INDIA

ON THE EVE

OF THE

THIRD FIVE YEAR PLAN

SIR THEODORE GREGORY D.Sc. (Econ.) Lond.

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INTRODUCTION

The idea of the present survey was first conceived in 1959 when there was much public debate on the form and size of the Third Five Year Plan and its economic implications. On a subject of such great and vital importance to all in this country, it was clearly desirable that there should be the fullest consideration, discussion and expression of all points of view. It seemed to the Associated Chambers of Commerce of India that they might make some contribution to the general thinking on the Plan if they were to sponsor a study on the subject of the economic problems of India in relation to planning. For this study Sir Theodore Gregory possessed special qualifications in view of his eminence as an authority on economic and financial matters, his long experience as Economic Adviser to the Government of India and his subsequent work on similar matters in a number of countries. It was therefore with very great pleasure that the Associated Chambers learnt that Sir Theodore was in a position to accept their invitation to carry out the present work.

The terms of reference which were drawn up by the Associated Chambers in consultation with Sir Theodore Gregory were as follows :—

(A) To discuss the general principles of planning in India and to assess the progress so far achieved ; further to examine in the light of the resources both internal and external which are or may be available the possible size, shape and direction of the Third Plan.

(B) In the light of the foregoing to examine particularly—

(*a*) the results of the deficit financing so far undertaken and now proposed ;

(*b*) the effects on the Indian balance of payments up to the present and in future in the light of the long term foreign commitments already undertaken and in view ;

(*c*) the development and organisation of agriculture and agricultural production.

(C) To consider the contribution which can be made to the Third Plan by the private sector of Indian commerce and industry with special reference to that section of it which is based on foreign enterprise.

It must be made clear that within these general terms Sir Theodore was given the fullest liberty of expression and that the resultant report is a statement of his own views on the vast field which he has covered. The Associated Chambers have had the greatest pleasure in sponsoring the work but of course it was not, and is not, their intention that they should associate themselves in any way with particular comments or opinions.

Much of Sir Theodore's survey deals with general economic problems but it should perhaps be emphasized that his visit to India for the purpose of the work covered the period from March to June 1960 and although, as he has indicated, he had extensive discussions on the subject, the published Draft of the Third Plan Outline was not available until after his departure.

With the final shape of the Plan now about to be determined I trust that Sir Theodore's study will be read and studied widely, and that it will be found to be not only stimulating and provocative but also a positive and striking contribution to economic thought on the great adventure of Indian development.

H. M. L. Williams

Calcutta, February, 1961.

AUTHOR'S FOREWORD

I had the honour, between 1938 and 1946, of acting as Economic Adviser to the then "Government of India". It was an experience which has left an abiding mark upon me: if economists may be permitted to possess hearts as well as heads, then I may truthfully say that I conceived an affection for India and its peoples, and an interest in its and their problems, which I shared with the vast majority of those Englishmen whose privilege it was to work with Indian colleagues in a common endeavour to serve the country and to meet its needs, administrative and other, to the best of our several abilities. Fifteen years ago it might not have been possible, perhaps, for a statement like this to have been accepted at its full value by many whose judgment I valued then, and have valued since. Nevertheless, it is a simple expression of fact.

2. When, therefore, I was asked by the Associated Chambers of Commerce of India to review the problems of India in relation to the Planning efforts of its Government, I felt it was an invitation which it was impossible to resist. I accepted it with the most profound pleasure. The following Report is the consequence of four months of intensive travel, of a study of the relevant documents, and of prolonged and repeated conversations with those (whether officials, business-men, or academic) with more intimate and detailed knowledge of the day-to-day affairs of India as it is today, than I could possibly lay claim to.

3. It is proper to state that whatever judgment may be passed on this review, the opinions therein expressed are my own, and have been subject to no kind of censorship, official or unofficial. It is perhaps right to say also that my own views are somewhat different now to those which I entertained before coming to India and embarking upon this study.

4. There were very many in official and business circles in Calcutta, Delhi, Bombay and Madras, who were good enough to receive me and to give me the benefit of their opinions and their advice. I extend very warm thanks to them all, but there are certain special obligations which require specific mention. In this connection I would like to express my regret that circumstances prevented my visiting the West Coast. I did, however, receive the benefit of written views from the Cochin Chamber of Commerce.

5. I wish to thank Prime Minister Nehru most warmly for his exceeding kindness in according me an interview in Delhi at a moment when the pressure on his time and interest, in consequence of the state of international affairs, must have been very great.

6. His Excellency the High Commissioner for the United Kingdom, Mr. Malcolm MacDonald, was good enough to receive me on several occasions. I am greatly indebted both to him and to his staff: in particular to the Trade Commissioner, Mr. R. R. D. McIntosh and to the Financial Adviser to the High Commission, Mr. S. T. Charles.

7. I owe a debt of gratitude to Sir V. T. Krishnamachari lately Deputy Chairman of the Planning Commission, not only for receiving me personally, but also for permitting me to see various documents and reports of the greatest value to me. I am aware that I have severely taxed the patience of Shri Tarlok Singh, Additional Secretary, Planning Commission (and I hope I may be permitted to add, an old pupil, an old colleague and at all times a friend). He gave me freely of his time, furnished me with documentary information and generally guided my footsteps. I am most indebted to him, and also to Dr. J. J. Anjaria and to Shri E. P. Moon, of the same Commission, for advice and for hospitality.

8. The National Council of Applied Economic Research, New Delhi, in the persons of Dr. P. S. Lokanathan and

Dr. Natarajan greatly assisted me by personal contact, by making me free of the Council's library and by giving me the assistance of one of their staff in gathering information. To the Director-General of Commercial Intelligence and Statistics in Calcutta, Shri A. S. Subramanian, I am also obliged for the supply of documents. Both these last-named gentlemen served in the Office of the Economic Adviser during my time in India: it was a great pleasure to meet them again.

9. I received great kindness at the hands of the Governor of the Reserve Bank of India, Shri H. V. R. Iengar, and at the hands of Dr. B. K. Madan, Executive Director. A room was placed at my disposal at the Bombay Head Office of the Bank: I was allowed to talk freely with them and with their colleagues and they supplied me with books and documents. I was, and am, most greatly obliged.

10. The Burmah-Shell Oil Storage & Distributing Co. of India Ltd., Tata Industries (Private) Ltd., Tata Iron and Steel Co. Ltd., Imperial Chemical Industries, India (Private) Ltd., the Indian Merchants' Chamber (Bombay), the Associated Cement Companies Ltd., the State Bank of India, Premchand Roychand and Sons of Bombay, and the Industrial Credit and Investment Corporation of India were most helpful in supplying documents and reports. My thanks go to the gentlemen who were instrumental in this connection, and who were also kind enough to receive me: Shri J. Chopra, Shri P. C. Sen, Shri Naval Tata, Shri J. J. Bhabha*, Shri J. M. Lall, Mr. C. A. Pitts, Shri Pratapsinh Mathurdas, Shri N. Dandeker, Shri B. P. Patel, Shri M. Premchand, Shri K. Premchand and Shri G. L. Mehta.

11. It would not have been possible to carry through the task of preparing and writing this Report without the aid

* I was, to my regret, not able to meet Shri Bhabha, who, however, put himself to considerable trouble on my behalf.

of the Secretaries and staffs of the various Chambers of Commerce in India. For constant personal kindness, for the preparation of tour programmes, for the arrangement and re-typing of successive drafts of this document—and I would agree that my handwriting is not of the easiest—I must above all thank Messrs. W. D. Bryden and T. R. Crook of the Bengal Chamber of Commerce & Industry, Mr. H. J. Bowe in Delhi, Mr. F. W. A. Morris, Secretary of the Madras Chamber and Shri Mayadas, Assistant Secretary of the Bombay Chamber and their staffs. In this connection I would particularly thank Mrs. Whear and Mr. Gomes of the Calcutta office and Mrs. O'Brien of the Delhi office. For hospitality at Madras, I must thank Mr. E. F. G. Hunter. Before leaving for India and since my return, I am much indebted to Mr. Geoffrey Tyson, and to the staff of the India, Pakistan and Burma Association in London.

12. Last, but very far from least, I must thank Sir John Brown, Past-President of the Associated Chambers, Mr. H. M. L. Williams, President for the current year and Mr. N. Stenhouse, Vice-President of the Bengal Chamber. Sir John Brown was good enough to issue me the invitation to write this Report. Mr. Williams and Mr. Stenhouse have encouraged me in every way, and the latter was kind enough to be my host in Calcutta for several weeks. The pre-monsoon weather of Calcutta is not of the easiest: I certainly could not have done as much as I actually did in the time without the arrangements which were made on my behalf.

THEODORE GREGORY

11th October, 1960.

INDIA ON THE EVE OF THE THIRD FIVE YEAR PLAN

CONTENTS

Part 1

PRELIMINARY CONSIDERATIONS

(A) SOME ASPECTS OF PLANNING THEORY IN INDIA

1. Planning in general may be sufficiently defined as any attempt to organise resources for the attainment of a chosen end or ends : it is, in other words, purposeful action. In this sense, practically any individual and any firm is a planner : there are, no doubt, some individuals who take no thought for to-morrow and drift through life without purpose or direction, whether in their material or their pecuniary or their avocational affairs: their example is not encouraging.

2. "Planning" is talked of in connection with the activities of that collectivity of individuals and groups of individuals which is called a "Nation". Something much more is implied than *merely* purposeful action. The implication is that the ends aimed at and the results which it is desired to attain are other than those which would be sought by these individuals or groups acting each within their own sphere of purposeful activity: there is a *substitution of ends* or purposes. Such substitution may be imposed from without—that is the essence of Authoritarian Planning ; such substitution may be accepted by "public opinion" or, indeed, the ends to be attained (and the substitution effected thereby) may have been *chosen* in the sense that there has been a majority of electors voting for a particular political party or for a majority lending support to a particular Government, sponsoring a particular Plan—that is the essence of "Democratic Planning".

3. Furthermore, there is the implication, when the idea of planning is applied to purposeful action by the collectivity or nation, that there is not only a substitution of ends but a *change of scale*: in other words, not only that the results of

Planning are *different* but that they are *quantitatively larger.* The planned use of resources results in a greater end product. "The only reason we are driven to plan", so Dr. P. S. Lokanathan, Director-General of the National Council of Applied Economic Research, New Delhi, told the Seminar on Planning held on November 26, 1959, "is the necessity to achieve economic goals bigger than are likely to be realised without planning. We are not content with the results that might be achieved with the resources that are now in sight... The whole point of planning is to increase productivity and savings and mobilise them for economic growth. This we can do by adopting policies aimed at national objectives."[1]

4. It cannot, of course, be taken for granted that planning, whether of the authoritarian or the democratic kind, will achieve its objects, still less that results which might follow from the use of totalitarian methods can be achieved under a democratic règime, or *vice-versa.* Naturally, no nation would embark upon planning unless it was expected that the results achieved are both other than, and greater than, those which would have been achieved without it. But once planning has been embarked upon and been pursued, as it has been in India for a decade, it is not possible any longer to say what would have happened if there had been no planning. This has a practical aspect: it makes it difficult, if not impossible, to measure the absolute difference *at a given point* of time, between a planned and a non-planned economy, *i.e.*, between what is and what might have been. It is possible, given a planned economy, to compare the state of the economy at one moment, say, in 1960, with what it was in 1955, when planning was already under way, though even here there may be differences of opinion as to the precise relationships implied. But this is a measure of *relative* change, not of *absolute* change. For these reasons, figures as to the "success" of a plan must always be subject to some measure of doubt.

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[1] *Report on the Seminar on Planning Organised by the Federation of Indian Chambers of Commerce and Industry*, New Delhi, 1959, p. 42.

5. It was inevitable that the concept of planning, which first gained world-wide attention in the period anterior to World War II by the miseries caused, especially in the under-developed countries by the fall of prices, the alteration in the terms of trade, unemployment and stagnation, and of the acceptance of the principle of planning in Nazi Germany and Communist Russia, should have gained a firm grip on the Indian mind, both the academic mind and the business mind. The known facts of the Indian situation—widespread poverty, relative backwardness in industrial development, great population pressure—would in themselves have given rise to the hope that by purposive action improvement could speedily be brought about. The necessity of coping with the imbalances and shortages created by the War, themselves influenced not only public opinion generally, but the pre-Independence British administration. Independence provided the opportunity for the implementation of the idea: the general world climate of opinion greatly facilitated matters through the fact that improvement in the position of under-developed countries was held to be one of the key factors in the struggle between the Eastern and the Western worlds: on political and strategic, as well as on moral and utilitarian grounds, aid should be forthcoming. In fact, aid *was* forthcoming and assistance continues to be granted: the size and scope of the proposed Third Plan is in fact directly linked with the volume of aid which it is hoped will be forthcoming.

6. The evolution which Indian thinking has undergone on the subject of the *rationale* of planning—*i.e.* its fundamental intellectual justification—constitutes a fascinating subject for study. In the course of the last ten years there have been changes of emphasis and changes of tone, as well as changes of content, but two systems of ideas require special attention: they are linked with one another and require some examination. In the fashionable language of academic discussion, in which quantitative forecasts of the future are known as "projections" and a logically coherent analysis of a system of ideas is known

as a "Model", we may refer to the two systems of ideas which have powerfully affected thought, especially from the moment that the nature and content of the Second Plan began to be very actively canvassed, and, subsequently, as (*a*) the "Harrod-Domar" Model and (*b*) the "Rostow" Model.

(*a*) The fundamental idea of the "Harrod-Domar" Model is an exceedingly simple one. Economic progress, it is held, depends upon an increase in the volume of *investment*, itself related to the volume of saving, and the volume of output or return that that investment can yield : the so-called "capital-output ratio". The larger the investment, the larger the output of a given input of capital, the larger the national income will be. As savings form the basis of investment, and savings obviously grow with the national income, (though whether proportionately, or more or less proportionately, is another matter) it follows that over the course of time there must be a growth in the total national income. *How* large that will be cannot be predicted unless one knows the magnitudes involved.

(*b*) The "Rostow" Model consists, essentially, in giving a historical setting and a prophetic character to this order of ideas. Countries have gone through a process of evolution, from a "traditional" stage (which is not, *nota bene*, tantamount to a stagnant society)[1] to a "transitional" stage[2] in which the foundations of change are being laid, to a crucial third stage, *i.e.*, the "take-off" stage, the "convenient name for that short stage of development, concentrated *within two or three* decades, in which the economy and the society of which it is part transform themselves so that economic growth *becomes more or less automatic*". "The basic economic explanation is simple. For growth to become self-sustained, all that is necessary

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[1]The terminology, and the following quotations, are all taken from "*Rostow on Growth*" based on lectures given by Prof. W. W. Rostow at Cambridge University in 1949, and published in *The Economist* (London) issue of August 15, 1959.

[2]See the next reference for source.

is a rise in the rate of investment and the stock of capital per head. The economic difference between a traditional and a modern society is merely a question of whether its rate of investment is low relative to its rate of population increase—say, 5 per cent of national income—or whether it has risen to 10 per cent or over. With a capital ratio output of about 3 to 1, a society that invests more than 10 per cent of its national income will outstrip any likely population further ; and a regular increase in output per head can thus be assumed."

7. These concepts have, it is clear, something of a Messianic quality about them. In this respect they resemble Marxian determinism. Those who are fully convinced of their inherent truth must feel that, in their efforts they are, in effect, instruments of inexorable forces making for clearly determinable and determinate ends. Once the take off point has been reached, further progress is indeed described as "automatic" : once the significance of the input-output or capital-income ratio is grasped, all that is necessary, if the *de facto* situation is unsatisfactory, and improvement is desired, is, as one author puts it, "if any economy desires a higher rate of growth of national income, *then all that it has to do is to manipulate economic forces* in such a way that both S and δ are raised," S and δ being the algebraic symbols denoting the proportion of savings and the average productivity of capital respectively.[1] But what if "economic forces" prove to be of a kind, in whole or in part, which are not amenable to "manipulation"?

8. There are certain other aspects of these "Models" which add to their attractiveness. No one should doubt or under-rate for one moment the devotion and the public spirit

[1] *Capital Output Ratio in Economic Planning* in the collection of *Papers relating to the Formulation of the Second Five Year Plan*, published by the Planning Commission in 1955, p. 161, Shri P. R. Brahmananda, the author of the paper from which the above quotation is drawn, is, however, fully aware of the practical limitations and qualifications necessary for any application of the doctrine to effective planning *v.* his article.

of those directly responsible for the task of formulating and implementing the successive phases of planning in India, nor under-estimate the sheer hard effort of mind, sustained over many years (without much direct material reward) which goes with it. Nevertheless, reformers and planners are apt to be impatient people, and faced with the tangible facts of the Indian situation, poverty and unemployment in particular, it is not difficult to understand why "Models" of the kind discussed above, with their implications of inevitability, should lead to an emphasis on authoritarian methods of achieving acceptable ends. Indeed, the memoranda contained in the volume referred to above—the *Papers relating to the Formulation of the Second Five Year Plan*—abound in the use of the imperative "must" and display a decided preference, in many cases, for planning schemes and methods involving drastic interferences with the existing order and the normal patterns of individual behaviour. Hence, also, a definite tendency to draw upon Russian and Chinese experiences and policies as a guide to action. For, if one is armed with foreknowledge and with the (assumed) certainty that one's approach is "scientifically" warranted, there is a natural inclination to wish to override opposition, apathy and the merely (and undesirable) existent by compulsion. Such an attitude assumes, of course, the infinite mutability of the existing order of things (including the mutability of human hopes, urges and wishes) but there is a temptation to forget that assumptions are not valid instruments of action unless they have been critically examined and empirically verified. It remains a fact that, whilst the concepts described above do not *necessarily* lead to forceable methods of planning, they encourage, unless carefully interpreted, action of such kind.

9. Since great emphasis is placed by these models on "capital-formation" and to the notion of the "take-off" period when a nation becomes fundamentally "self-sufficient" it is easy to see how well the term, at first sight, seems to fit with the ideas of "industrialisation" on the one hand, and of

emancipation from the outside world in the sense of a reduction, not only of capital supply from abroad, but also of imports and exports as a whole, on the other. But "capital-formation" is not at all the same thing as "industrialisation"—though the latter implies that there will be capital-formation for industrial purposes ; it is clear that there can also be capital-formation, and that on a large scale, in all kinds of directions which have nothing whatsoever to do with industry or industrialisation. And, as regards "self-sufficiency", the whole history of economic development shows that self-sufficiency in the sense of the Rostow Model is partly compatible with, and indeed has implied and necessitated the growing interdependence of, economically advancing and advanced economies. It is, of course, possible to plan for a reduction in imports, and for the substitution of particular kinds of imports by the production of other or similar goods at home, but such planning does not necessarily advance a nation in the direction of self-sufficiency of the kind postulated by the Rostow Model. This is, indeed, recognised though with qualifications in certain circles at least in Delhi.[1]

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[1]In a paper entitled *Provisional Outline of Perspective of Economic Development, India : 1955-1970*, issued by the Perspective Planning Division of the Planning Commission (Preliminary Draft, February, 1960) the question is squarely put :—

> "*Does 'self-support' mean 'self-sufficiency'* ? : The strict answer to this question, of course, is no. To be self-supporting at rising output levels, the Indian economy need not and, in fact, cannot be self-supporting. At the very least a substantial volume of imports will be necessary and exports will be needed to pay for them. Indeed, given a highly active and perfectly secure, stable and free international market, there should need be little correspondence between the nation's developing pattern of production and its developing pattern of consumption ; it could export most of what it produced and import most of what it consumed. But as a practical matter, the realities of the international market in this era do require most newly developing economies to lean in the direction of self-sufficiency if they would also become self-supporting."

10. Whilst it is indubitable that the progress of economics is linked, over time, with the process of "capital-formation" in the sense that production and income rise as society is better equipped with a social capital in the shape of better roads and other means of communication, and with "productive" capital in the shape of tools, machinery of all kinds, plant and factories and the like, it must be clear that, to establish quantitative ratios, *when applied to the totality of such equipment*, is a very difficult task. Even in the sphere of "productive" capital in the narrow sense, such ratios are difficult to determine, among other reasons, because the whole operation must be conducted in value terms, and because the concept of "capital" even in the case of a particular unit of production, is not free from ambiguity.[1] But, in any case, when the totality of "capital" is being considered, the range of possible "input-output" ratios is obviously very great and the connection between input and output, or between capital and output, must, in certain cases, be impossible to evaluate. Roads are indispensable to a modern society and form part of "social capital", indeed an important part, but he would be a bold man who would attempt to assess the precise quantitative difference made to national output by, say, the addition of another 1,000 miles of road to the existing network. Again—and this applies with great force to all under-developed countries, including India—considerable additions to output can be made *without practically any use of capital at all: simply by the more intensive use of human labour.* It follows from this, that if during a period of time there is both an increase in "capital" formation *and* an increase in the intensification of labour "input"—in agriculture or in road building for instance—it would be an

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[1] In the paper prepared jointly by the Economic Division, Ministry of Finance and the Economic Division Planning Commission, (*The Second Second Five Year Plan*, pp. 69-110 of the volume: *Papers relating to the Formulation of the Second Five Year Plan*, Delhi, 1955) it is rightly pointed out that "The concept of 'investment' however bristles with ambiguities", (p. 89). The same may, with equal justice, be said of the concept of "capital".

error to attribute the whole of the *ex post* increase in output to the *ex ante* process of capital formation.[1] The importance of the points referred to in the foregoing, is, in fact, recognised in the following passage from the official "*Approach to the Second Five Year Plan*", published by the Planning Commission in 1957 (pp. 9-10):

> "The capital-output ratio for the economy as a whole is only a shorthand description of the productivity of capital in various sectors. This productivity depends not only on the amount of capital employed, but on a large number of other factors such as the degree of technological advance associated with capital investment, the efficiency with which the new types of equipment are handled and the quality of managerial and organisational skill brought to bear on the use of capital. It has also been observed that the increment of output corresponding to a unit investment of capital has been higher for planned than for unplanned economies...A great deal also depends upon the composition of investment. It has been argued, for instance, that a considerable part of the favourable relationship between investment and product in the U.S.S.R. is attributable to the relatively low precedence accorded to housing. The capital-output ratio also depends upon the extent to which economic overheads are utilised. A phase of under-utilisation may have to be gone through before the full benefits of investment in economic overheads are obtained. It is on account of these divers factors, that the estimates of capital-output ratios for different countries and for different periods of time show considerable variation. By and large, taking a number of countries, the range of capital-output ratios may be said to lie between 3:1 and 4:1, although, for individual countries, and for particular periods, ratios outside this range are not unknown. *In comparing the capital-output ratios assumed for India with the ratios elsewhere, it may be remembered that non-monetised investment has not been included in the calculations of*

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[1] The importance of such labour-intensive activities in the specific matter of production of Green Manures has been emphasised by the Agricultural Adviser to the Planning Commission *v.* Shri M. S. Sivaraman, *The Food Problem*: *Some Lessons from Madras*, New Delhi, 1960.

capital inputs. There is considerable investment of this kind in a predominantly rural economy, and it has to be recognised that *investment which involves the direct utilisation of labour and raw materials available locally is of particular importance* and has deliberately to be fostered in the context of prevailing under-employment."

11. In modern developed communities of the "Western" types, economic activities are conducted in terms of money. Consequently, expenditure, whatever the type of activity, whether in industry or in agriculture, whether in the production of producer goods or the production of consumer goods, or in the carrying out of service in administration or in other "tertiary" occupations, results in the formation of income to somebody, whether that somebody is a Government, a body corporate or incorporate or a human being. This income is partly "spent", in the sense of being devoted to the acquisition of consumer goods, durable or non-durable, or the acquisition of services. Part is "saved" and the savings are assumed to be devoted to payments for capital goods, *i.e.*, they are "invested". But the one thing that the whole "capital-output" approach cannot throw any light upon at all, is the issue of whether the allocation of income between savings and investment in any time period corresponds to the pattern of demand in the future. In other words, it is not to be assumed that what is produced is necessarily what will be wanted: so that there may be over-investment, say, in the production of capital goods and under-investment in consumer goods. Because production anticipates a future pattern, mistakes may be made, and there arises the problem of "imbalance", which, in concrete terms, means "excess capacity" or "under-utilisation" in various directions. Planning assumes that, in the long run, such imbalances will be overcome, but they are an ever present threat. In other words, it is not to be taken for granted that the form given by the Plan to the production of capital goods and of consumer goods respectively is, inevitably, the right one. Imbalance in the sense of unutilized

capacity can arise, not only from misjudgments about the future, but from other causes. In India the lack of foreign exchange has led to the refusal, in some cases, of allocations for vital spare parts, replacements, etc., which have led to under-production or no production at all. The national income is obviously affected by the failure to produce, but the "input-output" method of approach throws no light upon this factor affecting the flow of income.

12. It follows from this that—quite apart from variations in the harvest from year to year which, in countries like India, profoundly affect the aggregate national income and its variations from year to year—fluctuations will occur in the national income from time to time. In advanced "capitalistic" countries such variations are associated with the phenomenon of the "trade cycle", which, in the recession phase of the cycle reveals a temporary imbalance between capacity and utilisation in the capital goods industries and in the rate of production of further such goods, and in a corresponding—though not necessarily a proportionate—decline in the production and consumption of consumer goods.

13. For this and other reasons, the use of the word "automatic"[1] to describe economic progress after the "take-off" phase (or indeed before it) *if it implies the absence of fluctuations*, must be held to be seriously misleading. There may be, as the historical record shows, an upward "trend" in advanced

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[1]That the use of the word by Professor Rostow is not just fortuitous, is seen from the fact that it was used by him, not only in the passage cited above, but also in an article by himself and Dr. Millikan of the Massachusetts Institute of Technology in an article originally appearing in the (U.S.) *Foreign Affairs Quarterly* and republished in *American Review*, October, 1958, on "Foreign Aid: Next Phase". Speaking of "transitional" societies they say: "These.........societies have absorbed varying degrees of modern economic activity, but they have not yet woven them together in such a way as to make economic growth a regular *automatic* condition".

societies, but this may be, and has been, interrupted, for quite considerable periods of time—it is not so very long ago that, so far from progress being regarded as "automatic", there was in the United States a powerful school, the so-called Technocrats, who were influenced by the atmosphere of the Great Depression to proclaim that stagnation was endemic—and certainly there may be, and there are, considerable "deviations" from the trend from year to year, it may be upwards, but it may also be downwards. Still more erroneous is it to suppose that after the "take-off" a country is in some mysterious way emancipated from the consequences of mistakes made by those in charge of the productive machine, from errors of decision, of commitment, and of foresight. The path of progress is, in fact, littered with mistakes, and planners are no more immune from the liability to commit them than businessmen or administrators. All that "automatism" can mean in connection with progress is that, after a certain stage has been reached, further progress *need* not be held back by the pressure of population upon the "means of subsistence", or by the supply of savings being insufficient to finance further capital expansion. But even granted this, it does not follow that further progress *must* follow. The use of the word "automatic" is, in fact, in many aspects, grossly misleading.

14. It is unfortunate, also, that in Indian discussions of the future, the "take-off" date should be given a determinate formulation—the year 1975, or the years about the year 1975—being the moment of time assigned for this happy event. 1975 would mark, if planning is to continue to be formulated in five year periods, the end of the Fifth Plan. The date first occurred in connection with the "model projection" incorporated in the first Draft Plan[1] :—

> "In the present Five Year Plan, capital formation is estimated to rise by about 20 per cent of the additional income each year. The internal resources thus generated by the

[1] *The First Five Year Plan*: Part I, para. 33, p. 21.

process of development would be supplemented to some extent by external resources. By 1955-56, national income, it is estimated, will have gone up to about Rs. 10,000 crores, that is, by about 11 to 12 per cent above the estimated level for 1950-51. Proceeding from the level of Rs. 10,000 crores reached at the end of this five-year period, ... shows the rate of progress in regard to national income and consumption standards that could be attained if, from 1956-57 onwards, investment is stepped up each year by an amount equal to 50 per cent of the additional output. This means that the rate of saving as a proportion of total national income will have to go up from 5 per cent in the base year 1950-51 and 6¾ per cent in 1955-56 to about 11 per cent by 1960-61, and 20 per cent by 1967-68. After 1968-69, though the resources devoted to investment will continue to go up in absolute terms, capital formation as a proportion of national income, it is assumed, will not be raised beyond 20 per cent of the national income. On these assumptions, it will be seen, *per capita* incomes can be doubled by about 1977, *i.e.*, in about twenty-seven years, and consumption standards raised by a little over 70 per cent over the 1950-51 level."[1]

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[1]The fundamental assumptions were as follows (top at page 20, para 31):

"For the purposes of our calculations regarding possible rates of development in India in the next few decades, we have made by way of first approximation the following assumptions in regard to the three relationships mentioned:

(*i*) Population will continue to grow at the rate of about 1¼ per cent per annum (which is the rate recorded in the last decennial period);

(*ii*) a unit increase in national output and income will require about three times as much by way of additions to capital stock, and the increased output will materialise in the third year from the date of investment; and

(*iii*) in regard to additional income in each period ploughed back into investment, there is scope for choosing the proportions according to the rate of development desired, the measure of austerity involved, and the organisational and institutional changes necessary."

It is difficult to know exactly what is implied in the phrase "choosing the proportions", so far as *purposive action* is concerned.

15. When the Second Plan came to be discussed, though it was found necessary to "modify" the assumptions, still the decade beginning in 1970 loomed large in the discussion.

"The 'projections' of national income, investment and aggregate consumption expenditure [in the First Plan] were designed to bring out the broad implications, in terms of effort and return, of a process of development extending to over a generation. With the help of these projections it was shown that, given a continuity of effort in terms of the assumptions made, the country's 1950-51 income could be doubled in 1971-72, that is, in about 21 years' time. Similarly, it was shown that the 1950-51 *per capita* incomes could be doubled by 1977-78, that is, in a period of about 27 years". However, the population rate of increase was found inappropriate: "The population growth rate was assumed at 12·5 per cent per decade, for the entire period to which the projections related. It would appear more appropriate now (*i.e.* in 1957) to assume some increases in this rate. For the period 1951-60 the assumption of a 12·5 per cent rate of growth over the decade could perhaps be retained[1] .... In the projection now attempted, the rate of growth assumed for the decade 1961-70 is 13·3 per cent. For the decade 1971-80 the rate assumed is 14 per cent."[1] Again, "in the first plan report a marginal rate of saving of 50 per cent, as from 1956-57, was assumed, and on this basis it was postulated that the rate of investment in the economy would go up to 20 per cent of national income by 1968-69, and would settle down at that level thereafter. These, it now appears, are excessively high expectations." Making a new set of assumptions, it was calculated that "National income would, in terms of the projection, be doubled in 1967-68: *per capita* incomes would be doubled by 1973-74." There was appended a Table giving a synoptic

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[1] These assumptions in turn have now proved to be very far from reality.

view of the increasing tempo of investment postulated in the "model" under consideration.[1] [2]

16. There is a "smoothness", an air of inevitability about these "projections", and especially their embodiment in statistical summaries, which make one apt to forget that they are, after all, *only* projections, based on assumptions, and are not expressions of immutable laws of nature. If, in the course of a few short years, it has been found necessary to revise judgments about such a fundamental matter as the rate of population increase, surely it is a very venturesome, if not

[1]The Table is as follows :—

GROWTH IN INCOME AND INVESTMENT, 1951-56
(At 1952-53 prices)

	1st Plan (1951-56)	2nd (1956-61)	3rd (1961-66)	4th (1966-71)	5th (1971-76)
(1)	(2)	(3)	(4)	(5)	(6)
1. National income at the end of the period (Rs. crores)	10800	13480	17260	21680	27270
2. Total net investment (Rs. crores)	3100	6200	9900	14800	20700
3. Investment as percentage of national income at the end of the period	3·2	10·7	13·7	16·0	17·0
4. Population at the end of the period (in millions)	384	408	434	465	500
5. Incremental capital out-put ratio	1·8 :1	2·3 :1	2·6 :1	3·4 :1	3·7 :1
6. Per capita income at the end of the period (in Rs.)	281	331	396	466	546

[2]These citations are from *Second Five Year Plan*: *Approach to the Second Five Year Plan*, Delhi, 1957, paragraphs 12, 13 (p. 8) and paragraphs 17, 18 (pp. 10/11).

altogether a foolhardy enterprise, to extend one's quantitative forecasts for as long a period ahead as 15 or 20 years. No doubt the propagandistic value of such precise formulations is very great—but in a world subject to such quite unforeseeable changes as the present world, not only in the sphere of politics, but even more, perhaps, in the sphere of technological change—caution, in regard to the prognostication of future events, is called for. Who knows, in fact, what the world of 1975 may look like ?

It is, of course, perfectly true that the technicians will insist that they are "only" working on assumptions, which they have explicitly stated, and that they change their "projections" as time and experience dictate. It is also perfectly true that if one is to plan, one must have an idea of what the future order of magnitudes is likely to look like. But, however disinterested and however careful, the longer the period ahead the planners contemplate, the more likely they are to be mistaken. For this reason, to allow public opinion to look upon a *certain defined date* as marking the turning point, is to encourage false hopes and may have possibly very dangerous political and social consequences. One immediate—and undesirable—result *may* be that, having publicly committed oneself to such a date, *it affects the objectivity of current thinking* even on the part of the planners themselves. Even scientists and administrators are not *always* willing to admit that they have made a mistake: instead of absolutely impartial calculation, projection-framing may degenerate into sheer crystal-gazing and wishful thinking.

NOTE TO PART A OF PART 1—DIS-INVESTMENT

In the public discussion of capital formation and capital growth in India, insufficient attention (except possibly as regards the agricultural sector) is being paid to the phenomenon of dis-investment, *i.e.*, the attrition of existing resources. In the case of agriculture, the most serious aspect is the loss of land through water-logging and increasing salinity, but there are also capital losses due to the non-repair of wells and tanks, and insufficient maintenance of other existing irrigation installations. The Calcutta Press, in its correspondence columns, has recently been drawing attention to serious erosion losses due to indiscriminate de-forestation in the Darjeeling area and to the clearing of the land in connection with the Dandakaranya Settlement Scheme (*v.* the Calcutta "*Statesman*", May 15 and 17, 1960). Erosion, due to de-forestation is known to be a serious factor elsewhere, *e.g.*, in the Punjab and Himachal Pradesh. A further serious element is disinvestment in housing, due to neglect of repairs and maintenance in large cities like Bombay, where rent-controls operate. (In this respect, of course, India differs in no way from other countries where rent-controls are in operation: and erosion is also a world-wide danger). A further element to be taken into account is the effect of the actual or pending legislation regarding the maximum amount of land to be held (*i.e.*, the so-called Ceiling Legislation). The break-up of large estates and the uncertainty attaching to the ownership of, and rights to, land must have some effect on the amount of capital which has been employed in the past, in the shape of direct investment on land cultivated by the owner himself, or advanced by him in one form or another (in cash or in kind) to his tenants. Compensation paid to dispossessed owners is probably permanently withdrawn from the land and, however inadequate it may be held to be by the erstwhile owning class, affects also the financial position of the States. Not all landlords were, or are, mere parasites.

