Puzzles in Budgetary Policies

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This paper identifies the more glaring puzzles and contradictions in the policy instruments embodied in the budget, seeks to locate their sources in terms of macro-economic models and examines the efficacy of alternative policies. The analysis leads to the conclusion that there is substantial scope for public investment without adding to inflationary pressures. Such investment would in fact raise the overall saving ratio of the economy and reduce the investment-saving gap in the public sector. Also missing in the budgetary measures is a rational system of tariffs, taxes and subsidies based on considerations of both comparative advantage in production and comparative benefits from domestic absorption of goods and services.

Do I contradict myself?
Very well then ... I contradict myself;
I am large ... I contain multitudes.
— Whitman

THE purpose of the present paper is to examine some important aspects of budgetary policies which do not appear to be based on a coherent view of the working of the Indian economy. Section I draws attention to the puzzling and contradictory nature of the policy instruments adopted under the budget. Sections II and III try to locate the sources of these puzzles in terms of macro-economic models and examine, with special reference to the Indian economy, the efficacy of alternative policies. Section IV summarises the main conclusions.

I
Goals and Policies

Like most official documents, the *Economic Survey 1994-95* and the Union Budget 1995-96 contain a number of observations and policy statements which are difficult to reconcile in terms of a consistent macro-economic framework. Before going into an evaluation of budgetary policies it is useful to identify the most glaring of these contradictions and examine their nature in terms of objectives, macro-economic linkages and constraints perceived to be in force at the current juncture.

GOVERNMENT FINANCE AND INFLATION

While dealing with different modes of financing government expenditure both the government and its critics recognise the inflationary impact of a rise in indirect taxes and administered prices of goods and services like petroleum products, coal, electricity or railway freight. However, financing government expenditure through borrowing from the public or the Reserve Bank is also considered inflationary. This indeed may constitute an example of policy dilemma the resolution of which requires *quantitative* estimates of the relative inflationary effects of indirect taxes, borrowing from the public and deficit financing. But two basic problems

with such a view remain. First, when the contemplated changes in policy instruments are relatively small or the numerical values of the coefficients are estimated from a linear model (as they most often are), only one (and not a combination) of the three modes of finance would yield the minimum rate of inflation. The reliance on more than one mode of funding government expenditure can then be defended only on the basis of multiple objectives, lack of information or uncertainty. Second and more important, while the inflationary pressure from indirect taxes is supposed to operate through the cost push effect, the proposition that an enlargement of fiscal deficit raises the prices level is derived entirely from the demand pull theory of inflation. Since the policy implications of the two theories are quite different, it is important to examine their relevance before one can assess the efficacy of alternative fiscal instruments.

POLICIES IN A DEMAND CONSTRAINT REGIME

Short-term policies relating to the level of government expenditure and its financing depend crucially on whether the economy is characterised by excess capacity or production is constrained by supply bottlenecks. The industrial sector in India has been plagued by underutilised capacity for quite some time and the government has tried to tackle the problem in the current budget by reducing excise duties on a wide range of industrial products. However, this attempt at raising demand does not tally with measures like cutback in government expenditure on capital account, scaling down of monetised deficit and the tight money policy pursued by the Reserve Bank of India – measures which cannot but have a contractionary impact on the level of domestic demand and production.

No less puzzling are the policies relating to imports and foreign investment. Given the excess capacity in the industrial sector and the perception that scarcity of imported inputs is no longer a binding constraint on domestic production, it is difficult to explain the economic rationale behind the inflow of

foreign capital (see Section II). Since the middle of 1993 inflow of foreign funds (through GDRs, foreign institutional investments and other routes) has accounted for the major part of the increase in reserve money and constituted a costly means of expansion of domestic credit [Rakshit 1994]. Utilisation of these funds through import liberalisation, as attempted in the current budget, would be contractionary and run counter to the objective of raising capacity utilisation.

GROWTH PROMOTING STRATEGY

The ministry of finance appears keenly alive to the importance of saving and investment, especially in infrastructure, in raising the long run growth rate of the economy. But the budget is not on the whole designed for reversing the declining trend in the investment and saving rates over the last four years. Reductions in excise duties on a wide range of goods bought by the middle and upper income groups and extension of facilities for consumer good imports are likely to reduce the ratio of investment to consumption and put obstacles in the process of transition to a higher growth path. Cuts in capital formation through the central budget, reduction in monetised deficit and tight money policy will have similar consequences in view of (a) the financial crowding out effect of enhanced borrowing from the public; and (b) complementarity between private and public investment.

