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## EDITORIALS

- Boldness Within Limits 231  
Railway Budget 232

## WEEKLY NOTES

- More Heat Than Light—Calendar Reform—Ecafe Survey—Pharmaceutical Enquiry—President's Rule for Pepsu?—Development Scheme for Andamans 234

## LETTER TO THE EDITOR

- Bokaro Power Station 235

## OFF THE RECORD

- Monetary Fund Mission 237

## FROM THE LONDON END

- Britain's Defence 239

## BOOK REVIEW

- No Magic Wand*  
—H. T. Parekh 240

## SPECIAL ARTICLES

- On Revisiting Damodar Valley From a Correspondent 238  
Export Prospects for Japan—As Surveyed by ECAFE 242  
Our Largest Nationalised Undertaking—Its Finances and Administration—'Sikiduro' 244

## AROUND THE MARKETS

- Dalal Street Buoyant 248  
Cotton Reaches New High Level 249

## COMPANY NOTES

- Alkali & Chemical Corporation 250  
Rallis India 250

## AT HOME AND ABROAD

- After Sales Service for Tractors 251

## CURRENT STATISTICS

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### The Economic Weekly

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## Boldness Within Limits

WITH the usual time lag of six months, New Delhi has responded to the complaints bitterly voiced during Diwali of deceptive abundance and threatening recession, with what it considers to be a bold budget. Development is super-imposed on inflationary expenditure intended to halt recession. Shri Chintaman Deshmukh permitted himself this measure of boldness after due consideration. His sheet-anchor in financial adventurism are the sterling balances of Rs 290 crores, to be spread over the five-year planning period. This provides a rock bottom to deficit spending of Rs 60 crores a year. During the last two years of the Plan, the over-all deficit did not exceed Rs 82 crores as against Rs 120 crores that would be permissible; a deficit of the order of Rs 100 crores for the next year would be in keeping with the strictest financial rectitude. So in raising it by another Rs 40 crores, the Finance Minister is not taking such a big risk after all, when it is remembered that Government departments do not find it easy to spend to the full the amounts that are sanctioned. This is the broad picture; the minor adjustments easily fall into their proper places in it.

Expenditure met from revenue in the current year is now placed at Rs 422.43 crores against the budget estimate of Rs 401.25 crores, largely as a result of the additional payments to the States under the Finance Commission's recommendations and increased expenditure on food subsidies. The revised estimates include thus, a provision of Rs 16.42 crores for payments to the States as their share of the Union duties of excise on tobacco, matches and vegetable products; grants-in-aid to the States are expected to amount to Rs 2.98 crores more than was provided in the budget; expenditure on food subsidies, for which the budget had provided Rs 15 crores, is now placed at Rs 21 crores.

The latitude which the Finance Minister felt he could allow himself has been exercised mainly in trying not to convert a deficit in the revised estimates for the current year into a surplus of the magnitude aimed at the time of framing the budget. As food subsidies are to go, minor adjustments in taxation are all that are necessary to turn an estimated deficit of Rs 1.05 crores in the next year's budget at the existing level of taxation into a nominal surplus of Rs 45 lakhs. Nay, more. Some relief has been given to the middle class by raising the exemption limit for income-tax from Rs 3,600 to Rs 4,200 for individuals and from Rs 7,200 to Rs 8,400 for the Hindu undivided family. With the same end in view, presumably, the duty on penicillin, antibiotics and infant foods has been reduced. These have been offset by raising the import duty on betelnuts by 2 annas per lb and those on toilet requisites and certain categories of textiles, assembled motor cars, horses and pearls. Indeed, these last may well be recorded by those who look for the picturesque as the tears of planning. There are also increases in postal rates, in some cases quite substantial. How much the higher limit for income-tax will cost in revenue and to what extent it has been offset by the other changes, it is not possible to say while going to the

press, thanks to the decision of the news agencies to flash the first part of the Finance Minister's budget speech which has already been circulated by the Press Information Bureau, instead of sending out the budget proposals first, and the second part of the speech, which are held over for later release.

From the market and foreign trade angle, the most important change is the reduction of export duty on jute sacking from Rs 175 to Rs 80 per ton, to come into operation immediately. The more significant changes on the side of expenditure to be met from revenue are that the removal of food subsidy which was estimated to cost Rs 15 crores in the last budget, and amounted to much more, viz, Rs 21 crores (revised estimate), enables the Finance Minister to increase expenditure on a number of developmental items. Among these are provision of Rs 2 crores for basic and social education. Rs 6 crores for transfer to the fund for the development of the handloom industry. Rs 1 crore for the development of small scale industry, Rs 4 crores for industrial housing. Rs 6.33 crores for community projects. Rs 1 crore for the uplift of the backward classes, Rs 3 crores for local works. Rs 50 lakhs for the national extension organisation and Rs 1.5 crores for grants to certain States for the expansion of primary education recommended by the Finance Commission. Expenditure on the relief of displaced persons is also expected to be about Rs 1 crore more than in the current year. Increased provision has also been made for research expenditure, grants to the Council of Scientific and Industrial Research and grants for the development of scheduled areas and tribes.

Business will welcome no change in corporation tax, even more, the

exemption from corporation tax of dividend income from new undertakings in specified industries to encourage new investment in these industries. Indeed, the opening of the budget session of the Bombay Stock Exchange has been extremely buoyant and textiles have given the lead, despite the minor changes in excise, duty on fine and superfine varieties of cloth, more particularly the changeover from *ad valorem* to specific duties, which work slightly to the disadvantage of the mills specialising in finer varieties.