A very serious case of "dis-investment" is presented by the present state of the Port of Calcutta, due to delays in obtaining an additional dredger, though only a sum of £40,000 is involved. But, perhaps, the most serious of all possible forms of dis-investment is of an intangible rather than of a tangible kind. The threat of "linguistic nationalism" where the local language, *e.g.*, Gujerati in the new State of Gujerat, or Hindi in Bihar, is replacing English in the Administration (if not yet in the High Courts), and with its emphasis upon tuition in the local State language, its depreciation of instruction in English (according to a recent statement by the Chief Minister of an important State—a "useless language") means that the unity of India is threatened by the growing inability of the younger generation to get into contact with each other and with the outside world owing to the absence of a common tongue—and speech and printed literature are surely still the most important means of communication, much more important than roads and railways. It threatens employment of local graduates at the Centre and opportunities of employment outside a particular linguistic zone will become more difficult: in an age of growing technological knowledge, access to the world technical literature will be made more difficult, unless large sums are spent in translation and publication in the by no means insignificant number of "Chief" languages. The spiritual efforts of generations of devoted teachers of English, Indian and European alike, will have been wasted, and the whole capital in the printing and publishing trades devoted to the publication of technical and literary works in English will be seriously affected.[1] It will take at least a generation to replace English

[1]The University Grants Committee, in a current report on student indiscipline, has pointed out (as quoted in *The Statesman*, June 7, 1960):—

"One reason for unrest among students may be the medium of instruction. In some cases, students are too ill-equipped, at least to begin with, to understand lectures delivered in by Hindi, (though Hindi is a "zonal" rather than a local language and is already spoken probably by about 140 million people) if that proves to be possible at all, especially in Southern India. Meanwhile, India's contacts with the outside world must necessarily suffer, to nobody's benefit.

Linguistic disunity, it may be added, is not the only disrupting agency. From the very beginning of thinking on the subject of Planning, the existence of "under-developed" or backward portions of the country have been recognised: just as it is recognised that there are "under-privileged", under-developed and backward castes, tribes and communities. It is a perfectly legitimate and natural thing to desire to see that the benefits of progress, in expenditure and industrialisation, should be as widespread as possible, especially if the great disparities of population density (especially unfavourably situated in this respect are Kerala and West Bengal) are also taken into account. Modern advances in technology, and in power and transport facilities, undoubtedly make it easier to disperse industry to a greater extent than previously and the growth of "satellite" cities may assist in preventing the further agglomeration of population in such over-crowded areas as Bombay, Calcutta and Madras. But there are limits to the extent to which the cost factor makes dispersal possible or desirable. There is a danger that the struggle between different States for the siting of new industries may coincide with political and linguistic aspirations and lead to a new kind of "economic nationalism", in which the local population, desirous of further chances of employment, may come to disregard the paramount necessity for economic unity on an all-India basis. (In Assam there have recently been serious assaults and disturbances connected with the employment,

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English. But where an Indian language has been introduced as the medium at the University stage, difficulties are not absent. Here they are caused by the fact that there are not enough books to read in the language and the students are unable or unwilling to read books in the English language."

by the contractors engaged in the construction of the new pipe lines, of non-Assamese labour). Local politicians, who have to be elected to local legislatures, are naturally very keenly aware of these tendencies and may have to abet them, and to fight with other groups in other States, to gain an advantage for their particular constituents. It is, perhaps, fortunate that the growing dependence of the States upon Central financial aid, unfortunate as it is in other respects, may give the Centre a powerful weapon to discourage too vigorous a manifestation of economic, nationalistic, desires.

(B) TOWARDS CONCRETE PLANNING

(I) THE EVOLVING PATTERN

1. The ultimate objects of planning, in India as elsewhere, are increased production, an increased national income, *per capita*, and in the aggregate, a better life for the population as a whole. These are aspirations, not realities and their realisation is not a matter of underlying theory or the manipulation of figures but of physical magnitudes and of human ingenuity, the application of technical knowledge and of hard work and sacrifice. What Shri G. L. Mehta has recently said in connection with the Third Plan is true of all plans, past, present and future:

> "The gross magnitudes are important to tell us about the size, the pattern and the consistency of the effort we must make, and to help us understand its implications. But, after all, we will not simply invest Rs. 10,000 crores ; we must buy specific equipment and materials for certain fertilizer plants, railways, power houses and irrigation canals. We will not simply call for more exports ; we must take specific measures to ensure that our textiles can compete with Japanese and Chinese piece goods and that our price structure will not entirely divert production to the domestic market. And we will not simply call for more effort from the private industrialists ; we must have a fiscal and monetary system and a range of opportunities which will induce them to invest."[1]

2. These considerations apply whenever planning is undertaken: whether in a Socialist, a Communist or an individualistic environment. From this point of view, planning is essentially a matter, to use an economic phrase, of "joint-demand". The planning of the steel industry calls not merely for the supply of the necessary equipment directly involved

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[1] *Some Lessons of the Second Plan, p.* 3.

but for the supply of coal, limestone, iron ore and transport. It calls for a supply of housing for the workers and of amenities—health services, educational facilities and the like. The provision of an adequate transport system implies, not only steel for rails, but signalling equipment, marshalling yards, handling facilities, wagons and trucks, port facilities and trained workers. Increased educational facilities call, not only for more teachers of an adequate kind, but buildings (bricks, steel, cement), training colleges, books, hostels for students and so on. Thus, planning implies both co-ordination of effort, and competition between the possible end uses of commodities and of labour for supplies for each or any end use. Every ton of steel produced, or cement produced, can be directed to this end or to that. There must not only be "priorities" chosen *ab initio*, but co-ordination. Failure at any point in the supply line, failure at any step in keeping things *in step*, means "imbalance" and imbalance is a very serious matter. If steel production is held up, *e.g.*, because the wagon supply is inadequate, the effects are accumulative. Not only is the direct contribution to the national income or output lost, but there is also lost the output of those sections of the economy which relied upon a non-forthcoming supply. With the resulting losses of output and of income, the balance of payments and the yield of taxation suffer.

And the more elaborate and complicated the system of inter-relations assumed in the plan, the more serious the consequences—physical, social, financial and political. It is the path of wisdom, therefore, not to attempt too much at any moment or over a given period of time, otherwise less will be achieved in the end than if a smaller plan, or if a less ambitious plan, had been conceived. This is a sufficient answer to those who, thinking in terms of statistical "projections", and of over-all financial magnitudes, call for "bolder planning" without thinking of the physical realities and the organisational and technical problems involved. But this particular attitude is less popular in India than it once was.

3. Formal official planning in India may be said to have begun with the formulation of the "First Plan" but that plan itself had a very definite background, not only of theory of the kind examined in the first sections, but a background of social aspiration and of concrete preparatory work. Whatever its merits or demerits in other respects may be, the First Plan certainly was not "planning in a vacuum."

4. Firstly, there was the socio-economic position in India itself. A largely "traditional" society, with, however, a highly developed administrative and judicial system, a not inconsiderable equipment of railways, irrigation and power installations, a large textile industry, some engineering, with an iron and steel production of 1·8 million tons of pig iron, 1·1 million tons of steel and 804,000 tons of finished steel, and a coal output of 24,676,000 tons,[1] found itself faced with the impact of World War II and later with the shattering impact of partition, and civil disturbance of a massive kind, involving the death of hundreds of thousands and the migration of millions of souls. "Reconstruction and rehabilitation" meant, therefore, not merely making good the wear and tear suffered by equipment and plant during the war years, and coping with high prices and the shortage of consumer goods, but of dealing with the resettlement of refugees, their re-equipment, rehousing and re-allocation of land. Though resettlement in West Bengal cannot be said, even now, to be finally completed, the problem was tackled with magnificent courage and energy.[2] The efforts made have not received sufficient recognition in the Western World ; they are a proof, if any were needed, that India possesses abundant stores of determination and civic virtue, to be deployed if circumstances call them forth.

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[1] These are figures for the year 1939-40.

[2] A most impressive account of the rehabilitation effort in the Punjab will be found in *Out of the Ashes* (1955) by Dr. M. S. Randhawa, I.C.S., the Rehabilitation Commissioner in the Punjab, and now Vice-President of the Indian Council of Agricultural Research.

The war also left the country without an external debt and with a large creditor position on capital account. The "sterling balances" though, during the war, they were the result of "unrequited exports" and represented sacrifices on the part of the Indian population, have proved to be a "blessing in disguise" in the light of after events.

Moreover, "partition" meant, that what was formerly inland trade in cotton, jute and wheat now became external trade, and therefore now forms part of the problem of the balance of payments. In so far as commercial and banking assets in what is now Pakistan were lost as the result of immigration of population, there was also a loss of "invisible income" from such assets.

Against all this, must be set the fact that Independence gave an enormous stimulus to emotion and thought. Concretely, it enabled the victorious political party to implement some of the views which had been formulated by devoted adherents. The most important statement of policy was that elaborated, even before the war, by the National Planning Committee, set up by virtue of resolutions passed by the Conference of Ministers of Industries of the then Provinces of India held in Delhi in October, 1938.

5. The National Planning Committee, not unnaturally, showed a strong bias in favour of State intervention and of economic nationalism. It had inherited from the Karachi Congress Resolution a motion to the effect that the State shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport. The Conference of Ministers of Industries itself called for a "comprehensive scheme of national planning which should provide for the development of heavy key industries, medium scale industries and cottage industries, keeping in view our national requirements, the resources of the country, as also the peculiar circumstances prevailing in the country."

It, therefore, called for steps to be taken to start "large-scale industries of national importance on all India basis" including :—

"(*a*) Manufacture of machinery and plant and tools of all kinds ;

(*b*) Manufacture of automobiles, motor boats, etc., and their accessories, and other industries connected with transport and communication ;

(*c*) Manufacture of electrical plant and accessories ;

(*d*) Manufacture of heavy chemicals and fertilizers ;

(*e*) Metal production ;

(*f*) Industries connected with power generation and power supply."

6. The Committee and its numerous Sub-Committees faced a wide variety of problems, social and agricultural as well as industrial. It set up targets of consumption: from 2,400 to 2,800 calories per adult worker, an improvement in the consumption of cloth "to at least 30 yards *per capita* per annum and housing standard to reach 100 square feet *per capita*." Population should shift from agriculture and move into industry under the impulse of industrialisation: "The aim should be to produce a balanced economic structure in which about half the population would depend on agriculture. National wealth should, by planning, be increased five or six times. But for the present the minimum standard which can and should be reached is an increase of national wealth of between two and three times within the next ten years." The Committee recognised that there might be conflict between large and small industries producing the same end products and "Therefore, it should be laid down that any large-scale industries which may come into conflict with a particular cottage industry encouraged and supported by the State, should itself be controlled by the State. Such control will prevent any

conflicts arising and co-ordination will be easy."[1] In the light of the then political situation, it was easy to understand the demand for the nationalisation of the Reserve Bank, the quasi-nationalisation of insurance, the dissolution of the link between the rupee and sterling, and the holding of gold reserves exclusively in India, the monopolization of exchange dealings by the Reserve Bank and the prohibition of export of gold on private account ; matters some of which have been settled by the upheavals caused by World War II.

7. Nor had the old Government of India neglected the problem of reconstruction, even if the magnitudes involved seem very modest in comparison with current ones. A series of 22 "panels" had been set up by the then "Planning and Development Department". The centre, the then Provinces and the industrial panels all attempted to set up "targets", and the idea of using a quinquennium as the basis of planning had already appeared. As regards Industrial Policy, the old Government of India issued a statement in 1945, the terms of which are not without significance, summarised by the Advisory Board of 1947 :—

"(*a*) About 20 major industries should be brought under the control of the Central Government.

(*b*) Basic industries of national importance, *viz.*, Aircraft, Automobiles and Tractors, Chemicals and Dyes, Iron and Steel, Prime Movers, Transport Vehicles, Electric Machinery, Machine Tools, Electro-Chemical and Non-ferrous Industries, should be nationalised, *if adequate private capital was not forthcoming and it is regarded as essential in the national interests to promote such industries.*

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[1] See for details: "*A Note on the Work of the National Planning Committee*" by Prof. K. T. Shāh reprinted as Appendix II (pages 141 to 200) of the Volume: *Report of the Advisory Planning Board,* New Delhi, June, 1947. It must be borne in mind that, when the Advisory Board was at work, India was still undivided in one sense, but divided in another. Pakistan was yet to be born, but India still contained the Princely States.

All other industries to be left to private enterprise under varying degrees of control.

The case of coal to be examined and dealt with separately.

(*c*) In order to regulate industrial development Government would have to take power to license industrial undertakings.

Control would also be required to secure balanced investment, to secure for industrial workers a fair wage and decent conditions, to prevent excessive profits to private capital, and to ensure the quality of industrial products, etc., etc.

(*d*) Government have a primary responsibility for assisting industrial progress by (*a*) development of transport facilities, (*b*) development of power, (*c*) providing for Scientific and Industrial Research, (*d*) providing facilities for technical education.

Government might also assist industry by helping to raise capital, by tariff and taxation policy and by the procurement of capital goods from abroad."

8. The Provisional Indian Government was established in 1946. In October of that year it set up the "Advisory Planning Board" in order, as the Prime Minister said in his Foreword to the Report, dated January, 1947, "to do a rapid survey of the field and to make recommendations regarding the co-ordination and improvement of planning and as regards objectives and priorities and the future machinery of planning. These are matters of the highest importance and have now a special urgency. It is vital that public opinion should be seized of them and should be in a position to influence public policy."

9. In the light of the then immediate past, the fundamental issue of how far the State should operate industries was very cautiously worded.[1] A large number of industries, it

[1] As regards foreign enterprise the Report was definitely hostile. Except as regards "highly specialised industries", the Committee was "of the opinion that the intrusion of foreign firms in the

was suggested, should be put under Central control[1] by which the Report meant, primarily, licensing. "The main purpose of the proposed legislation would be to insure that in the field selected for Central control no new factory should be started or an existing one continued or expanded without a licence." But as regards the "Extent of State Ownership and Management of Industries", paragraph 56 of the Report said :—

> "The Railways, Ordnance factories and a number of public utilities are already very largely State-owned and State-operated. Government have also decided that the nascent Aircraft Industry is to be State-owned and that the bulk generation of Electric Power should, so far as possible, be a State concern. Apart from this, official references to State ownership and management of Industries have been somewhat guarded. In the Statement of Industrial Policy, which was issued in April, 1945, a list was given of 'basic industries of national importance' which might be nationalised 'provided adequate private capital is not forthcoming and it is regarded as essential, in the national interests, to

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field of Indian industry should not be allowed. The reason for keeping the basic industries of the country free from foreign control and entirely in the hands of the national of the country are obvious." But even in other cases, "If foreign companies with their vast resources, technical and financial, are allowed to establish themselves in industry in the fields at present not covered by Indian enterprise, there is little chance, in our opinion, of that enterprise being brought into existence at a future date."

[1]As regards the industries which should be made the subject of *Central Planning* "we suggest the following tentative list :—

(1) Arms and Munitions of War, (2) Coal, (3) Iron and Steel—primary production, (4) Prime Movers, (5) Automobiles and Tractors, (6) Aircraft, (7) Ship-building and Marine Engineering, (8) Electrical Machinery, (9) Other Heavy Machinery, (10) Machine Tools, (11) Heavy Chemicals, Fertilizers, Pharmaceuticals and Drugs, (12) Electro-Chemicals Industries, (13) Non-ferrous Metal Industries,(14) Rubber Manufactures, (15) Manufacture of Telephone, Telegraph, and Wireless Apparatus, (16) Power and Industrial Alcohol, (17) Motor and Aviation Fuel, Kerosene and Crude Oils, (18) Cotton and Woollen Textiles, (19) Cement, (20) Sugar, (21) Vanaspati."

promote such industries'. The list included such important industries as Iron and Steel, Chemicals and Dyes, Automobiles and Tractors, and the Electro-Chemical and Non-ferrous Metal Industries ; but the proviso left the question of nationalisation open. The various industrial Panels which, under their terms of reference, were required to report whether, on either of the two grounds mentioned above, they recommended nationalisation, have so far almost all favoured private ownership. Only in the case of a few branches of Industry where, owing to lack of any immediate prospect of profit, private capital may be shy in coming forward, have they recommended State enterprise.

Broadly speaking, therefore, thinking and planning in regard to industrial development has so far proceeded on the assumption that practically the whole field will be left to private enterprise. The ultimate decision rests, no doubt, largely with the Provincial Governments and it is true that the Assam Government are drawing up plans for State enterprise in a number of industries ; but Assam, at present, is the exception rather than the rule."

Two members of the Committee—the Chairman, Shri K. C. Neogy and Shri G. L. Mehta, both subsequently to be members of the Planning Commission, when it was set up, expressed themselves hostile to the idea of State enterprise in two separate dissenting notes. The Committee, as a whole, was also cautious on the subject of priorities: "It is not possible", the Report stated, "to fix definite and absolute priorities as between different industries. We have to recognise that the capacity for manufacturing different kinds of machinery in the exporting countries is not interchangeable, and, therefore, it does not follow that machinery for an industry to which we wish to give priority will be available in preference to machinery for other industries."

10. At the time the Report of the Advisory Board was being considered, the mechanism of planning, such as it was, was divided between the Co-ordination Committee of the Cabinet—aided by the Development Board—by the Planning Branch of the Industries and Supplies Department, and by

the Commerce Department and Tariff Board. Some of the planning functions the Board thought necessary were not being carried out at all.[1] The Advisory Board, therefore, recommended the establishment of a Planning Commission "composed of not more than 5 and not less than 3 members and furnished with all the necessary secretarial facilities and with appropriate technical assistance." Consultation with Departments was obviously necessary and though in some cases decisions would have to rest with Government, as regards "the allocation of material resources which are in short supply it is desirable that this Commission should act as a Priorities Board and be empowered to give final decisions, subject only to an appeal to Government." The important consideration which obviously weighed most with the Advisory Board was that the Planning Commission should be *non-political*: though it was possible "for the Chairman to be a senior Minister, holding no portfolio, like the Lord President of the Council in England" yet "Some of us think that such an arrangement has much to commend it, but are doubtful whether, in view of existing political conditions in India, it would be practicable ; while others think that it is better in any case to dissociate the Commission entirely from the vicissitudes of politics.

> "We recommend, therefore, that no Minister should be a member of the Planning Commission and that it should be, as far as possible, a non-political body[2] whose members will not fluctuate with changes in political fortunes."[3]

Future developments were to take a very different turn. As for the rest, the Advisory Committee, whilst naturally dealing also with the then current planning proposals of the Provinces and with agriculture, other development and electric power projects, public health and so on, placed great emphasis on

[1] *Report* para. 83.
[2] See Note I on the proposed functions of the Planning Commission.
[3] Para 86.

increasing the supply of trained personnel. "For the present," they remarked, "this may be regarded as a Priority No. 1."

It also dealt summarily with finance, including the "creation of additional money" which they regarded "as a last resort. It will lead to disaster unless associated with the strictest discipline and a variety of controls over the economic life of the country, and there will have to be a clear understanding that the created money should be used only for really productive purposes which indisputably add to the national wealth."

II. SOME LANDMARKS

11. The legislative history of the Planning Commission and of its consultative counterpart, the National Development Council, are set out in the next Section. It came into being on 15th March, 1950, the first 'official Plan Period running from April, 1951, to March, 1956. Wide though the scope of the first great official document setting out the planning aims is, it was inevitable that the Plan itself largely consisted, so far as concrete effort is concerned, in the co-ordination of the plans already under previous consideration, and in the elaboration, on the intellectual side, of ideas derived not only from past thinking and the course of current academic debate, but also from current statements of policy. In fact, between 1947, when the *Report of the Advisory Planning Board* was published, and December, 1952, when "*The First Five Year Plan*" was transmitted to the Prime Minister, two historic documents had made their appearance. The first of these was the Industrial Policy Resolution of April 6, 1948 ; the second was the Constitution of the Republic of India, adopted on November 6, 1949. A third landmark—the acceptance of the "Socialist Pattern of Society"—was to come later.

12. The importance of the Industrial Policy Resolution of 1948 does not lie merely, perhaps not even mainly, in the attempt which it made to define the limits of State and private

enterprise respectively. As regards this matter, it must be read in conjunction with the Second Industrial Policy Resolution of 1956, and their significance in respect to the delimitation of this frontier between the two sectors is examined below in Part 3. In fact, however, the Industrial Policy Resolution of April, 1948, also set out the *background*, in the context of which the sphere of the State and the sphere of private enterprise should be determined. The emphasis is on a "Social order where justice and equality of opportunity shall be secured to all the people." The immediate objective, continues Part I, "is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community." Planning was necessary for this purpose and the proposed establishment of a "National Planning Commission to formulate programmes of development and to secure their execution" was announced. Whilst the Resolution dealt primarily with the policy in the industrial field, the general aim was set out in Paragraph II of the Resolution:

> "Any improvement in the economic conditions of the country postulates an increase in national wealth: a mere re-distribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial: and, in particular, on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities, the export of which will increase earnings of foreign exchange."

The third paragraph, whilst emphasising the rôle of the State in initiating *new* enterprises, also argued that, "private enterprise, properly directed and regulated, has a valuable rôle to play."

In the light of the subsequent hardening of the tone towards the private sector which is referred to in a later Section,[1] this phrase is in line with the generally moderate tone of the previous paragraph. What is, perhaps, most surprising, is the choice of "educational facilities and health services on a much wider scale" as the first priority, unless, indeed, this sequence of choice mentioned in the first paragraph is to be construed merely as an accident of drafting.

13. Part IV of the Constitution of the Indian Republic—the part entitled, "Directive Principles"—consists of fifteen paragraphs (Nos. 36 to 51). Though these provisions were expressly stated not to be "enforceable by any Court", they were, nevertheless, to be regarded "as fundamental in the governance of the country", and "it shall be the duty of the State to apply these principles in making the laws." They are extremely difficult to summarize, but their implication is clear. The general intention is clearly to set up, within the context of Indian conditions, the "Welfare State". The emphasis is on the right to work, on public assistance in case of unemployment, on equal pay for equal work for both sexes, on the safeguarding of the health and strength of men, women and children, on the speedy inauguration (within a period of ten years) of free and compulsory education, on the protection (economic and educational) "of the weaker sections of the people", and on the raising of standards of nutrition. So far as concrete economic policy is concerned, the State was directed "to endeavour to promote cottage industries on an industrial and co-operative basis in rural areas." But, perhaps, the two most important clauses, as indicative of a trend of

[1] See below, Part 3, Section A.

thought which still persists, are those which direct the State to securing :—

"That the ownership and control of the material resources of the community are so distributed as best to subserve the common good" ; and

"That the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."[1]

14. These provisions may be summed up in two words, "Economic Radicalism." They do not in any way commit the Government of India to collectivism or socialism : or even, in any strict construction of words, to "Planning". They could, in fact, as easily lead to a "*Gandhian*" system of small scale organisation (and the emphasis on the self-government at the *panchayat* level confirms this)—indeed, the specific mention of small-scale industries points to some such direction of economic affairs—as to alternatives more closely resembling the more "advanced" economies of the Western world.

15. On December 21, 1954, after a two days' debate, the Lower House of Parliament, having discussed the "economic situation", passed a Resolution to the effect that[2] :—

"(*a*) The policy of Government is in harmony with the policy statement of the 6th April, 1948 ;

(*b*) The objective of our economic policy should be a socialistic pattern of society ; and

(*c*) Towards this end, the tempo of economic activity in general, and industrial development in particular, should be stepped up to the maximum possible extent."

16. The first thing that must strike the reader is that there is no necessary logical connection between the three parts of this celebrated Resolution of the Lok Sabha. The first part of

[1]Article 39 (*b*) and (*c*).

[2]*Lok Sabha Debates*: Part II, Vol. IX, p. 369.

the Resolution is a mere statement of fact. But the acceleration of the "tempo" of economic activity by no means implies that there *must* be a "socialist pattern of society", any more than a "socialist pattern of society" *necessarily* implies a speeding up of the tempo of economic activity. In a society with full employment, for instance, a nationalisation of property rights could take place, by which a collectivist society would be realized ; but, given the hypothesis of full employment, there could be no acceleration of the productive process. That was not and still is not the situation in India today: nevertheless, in so far as the Resolution implies that an increase in tempo and a transition to collectivism are *logically* connected, it is clearly making assumptions which can be challenged.

17. Is there any difference, it may well be asked, between a socialist society and an economy which adopts the "socialist pattern of society" ? This is not a mere question of hair-splitting—for, on reflection, there *are* differences: a "socialist" society implies a much more thorough-going adoption of collectivism than a society which merely reflects a collectivistic *bias* in its economic arrangements. Inevitably, from the practical (and the political) point of view, the use of the word "pattern" leaves a wide margin open for discussion.

NOTE I TO PART 1(B)

The Advisory Board thought the "following would appear to be the legitimate functions of any planning machinery established under the Central Government." (Para. 82 of the Report) :—

"(*a*) Scrutiny and co-ordination of Provincial Plans and Plans of Central Departments ;

(*b*) Making recommendations to Government as regards the allocation of Central funds for development purposes ;

(*c*) Formulating plans for the development of major industries and important minerals ;

(*d*) Making recommendations to Government regarding various forms of State aid and State control to be extended to industries ;

(*e*) Making recommendations to Government regarding trade both foreign and internal ;

(*f*) Making recommendations regarding monetary and financial policy, including currency and credit at home and abroad, as affecting the planned development of the country ;

(*g*) Watching and stimulating progress in regard to the execution of the plans referred to in (*a*) and (*c*) above, compiling and publishing statistics relating to them, suggesting adjustments and modification in them and initiating new plans ;

(*h*) *Allocating material resources which are in short supply so as to ensure that due regard is paid to priorities ;

(*i*) Examining the implications of scientific research and discovery on social welfare."

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*"Some of us think that expert scientific advice can best be obtained by consultation and does not need to be specially provided for in the personnel of the Commission."

(C) THE PLANNING PROCESS

1. Planning implies planners: an obvious statement the significance of which is very frequently overlooked. Equally obvious and equally liable to be forgotten is the circumstance that planning does not take place in a vacuum: it impinges upon, and modifies, an existent structure and one of the fundamental issues is indeed to what extent such a structure can be modified and to what extent the pre-existent and the existing structure is *capable* of modification. Further, since it is impossible for every and all parts of the structure to be *directly* affected by the details of planning, it is difficult to assess—when the results of planning are under consideration—precisely what is to be attributed to the effects of the Plan itself, and what is to be attributed to the working of the structure abstracted, as it were, from the Plan.

2. The resolution setting up the Planning Commission,[1] provided both for certain formal directives to the Commission and for its membership. As regards the first, the Planning Commission was instructed to:—

"(*a*) Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements ;

(*b*) Formulate a Plan for the most effective and balanced utilisation of the country's resources ;

(*c*) On a determination of priorities, to define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage ;

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[1]The decision to set up a Planning Commission was announced to Parliament not by the Prime Minister but by the Finance Minister in his Budget Speech on February 28, 1950.

(*d*) Indicate the factors which are tending to retard economic development and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan ;

(*e*) Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects ;

(*f*) Appraise from time to time the progress achieved in the execution of each stage of the Plan and to recommend, the adjustments of policy and measures that such appraisal might show to be necessary ; and

(*g*) Make such interim or ancillary recommendations as appear to it to be appropriate on a consideration of the prevailing economic conditions, current policies, measures and development programmes, or on an examination of such specific problems as may be referred to it for advice by Central or State Governments either for facilitating the discharge of the duties assigned to it ; or.."

3. As regards the composition of the Planning Commission, there was provision for four members, a Chairman and a Deputy Chairman, as well as for a Secretary and a Deputy Secretary. The Chairman was to be the Prime Minister himself: Shri C. D. Deshmukh, who was an original member of the Commission, became Finance Minister shortly thereafter. The Secretary to the Planning Commission was also Secretary to the Cabinet. Moreover, by the Resolution the Planning Commission was to make recommendations to the Cabinet. "*In framing its recommendations, the Commission will act in close understanding and consultation with* the Ministries of the Central Government and the Governments of the States. The responsibility for taking and implementing decisions will rest with the Central and the State Governments. The Government of India feel confident that the States will give the fullest measure of help to the Commission so as to ensure the maximum co-ordination of policy and unity in effort."

Thus, from the very beginning, not only was the Commission *required to consult* the Central authorities and the State Governments in framing recommendations, but a political element was introduced into the Commission itself.

Since 1950, the political element in the Planning Commission has been strengthened, whilst at the same time its membership has expanded. It now consists of nine members: included in this number are the Prime Minister, the Minister of Labour, who is also the Planning Minister, the Finance Minister as well as the Minister for Defence. Moreover, for several years there has been an "*ad hoc*" member in the shape of Prof. P. C. Mahalanobis, a distinguished statistician, who is at the same time "Statistical Adviser" to the Cabinet, and known to be closely associated with the Prime Minister himself. Prof. Mahalanobis is known to have pronounced views of a left-wing kind: he was in fact responsible for the "Draft Recommendations for the Formulation of the Second Five Year Plan"[1] which placed great emphasis on the development of "basic" or "heavy" industries, subsequently to be a substantial element in the content of the Second Plan. He remains a member and has a separate Division of the Commission under his control. He also has a definite relationship with the Central Statistical Organisation of the Cabinet Secretariat. He is the only "scientist" on the Commission itself and this must inevitably give him, apart from any personal relations with the Prime Minister, and these are known to be close, a position of advantage as compared with the economists and statisticians who compose the "working force" of the Commission when differences of opinion arise within the expert circles of the Commission: and such differences of opinion are almost bound to arise from time to time.[2]

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[1] Reprinted in the Section "The Plan Frame" (pp. 35-68) of the Volume "*Papers Relating to the Formulation of the Second Five Year Plan.*" Delhi, 1955.

[2] The Estimates Committee of the Lower House of Parliament in its 21st Report (New Delhi, April, 1958) itself thought that the

4. The original "set-up" contemplated direct and close relations with the Cabinet and consultations with Central Ministries and the Governments of the States. In August, 1952, however, a further instrument was created, the National Development Council, "To strengthen and mobilise the effort and resources of the nation in support of the Plan, to promote common economic policies in all vital spheres, and to ensure the balanced and rapid development of all parts of the country, and on the recommendations of the Planning Commission," so ran the preamble to the Resolution, "the Government of India have decided to set up a National Development Council."

5. Its functions were to be :—

"(*a*) to review the working of the National Plan from time to time ;

(*b*) to consider important questions of social and economic policy affecting national development ;

and

(*c*) *to recommend measures for the achievement of the aims and targets set out in the National Plan*, including measures

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appointment of an "*ad hoc*" member was "anomalous". "If the Planning Commission desires to get advice and assistance from a person who is not able to become a whole-time member, it could be so arranged that he is available for advice, if and when necessary, without making him a *de facto* member of the Commission." Report, para 23. As these pages are being written, a conflict is being openly discussed (in the Press) between the Perspective Planning Division of the Planning Commission (which Division is controlled by Prof. Mahalanobis) and the "Working Group of Resources" as to the volume of funds available for the implementation of the Third Plan. The following extract is from *Capital* dated 9th June, and may be of interest :—

> "While it may be a move to discredit the Resources Working Group and the Central Finance Ministry on the ground that they are being unduly conservative in their calculation of resources, the view propagated by the Mahalanobis Group is calculated to incite the Ministries into going in for more grandiose projects. Dr. H. J. Bhabha, in particular, is likely to feel encouraged in this ambition to set up at least five atomic power stations in the Third Plan period, for which he has already started a vigorous foreign exchange search."

to secure the active participation and co-operation of the people, improve the efficiency of the administrative services, ensure the fullest development of the less advanced regions and sections of the community and, through sacrifice borne equally by all citizens, build up resources for national development."

6. The National Development Council was from the first conceived of as a large consultative and deliberative body. "The National Development Council, which will make its recommendations to the Central and State Governments, will be composed of the Prime Minister, the Chief Ministers of all the States and the Members of the Planning Commission. The Council shall meet as often as may be necessary and in any case at least twice in each year."

7. It must surely be evident that what finally emerges as the "current" Plan must under these circumstances be something other than what would result from the impartial and detached reflections and discussions of a body of economists, statisticians and professional administrators. The internal documentation of the Planning Commission is very great and the documents which emerge as the current Plan documents, as well as the various Progress and other Reports are voluminous, admirably written and, it may be added, of absorbing interest. In addition to the labours of the Planning Commission itself, Indian public opinion is fed by a stream of reports from Standing Committees, *ad hoc* Committees and "Working Committees" dealing with specific problems, added to which are the Evaluation Reports, surveying achievements and shortcomings in the implementation of various aspects of the Plan, *e.g.*, Community Development. There is also a Panel of Economists, now a large body, also issuing views and opinions. Further, India has enjoyed the benefit of surveys of problems by foreign technical missions of one kind or another: as, for instance, on Agriculture (Ford Foundation), on Small-Scale Industries (German and Japanese), on Community Development (United Nations Technical Assistance

Programme), on Economic Stability (Bernstein Mission) and the like. The trouble is not that there is too little discussion or inadequate documentation, but possibly too much. But all this does not alter the fact that the *actual* plan of any particular time-period is a compromise plan in the sense that not only has it to be approved by bodies such as the National Development Council and the Cabinet, which are political by definition, but that it has to pass the hurdle of approval by the Planning Commission itself, (as distinct from the staff), on which as already pointed out, the political element is strongly represented. This means that account must be taken not only of the possibly very different views of Ministers themselves (and their views are known in fact to run very far apart at the present time) and of the views and hopes of important officials in their Departments ; it also means that due attention must be paid to the possibly very divergent views of the political representatives of the States (on such matters, for instance, as the nature and extent of State trading in foodgrains, on what is now called "Holding the Price Line," the location of enterprises and the order of priorities). Behind these political personalities, influencing them and working through them, are the organisations representative of public opinion—Parliament itself, and the dominant party at its annual Congresses, the Federation of Indian Chambers of Commerce, the Indian Merchants' Chamber, the organised bodies representative of labour and the more powerful organs of the press. Such pressures are influences which are continuous: they affect the magnitude of the Plan, the order of priorities and the "rephasing" of the Plan, if that proves necessary. At the time of writing, the process of plan making can be seen at work in all its realities: Ministers and Departments demanding more than they know they deserve, in the hope of getting at least something: "kite-flying" in the press on such matters as the building of additional steel plants or the setting up of a second shipbuilding yard: and announcements, possibly premature, but certainly calculated, on the subject of future oil policy or the "targets" for steel. That all this must result in a certain measure of "horse-trading" and in the final emergence of a Plan possibly very different from the initial "lay out", is obvious.[1]

8. Politicians naturally feel, to paraphrase a famous remark by a famous Frenchman, that "Planning is much too serious a business to be left to the Planners". Democracy works through political organs and there is no avoidance of a political element in the planning process. Apart from the fact that public opinion must be consulted, if only because the Plan calls for sacrifices in the way of taxation and of interferences with the established order (and, in practice, in the way of inflation), the Planning Staff is now a large body[2] divided into many sections and groups. Divergences of view within and divergences of view and of interest outside are inevitable. There must be *someone* to resolve conflict, and it is inevitable that much power in this respect must remain with the Prime Minister, not only because he *is* Prime Minister but because he is Chairman of the Planning Commission itself, and, in fact, takes a very active and continuous part in its deliberations. Not only his personal preferences, which are known to be strong, but his views of political expediency, must play an important rôle in the final upshot. It is significant and important also that the Planning Period of five years and its termination from time to time coincides with election year in politics, so that judgment on the past Plan and judgment

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[1]A distinguished Indian, himself formerly a member of the Planning Commission, recently remarked, *apropos* the over-all size of the Third Plan that: "I feel no special qualification for recommending a figure for the size of the Third Plan, which is less a matter of calculation than of political decision." *Some Lessons of the Third Plan*, p. 2: G. L. Mehta. (An address originally delivered at the Delhi Seminar on November 27, 1959).

[2]For details of staff and organisation, see already mentioned 21st Report of the Estimates Committee. The cost of the staff and of certain related Committees rose from Rs. 13½ lakhs in 1952-3 to Rs. 74½ lakhs in 1958-9.

on the Plan-to-be and the judgment on the performance of the political party in office come to much the same thing.