Note finally, that considerations of containing the fiscal deficit have prompted the government to reduce budgetary support to many a deserving sector. But such considerations are not reflected in reliance on borrowing from the public at high interest rates and fiscal concessions to upper and middle class consumption. Neither is it easy to resolve, in the context of the widely acknowledged role of seigniorage as a means of financing public investment, the puzzle of the gradual reduction of monetised deficit (in absolute terms) over the next two years and its complete abandonment from 1997-98 onwards.

II
Budgetary Instruments:
An Aggregative View

In order to appreciate the scope for and limits to the deployment of alternative budgetary measures we may first take a quick look at their implications in a one sector model used in mainstream macroeconomics. If the economy is characterised by demand constraint and mark up pricing, the following policy conclusions are immediate. First, all worthwhile public expenditure (on investment or consumption) should be financed by borrowing from the Reserve Bank. In the short run this will generate additional supply of loans through the operation of money and credit multipliers and help raising the level of private investment. The long run effect of the policy consists in the minimisation of interest burden on public debt the most important element of which is the transfer of income from the public to the private sector and the consequent lowering of the aggregate saving ratio.

Second, indirect taxes tend to raise prices and reduce, *ceteris paribus*, the levels of output and employment. These effects could be substantial when taxes are imposed on intermediate goods and money wages are linked, albeit imperfectly, to the cost of living index.

Third, capital inflow from the rest of the world may make economic sense to individual investors, but entails substantial cost to the economy. To the extent these funds are used to finance imports, the economy suffers from a contractionary impact in the short run. In the long run the outflow of interest and profits on foreign capital erodes the current account surplus and reduces the ratio of saving to national income [Rakshit 1994]. It is only when the economy is capacity or foreign exchange constrained can inflow of foreign funds (as distinguished from technology imports) play a positive role in promoting domestic investment and economic growth.

SUPPLY CONSTRAINT

The problem of formulating fiscal policies becomes difficult when the economy operates close to full capacity, the government's ability to raise direct taxes is severely limited and both the aggregate saving ratio and public investment need to be increased for stepping up economic growth. Thus if India is to catch up with the fast growing countries of the world, the domestic saving ratio must be raised from its current level of 20.4 per cent to more than 30 per cent over a period of, say, five to seven years – a by no means impossible task, as the experience of east and southeast Asian countries suggests. Again, one of the most important aspects of efficient

allocation of resources is the maintenance of the optimum ratio between what development economists call directly productive investment and investment in social and economic infrastructure in the form of health, education, power, marketing network, and transport and communication. It is important to keep these considerations in view while judging the short and the long run implications of fiscal instruments for inflation, saving and incremental capital-output ratio.

With a binding capacity constraint prices tend to respond to demand-supply imbalance so that conclusions drawn on the basis of cost-push mechanism will no longer be generally valid. Thus contrary to the widely prevalent view even indirect taxes will be disinflationary as they effect a transfer of purchasing power from the private sector to the government. The efficacy of indirect taxes is however seriously impaired when the real wage rate and the mark up (over indirect tax-inclusive cost) that workers and firms seek to attain at full capacity output are relatively high. Beyond a point an increase in the indirect tax rate then generates inflationary depression (with an imperfectly elastic supply of credit). Hence arises the need for alternative modes of financing public investment.

Operation of supply constraint also limits, to be sure, the role of seigniorage as a means of financing government expenditure, but still the instrument does not lose all its potency [Buiter 1990; Rakshit 1982]. In a growing economy there is always a non-inflationary level of deficit financing and this level approximates the product of the growth of income, income elasticity of demand for reserve money and its initial stock less the addition to the optimum stock of foreign exchange reserves due to the rise in foreign trade. Thus the scope for deficit financing could be substantial when the economy experience increasing monetisation and financial deepening, and a consequent rise in the income elasticity of demand for reserve money.

