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Pakistan has been forced to ask the consortium countries to reschedule its debt payments and has asked for deferment for at least six months. This shows the critical foreign exchange reserves position which has reached its lowest ebb as the promised aid has not been forthcoming. It may, however, be stated that Pakistan is not the only country which has asked for rescheduling of its debt payments and temporary deferment of its instalments. Other countries have been placed in similar position and their requests have been granted. The conspicuous example is Pakistan's next door neighbour India who asked and got similar concessions two years ago.

Conclusions

It may be concluded that the situation, bad as it is, is not without rays of hope. The exports of jute which came to a standstill for two months have

already started moving with a gusto. So is the production in jute mills, which are now working in full strength after a two months' lull. The inherent position of Pakistan's economy is sound and will revive quite quickly, if its case for more economic aid is examined purely on its economic merits and extraneous political considerations are not brought in. If worst comes to the worse, and the flow of economic aid is seriously curtailed, Pakistan may have to defer its fourth Five-Year-Plan, which again in the writer's view will not be the great calamity, which many would make us believe. As a matter of fact it is the writer's view that instead of going on with more industrial and other projects we may halt to consolidate our existing position. If India's Fourth Plan can be deferred for nearly four years without any serious repercussion on its economy, why not Pakistan's? Perhaps this calamity may prove a blessing in disguise. Who knows?

India

On the Road Towards Progress?

by Dieter W. Vogelsang, Hamburg

A decisive new era of development opens for India. It will be largely for a woman, Indira Gandhi, whose triumph in the March elections for the central parliament was acclaimed so enthusiastically, to give it her imprint.

India is experiencing a euphoria of hopes. Stability and the capacity for political leadership appear to have been restored by Indira Gandhi's victory. But too many observers seem to be oblivious of the fact that it has all happened before in India — for 17 years, when Nehru ruled the country. He always had command of the powerful instrument of a two-thirds majority. And yet he did not achieve the crucial break-through. Unlike his daughter, Nehru had time to spare. To mention only one point of difference, there were nearly 200 mn fewer people in the country when he began to rule.

Indira Gandhi has no time left, for social unrest is keeping all parts of the country astir; her great election victory was one of the ways in which this unrest expressed itself. Recent years have

provided evidence that the mass of the Indian population is no longer willing to endure its plight as being beyond redress. The hopes with which the country now encumbers Indira Gandhi are the real burden for her. The electorate is holding Mrs Gandhi responsible for giving effect to the transformation for which it is longing. Her majority in Parliament is so great that talk of opposition stultifying her true intentions will no longer serve as an excuse.

An Inglorious Record

It remains to be seen what use Mrs Gandhi will make of the convincing mandate from her people and how she will set about raising the standard of living of the broad masses within measurable time. The record of governmental achievement under her rule to date is somewhat inglorious.

Indian economic growth is still no more than just sufficient to carry along the extra 12 to 14 mn people by whom India's population increases every year. There has been no significant improvement under Indira Gandhi's rule in the per-capita income and thus of the standard of living in the country with its, now, over 550 mn inhabitants. About 50 p.c. of the population have been starving for decades and longer. Hunger has marked these people. Physically and mentally they are underendowed; and their education and training must suffer. In working life they remain outsiders.

The Aims of the Government Statement

The election programme of the ruling Congress Party was distinguished by moderation. It had little to say about "socialist measures", nationalisation or new controls of which there had been much talk in 1970. The Government's policy statement confirmed the impression conveyed previously that Indira Gandhi would still fight shy of drastic economic experiments after her overwhelming election victory. The essential economic policy aims indicated in the Government statement are:

- ☐ A broadly conceived work procurement programme was to begin in the rural areas as early as June. It is to give the country people better roads, extended electrification and more irrigation works and drinking water plants.
- ☐ The Government wants to give continued priority to the improvement of the intolerable housing conditions of the poor in the urban slums.
- ☐ The family planning programme is to be continued far more energetically than hitherto.
- ☐ Intensification of the—in large part abortive—land reform is to promote a "more equitable social structure" and increase agricultural production. The private ownership of urban house and estate property is to be limited at the same time.
- ☐ Another aim for agriculture is the introduction of modern technology, so far confined almost exclusively to wheat growing and India's northern regions, to other crops and areas.
- ☐ Cheap loans are to be made available for previously neglected regions and population groups¹.

A first practical step was taken in the economic policy field one day before the Government statement was made: All four Planning Commission members of Ministerial rank complied with a

request from Indira Gandhi, who is the nominal chairman of the Planning Commission, and resigned from this body. A new team is to present shortly an extensive survey of the results of the Fourth Five-Year-Plan which started on April 1, 1969, and to give it a new outlook.

More State Participation in Economic Life

Besides, the economic policy programme of Indira Gandhi's Government aims at speeding up industrialisation and raising productivity in agriculture and industry. It is not yet clear, however, by what measures this aim is to be accomplished. Special groups are to be appointed first to consider the removal of obstacles which hamper the speedy implementation of investment programmes in the public and private sectors and an expansion of industrial production.

