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Recession In Indian Economy

Even after fifteen years of planned economic development the goal of a stable and self sufficient economy remains far away. Despite a few achivements in the economic and social fields serious strains and imbalances face us today. Economic situation in India is full of contradictions. Our economy is currently facing the strange and most intriguing situation where the industrial activity has beed depressed and there are pockets of underutilisation of capacity and of unemployment in an overall inflationary context. The rate of industrial growth reached the rock bottom level at 0·5 percent in April-June 1967. It averaged 2·8% for the whole of 1966-67, Industries which have taken thousands of crores to set up are not producing at even half or three-fourths of their capacity.

There is a curious anomaly that while the recession was evident in lower production, fall in employment and larger inventories there was no fall in the general price level and therefore the current recession does not fit neatly into text-book definitions. Besides, it is not wide-spread and is mainly confined to industries producing capital goods and those dependant on agricultural raw-materials. Among the segments affected by recession the engineering industry is the worst hit, as is evident from the accumulation of inventory, steep decline in output and substantial underutilisation of capacity. In fact, the symptoms of recession were first visible in engineering industry because it grows with boom and suffers first under conditions of recession. A study made by F.I.C.C.I. of the production and capacity utilisation for 1965 and 1966 in respect of about 400 industries has revealed that production declined in respect of 133 industries. The following table includes the large increase in idle capacity in respect of some selected industries :

Idle capacity as percentage of total installed capacity

	Years	
Industry	1965	1966
Boiler	28	66
Agricultural Machinery	10	76
Machine Tools	25	28
Steel Castings	25	53

Steel Forgings	6	36
Electric Fans	5	14
Railway Wagons	14	49
Heavy Structurals	14	35

Source : Eastern Economists Annual number 1968; page 1211

It has been found that most of the engineering units carried stocks of finished products ranging from 5% to 10% of their output in 1967. A more recent survey by F.I.C.C.I. underlines the point that the whole outlook for the growth and investment has been affected by the recession. According[1] to the survey, output in the engineering industry as a whole fell by 19·5%. A decline in industrial praduction has had its repercussions on the employment situation also and it is estimated that the current recession has led to the lay off in the different industries to the tune of about 200,000 workers which is roughly 4 percent of the registered factory employment.[2] In case of Industries dependant on agricultural raw materils mainly Cotton textiles, Jute and Sugar, lower production and accumulation of unsold stock have been reported. As regards manufactured articles, a noteworthy fact is the cuts in prices effected by several industries which have been faced by a recession for tne last six months or so. The following data gives an idea of price cuts effected due to lower demand.

Sector	**Approx. order of price reduction**
Steel structurals	20%
Steel Castings	25% to 40%
Electricl plant items	10% to 20%
Electrical cansumer goods	5% to 10%
Crains, lifts, boilers etc.	10% to 25%
Sanitary ware	25% to 50%
Cables	25%
Ready made garments	5% to 15%

Source : Tata Quarterly, July/October 1967 Economic and financial Review page 64.

This all seems to bring out that the industrial recession is a phenomenon of considerable and general consequence and calls for a correct diagnosis of the situation to be followed by suitable and adequate steps by the governments and the industrialists themselves.

Causative Factors

1. F.I.C.C.I. Survey on recession, Indian Express January 23, 1968.
2. Praductivity Vol. viii No. 3 1967 page 335.

Many theories have been advanced about the diagnosis and remedy, very often to suit the ideology of the person offering them. However, the recent recessionary trends consist, it appears, of four distinct elements. First, lack of demand for many types of engineering goods and even electrical equipments is due to severe pruning of planned expenditure by government from 500 crores in 1964-65 to only 303 crores in 1967-68. Planning since 1951, it appears, has not resulted in that creation of demand for goods and services which would sustain fairly high level of industrial production even if there was reduced outlay on developmental sehemes in the public sector. Railway Board has cut down the programme of wagon building by 33 percent. This has affected several engineering units besides wagon building industry. Production capacities were built up on the basis of earlier higher expectations and now are lying idle due to lack of demand. In this context, recent remedial measures by the government in the shape of more orders to wagon industry and a few export orders from abroad are likely to ease the situation.

The present difficulties have been aggravated by successive agricultural failures. The servere draught of the last two years adversely affected industrial output because industries based on agriculture could not secure adequate supplies of raw materials. Moreover, fall in demand for industrial goods has been due to erosion of purchasing power among the masses because of the high prices of the foodgrains.

Thirdly, public sector industries were generally overcapitalized due to high cost of imported equipments. Consequently, our products could not compete in the foreign markets because of the cost of production being high. Lack of cost consciousness resulted in pricing our manufactureres out of the international markets. Moreover, they did not make efforts to lower down cost of production and augment exports because they got higher prices in the internal market and, therefore, were not interested in exports. In case of even basic products as steel and fertilizers prices have not been maintained at reasonable levels. With the increase in steel prices recently domestic prices as compared to those prevailing in other countries are higher by about 25% to 30% the present recession thus is a logical sequel to the policy of promoting economic growth irrespective of cost considerations. The process led to the worsenning of inflationary pressures and culminated in recession.

Lastly, during the one and half decades we have been shifting colossal amounts of capital and other investment resources to the development of so called infra-structure industries at the cost of consumer industries and have built up excess capacities, It can be stated that excessive and misdirected investment under a wrong scheme of priorities and allocation of resources has contributed in no small measure to the present state of affairs.

Way out

In the current agricultural year a bumper harvest is expected. This may ease to some extent the stresses, whether inflationary, or recessionary and restore the balance between industry and agriculture. But a better crop by itself will not stimulate industrial growth and neither the government nor industry can hand over its responsibilities to the divinities which may preside over our monsoons. Recession demands an increase in the rate of investment in agriculture and industry for which an improved climate of investment is necessary. However, from the short term point of view, it can be suggested that there should be an increase in governmental expenditure to stengthen the infra-structure of the economy and to complete projects having a short gestation period Moreover, the public investment should be diverted into right avenues not for duplicating capacities but for regenerating activities in slack industrial areas.

It would be worthwhile to consider a more flexible use of bank resources to ginger up sections of industries affected by recession. New directions of liberal credit in the monetary strategy of the Reserve Bank will no doubt help in the revival of the economy but the reduction in Bank Rate from 6% to 5% can stimulate investment activity only if commercial banks and financial institutions lower their lending rates. Furthermore, it may be desirable to give greater flexibility to units to produce what they can sell rather than limit them to producting what they have been licensed to produce. Diversification of production line would provide the units opportunities to manufacture demand-oriented products.

Industries should put their house in order and reduce prices by lowering overheads through increasing productive efficiency, streamlining and rationalising the decision making machinery and effective cost and quality control. This would enable them to augment exports as well to create more demands in the home markets.

Besides, there is a greater need of stability in foodgrain prices so as to leave more purchasing power with the people. Every effort should be made to hold the prices of finished goods as also of the inputs in the industry.

From the long term point of view, vigorous measures are needed to step up the rate of saving and mobilise non-inflationary resources for investments. An attempt to find a short cut to saving through deficit financing in future would only spell doom. The rate of saving which is currently about 7 percent has not moved up during the past two years. What is essential is to take steps to adopt policies aimed at increasing the flow of savings and the most effective utilisation of resources.

Johari Lal