9. To consider the planning process merely in the light of the relations between planners and politicians in the abstract would be, of course, a gross over-simplification. The scope of planning is so wide, the implications are so many, the mutual relations are so complex, the technical aspects are so important, that the process of planning of the various parts, from the practical point of view, must be, and in fact is, a continuous one. It invites constant discussions not only with Central Ministries, but with the States, or with groups of States and these in turn—especially as much importance is attached, perhaps exaggeratedly, to "planning from below" must consult subordinate areas within their geographical ambit. Since each successive Plan involves "targets" not only for governmental bodies or enterprises controlled by them, but also "targets" for industry—there must be endless consultations with bodies and individual representatives of industry and commerce. These, in their turn, must consult their constituents, and a further process of discussion and of "reference back" must take place. Each Plan has a financial, as well as a physical implication ; nor can India afford to neglect the fact that she is part of a world order. Indeed, since foreign assistance has become of much greater relative importance with each successive Plan, an appreciation of the attitudes of other countries, of their governments and of their business leaders, is indispensable. Major decisions are without doubt powerfully influenced by politics and politicians ; but planning is so much a matter of conscientious attention to detail and to getting the various "bits and pieces" to fit together, that the physical task to be accomplished is without doubt, immense. Apart from this, implementation has to be watched and due attention be paid to changes in financial possibilities. It is not surprising that mistakes should be made, it would be indeed miraculous if it were otherwise.

10. The *de facto* situation is thus very unlike that envisaged when discussion on the nature of the planning organisation first seriously began: when, as already pointed out, it was hoped that the planning body was to be "permanently dissociated from the vicissitudes of politics." The practical question to-day is not whether there should be any political influence, but *how much* political influence there should be on the planning process. The last word, in a representative system, must be with the politicians: the fundamental question is whether the intellectual integrity and the freedom to express one's thoughts without fear of possible adverse consequences on the part of the working staff and the advisory bodies connected closely with the Planning Commission (for instance, the Advisory Panel of Economists,) are sufficiently protected by the present arrangements, or whether the balance of power within the "thinking machine" is not imperilled by present working arrangements. That there is at least a *danger* of imbalance is obvious: and one sure way of ensuring that matters do not get out of hand is to recognise that *they may do so.*

11. It follows from what has been written above that any draft plan should not be regarded as a Sacred Book, every line or word of which must be venerated and remain unquestioned. The hard facts of experience, the pressure of events, may (as they already have at times) demand modifications and alterations—the process known in official circles as "re-phasing"—from time to time. Like all the works of man, every draft plan contains errors and imperfections. Some are the fault of honest but defective thinking, some are the result of pressures from without. Since any draft plan is a compromise, it is as well that it should be regarded as such, and not as the product of "pure" scientific thought, uncontaminated by contact with the harsh realities of social and political conflict.

(D) SOME PHASES OF PLANNING

1. Broadly speaking, when planning is undertaken, one or other of two objectives may primarily be aimed at. A country may aim at increased material welfare, or it may aim at increasing power, or, to put it in the language of Adam Smith, a country may choose to plan for opulence or for defence. It is not the case that these two possible objectives are entirely inconsistent with one another. Steel works and power plants, in the course of their erection and exploitation generate income and provide employment, and their products can be, if need be, diverted to the ends of war or of human wellbeing; increased agricultural output may sustain larger armies or serve as the basis of improved nutrition. So much may be granted, but, nevertheless, when the magnitudes, and, especially, the priorities of a plan are being laid down, as a whole, planning for welfare will place emphasis on objectives which will be altogether missing if planning for power were given priority. The distinction between these two major alternatives is the difference between the welfare State and the power State ; in concrete term, betwesen Russia and the West, or, again, in political terms, between a social (not necessarily a socialist) democracy and an authoritarian or totalitarian oligarchy. Given the world as it is, neither the one choice nor the other can entirely exclude reference to the other alternative. Even in Russia—and presumably China—there is a limit to which welfare can be sacrificed to power : not even in the West, which in this context includes India, can power be altogether sacrificed to welfare. This choice, however, blurred it may be in the day-to-day conduct of affairs, is in reality fundamental. India has chosen the path of welfare. But this, without an examination of the magnitudes and the *inter se* priorities involved, tells one very little.

2. One matter is, however, clear without any reference to exact quantification. The choice of welfare, in the narrowest sense of the word, *i.e.* in the sense of the provision of social

amenities, of "nation-building" objectives, as part of current planning, implies a drain on *current* income: whatever the long-run benefits may be. Education and social and medical services do, in the long run, add to the productive potential by adding to the physical strength and the productive efficiency of the population—though insofar as improved medical provision adds to population growth, the gain is not without its more unfavourable aspect. Nevertheless, though national income may be indirectly increased in the long run, such social services can never "pay for themselves" in the strict budgetary sense of the word. Three consequences follow. Firstly, there must be a limit to the extent to which current resources can be applied to welfare ends at any given moment of time. Secondly, expenditure upon the social services, insofar as the amount grows over time, must involve a continuous, and growing, element in the budget of the Centre and the States. It is, therefore, not surprising that the effort to keep down the level of expenditure on "non-plan expenditure" should be difficult, in fact impossible, even if the effects of the rising level of prices be not taken into account, as, in effect, they must be. It does not follow that the expenditure upon the social services must be a constant, let alone a growing proportion, of the total national income: that depends upon the yield of investment and production as a whole, whether comprised within plan expenditure, as officially defined, or beyond it. Thirdly, given a growing population and an absolutely low *per capita* income some portion of current expenditure upon planning must be devoted to efforts to increase income, by investment in "productive" enterprise. From this point of view, the question of whether the investment should take place primarily in the "public" or in the "private sector", is quite subordinate. This necessity is so self-evident that it is not surprising that in public discussion, especially abroad, the strictly "welfare" element in planning should tend to be overlooked. Whatever misgivings may tend to be aroused by the scale upon which the social services are being expanded and the particular ends it is desired to achieve, it is one of the merits of planning in India that it is not devoted solely to increasing "productive" investment in the narrower sense of the term. But this still leaves the difficult problem open: *how much* in *each* direction, and to what ends ? In other words, what plan targets and what plan magnitudes ?

3. The general trend of thought as to what should be the direction of planning, so far as the public sector is concerned, comes out quite clearly in the following table[1] :—

(1) PERCENTAGE MAGNITUDES: "PUBLIC" SECTOR

	1st Plan (Revised) %	2nd Plan (Original) %	2nd Plan (Revised) %
Agriculture and Community Development	15	12	11
Irrigation and Power	27	19	18
Industry and Mining	8	18	21
Transport and Communications	24	29	30
Social Services	22	20	18
Miscellaneous	4	2	2
	100	100	100
(of which large and medium industry, except a small amount for mineral development and scientific research)	(6)	(13)	(16)

4. It must be borne in mind in considering this table and the following ones that outside the public sector, expenditure was contemplated in the private sector, so that total expenditure was considerably larger than that in the public sector alone, which, taking the entire picture into account, will naturally affect the overall percentages. Moreover, "plan expenditure" whether in the public or the private sector is not the same thing as "investment expenditure." Both the First and the Second Plans distinguished between "investment outlay" and

[1]Based on Table 3, *Selected Plan Statistics*, pp. 12—13. See also the table on p. 2 of the *Review of the First Five Year Plan*, (New Delhi, May, 1957).

"current outlay", or between "expenditure on capital account" and on "revenue account", only the first element being *directly* capital-creative[1]. Finally, "actual" expenditure differs from "planned" expenditure. But as private expenditure is primarily directed to the maintenance and extension of income-earning assets, including building, the tendency will be, percentagewise, to diminish the significance in the overall picture of expenditure on the social services (including community development projects)[2].

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[1]See the discussion in *Review of the First Five Year Plan*, p. 21 and the *Approach to the Second Five Year Plan*, pp. 56-57.

[2]As given in the *Approach to the Second Five Year Plan*, pp. 56-57, the "investment outlay" in the public and private sector was fixed at Rs. 3,800+2,400=6,200 crores, whilst "current outlay" in the public sector was fixed at Rs. 1,000 crores: "stocks" in the private sector were given a figure of Rs. 400 crores. As stated in Table 7 of the *Selected Plan Statistics*, p. 23 the figures agree with those given above (though the breakdown differs). "*Investment*" was as follows:—

GOVERNMENT AND PRIVATE INVESTMENT—SECOND PLAN

Sl. No. (0)	Sector (1)	Private Amount (2) Rs. (Crores)	Private Percent (3)	Public Amount (4) Rs. (Crores)	Public Percent (5)	Total Amount (6) Rs. (Crores)	Total Percent (7)
1.	Agriculture and community development	175	7·3	338	8·9	513	8·3
2.	Irrigation	100	4·2	456	12·0	556	9·0
3.	Large industries (including power and mining)	617	25·7	1077	28·3	1694	27·3
4.	Small industries and other enterprises	100	4·2	120	3·2	220	3·5
5.	Transport and communications	83	3·4	1335	35·1	1418	22·9
6.	Others (social services, residential buildings, miscellaneous)	925	38·5	474	12·5	1399	22·6
7.	Stocks	400	16·7	—	—	400	6·4
	Total	2400	100·0	3800	100·0	6200	100·0

5. Expressed in absolute figures, "plan expenditure" in the first two Plan periods in the public sector were intended to be as follows[1] :—

ABSOLUTE MAGNITUDES : "PUBLIC SECTOR"

	1st Plan (Revised)			2nd Plan (Original)			2nd Plan (Revised)		
	Centre	States	Total	Centre	States	Total	Centre	States	Total
1. Agriculture	84	154	238	38	303	341	32	281	313
2. Community Development	105	11	116	27	200	227	22	175	197
Total	189	165	354	65	503	568	54	456	510
Irrigation and Power	256	392	648	117	796	913	63	757	820
Industry and Mining	159	29	188	747	143	890	830	120	950
Transport and Communications	466	104	570	1203	182	1385	1177	163	1340
Social Services	251	281	532	396	549	945	298	512	810
Miscellaneous	69	17	86	43	56	99	30	40	70
	1390	988	2378	2571	2229	4800	2452	2048	4500

6. Over the whole of the period covered by the first two Plans, two characteristics are to be noted. Firstly, the relative significance of investment expenditure in the public sector increased, whilst the absolute amounts of expenditure in both public and private sectors rose: Summing up the position as regards investment, the *Approach to the Second Plan*[2] remarks that :

> "In the first plan period, total investment in the economy appears—very roughly—to have been around Rs. 3,100 crores, the investment in the private sector being a little more than half the total. The target for the second plan period works out at Rs. 6,200 crores and........the share of the public sector in the total investment records a substantial rise. The ratio of public to private investment in

[1]Based on Table 3, *Selected Plan Statistics*, pp. 12-13.

[2]p. 58.

> the second plan is 61 : 39 as compared to 50 : 50 envisaged in the first plan. Investment through the public sector is scheduled to go up 2½ times, and the increase in investment in the private sector is expected to be of the order of 50 per cent."

Secondly, this change is associated with a redistribution of expenditure and a significant increase in the importance of the total expenditure upon industry and mining: from eight per cent under the revised First Plan to eighteen per cent in the original Second Plan to twenty-one per cent in the revised Second Plan. The revision of the Second Plan was the direct result of the exchange crisis of 1957-8, which required a scaling-down of the total expenditure, but the contemplated expenditure included in the rubric "industry and mining" actually rose in absolute terms, as well as percentagewise.

7. These percentages and magnitudes raise some fundamental issues. In the light of subsequent developments, it may very well be doubted if it was wise to cut proposed expenditure for agriculture and actually increase the provision for industry and mining. But equally important is the issue of what it was intended to do with the expenditure under this head. The basic issue is not that of further "industrialisation" as such, but of the kind of "industrialisation" contemplated. These figures mark a most important decision: the transition to the extension of the so-called "heavy" or "basic" industries, and that on a considerable scale.

8. The terms "basic industries" or "heavy industries" are not capable of exact definition, though it is easy enough to point to examples of what is meant. Iron and steel plants, the manufacture of complex electrical and mechanical machines and equipment, complicated chemical installations, shipbuilding are typical examples. They are all characterized by one common feature: they are "capital-intensive" and not "labour-intensive", that is, they involve large capital investment and their *direct* effect upon the volume of employment is relatively small. The creation of such industries, therefore,

raises the question of whether, given acute capital shortage and relatively redundant labour, it is wise, at an early stage of expansion, for developing countries to embark upon their creation or whether it would not be better to develop industries of a less capital-intensive character. The question may be put in another way: given that a start should be made, what should be the order of priority ? For instance, should crude steel production be undertaken first, or should crude steel continue to be imported, and the capital which might otherwise have been utilized in manufacturing steel be used in creating a machine-tool plant, the labour-content of the output being higher and the saving in foreign exchange involved greater ?

Subsidiary to this issue, but nevertheless very important is the question whether existing plant facilities *e.g.* in the manufacture of steel be extended or whether priority should be given to the creation of new plants, it being agreed that there is an optimum size in any case, so that at some stage in the process of expansion further plants would be necessary, though, again, whether they should be in the public or the private sector could be a matter for discussion.

9. The major issue was most clearly debated in the volume embodying the views of the Panel of Economists *i.e.* the volume entitled "*Papers Relating to the Formulation of the Second Five Year Plan.*" In a working paper prepared jointly by the Economic Division of the Ministry of Finance and the Economic Division of the Planning Commission, in consultation with the Central Statistical Organisation and the Indian Statistical Institute (in which two organisations the voice of Professor Mahalanobis is powerful), named "*A Tentative Framework*", it was argued, that though the trend towards the development of "heavy capital goods industries" was, in fact, a reversal of the course of evolution sanctioned by history, yet it was justifiable—

> "Historically, the development of heavy capital goods industries has followed in the wake of a rapid advance in

consumer goods industries in most countries. But it is not an uneconomic proposition to give priority to the development of heavy industries and to try and reverse the historical process, within limits. A country which seeks rapid development cannot rely on the export of food and raw materials for satisfying the major part of its increasing requirements of capital goods. Nor can a comparative late comer in the field of industrialisation hope for a sizable expansion in the exports of manufactured consumer goods. The hinterland of countries with an industrial vacuum is disappearing day by day, and countries placed in more or less the same position as we are are naturally anxious to develop industries themselves. Our natural resources put us at no serious disadvantage in the development of basic industries ; and such deficiencies of capital or skill as we have can be removed by careful planning. In both these respects, assistance from more developed countries would be welcome. The emphasis on the development of basic industries, therefore, is not in disregard of the possibilities of international exchange[1]."

10. This argument, in fact, evades the issue by assuming that the *only* way by which a rapidly developing country can get the capital goods that it needs is by means of the "export of food and raw materials"—obviously, it can also, or alternatively, borrow the capital required for the acquisition of such goods, and in fact India has financed the construction of the steel plants in the public sector by precisely this procedure.

11. Prof. Mahalanobis, himself, had put the case for the expansion of the basic or heavy industries in his "*Draft Recommendations for the Formulation of the Second Five Year Plan*", published in the same volume to which reference has already been made. His argument was, in effect, a complicated one. It was based[2] to begin with, on the assumption that the increased demand for consumer goods would be met by the expansion of the "household or hand industries", or, given that factory production of consumer goods was necessary,

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[1]*op. cit.* p. 76.

[2]All these quotations are from the volume referred to, pp. 42-43.

that it should be achieved "in a way not competitive with hand industries." Given, in other words, that the consumer goods aspect of an expanding economy could be thus provided for, he agreed that it was desirable—

(*a*) "to develop basic heavy industries for the manufacture of producer goods" in order to "strengthen the foundations of economic independence,"

(*b*) "to make India independent, as quickly as possible, of foreign imports of producer goods so that the *accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries.* The heavy industries must, therefore, be expanded with all possible speed[1]."

It was, however, admitted that—

"The heavy industries being capital intensive would, however, give relatively little scope for employment, and would also generate a large demand for consumer goods which they themselves would not be able to supply."

12. A good deal turns, in considering these arguments, on the significance of the passage italicised. If it refers merely to difficulties of *physical* supply, related to possible boom conditions elsewhere, it is of purely temporary significance. If it means that India might find difficulties in raising the necessary financial resources from abroad, or find difficulty in increasing exports to pay for capital-goods imports, it also begs the question, since in any case, external finance would be required, or exports expended, to pay for "the machines to make the machines" in the earlier stages of the development of basic industries.

13. In any case, the real issue is : *what* kinds of basic industry should receive priority ? India, admittedly, was and is a low-cost producer of steel, but that is not the only matter that requires, or required, consideration. Discussing the issue in relation to the Third Plan, and the proposal to raise output

[1]Italics not in the original.

to 10 million tons, Sir Jehangir Ghandy has recently pointed out that[1]

> "While subscribing to the broad concepts underlying official thinking, the key question for the present is the distribution of resources between steel and other sectors where we seek equally rapid development. If our resources position was comfortable, a weightage in favour of steel might have been justified on the ground that any excess capacity was bound to be fully utilised in the course of time in a rising economy. But it is the scarcity of resources that makes correct apportionment so important. Each new plant of a million-ton ingot capacity will require an investment of Rs. 150 to Rs. 200 crores, the foreign exchange component of which will be about 60 per cent. If we, therefore, expand the capacity by 4 million tons, as suggested in official circles, it will call for an investment of Rs. 480 to Rs. 530 crores, assuming that three million tons are added by expanding the existing works and that one million tons come from a new plant.
>
> The cost of new expansion is roughly computed at Rs. 110 crores per million tons. What will this investment yield in terms of output and employment ? If we assume the value of each ton of output at about Rs. 590, the present average selling price minus excise duty, the value of 3 million tons of saleable steel (equivalent of 4 million tons of ingots) will be Rs. 177 crores, giving an investment/output ratio ranging between 2·7 and 3·0. If we assume that India's net borrowings from abroad will be Rs. 1,500 crores in the Third Plan period, the steel industry alone will require Rs. 250 crores, well over 15 per cent of the total. With the decision to complete the Ranchi heavy engineering project in one phase, a reduction in foreign exchange costs by domestic production of metallurgical equipment should become possible if some part of this expansion could be deferred.
>
> Looking at the problem from employment angle, a capital investment of Rs. 600 to Rs. 650 crores will not add more than 48,000 new jobs. This compares very unfavourably with the employment potential of a like investment in engineering.

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[1] *The Next Five Years*, reprinted from *All India Businessmen's Convention Souvenir, January*, 1960.

It has, therefore, been urged both on considerations of resources and employment potential that we need not necessarily go up to 10 million tons in the Third Plan. A smaller target would help in finding adequate funds for the development of steel using industries, where capital/output and capital/employment ratios are far more favourable. It was Prof. Mahalanobis who estimated that an investment of Rs. 450 crores in machine building and other smaller industries would yield a product of Rs. 300 to Rs. 350 crores. No one will deny that the needs of an expanding economy for cranes and trucks, ships and lathes, will not be as urgent as the demand for steel. Hence it is suggested that we adopt a cautious attitude in the matter of steel expansion and err, if necessary, on the side of over-providing for secondary industries. Should steel requirements expand faster than now seems possible, and some imports were necessary, the foreign exchange cost would be much lower than that of these engineering products."

Moreover,

"the steel industry requires a wide range of supporting facilities to sustain it. The fact that India has limited resources of coking coal is well known. The availability of good coal even for the present level of production falls short of requirements, and necessitates the use of poorer, high-ash coals. This has two important repercussions (*a*) it increases the costs, because more coal and limestone are required to smelt each ton of ore, and (*b*) the increase in the proportion of coke and limestone to ore in the blast furnace burden reduces production of pig iron. Fortunately, poorer coals with a high-ash content can, with suitable treatment, be utilised for metallurgical purposes. In fact, it was Tata Steel which conclusively proved that Indian coals could be successfully washed and set up the first washing plant in the country. The shortage of coal was anticipated and it was, therefore, decided to set up five washeries to provide the steel plants with an adequate quantity of washed coal. If only two out of five washeries have yet been completed, one is still under construction, and work on the remaining two has yet to start it reflects not a lack of planning but a failure in execution. The present indications are that the shortage of washed coal will persist well into the Third Plan, delaying the realisation of the full production targets of the steel plants.

Good coal is not the only raw material of which there is a shortage. Limestone, too, particularly the better grades suitable for open hearth use, is not plentifully available. Here again, little has been done to forestall the shortage by (*a*) developing new sources of supply, and (*b*) investigating methods of beneficiation.

Likewise, the development of the transport facilities in the steel belt have lagged some way behind the target set in the Second Plan. Electric traction, which was to have been adopted to increase line capacity in several sections of this already congested area, will still take many months to materialise. There is no assurance, therefore, that it will be possible to meet the steel industry's transport needs in full, when the new units are fully ready for production. Congestion leading to irregular movements of traffic in and out of steel works seems, in these conditions, inevitable. This will hamper production very considerably, because operations in a steel plant have to be carried on on a round-the-clock basis requiring movement of materials in a well-ordered sequence."

14. The same writer has also drawn attention to the fact that[1]—

"A main purpose of planning is to strengthen the 'spread' effects of development as between different sectors of the economy. From this, it logically follows that the steel capacity that will have been achieved by the end of the Second Plan period should be translated into a wide variety of producer and consumer goods by hastening the growth of secondary steel-using industries. Even apart from the new factor of defence requirements I mentioned, we need a larger output of goods to counteract the inflationary pressure of deficit financing, which has already reached the level of Rs. 1,200 crores envisaged for the full plan period, one year ahead of its close. The creeping inflation is reflected in the price indices of wholesale commodities, raw materials and intermediate goods. I urge, therefore, that in dispersing investments over the Third Plan period, we give due recognition to secondary industries, which because of their shorter gestation period and lower capital-output ratio will help to correct inflationary trends by a

[1]*Steel: Some Problems of Development*, p. 5 (December, 1959).

larger actual production in the short term. In concrete terms, we should encourage the growth of not only the heavier branch of engineering industries turning out producer goods, but also other units which make consumer durables, or small tools and implements. At the present moment, the capacity of the engineering industry is severely under-utilised for want of steel, its principal raw material, so much so that 43 out of 63 industries were working below capacity in 1958-59. This particular problem will, we hope, be shortly overcome and we can look forward to a big spurt in production. A number of other steps also need to be taken to strengthen these industries, as, for example, the grant of special facilities to improve or add to plant and equipment. A large part of the industry is operating with worn-out or obsolete machinery because the state of industry's finances, coupled with the shortage of foreign exchange, has held back modernisation. It would seem necessary, therefore, to make some institutional arrangements to assist the industry in raising long-term capital on reasonable terms."

15. The decision or decisions to embark upon the expansion of a given segment of industry—heavy industries in general and steel in particular—thus involves a weighing against one another, of considerations of employment, (which in the context of India are of grave importance), of considerations of the best use of scarce resources *i.e.* of foreign exchange and available internal resources, of immediate and of long-run productivity. It is not *certain*, but it is highly possible,[1] that the decision to expand the steel industry to the extent that

[1] Sir Jehangir Ghandy: *Steel in the Third Plan*, p. 7.
"It was Shri J. R. D. Tata who first sounded a note of warning against an over-emphasis on steel in future planning. He felt that this would be a costly mistake and urged that the rate of steel expansion and the priority accorded to it should be determined not on considerations of prestige but keeping in mind the continued shortages of financial, technical and managerial resources, which will exist for the next 10 or 15 years. Subsequent to Shri Tata's warning, several responsible economists have also pleaded for slowing down steel expansion on one count or another. This has at least had one tangible effect. Whereas Shri T. T. Krishnamachari had talked in

was finally decided by Government, represented an over-investment in one particular direction. In any event, the case of the steel industry throws light upon other, if not *equally* important, at any rate, *very* important, aspects of planning.

16. The first of these aspects relates to the importance of the time factor in arriving at decisions. In its elaborate and highly interesting survey of the three State steel projects—Rourkela, Bhilai and Durgapur, all subsidiary manufacturing units of Hindusthan Steel (Private) Limited—the Estimates Committee of the Lok Sabha, drew pointed attention to this[1]. Discussion began as early as 1945: one delay after another occurred, on grounds that were not in themselves in any way unworthy; nevertheless "there is evidence that if decision to set up steel plants had been taken in time, they would have cost 40 to 50 per cent less." Moreover, "the requirements of steel were not assessed properly, in the initial stages, with the result that much valuable time was lost in preparing project reports and in revising them while the world prices of plants were rising and finished steel was being imported at the sacrifice of much needed foreign exchange[2]."

17. Though the great new steel plants are the most spectacular and best-advertised aspect of planning in the public sector, so far as heavy and basic industries are concerned, they are, of course, by no means the only venture upon which the

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terms of a target of 15 million tons, and this figure also appeared in a memorandum on the 1958-59 budget, official thinking is now in terms of 10 million tons. A well-known economist, who takes, I believe, a position somewhat left of the centre, said in a recent article that he would prefer the expansion of industries like steel to be slowed down until the country was in a position to produce fairly large proportions of the machinery required so as to avoid the crisis in foreign exchange resources on which the Second Plan was almost foundering."

[1] Estimates Committee, 1958-1959, 33rd Report—*Ministry of Steel, Mines and Fuel, Hindusthan Steel (Private) Limited.* New Delhi, February, 1959.

[2] Report cited pp. 7-8.

Government of India has embarked in this field[1]. Whether they are in the construction stage or in the actual stage of production they range from chemicals and fertilisers, heavy electrical projects (Bhopal), heavy engineering, to machine tools and cables. Whether inaugurated by Government, or private enterprise or by both on a joint basis, the degree of progress achieved in recent years is certainly impressive. Speaking at the 10th Annual General Meeting of the Bureau of Industrial Statistics held at Calcutta on November 30, 1959, Shri H. V. R. Iengar, Governor of the Reserve Bank of India, pointed out that[2]—

> "In a speech which I delivered in Madras in March, 1958 and which was reprinted in the April issue of the Reserve Bank of India Bulletin, I gave a list of new items that have gone into production in the last few years and said that although as Commerce and Industry Secretary in the Government of India, I was well aware of the formulation of schemes for industrial development, I was myself surprised at the range and comprehensiveness of the new items. The yardstick today is different ; it is : how much of the machinery and the machine tools are produced in the country itself ? We are now producing the basic and conventional machine tools such as lathes, drilling machines, tool grinders and milling and planing machines. It will not be long before we can turn our attention to more specialised items. Only a short while ago, almost the bulk of sugar machinery had to be imported. Now some 80 per cent of it, including high speed centrifuges, are being fabricated in India. Substantial progress has been made in the electrical industry. We are today building all the distribution transformers, electrical motors and switch gear ; and with the Heavy Electrical Project in Bhopal going into production, we should be nearing self-sufficiency. In 1953 we had, by and large, only assembly plants for automobiles. Today, taking the different types of vehicles, the indigenous content varies between 50 per cent and 73 per cent and is expected by the end of the

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[1]For an overall review, *v.* Chapter V of the Report for 1959-60 of the Ministry of Commerce and Industry. "*Public Sector Projects and Undertakings,*" pp. 49-86.

[2]Reprinted from *Reserve Bank of India Bulletin.* December, 1959. pp. 6-7.

Second Plan to go up from 75 per cent to 85 per cent. An attempt has been made in India completely to engineer, design and manufacture a penicillin factory; the plant is expected to go into production in the middle of next year. We no longer feel satisfied merely by the fact that the production of sulphuric acid, which is one of the conventional yardsticks of industrial advance, has gone up from 100,000 tons in 1951 to nearer a quarter of a million tons in 1958. A few years ago the entire plant and equipment used to be imported. More recently 50 per cent was locally fabricated. A few days ago an industrialist told me that he has a licence for a new plant of which the import content is only 20 per cent. The Sindri Fertiliser factory was conceived by foreign scientists, and was designed, fabricated and installed by them. The people who are running that factory have shown enough confidence in themselves to contract for more than Rs. 8 crores out of approximately Rs. 16 crores that will be the cost of the new fertilizer project in Rourkela; and out of the Rs. 8 crores, work of at least Rs. 5 crores will be done indigenously. These are mainly illustrations taken at random from a wide range of products of machinery of different types."

18. The every wide range of Governmental, or semi-Governmental enterprises, which have come into existence poses a series of problems. Obviously, one problem which is quite independent of whether an enterprise is government owned, jointly owned or privately owned, is the provision, at all levels, of the appropriate technical skills. This is clearly an immense task, and one which cannot, obviously, be carried on only in Universities and Technical Colleges, though expenditure on such training through the State will pay for itself in the long run. Much of the training must be done in the plant itself or by specialised training centres associated with specific enterprises, such as the Training Centre established by Hindusthan Machine Tools Limited, which has now been taken over by the Government of India[1]. It is not only a

[1] *Report*, cited, p. 66. "It will be run as a "Central Government Machine Tool Training Centre" under the administration of the Ministry of Commerce and Industry. The day-to-day management will, however, be the responsibility of the company."

matter of technical "know-how" in the narrower sense of the word : it is also a question of character-training, in the specific sense of the acquisition of the willingness to accept responsibility and of an ability to cope with emergencies such as are sure to arise in the day-to-day running of large-scale enterprise. The extent to which this particular problem has been solved cannot yet be definitely stated in quantitative terms.

19. Certainly, the degree of efficiency which is being reached is encouraging. In the address given by the Governor of the Reserve Bank already quoted, some striking examples are cited[1]—

> "In the last resort, industrial progress depends on the quality, the fibre of the men concerned—the working force, the middle range of supervisors as well as the men at the top. The point is often made that Indian labour, though poorly paid in comparison with labour in Western countries, is actually quite expensive because its productivity is low. Investigation shows that the examples taken are inappropriate. Either they are of industries established many years ago when, on account of cheapness of labour, the numbers did not seriously matter or of industries using less modern or automatic machinery than in Western countries. It is perhaps true that the jute industry in Calcutta could be run with half its present force and that our older steel works are overstaffed on modern standards. But to get a fair view, we must examine the experience of the more recently established units. In the Hindusthan Machine Tools, the running statement of monthly labour efficiency shows that whereas in September, 1955, 4·20 Indians turned out as much work as one Swiss, the figure had gone down in August, 1959 to 1·57. Considering that more than 60 per cent of the workers were recruited only in the last 2 or 3 years when the factory decided to put on shifts and that most of them are still under training, the performance is by no means unsatisfactory ; and within a relatively short period the Indian worker will equal the European in efficiency in a high precision job to which he had not been previously

[1]p. 7.

accustomed. In the Integral Coach Factory at Perambur, the first batch of coaches was produced in 1955 and the factory took 19,648 man hours per coach against the figure in Switzerland of 6,500 man hours. Today the Parambur figure has been reduced to 8,519 and it is expected that it will soon come down to 6,750. It is clear that given the same equipment as a worker in an advanced industrial country and an initial period of training and reasonable working conditions, the Indian workman has the capacity to be as good a workman as anywhere else in the world. And with our advantage in the level of wages, there is no reason why we should not turn out engineering goods which are both cheap and of high quality. For example, the standard Oerlikon lathe for which the price in Switzerland is Rs. 33,000 is now being produced and sold in India at Rs. 29,500, still leaving a substantial profit. Similarly, the ex-works cost of an integral coach in Switzerland, when we imported it, was Rs. 1,03,000. The ex-works cost in Perambur is today Rs. 81,000. These figures should restore some balance in the argument about labour costs and efficiency in India."

20. The enterprises conducted by the State fall into four groups: statutory corporations, Government companies organised as public companies, those organized as private companies and those which are organized as departmental undertakings. The Estimates Committee of the Lower House in its Eightieth Report on "*Public Undertakings—Forms and Organization*[1]" lists 15 under the first head, 45 under the second and third heads, and 17 under the fourth head, though the figures are said to be incomplete. Some of the statutory corporations, such as the Bombay Port Trust and the Calcutta Port Commission, and some of the departmental undertakings, such as the Ordnance Factories and the Security and Currency Note Presses and the Government of India Mints, long precede the era of planning. When the Reserve Bank of India was nationalised, it became a statutory corporation, so did the Life Insurance Corporation of India. The Chittaranjan Locomotive Works and the Integral Coach Factory at Perambur

[1]*New Delhi*, April, 1960.

are departmental undertakings, though the Hindusthan Machine Tools Limited at Bangalore is a public company, whilst the Hindustan Shipyard Company at Visakhapatnam is a private company. Clearly, there is not only a certain degree of overlap in particular directions, as the Estimates Committee's Report points out,[1] but there does not appear to be a coherent philosophy as to what enterprises should be conducted on the basis of one legal form or another.[2] The Estimates Committee of the Lok Sabha came to the conclusion,[3] after reference to previous discussion

> "that all wholly State-owned Public Undertakings should generally be in the form of statutory corporations, or, where necessitated by special reasons, in the form of departmental undertakings and the company form should be an exception to be resorted to only for organisations of a specified nature such as set out above. They recommend that an expert committee be appointed to examine the whole question and to advise the Government on the principles which should determine the appropriate form of organisation for the various types of undertakings."

21. Nevertheless, important as the legal form of governmental undertaking may be from the standpoint of public accountability and parliamentary control, there are other issues which, from the long-run point of view, are perhaps of equal significance.

(*a*) The first of these issues concerns "top-level" management: in other words, who is to run enterprises as large, for instance, as Hindusthan Steel (Private) Limited ? What sort of individuals should they be, what training should they have, what degree of discretion in policy-making should be theirs ? The larger the undertaking the more difficult this issue becomes in each individual case, and it becomes more than proportion-

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[1] *Report*, cited, p. 2.

[2] *Report*, cited p. 4.

[3] *Report*, cited p. 5.

ately difficult with every increase in the growth of the "public sector". First-rate managerial and administrative talent is rare: the private sector is also expanding and is also calling for precisely the same type of individual. Even if talent of the right kind is to be found in the administrative services, diversion of such men to the conduct of enterprise means, in fact, a diminution of the ability available in other directions to the Government of India[1]. This is *not* a problem which can be solved by altering the legal form of the enterprise: and it is a problem of the gravest importance. Prof. Galbraith is right in urging[2], in his "*Notes on the rationale of Indian economic organisation*" that

> "the public sector has reached the point where its organisation requires a great deal of attention. India has a kind of post office socialism, which is out of date and which is working far less well than it should and must."

Writing of the new steel plants, he goes on to say that

> "even a fairly brief stay at the actual sites of the new steel mills reveals numerous faults, and further difficulties are on the way. Competent executives are frustrated and angry over the centralisation of purchasing, personnel and financial decisions in New Delhi. These delays are a source of discouragement to the younger engineering and technical personnel, who should be showing great enthusiasm. The result is poor morale where it should be high."

But though this seems to indicate that the problem is one of organisation, it is in fact one of leadership. It is the function of adequate leadership to provide the desire and the inspiration:

[1] In the last three decades, it may be pointed out, there has been a steady flow of talent from the British Civil Service to business. The late Lord Stamp may serve as an example in a previous generation: the present Chairman of Imperial Chemicals as an example of the present day. Neither Sir Josiah Stamp (as he then was) or Mr. Paul Chambers, it may be noted, had reached the compulsory retiring age.

[2] Cited from *Capital*, issue of 2nd July, 1959. p. 12.

mere changes in the form of organisation will not provide the solution.

It is, nevertheless, encouraging to note that the problems of management in the public sector, insofar as enterprises in that sector are organised on a joint-stock basis, have not escaped the attention of the Department of Company Law Administration in the Ministry of Commerce and Industry. In its Third Annual Report[1] it devotes a special chapter (XI) to the "Management of Government Companies". Though it does not deal with the central problem of leadership, which is one of personality, it does face some of the essential issues of top level management:—

> "The expertise available in the traditional departments of Government for dealing with these specialised problems of Government companies, being necessarily limited, in the first two years of the working of the Act, the Department concentrated on giving technical advice and assistance to Government companies to remove doubts and difficulties regarding the provisions of the Act and to secure timely and proper compliance with the requirement of the new Companies Act. Since then, emphasis has shifted to the management and financial aspects of Government companies. In particular the attention of Government companies has been drawn to the importance of building up an adequate structure of internal management, to be manned by carefully selected personnel. While the value of technologists and technicians in carrying on the business of corporate undertakings appears to be generally recognised, by and large, there is still somewhat tardy appreciation of the role of and the need for specialist personnel in management and accounting matters like Chief Accountants, Financial Controllers as distinct from Financial Advisers, Costing Experts, and Company Secretaries. In several communications during the year under report, the Department has endeavoured to bring home to the top managements of Government companies the urgent necessity of building up such cadres in Government companies. The Department

[1]It deals with the year ended March 31, 1959, though it is dated February 15, 1960.

has also urged the adoption of modern commercial and industrial accounting methods which would, besides improving the form and contents of the accounts of the companies, also help their management in budgetary planning, in scientific control of expenditure and in evaluating the efficiency of the companies. Further progress in these directions will depend on the nature and degree of response of the top managements of Government companies to these proddings on the part of this Department. Evidence of a new awareness of these problems is slowly and steadily emerging, but much yet remains to be done."