Again, as the literature on optimum seigniorage suggests, the government can up to a point appropriate resources through an increase in monetised deficit even when the price rise partly erodes the purchasing power of net RBI credit to the government. The problem here arises in the form of a trade-off between inflation and government expenditure at the margin. More fundamentally, one may view this as a trade-off between a higher *short-run* inflation and a larger long-run growth with a lower rate of inflation. To the extent monetised deficit forces a cut in private consumption and raises the ratio of infrastructural investment to capital accumulation in directly productive sectors, there is a step-up in the growth rate of the economy and an enlargement of the

scope for non-inflationary seigniorage in the long run.

It is also clear that so long as the ratio of infrastructural to directly productive capital stock is suboptimal, there is no case for Reserve Bank credit to the commercial sector or accumulation of foreign exchange reserves[1] at the expense of monetised deficit (as has been happening over the last two years). Such a switch raises the overall incremental capital-output ratio of the economy and reduces its long-run saving potential as the government is forced to borrow from the market at high rates of interest. Indeed, under the conditions noted above, seigniorage, backed by a rise in cash reserve ratio, can promote growth without creating inflationary pressure.

What about the impact of an increase in cash reserve ratio on the profitability of the banking system? The widespread notion that the impact is unambiguously adverse is based on a somewhat narrow and partial view of the problem. Most econometric studies suggest that the demand for bank credit is relatively interest inelastic.[2] In a flexible interest rate regime a credit squeeze through a rise in CRR can thus enhance rather than reduce earnings of commercial banks. Second, when public investment raises the productivity of resources in the rest of economy, there is an associated increase in the interest rate at which banks can lend to the commercial sector.[3] Third, one of the most important determinants of profitability of banks is their scale of operation so that almost all growth promoting strategies would generally contribute towards the long-run viability of the banking system.

Our analysis suggests that it is only after the government has exhausted the possibilities of seigniorage and indirect taxes should it take recourse to market borrowing. The reason lies primarily in the high interest burden of such loans and the inability of the fiscal machinery to mop up private gains from public investment. Quite clearly, the scope for investment in social overheads through market borrowing becomes larger, the greater the efficiency of the tax system and the easier the problem of raising revenue from the beneficiaries.

Emergence of supply bottlenecks (or foreign exchange constraint) creates an important role for foreign capital in supplementing domestic saving and raising the growth rate of the economy. At the same time it is necessary to guard against some adverse consequences of borrowing from abroad. In view of the nature of the fiscal constraint considered in connection with market borrowing, foreign funds should be used primarily for financing directly productive investment.[4] However, it is also necessary to use fiscal instruments in order to correct for the deficiency of private economic calculas in respect of foreign

borrowing. The necessity arises on several counts. First, the cost of borrowing to a private investor is approximated by the interest rate; but since the country faces an upward rising supply of credit in the international market, the marginal cost of borrowing to the country exceeds the interest rate at which an individual investor can borrow. Second, when the country is not 'small' in respect of its exports (as most countries including India are not), the marginal return on investment evaluated in foreign exchange will be less to the country than to the private producers. Third, an increase in the ratio of debt servicing to GDP raises the degree of risk on the balance of payments front, especially when the international capital market is imperfect,[5] export demand is subject to wide fluctuations and business cycles in advanced countries generate more or less symmetrical movement in the demand for almost all traded goods. Hence even when foreign capital can contribute significantly to economic growth, the government needs to impose a tax on inflow of foreign funds in order to ensure the optimum scale of borrowing from abroad.

III
Neo-Structuralist Perspective

Some of the most important problems of public policy in a developing economy cannot be examined in terms of a single-sector model. This is true for policies relating to not only resource allocation, but also macro problems like inflation, growth and balance of trade. There are significant differences across sectors concerning the constraint on their current production, pattern of organisation, adjustment in prices to changes in demand and supply conditions, and the nature of the product. For the Indian economy the following structural features are of special significance in framing government policies.

First, free market prices of agricultural goods are market clearing, but prices of industrial goods and services, particularly those produced in the organised sector, are mostly administered and cost driven. Second, as of now public enterprises account for the major part of production in the infrastructural sector as also in basic and capital goods industries. Third, movement in foodgrains prices and a few items like clothing and fuel are the most important determinants of changes in the cost of living index of rural labourers and urban manual workers, and have a significant impact on the incidence of poerty. Fourth, in spite of the increase in its output during 1994-95, the industrial sector is faced with the problem of excess capacity. However, the supply of power and other infrastructural facilities is soon expected to emerge as a binding constraint

unless substantial investment is undertaken in these fields. Fifth, while the scheme for bank credit to priority sector has not been abandoned under the new economic policy, the supply of loans to farmers and other borrowers in the organised sector has over the last few years been consistently below the target.