It is only when hair-splitting of the proportion or propriety of deficit financing is viewed in the context of the changing employment situation that embarrassing questions arise. There are difficult questions to answer and complete ignorance of what happens to the bulk of the population outside the few organised industries or cities inhibits thought and baffles one's judgment. Referring to the fall in prices that had taken place earlier in the year, the Finance Minister hazarded the guess that agricultural labour had not been materially

affected by it except in the tea gardens. Is there any evidence to support this statement? May it not be that tea garden labour is organised and vocal, while the distress of the vast masses of landless labour does not register anywhere in the available statistics. The unemployment among handloom weavers receives mention and there is a provision of Rs 6 crores to benefit khadi and handloom industry. But what about the other handicrafts and the uncounted millions who ply them and are being steadily forced out from their hereditary occupations? The provision of Rs 1 crore for the development of small scale industries in the budget may rank some day with the gift of Rs 5 made by the East India Company in the year of the great famine of 1766 for the relief of the famine stricken. But these belong to different levels of thought, involve orders of magnitude that are incommensurable and raise a question of values. It is better not to mix up the two worlds, the one that goes on its appointed metallic ways and the other that is forgotten for most of the time, but cannot be forgotten for all times.

## Railway Budget

FOR the first time in a decade railway passenger traffic declined in 1950-51. Revised estimates for the current year reveal an aggravation of this tendency. Many will interpret the railway statistics to mean the onset of economic setback. There are many tests of an economic recession. Railway goods traffic is, perhaps, a better guide to the condition of the economy than passenger traffic. But it must not be denied that decreased passenger traffic reflects falling money incomes. This will not cause surprise to those who have been predicting a world economic recession. But for the Korean war, the world slump, it is argued, would have started in 1948-49. Korea prolonged the world boom by two years. By 1950-51, as railway statistics indicate, the slump began to have its repercussions. Revised railway statistics reflect its continued slump during the current year.

Shri Lal Bahadur Shastri, Transport Minister, may not be directly concerned about the probable behaviour of the world, or national economy. But he cannot escape the effects of economic fluctuations on railway finances. He is not an economic pessimist. He implies that there are influences at work which

may avert a world economic recession, or iron out some of its harsh repercussions. There is world rearmament, there are possibilities of a freer flow of world trade as a result of the coming talks in Washington between Britain and America. The World Bank has shown welcome indications of its wider responsibilities to help world economic development. Above all, there is the Five-Year Plan to insulate the Indian economy from some of the repercussions of the expected world economic recession in the absence of a total war.

Shri Shastri is moderately optimistic. There are valid assumptions for his robust outlook. He has the sense to realise that passenger traffic may not improve for a year or two. But he has reasons to anticipate a gentle revival in goods traffic. As food imports decline the railways will lose more earnings from the decline in food traffic from the port towns to the interior. But as the Five-Year Plan's economic, agricultural and industrial targets are achieved, internal goods traffic will tend to grow. An increase of ten per cent in freight traffic by the end of 1955-56 is assumed under the Plan. As the railways are the most impor-

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tant moans of transport, and are not yet threatened with any serious competition in goods traffic, the Transport Minister is not wrong in assuming that railway earnings are liable to respond to agricultural and industrial production estimated in the Plan.

There may not be any basis for undue pessimism, but railway statistics are a warning against complacency. From Rs 28.34 crores in 1950-51, the net surplus of the nationalised, re-grouped railway system declined to Rs 9.48 crores (revised) in 1952-53. It is estimated at Rs 9.31 crores for 1953-54. This budget estimate is significant, assumes goods earnings to be two per cent above the revised estimates for the current year, although passenger earnings have been estimated at the current year's low levels. Whether or not a world economic recession sets in, or deepens, it seems that the peak in railway passenger traffic has already been seen. Air travel is now becoming popular. For the past two or three years higher class railway passenger traffic has been falling. Evidently the railway authorities expect the declining tendency to continue. They are wise in their decision to abolish first-class accommodation from railways from October next. This will lead to some economy in expenditures without any expected loss in railway passenger traffic or earnings.

With the sharp fall in the revised and in the budgeted surplus for railways, the problem of capital expenditure assumes significance. Under the Five-Year Plan, railway rehabilitation and development are estimated to cost Rs 400 crores. Of this expenditure, the railways will have to provide Rs 320 crores out of their own revenues. The Transport Minister admits that the sum allotted to the railways under the Plan is well below then vast requirements, although it is not inadequate for financing normal rehabilitation and expansion of rail facilities. Shri Shastri has wisely decided not to slash capital expenditure, or the promised annual outlay on passenger amenities. False economy in capital expenditure at this stage would not only affect the prospects of railway earnings, but may also prejudice the smooth implementation of the Plan.

But the Transport Minister's cautious and hesitant assessment of future development prospects will leave misgivings. Shri Shastri assumes that the bulk of the Rs 400

crores allocated to the railways will have to be spent on rehabilitation and improvement of existing machinery and equipment. "The expenditure on the extension of rail facilities during the next two or three years will, therefore", Shri Shastri concludes, "have to be limited to what is absolutely essential". This is not a new or recent problem in railway finance. Rehabilitation must necessarily have priority. But

those who are familiar with the history of railway finance will wonder how railway earnings can be expected to recover in the absence of expansion of rail facilities. They will, therefore, hope that the Transport Minister's promise that "the development of new railway facilities will have to be dovetailed with industrial and other developments, contemplated in the Plan" will not remain a mere pious wish.