(*b*) There is now official approval for the view that State enterprises in the industrial field should make profits and thus contribute to their own expansion and that of the public sector as a whole, without any additional burden on the budget and/or without resort to further borrowing internally and externally. The ability to make a profit is one test of efficient management and direction ; the desirability of making profits is a further reason for securing adequate and competent management.

Nevertheless, the issue is not quite so simple as it looks: it is important to ask *how* enterprises in the public sector are to make profits, that is, whether the profits flow from the exploitation of monopolistic or quasi-monopolistic situations, or whether they are obtained by efficient operation, the cutting of costs and the extension of demand by lowering prices. Profits gained by the exploitation of monopolistic situations may benefit a particular enterprise, but only at the expense of making it more difficult for other enterprises to make a profit. Illustrations "leap to the eye". By hampering the development of road transport, the railways could increase *their* profits, but only at the expense of raising costs for the users of transport. The steel industry, through the device of the "equalisation fund" can keep the price of steel relatively high, but only at the expense of all users of steel, including, of course, other governmental enterprises[1]. The net effect must be that the

[1]More is said on these points in Part 3: The Private Sector.

national income, considered as a whole, will not expand as rapidly as it might otherwise have done, so that the "taxable capacity" of the country as a whole must suffer: vague though the concept of taxable capacity may be.

It follows that the pricing policies of public enterprises are a matter of the highest significance and it would appear that not sufficient attention has been given to this aspect of the whole planning situation.

22. Planning has to be "paid for", in the sense that the expenditure, whether on enterprises which are themselves intended to yield income in the future, or on ends which are not directly productive of income, though they may do so indirectly, has to be provided for: either out of the current income of a society, by taxation or by saving (which itself, after making allowance for "switch" transactions, comes out of current income) or by loans and donations from other societies, which in the end also derive from the national incomes of those societies. It is quite true that in considering *future* expenditure allowance can legitimately be made for the possibility that current expenditure on current objectives will add to the national income so that some degree of latitude is permissible and justifiable, in projecting the future available resources which can be drawn upon for further extension of planning projects. From this point of view "deficit financing" can be regarded as a means of supplementary taxation: the "real resources" on which it draws are provided out of current production and current income, though there may be other effects, beneficial or very much the reverse of beneficial, which have to be taken into account .

23. The following two tables throw light upon certain fundamental aspects of the situation. Broadly, taxation surpluses (other than "deficit financing" which, in fact, as

[1] "Deficit financing" is further examined below in Part 2(C): Deficit Financing and the Balance of Payments.

already suggested, is to be regarded either as supplementary taxation or, in some respects, as a non-interest bearing loan) and internal savings show a *diminishing* degree of contribution to plan finance. Necessarily, therefore, external assistance and deficit financing must provide the balance. From the original 39 or 36 per cent of the contribution, the anticipated results of the entire Second Plan period will show that these two sources of finance will have risen to 49 per cent of the total, or nearly one-half, and of that half, deficit financing is expected to contribute twenty six per cent compared with twenty-one per cent from external sources :—

I. PLAN RESOURCES

(Crores of Rupees)

	1st Plan			2nd Plan		
	Original	Revised	Actuals	Original[1]	Revised[1]	1956-61 (Anticipated)[2]
Plan Outlay	2069	2378	2012	4800	4500	4600
(*a*) "Domestic Resources"	1258		1277	2800	2262	2425
(*b*) External Assistance	521		203	800	1038	1000
Total (*a*)+(*b*)	1779		1480	3600	3300	3425
Deficit Financing	290		532	1200	1200	1175
Total Resources	2069		2012	4800	4500	4600
Percentagewise						
Plan Outlay	100		100	100	100	100
(*a*) Domestic Resources	61		64	58	50	53
(*b*) External Assistance	25		10	17	23	21
Total (*a*)+(*b*)	86		74	75	73	74
Deficit Financing	14		26	25	27	26
Total	100		100	100	100	100

[1]Based upon *Selected Plan Statistics*, pp. 24-25.

[2]Based upon *Report on Currency and Finance, 1959-60*. p. 63.

II. "DOMESTIC RESOURCES" OTHER THAN DEFICIT FINANCING

(Rs. CRORES) [1]

	1st Plan Original	1st Plan Actual	2nd Plan Original	2nd Plan Revised	Estimated Actual (1956-7—1960-61)
1. Balance from current revenue	570	574	1200	899	900
2. Loans from the public	115	204	1200	1044	1177
3. Small savings (including unfunded debt)	270	304			
4. Railways' contribution	170	115	150	250	150
5. Unfunded debt and miscellaneous capital receipts (excluding unfunded debt)	133	80	250	69	198
	1258	1277	2800	2262	2425

PERCENTAGE CONTRIBUTION TO PLAN TOTAL RESOURCES

	1st Plan Original	1st Plan Actual	2nd Plan Original	2nd Plan Revised	Estimated Actual
1. Balance from current revenue	28	29	25	20	20
2. Loans from the public	6	10	25	23	25
3. Small savings	13	15			
4. Railways' contribution	8	6	3	6	4
5. Unfunded debt and miscellaneous capital receipts	6	4	5	1	4
	61	64	58	50	53

24. This is a situation which must give rise to some misgiving. That there are limits to "deficit financing", even given an expanding money economy and a growing national income, is now generally admitted ; that there are limits to the degree to which India can draw on the resources of the outside world, especially if one takes into account the growing demands of the emergent African States, also admits of no doubt.

[1] From the same sources.

The position must also be looked at from the standpoint both of the general resources position of the Centre and the States and of the "non-plan" expenditure with which the Centre and the States are faced.

(*a*) The Budgetary Position of the Government of India, in recent years, has been as follows[1] :—

(Crores of Rupees)

	1950-1	1955-6	1956-7	1957-8	1958-9	1959-60 (Revised)	1960-1 (Budget)
Revenue Receipts	406	481	563	673	670	746	825
Capital Receipts	105	281	303	298	590	847	990
	511	762	866	971	1260	1593	1815
Revenue Expenditure	347	441	474	631	675	761	885
Capital Expenditure	183	471	617	843	813	1007	1083
	530	912	1091	1474	1488	1768	1968
Miscellaneous Net	+15	—10	+40	+45	+6	+1	—
Overall Surplus (+) or Deficit (—)	—4	—160	—185	—458	—222	—175	—154

(*b*) The Consolidated Budgetary Position of the States, in recent years, has been as follows[2] :—

	1951-2[3]	1955-6	1956-7	1957-8	1958-9	1959-60 (Revised)	1960-1 (Budget)
Revenue Receipts	405	560	577	714	816	888	945
Capital Receipts	164	386	470	406	392	510	570
Miscellaneous Net	+2	—1	+1	—16	—2	+2	+1
	571	945	1048	1104	1206	1400	1516
Revenue Expenditure	393	626	654	684	768	865	939
Capital Expenditure	189	370	454	432	435	549	582
	582	996	1108	1116	1203	1414	1521

[1] Statement 50 in *Report on Currency and Finance 1959-60*. (Figures rounded off).

[2] Statement 51 in *Report on Currency and Finance, 1959-60*. (Figures rounded off).

[3] For reasons stated in the cited document these figures are *not* comparable, as certain States did not have capital budgets until 1954-5.

25. The "balancing" item which is common to both the Centre and the States is changes in the cash balances of Government: in the case of the Centre, the major balance factor is the increase in the volume of Treasury Bills outstanding *i.e.* "deficit financing". What is apparent is the more rapid growth in capital receipts and expenditure at the Centre than in revenue receipts and expenditure. In the case of the Centre, revenue receipts rose by 203 per cent between 1950-1 and 1960-1 : capital receipts by 940 per cent. In the case of the States, capital receipts rose by 150 per cent between 1955-6 and 1960-1, and revenue receipts by 170 per cent. But what is significant in the case of the Capital Budget of the States is the very considerable extent to which the States look to the Centre for loans. These have risen as follows[1,2] :—

	1951-2	1955-6	1956-7	1957-8	1958-9	1959-60 (Revised)	1960-61 (Budget)
Crores of Rupees	74	300	316	279	292	315	342
Percentage of Total Capital Receipts	45	78	67	69	74	61	60

26. The absolute figures given in the preceding text (the sources are indicated) differ from those given in Table I ("General Economic Situation") in the publication *Selected Plan Statistics*, and these again from those contained in the important paper by Dr. Harbans Lall "*Development Expenditure, Capital Formation and Taxation by the Central and the State Governments*: 1951-2 to 1958-9", prepared for the *Economic Review*, October 6, 1958.

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[1]Based on Statement 57. *Report on Currency and Finance 1959-1960.*

[2]These figures differ somewhat from those given in *Reserve Bank Bulletin* May, 1960. "*Finances of State Governments*", p. 629. According to this article, the percentage which showed taxes, loans and grants by the Centre to the total expenditure of the States has risen from 29·4 per cent in 1951-2 to 51·5 per cent in 1960-1. (Budget Estimates).

In the first named document, the figures given are as follows :—

	1950-1	1955-6	1956-7	1957-8	1958-9
Revenue Receipts (Tax and Non-Tax)	780	997	1,154	1,341	1,367
Capital Receipts	238	270	272	238	936
Total Receipts	1,018	1,267	1,426	1,579	2,303
Public Expenditure of which	960	1,409	1,699	2,057	2,288
Development Expenditure	455	758	942	1,158	1,254
Percentage of Development Expenditure to Total	47	54	55	56	55

27. "Development expenditure" is a wider concept than "plan expenditure" ; the former *includes* the latter : in other words, "plan outlay" is only part of the total effort devoted to building up the national resources. It is, however, an increasing proportion, according to the calculations of Dr. Harbans Lall, in the paper already referred to, which are as follows :—

	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9
			(Rs. Crores)			(Likely Actuals)		
Plan Outlay	259	268	343	476	614	635	861	960
Development Expenditure	490	495	579	701	917	1,206	1,340	1,434
Percentage	53	54	59	68	67	53	64	67

whilst total development expenditure is estimated as being the following percentage of total expenditure (though the basis of calculation is not exactly the same) :—

Percentage	48	48	52	56	61	65	64	65

28. It is obvious that the percentage of expenditure devoted to "development", still more, the percentage of expenditure devoted to "plan outlay" cannot go on increasing indefinitely, though the absolute amounts involved may go on increasing. Two obvious limiting factors, on the expenditure side, are mounting salary and wage payments and the cost of armed defence. As already stated, there is a limit to

"deficit financing" and even if the amount to be derived from external assistance goes on increasing, as, in the short run, it may, it is as well to bear in mind that external assistance involves both a balance of payments problem and a budgetary problem: the funds required for amortisation and interest have to be found through the budget. The problem of the future yield of taxation and of the response to the appeal to take up Government securities in one form or another was and remains a serious one.

29. Strictly speaking, it is not true that it is *impossible* to impose direct taxation upon the bulk of the population—it would be possible if the political objections could be overcome, to mpose a simple poll-tax without regard to the means of thecpayee: though it would have to be small per capita, might be ostly to collect and might arouse great resentment. The alternative would be a tax upon an article of universal consumption—salt. There is no need here to stress the role which the old salt-tax played in the political history of pre-independence days and the political difficulties, therefore, of re-introducing it now. The practical choice lies between an increase of direct taxation of incomes and property (including increased land revenue duties) and taxes on consumption, in the shape of an increase in the rates of existing excises and for an increase in the range of articles subject to excise. This is, in fact, the trend of current tax policy. The total yield of excise duties has risen from Rs. 67,54 lakhs in 1950 to an estimated Rs. 380,64 lakhs in the 1960-61 budget (taking account of minor concessions to the extent of Rs. 63 lakhs)[1]. Of these amounts the net receipts to the Centre amounted to Rs. 67,54 and Rs. 305,42 lakhs respectively. This is a four and a half fold increase in a decade. Again, taxes on income and expenditure (*i.e.* income tax, corporation and expenditure tax), together with taxes on property and capital

[1]Statement 53. *Report on Currency and Finance 1959-60.*

transactions[1] rose from Rs. 129·51 crores in 1950-51 to Rs. 200·75 crores in the 1960-61 budget. Of these totals, the Centre absorbed the whole in 1950-51, and almost Rs. 146 crores in the 1960-61 Budget. Customs revenue rose from Rs. 155 crores to Rs. 160 crores. Taxes on railway passenger fares rose from Rs. 3·7 crores to Rs. 12·8 crores between 1957-58 and 1960-61, almost entirely absorbed by the States. The growing reliance on taxes on consumption and services as compared to taxation on income, (personal) expenditure, property and capital is obvious. Nor is the situation in the States any different. The States receive shares of income tax and Union excises under periodical settlements with the Centre. Out of a total tax revenue of Rs. 554,00 lakhs in 1960-61 (budget figure) taxes on commodities and services amounted to Rs. 341,31 lakhs, taxes on property and capital to Rs. 143,95 lakhs and taxes on income to Rs. 68,80 lakhs. Of the total Rs. 100,84 lakhs came from land revenue and Rs. 117,96 lakhs from general sales taxes,[2] or nearly 40 per cent of the whole tax revenue.

30. These facts reflect not only the economic situation, but also the political situation in India : the vast percentage of the population in receipt of small *per capita* or *per family* incomes, and also the dependence of popular and democratic government upon the votes of those receiving such incomes. With the rise of prices, the income of the agricultural sector of the population rises also, but the adjustment of land revenue to rising prices lags. As far as the urban population is concerned, the political influence of organised labour and its bargaining power are both rising: the urban middle class is faced with rising prices and possibly possesses less well organised bargaining power, though the recent strikes of the employees of the

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[1] *i.e.* Estate Duty, Wealth and Gift Taxes, Stamps and Registration Duties and (Central) Land Revenues (negligible).

[2] *Reserve Bank of India Bulletin*, May, 1960. "*Finances of State Governments*" Table 4, p. 632.

State Bank and in the Civil Service, show an increasing power of resistance. In all these respects, India resembles the other countries of Western civilisation—but it does not make the taxation problem any easier. As far as direct taxation upon income and wealth is concerned, every rise in the level of taxation adds to the temptation to avoidance and concealment. In other words, given a democratic framework of society, there is a limit to which taxation can be increased, whether direct or indirect, without provoking adverse repercussions. This is not in any way to decry or to under-rate the appeal to the masses of the Indian population of the hopes of a better future to be achieved by the immediate sacrifice of present enjoyment; it is simply to state the blunt facts of the "way of life" under conditions of personal freedom.

31. The obvious alternative to increasing taxation is to borrow more from the "public". It is possible to introduce a coercive element: *i.e.* it would be possible to force the payers of direct taxes to take up a certain amount of Government securities as a proportion of the amount by which they are assessed. Whether such a procedure pays in the long run is obviously doubtful, since it may merely result in reducing the amount which would be voluntarily subscribed, even by more than the amount so compulsorily taken up. The inducement to take up Government securities depends on the rate of interest in the first place, on the anticipated course of prices and on the possibility of finding alternative investments. There are signs that investment in equities is becoming more popular than it was, and if the public anticipate further sharp rises in prices, investment in land, gold and jewellery, even if not interest-yielding, may become increasingly attractive. But investment in Government securities also depends on the prestige of Government and this is still high. Moreover, if the resources of the banking system are swollen by an expansionist monetary policy, and the resources of the provident funds and of the Life Insurance Corporation increase, the market for "Governments" can still improve, even though

the "public" in the narrower sense may show reluctance to take up such securities.[1] Necessarily, so far as the "public" in the narrower sense of the word goes, ability to invest is also dependent on the margin available after taxation.

32. The Government of India is, rightly, desirous of encouraging the "small savings" movement.[2] Between 1950-51 and 1960-61 (Budget) the increase in such small savings has been as follows:—

	1950-1	1955-6	1956-7	1957-8	1958-9	1959-60	1960-1 (Budget)
Crores of Rupees	326	574	638	693	777	862	951

[1] In February, 1960, the *Reserve Bank Bulletin* published an elaborate enquiry into the "*Absorption and Pattern of Government Debt in India*," pp. 136-160. The article, among other valuable things, serves to show how complicated the whole matter is. Excluding holdings of Treasury Bills, small savings and expired loans, from the concept of "holdings of Central and State Government Securities", Table II (p. 142) showed the following pattern of

"OWNERSHIP OF THE CENTRAL AND STATE GOVERNMENT SECURITIES"

	1957		1958	
	Rs. Crores	Percentage to total	Rs. Crores	Percentage to total
I. Governments	217·95	10·9	226·82	10·1
II. Reserve Bank of India (own account)	311·81	15·6	305·87	13·7
III. Commercial and Co-operative Banks	477·65	24·0	639·23	28·6
IV. Insurance	269·79	13·5	301·50	13·5
of which Life Insurance Corporation	246·09	12·3	275·14	12·3
V. Provident Funds	109·77	5·5	133·40	6·0
VI. Industrial Finance and State Financial Corporations	3·23	0·2	3·26	0·1
VII. Reserve Bank of India—held on account of others	27·38	1·4	32·59	1·5
VIII. Non-residents	33·53	1·7	32·02	1·4
IX. Others (Residual)	543·06	27·2	561·71	25·1
Total (I to IX)	1,994·17	100·0	2,236·40	100·0

[2] For the steps taken to encourage the "small savings movement" see the *Report on Currency and Finance 1959-60*, pp. 77-78.

In spite of this three-fold increase in small savings over the two Plan periods, the position is still not as satisfactory as hoped for; commenting on these figures, the *Report on Currency and Finance 1959-60* remarks that—

> "During the first four years of the Second Plan, *net* realisation on account of small savings would amount to about Rs. 294 crores which works out at an annual average of Rs. 74 crores as against the annual (average) target of Rs. 100 crores, fixed for the Second Plan. The slow rise in small savings receipts in the last few years is mainly due to a fall in the receipts under post office savings bank deposits."[1] [2]

33. There is one matter of considerable importance in connection with planning that requires mention, and that is the tendency for *performance* to lag behind *provision*. The table on the following page throws some light upon this statement:—

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[1] *Report*, cited p. 77.

[2] The Government of India has recently inaugurated a policy of attracting funds by the issue of non-interest bearing Prize Bonds in denominations of Rs. 100 and Rs. 5, the prizes drawn being free of income tax. It is possible to raise direct moral objections—in India as elsewhere—to this appeal to the "sporting" instinct, or, if a more perjorative phrase be preferred, to the "gambling" instinct. Taking more utilitarian considerations into account, the question at issue is whether such a method of collecting funds means a substitution of methods of attracting small savings from those who normally save for prudential reasons, in which case the economy of interest involved must be set against the lessened propaganda value of appeals to rational considerations of taking care of the future, or whether it is intended to attract funds which would otherwise have gone into other speculative ventures, *e.g.*, gambling upon horses. Rumour has it that in fact much of the money attracted is "Black Market" money, *i.e.*, accumulations resulting from tax evasion, now at last finding its devious way back to the coffers of the State. If this is so—and the facts can only be known to the fiscal authorities—the Prize Bonds would merely represent a premium paid for dishonesty in the first instance. (For details of the issue, see *Report on Currency and Finance, 1959-60*, p. 76).

PERCENTAGES OF ACTUAL OUTLAY TO PLAN PROVISION[1]

	1st Plan (1951—1956)			2nd Plan (1956-7—1959-60)		
	Overall	Centre	States	Overall	Centre	States
Agriculture	91	86	94	82	66	84
Community Development	71	69	91	83	86	82
Irrigation and Power	90	94	88	81	105	79
Industry and Mining	53	48	83	92	96	65
Transport & Communications	93	90	108	79	79	82
Social Services	80	71	88	70	76	67
Total	85	80	91	81	85	77

34. There is, without doubt, a variety of explanations to account for this state of affairs: administrative, financial and technical. Quite apart from such a crisis as that of 1957-58, which arose out of the exchange situation, and which required a thorough revision of the whole plan structure[2] it is not to be expected that there will not be "lags" resulting from want of co-ordination, from shortages of skilled direction, from failure to provide adequate supplies of the necessary raw materials, from administrative inertia and the like more. Time and experience will, no doubt, help to overcome the tendency to over-optimism. Nevertheless, one general inference may be drawn, and that is, that it is not desirable to magnify Plan magnitudes, merely for propaganda purposes, in order to impress public opinion, in India and abroad. Transatlantic voices in particular—including Prof. Galbraith and Dr. Millikan —are insisting that the "bold" plan is also the wise plan: that local enthusiasm is kindled and foreign interest more

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[1]Based on Tables 4-6: *Selected Plan Statistics*, p .14 *et. seq.*

[2]Reference may be made to the following documents: (National Council of Applied Economic Research) *Foreign Exchange Crisis and the Plan* (2nd edition, February, 1958) and Planning Commission: *Appraisal and Prospects of the Second Five Year Plan* (May, 1958) and *Plan Resources and Outlay: a Review* (July, 1959).

likely to be sustained by insistence on largely conceived rather than upon modest planning.

35. The argument is not entirely without merit, especially when addressed to a transatlantic audience. So far as India is concerned, it may be doubted whether the mere inflation of figures will serve much purpose—the great masses of the population are so poor that juggling with magnitudes seems a waste of time: does a difference of say, 200 or 300 or 400 crores in the Plan Outline really mean the difference between popular apathy or popular enthusiasm? And as regards the outside world, where the figures are scrutinized and judged by experts, it is not the global figures of the Plan, but the achievement which really matters. There is the danger, which must not be overlooked, of asking for too much in a world of competing demands from so many under-developed countries, just as there is the danger of asking for too little. Tactically there is something to be said for asking for more than one is likely to get—in other words, inflating the figures in order to leave a "margin" for bargaining. But if all countries needing assistance do this, none of them will be better off in the end.

36. The rate of performance in the First Plan improved as time went on, and no doubt at the end of the Second Plan, with greater experience, the same phenomenon will be observed. But it may well be the case that even with more modest targets, the end result will be the same, only the standard of achievement will have improved. It is important to bear this in mind when the figures of the Third Plan are under scrutiny.

Part 2

SOME OUTSTANDING PROBLEMS

A. (1) AGRICULTURE, FOOD SUPPLY AND ALLIED PROBLEMS

1. More than three-quarters of a century ago, the poet of Anglo-India had summed up the position of the ryot in a pregnant phrase: "His life", he wrote, "is a long drawn question—Between a crop and a crop". So it was then: so it has continued to be: it is part of the primary objectives of planning to alter this state of affairs. Upon the solution of the agricultural problem much turns: the improvement of the economic situation of the cultivator himself, the size of the national income and the market for consumer goods, that is, the general progress of the economy, the shape of the balance of payments and the yield of the tax system: behind all these, the capacity of the country to feed and clothe itself by the use of indigenous raw material on progressively better terms. And since the course of agricultural prices influences the cost of living more than any other single factor, the stability and contentment of the population and the future of planning itself, are vitally affected. In addition, there is the question of the employment possibilities afforded by agriculture in the future.

2. Continuous attention has been paid to the twin problems of agriculture and population. The hopes of the Planning Commission that, by the expenditure involved in the First and Second Plans, the country would be approaching self-sufficiency, have been successively disappointed: the Third Plan has again to place the solution of the agricultural problem in the forefront. The fact that India has been importing food grains on a large scale in recent years, and will continue to have to do so over the next quinquennium, is a powerful factor affecting public opinion. The Report of the Ford Foundation team entitled "*India's Food Problem and How to Meet*

It", published in April, 1959, has acted as a powerful catalytic agent, by insisting that a grave crisis faced India in the near future unless food grain production was raised to 110 million tons by 1965-66.[1] The "target" of 105-110 million tons, currently suggested as the objective of planning in the Third Five Year Plan, has most clearly been affected by this document.

Again, the realisation that the figure of increase of 125 per thousand assumed in the First Plan, and the figure of 133 per thousand[2] assumed in the Second Plan, were both considerably below the mark, has stimulated renewed investigations of the problem of population growth by a series of organisations and individuals, including the Planning Commission itself, the Central Statistical Organisation and the National Council of Applied Economic Research. The literature is, in fact, very large[3] and the problems of projection very complex.

3. The immensity of the Indian population and the problems raised by its present rate of increase, are matters which are constantly discussed and by no means always realistically grasped. A recent official publication sums up the matter very graphically :—

"India ranks second in the world's population, next only to China, but in point of land area, she stands eighth among

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[1]The critical sentences in the Report are : "India is making steady progress in increasing food production, but the rate of increase must be tripled to meet the Third Plan target. If India's food production increases no faster than present rates, *the gap between supplies and target will be* 28 *million tons by* 1965-66. This will be about 25 per cent shortfall in terms of need. *No conceivable programme of imports or rationing can meet a crises of this magnitude.* ...A 110 million ton target, however, can be realised only if an all out *emergency food production is undertaken. Food production must be given the highest priority.*" Report pp. 3/4 (*Italics in original*). It must be added that some reputable authorities regard the tone of the Report as too alarmist. But a shock was necessary.

[2]*Approach to the Second Five Year Plan*, para. 13, p. 8.

[3]For a select bibliography see p. XII of the paper issued by the Statistics and Savings Division, Planning Commission for the decade 1961-70, entitled "*Population Projections pending 1961 Census used in the preparation...........of the Third Five Year Plan*".

the countries of the world. With an area of little more than 2% (2·4%) of the total land area of the world, she has to support more than 14% of the world population. The average density of population in India is 315 per square mile as against 171 per square mile in China, 23 per square mile in Russia[1] and 53 per square mile in the U.S.A. It is estimated that every year a population equal to that of Sweden is added to the population of India and that, during every decade, a population equal to that of France and Italy taken together is being added to the Indian population on account of natural increase. These comparative figures may help to give some idea of the size of the problems facing us and the efforts required from us. The most important problem that requires study in this connection is, of course, that of food."

4. It must be realised that the increase in the population is not merely, or primarily, a matter of the absolute number of births per thousand of the population. The birth rate has not been rising, though it does not appear to have been falling very rapidly or even falling at all: what has been taking place is a fall in the death rate, so that the survival rate has risen. The death rate continues to be high and there is ample room for a further fall as standards of nutrition rise and improvements in, and extensions of, the Public Health Services take place.[2]

The overall picture which is now being presented of the growth of Indian population is as follows:—

	1951 (Census)	1956	1959	1961	1966	1971
Total Population (million)	361·8	391·4	415·0	430·8	479·6	529·8
Male „	185·9	201·2	213·1	221·1	245·6	269·5
Female „	195·9	190·2	201·9	209·7	234·0	258·3

[1] These demographic facts in themselves invalidate much of the current comparison of the relative rates of progress in those countries and in India.

[2] Table IV of the publication of the Planning Commission referred to in a previous note puts the birth rate in 1951-1956 at 41·7 and at 40·7 in the period 1956-61. In the Third Plan period it is estimated to fall to 39·6 and in the Fourth Plan period, (1966-1971) to 32·9 (p. IX).

	1956	1959	1961	1966	1971
Age Group 15–64:					
Male (million)	117·4	122·5	125·9	136·8	153·1
Female ,,	109·5	114·6	118·0	129·1	145·8
	226·9	237·1	243·9	265·9	298·9
Over 65:					
Male (million)	6·0	6·3	6·6	7·5	9·1
Female ,,	6·6	6·9	7·2	8·2	9·6
	12·6	13·2	13·8	15·7	18·7

Thus, within a period of twenty years (from 1951) total population is expected to increase by 166 million or by 46% or, taking the increase from 1956 onwards, population is expected to increase by 35% approximately (136 million) within a period of fifteen years.

Though many millions of persons under 15 years of age work now, and will continue to work in the future, even though under this age, if one takes the age group 15–64 as indicative of the potential working population, then, as regards males, there is projected an increase within 15 years of 30 million or 24·4 per cent. Millions of women work now and more will do so, not only in agriculture but also outside it ; but even overlooking this aspect of the matter, in these years, women in the marriageable age group will increase by 31 million or 29 per cent.

In spite of an absolute increase in the number of persons aged 65 and over in the projection of 6 million, the proportion of persons of that age to the total population, which was 3·2 per cent, approximately, in 1956, will only rise to 3·6 per cent, approximately, in 1971. Thus, though the demographic pattern presents many problems to India, the specific problem which faces, for example, the United Kingdom, of a sharp

See the discussion of this point in *Population Projections of India, 1951-1976*, p. 11. (Published by the National Council of Applied Economic Research, New Delhi, April, 1960).

increase in the absolute number and percentage of the population over working age, will not be one.

5. Men, women and children, whether they are working or not, have to be clothed and fed. In considering the problem of the food supply, it is not only the absolute numbers that count, but the standard of consumption, and, in this connection, it is important to bear in mind that the urban population is growing fast, and, with increasing industrialisation, is likely to grow faster in the future.[1] As urban standards of consumption are likely to rise with the improvement in wage and social conditions, and as the consumptive power of the peasantry is also rising, the problem of providing an adequate supply of food is *pro tanto* intensified. And, as the urban population, by and large, grows no food of its own, it makes more difficult, also, the provision of an adequate "marketable surplus", that is, the supply of food available *after* taking into account rural consumption and the necessity of reserving a proportion of the supply for seed and feed purposes, and for the maintenance of an adequate carry-over from one crop year to another.

6. Whilst food grains production continues to be the main pre-occupation, when the agricultural situation is discussed in connection with the growth of population, it is, of course, universally recognised that a balanced diet requires

[1]In the paper entitled "*Unemployment in Urban Areas in India*" included in the collection "*Outlook and Employment*" published by the Planning Commission as a "Joint Study" of the Ministry of Labour and Employment and the Labour and Employment Division of the Commission, the estimated growth of the rural and urban population between 1951 and 1966 will be from 295 to 353 millions and from 62 to 104 millions respectively. The urban percentage will have risen from 17·3 per cent to 22·7 per cent. The estimated aggregate population in this "projection" is some 22 millions *below* that resulting from the new projection referred to in para. 4, above, but the proportions of rura and urban population respectively would not necessarily be affected by taking the higher (1960) projection figure.

"protective" elements as much as elements meeting the main requirement for calories. In addition a rising standard of living requires a growing production of sugar cane. Thus, a very wide range of additional demands are impinging, or should impinge, on the uses to which land should be put. But there is one fundamental point which dominates the whole situation. Given the population situation, *very small additions to per capita consumption result in very large aggregate figures.* The importance of this simple but important fact was pointed out in connection with the problem of food supply by the first Foodgrains Enquiry Committee as long ago as 1943, and it has again been emphasised by the Foodgrains Enquiry Committee of 1957 (the Mehta Committee) in its Report: "An increase in consumption by half the population by one ounce more of cereals *per capita* per day would put up the total requirements by over 2 million tons."[1] This same statistical consideration applies, of course, to all forms of food and not merely to foodgrains, though the absolute quantities involved may be smaller.

7. In any case, from the agricultural standpoint, food production and its requirements of land and labour cannot be considered in isolation. *Food production competes with other production from the land.* It follows from this that price policies intended to safeguard the consumer may result in the diversion of land to other (and more profitable) uses, just as price policies intended to encourage the farmer to grow more food may result in the diversion of land from other (and less profitable) uses. In the end, of course, such diversions will result in a rise of prices of the other products which might have been produced, owing to a fall in output. *Food price policies cannot*

[1]Report p. 40. This figure may well be contrasted with the target import of six million tons of foodgrain imports suggested in 1956 for the Second Plan period by the Planning Commission (*Second Five Year Plan* p. 100). Imports of 1·2 million tons on the average per year would thus merely meet one half of the additional total requirement created by so small an increase in *per capita* consumption as that mentioned in the text.

be divorced from the price policy pursued or tolerated for the whole of agricultural production. This is an inescapable, though possibly a disconcerting, fact.

8. Nor can food prices be considered in isolation from the general trend of prices. A rise in the trend of food prices, or a rise in the level of agricultural prices generally, will only "encourage" production if the scale is tilted in favour of the agriculturist or, in other words, if the "terms of trade" move in his favour. This is one among the many reasons why deficit financing in so far as it leads to a constantly rising price level is to be deprecated.[1] It adds greatly to the difficulty of such a policy as the "guaranteed minimum price" to the cultivator: for, apart altogether from difficulties arising from the vicissitudes of nature (deficient or untimely rains, floods, etc.), it makes it much more difficult to forecast *what* price will be adequate to "guarantee" the cultivator.

9. One very important consequence follows from what has been written above. Any discussion of what the possible rate of increase of agricultural production can be in the future, that is, any discussion of "physical targets", *which does not take account of the course of agricultural prices in relation to the course of prices in general, is almost certain to be very seriously defective.*

10. The overall economic position of the agricultural population is governed, then, by total output (productivity per acre multiplied by the acreage) and by price. So far as the overall position is concerned, the following Table[2] illustrates it succinctly:

[1]These issues are discussed more fully in the next Section below.

[2]From a very important (but anonymous) article *The role of Agriculture in Indian Economic Development—A Point of View,* Vol. XV. Tata Quarterly No. 1 (January, 1960). The productivity index is obtained by dividing the production index by the index of area under cultivation (not shown) and multiplying by 100.

(1949-50 = 100)

Year	Agriculture		Foodgrains		Non-foodgrains	
	Production	Productivity	Production	Productivity	Production	Productivity
1949-50	100·0	100·0	100·0	100·0	100·0	100·0
1950-51	95·6	95·6	90·5	93·2	105·9	95·4
1951-52	97·5	96·1	91·1	92·3	110·5	90·8
1952-53	102·0	97·1	101·1	98·3	103·8	89·0
1953-54	114·3	103·1	119·1	108·4	104·7	90·0
1954-55	117·0	104·6	115·0	108·4	120·0	93·6
1955-56	116·9	101·9	115·3	103·5	120·1	90·8
1956-57	123·6	106·6	120·5	107·4	130·0	95·9
1957-58	114·6	101·1	108·0	98·6	127·8	95·2
1958-59	130·6	111·7	128·2	112·9	135·6	100·6

Commenting on these figures, the author of the article referred to in the footnote remarks that these indices serve to illustrate the fact that:

> "The trend of overall agricultural productivity, though generally above (the) 1949-50 level since 1953-54, is far from encouraging. It is positively disconcerting in respect of non-foodgrains. Except in the year 1958-59, the productivity of non-foodgrains, in the sense of average yield per acre, has all along been much lower than in 1949-50. Obviously, the higher output of non-foodgrains has been derived entirely from increased acreage. The *average* annual productivity of non-foodgrains from 1950-51 to 1958-59 was 7 per cent below that of 1949-50, whereas the productivity of foodgrains during the same period was 3 per cent above that of 1949-50."

Nevertheless, some consolation may be found in the fact that production, as distinct from productivity, has risen by 31 per cent for agriculture as a whole, 35·6 per cent as regards non-foodgrains, and 28 per cent as regards foodgrains.

These figures are calculated with 1949-50 as base. The results would look somewhat different if 1950-51 were taken as the base year, as is the case with the figures published by the Economics and Statistics Directorate of the Ministry of Food and Agriculture, which also enable agricultural production to be compared to industrial production[1] :—

AGRICULTURAL PRODUCTION INDEX

	1951	1952	1953	1954	1955	1956	1957	1958	1959
(*i*) Cereals	100·0	101·0	112·3	133·0	126·8	127·2	132·8	120·3	141·0
(*ii*) Foodgrains	100·0	100·7	111·7	131·6	127·1	127·4	133·1	119·3	141·0
(*iii*) Non-Foodgrains	100·0	104·3	98·0	98·9	114·2	113·4	122·8	120·7	129·0
(*iv*) All Commodities	100·0	102·0	106·7	119·6	122·4	122·3	129·3	119·9	137·0

[1]*Bulletin of Food Statistics*, January, 1960, p. 101.