In order to appreciate the significance of these factors for public policy we need to keep in view some of the crucial macro-economic linkages and nature of the interaction between different sectors. As already pointed out, quite a few government policies under the current budget are based on the perception that industrial production is constrained by the level of demand. But this does not necessarily call for fiscal measures aimed at an across-the-board increase in the demand for industrial goods. The reason lies in interaction with and feedback from other sectors of the economy. An increase in the production of industrial goods creates additional demand for food and raw materials like cotton and sugar cane supplied by the agricultural sector. Given the responsiveness of prices of primary products to demand-supply imbalance, relaxation of demand constraint in industrial sector is not thus without inflationary consequences.

This inflationary pressure is strengthened by the operation of three other factors. First, cost escalation in agro-based industries has a direct impact on prices of their products. Second, in all industries, whether they are directly agro-based or not, money wages tend to rise as they are adjusted to the cost of living index the most important constituents of which are prices of foodgrains and other goods produced with inputs from the primary sector. Third, the (income- and price-induced) increase in the demand for imports of both intermediate inputs and final products, and the reduced competitiveness of exports due to rise in domestic prices enlarge the deficit in the balance of trade. When a flexible exchange rate regime is in force, the trade gap would be closed through a depreciation of the rupee; but in the process the domestic price level will tend to rise due to increase in prices of intermediate and final products procured from the rest of the world.

DEMAND MANAGEMENT

Several policy conclusions follow from the structural characteristics and macro-economic linkages noted above. The first and the most important is the superiority of public investment over promotion of upper or middle class consumption as a means of attaining both short and long-run objectives. As we have emphasised elsewhere [Rakshit 1994], given the large presence of public enterprises in capital,

basic and intermediate goods industries and the fact that the overwhelming part of the wage bill in these enterprises constitutes fixed and not a variable costs, the secondary expansion of demand (and hence the inflationary pressure) generated through public (or for that matter private) investment will be negligible. What is no less important for an economy subject to the fiscal constraint, the marginal increase in public saving will be close to public investment so that contrary to the conventional wisdom such expenditure would not add significantly to what IMF calls the public sector borrowing requirement (which equals the fiscal deficit plus borrowing by public sector undertakings).

In view of the complementarity between public and private investment development economists have noted the difficulty of converting the domestic saving potential into realised investment in an economy threatened with an internal debt trap [Bacha 1990; Taylor 1991]. However, they have ignored the self-financing nature of public investment in a country like India. Indeed, with a strong positive link between capital formation in private and public sectors, an autonomous increase in government investment can turn out to be a potent instrument for *reducing* the investment-saving gap in the public sector, avoiding the internal debt trap, and raising the long run growth rate of the economy! The nature of the economic mechanism generating these effects may be illustrated with a simple example. Assume that (a) a unit increase in investment expenditure raises total profits in the public sector (inclusive of additional government revenue) by 0.8 units[6]; and (b) a unit of public investment induces 0.6 units of capital accumulation in the private sector. Every 100 rupee increase in government expenditure on investment will then reduce the investment-saving gap in the public sector by Rs 28. This provides yet another instance of the fallacy of composition and the folly of relying on the partial approach in framing public policies.

What about the excess capacity in consumer goods industries, especially those producing white goods and other items of upper and middle class consumption? The perception that the existence of excess capacity in a particular group of industries calls for a cut in domestic duties on those goods ignores important inter-sectoral linkages. To the extent production of these goods involves increased use of agricultural products, imports or scarce universal intermediates, there is a cost in terms of foregone investment or current consumption of the basic necessities of life. This points to the severe limitations of the trickle down mechanism and of the policy of promoting labour-intensive activities irrespective of the nature of the their products.

TAXES AND SUBSIDIES

The foregoing analysis suggests that even though underutilised capacity prevails in some sectors, there can be a trade-off between growth and inflation (or incidence of poverty) due to import costs or supply bottlenecks operating elsewhere in the system. The scope for non-inflationary growth, it is also not difficult to see, is reduced considerably to the extent scarce resources are used directly or indirectly in supporting non-essential consumption. Hence arises the need for taxing such consumption when direct taxes cannot be used to effect the required cut in the purchasing power of the upper and middle income groups.

