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Lecture notes of
speech at Madras-18.9.60:

INFLATION

I

688

What is Inflation?

Too much money chasing........

Nature of Money

Medium of exchange
Link with yesterday and tomorrow

Stability - Honest Rupee

Expansion must equal expansion of production

II

<u>How created</u>

1. Budget Deficit
   Deficit financing - Printing, counterfeiting

2. Created Money - Bank credit

3. Investment of non-existent resources cf Meranthe

   <u>Graham Hutton</u>: "If you try to invest in new capital equipment within a given period <u>more</u> resources than your people are prepared voluntarily, or can be compelled by the State, to save from their current production, all prices will get out of gear and inflation will result." (p.126)

   II and III Plans

4. Investment in low return projects

e.g. Steel - 1 m. ton	--	Rs. 180 crores
Finished steel		Rs. 45 " p.a.
Employment		8,000 men

   cf. Engineering - Rs.180 crores investment
   = Rs. 200 crores prod. p.a.
   Employment potential 100,000 men.
   Fertilisers, insecticides, even better

5.. Unproductive expenditure - Army of clerks

   Estimates Committee - out of Rs.1044 crores additional taxation for II Plan, only Rs.439 crores.

6. Excise Duties
   e.g. Match box 3 + 3
   Petrol

III

Effects

1. Economic instability & insecurity

   Disincentive to saving, investment and production

   Spending & Gold smuggling and hoarding

2. All fixed income groups suffer -

   e.g. workers and middle classes

   Lag in wages - e.g. Central Govt. employees

3. Middlemen, speculators and dealers in licenses thrive

4. Inflation is theft

   Kripalani : 'Pick-pocketing'

   Keynes: "Debauching a currency saps foundations of society more subtly, swiftly and permanently than any other conspiracy".

   P.M. "A little inflation"

   c.f. Pregnancy

IV

HOW MUCH?

Morarji Desai - 1950/50

No inflation during I Plan

During past 6 months - prices up 14.2%

- double annual average of past 5 years

Past 5½ years:

1) India 33%

2) Egypt & Mexico 21%

3) Others - Not more than 2%

Since 1939 - 20.6 n.p.

e.g. Doctor & Patient cf. Morarji

V

REMEDY

Holding price line: nonsense

Not controls - only treating symptoms

Hutton (P.127/128):

"The democratic State with a mixed economy is forced to control and regulate private persons and businesses progressively. It is forced, having unleashed inflation, to cover up its effects. It tries to remove the symptoms by new State controls, new regulations, and new laws about the minutiae of personal and corporate life, rather than to remove the disease. And thus democracy undoes itself by creating an increasingly compulsive, restrictive bureaucracy, upon which everyone and everything increasingly come to depend for permits, nods and so-called initiatives. In the end democratic Parliaments see their own freedom fanish with the value of the currency, and a centralised bureaucracy reigns. A centralised State socialism comes about malgre governments, oppositions and citizenry - malgre even the Socialists, for they would prefer to bring about their ideal economy by a safer road."

"The fallacy that you can control inflation in a democracy through bureaucratic controls over prices, production and trade persists among us today. But only symptoms are removed; the lady has her double-chin removed by surgery, only to discover it at the back of her neck. The State - today or in ~~history~~ history - merely removes one symptom and replaces it with another; favours a new class of persons by inflation, while penalizing another; or, in attempting to regulate social and economic life while persisting with inflation, runs the machinery of democratic government, the currency itself, and the entirety of social law and order headlong into catastrophe."

e.g. Punjab & M.P. Wheat - buy at Rs.14, sell at Rs.17
- no seen overheads

Punjab —— Sugar - buy at Rs.38, sell at Rs.43.

Corruption - Commission

Real choice
Only two roads

Hutton (P.100) "From that point or stage there are only two roads: one leading on to the overthrow of democracy and personal freedoms altogether; the other leading back to sound money and a reasonable balance between State and Private economic action, upon which personal freedoms depend."

Scrap III Plan

No deficit finance

Reduce excise duties

Our alternative - encourage investment and production by people

III Plan production if productive forces liberated

Division in Lok Sabha.