The adequacy of Indian agricultural statistics is a permanent subject of dispute in India. Thus, it appears that the two series of figures published by the Ministry of Food and Agriculture, that is, in absolute terms and in index number form are not completely consistent (see the article in the *Economic Weekly Annual* on *India's Elusive Agricultural Output Figures*, January, 1960, p. 199). Among other difficulties, attention may be drawn to the fact that the figures of imports, published in the monthly *Abstract of Statistics* issued by the Central Statistical Organisation do *not* include imports of foodstuffs on Government account. On the other hand, the *Bulletin of Food Statistics*, published by the Ministry of Food and Agriculture, gives the figures of import of cereals on Government account, both in terms of physical amounts and in value terms, but does not include the figures of private imports. (It may also be pointed out that the Summary Table of "All India Crop Estimates" published from time to time in the Food Ministry's "*Agricultural Situation*" does not include tea).

It may be added that the 1959-60 Annual Report of the Ministry of Food and Agriculture remarks that "*A Working Group on Agro-Economic Research and Statistics* was set up in the Directorate (of Economics and Statistics) for formulation of proposals for improvements of agricultural statistics, during the Third Five Year Plan period". (Report p. 30). A great deal of money and labour is devoted to statistical work of a refined kind in India: what the situation demands is a good deal more of common sense and the improvement of primary data. It follows from all this that "projections" of a statistical nature should not be regarded as sacrosanct and infallible.

INDUSTRIAL PRODUCTION INDEX

1951	1952	1953	1954	1955	1956	1957	1958
100·0	111·6	113·2	116·8	128·5	138·0	149·8	152·0

It will be noticed that industrial production, as a whole, is rising faster (since 1955) than agricultural production. This reflects, as regards rate of change, the growing tempo of industrialisation but, by the same token, it reflects the slower rate of improvement in the agricultural situation.

11. It will be apparent that agricultural output as a whole, as well as production of foodgrains, shows, in spite of a general upward trend, considerable variations from year to year. Nature, as well as man, has a part to play and a bad monsoon can upset the best laid calculations of the planners. In view of the part played by agriculture in India's economy, variations in agricultural output, and in agricultural incomes, must affect the economy adversely. In the specific setting of India it is *this*, rather than the absence of still more detailed and authoritative planning,[1] which explains "leads and lags" in the overall progress of the country as a whole.

12. There is dispute over two matters. Firstly, in planning for the future, the planners were misled by the very good harvest results of the middle years of the First Plan, though it would not be true to say that the element of good fortune, due to the bounty of nature, was entirely overlooked.[2]

[1]The recent intensification of austerity measures in China, due to harvest deficiencies, details of which are beginning to seep through to the Indian press, is evidence enough of this. Nor can the Russian experience in agricultural matters be entirely pleasing to those who stress the importance of following the authoritarian path to the exclusion of everything else.

[2]See, for instance, the remarks of the Panel of Economists "*Basic consideration relating to the Plan Frame*" in the volume: "*Plan Papers*", (etc.), p. 7: "There is no denying the fact that the First Plan has laid a solid base for development of agriculture and while a part of the large increase that has taken place in agricultural production is due to favourable weather, a part is certainly due to the creation of better facilities for increasing production."

Secondly, there is general recognition of the fact that the disappointing harvest results of 1958, and the continuing necessity for heavy imports of foodgrains,[1] requires priority to be given again to increasing agricultural production in the Third Plan period.

13. Broadly, these are two aspects of the subject (*a*) Methods of *conserving* the agricultural output from losses due to pests, diseases, the plague of rodents,[2] the depredations of

[1]	Total import of food and food products (crores of rupees)	Govt. Imports (crores of rupees)	Govt. Imports (thousands of tons)
1948	131·7	129·7	2841
1949	147·0	144·6	2706
1950	84·39	81·6	2125
1951	219·7	216·8	4725
1952	211·0	209·1	3864
1953	89·9	86·0	2003
1954	47·2	48·5	830
1955	33·6	33·1	700
1956	57·0	56·3	1420
1957	163·0	162·4	3588
1958	120·7	120·5	3173
1959	152·6	141·4	3807

[2]Speaking at the Annual Meeting of the Associated Chambers of Commerce of India, held on the 5th and 7th December, 1959, two speakers on the agricultural situation had the following to say:

(*a*) Mr. K. M. Wilcox (Upper India): "The loss due to insects, pests, diseases, etc., is enormous. It has been estimated to reach the astonishing figure of Rs. 600 crores. On the assumption that this is roughly correct, there is no estimate of how much of the loss is caused by stray cattle, cattle turned loose from religious sentiment, monkeys, peafowl and nilgai. Since it is impossible to reduce the number of fauna, which religious sentiment places above the value of food crops, it is essential to reduce losses arising from insects, pests and disease."

(*b*) Mr. J. M. Lall (Bengal): "Incredible as it may sound, there are reckoned to be some 2,400 million rats in the country. If one assumes that a rat eats 1 lb. of grain per month, then this population of rats would consume over 14 million tons per annum apart from what they destroy."

other animals, inadequate warehousing, and better transport facilities (*b*) increasing the *supply* of agricultural products, by improved varieties of seed, through increasing output per acre, and preserving the overall acreage through soil conservation and flood control, the prevention of water-logging, and the salinity of land, the provision of adequate bunding, etc. It is not true to say that any of these measures are overlooked, but the main objects of interest have undoubtedly been the extension of irrigation facilities and the provision of fertilisers.

14. Increased facilities for irrigation and improved fertilizer supply have, of course, a far wider bearing than mere increase in food production, if by that is meant foodgrains alone. The urgent need in India is for output per acre to increase, not merely in order to cope with population increase, but in order to provide more land for alternative uses—for fodder to increase the milk yield of the (at present) grossly underfed (and redundant) cattle population[1], for the increase in fruit cultivation and, from the standpoint of the balance of payments and of internal consumption, for an increase in land available for the production of export crops such as jute, tea, rubber and oilseeds, and for the production of cotton and jute for the textile industry. The twofold aim must be to increase the yield on the occasion of each harvest, and to encourage double cropping to the utmost possible extent.

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[1]It has, of course, long been known that the use of cow-dung as fuel represents a great waste of a natural fertilizing resource. A careful examination by the Burmah Shell Oil Company sums up the position thus:—"We think that a figure of perhaps 70% of total out-turn is a reasonable figure to take as the proportion collected as fuel, and a total out-turn of 260 million tons dry weight of dung....This gives a total of 180 million tons burnt as fuel. This is probably a conservative figure and may well be considerably greater. In terms of coal equivalent it is 90 million tons", (Appendix C to *Energy and India*, 1956, p. 25).

15. The overall picture of the area irrigated (net) in India is as follows :—

Year	Canals Govt.	Canals Private	Total	Tanks	Wells	Other Sources	Total
1949-50	16,935	2,863	19,798	8,485	13,687	7,827	49,797
1950-51	17,898	2,814	20,712	8,776	14,712	7,329	51,529
1951-52	18,616	2,950	21,566	8,511	16,104	5,832	52,013
1952-53	19,083	3,254	22,337	7,944	16,330	5,796	52,407
1953-54	18,783	3,196	21,979	10,188	16,444	5,083	53,694
1954-55	19,356	2,868	22,224	9,889	16,562	5,587	54,262
1955-56	19,832	3,360	23,192	10,884	16,643	5,444	56,163
1956-57	19,561	3,354	22,915	11,099	16,226	5,442	55,682

The "gross" irrigated area differs from the "net" irrigated area, since double cropping must be allowed for. Moreover the division, which is habitual in planning discussions, between so-called "major" and "minor" irrigation works is a matter of definition, not of science.[1]

There were, and are, two quite different sets of difficulties. As regards the large projects in the true sense (some of which are, of course, multipurpose) there have been delays in consequence of defects in planning, and delays in the course of construction, which increase the final cost of such projects in a period of rising prices. Secondly, there has been delay, in certain cases, in the construction of the channels which bring the water from the headworks to the actual cultivator, and these channels themselves may not always be of the most suitable kind, or even exist at all. Secondly, there may be a lag in utilisation because the cultivator may regard the water

[1]The official definitions are :—

(*a*) Major irrigation = Government canals + 50% of tank irrigation.

(*b*) Minor irrigation = 50% of tank irrigation + private canals + wells and other sources.

charge as exorbitant.[1] The result is a difference between "irrigation potential" and the addition to area actually irrigated. The position is summed up as follows in the latest Report of the Ministry of Irrigation and Power (for 1959-60) p. 43 :—

> "A potential of 5·3 million acres was created by new major and medium projects during the First Plan period. By the end of 1958-59, the irrigated area had increased by another 3 million acres, and it is expected that, by the end of the Second Plan, the additional potential created would be 13 million acres.
>
> Against a potential of 5·3 million acres created by the end of First Plan period, the actual additional area irrigated

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[1]The problem of maintenance has already been referred to in connection with dis-investment. Here is a relevant passage from the *Report of the Mehta Foodgrains Committee* (p. 110) :—

> "9·19. There was a general complaint that, while new irrigation works were being completed, the existing works were not being properly maintained, so that the net increase in irrigation is less than the figures of the new construction would show. In some States, it was stated that small irrigation works, which had formerly been kept in repair by the zemindars, are not now being maintained in proper condition after the abolition of zamindaris. This is a matter which requires immediate attention by the State Governments.
>
> 9·20. Since a considerable proportion of the allocations for minor and medium irrigation works will be required for maintaining the existing works, adequate care must be taken to separate the portion that would be needed for new works and that required for maintenance of existing works. This has not always been done. For example, in Andhra Pradesh we were told that an additional allocation of the order of Rs. 5 crores would be needed for bringing back into commission the thousands of tanks that are in need of repair. Unless this repair and maintenance work is properly attended to the net contribution to food production by minor irrigation projects would decrease. It is, therefore, essertial that, in the remaining years of the Second Plan, the allocation for minor irrigation be separated out into two accounts, one for repair and maintenance and the other for new projects. The repair of the existing works should be given as high a priority as construction of new works."

was 2·9 million acres. In actual practice, it is not always possible to create simultaneously the same potential at the outlets as at the dam site or headworks. It is also not possible to utilize all potential created at the outlets during the same year. Considerable efforts have, however, been made to speed up the utilisation of irrigation facilities created by the new projects. In addition to other steps taken, this Ministry appointed, in July, 1958, two retired Chief Engineers as Officers on Special Duty to conduct a detailed study of the progress of utilisation of irrigation facilities in each State and to suggest ways and means to accelerate the utilisation of the additional irrigation facilities provided. On the basis of recommendations made by these two officers, instructions have recently been issued by the Planning Commission to the State Governments on he steps to be taken to improve utilisation of the irrigatiton potential created.

As a result of the measures taken so far, there has been a marked improvement as will be apparent from the following figures :—

Year	Potential created from I and II Plan Schemes at the beginning of the year (in million acres)	Utilisation at the end of the year (in million acres)	Percentage of Column (3) and Column (2)
1	2	3	4
1956-57	5·3	3·4	64
1957-58	6·2	4·9	79
1958-59	7·2	5·9	82

"

16. Technically, large irrigation schemes are visually and physically magnificent, and the administrations concerned have very considerable reason to pride themselves on their achievements, though defects have to be admitted. Nevertheless, opinion is now swinging to the view that, if the time element, the utilisation element, and the comparative cost element are all taken into account, the balance of advantage lies in the construction of less spectacular schemes.

17. In the long run, irrigation facilities and fertilizer supply are complementary: and both are necessary in the interests of increased production. Nevertheless, in the short

run, when it is an issue of the alternative use to which a limited supply of resources can be devoted, it is a question of whether additional fertiliser plants or additional irrigation facilities should be provided. A strong case for reconsidering the whole position has recently been put forward by an Indian expert.[1]

The use of chemical fertilisers raises problems of its own: they are not to be regarded as substitutes for, but as complementary to, composts and green manures[2]. The fact remains that the use of chemical fertiliser is appallingly low in India at present, and an increased supply, whether by way of indigenous

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[1] Shri A. K. Sen (Fellow of Trinity College, Cambridge): *The Development of Indian Agriculture*, originally appearing in the Delhi Edition of "*The Statesman*", April 25, 27, 1959 and reprinted by the Fertilizer Association of India under the title "*Irrigation or Fertiliser*". A comparison of *capital cost per ton of additional foodgrains* shows that "large" irrigation works cost Rs. 1,050, minor irrigational works Rs. 800, and Rs. 400 in the case of a fixed nitrogen plant. Even if operating expenses are considered, the balance is considerably in favour of fertiliser (pp. 6-8). The inference, as regards the allocation of resources for the Third Plan, is obvious.

[2] An authoritative source has communicated the following summary of the position:—

"(*a*) Fertilizers, alone, though giving good immediate response, will not give lasting improvement of the poor Indian soils.

(*b*) Organic manures, alone, are insufficient in quantity to provide the necessary immediate increase and cannot, alone, build up the food reserves.

(*c*) Organic manuring, supplemented by balanced use of fertilizers, will give both the immediate increase and build up plant food reserves. This is the correct approach and, in the absence of cattle manure and lack of vegetable waste, green manuring is the cheapest and most efficient way of supplying the organic manure.

Organic manuring provides for the accumulation of fixed 'capital'. Fertilizing provides 'working capital' for the standing crops. Both fixed capital and working capital are necessary in any successful undertaking."

production or by further imports, is a matter of urgent necessity.[1] [2] In the allocation of resources in the First Plan, it is fairly clear that not enough attention was paid to the fertilizer problem.

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[1] See, for instance, the following extract from the Report for 1959 of the Indian Jute Mills Association:

> "Concern is still being felt at the very inadequate use being made of fertilizers for jute production. This is due partly to the reluctance of the cultivator to utilise fertilisers when there is no certainty concerning the prices of raw jute and also partly to the lack of suitable fertilizers, particularly in Bihar. The States are now re-examining their requirements of fertilizers on the basis of different soil types, and will advise the Chief Jute Development Officer of the quantities of different nitrogenous fertilizers required to step up the yield of raw jute. In West Bengal, although the cultivators are keen to use ammonium sulphate, difficulties are being experienced due to lack of adequate distribution facilities and this matter has been taken up with the Government of West Bengal. Considerable progress was made in the distribution of improved seeds during the year and Bihar has quadrupled its distribution during the last two years. Most of the States during the past year were free from any serious incidents of pests and diseases. When these occurred prompt measures for plant protection were put into effect and the damage was insignificant."

[2] The following table illustrates the very low use of fertilizers in India in comparison with some other countries. The contrast with Japan is particularly striking. The figures are extracted from the 1959 edition of the publication "*Fertilizer Statistics*" published by the Fertilizer Association of India (Table 7: pp. 82-83).

(In pounds weight per acre of agricultural land)

	N (Nitrogen)	P_2O_5 (Phosphoric Acid)	K_2O (Potash)
Netherlands	73·3	42·9	58·7
United Kingdom	14·3	16·7	14·8
Germany, West	32·9	33·5	54·9
Japan	81·8	45·9	65·5
INDIA	0·9	0·8	0·7

18. If there is very little dispute of principle as to the technological aspects of agricultural advance, a much more controversial field is opened up if the social side of agricultural progress is surveyed. *India has been undergoing, and is undergoing, an agrarian revolution.* It will take a generation or more, before the results of that revolution can really be judged, but, just as in the case of other aspects of the planning now being undertaken, the full scope of what is intended must be constantly borne in mind.

19. It would not be true to say that, in the climate of opinion in Indian official and political circles, a sharp line of division is drawn between the strictly economic and the purely social aspects of the agrarian problem. On the contrary, social and legal reforms are regarded as means to increased agricultural promotion *as well as* a means of improving the quality of life in the countryside. And the countryside dominates Indian life ; no conceivable progress on the industrial side can upset the overall balance, though it can certainly modify it, for at least a very appreciable period of time ahead. For this reason, also, policies affecting land and land rights have a high political significance, and there is, therefore, no reason to be surprised if decisions taken in the sphere of land reform should not be based entirely, or even mainly, on lines dictated by considerations of what, in the long run, would maximise economic benefits.

20. Agitation about, and reform of, the traditional pattern of land rights, is nothing new in India, nor are such agitations or reforms—whatever their specific contents—peculiar to India. Movements for the emancipation of the peasantry are a feature of nearly all under-developed countries : they have played a great rôle in European history, not least in Ireland. But in such a vast country as India the inherited pattern is extraordinarily varied and complicated, reflecting the historical process through which different parts of the country have gone. And though the main principles

of reform can be applied on a nation-wide scale, the detailed legislation necessary to effect changes must differ from area to area. The law-making instruments are the States and uniformity is not to be expected.

21. From the economic point of view, the fundamental problem in India is the excess of demand for land over the supply of land, the phenomenon of "land hunger". It is this fundamental fact which dictates the general terms of the bargain between landlord and tenant, which gives the occupant of land an advantage over the non-occupant (the "landless labourer"), which results in the emergence of high capital values in excess of the capitalised value of the net income, which exacerbates all disputes, and which implies that all attempts to fix rents or revise the terms of the bargain between landlord and tenant (where there are landlords and tenants) lead to attempts at evasion and/or collusion. It also means endless legal disputes and much ill-feeling. In a country such as India, where the prestige value of land ownership is very high, and where investment in land (directly or indirectly) is an important element in the total wealth of the country, land reform is inevitably a delicate and even explosive matter.

22. The general principle of land reform in India[1] is the conferment of ownership rights upon tenants, and the equalisation of landholdings, and, where tenancy continues (obviously even if a one-time tenant acquires property rights he cannot, and does not in some cases, continue to cultivate his land) to fix the rent of land, and thus to determine, by legal process, the distribution of the product. In theory at least the ultimate landholder was the State, hence, technically, the emergence of a class of intermediaries such as Jagirs and Zemindars. The break up of landed estates involves their disappearance. If their place is taken by cultivators with ownership rights

[1]The "background thinking" on these subjects is to be found in the *Reports of the Committees of the Panel on Law Reforms* (May 1955, published by the Planning Commission in 1959).

the latter will, for revenue and other purposes, be brought into direct contact with the State: or, as it is put in a recent document, "For establishing a stable rural economy, it was imperative that tenants should be brought into direct relationship with the State and that the tenant-landlord nexus should be ended." By limiting the total amount of land which might be in a single hand, it was also hoped to provide land or, at least, some land for the landless—though even given that such land is available, its distribution and the adequacy of the holdings so created, from the point of view of efficient production, are matters of the greatest difficulty.

23. For reasons already stated, all land legislation is controversial: but it appears beyond question that the most controversial question of all is that of the limit put to present holdings and of holdings to be acquired in the future. The intensity of feeling naturally varies from one part of the country to another and this naturally also, to some extent, reflects the strength of relative interests in the area. The result has been a "dragging of the feet" by certain State legislatures. Moreover, there is undoubtedly a more general feeling of malaise over the whole issue, even in certain Congress circles.[1] There have been widespread adverse Press comments as well.

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[1]The following is an extract from *Land and Food: Problems of Implementation of Congress Party Policy* by Shri C. Subramanian in *Economic Review* (the Journal of the Economic and Political Research Department of the All India Congress Committee) issue of July 22nd, 1959:—

> "At this stage, we seem to be hesitating. There seems to be divided opinion within the party and opposition outside is becoming more vocal and pronounced. The reason is, perhaps, that we are not sure that the two tasks still to be done are the right things to do. We are told, and it seems likely that, far from increasing food production, the reforms in view might diminish it. This is likely because we shall be increasing the number of uneconomic holdings owned by poor people who have no capital and can take no risks. Again, we are not easy in our mind about the prospects of depriving large numbers of people of their property without paying them fair and just compensation. It goes against our grain; and yet it seems

Moreover, the delays involved have resulted in anticipating action: by splitting up landholdings amongst the various family units and, in other ways, limitation of individual holdings has already taken place without the real intentions of the proposed legislation being fulfilled. Further, "resumption" of land by owners has resulted in evictions and, therefore, to further evasion of the spirit of the legislation.

24. Further, it is beginning to be recognised that there must be exceptions to the rule: such as, well managed large holdings and plantations, as well as large holdings providing, *e.g.*, sugar cane attached to sugar factories. Doubts and uncertainties arising from indefinite foreknowledge must add to the dangers of disinvestment already arising from doubt as to the ability and willingness of larger landholders to assist tenants on the former scale. Nor is the spirit of doubt, arising out of political or threatened legislation, or threats to re-open issues by retrospective process, legal or administrative, confined to the larger landowner: it runs through the village community and affects even the small owner, who fears that what began with the big man may also be applied to the small man.[1] [2]

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impossible to carry the reform through without doing it. We are in doubt whether the reform will yield sufficient beneficial results to justify the infliction of unmerited hardship on unoffending people."

[1]The ceilings, actual and proposed, differ very widely from area to area. See, for instance, *Capital*, Calcutta. (14th April, 1960.) "A comparative study of the legislation in some other States shows that there is no uniformity either in the ceilings or in the rate of compensation. The proposed ceiling in Bombay, for instance, is an area which yields a net annual income of Rs. 3,600, but in Andhra it is Rs. 4,500. In U.P., the ceiling is to be 40 acres of fair average quality, but in Bihar, it varies from 30 acres of canal-irrigated land to 90 acres of class 5 land. In Madhya Pradesh, it ranges from 35 acres of perennially-irrigated land to 90 acres of dry land. In Kerala, it is 15 acres of class 1 land, but for bachelors the ceiling is halved. In Rajasthan, the variation is from 30 ordinary acres to 250 acres in some cases. It seems that these ceilings have been fixed without reference either to the average size of holdings

25. The inevitable question which arises is whether the dominant pattern of holdings which obtains in India—whether the result of history or of law—represents an efficient unit of production. When holdings are spread in small parcels all over the village fields, *i.e.*, where there is fragmentation in that sense, it has long been recognised that much time and effort and loss of valuable land is involved and the movement for consolidation of holdings long pre-dates Independence, though, where land in different parts of the village fields differs in quality, consolidation is not always easy. But even where there is consolidation the individual aggregated unit may be too

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> in different States or the pressure of population or even the availability of cultivable waste land. In U.P., with a population of 560 a square mile and an average holding size of 2·5 acres, the percentage of cultivable waste land to the total is estimated at 13·9. Yet this State has fixed a ceiling of 40 acres, whereas Madhya Pradesh, which has a population of only 170 a square mile and only 22·2 per cent. of cultivable waste land, has seen fit to prescribe a lower ceiling of 32 acres. The 30 standard acres of Rajasthan bear no relation to the cultivable waste, which is estimated at 39 per cent.
>
> In U.P., the rate of compensation proposed is 80 times the land revenue. In Bombay, however, it is 100 times the full assessment of land. The black soil will fetch Rs. 1,000 as compensation in Gujerat but will get only Rs. 350 in Madhya Pradesh. All these land reform measures will ultimately have to receive the presidential assent, and the interesting constitutional question which is currently engaging public attention is whether the disparate rates of compensation, leaving alone the absence of uniformity in ceilings, do not contravene the fundamental right of equality before the law guaranteed by the Constitution".

In considering the magnitude of ceilings in individual States, it is necessary to bear in mind, not only political pressures, but also differences in soil and climate. A reasonable ceiling in one case might be quite unreasonably small in others. Whether on balance the amount of compensation is fair or not, in the aggregate very large amounts are involved. It must be remembered also that the Fourth Amendment of the Constitution seriously interferes with the right to appeal to the Courts in matters of compensation.

[2] See *Review of the First Five Year Plan*, p. 108.

small for optimum results to be obtained.[1] It is this consideration which forms the essence of the case for "co-operative farms"— the cultivation of the village lands on a common basis, and for the provision of ancillary socio-economic agencies to alleviate the burden of costs and to improve the cultivators' income by better marketing arrangements. The magic words here are "co-operation" and "community development". Co-operation in India has a relatively long history. "Community development", though it had forerunners, is primarily, in its organised form, the fruit of the planning effort.

26. "Co-operative farming" is not an activity, but an aspiration. It would not be true to say that co-operative farming has never been attempted nor that, where it has been attempted, it has *invariably* failed. Nevertheless, the difficulties are enormous.[2] It is useless to cite the case of the totalitarian countries where co-operative farming has been attempted or is in force. The urge behind it there was not any enthusiasm on the part of the cultivator, but the brute force of the State. No doubt, when the alternative presented is co-operative farming, or death or starvation or any other penal sanction, the attempt may be made, and inspired propaganda will see to it that the resentments, cruelties and injustices involved are, as far as possible, concealed from the rest of the world. India is in a different position. In season and out of season, the Prime Minister himself has insisted that force may not be employed: that co-operative farming, if it is to be achieved, must be achieved by the voluntary and unconstrained will of

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[1]See *Review of the First Five Year Plan*, p. 108.

[2]In some respects the fascinating "pen-pictures" of the rural scene contained in pp. 24-53 of the *Rural Credit Survey* (*General Report*) conducted by the Reserve Bank of India in 1951, may be out of date, but a perusal of these pages will help to an understanding of the infinite variety of conditions in rural India. As regards caste, it is significant that, when the new State of Maharashtra came into existence at the beginning of May, 1960, it was necessary for the Chief Minister to make public appeals for the abolition of "caste-ism".

the cultivators themselves. But will the cultivator be willing? The whole drive for "land reform", for the abolition of landlordism, for security of tenure and for fixation of rents, is, in the end, an appeal to the land hunger and pecuniary interests of the individual cultivator.

Though it is the declared intention of the supporters of joint co-operative farming that the individual cultivator may retain his legal property rights, and may even withdraw if he decides to do so, it is not easy to see how, having made the appeal to individualism on the one hand, it is possible to urge that, where current production operations are concerned, the individual should surrender judgment and personal initiative to a management body. The theory is that aggregate production will thereby go up and each individual cultivator will be better off than he would otherwise be. This may be true, if management is adequate and each individual works as hard as he would have done for himself and his family: if superior instruments of production, such as tractors, can be employed and if there are no quarrels as to ends and means. But these are assumptions, not proven realities.

Moreover, the Indian village is not necessarily a unit from the social point of view. Custom and caste and factions are facts, however undesirable they may be: inequalities in social and economic position are facts also. Caste may be condemned, as it is, and inequalities may diminish, but they remain facts to be reckoned with in considering how far co-operative farming is practicable. For the immediate future, at any rate, its contribution to solving the problem of agricultural productivity is likely to be negligible.[1]

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[1]Nothing in the text is intended to carry the suggestion that some forms of neighbourly co-operation in productive processes are impossible or do not, in fact, take place. What *is* suggested is that *formal* arrangements, which deprive the individual of the direct rewards of his own efforts and which raise problems as to joint use, not only of land, but of labour and equipment, are exceedingly difficult to implement.

27. Co-operative effort in India goes back for many years. But, to use a famous phrase with which the All India Rural Credit Survey Report summed up the situation, "Co-operation has failed, but co-operation must succeed" ; in other words, the efforts now being made are directed to vivifying and extending and improving an organisation which, in the minds of the planning authorities, has an indispensable rôle to play in the future of Indian agriculture. And, it may be added, not in agriculture alone, for, as regards the provision of finance and of purchasing and marketing arrangements, village artisans and industries, and small urban industries and handicrafts, stand in equal need.

So far as credit particularly is concerned, the traditional financing agency was the money-lender, or the landowner-cum-money-lender or the trader-cum-money-lender. The money lender did not, and does not, necessarily employ only his own funds. He may borrow from large money-lenders and these again may borrow from banks. The amounts involved in the aggregate were (and probably still are) very large: at the time of the Rural Credit Survey Report, they were estimated at Rs. 750 crores. But, quantity of funds apart, the essential advantage presented by borrowing from the money-lender, was *the flexibility* of the arrangements which it permitted: flexibility as regards the purpose of the loan as well as the terms of repayment. The terms were often usurious, and the reliefs provided by legislation were largely evaded ; nevertheless, the system persisted and still persists. Rural and urban indebtedness is woven into the texture of Indian economic life: indebtedness incurred, not only for avowedly economic reasons, but for ceremonial and other non-economic ends: calamity and rejoicing alike are linked with borrowing and lending.

On the trading side, also, the advantage of the traditional system was its adaptability and flexibility. So far as agricultural produce is concerned, especially foodstuffs, what is sold is very often a very small marginal amount ; but small individual amounts come to large aggregates in the end. Nevertheless, the lending mechanism and the market mechanism must also, *at the margin*, be capable of dealing with small amounts and to cumulate them from stage to stage. The large size of the country and the large number of would-be sellers necessitates also a large number of traders ; however created, *a very great number of points of contact* are *inevitably* involved. The idea that the replacement of the trader by some State organisation would involve great economy of numbers is largely chimerical, so long as the unit of production remains small. There might, and possibly would, be economies in other directions: as against this must be set the dangers of inflexibility, of petty grudges and corruption on the part of minor officials, of the absence of competition and of local political interference and nepotism.

Some of the difficulties, at least, can be avoided by the use of the co-operative instrument: in so far, at least, as the self-interest of the cultivator and of the society which represents him are identical, as they should be. That is, indeed, the fundamental justification for the extension of the co-operative effort. But the working of co-operative institutions in the past has shown that, under Indian conditions, it is not enough to provide a legal instrument of supervision in the shape of the Registrar ; positive assistance is held to be necessary—particularly financial. But then the fact must be frankly faced, that this is *not* co-operation as it is understood in the more developed countries of Western Europe. The instrument, in process of being so created, may be nonetheless more suited to Indian conditions ; nevertheless, the danger is real that, under the guise of co-operation, something quite otherwise is coming into existence. Once finances and guidance come to be provided by services outside the co-operative movement itself, as appears inevitable under Indian conditions, there are twin dangers—that the machine will become less and less flexible and that considerations of accountability and audit and of working to rule, indispensable elements in a State-dominated structure, will impede the spirit of mutual help and mutual direction which is the *essence* of co-operation in its true sense. From the technical point of view, of course, there are more immediate and concrete problems: the amount of assistance to be afforded by the Reserve Bank, the question of whether societies should be uni-purpose or multi-purpose: the question of whether the unit of operation should be the village or a group of villages, *i.e.*, whether societies should be "large" societies or "small" societies ; the question of the efficiency of the staff and the democratic quality of the leadership ; these are the concrete issues which are being currently debated.

28. No institution has done more for co-operation than the Reserve Bank of India. It keeps co-operation under continuous survey: it provides the necessary funds. Though there are other recent surveys[1] of some aspects of the co-operative movement, the following remarks from a speech by the Governor of the Reserve Bank, himself a convinced supporter of the co-operative movement, may serve to show some of the difficulties with which the movement is still faced[2] :—.

> "Few people will deny that basically the policy of Government is right. I am not referring here to matters such as co-operative farming or to the controversy between small-sized and large-sized societies. Irrespective of the views

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[1] See the *Sixth Evaluation Report on the Working of Community Development and National Extension Services Block*, New Delhi.

[2] *Rural Economics and Administration*, address delivered at the 19th Conference of the Indian Society of Agricultural Economics on the 28th December, 1959. Reprinted from the *Reserve Bank of India Bulletin*, January, 1960, pp. 5 and 6. On June 3rd, 1960, the Delhi *Statesman* carried an item relating to serious differences of opinion between the Government of Uttar Pradesh and the Reserve Bank on the subject of service co-operatives. The newspaper said :

> "After visiting several newly organized service co-operatives in the State last winter, a Reserve Bank study team submitted a very critical Report. This has provoked an equally strong rejoinder from U.P.'s Registrar of Co-operative Societies.

one may hold on such matters, the basic concept of Government, *viz.*, that the co-operative society is the best form of organisation for promoting the economic interests of agriculturists, is right. Even from the limited point of view of increasing agricultural production, experience has shown

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These differences may have repercussions on other States as well.

'The differences have to come to a head in U.P. because, acting on the NDC resolution, the State has already set up over 10,000 service Co-operatives, more than all the other States combined. The Reserve Bank team has expressed concern about the financial implications of this achievement and the speed with which it was pushed through'.

After pointing out instances of what it describes as 'violations of legal requirements and procedural lapses', the Reserve Bank team concludes its Report by suggesting that U.P. should go slow in organizing more service co-operatives.

U.P.'s Registrar of Co-operatives has replied with a note countering specific charges by referring to rules authorizing the changes of procedure required for setting up the co-operatives speedily. He regrets that the enthusiasm with which the work has been taken up in U.P. has not been recognized by the team and points out that 850,000 members have been enrolled and Rs. 1·60 lakhs share capital subscribed already.

The basic disagreement is on loan policy and the need for co-operative self-sufficiency. The Reserve Bank team complains that undue emphasis has been laid on credit requirements without giving thought to the repaying capacity, and this may jeopardize the co-operative credit structure of the State. It criticizes the formation of societies which it regards as too small to be viable.

It regards agricultural production plans as a very uncertain base for expanded loan operation and states that there is a limit to providing Reserve Bank funds to finance U.P.'s co-operative credit structure.

The State Government's rejoinder is that it has merely followed the NDC directive advice given by the Government of India ; whereas the study team's criticism implies that the Reserve Bank has not.

It also denies that the procedure it has evolved for advancing credit on the basis of agricultural production plans will necessarily increase the quantum of credit required to the individual agriculturist and points out that this basis was suggested by the NDC itself."

that service co-operatives can lead to excellent results. It is because of this faith in the agricultural co-operative movement that the Reserve Bank of India has been financing co-operative societies through State-Co-operative Banks and Central Co-operative Banks for providing funds to agriculturists for the production and marketing of crops. The loans disbursed by the Reserve Bank for these purposes have increased from a few lakhs in 1946-47, to nearly Rs. 70 crores in 1958-59.

It might be supposed that these loans would be rapidly utilized and there would be demand for more and more. In reality, many State Co-operative Banks have not drawn in full the credit limits sanctioned by the Reserve Bank. On an average, the monthly unutilized credit limits were about Rs. 12 crores in 1957-58, and Rs. 16 crores in 1958-59. This sounds astonishing, having regard to the enormous need for credit by the farmers. The reason is that the co-operative credit structure is not equal to the task of absorbing the assistance offered by the Reserve Bank. For instance, in one State where the State Co-operative Bank has not drawn any amount at all from the Reserve Bank, 30 per cent of the loans outstanding to it from the Central Banks are overdue ; the overdues of the Central Banks from their affiliated agricultural credit societies are even higher, in one case as high as 92 per cent. The structural weakness of the Central Banks is also illustrated by the fact that 67 out of 418 Central Banks have not been able to raise a deposit of even one lakh and nine have no deposits at all.

The primary co-operative credit society is the base of the co-operative credit structure and it is this institution that lends directly to the agriculturists. Hence, the ability of the co-operative credit movement to measure up to the task legitimately expected of it depends in very large measure on the soundness and efficiency of this institution. Unfortunately, of the societies which were audited in 1956-57, only 16 per cent were A and B class societies, *i.e.*, those which could be regarded as well run or reasonably well run ; 16 per cent were classified as D and E, that is to say, they were hopeless and on the verge of liquidation. The large majority of societies belonged to the C class, that is to say, were mediocre societies which were functioning in a weak and haphazard manner and having heavy arrears. It is true that there has been a large increase in the coverage of agricultural co-operatives ; the number of societies has gone up from 85,000 in 1947-48, to 166,000 in 1957-58, the membership from 3½ million to 10 million and the working capital from Rs. 24 crores to Rs. 134 crores. But the percentage of A and B class societies has gone down and that of class C societies shown a rise.