An essential requirement for containing inflation is the relaxation of the supply constraint in the agricultural sector. It is in this context that one has to resolve the controversy regarding food and fertiliser subsidy. A number of economists as also the *Economic Survey 1994-95* have singled out the increase in procurement prices as an important factor contributing to double digit inflation during 1994-95. However, the ratio of subsidy to GDP was no more than 1.1 per cent in 1994-95 compared with 2.0 per cent in 1990-91 and 1.5 per cent in 1992-93 and 1993-94. Again, the *Economic Survey 1994-95* itself draws attention to the role of high procurement prices in raising agricultural output which *ceteris paribus* should have had a disinflationary effect on the economy.

In order to appreciate the effects of food policy it is necessary to consider (a) the supply response to procurement price and the cost of fertiliser; (b) the issue price and addition to stocks by Food Corporation of India (FCI); and (c) the level of subsidy on agriculture and its feedback effect from the rest of the economy [Das 1989; Dasgupta 1989; Storm 1993). With a positive supply response and no addition to FCI stocks, food and fertiliser subsidies should tend to reduce prices of farm products and hence contain the cost escalation in the non-agricultural sector. The disinflationary effects are reduced if not reversed when additional income accruing to farmers produces a large multiplier effect and other demand generating forces are at work in the non-agricultural sector.

So far as the 1994-95 experience is concerned, perhaps the single most important source of inflation was the large addition to stocks by FCI in the face of the rise in foodgrains output at 1.6 per cent lagging behind the population growth rate of about 2 per cent. The problem was compounded by the increase in demand for non-agricultural goods aided by the consumption - promoting measures of the

government. Had FCI released its excess stock in the domestic market, both foodgrains prices and the general price level would have comedown. The operation could no doubt have involved some loss to FCI with the widening of the gap between the procurement price and the issue or/and market price. But given the excess stock at the disposal of FCI and high cost of storage, the loss would have been less than that of carrying the stock for one or two years. Be that as it may, from the viewpoint of short run inflationary consequences, not only is the loss notional, but there is also a decline in public sector borrowing requirement.

Many a mix up in agricultural policy arises from not distinguishing between two roles of Food Corporation of India. The first role concerns the intertemporal stabilisation of foodgrains prices and in this regard FCI only supplements the activities of private traders. The second objective of FCI is provision of food security the most important component of which is the availability of foodgrains at relatively low prices. Food and fertiliser subsidies should be designed primarily for the promotion of the second objective. The implication is that there is a failure in the design and/or implementation of these policies when FCI carries stocks in excess (or short) of what is required for moderating inter-year fluctuations in food prices.

If we ignore external links, food or fertiliser subsidies *per se* do not involve any cost to the economy so long as agricultural production is price responsive and industries operate with excess capacity. There is a supply side boost to agricultural output (through enhanced profitability), but this boost need not be at the expense of investment in any sector. Indeed, due to intersectoral linkages noted above, an increase in public investment has now to be supported by additional budgetary support to agriculture in order to reduce the inflationary pressure on food prices and the consequent rise in industrial costs. A longer term solution to the problem of capacity utilisation in industries due to scarcity of farm products lies in enhanced infrastructural investment in agriculture which crowds in private investment and enlarges the price responsiveness of agricultural production.[7]

When industrial production is constrained by capacity, infrastructural facilities or other supply side factors, food and fertiliser subsidies cease to be costless to the economy. The cost in real terms is nothing but foregone investment and/or consumption of non-agricultural goods and services. Hence emerges the problem of deciding on the optimum scale of subsidies to agriculture which in its turn involves the problem of trade-off between current and future rates

of inflation and growth. Given the operation of the law of diminishing returns to variable inputs, it is quite clear that beyond a point food and fertiliser subsidies will be less efficient than agricultural investment in promoting the objective of non-inflationary growth. But to put the record straight, such a choice should be relevant only when industrial production is not demand-constrained *and* all possible fiscal measures have been taken to reduce private and public profligacy.