Although state enterprises are in future to occupy a "dominant position", the Congress Party is not unaware of the "important position" of private business. Hence it will do all it can to simplify the state controls and obviate delays. The licensing system is not to hinder private initiative but to advance competition.

News ways are to be found in close contact with trade unions and employers for improving the social climate and increasing labour productivity in the industrial sphere with due regard to the legitimate interests of the employees. The administrative apparatus is to be overhauled so as to ensure swift and unbureaucratic decisions. A new generation of well-educated managers is to be trained for the public and private sectors. Finally, a plan is to be drawn up and carried out for the full utilisation of science and technology for economic development.

Investment Climate in Need of Improvement

Crucial for the success of the Government's economic policy will be an improvement in the investment climate. It is equally true of both domestic and foreign-controlled enterprises that replacement investments are made only reluctantly and new investments hardly at all. Machinery imports have dropped by about Rs 1 bn in one year. The producer goods index (1960 = 100) has fallen from 244 in 1965/66 to 214 in the 1969/70 fiscal year.

This deterioration in the investment climate is the result of an unwieldy bureaucracy, a new patent law, new price regulations for pharmaceuticals, higher income tax and the threat, still suspended over private industry, of converting the industrial loans from public financial institutions into share capital. Private enterprise will shun new investment—and

¹ Organisational preparations have already been made by the setting-up of the Credit Guarantee Corporation of India.

thus delay the recovery from the economic recession—at least until the new Government has put the whole of its programme on the table. The Government statement did not make the position sufficiently clear.

The right to private ownership, it is true, has been explicitly recognised. But whether it is right in the present situation to have still more state activity is questionable. The high losses reported year after year by the industrial undertakings in the state sector should be regarded as a warning. It is also doubtful whether the Government will be able to urge more discipline on the trade unions and workers. Businessmen see themselves caught in a vice between rising costs and, in part, state-fixed selling prices. Much of the scope for private initiative in the economy has been lost.

Creation of Employment by Inflation?

On one aspect the Government statement maintains complete silence — the amount and origin of the considerable sums of money needed. Huge amounts will be required, especially for carrying out the programmes aiming at direct and immediate improvement of the lot of the masses. About 500,000 unemployed are to be found work by the projected work procurement programme for the countryside, but this is no more than an indispensable prelude, the proverbial drop on a hot stone. Today there are already between 15 and 20 mn unemployed in India. Every day, 7,000 more are unable to find jobs, according to estimates by the Planning Commission. Besides, between 50 and 100 mn people are not adequately employed. To achieve an appreciable improvement, many times the sum earmarked for the current budget year would have to be available at once. Even the envisaged expenditure of Rs 500 mn (Rs7.5 = US\$ 1) necessitates deficit budgeting and has an inflationary element.

A comparison of per-capita income and cost-of-living index demonstrates what little chance there is of the average Indian absorbing further price increases. Incomes have risen from Rs 255 in 1950 to Rs 328 in 1970. The workers' cost-of-living index (1949 = 100) however has more than doubled over the same period, from 105 to 215. A stronger inflationary trend is bound to hit the poor and unemployed most and likely to aggravate aggressiveness and tension and to add to the internal political problems. Politicians and businessmen should look on the situation in Calcutta as a warning example.

It may be said with some assurance that taxation will have to be stepped up substantially to raise more money for the state. Middle class people with

earnings over Rs 2,000 a month are likely to bear the brunt since taxes on luxuries and still higher rates for the upper income brackets can scarcely be made to yield much more. The tax laws are already imposing an extremely heavy burden on the registered tax-payers of whom there are no more than 1,500,000 in a country of 550 millions! Tax evasion and the circulation of black money have probably assumed vast proportions as a result. The enlargement of the tax basis has therefore again come up for discussion.

Need for Taxing Agriculture

51 p.c. of India's national income is earned in agriculture but this part of the economy has so far been utterly unproductive as a revenue-raiser. There is an urgent need for extracting at last a contribution to tax revenue from the well-to-do farmers with substantial holdings. Thanks to the "green revolution" they have managed to increase their incomes, in part considerably. A good harvest is expected for the fourth year running; a grain crop of 105 mn tons, 5.5 mn tons more than last year, is anticipated. It is however to be expected that the Government will postpone a decision until after the state elections in 1972. As in other countries, it does not wish to incur the displeasure of the "Green Front".

A land reform and, linked to it, a fairer distribution of agricultural property have always featured on the programmes of the Congress Party. Hitherto they have been foiled by the resistance of the state governments to whom the constitution reserves the right of decision in this field. Although the Congress Party has meanwhile returned to power in most of the states and Indira Gandhi's spectacular election victory may promote a new feeling of urgency in the states, excessive optimism would be out of place. Here, too, the Prime Minister must keep a wary eye on the state elections due in early 1972.

In Need of Leadership

No one in India is in any doubt that in a developing country with such glaring social contrasts economic reforms are called for and may have significant consequences. What India has always lacked and is still lacking today is a political and economic leadership which thinks ahead and plans ahead. India is also in want of a cadre of capable managers and skilled administrators who impart the necessary impetus to measures of reform. The crucial issue with which the new Government must now grapple is how it can in these circumstances enlarge the economic "cake" and share it out with more social justice.