The weakness of the primary co-operative credit societies and the Central Co-operative Banks is, in its turn, due to the weakness of co-operative marketing societies. Loans from agricultural credit societies are intended to be disbursed partly in the form of seeds and manures ; and the primary societies are expected to draw their supplies of seeds and manures from the co-operative marketing societies, which function as stockists, and distribute them to agriculturists debiting their loan accounts. About 1,000 marketing societies had been organised by the end of 1957-58 but few of them have begun to stock seeds and manures in adequate quantities, and few primary credit societies affiliated to them draw their supplies of these commodities from the marketing societies. In those few cases where supplies are available, they are often either inadequate or arrive too late to be of any use. In some States the supplies of chemical manures are not given, or are given only in part, by State Governments to co-operative marketing societies.

Most of these marketing societies again are not marketing the agricultural produce of their members and of the members of their affiliated societies. Although there are notable exceptions, the volume of marketing business done by marketing societies in the country constitutes an insignificant part of the agricultural produce raised with the help of co-operative loans. As a consequence, very little is done to recover production loans of primary credit societies by the sale of produce through marketing societies. Unless dues are recovered from the sale-proceeds of produce, the problem of overdues is likely to assume more serious proportions."

29. If an advanced capitalist economy, such as the United States, where the average farm is many times the size of the average Indian cultivator's holding, and where "farm income"

per farmer is correspondingly greater, finds it necessary to provide "extension services" for bringing knowledge and advice to the farmer, it is not surprising that India should have embarked upon a "multi-purpose" scheme for aiding the cultivator by advice and information, and, at the same time, stimulating village life by the provision of amenities and cultural activities. The provision of such services is the task of the "community development" movement, a joint effort of the Central Government, in which the Ministry of Community Development and Co-operation is the responsible agency, and the State Governments. Large amounts have been, and are being, devoted to its work, the importance of which cannot be disputed. And yet there can be no question that this is one of the aspects of the planning effort which has aroused much criticism and adverse comment. Apart from the "Evaluation Reports" of the Planning Commission itself, community development has been the subject of a special Committee of Inquiry, headed by Shri B. G. Mehta, which led to important changes. The whole project has also recently been examined by an international team, appointed by the United Nations Programme of Technical Assistance,[1] which visited India in late 1958 and early 1959, and whose Report was published by the Ministry of Community Development and Co-operation in 1959.

It is not difficult to understand the main points of weakness. It is clearly a case of too much being attempted in too short a time ; of over-estimation of the degree to which the willing co-operation of the villager himself could be counted upon as a long-term factor ; of administrative defects arising from lack of co-ordination between the various services involved and of the often wrong choice of personnel, arising, in some cases,

[1] *Report of the Community Development Evaluation Mission on India.* One of the Mission members, Prof. R. Dumont, a Frenchman, evidently of left wing sympathies though of considerable expert standing, gave his personal views in a lecture in Paris which forms the basis of an article "*Bureaucrats on the Farms*" in the issue of *Capital*, Calcutta, for April 14th, 1960.

from the unwillingness to accept responsibility, and, at the village level, (and that is the critical point) from the ignorance of rural conditions—though, in the opinion of one high authority on these matters, an urban background is not necessarily a deterrent, the important point, in his opinion, being the village level worker's ability to deal with human relationships in an adequate manner.[1] There is also ignorance on the part of the cultivator, in spite of the existence of the Service, of the facilities available to him.

There is certainly no disposition in high quarters to under-estimate the difficulties or to refuse to accept the findings that the community development movement has not, by and large, given the desired results, though the results differ from one item of the programme to another. The problem is one, not of money, (for in many cases the budget availabilities have not been fully utilised) but of time, training, personality and experience. The significance of the experiment has been summed up by the United Nations Team: "No country has undertaken Community developments on as wide a scale as India. It is one of the major experiments of the twentieth century, and its results are of world wide interest."[2]

The experiment may, indeed, fail but it is to be hoped that it will succeed.

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[1] On the other hand, a high official, with very great knowledge of rural conditions, told the present writer that, when he was selecting candidates, he had only one test. He made each candidate undergo a ploughing trial. A man who could not plough would certainly not command the respect of any practical farmer, he said.

[2] *Report* para. 25 p. 4.

(B) THE "MARKETABLE SURPLUS" AND ALLIED TOPICS

1. From the standpoint of the urban consumer what concerns him is the price at which he acquires foodstuffs. A rise in food prices has obviously a direct effect upon the cost of living and, therefore, upon the efforts of wage earners to maintain their real income by wage increase if prices show a consistently upward trend. But the prices of foodgrains, and agricultural prices generally, also affect him by influencing the "marketable surplus", *i.e.*, the amount of foodgrains which the cultivator finds it worth while to produce, and, next, to dispose of in place of consuming himself or varying the quantity he keeps in stock. Indeed, the size of the "marketable surplus" and the price of foodgrains are the obverse and the reverse of the same medal. With the increase in the urban population actual and expected, and with rising standards as the result of economic expansion generally, the problems of the "marketable surplus" assume increasing importance. But it is a problem which has vexed successive governments from the middle of World War II. For it has led to repeated attempts to increase the "marketable surplus" by intervention of governments in the past, and to attempts to mitigate the impact of shortages on the consumer, not only by increasing or attempting to increase the supply, but by apportioning the available supplies by devices such as rationing, food tickets, and sales through "fair price" shops at controlled prices. The policy in this respect has not been consistent ; there has been a tendency to swing in one direction or the other in the light of circumstances. This variation is itself a cause of weakness, since the apparatus of procurement and of distribution, in so far as it lacks the element of permanence, inevitably suffers from administrative weakness due to the uncertainty of tenure of the people actually operating the machine—from the absence of *esprit de corps* and from the danger that, as there is

no permanency of policy, there would tend to be constant changes in the staff.

2. The fundamental factors from the cultivator's point of view are (*a*) the relative movements of the prices of the things that he buys and of the produce that he sells, and (*b*) the relative movement of food prices and, as already pointed out, the relative prices of other agricultural products. The first relationship is generally described as the "price parity" ; if agricultural prices rise faster or fall more slowly than other prices, the cultivator stands to gain ; if agricultural prices rise less sharply or fall more quickly, he stands to lose. Undoubtedly, the variation in prices of agricultural products is affected from year to year by the vagaries of nature. Nevertheless, there is a common factor underlying and complicating the situation ; that is, the general course of monetary policy.

3. **INDEX NUMBERS OF WHOLESALE PRICES**

Item/Unit	1951	1952	1953	1954	1955	1956	1957	1958	1959
(*i*) Food Articles	100·0	98·7	88·9	94·8	84·1	77·0	90·0	94·6	102·4
(*ii*) Industrial Raw Materials	100·0	108·3	76·5	83·9	84·4	75·7	88·8	89·1	80·4
(*iii*) Manufactures	100·0	115·6	97·3	95·8	97·5	96·6	103·0	104·7	104·9
(*iv*) All Commodities	100·0	105·5	89·4	93·6	87·2	82·7	94·2	97·0	101·0

(This table is taken from the already mentioned *Bulletin on Food Statistics p.* 100. The indices with 1950-1951 = 100 as base have been obtained from the original series with 1952-3 = 100, by arithmetical conversion.)

If the index number of manufactures is taken roughly as an indication of the price of what the cultivator buys, then, from 1957 onwards, when the general downward trend was arrested, the Parity Index, $\frac{\text{Food-Articles}}{\text{Manufactures}} \times 100$ has moved from 80 approximately to 98, *i.e.*, the general movement has been in favour of the cultivator. But, by the same token, in the period 1951 to 1956 the movement was definitely against the cultivator. Again, if the parity between food articles and industrial raw materials is considered, the parity has moved in favour of the former from 101 in 1956 to 127 in 1959. If the "all commodities index" is compared with the "food articles" the parity has moved from 93 to 113. Generally speaking, therefore, general monetary policy has assisted rather than hampered the grower of food articles, not only in respect of his position relating to the producer of manufactures, but as regards the grower of industrial raw materials, or, if the cultivator produces both raw materials and food articles, the balance of advantage has turned in favour of the latter. But, in the cities, as measured by the All India Consumer Index, retail food prices have been rising faster than wholesale food prices and faster than the General Index:—

	1951	1952	1953	1954	1955	1956	1957	1958	1959
Food Index	100	98·1	104·8	97·0	88·5	101·0	107·7	113·5	119·2
General Index	100	90·1	101·0	·96·0	91·4	100·0	105·7	110·5	115·0

The trend of both wholesale and consumer indices is upwards and has been consistently upwards since 1956—this measures the general impact of monetary policy. But given this trend, how is the "marketable surplus" likely to be affected ?

4. The general consensus of opinion in India is that the farmers' "resisting power" has increased of late years—the combined effect of land reform legislation, rising prices and a lag of taxation behind the cultivator's increased ability to pay. If prices are rising whilst production is going up also, though his potential surplus may go up—(though not necessarily in proportion, since he may consume more himself)—he *need* not sell so much and *may not wish* to sell so much, since his needs can be satisfied (given a favourable parity) with a smaller volume of physical sales. If prices of foodstuffs rise

more than in proportion to all prices he may wish, given a more favourable economic status, to hold, because quite reasonably he may anticipate still higher prices in the future. The effect must be to make the "marketable surplus" a relatively (not necessarily absolutely) smaller quantum in relation both to total supply and total demand.

5. This conclusion is not affected by the fact that at the harvest period there may be a temporary pressure to sell—though that pressure may be less than it used to be.

6. Enough has been said to show that the problem of the "marketable surplus" is a serious one. It is complicated by the facts that some areas are permanently deficit areas, *i.e.*, rely upon a portion of their supplies coming from other areas, and that the rice position is more intractable than the wheat position when supply is compared with demand.

7. The inevitable political consequence of shortage and rising prices of foodstuffs is a demand that "Government must do something about it." That there are circumstances, war and famine, when Government action must be taken, is certain: otherwise the economy will collapse as a result of revolt. But under more normal circumstances, should the remedy be found by relying on the "forces of demand and supply" or should there be positive action? But, if so, what action? To this there has never been an unequivocal answer.

8. The whole consensus of experience in India and elsewhere is that if Government is to act, it cannot confine itself to fixing maximum food prices; that course of action simply encourages demand and discourages supply. If anything effective is to be done, Government must be in a position to affect demand and to affect supply,[1] nor can it avoid paying attention to prices in doing so—unless, indeed, it

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[1] "Mere price control in the sphere of food", remarks Dr. B. K. Madan "invites dismal failure."

resorts to force, pure and naked, all along the line, though even such measures cannot succeed in preventing supplies disappearing into hoards. But price fixation as such, unless prices are adequate to equate supply and demand and, by the nature of the case, they are unlikely to do this—(else why resort to price fixation ?) simply encourages a "black market" at one end and an unsatisfied demand at the other, which demand in its turn will resort to the black market for supplies, at prices higher than the controlled price. By the logic of circumstances, Government must go further and attempt to procure supplies and limit demand by rationing or by "food cards" and by fixing a price which, though it may be lower than the "open market price", will not simply encourage people to buy their rations or the amount available at the "fair price shop" and resell in the open market.

9. But how are such supplies to be procured ? If supplies are to be bought at a time of shortage, they will raise prices still more. If more forcible methods are resorted to (even if only in part), they will in any case frighten holders into concealment, and since the overall supply is *ex hypothesi*, short, they will quite easily add to the overall immediate shortages. If the supplies are bought when there is a real overall surplus in any crop year—say, as the consequence of an exceptionally good monsoon—then, of course, these consequences will not follow. But, in that case, the supplies must be carried forward, *i.e.*, by constituting a "buffer" or "reserve stock". That raises issues of storage on the physical side, and of the possible deterrent effect on producers and traders of the knowledge that such stocks are over-hanging the market.

10. In India, recent experiments in State trading in foodgrains have had some interesting consequences. Apart from diversity in the methods of procurement involved, State trading has led to the "marriage" of surplus with deficit areas, and the creation of what were hoped to be "self-sufficient" zones. The result has naturally been smuggling from one zone to another, if the price margins were sufficiently tempting ;

the break-up of the economic unity of the country so far as foodgrains are concerned, and "profiteering" or alleged profiteering of surplus States at the expense of deficit ones. It has led to the licensing of wholesalers and to interference with their operations ; it has also led to control over milling operations and to attempts to control speculation by credit limitation.[1]

11. Speculation in food grains at times of scarcity undoubtedly offends public sentiment. What has made long term speculation—as distinct from seasonal operations—unusually attractive, however, has been the prospect of a consistently rising price trend ; the real remedy for that is monetary policy designed to stop overall inflation, a matter more fully discussed below. Short term speculation results in a temporary withdrawal of supplies to the market, raising prices, but to make his profit, the speculator must "undo" his operations later—he must sell, supplies then increase and prices then fall ; if he holds on too long, he may not make a profit at all. Since shortages lead to disproportionate price rises and surplus to disproportionate price falls, speculation may add to the instability of prices, but given that it *is* short run speculation, it does not mean that the foodgrains disappear altogether, as is sometimes imagined.

12. There is a case for minimising the fall of prices at the harvest period, though it would appear that this is a less serious matter than it used to be. For political and psychological, as well as for technical, reasons of not discouraging the cultivator, it may also be desirable to fix "guaranteed minimum prices" well before agricultural operations begin. But it is useless to insist, as some do, that such a minimum must be fixed for long periods. If prices go on rising, such a minimum tends to be meaningless. If prices go on falling, (which is not a very likely contingency under present Indian conditions,

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[1]For Reserve Bank Directives regarding Control of Credits against Foodgrains, see Appendix III (p. 105) of the January, 1960 issue of the *Bulletin on Food Statistics*. For a succinct account of the *de facto* methods of food control practices, see *Food Situation* (August 1958) published by the Ministry of Food and Agriculture in 1958.

though not impossible, as the trend in the early fifties shows), financial considerations will enforce a change unless Government is willing to incur constantly increasing losses. There is, further, a very strong case for the maintenance of "buffer stocks" to meet unusual emergencies and bad monsoons, though even "buffer stocks" may be inadequate if inflationary tendencies are so strong that the available market surplus declines progressively with the mounting tide of prices. But such operations should be financed by, and operated by the Centre. And operations inside the country should be done through the trade, under licence, it may be, but nevertheless by the trade, so conducted as to interfere with normal trade operations to the minimum degree possible. Nor does the avoidance of State trading mean that the declaration of stocks by, and licensing of, traders should be dropped, though it may be doubted whether declaration of stocks is really as useful as it seems to be, since traders are now known to keep stocks with the cultivator, in order to avoid declarations of the true holdings.

13. If there is one thing which is almost self-evident, it is that planning in India, on the scale involved, has greatly strained—if not over-strained—the administrative machine, in particular at the top level. The operation of the steel plants and the other State-owned enterprises—an era which is now only beginning—will add to the burden of decision and responsibility. This aspect of the situation should in itself deter the most optimistic advocates of State action for pressing for the assumption by the State of the entire trade in foodgrains. The administrative, financial and political risks involved are surely staggering. The taking over of the trade would involve the State (even if part of the burden is assumed by co-operative buying societies who would, however, have to be financed and guided by State officials) entering into contract with millions of individuals, would require an immense staff to be controlled, and very great sums of money would have to be invested in millions of tons of cereals, pulses, and minor foodgrains. These millions of tons would have to be warehoused

and distributed at prices determined by the State all over the country. Of course, the assumption is made that very large profits would be made but this is, at this stage, only an assumption. Losses would expose the State to violent criticism, so would large profits. Could any Government, however popularly elected, stand the criticism—say by a Communist Opposition—that it was "profiteering" at the "expense of the toiling masses" ? Could it stand the opposite charge—which quite conceivably might be made at the "village level" at the same time that the cultivator was being exploited "in order to make a profit for a capitalistically inspired Government" ? The opportunities for petty tyranny, for corruption and for mismanagement at so many different points over a vast country would be very great. For the moment, at any rate, and for a very long time to come, this solution of the marketing problem is simply not "practical politics".[1] [2]

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[1]Dr. B. K. Madan, who was a member of the (Mehta) Foodgrains Enquiry Committee of 1957, which, *inter alia*, recommended the 'socialisation' of the trade in foodgrains, has the following to say on the subject in the article already cited (p. 57).

"Irrespective of the situation regarding state of supplies and pressure of demand, elimination of private wholesale trade could be justified in the normal course *if* the State machinery of trading and distribution could be worked more economically. Investigations reveal that the margin of profit of the wholesale trade in foodgrains is normally small but tends to be inordinately high at times of unusual shortages. It is, therefore, by evening out of the extreme fluctuations in prices that social control of the wholesale trade could, over a relatively longer period, ensure better results on the whole than its operation by private trade. This, it must be understood, is a somewhat longer-term process. The objective can be assured by a progressive increase in the share of the State in the trading at the wholesale level so that over a number of years the State assumes a position of dominating importance in the channelling and distribution of supplies. The building up of adequate warehousing and storage facilities which do not exist to anything like the extent required, is an essential prerequisite to successful State Trading on an extensive basis. Besides, State Trading or socialisation *of the wholesale trade cannot by itself succeed unless the area of shortages has given place to comparative adequacy of supplies, home-produced or imported, over a period.* It is clear from the above that one of the failures of policy in the

14. The line of practical wisdom is that dictated, in part, by the course of events. It consists in pressing on by every possible means with the production of more food internally, with continuing imports and with building up a buffer stock. Fortunately, the recent agreement with the United States of America, under P.L. 480, makes the immediate outlook very much easier. It provides for the importation over a period of four years, of 16 million tons of wheat and 1 million tons of rice, out of which it is intended to build up a buffer stock of 5 million tons of wheat. The total dollar value involved is \$1,276 million ; *i.e.*, wheat \$965 million, rice \$116 million and payment for ocean freight \$195 million. Of the \$1,276 million, the equivalent in rupees of \$200 million will be used by the U.S.A., in defraying Embassy expenses and in meeting U.S.A developmental grants ; the balance of \$1,076 million will be made available (in rupees) to the Indian Government, as to one half as a grant, and as to one half as a long-term loan. As other food imports have to continue as part of international agreements, (unless there are waivers by the exporting countries), cereal imports into India will, therefore, be on a very substantial scale.

15. The operation, in technical terms, is an immense one. It will involve a shipload and a half a day for four years, and the problems of port handling, storage and wagon capacity involved in transport are far from simple, in view of the dangerous situation at the Port of Calcutta and the existing strain on the railways and coal supplies, which is likely to become intensified over the next Five Year Plan period. But, obviously, the immediate pressure on food supplies and on

sphere of food in the last one or two years has lain (*a*) in expecting too much of the critical component of such policy, *viz.*, State Trading, and (*b*) in too inadequate a preparation for the implementation of such policy." (Written in 1959.)

[2] The trade in imported cereals has, incidentally, involved the Centre in considerable expenditure in subsidies to the States up to 1952, and then from 1952 onwards, in losses incurred in sales of rice to certain recipient States at prices lower then their actual landed cost. For details, January, 1960 *Bulletin on Food Statistics*, p. 59.

food prices is greatly alleviated by this action on the part of the U.S. Government. India has been given a greatly needed margin of time in which to solve the food problem ; the danger is that, with the immediate outlook so improved, efforts to solve the internal supply problem will be relaxed. This would be disastrous from every point of view. The declaration of the Union Food Minister to the effect that these imports "must not create any sense of complacency among us" is to be greatly welcomed.[1]

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[1] *Statesman*, 2-6-1960. The new agreement is one of a series and it should be added that the question of whether receipts from sales of P.L. 480 imports of wheat and rice should be devoted to development expenditure by the Indian Government is a hotly debated issue. The official argument is that, as sales of wheat to the public immobilise funds, there would be deflationary consequences unless these were spent again : expenditure financed by means of such funds is therefore not inflationary. It is also argued that at no time has the Government increased the aggregate of its expenditure beyond what it would otherwise have been, because of the existence of these funds. Suppose this to be so, the inevitable conclusion would be that, in the absence of these funds, existing taxation and loan receipts being what they are, there would have had to be increased resort to deficit financing, and *that* would have been inflationary, and if the Government had desired not to incur such additional inflation, it would have had to cut down expenditure. But, admitting the general view that sales of wheat, etc., are deflationary in their incidence on the public, it still remains the case that, if the Government borrow in anticipation of such sales, and repay loans out of the proceeds of the sales, the time-gap might have immediate unfavourable repercussions on prices.

The procedures employed in the past have had the incidental effect of exaggerating the true amount of Government debt held by the public (see the article, *Absorption and Pattern of Ownership of Government Debt in India* in *Reserve Bank of India Bulletin*, February, 1960 p. 6 of reprint). The transactions involved "have tended to exaggerate the quantum of absorption of Government securities by the public". For a technical discussion of the procedure for utilisation, as hitherto practised, when the State Bank was used as a depository of the rupee equivalent of the dollar cost of the imports (plus 50 per cent of the freight costs) see K. S. Gill, "*P.L. 480 Aid: Procedure for Utilisation*" in the *Economic Weekly* of Bombay, April 2, 1960, pp. 551-552.

(C). "DEFICIT FINANCING" AND THE BALANCE OF PAYMENTS

1. One of the most fundamental problems which the modern world as a whole has had to face in the fifteen years since the end of World War II is the extent to which expenditure considered necessary in the "national interest" *should* be financed out of the creation of *additional* purchasing power through resort to the money creating power of Governments and Central Banks. Whether the process of increasing the money supply is described, with a perjorative implication, as "inflation", or with a commendatory implication as "expansionism" or, with a more neutral implication, as "deficit financing" (which is the Indian choice of terminology) the fundamental issues involved remain the same. The creation of additional purchasing power implies that someone—whether a governmental authority, or a business firm or a group of individuals or even a single individual—acquires the right to draw upon the available "real" resources to a larger extent than would otherwise have been possible and that, consequently, the *competition* for such real resources, in quantitative terms, is greater than it would have been otherwise. The result must be a rise in prices.

2. This line of argument, it may be, and indeed has been said, ignores one fact, namely that the quantity of "real" resources is assumed to be given, whereas in fact that is not the case: or, at least, is not always the case. Since the creation of additional purchasing power means an increased power to demand goods and services on the part of some entity then the exercise of this power may merely mean a stimulus to production. If, at the moment this power is exercised, there are unemployed real resources available, there will in consequence be additional production: the additional purchasing power in that case will not involve competition for a limited stock of

existing resources, but an addition to those resources. If what is demanded are additional goods which can be produced by existing equipment and there are surplus supplies of labour and raw materials available, output will at once go up. If what is demanded is additional equipment, then, though there will be no immediate increase in consumer goods, in the *long run* more production even of these will flow from the additional purchasing power now available. The increased production so induced acts as a counterweight to the increase in prices which is threatened through the increase in the available means of payment.

3. This argument—it is the classical defence of "expansionism" in monetary policy—is true only within relatively severe limits. So much is explicitly admitted in the discussion of "deficit financing" in the *Review of the First Five Year Plan*[1] :—

> "Deficit financing is safe and useful while there is a slack in the economy and production can be increased fairly quickly by utilising idle capacity or man-power. But, once the available production capacities are being more or less fully utilised, a further stepping up of investment expenditure through deficit financing cannot but generate inflationary pressures. In other words, the considerations that govern the feasibility of deficit financing are rather of a short-term character and while they warrant an expansion or a contraction of a part of public expenditure in response to the needs of the situation, deficit financing cannot be relied on for a continuous increase in public outlays year by year except within narrow limits. Such increase can only be supported by expansion of normal budgetary receipts."

4. In this document, of course, the subject of monetary expansion is discussed with specific reference to the Indian problem of financing the Planning programme. But the issues of economic principle involved are quite independent, as already pointed out, of the particular aims: it is the method of achieving the aim, not the aim itself, which is important.

[1] Planning Commission, New Delhi, May, 1957. p. 35.

5. Three special cases of monetary expansion must be considered before proceeding to narrower issues.

(*a*) When an economy, such as India, is proceeding to a more general use of money as a medium of exchange, an expansion of the money supply is necessary unless prices are to be allowed to fall. The "quantification" of this statement is, however, difficult.

(*b*) If, simultaneously with an increase in the monetary supply, there occurs a change in the monetary habits of the public such that the individual is prepared to hold a larger amount of purchasing power, whether in the form of cash or in the form of bank deposits, the additional means of demanding goods and services placed in the hands of Government or of business firms or of individuals, though exercised by *them* will be offset by a change in the "liquidity preference" of others. This implies that there will be no *net* increase in aggregate demand, and had there not been an expansion of demand arising from the creation of additional purchasing power, say, for implementing a planning programme, there would have been a fall of prices and the emergence of a margin of unused resources, including additional unemployment.

(*c*) A much more difficult case is presented when a country is losing its foreign exchange reserves. The *direct* accompaniment of such loss is a diminution of internal purchasing power—sterling, dollars or gold are sold against the local currency—in the case of India, against rupees. The question at issue is: should the loss of foreign assets be allowed to *reduce* the aggregate amount of local purchasing power ?

To this question no unequivocal answer can be returned. If local—in this case, Indian—prices are rising whilst world prices are falling, the replacement of external assets by local assets is tantamount to a continuation of the factors which are causing the foreign exchange loss. If, on the other hand, the relative price situation presents no difficulties from the balance of payments point of view, and it is desired to exchange a foreign asset—*e.g.* gold or sterling—for an internal asset *i.e.* increased capital equipment, the counterpart of which, in the books of the Central Bank is an increase in the holding of Government securities, no change in the price situation will result from maintaining the aggregate outstanding money supply constant *i.e.* rupees withdrawn as a result of the loss of foreign exchange can be replaced again. But it must be clear, if this is done, that the relative price situation is satisfactory. There is some discussion as to whether Government loans from banks or Government securities held by banks other than the Reserve Bank should be included in the concept of "deficit financing". The view taken is that such financing is *not* part of the concept in the narrow sense.

6. "Deficit financing" is a term of art. It does not in general terms refer to that portion of a possible overall deficit which is met by borrowing, on short or long-term, from sources *other* than the Central Bank. It refers only to that portion of the deficit, whether incurred on revenue or capital account or both, which is met by

(*a*) a reduction in Government balances at the Central Bank,

(*b*) *ad hoc* borrowing, in whatever form, *i.e.* whether against Treasury Bills or ways and means advances, from the Central Bank.

7. The legitimacy of "deficit financing" has been the subject, rightly, of perpetual discussion ever since the inauguration of formal planning. It has, naturally, been discussed not only in the publications of the Planning Commission itself, but by the Reserve Bank and the Taxation Enquiry Committee, and by the Panel of Economists. It has been, and continues to be, a subject of perpetual interest to publicists of every variety of opinion.

8. So far as the official literature is concerned, it must be said at once that from the beginning the expediency of "deficit financing" has been treated with great circumspection.

The elaborate document "*The First Five Year Plan*" proposed to limit the degree of "deficit financing" to the equivalent of the releases from the sterling balances, "estimated at Rs. 290 crores over the five-year period. This, so far as it is possible to visualize now, may be regarded as the safe upper limit to deficit financing. The position will of course have to be reviewed from time to time in the light of prevailing conditions."[1] The document went on to say that:

> "It is true that stability of prices cannot be an end in itself, particularly if this can be attained only by restricting the incomes of the large mass of the people. It is also true that some increases in purchasing power at chosen points may be necessary and even desirable for the smooth functioning of the economy. *The point we would however like to emphasise is that deficit financing can be countenanced only if and to the extent that there is assurance of steady supplies of the essential commodities of consumption.*[2] Deficit financing should not also be expected to provide the elasticity in money supply which must really come through the credit system. The scope for deficit financing at any particular time must be judged not so much in terms of movements in wholesale prices or in money supply but rather in the light of the trends of the cost of living indices. *When costs of living are high, increased purchasing power injected into the system is apt to lead to increased demand for the basic commodities of consumption and push up costs of living still further.*"[2]

The document, therefore, laid great stress on the importance of physical controls.

> "Without a firm and clear policy regarding controls, and without also assurance of continuity in that policy over a period of time, not only does the scope for deficit financing

[1] *The First Five Year Plan*, New Delhi, 1952. p. 61 (Paras 38 *et seq.*)
[2] Italics not in the original.

become limited, but there is a perpetual danger of even relatively small budgetary deficits generating inflationary pressures. In this sense, therefore, it is not finance as such which limits the scale of investment effort but rather the limitations of policy and administration regarding the supply and distribution of foodgrains and other essential commodities."

9. Between 1950 and 1954 Indian wholesale prices (1953 = 100) fell from 101 to 87 ; thereafter they rose to 97 in 1956, to 109 in 1959. During the same earlier period British prices rose from 85 to 103 and subsequently to 112 : United States prices from 94 in 1950 to 100 in 1955, to 109 in 1959.[1] It was during the earlier phase of falling prices that the problem of deficit financing was discussed by the Taxation Enquiry Committee and also, a little later on, by the *Annual Report of the Reserve Bank of India.* In paragraphs 22 and 23 of the Report[2] dealing with the "Development Programme and Trends in Investment", the Taxation Enquiry Committee urged that :—

"On the whole, for the first three years of the Plan period, there was but little inflationary financing of Plan expenditure. The immediate scope for deficit financing should also be viewed against the background of a fairly comfortable foreign exchange position which would permit a sizeable import surplus and the improved outlook in regard to industrial and agricultural production, which would justify a certain increase in money supply. The more recent trend of a fall in agricultural prices is another factor to be noted in this context. The inflationary consequences of the measure of deficit financing contemplated in the last two years of the Plan would be mitigated to the extent the production trends in agriculture and industry are maintained and the major projects of the First Plan begin to yield results in terms of additions to consumer and capital goods.

[1]The index numbers utilised are from the table "Price Indices expressed in United States dollars" with a common base of 1953 = 100 in *International Financial Statistics*, June 1960, pp. 34-35.

[2]*Report,* Volume 1, p. 96.

If the marketable surplus of agriculture should increase with fruition of development outlays, the non-monetised sector of the economy should be reduced and this, too, would call for increased money supply ; it is, of course, unrealistic to depend on this factor in the short period. Nor would deficits occasion serious concern if they should be declining, in relation to the size of development outlay itself, over a period of years ; for then, the counter-inflationary forces of increased production may be more effective and price stability not seriously endangered. Thus, on the most favourable assumptions regarding production trends, it is conceivable that deficit financing of the order visualised for one or two years, may not upset the stability of the economy.

It must be pointed out, however, that from a longer term point of view, *the place which deficit finance can occupy in a programme of planned development cannot be of a quantitatively significant magnitude in a country like India.*[1] In an advanced industrial country, with a temporary recession in production or a backlog of reconstruction after the war, credit creation or deficit financing to promote productive activity results in an increase in output of consumer goods in a short period, as supplies of complementary productive factors are in good array. In a country like India, also with its large idle labour reserves, credit creation to finance development should add to the supplies of goods and services, but here the time-lag is liable to be longer and the increase in output smaller, as other necessary resources are not available in a similar degree. Moreover, in a comparatively under-developed and primarily agricultural economy like ours, 'full' employment of other resources may be quite consistent with the existence side by side of large masses of unskilled labour, which cannot be employed for want of complementary factors of production, particularly of capital. The limits of deficit financing, which is not to result in serious inflationary consequences, are, hence, likely to be reached earlier here than in the advanced industrial economies. We cannot, therefore, but underline the need for the utmost endeavour to enlarge the role of taxation and borrowing in the financing of the development programme of the

[1] Italics not in the original.

public sector, and to minimise the role of deficit financing especially in the longer period following the first Five Year Plan."

10. In a later section of the Report, dealing with the "Outlines of Tax Policy",[1] the Committee pointed out that:

"The other method of financing the development programme is by incurring deficits. In considering deficit financing, the question here is how far it can go without causing inflation and, therefore, to what extent it may be employed to avoid the undoubtedly disagreeable alternative of increasing taxes—direct or indirect. A consideration highly relevant to the amount of deficit-financing which may properly be undertaken would be how far there are already indications in the general economic situation of the presence or otherwise of inflationary pressures. If no general inflationary pressures exist, and, further, if some deflationary signs are in evidence, the amount of deficit-financing, which may safely be undertaken, is larger than if the factors tending in either direction are more evenly balanced. In any case, it is not correct to assume that all deficit financing would result in inflation, irrespective of either its volume or the circumstances under which it is resorted to. There is, however, no formula by which the amount of deficit-financing that may properly be undertaken can be determined ; this, ultimately, is a matter of judgment. To the extent that deficit-financing leads to inflation, there is some danger in adopting it......Here we would emphasise the fact that the tax system should be adapted so as to meet the dangers of deficit financing if and when they arise. The precise manner in which the tax system should be adapted for this purpose will be dealt with by us in a later part of this chapter. We may, however, reiterate our view that in the light of the present conditions and the immediate trends in the economy, a moderate measure of deficit financing would not inflict any injury on the economy."

11. When the Reserve Bânk's Annual Report for the year ending June 30, 1955, was published, the price trend

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[1] *Report* Volume I, p. 153.

was about to change in direction. Discussing the prospects of the Second Plan period, the Bank remarked that:

> "The augury for stepping up the tempo of development in the Second Plan period thus appears to be definitely good. There is, nevertheless, a limit to the pace and extent of economic development possible that is set by the real resources available. With unutilised real resources capable of being harnessed to national development, a measure of deficit financing is not only desirable but may be essential for economic stability. Deficit financing, however, provides no easy substitute for sustained and substantial efforts to mobilise resources for development. It is a double-edged weapon which may be employed, within limits, to help development, but may hinder it, if used to excess. It is desirable, therefore, to set our targets of development on a realistic assessment of available resources while making the fullest efforts to maximise such resources. In such a context, the essential function of the banking system would be to provide the necessary expansion in bank credit to facilitate the growth in productive activity, while preventing, at any stage, a lapse into undue credit expansion and inflation."

12. The comments of the Planning Commission itself, in its "*Review of the First Five Year Plan*" have already been referred to in paragraph 3 above. Enough has been quoted to show that even though the possibility and even expediency of some degree of deficit financing was admitted by the "competent authorities", the dangers inherent to the adoption of the policy on any large or *progressive* scale were fully recognised.

13. The quantitative assessment of the degree of deficit financing is complicated, not only by possible variations in definition, but also owing to the fact that Treasury Bills have in part been "funded". Moreover, there is the theoretical issue of whether the decline in the sterling balances should be included in deficit financing or not. The following table[1] from the *Eastern Economist* of March 4, 1960 sets out the facts:—

[1]See note on next page.

(FIRST PLAN)

	1951-2	1952-3	1953-4	1954-5	1955-6	Total
			Rs. Crores.			
Treasury Bills Increase (+)	—43·68	00·95	19·66	136·92	123·38	237·23
Cash Withdrawals (Decrease +) (Increase —)	—12·44	63·54	61·29	5·48	36·49	154·36
Formal Budget Deficit	—56·12	64·49	80·92	141·86	159·87	390·39
(—) Decline (+) Rise in Sterling Balances	—161·11	00·61	29·29	—22·97	16·14	—138·04

(SECOND PLAN)

	1956-7	1957-8	1958-9	1959-60	**1960-1	Total
Treasury Bills Increase (+)	240·45	459·42	—69·80	*6·00	153·00	783·07
Cash Withdrawals (Decrease +) (Increase —)	—55·70	—0·85	17·24	—14·69	0·53	—53·42
Formal Budget Deficit	184·75	458·57	—52·56	—8·64	153·53	735·65
(—) Decline (+) Rise in Sterling Balances	—219·31	—259·83	—53·94	—5·71	Nil	—538·79

* Up to 5th of February, 1960.
** Budgeted for 1960-61.

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[1]Another computation, from an official source (the details are confidential) arrives at the underlying figures, based on the difference between

(*a*) the sum of Rupee securities held by the Reserve Bank, Loans and Advances to Government by the Reserve Bank, Treasury Bills rediscounted by the Reserve Bank, and Investment by banks in Government Securities, and

(*b*) The sum of Central Bank balances with the Reserve Bank and State Government balances with the Reserve Bank.

