recognises that the higher output has been achieved by fuller utilisation of capacity and that if higher rates of industrial growth have to be achieved additions to capacity will have to take place. It is obvious that without further installed capacity, a higher rate of growth cannot be achieved and that in turn without further investments, additional capacity cannot be created. It is stated that the new capital issues by non-Government Public Limited companies reached Rs. 99 crores in

1975, as compared to Rs. 56.5 crores in 1974. In the context of our needs, the figure is negligible and unless the capital market is stimulated by positive incentives, the necessary level of investments may not be forthcoming. The capital market is admittedly sluggish and efforts to stir it into activity is a condition precedent to any further investment and expansion. Like the reliefs in personal taxation granted last year, some relief in corporate taxation is clearly indicated during the forthcoming Budget. Whether it should be by way of waiver of surcharge or by way of reduction in the general rate is for the Finance Ministry to examine from fiscal and administrative considerations.

We are not sure that even if relief in corporate taxation is given, the market will revive. The stagnation in the market is traceable to the receding purchasing power with the masses. According to the Year Book of Labour Statistics, I.L.O., 1975, unemployment as per the live Register of Employment Exchanges in India, rose from 59,27,622 in 1972 to 83,78,276 in 1974. The Unregistered Unemployed are many times over. With large masses of people lacking the wherewithal to buy even the barest necessities of life, demand stimulation is no easy matter. Massive programmes of rural and semi-urban employment have to get a higher priority in our plans than hitherto. Thanks to the inflation, heavy excise duties, super-imposed sales tax ranging up to 16% on the top, India has become a high cost economy. Many of the products are beyond the reach of the majority of the population. No demand stimulation is possible without cost reduction. The Jha Committee, which is looking into the structure of indirect taxes, may throw valuable suggestions in this regard.

To sum up, we feel the economy is strong and poised for growth and development but that it will not happen of its own accord, unless appropriate action is initiated to stimulate both demand and investment.

—R. Venkataraman
(31-12-1976)

TWO DECADES OF LIC: A REVIEW

Prof. L. G. BAPAT

IN SEPTEMBER, 1976, the Life Insurance Corporation (LIC) completed the first two decades of its working. The time seems to be opportune now to take stock of the LIC's progress in these 20 years.

The creators of the LIC expected it to mobilise the scattered savings of the people through a rapid expansion of business and make them available for investment in our successive five-year plans. This expectation has been only partly realised. As pointed out by the Union Minister for Finance, Mr. Subramaniam, in New Delhi on September 1, 1976, at the time of nationalisation the expectation was that insurance in India would grow in a decade to a *per capita* level of Rs. 200 from Rs. 25 in 1955. But now it was found that it had taken nearly two decades for the LIC to attain that level. As admitted by its chairmen on various occasions, the LIC has touched only the fringe of the problem.

Heavy Lapses

It was expected that under the national set-up, lapses of business immediately after it is contracted would be reduced substantially. Before 1956, the lapse ratio was 9.1 per cent. No doubt, it declined more or less continuously up to 1972. However, it has been rising since then. The net lapse ratio, which was 17.7 per cent before nationalisation, again stood at 17.1 per cent in 1974-75; i.e., almost at the same old level. It is found that as much as 28 per cent of the business written down in any one year lapses during the subsequent four years together. Out of the new business of Rs. 1,924 crores underwritten in 1973-74, the business of Rs. 327 crores was lost in 1974-75. This is indeed a very heavy loss, both to the LIC and its policyholders.

The LIC agents are paid 25 per cent of the first year's premium amount as commission for securing new business. Hence, they tend to press the policyholder to insure beyond his premium-paying capacity. The agents earn a good

commission but at the cost of the policyholder. Hence, insurance proposals must be much more closely scrutinised by the LIC before their acceptance. Particularly, the capacity of the would-be policyholder to pay the contracted premia regularly must be rigidly checked. Those agents whose proposals show a much higher rate of lapses than the normal ratio should be punished by way of fines or suspension of their licences for two years or so. Such unbusiness-like practices should be declared as unethical and unfair by the LIC. The development officers, under whom such agents work, should also be held responsible for lapses and called upon to explain why the policyholders of lapsing policies suddenly find themselves in a position wherein they cannot pay the premium any more. This situation cannot be cured unless some drastic steps are taken by the LIC early.

Expense Ratio Still High

Efficiency of the insurance business is measured in terms of the expense ratio, i.e., the ratio of expenses to the premium income. The expense ratio was 31.8 per cent before nationalisation. It declined after the formation of the LIC, but has again gone up to 30.48 per cent by 1974-75. After nationalisation, 245 different insurance units were brought under one roof. This was expected to make rationalisation and improved administrative procedures possible. Elimination of unnecessary duplication was also expected. As new business expanded by 26 times and the total business by 13 times, the advantages of large-scale operations and spread of fixed costs over a large base have become possible. Hence, a substantial reduction in the overall expense ratio should have been a fact. It has not been so.

At present, the LIC's expenses are rising faster than its income. Thus, between 1957 and 1976, the Corporation's premium income increased by 904 per cent from Rs. 58.55 crores to 588 crores. But