

SWARAJYA

(Founded by KHASA SUBBA RAU)

Vol. XXI. No. 13

MADRAS, SEPTEMBER 25, 1976

Price 40 p.

ECONOMIC TRENDS AND GROWTH STRATEGY

THE ANNUAL REPORT of the Reserve Bank of India for the year ended June, 1976, confirmed the optimism generated some months ago that the country has regained its capability for normal growth and is now poised for all-round expansion on a stable basis. The price shrew has been tamed. The general trend of prices during the year under review was downward, with a decline of 3 per cent in wholesale prices, in contrast to the disconcerting rise of 21.5 per cent in 1972-73, 27.8 per cent in 1973-74 and a nominal rise of 0.7 per cent in 1974-75. The estimated growth of the national income (at 1960-61 prices) was 5.5 per cent, as against a bare of 0.2 per cent in the previous year. Domestic savings, as a proportion of the national income at current prices, were higher at 14.5 per cent, against 13.1 per cent, and aggregate investment at 16 per cent, against 14.8 per cent in 1974-75—a record since the beginning of the Fourth Plan.

As regards the production front, there was an 8 per cent growth in agriculture and 5.7 per cent in industry. Weather conditions were favourable and the use of agricultural inputs like fertilizers, power and water was substantial. In the industrial sector, in the core industries like coal, electricity, iron and steel, cement and nitrogenous fertilizers, the output rose at rates above 10%, but in textiles and consumer durables there was a decline. There were no bottlenecks in respect of inputs, but slackness of demand,

arising from both external and domestic factors, adversely affected a few sub-sectors. In some groups of industries the problems of modernisation have assumed greater urgency. Though the size of the trade deficit remained more or less the same for the past two years, there was an unprecedented increase in the country's foreign exchange reserves, from Rs. 793 crores as at the end of March, 1975, to Rs. 1,674 crores by the end of March, 1976.

The Report emphasises that "taken together, these features suggest that 1975-76 has bequeathed an economy which can provide a strong base for sustaining growth in the remaining years of the Fifth Plan". A survey of 28 industries, accounting for about 48 per cent of the weight of the Index, conducted in July last by the *Economic Times*, showed that industrial production was running at a growth rate of 14% during April-June this year, as against the targeted average growth rate of 9% for the current financial year.

Though the above favourable developments were partly due to satisfactory monsoons, the energetic drive against inflation and the flexible policy followed by the Government in respect of its fiscal and monetary policies, were no less responsible for the turn of events towards stability and growth. Both the Central and the State Governments stepped up their mobilisation of resources, with the result that while the total disbursements in 1975-76

rose by 21% (about the same rate as in the previous year) the total receipts increased by 23.9 per cent, as against the rise of 19.9 per cent during the previous year. The combined budgetary deficit in 1975-76 was only Rs. 351 crores, as against Rs. 752 crores in the previous year.

As regards the credit control policy, the basic emphasis on price stability remained unchanged, but during the year, in view of the anticipated enlargement of agricultural and industrial supplies, some degree of flexibility was introduced to facilitate a higher rate of growth. Inventory norms were liberalised for industries such as jute, paper, automobile ancillaries and cotton spinning mills. A ceiling on lending rates was prescribed and banks were advised to provide larger term loans to industry for periods beyond three years at a maximum rate of 13% and from April last, a ceiling of 14 per cent was fixed in respect of loans granted for periods not less than seven years. Banks have been asked to prepare quarterly budgets for better credit regulation, instead of annual or seasonal budgets as before. The expansion of the scheduled banks' credit in 1975-76 was more than double of the level reached in the previous year. Fortunately, the banks' mobilisation of resources was growing faster—the deposits having increased by 20%, as against 16.6% previously.