In Crores of Rupees

1951-2	1952-3	1953-4	1954-5	1955-6	Total
		(FIRST PLAN PERIOD)			
—66	+45	—14	+102	+186	+253

1956-7	1957-8	1958-9	1959-60	Total
		(SECOND PLAN PERIOD)		
+256	+399	+243	+190	+1,088

i.e First Plan Period	+ 253	(5 years)
Second Plan Period	+ 1,088	(4 years)
	1,341	

14. These figures must be compared with those contemplated in the official Plans. For the First Plan period, originally Rs. 290 crores out of a total expenditure of Rs. 2,069 crores was to be provided by deficit financing. Actually, out of the revised figure of Rs. 2,398 crores, Rs. 532 crores were provided in this way (including clearly, reduction in sterling balances), or 26 per cent of the total. The Second Plan contemplated an *original* total expenditure of Rs. 4,800 crores, of which one-quarter or Rs. 1,200 crores was to be provided by deficit financing. The exchange crisis of 1957-8 led to a review of the whole position : expenditure was cut to Rs. 4,500 crores overall, but deficit financing was not to be reduced, so the percentage rose to 27. Actually, as given in the *Selected Plan Statistics*, published in December 1959, deficit financing to the end of 1959-60—that is, in a four-year period—was expected to reach Rs. 1,245 crores.[1] Thus in spite of the moderation of official language and the explicit recognition of the danger of over reliance on deficit financing, not only did the absolute amount of deficit financing contemplated officially greatly increase, but the *actual* rate of increase was greater even than that originally envisaged.

15. The inevitable consequences have been a considerable increase in the "monetary supply" *i.e.* of the purchasing power flowing ultimately into the hands of the public, and a steady upward trend in the level of prices, which though undoubtedly affected from time to time by the vicissitudes of the harvest, has in recent years been of such consistency and been so clearly correlated with the upward trend of the money supply, that the causal connection cannot be for one moment in doubt. The money supply with the public[2] has increased as follows :—

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[1]*Selected Plan Statistics*, pp. 24-25.

[2]That is, currency with the public, plus the demand liabilities of banks plus "other deposits" with the Reserve Bank of India. *Report on Currency and Finance, 1958-9* (Statement 22).

Outstanding March 30, 1951	1955-6	1956-7	1957-8	1958-9	Outstanding March 27, 1959	Outstanding March 25, 1960
			(Crores of Rupees)			
1,980	+264	+129	+76	+109	2,498	2,698[1]

16. In recent years, wholesale prices (base 1952-3 = 100) have moved as follows[2] :—

	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9	1959-60
All commodities	104·6	97·4	92·5	105·3	108·4	112·9	117·1
Food articles	106·7	94·6	86·6	102·3	106·4	115·2	119·0
Industrial raw materials	109·7	101·9	99·0	116·0	116·5	115·6	123·7
Manufactures	99·0	101·1	99·6	105·6	108·2	108·1	111·3

These movements must be compared with the movement of the consumer price index :—

(Year 1949=100)

	1953-4	1954-5	1955-6	1956-7	1957-8	1958-9	February, 1960
All India	106	99	96	107	112	118	122
Bombay	118	117	110	116	122	130	136
Calcutta	99	94	93	102	105	109	111

17. Between 1953-54 and 1959-60 wholesale prices rose by 11½ per cent : the cost of living (with a different base-year) by some 15 per cent. The "money supply with the public" over the whole of the planning period has risen by some 36 per cent.

18. The inference to be drawn is not that there is no quantitative causal relationships between money supply and the rise in the price level, but that the increase in money

[1] *Reserve Bank Bulletin,* April 1960, p. 457. (Does *not* include "other deposits.")

[2] *Reserve Bank Bulletin,* April 1960, p. 601. These figures are calculated on average of months and average of weeks ended Saturdays.

supply has been offset in part by (*a*) changes in "liquidity preference" (*b*) the extension in the money using habits of the community (*c*) the decline in the sterling balances. It is now generally agreed (*a*) that the level of the sterling balances is now such that they no longer constitute an effective long-term buffer against further gross monetary expansion and (*b*) that an end must be put to a cumulative resort to "deficit financing" over the next Plan period. Nevertheless, these "pragmatic" conclusions require to be buttressed by reference to more deep-seated considerations.

19. One of the most obvious difficulties which a continuously rising price level presents is that it may greatly aggravate the balance of payments position of a country, and this was in fact expressly recognised when the official "*Approach to the Second Five Year Plan*" was drafted. Much apprehension has been felt in India over the possibility that the external demand for India's exports is "inelastic". It is certain, at any rate, that a rising price level in India if unaccompanied by rising prices elsewhere, will not ease the situation. Further, rising prices attract imports, given an unchanged level of prices elsewhere, whilst exports are discouraged. Moreover, a rising price level, which carries with it a rise in the cost of living, inevitably means social unrest and, sooner or later—in the modern world, sooner rather than later—appropriate wage adjustments. Insofar as it is desired to attract foreign capital, this is not a particularly appropriate "climate", viewed from the standpoint of the foreigner. It has also to be taken into consideration that balance of payments difficulties carry with them the threat, if not the certainty, of impediments to the movement of funds, in the shape of interest and amortisation remittances. The foreign capitalist can hardly be blamed if he takes account of such possible adverse factors when weighing *where* to invest.[1]

[1] India, in fact, practises a very rigid and rigorous system of exchange controls, but her foreign engagements have been fully

20. The considerations so far advanced are more or less commonplaces of monetary discussion. It is the state of confidence in the future of the monetary system, however, which is the factor which requires most seriously to be taken into account. India is a country which has always absorbed the precious metals on a large scale (though there have been times—as during the Great Depression of the thirties—when there was large scale dis-hoarding). Nevertheless, the high price of gold in India and the massive scale upon which smuggling has been carried on, are phenomena which are clearly related also to the fear of further rises of prices. Labour unrest, due to rises in the cost of living, is a danger, not only because it results in a spiral of rising wage-costs and still further rises of price, but because it destroys social harmony and is politically menacing at a time when, if planning is to be a success, social harmony is indispensable—this is a matter which cannot be overstressed. And it is not the "working classes", in the narrower sense, only whose sentiments of social justice are outraged by constantly rising prices.

21. It may be and, indeed, frequently is argued that rising prices reduce the real burden of indebtedness, increase the national income in terms of money and thus make tax-collections more fruitful, whilst, from the standpoint of the business community, there are windfall gains. Professor Rostow is not the only historian who has stressed the importance of "inflation" as a dynamic agency. Inflation, it has been said, is a weapon of taxation which even the weakest government can employ: and, insofar as people are willing

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honoured. Nevertheless it must be said that of all forms of interference with personal and economic freedom, exchange controls are probably the most onerous and arbitrary, however necessary they may be in the context of scarce resources and a planning programme. India, of course, is not the only country practising exchange control. They are *everywhere* an onerous and arbitrary instrument, however carefully and conscientiously administered they may be.

to hold more money *per capita* even in a period of inflation, they are in fact lending to Government at a highly negative rate of interest.

22. These are very bold claims and they are not altogether without foundation. Nevertheless, it has to be borne in mind that if inflation results in a rise in tax-receipts, it also means a rise in the level of Government expenditure. If the real burden of indebtedness is reduced, inflation, continuously practised, makes it more and more difficult for Government to borrow. Nothing is more striking, in the modern world, than the growing disfavour into which the "gilt-edged" market is falling and in a country like India, where large scale borrowing by Government is inevitable and where the saving habit ought to be encouraged, a continuous watering down of the real value of savings deposits, long-term stocks, insurance policies and the like through prolonged price rises is not a matter to be taken lightly ; it may in the end prove fatal to the prestige of Government. As regards the business community, windfall gains may indeed be made, but continued inflation has its own disadvantages in the shape of inadequate reserves, and of constant labour troubles. Once the general public becomes aware of what is happening, the disadvantages of inflation become ever more apparent and its possible (in any case temporary) advantages less real. Now-a-days a reasonable stability in the value of money has become, socially and politically, an absolute necessity, and is increasingly recognised to be such ; in this respect, India should profit from the experience of the rest of the Western World.

23. The quantitative relationships between a country's internal economy and the rest of the world are summed up in the statistical statement known as the Balance of Payments. It is not an autonomous entity but a barometer recording and measuring the influences at work, internally and externally, during a given period of time. For purposes of statistical convenience, a country's balance of payments is divided into

the "current account" balance and the "capital account" balance: the overall balance sets out the position as a whole. But this division does not mean that the current balance and the capital balance are not most intimately and organically linked: they most certainly are, and much confusion has resulted from neglect of this elementary fact. What a country imports is not dependent only on what it can earn by exports: imports depend also on the country's ownership of income-earning assets abroad and on what it can borrow or get in the way of gifts. What a country exports depends not only on the price level and the range of its national resources, but on what it can obtain in the way of machinery imports through borrowing or through the use of other foreign assets. For imports of capital goods can aid production for export as well as avoid the necessity for imports.

24. An important consequence follows. It is, of course, possible to attempt to influence the balance of payments position by "exogenous" devices such as exchange controls, tariffs and quotas or generally, by an import policy designed to keep out certain types of imports, or to replace one category by another designed to produce locally what has hitherto been imported. It may to some degree be possible by some or all of these means to alter the quantitative relationships between "domestic" production, the national income and the aggregate of foreign trade. It might even be possible to aim deliberately at "self-sufficiency" in the shape of abandoning foreign trade altogether. This is not an *impossible* objective, but one which could reflect itself in a drastic fall in the standard of living. It is not the Indian objective: the fundamental aim of planning being to raise living standards. Massive capital imports are necessary and certain types of consumer goods, as well: these imports can only be financed by exports and by capital loans and, up to a point, by gifts. The experience of the Western World is far from sustaining the view that "industrialisation" implies an *absolute* fall in the volume of imports, though there may be a relative fall in the significance, in the long run, of foreign

trade. Nowhere has this truth been more explicitly stated than in the document submitted to the World Bank by the three eminent bankers who visited India in the spring of 1960[1] :—

"The emphasis given in the programs of industrial development to import saving by no means implies, however, that the import requirements of India will necessarily follow a declining trend over the next 5, 10 or 15 years. On the contrary, it is likely that, as the Indian economy moves towards progressively higher stages of development, new types of imports required to sustain this progress will outweigh the economies achieved in other areas. The greater the pressure for rapid industrialization and general economic development, the greater the likelihood that there may be a progressive racheting upward of import requirements. This further underlines the necessity of giving high priority to the investment of effort, money and talent in the export field where the development of markets often takes a considerable time."

25. In approaching the problem of the balance of payments, there is one matter which is obvious. By no conceivable manipulation of the price level or of tariff policy or exchange controls would it be possible so to adjust the debit and credit items in the balance of payments as to enable India to raise the contemplated volume of foreign resources required to implement the proposed Third Plan without massive assistance from abroad, whether in the shape of loans or grants or both. This is, of course fully recognised by the planning authorities: the implementation of the Third Plan would be impossible without foreign aid. Whether such aid will be forthcoming on an adequate scale and on acceptable terms, is not, however a question of economics but of international politics.

26. If all foreign aid were advanced to India in the shape of gifts, the increasing volume of external resources

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[1] *Letter to the President, International Bank for Reconstruction and Development, from the members of the International Economic Mission, on the problems of Development in India and Pakistan*, March 1960.

would be utilised, so far as the effect on the balance of payments is concerned, to meeting the *de facto* excess of imports over exports without any other consequences. During the First Plan period, exports (f.o.b.) amounted to Rs. 3,109 crores and imports to Rs. 3,622 crores ; the trade balance was thus negative to the extent of Rs. 513 crores. During the Second Plan period, estimated exports amount to Rs. 2,965 crores, imports to Rs. 4,340 crores: the estimated trade balance amounts therefore to Rs. 1,375 crores: nearly three-fold expansion.[1] Since, in fact, foreign aid does not take the form only of non-interest bearing grants, there has been (*a*) a considerable growth in India's foreign liabilities on capital account *and* (*b*) a mounting burden of interest and amortisation payments to be made in the future. It may be possible, in the short-run, to borrow, not only to meet current imports, on capital account, but also to meet the accruing liabilities on interest and amortisation account, but obviously, this is a process which cannot continue *ad infinitum*: even if the time arrives when India no longer requires external aid in the shape of new loans or gifts, the old debts will require amortisation and interest payments, though, as amortisation proceeds, the interest element will progressively decline.

27. Two facts stand out. Firstly, the foreign liabilities of the "Official Sector" have increased nearly five-fold since 1955: as the following table makes clear[2] :—

	As at the end of				
	1955	**1956**	**1957**	**1958**	**1959**
	(Crores of Rupees)				
U.K.	33·6	33·8	26·0	48·9	97·7
U.S.A.	91·9	115·3	244·0*	323·5*	439·0
U.S.S.R.	—	1·1	13·3	52·6	56·9
W. Germany	—	—	0·6	20·4	52·9
Pakistan	38·5	38·6	38·5	36·2	36·7
Other countries	10·2	9·0	7·9	24·5**	27·5
I.M.F./I.B.R.D.	26·6	26·9	132·5	162·2	214·8
TOTAL	200·8	224·7	462·8	668·3	925·5

* Revised.
** The increase as compared to 1957 was mainly accounted for by the Canadian credit for purchase of wheat.

[1] *Selected Plan Statistics*, Table II, p. 29.
[2] *Reserve Bank Bulletin*, April 1960, p. 471.

28. Secondly, so far as India's overall foreign investment position is concerned, it has changed between 1955 and 1959 from a net creditor to a net debtor one. In 1955 the net position (including private loans, banking assets and liabilities and official assets and liabilities) was a positive balance of Rs. 512 crores, in 1959 it had changed to a negative one of Rs. 877 crores, an overall change, therefore, of Rs. 1,389 crores in four years. On official account alone the change was from a positive balance of Rs. 970 crores to a negative balance of Rs. 281 crores.[1] These results flow, not only from a growth in the volume of foreign liabilities, but from a decline in foreign assets.[2]

29. Without taking into account further indebtedness likely to be incurred in the future to assist in the financing of the Third Plan, a study undertaken in the autumn of 1958 indicated that the burden of interest and amortisation during the decade ending in 1969 was likely to be a heavy one: rising from a total of $68 million in 1959 (of which the public debt accounted for $54 million) to $221 million in 1961 (of which the public debt accounted for $201 million) and then falling. The "in-sight" liabilities for the decade were then estimated at an overall figure of $1,326 million, of which the public sector accounted for $1,247 million. Though, as already argued, the immediate burden can be reduced if India succeeds, not only in borrowing an amount equal to her net new capital requirements, but also an amount in part or in whole equivalent to interest and amortisation payments, this is only a postponement of the "evil day". It cannot be assumed that the outside world will be willing to see India's external obligations grow at a compound interest-rate for an

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[1] *Reserve Bank Bulletin.* April 1960, p. 472 for details.

[2] Between the end of 1951 and the end of 1959 India's foreign exchange reserves fell from Rs. 848,44 lakhs to Rs. 387,54 lakhs. At the end of March 1960 they stood at Rs. 362,87 lakhs. (*Reserve Bank Bulletin*, April 1960, p. 572).

indefinite period. An expansion of Indian exports is obviously indicated : there may be a further restriction of Indian imports, so far as "consumer" and "luxury" goods are concerned, but there are clear limits to such an evolution.

30. Statistical comparisons with the pre-Independence era are misleading, because of the partition of the country. Between 1951-52 and 1959-60 the overall position is as follows[1] :—

	Imports	Exports	Balance of Trade
		Crores of Rupees	
1951-2	971·20	732·96	—283·24
1952-3	701·83	577·31	—124·52
1953-4	610·24	530·63	— 79·61
1954-5	656·42	592·51	— 63·91
1955-6	725·41	608·91	—116·50
1956-7	848·76	619·63	—229·13
1957-8	1,036·37	635·78	—400·59
1958-9	799·58	569·79	—229·78
1959-60	852·07	654·69	—206·38

31. These figures merely throw light upon the order of magnitudes involved : they throw no light whatsoever upon causal sequence : they are, to repeat, a consequence and not a cause, except insofar as the contemplation of these figures in itself alters future fiscal and tariff policy. Clearly, the magnitudes are affected by the course of policies and the state of world trade, but they have to be supplemented by reference to two other considerations. Firstly, over the whole of the Plan periods, the distribution of Indian exports has not changed very significantly ; secondly, the nature of India's exports

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[1] *Reserve Bank Bulletin.* May 1960, p. 769.

has also not undergone any very significant change. In 1952-3 exports to the sterling area (Rs. 292 crores out of Rs. 578 crores) were 51 per cent of the total: in 1958-9 they amounted to 50 per cent. Exports to the dollar area were 26 per cent of the total in 1952-3: in 1958-9 they dropped very sharply to 18 per cent, but this was clearly a result of the United States recession—in 1957-8 they stood at 26 per cent of the total.[1] There have been increases in the volume of trade to the Communist countries, from Rs. 28·4 crores in 1957 to Rs. 49·2 crores in 1959:[2] but percentage-wise these figures are small. And, as regards exports, out of India's total exports in 1958-9, tea, jute and cotton manufactures, raw cotton and hides and skins still accounted for approximately 60 per cent, if a c.i.f. basis is taken, and for nearly 63 per cent of the total, if an f.o.b. basis is taken.[3]

32. It does not follow that because a country's exports depend largely on a few bulk articles that its position is necessarily vulnerable. Nor does a country necessarily suffer because its exports are made up of a large number of separate categories of articles, each quantitatively small in relation to the total—there may, indeed, be "safety in numbers". Indeed as India's industrial production expands in range it is to be expected that there will be an increasing number of articles exported, each individual commodity being initially small in

[1]Based on *Reserve Bank Bulletin*, May 1960, p. 769.

[2]On the basis January-December, 1959 plus December, 1958. (*Budget Number Eastern Economist*, p. 590).

		Rs.
[3]Tea	...	138 crores
Jute manufactures	...	106 crores
Cotton manufactures	...	63 crores
Cotton raw and waste	...	23 crores
Hides and skins	...	29 crores
		359 crores out of 605 crores (c.i.f.) or

Rs. 576 crores (f.o.b.) Based on *Economic Survey*, 1959-60; Table 53.

absolute value, but increasing with the broadening of demand due to expansion elsewhere. It is not to be denied that the growth of substitutes *e.g.* in the case of jute, or the growth of directly competitive local production *e.g.* cotton textiles in East Africa, may present difficulties for the traditional export industries in certain areas or markets. Against this must be set the facts, upon which the recent Lall Mission to Europe laid emphasis, that rising living standards increase the potential demand for such commodities as tea and handloom and textile products where beauty and individuality play an important rôle. If there is no room for complacency, there is also no room for despair.

33. It is true that India, like other "under-developed" countries, is disadvantaged if the "terms of trade" *i.e.* the relation between import prices and export prices as a whole, move adversely to her. In recent years, the index-number of the terms of trade, *i.e.* $\frac{\text{Index Number of Exports}}{\text{Index Number of Imports}} \times 100$, as compared to the base year, (in this case, 1952-3 = 100), has moved as follows[1] :—

1957	1958	1959	(Dec. 1959)
96	101	101	113

There has, therefore, been no deterioration, but rather an improvement, on *this* ground, taken by itself.

[1] *Reserve Bank Bulletin*, May 1960, p. 771.

Part 3—THE PRIVATE SECTOR

(A) SOME GENERAL CONSIDERATIONS

1. The original attitude taken up by the State and the Planning Authorities towards the "organised" sector of the economy (other than State enterprise as such) that is, towards economic activities pursued *other than* by small scale industry, agriculture, village industries and handicrafts, which have always been the subject of special consideration, was one of definite unfriendliness. It would not be altogether unfair to sum it up in the words of the poet Pope: "Willing to wound, and yet afraid to strike". It was, of course, necessary to recognise the *fact* of its existence, to harness its activities in the service of the Plan, even to provide financial facilities and other forms of aid to enable it to achieve the successive "targets" of attainment set up by the Plan. Nevertheless, the tide of opinion was then moving against the continued existence of the private sector in the above sense in its own right. Its motives were suspect, its positive contribution to the economy was belittled, its future was to be restricted and its rôle was to be subordinate. The following extracts from the *First Five Year Plan*, dated December, 1952, a short eight years ago, sums up the then current attitude of the "competent authorities" very clearly[1] :—

> "It is possible to have a plan based on regimentation and on immediate measures for *levelling down* in the hope ultimately of being able to level up. It is possible to take the view that mass enthusiasm cannot be created *except on the basis of reprisals against those classes which have come to be associated in the public mind with the inequities and deficiencies of the old order.* But the basic premise of democratic planning is that society can develop as an integral whole and that the position

[1] *First Five Year Plan* paras 10, 11, 16 pages 31-2 and page 33. Italics not in the original.

which particular classes occupy at any given time—a product of various historical forces for which no individual or class as such can be held responsible—can be altered without reliance on class hatreds or the use of violence. The need is to secure that the change is effected quickly and it is the *positive duty of the State to promote this through all the measures at its command.* The success of such planning no doubt depends on the classes in positions *of power and privilege respecting the democratic system* and appreciating the rapid changes it calls for."

. . . .

"It is clear that in the transformation of the economy that is called for the State will have to play the crucial role. Whether one thinks of the problem of capital formation or *of the introduction of new techniques*, or of the extension of social services or of *the over-all re-alignment of the productive forces and class relationships within society*, one comes inevitably to the conclusion that a rapid expansion of the economic and social responsibilities of the State will alone be capable of satisfying the legitimate expectations of the people. This *need* not involve *complete nationalisation of the means of production* or elimination of private agencies in agriculture or business and industry. It does mean, however, *a progressive widening* of the public sector and a *re-orientation of the private sector to the needs of a planned economy.*"

. . . .

"The distinction between the public and the private sector is, it will be observed, one of relative emphasis ; private enterprise should have a public purpose and there is *no such thing under present conditions as completely unregulated and free private enterprise.* Private enterprise functions within the conditions created largely by the State. Apart from the general protection that the State gives by way of the maintenance of law and order and the preservation of the sanctity of contracts, there are various devices by which private enterprise derives support from the Government through general or special assistance by way of tariffs, fiscal concessions, and other direct assistance, the incidence of which is on the community at large. In fact, as the experience of recent years has shown, major extensions of private enterprise can *rarely* be undertaken except through the *assistance* of the State in one form or another. *The concept of private enterprise, as, indeed, of private property, is undergoing rapid change, and the view that private enterprise can function only on the basis of unregulated profits is already an anachronism.* The process of re-orientation should and is certain to continue and gather speed, and the problem is to see that the transition is smooth and orderly. Already, in certain spheres of industry, units owned publicly and units under private enterprise are functioning side by side. The points of interaction between private and public enterprise are multiplying rapidly. In the maintenance of industrial peace and the promotion of a co-operative outlook between capital and labour, the State has necessarily to play a vital role. All these are indications that the private and the public sectors cannot be looked upon as anything like two separate entities ; they are and must function as parts of a single organism."

2. It would be difficult to find other passages of similar brevity, in the whole of the official literature of Indian planning, in which some elements of historical and economic truth are combined with so much prejudice and wishful thinking. The fundamental assumption is that "the State"—not more concretely defined—is always right, always foreseeing, always "creative". But *there have been times* when "the State" has most conspicuously failed to carry out efficiently the elementary tasks of preserving law and order and maintaining "the sanctity" of contracts: times when it has obstructed "capital formation" and the "introduction of new techniques" by inflation, excessive taxation and bureaucratic stupidity and inefficiency: times when "the State" also has most conspicuously neglected the task of carrying out "its positive duty of correcting social injustices." It remains the case that private enterprise cannot function without a framework of law and order and the preservation of the sanctity of contracts : it is equally the case that, by and large, the test of the successful working of private enterprise is the achievement of a profit. It is also true that "the State" has, at times, undertaken, for reasons of national security, or because private enterprise has been unable to raise finance on a sufficiently adequate scale,

large industrial and other enterprises of an economic kind, not always, it may be added, with conspicuous success. It is further true that there have been, are and probably will be, many more cases in which "the State" and private enterprise will jointly conduct profit-making enterprises. But all this hardly justifies the absence, in the passages cited, of any hint that, historically, private enterprise has also something to its credit and that the whole issue of State versus private enterprise cannot be settled by reference to "mass enthusiasm" and the satisfaction of the "legitimate expectations of the people." It *may be* that "the State" alone can provide the means for a fuller and more satisfying life—under Indian conditions—but that has to be proven, not assumed. Health, education, social services, the provision of roads,[1] law and order are all matters which obviously can fall within the category of State activities—so also the maintenance of sound currency conditions and protection from external enemies. It may also be desirable to increase the scope of State enterprise in many other directions. But all this does not justify the tone of conscious antipathy to the private sector in the passages cited.

Nevertheless, it must be accepted that the passages cited do reflect accurately enough the dominant "climate of opinion" of a decade ago.

3. It is certain that the underlying attitude of the Planning Authorities of to-day differs very widely from the one just described, and this must be attributed, not only to practical experience but also to definite changes in public opinion. The "fashionable" phrase to-day, (though the idea behind it

[1] Historically, it may be pointed out, it was private enterprise which, in the days of nascent capitalism, built the "Turnpike" roads which made a rapid mail coach service possible, built the railways and the canals: organised the first fire-prevention services and, in many cases, had to supplement the deficiencies of "the State" in the matter of protecting property. Any assumption that pioneering activities are primarily to be attributed to State action finds no historical justification whatsoever.

has not yet been incorporated in the official literature of Planning, or explicitly accepted by Government), to describe the approach to Planning, is the "Pragmatic Approach". It is not easy to say exactly what the phrase means in the mind of different individuals and groups: the term is not self-explanatory. It may mean, as it certainly does in the Memorandum recently issued by the Indian Merchants' Chamber,[1] an abandonment of dogmatism and of the theories upon which the First and Second Plans were based and the substitution of more realistic ones. But, it may also mean other, though perhaps less fundamental things. Firstly, it may mean that there is no longer an *a priori* assumption (as there were in the First and Second Plans) that there *must* be a "progressive widening" of the scope of the public sector. Secondly, it may mean that the choice of whether a *particular* productive operation is to be carried on by the State or by private enterprise is a matter of expediency in the sense that the advantages and

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[1] *Outline of the Third Five Year Plan: A Pragmatic Approach.* Published by the Indian Merchants' Chamber, Bombay, 1960. The Committee, which drafted the Memorandum which was submitted to the Planning Commission, urges that: "The supreme need of the hour is eschewing ideological dogmas and development of a realistic perspective in the approach (*i.e.* to the Third Plan) and an efficient administration which would mobilise fully all the energy and willing co-operation of the people." The Committee further observe that "vague generalities such as 'self-generating and self-accelerating' economy—based on theoretical concepts should be avoided in the approach. A precise definition in terms of quantitative expression, cannot be given to 'socialist society' or 'self-generating or self-accelerating' economy in the conditions of a type of 'dual economy' in India with a primitive and large subsistence sector on the one hand and a developed industrial sector on the periphery of the other. Such terms are bound to divert attention to needless abstractions and remove the focus from the main objectives of enlarging the sphere of development and raising the rate of productivity. Therefore, the Committee are of the firm view that concepts which have an academic import and which have no relevance to the problems for consideration under the Third Plan should be eschewed."

disadvantages of either alternative must be weighed against one another. But if this be so, it means, also, that the existence of a mixed economy is no longer to be regarded as a mere temporary and transitional stage, but as a *permanent* feature of the Indian situation. Thirdly, given that the existence of the private sector is likely to be permanent, the emphasis has shifted from speculation as to what *should*, in contradiction to what *does*, motivate the business classes, to a consideration of what they can *do* in the way of increasing productivity and of improving the efficient working of the economy. From this point of view, it does not matter whether the business classes desire *only* to make a profit or whether they are *also* moved by other motives as well: pride in achievement, desire for prestige and a desire to serve the country. What matters are *results*: not motives. It may be "reprehensible" to desire to make profits—though it is now becoming fashionable to harp upon the profit-making possibilities of the new State industries—but whatever the motives that impel the business classes, it is quite certain that the private sector cannot exist without making profits. And if the private sector is not merely to be tolerated, but *accepted* as a permanent feature of the landscape, profits must also be accepted as an indispensable proof of success in achieving ends.

4. In no society with any pretensions to freedom of thought and expression, will there ever be a unanimous or universal change of opinion. There are, and there will remain, groups which will refuse any compromise of thought and will continue to adhere to the view that socialism and the particular kinds of institutions that go with it, are *inherently* superior to a capitalistic economy or even to a mixed economy.[1]

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[1]An example of what may be called the "dogmatic" as compared with the "pragmatic approach" is furnished by the following extract from a speech in Parliament on the Life Insurance Corporation Bill delivered by the then Finance Minister:—

"There was no need for Government to make out a case that private enterprise had failed in order to effect nationalisation.

The "pragmatic approach" will be rejected by them: just as the "mixed economy" will be rejected by those who see no virtue of any kind in planning. And it is unreasonable to expect that even the more general acceptance of the "pragmatic approach" will eliminate controversy: on the contrary, it is likely to widen the area of discussion. Obviously, if it were to be announced that no further extensions of the public sector were to be undertaken, or, on the other hand, if it were to be announced that "socialisation" of the entire private sector was to be undertaken, there would still be discussions as to phasing and timing, but the matter of principle would be settled once and for all. But if the respective spheres of public and private action are not to be decided *a priori*, but to be determined by considerations of expediency from time to time, the area of possible controversy will be very large. The "pragmatic approach" if it were officially and explicitly accepted, though in welcome contrast to dogmatism, would not, in and of itself, settle the concrete issues, but it would profoundly modify the manner in which they are handled.

Whatever may be thought of its merits or demerits, the private sector exists and is likely to continue to exist. The turning point—the "halfway house"—between the purely dogmatic and the purely pragmatic approaches may be dated, perhaps from 1956, when the Industrial Policy Resolution of April, for the first time clearly indicated a definite place for the private sector. Para 10 of the Resolution stated that:

> "All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these

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Nationalisation could be justified on grounds of ideology and philosophy." (Quoted by Mr. J. R. D. Tata in his speech to the shareholders of the Tata Iron & Steel Company Ltd. on 30-8-1956. Report p. 3).

industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital."

In the Third Plan, as in the First and Second Plans, the private sector will be expected to attain certain targets, and these have to be agreed with Government. Thus continuous discussion and co-operation between Government and the private sector are indispensable. But relations with Government are also necessary on other grounds. Private finance, private trade and private production work within a framework of law and administration of a most complicated and intricate kind. This framework is itself the product of the philosophies of the "Socialist Pattern of Society," of the widening sphere of State industrialisation, of the fear of "monopoly" power being developed, of ideals of egalitarianism and of social welfare, and it has been influenced by an inherited dislike of, and hostility towards, the traditional form of managerial activity in India—the Managing Agency System. In the following sections the more important aspects of the *de facto* situation will be described. Business in India and businessmen in India are also subject to the operations of the fiscal authorities, and, over a considerable part of the field of production, to the operations of price controls of different kinds. Much depends, when business is subject to so many influences, upon the spirit which permeates the Administration: *a study of the Law and of the Regulations which flow from the Law by no means tell the whole story.* There is a wide element which is, and must be, the subject of Administrative discretion and decision.

One feature which results from this state of affairs can be mentioned at once. A very considerable part of the time of businessmen in India is spent upon maintaining contact with Government agencies and officials. Whilst there is *some* decentralisation of Administration, Delhi retains the "last word". But the main centres of *business* activity are Calcutta, Bombay and Madras. The tendency is for local officials to possess only limited discretion, and they also prefer, in many cases, even if they have some discretionary power, to wait for the "final word" from Delhi. Inevitably, therefore, business firms find it increasingly necessary to have permanent representation in Delhi, and for senior executives to spend an increasing portion of their time in journeyings to and from that centre. The old war-time question "Is your journey really necessary ?" is answered increasingly in the affirmative by those responsible for the conduct of business affairs. This is a "social cost"—in the shape of time spent, effort expended and costs incurred—which, unfortunately, does not enter into the calculations of the Planners.[1]

[1]Those interested in the techniques of "Social accounting" will appreciate that such expenditures of money on journeys and the appointment of additional staff all add to the "Gross National Product", which, therefore, grows with every growth in the complexity and volume of Governmental control over business activities.

(B) THE LIMITS OF PRIVATE ENTERPRISE

1. The general significance of the Industrial Policy Resolutions of 6th April, 1948 and of 30th April, 1956 have already been referred to. Here it is necessary to discuss their import in delimiting the sphere that is left to private enterprise and to refer to other and ancillary legislation affecting this sphere.

(*a*) By the policy resolution of 1948, the "State"—and in this context the "State" was defined to include Central, Provincial and State Governments and other Public Bodies like Municipal Corporations—reserved to itself the *exclusive responsibility* for the establishment of new undertakings in the following fields :—coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telephone, telegraph and wireless apparatus excluding radio receiving sets, mineral oils.

(*b*) *But* (*i*) where National interest required it, the State might find it necessary to secure the co-operation of private enterprise even within this field subject to such control and regulation as the Central Government may prescribe.

(*ii*) "While the inherent right of the State to acquire any existing undertaking will always remain and will be exercised whenever the public interest requires it, Government have decided to let *existing* undertakings in these fields develop *for a period of ten years*, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis."

(*iii*) It was *also* stated that "the rest of the industrial field will *naturally* be open to private enterprise, individual as well as co-operative. The State *will also progressively participate in this field*: nor will it hesitate to intervene whenever the progress of industry under private enterprise is unsatisfactory."

(*iv*) A further list of industries "of importance", whose "location must be governed by economic factors of all India import," or which require considerable investment or a high degree of technical skill "would be made the subject of Central *regulation* and *control*." The list is as follows:—(1) salt (2) automobiles and tractors (3) prime movers (4) electric engineering (5) other heavy machinery (6) machine tools (7) heavy chemicals, fertilizers and pharmaceuticals and drugs (8) electro-chemical industries (9) non-ferrous metals (10) rubber manufactures (11) power and industrial alcohol (12) cotton and woollen textiles (13) cement (14) sugar (15) paper and newsprint (16) air and sea transport (17) minerals (18) industries related to defence.

2. So far as regulation and control are concerned, these found legislative expression in the Industries (Development and Regulation) Act of 1951 and successive Acts amending the principal Act, and in the Essential Commodities Act, 1955, as well as in Rules and Ordinances issued in virtue of these various pieces of legislation. More will be said of these Acts in the next section.

3. By the time the Industrial Policy Resolution of April, 1956 was issued, the Constitution had been enacted, Parliament had accepted the principle of the "Socialist Pattern of Society" and Planning was in vigorous progress. The new Resolution was necessary, as its paragraph 6 pointed out, because of the adoption of the "Socialist Pattern of Society." At the stage then reached, there were "limiting factors" which made further definition necessary. Three groups of industries were now envisaged.

4. Group A[1] Industries were industries "the *future* development of which will be the *exclusive* responsibility of the State" but this did not preclude the expansion of the existing privately owned units or the possibility of the State "securing the co-operation of private enterprises in the establishment of new units when the national interests so require."

5. Group B[2] Industries "will consist of industries *which will be progressively State owned*, but in which private enterprise will also be *expected* to supplement the effort of the State."

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[1] *Group A Industries*

1. Arms and ammunition and allied items of defence equipments.
2. Atomic energy.
3. Iron and steel.
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

[2] *Group B Industries*

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other nonferrous metals not included in Schedule 'A'.
3. Machine tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

6. The third group, defined by exclusion, consisted of "all remaining industries and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category." But they have "necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation," though the Government of India "recognises that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan." Where there are State and private units in the same industry "it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them." Nevertheless, "it will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it." Again, "in appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products."

7. The supply and generation of electricity is a matter of great importance, in view of the growing industrialisation of the country. Under Section 44 of the Electricity Supply Act, 1948 "no licensee, or any other person" (other than the Central Government or any corporation created by a Central Act) shall "except with previous consent in writing establish or acquire a new generating station or extend or replace any major unit of plant or works pertaining to the generation of electricity in a generating station."