EXPLOITING EXTERNAL LINKS

Some of the policy conclusions drawn above are required to be revised where we take account of trading opportunities open to the economy. However, even if we ignore problems relating to scale economies, learning by doing and all that, blanket trade liberalisation with the removal of all tariffs and subsidies will not generate the optimum scale and pattern of foreign trade. Promotion of basic economic objectives requires trade policies designed for (a) relaxing the constraint on capacity utilisation faced by the economy; (b) restructuring production activities in line with dynamic comparative advantage; *and* (c) attaining the optimum composition of domestic absorption. To be more concrete, let us indicate how these considerations affect the policies suggested for a closed economy. For simplicity we shall abstract from economies of scale, endogenous technical progress and related issues.

We have noted how the objective of non-inflationary growth can be secured through public investment with support to agriculture when industrial sector is faced with demand constraint. We have also suggested that production of white goods and other articles of upper class consumption goes against this basic objective. With possibilities for foreign trade, several options for furthering the objective are opened up. First, white goods may be sold abroad in order to import foodgrains so long as import per unit of export is more than the amount of food required in its production. The implication is that contrary to the policies adopted in the current budget, there should be a stiff excise duty on the production of luxury items supplemented by countervailing duties on their imports and duty drawback on exports. This should promote allocative efficiency without distorting the pattern of domestic absorption. If these industries are not internationally competitive, some export subsidy along with a tax on investment in these sectors may resolve the conflicting objectives of capacity utilisation and efficiency in allocation of resources [Rakshit 1994a].

Similar considerations should apply to capital goods industries except that these goods would form an important part of domestic absorption. We have indicated elsewhere the distortionary effects of tariffs and taxes inducing capital goods imports [Rakshit 1994, 1994a]. In fact, if there is large scale excess capacity in this sector, price responsiveness of food output is severely limited and the economy is suffering from stagflation, an increase in domestic investment should be supported through food imports in lieu of export of capital goods.

Finally, for agricultural exports a simple minded application of liberal trade policies can prove disastrous. Food export in a bid to clear the excess stocks at the disposal of FCI provides an interesting example of how the basic objectives of growth and poverty eradication can fall a prey to the superstitious belief in the primacy of reduction in fiscal deficit. Export of agricultural goods like fruits or flowers may, to be sure, play an important role. But two types of measures are required in this regard for securing the basic objectives. First, given the imperfections in the international market, some taxes or subsidies are called for in order to realise the optimum scale of exports. Second, such exports are justified only so long as the quantity of foodgrains (or other necessities) imported against them is more than the domestic cost in terms of food output. Otherwise, trade will contribute towards deindustrialisation and growing incidence of poverty, as happened during the colonial days [Rakshit 1982].

IV
Conclusion

(a) Given the structural characteristics of and constraints faced by the Indian economy at the current juncture, there is substantial scope for public investment without adding to the inflationary pressure.

(b) Such investment would raise the overall saving ratio of the economy and reduce the investment-saving gap in the public sector.

(c) Fiscal concessions to upper and middle class consumption limit the scope for non-inflationary growth and distort the pattern of domestic absorption.

(d) Within limits seigniorage is a potent instrument of furthering economic objectives, especially in a fiscally constrained economy.

(e) Policies promoting export of foodgrains and import of industrial products violate the economic principle of 'selling superfluities in exchange of necessities'. A rational system of tariffs, taxes and subsidies has to be based on considerations of both comparative advantage in production and comparative benefits from domestic absorption of various goods and services. The budgetary measures by and large do not reflect these considerations.

Notes

1 Beyond the transactions and precautionary requirements of the economy.
2 This is true for total bank credit, not the demand faced by an individual bank. What is relevant here is the elasticity of aggregate demand for bank credit.
3 Given the north-easterly shift in the demand for bank credit.
4 In a utopian set up foreign funds may be used to finance any expenditure, consumption, investment or even transfers. But given the dismal record of utilisation of foreign aid in non-commercial projects and the future interest burden on the economy and the Treasury, it would be prudent for the government to rely primarily on domestic resources.
5 So that even for a risk neutral economic agent the usual value of the mean return gives on overestimate of the return relevant for rational decision making [Rakshit 1982].
6 In a closed economy (or zero import content of capital goods) with all wages in public enterprises constituting fixed costs, the additional public saving will be close to unity.
7 Using a computable general equilibrium model Storm (1993) shows that a rise in public investment in agriculture along with an increase in the quantity of food released through the public distribution system will raise the growth rate along with a decline in the prices of agricultural goods.

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