The outlook for 1976-77 is, therefore very heartening. If the favourable weather conditions

continue, there will be a moderate growth in agricultural output because of the improved position in respect of supply of fertilizers, power, quality seeds, and the emphasis on irrigation laid in the 20-Point Programme. As regards investment, the Plan outlay has already been stepped up substantially and, owing to a number of measures taken to stimulate the capital market and fiscal and other concessions given to industries, investment in the private sector is also expected to pick up. During the current year it is reasonable to expect better industrial growth and expansion due to: (1) the step-up in investment; (2) the measures taken to revive demand in a few sub-sectors of industry suffering from recession; (3) the steps taken for fuller utilisation of the existing capacity. Besides, the public sector enterprises, designed to provide basic infrastructure and inputs, have done creditably well in 1975-76. They have now gained strength to serve the country's industry and trade for a higher level of activity. The foreign exchange resources of the country are also comfortable such that suitable relaxation in import control is being designed to increase supplies of raw material to several industries.

Though the economy has shown several encouraging trends, there are also a few disquieting features, which call for immediate attention. As the Reserve Bank has pointed out, there has been larger expansion of bank credit in 1975-76 and the money supply with the public has increased by 11.3%. The stepping up of public and private sector investment has been made not out of savings but from created money through bank credit and deficit financing, a feature which is the antithesis of price stability. If, in addition, the Central Government borrows Rs. 480 crores from the Reserve Bank against the impounded deposits for cash payments, the price line cannot be easily maintained. The answer to the problem lies in increasing the rate of savings and investment. The rate of investment as a percentage of the net domestic product was 12% in 1960, which rose to 13.4% in 1965, but declined steadily to 11.8% in

1972-73 and to 10.8% in 1973-74. The comparatively encouraging economic trends must be fully exploited to achieve a more satisfactory rate of savings and investment.

Though the overall food situation is satisfactory, pockets of misery persist because of the poor distribution system. The channels of public distribution are weak and in times of crises become ineffective. The consumer co-operatives, which flourish during times of scarcity, languish during periods of comparative ease in supply. Fair price shops sprout like lillies during shortages and wither away as quickly as they came into existence. It is worth considering whether the Chain Stores and

Mobile Stores sponsored by the Government should not be run on an experimental basis. If supply of essentials like foodgrains, pulses, edible oils, etc., is assured at reasonable prices, the masses may be saved from misery.

The third area calling for attention is the revival of markets for many consumer durables, which are now hit by trade recession. The small-scale industries, with meagre capital resources living from hand to mouth on daily turnover, is very seriously affected by the slackness in demand. Productive investment can help revival of demand not only for capital but consumption goods.

—R. Venkataraman
(16-9-'76)

AGRO-BASED INDUSTRIES IN INDIA'S EXPORTS

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BASIC TO an objective study of the share of agro-based industries in India's exports is an understanding of the term "agro-based industries". Unless the connotation of the term is clear, it will not be possible whether to appreciate the true purpose and potential of agro-based industries or assess their relevance to India's export trade.

Industries manufacturing "inputs" for agriculture, or processing agricultural "output", or those industries which are supported by agricultural products are classified as agro-based industries. In the first instance, agro-based industries provide the essential inputs and, in the second phase, they function as an outlet for the agricultural output. In other words, industries having "backward" and "forward" linkage with agriculture, irrespective of their size, i.e., small or medium-scale and having a direct impact and bearing on agriculture and rural economic life, can be placed in the category of agro-based industries. In this broader perspective, industries other than those doing processing of agricultural raw

material like insecticides, agricultural implements, etc., are also included in agro-based industries.

To-day, agro-based industries constitute the backbone of a developing economy like India. They have been assigned an important place in the framework of our international trade. These industries, apart from playing a dominant role in the economy, earn considerable foreign exchange.

Backbone of a Developing economy

Agro-based industries provide the base for about 51 per cent of India's exports. While certain agro-industrial products, such as tea, coffee and spices, are exported as commodities, others such as cotton, jute, oilseeds, sugarcane, etc., are exported mainly after converting them into manufactured goods. And, in respect of some of these agro-industrial products, India occupies a high place among the world's exporters. For example, in cotton textiles, India occupies the second position in terms of spindles (after the USA), third as an exporter of cotton textiles (after Japan and Hongkong). In respect of tea, India's share in world exports is about 32 per cent, though it had a much larger share at about 40 per cent over a decade