8. There are certain industries which are under restraint as regards the nature or volume of their operations and/or their output, or both, in order to allow room for the output of Small Scale or Village industries and handicrafts. The existence of millions of persons engaged in such industries is a fact that cannot be overlooked, whether from the humanitarian, the social, political or the employment point of view.

That they cannot, in all cases, compete with the technologically more advanced "organised" industries without some assistance, either in the way of finance, training, guaranteed orders from Government (with or without a price differential in their favour) or by way of a reservation of part of the market for them, or by all these methods together, has been accepted by Government from the beginning of Planning. In fact, they were given an important place in the scheme of things during the discussions preceding the formulation of the definitive Second Plan. On June 28, 1955 the Planning Commission issued a Resolution setting up a Committee of Inquiry to make recommendations "for the utilisation of the resources to be earmarked for the purpose of development of these industries" and the Committee,[1] which was duly set up under the Chairmanship of Prof. D. E. Karve, was directed to frame its recommendations with special reference to three objectives, of which the first two are relevant.

> "(1) That the bulk of the increased production during the Plan period of Consumer Goods in common demand has to be provided by the village and small scale industries ; (2) That employment provided by these industries should progressively increase."

9. Since Government possesses wide powers of licensing and control, it was possible to implement a definite policy of restriction as part of the wider returns for the assistance and relief of such industries. The general position was summed up as follows in the Second Five Year Plan, issued in 1956 :—

> "In the First Five Year Plan the principle of common production programmes for related large-scale and small-scale industries was recommended. The possible elements of a common production programme were stated to be reservation of spheres of production, non-expansion of capacity in large-scale industry, imposition of a cess or

[1] The Committee duly reported, see *Report of the Village and Small Scale Industries (Second Five Year Plan) Committee*, October, 1955.

excise on products of large-scale industries and positive measures for the supply of raw materials, equipment and technical and financial assistance to the small units. One or more of these elements have been adopted as the basis of measures taken for the promotion and assistance of a number of small industries. The production of certain varieties of cloth has been reserved for the handloom industry and an excise duty has been levied on the production of large mills so as to build up a fund from which financial assistance is being given to hand-loom and khadi industries. All applications for substantial expansion of existing large units or for the establishment of new large units in leather footwear and tanning industries are examined in the light of their possible effects on the cottage and small-scale sector. An excise duty has also been levied on the large-scale leather footwear industry. In the match industry, a new category of 'D' class factories has been introduced, and the rebate of excise duty in respect of these factories has been enhanced. Printing of cloth by large mills has been limited to their best year's output during the period 1949-54, and expansion of the capacity of large units for garment-making has been restricted. A differential excise duty has been imposed on the washing soap industry and a subsidy is given for neem and non-edible oils used in making soap. In regard to a number of other industries also, including certain types of agricultural implements, furniture-making, sports goods, slates and pencils, bidi, writing inks, chalks and crayons and candles, it has been decided to reserve further expansion of production for small units.[1]"

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[1] P. 430-431. In practice, these limitations can lead to very complicated negotiations, see, for instance, the discussion of the question of the quota for the printing of cloth in the cotton textile industry. Report, *Indian Cotton Mills Federation* for the year 1959, pp. 7–9. A new kind of industry, based on the powerloom, but outside the ambit of the organised cotton industry has come into existence in recent years, which is distorting the traditional pattern. From the same Report (p. 8): "the number of cottage powerlooms functioning in small towns and villages as adjuncts to urban based organised sector has increased a good deal in recent years. Many of them are reported to be operating without coming into the co-operative field. Failure to bring this sector under control is apt to lead to wrong conclusions about the volume of cloth productions and consumption in the country."

10. A series of questions arises. The first springs from the undoubted fact that under the terms of the Industrial Resolutions, and in the spirit of the "Socialist Pattern of Society" the Central Government could widen the sphere of the public sector, not only by creating new enterprises by direct action on its part, but also by the acquisition of existing enterprises. So far as the sphere of public utilities is concerned, that would be in accord with the "spirit of the age." But conceivably Government might, for instance, desire to take over the existing privately owned and managed steel enterprises or any other industry which might be considered to be of national importance. The State has already "nationalised" the life insurance business in the country,[1] a very serious step in itself and one which might still further strengthen the grip of Government on private enterprise indirectly, since the Life Insurance Corporation is now probably the largest single investor in the equity shares in existing enterprises, and is taking up parcels of shares in newly created enterprises. How far is the threat of large-scale nationalisation a deterrent factor in business life ?

11. At the moment, it would appear not to be taken seriously into the calculations of businessmen, but it is important to underline the phrase "at the moment." A pronounced shift of opinion to the left would at once revive these fears of nationalisation, even if the present over-all distribution of power among the political parties were to remain unchanged. If, however, at the next election there were a large gain in the Communist representation in Parliament, still more if the Communist party were to be in a majority, a much more serious situation would arise.

[1]Though the nationalisation of banking as a whole has been rejected as not in the public interest, the old Imperial Bank of India (now the State Bank) has been nationalised, and so, following the general trend of opinion as regards Central Banking, has the Reserve Bank of India. There is authoritative reason for thinking, however, that in matters of policy and operation, the independence of the Direction of the Central Bank has been preserved.

12. What is to be feared at the moment is not the threat of further general nationalisation, but the doctrinaire use of existing powers by the State. At the moment, four leading cases may be cited. Firstly, the future growth of the manufacture of motor cars in the country. Secondly, the future relation between the oil industry and the Government. Thirdly, the future of road transport undertakings. Fourthly, whether the private sector of the coal industry is to be allowed to exploit, not only areas physically contiguous to existing coal bearing properties, but other coal bearing areas also.

13. Shortage of power and shortage of transport facilities are among the 'bottlenecks' hampering production generally. As regards coal, according to a recent despatch from New Delhi (*The Statesman*, June 5, 1960) referring to a Conference between the coal interests and the Minister and officials of the Union Ministry of Steel, Mines and Fuel:

> "It is learnt that at this conference several problems raised by the industry were settled, although its main demand for permission to work new collieries was turned down.
>
> According to authoritative sources, the coal industry spokesmen contended that the private sector could play its due role in attaining the 95-million-ton coal target *only if it was allowed to start new collieries in areas contiguous to the existing mines and in close proximity* to them. To this the Government's reply is said to have been that there was no question of new collieries being allowed in what are called "proximate areas". As regards "contiguous areas", individual applications could be considered on merit, but no general permission will be given.
>
> In other words, the previous coal policy that new collieries should all be started by the public sector while the private sector should augment its production only by expanding and improving the existing collieries remains unchanged. Individual applications for starting new collieries in "contiguous areas" were envisaged during the Second Plan also."

14. As regards motor car production, reference may be made to the recent speech of the Chairman of Mahindra & Mahindra Ltd.—Mr. K. C. Mahindra—at the company's annual meeting on May 7, 1960 (appearing in the issue of *Capital*, 12-5-60). Mr. Mahindra is himself an interested party, but the following is not without general significance:

> "The Minister of Industries has recently stated in the Lok Sabha that 'we will have the peoples' car, of the people, manufactured by the people, for the people of the country' and that 'this shall be done at the earliest possible time.' Mr. Manubhai Shah has been chastised by certain press commentators for using a slogan and who have thereby inferentially drawn the conclusion that the statement announced a decision to build the car in the public sector. The inference may ultimately prove to be correct, but it should be stated that the issue whether the small car should be built in the private or public sector is a basic one of State policy and I am sure that at the time of drafting the terms of reference of the Ad Hoc Committee, Government had no intention of reserving this manufacture for the State, for otherwise the invitation to private entrepreneurs to submit proposals would have been a most unethical thing for a Government to do. The preparation of each proposal in complete detail involved considerable expenditure of time, talent and money and in good faith the entrepreneurs of the automobile industry in India presented their respective schemes for an unprejudiced and dispassionate judgment by the technicians of the Ad Hoc Committee. I believe Mr. Manubhai Shah was simply expressing the conviction of the Government about the need, the urgent need, of producing a small car in the country, and that despite the hesitation of the committee and their inability to recommend a particular scheme Government was anxious and concerned that a suitable car should be selected at an early date within the broad ambits of requirements respecting price, economy, space and utility."

15. Both the automobile and oil industries are in the fortunate position of being able to secure the collaboration of financially powerful firms abroad, and can therefore help to meet the scarcity of financial resources in India. It is

from this angle that the question of how future extensions of refining, prospecting, etc., in India should be judged. (There is, of course, a political aspect represented by the Russian offer of crude oil imports at prices allegedly lower than those of the international oil companies).

16. The flexibility of road transport is a matter of great public significance. It is not possible to link up every village and every small town with the main stream of economic life by means of a railway, but it is possible to do so by road—nothing would more assist in unifying markets. The whole problem was discussed in a very vivid manner by Mr. H. Turner, the Chairman of Hindustan Lever Ltd., at the annual meeting on April 6, 1960 (speech reprinted in *Capital*, 7-4-60). His own company had effected great economies in distribution costs by the use of road transport: the existence of local depots had also assisted the local distributors by allowing them to reduce the size of their current stocks. Yet—

> "not only are the allocations for road improvement too low, but there is no urgency about what is being done. Bridges take years to build. When a road is damaged, it takes months to mend. After the recent Gujerat floods, the railway line to Surat was mended in three weeks. The full restoration of the road will take one year. Traffic is diverted involving an extra distance of 60 miles and often through the fields, for months when the repair or improvement concerned could have been carried out in weeks; and every such diversion puts up costs, and uses up scarce foreign exchange, for going through the fields shortens the life of the vehicle and tyres, and puts up the consumption of fuel.
>
> Most irksome of all are the involved rules governing road transport. The planners perpetually complain that the country is short of transport, and that the provision of more rail capacity is one of the heaviest of all burdens on India's limited capital—about 20 per cent of the whole Second Five Year Plan is being devoted to the railways. One would have thought, therefore, that they would want to see the maximum use being made of those roads which exist, and the maximum relief being given to the railways by the use of

lorries. In other words, one would have expected, if transport were properly planned that there would be no restrictions placed on road transport beyond those necessarily imposed by the limitations on the availability of trucks. In fact so deeply are the railways and the road transport authorities rooted in the thinking of the 1930's, that restrictions are infinite, restrictions on the routes that can be plied, on the distances that can be travelled, on carrying goods from one State to another, on loads, on the use of trailers. One would think India had an immense superfluity of transport, and that the loads had to be rationed out to give everybody a living, regardless of cost, instead of transport being always on the verge of bottleneck and so expensive that every further addition to its costs is a serious matter—one rupee in every twenty of our costs is already transport including handling.

I would not like to close on this sour note. Railways and roads alike have improved enormously over the last ten years ; our own transport department has some considerable achievements to its credit ; and of late both the Government and the carriers have shown so much responsiveness to new ideas that I am emboldened to make a few suggestions, all of them based on our own experience in this business."

(C) THE CONDUCT OF BUSINESS

1. The Government possesses wide powers of control over the conduct of business in virtue of enactments already referred to. Moreover, the reform of the Company Law has also provided Government with opportunities to influence the shape of corporate enterprise and to affect the financial position of important elements responsible for the day-to-day conduct of affairs.

2. Given the existence of a Plan, which draws up priorities, divides economic activities into a public and a private sector and which in the supposed interests of social as well as economic policy, desires to protect certain classes of small (and, therefore, by implication, weaker) enterprises from the full blast of competition, control legislation is undoubtedly called for. The issue is a practical one : whether the legislation, as it stands, does not give Government too much power to interfere with business, or, in other words, whether the ends aimed at could not be achieved with less drastic legislation. Thus, it may be reasonable to draw up elaborate lists of "scheduled industries" which, by Section 2 of the Industries (Development and Regulation) Act, are to be taken "under the control" of the Union Government, to require registration of such undertakings: to require licences for the establishment of new undertakings in such industries, and licences before such industrial establishments can produce "new articles". It may even be reasonable to make conditions "as to the location of the undertakings"[1] and the "*minimum standards* in respect of size". But the Industries (Development and Regulation) Act goes very much further. Chapter III A of the principal Act gives "power to the Central Government to assume management or

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[1]By Section 13, *inter alia*, a change in the *location* "of the whole or any part" of a registered undertaking requires Government sanction.

control of an industrial undertaking in certain cases". The preliminary stage is the holding of an Inquiry and the issue, if action is considered necessary, of "Directions". If there is a fall in production, "for which, having regard to the economic conditions prevailing, there is no justification" or if there is or there is *likely to be*, deterioration of quality which is avoidable "or if there is a rise of prices or likely to be a rise of prices" which is not justifiable, or if it is necessary to "conserve any national resources" utilised in the industry, investigation and direction may follow. Finally "any industrial undertaking managed in a manner highly detrimental to the Scheduled Industry or to *public* interest" may be investigated and directed. If directions are issued and not complied with, the Government is given power, as already mentioned, to assume management or control for a period not in excess of five years. Industries which have been investigated because they are assumed to be "managed in a manner highly detrimental to the scheduled industry concerned or to public interest" may even be taken over by the State *without* any directive.[1] (Section 18A of Chapter IIIA).

3. The Industries (Development and Regulation) Act also contains a Chapter concerning Supply, Distribution, and Price of certain Articles. This aspect of the Act as also the Essential Commodities Act can more usefully be dealt with in connection with Price Controls in a subsequent Section.[2]

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[1] The enquiry may be conducted "by such person or body of persons" as Government may appoint. The selectee or selectees "may choose one or more persons possessing special knowledge of any matter relating to the investigation to assist him or it in holding the investigation". The appointees "shall have all the powers of a Civil Court under the Code of Civil Procedure, 1908 (Act 5 of 1908)."

[2] There is one saving clause: Government has power to exempt in special cases. Section 29B of the Act enacts that:—

"If the Central Government is of opinion, having regard to the smallness of the number of workers employed or to the amount invested in any industrial undertaking or to the desirability

4. It is clear that if a Government were desirous of harassing an individual, or if it were generally suspicious of industrialists, this legislation offers a very wide door indeed for interference. It is a matter of great importance to ask whether such legislation—or portions of it—are not in themselves more dangerous to the national economy by creating apprehension and fear, than the evils it is supposed to check. The law is there: the practical question is to what extent these very wide powers are exercised. Upon this vital matter, the Annual Report for 1959-60 of the Ministry of Commerce and Industry has the following remarks to make (pages 32-34 paragraphs as in the original Document) :—

> "9. The main instrument of policy to guide development in the private sector in the directions indicated in the plan is the Industries (Development and Regulation) Act. All applications for setting up new projects or for effecting substantial expansion of existing projects in industries covered by the Act are considered by the Licensing Committee which consists of the representatives of the Central Ministries concerned with economic development, the Planning Commission, as well as State Governments. Between the 1st October, 1958, and the 30th September, 1959, the Licensing Committee, constituted under the Industries (Development and Regulation) Act, 1951, considered 1,653 applications of which 1,210 applications were approved. 331 applications were rejected. Consideration of 112 applications was deferred pending a more detailed review of the position. Of the applications approved, 224 were for regularising the activities of industrial undertakings which were already in existence but had not obtained the necessary licences. The

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of encouraging small undertakings generally or to the stage of development of any scheduled industry, that it would not be in public interest to apply all or any of the provisions of this Act thereto, it may, by notification in the Official Gazette, exempt, subject to such conditions as it may think fit to impose, any industrial undertaking or class of industrial undertakings or any scheduled industry or class of scheduled industries as it may specify in the notification from the operation of all or any of the provisions of this Act or of any rule or order made thereunder."

remaining cases related to the establishment of new industrial undertakings (412), to substantial expansion (351) and to the manufacture of new articles (200) and changes of location (23). *An ad-hoc Committee reviewed the procedure obtaining in this Ministry for disposal of applications for licences under the Industries (Development and Regulation) Act, and suggested several changes with a view to speeding up the disposal of these applications.* It has also been decided, in consultation with the Licensing Committee, that certain types of simple applications in which *all the concerned officers* had agreed to the sanction of a licence should be disposed of in the prescribed manner without prior reference to the Committee and reported to them later for information. *Applications for additional capacity in regard to certain items where there is sufficient capacity in the country already are to be rejected for a specified period.* Applications from undertakings for diversification of production which involve no foreign exchange implications are to be approved subject to certain conditions. In regard to certain lines of manufacture, where further expansion is clearly desirable, the applications are to be placed before the Capital Goods Committee straightaway for examining the question of import of plant and machinery. It is expected that these and other decisions will result in simplification of the procedure and speedy disposal of cases.

10. Apart from the powers to grant and refuse licences, the Industries (Development and Regulation) Act, 1951, provides for close consultation between the Government, Industry, Labour and other interests through the Central Advisory Council of Industries, its Sub-Committee and the Standing Committee and also through the Development Councils constituted for individual industries. The Act also empowers the Central Government to investigate into the affairs of industrial undertakings and take them over if circumstances justify such action.

11. During the period under review the Government of India ordered investigation under Section 15 of the Act into the affairs of one undertaking engaged in the manufacture of jute textiles. Three sugar factories and one engineering concern which are managed through Authorised Controllers/Board of Management, appointed by the Government of India, continued to be so managed during the period ending the 30th September, 1959."

From this it would appear that seventyfive per cent of the applications for licences were accepted. In view of the very large number of industrial establishments in India, the number of cases of "take-over" by Government does not seem very large. It does not follow from this that a change of Government might not considerably alter the case.[1]

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[1]Attempts have been made to use the Act in relation to the maintenance of employment, though without success. It may be pointed out that in the old undivided State of Bombay, there was passed the Bombay Relief Undertakings (Special Provisions) Act, 1958. Under it, by Section 3, the State may by notification, "declare that an industrial undertaking whether started, acquired or otherwise taken over by the State Government, and carried on, or proposed to be carried on by itself or under its authority, or to which any loan, guarantee or other financial assistance has been provided by the State Government, shall (as from the date of publication) be considered to serve as a measure of preventing unemployment or of unemployment relief, and the undertaking shall accordingly be deemed to be a relief undertaking for the purpose of the Act". The Statement of Objects and Reasons appended to the Bill says that:—

> "In order to mitigate the hardship that may be caused to the workers who may be thrown out of employment by the closure of an undertaking, Government may take over such undertaking either on lease or on such conditions as may be deemed suitable and run it as a measure of unemployment relief. *In such cases Government may have to fix revised terms of employment of the workers or to make other changes which may not be in consonance with the existing labour laws or any agreements or awards applicable to the undertaking. It may become necessary even to exempt the undertaking from certain legal provisions.* For these reasons it is proposed to obtain power to exclude an undertaking, run by or under the authority of Government *as a measure of unemployment relief*, from the operation of certain labour laws or any specified provisions thereof subject to such conditions and for such periods as may be specified. It is also proposed to make a provision to secure that while the rights and liabilities of the original employer and workmen may remain suspended during the period the undertaking is run by Government, they would revive and become enforceable as soon as the undertaking ceases to be under the control of Government."

One mill has been so taken over, the Narisinggirji Mill (V.R.S.) at Sholapur. Such virtually subsidised competition seems a curious way of meeting the unemployment problem.

5. This passage seems to throw light upon one aspect of business in India ; this is the necessity for referring to a multiplicity of organisations for specific authorisations for specific purposes—for establishing or extending an enterprise, or widening the scope of its activities, for obtaining import licences,[1] for capital issues, for obtaining foreign exchange and so on. Much time, expense and delay are caused thereby. But so long as different authorities are involved, though procedures may be eased, the problem will remain essentially insoluble.

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[1]The following from the Calcutta *Statesman* (2-4-1960) may be of interest :—

"Calcutta trade circles see no basic change in import policy in the Union Government's announcement on Thursday. The general impression is that while the Government has sought to liberalise imports in respect of a few consumer goods, the general shortage of plant and machinery and machine parts will continue.

It is agreed that the introduction of the system of annual licensing, instead of half-yearly as at present, in regard to imports of a large number of items of interest to the industry will ensure continuity of policy and bring about stability. But this will not help small manufacturers to get over their difficulty about the supply of raw materials.

There is a provision for issue of repeat licences in respect of several items of import and the Joint Chief Controller of Imports and Exports, Calcutta, Mr. S. K. Sen, promises that his office will see to it that such licences are issued generally within 72 hours from the time of receipt of applications. Last year, the office issued about 6,000 repeat licences for 200 items.

It was too early on Friday to assess the full impact of the Government's relatively liberal import policy in respect of baby food. It was pointed out that availability and not prices of such food had been the problem and the Government would have done better if it had granted new licences to more importers of baby food instead of increasing the quotas of existing importers.

Large-scale fatka (*i.e.* "futures") business is alleged in baby food, which explains why it is not usually available in Calcutta. Usually baby food handled by Calcutta dealers finds its way into markets as far away as Bombay *where there is no price control over the product.* In exchange, according to trade circles,

6. One of the roots of Indian policy in the matter of licensing and controls is undoubtedly the fear of, and dislike of, "monopoly power". Apart from the important fact, already referred to, that Part IV of the Constitution expressly directed that the State should prevent the "concentration of wealth and means of production to the common detriment", the attitude of the Prime Minister himself[1] is greatly coloured by

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Calcutta receives large supplies of olive oil and tinned provisions, the import of *which is allowed only to a few hoteliers in Bombay and Delhi.*

As regards watches, the new policy allows import of 10% of the basic quota for complete stainless steel watches, not exceeding the value of Rs. 150 each, and of about 7½% of the quota for watch spare parts. But watch dealers point out that it may not be possible to assemble watches locally from these spare parts. The new quotas for watches, it seems, have disappointed dealers who had expected still higher quotas, and particularly those handling high-priced watches, the import of which remains suspended.

The Government's greater restrictions and a complete ban on several drugs appears to be ridiculous to local dealers and manufacturers. They argue that if the Government allows import quotas to established importers, the advantage should be extended to actual users also, otherwise consumers may have to pay more than at present for the end products. They agree that the promotion of indigenous manufacture through restricted import is necessary, but this should be associated with a rigid check on quality and prices of indigenous products".

[1]See, for instance, his speech at the annual session of the Federation of Indian Chambers of Commerce and Industry at New Delhi on 27-3-60, as reported by the *Hindustan Times* (issue of 28-3-60) :—

"To-day free enterprise means creation of monopoly, which prevents others from progressing unless they come under the shadow of that monopoly. Monopoly may be good or bad. It might do good in some ways. I admit that. But it encourages something which is the very opposite of free enterprise. I want enterprise, but not the monopoly enterprise. Even in our Constitution, it is laid down among various things that we should not encourage monopoly.

his conviction, very often publicly expressed, that private enterprise ends in too great a concentration of power. This is a view of the nature of the economic system, which is not in any way peculiar to India. It is buttressed by the undoubted fact that the licensing of new units may be so used as to confer a quasi-monopoly upon existing producers (though in fact there may be excess capacity already existing) and by the further possibility that tariff-protection may diminish competition from abroad by restricting the import of a commodity or of a commodity which may be substituted for an indigenously produced commodity. Mere bigness, by itself, is by some regarded as a potential menace to competition—though the case of the American motor car industry or the case of the American film producing units show sufficiently that bigness, as such, is no bar to price competition. The requirements of modern technology are such in many cases that there is no alternative to "bigness": the units have to be of a certain minimum size (which may, in absolute terms, be very large) for production to be economical.

7. These fears found concrete expression in the desire to curb the scope and power, and the remuneration of the firms of partnerships or companies collectively known as the "Managing·Agents"; to give the State power to prohibit the appointment of managing agents by enterprises in "such classes or descriptions of industry" as the Government may choose to notify:[1] to encourage the emergence of other forms of management and generally, to modify the system and structure of joint-stock enterprise. The basic Act is the

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We should remember always that this is a common thing, which is not confined to socialist thought. Even modern capitalist thought is opposed to monopoly more or less. I want the enterprise of men who take risks. But what is in a wrong way called free enterprise leads to the lack of free enterprise. It means inevitably growth of monopoly, and monopoly inevitably leads to restriction of the spirit of enterprise of individuals, excepting a few."

[1] Section 324 of the Companies Act of 1956.

Companies Act of 1956, but further amending legislation is under the consideration of Parliament. A two-fold process has been in operation: there have been substantive alterations of the Law and Government has been given wide discretionary powers. "As is now well understood" it is stated in para 83 of the *Third Annual Report*[1] by the Department of Company Law Administration of the Ministry of Commerce and Industry "the Government are vested with large discretionary powers under the present Companies Act in regard to a whole range of questions concerning Company management such as, changes in the management of companies, the appointment and re-appointment of managing or wholetime directors, managing agents and the secretaries and treasurers, the changes in the terms and conditions of their appointment, the variations in managing agency agreements, the changes in the constitution of managing firms or companies, the increases in the remuneration of directors, managing directors, managers or the managing agents, etc. These powers have been conferred on the Central Government because Parliament was anxious to ensure that the management of public companies and their subsidiaries was conducted by a body of competent people, generally familiar with company methods and practices, and that management expenses were not disproportionate to the resources and profit-making capacity of the companies."

8. Historically, the rise of the Managing Agency system is directly attributable to the activities of British firms in India and this fact has, without question, at times tended to colour public discussions of the utility of the system. But, in fact, managing agency is no longer, and has not been for many years, a question of racial origin or of political affiliation. There are some large "British" managing agency firms, just as there are some large "Indian" managing agency firms,

[1]Dated February 15th, 1960, though the Report itself deals with the year ending March 31st, 1959.

but this particular aspect of the question is completely irrelevant to the main issues which are at stake. The total number of managing agency firms is now very large: the overwhelming majority are conducted by Indian businessmen. The main issues are whether the services which they carry out are essential: whether the methods chosen to correct abuses (the existence of which, in certain cases, is not anywhere or by any one denied) are appropriate, and whether, at a time when rapid economic advance is wished for and planned for, far-reaching changes in the structure of the private sector of the Indian economy *ought* to be striven for, by Government action.

9. The essential feature of the managing agency system, as the words themselves imply, is the provision, on a contractual basis, of a special service, namely, management, to one or a series of individual undertakings, themselves usually organised on a corporate basis. The undertaking so managed may have been in existence prior to the management contract, or it may have been created by the managing agency itself. Moreover, management is a loose phrase, it covers not only administrative and executive action in the narrow sense, but the provision of finance and of technical advice. It is the *initiating* role of the managing agency as well as the positive provision of finance, advice and management which constitutes the *dynamic* feature of the system, actually and historically. If, in recent years, the initiating role of the managing agency system has undergone some decline, the main explanation is to be found in the necessity to maintain a larger percentage of resources locked up in existing concerns, in order to prevent transference of control to sources in command of large cash availabilities. The enterprise to be managed is also the enterprise which is created. This does not mean a purely passive relationship: since the enterprise functions in the economic system as a producer of *something*. The intention is that the enterprise so created and/or managed shall make a profit: out of those profits the agency house is paid. If a profit is made, part of the ownership is sold to the public and the agency

house can then, if it thinks fit, go on to create new enterprises. It is only if the enterprises financed and managed in this way make profits that the managing house can flourish and grow ; it is only by a successful record of management that its standing with the public will rise and enable it to obtain further funds. The process is a purely pragmatic one, success begets success. It follows that there is an intimate relationship between the *quality* of the management and the *extent* of the activities of a managing agency house. In a competitive world, a managing agency house is not successful because it is large—it may easily lose its money and its reputation—but large because it is successful. In this respect it in no wise differs from other forms of business enterprise. Moreover, it is to be observed that though the managing agency system is a potent element in the business life of India, it has no pre-emptive rights. New enterprises need not make use of a managing agency nor need new enterprises be founded by a managing agency: the investing public is not bound to take up the share-capital or the loans of an enterprise founded by, and managed by, a managing agency. Nevertheless, the critics held—and the Government agreed with them—that there were elements in the situation which required regulation. Managing agents might abuse their powers and exploit—by excessive remuneration, by stock-market manipulation, and excessive commissions and in other ways—the companies (and indirectly the shareholders of the companies) they managed. Directors of companies as such might also resort to exploitative practices. And the mere fact that a large proportion, or what was felt to be a large proportion, of the total number of companies in a particular field, might be managed by only a small number of managing agency firms was felt to be an indication of an undesirable concentration of economic power.[1] The upshot has been that managing

[1]The National Council of Applied Economic Research reviewed the whole situation of managing agency in a publication, "*The Managing Agency System*" 1959. The figures published by it on

agents are now limited in the number of companies they can manage: and directors in the number of companies on the boards of which they can sit and the number of managing directorships they can hold: the remuneration of managing agents and full time directors is limited and the duration of time for which their contracts can be made is also fixed. The Central Government must approve of the appointment of managing agents: it must be satisfied that it is not against the public interest to allow the company to have a managing agent and, indeed, as already pointed out, it can disapprove of the managing agency system altogether in entire classes of enterprise. The bias is clearly against the system as a whole. The assumption appears to be that the system as a whole is exploitative and that shareholders and the public generally require "protection", not against individual cases of wrong doing or greed, but against the system of managing agency as such. Even in the case of joint-stock companies the impression given is not that the directors are there to promote the interest of shareholders, but their own alone: otherwise it would barely be possible to write officially of the success of the legislation in reducing "the financial burden on companies"[1] through the restrictions "on over-all managerial remuneration and the quantum of remuneration payable to directors and managing directors under Section 309". The implication that directors are an expensive luxury, and that it is meritorious to reduce the expense of such a luxury, altogether fails to bring out the true position, which is that managerial payments are a payment for services rendered: and that it is not the absolute amount involved, but the relation between payment and service rendered which is the important matter. One man may be overpaid, even if his absolute remuneration is small, a very large payment in another case may be an underpayment,

pp. 110–111 of this study hardly bear out the contention of excessive concentration, when a series of statistical comparisons is made.

[1] *Report* cited p. 53.

in the sense that, if more than what is actually paid has to be paid by force of circumstances, this larger payment might still be very well worth while. The same applies also to the remuneration of managing agents : it is not the absolute amount which really matters, but the difference made if the services were withdrawn, and this is a matter which cannot be determined by mechanistic regulations, such as the maximum percentage of profit.

10. Two further aspects of the matter require consideration. Firstly, by administrative action, the remuneration which is actually paid is being kept below the maximum permitted by the legislation itself. Secondly, the severity with which the Law is administered is being tightened up.[1]

There is no doubt that the effect of the Companies Act of 1956 has been to alter the trend :[2] the question is whether

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[1] Para 2 of the Third Administration Report expressly refers to this fact :—

"The process of assessment and appraisal which had started with the publication of the Sastri Committee Report towards the end of last year gathered momentum during the year under review. The efforts of the Administration were directed towards removing marginal obscurities in the language of the law through interpretational guidance, and to facilitate the removal of avoidable difficulties in the day-to-day working of the Act, by suitable procedural adjustments wherever possible. *At the same time instructions were issued to the field staff of the Department to tighten up the enforcement of the Act, particularly in respect of those elements in the corporate sector which might be reasonably suspected of abusing their position and powers to the detriment of the interests of the companies' shareholders and creditors.* The need for the deliberately lenient attitude adopted by the Administration, following the assurances given in Parliament by the Ministers concerned at the time of the passing of the Companies Act, had considerably abated, and in the context of the increasing knowledge and understanding of the provisions of the Act during the last two years, it was felt that the time was ripe for a more vigorous enforcement of the Act in future."

[2] See para 95 of the Third Report :—

"As there is still more than a year within which the remaining this is a desirable development or not in the light of the requirements of Indian economic life. A rapid increase in industrialisation would seem to imply that the fullest possible use should be made of those agencies which have borne the risks and accumulated the knowledge and skills involved in the initiation and management of new enterprise. Such knowledge and skill and experience are still in "short supply" in India: it is very doubtful indeed whether it is desirable at this stage, to imperil economic progress by an enforced change of direction in the institutional set-up of the private sector, in the hope that thereby certain very vague ideas of social justice may be realised.

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companies can seek Government's approval to the reappointment of their managing agents, one cannot hazard a guess whether all of them would like to continue their managing agencies or whether some of them would adopt some other form of management allowed under the Act. It is, however, clear from the statistical position relating to forms of management which the new companies formed during the three year period ending 31st March, 1959, proposed to adopt, that management by managing agents does not find favour with most of the companies. Of the total number of 2,904 companies registered during the last three years only 36 companies proposed to appoint managing agents, whereas 674 companies proposed to appoint managing directors and 2,181 companies proposed to manage their affairs directly through the Board of Directors. One of the reasons for this trend might be that, of the total number of 2,904 new companies, 2,697 companies have been registered as private companies to which the restrictive provisions in the Act relating to managerial remuneration, appointment of managing/wholetime directors, etc., do not apply, whereas if the private companies desire to appoint managing agents, Government's approval would be required under Section 326 of the new Act. It may be stated here that till 1st April, 1956, private companies could appoint managing agents without seeking Government's approval."

(D) THE "FOURTH AMENDMENT" TO THE CONSTITUTION

1. In considering the issues of compensation and of the future of the managing agency system, not sufficient attention, perhaps, has been paid to important changes in the Constitution of the Republic of India. Stress has been laid, in the past, on the role of the State in upholding the sanctity of contract and upon the payment of fair and equitable compensation when private enterprises are taken over. The Constitution itself in Article 31(1) lays it down that "No person shall be deprived of his property—save by authority of law." Nevertheless by the Constitution (Fourth Amendment) Act, 1955, the right to question the amount of compensation awarded by appeal to judicial procedure in the ordinary Courts of law has been *expressly* withdrawn. Article 31(2) of the Constitution now provides that, whilst no property can be compulsorily acquired "save for a public purpose and save by authority of a law which provides for compensation for the property so acquired or requisitioned and either fixes the amount of the compensation or specifies the principles on which and the manner in which the compensation is to be determined and given" yet "no such law shall be called in question in any court on the ground that the compensation provided by that law is not adequate." Moreover, by Article 31A of the Constitution (among other things) no law providing for "the extinguishment or modification of any rights of managing agents, secretaries and treasurers, managing directors, directors or managers, of corporations, or of any voting rights of shareholders thereof...shall be deemed to be void on the ground that it is inconsistent with, or takes away or abridges any of the rights conferred by Article 14" (which provided for equality before the Law), "Article 19" (which provided for a variety of rights) "or Article 31" (referred to above).[1] All

[1] Mining rights are similarly affected by Section (*e*) of this Article. In the case of State legislation acquiring or requisitioning property,

this does not imply that compensation in practice will be unfair or inadequate: but these provisions do imply a considerable infringement of individual and corporate rights and do open the door to possible injustices.[1]

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the application of Article 31A is made contingent on such law having been reserved for the consideration of the President and receiving his assent. The West Bengal Government is currently (June, 1960) introducing legislation for the acquisition of the property of the Oriental Gas Company. The fairness of the compensation clauses of this legislation is being seriously questioned by competent circles of opinion. An appeal, on the ground that the compensation offered is "unreasonably inadequate," (Calcutta *Statesman* June 4th, 1960) to withhold his consent has been sent to the President by the Federation of Indian Chambers of Commerce, and, in fact, a joint protest has been made by four leading Chambers of Commerce in Calcutta.

[1]It is not without significance in this connection to refer to the remarks of the Attorney General of India, Mr. M. C. Setalvad, the President of the All India Bar Association at its inauguration meeting in New Delhi on April 2nd, 1960. He drew attention to the "trends in the body-politic which seem to make for totalitarianism" and "the inescapable tendency to belittle the function of judicial process and indeed to interfere with its operations." (*Northern India Patrika*, edition of 3-4-60 p. 15).

(E) PRICE CONTROLS

1. Price control in India over certain commodities preceded the adoption of the policy of Planning, being a product of the shortages and difficulties arising out of the War. But the advent of Planning gave a powerful stimulus to the extension of the system, since price control (which is in effect unworkable without physical control of some kind as well, though this is not always recognised in practice) was regarded, together with physical control, as a necessary adjunct to the whole concept of the proper or appropriate allocation of resources. In the *First Five Year Plan*[1] the matter was summed up as follows:—

> "To some extent, overall controls through fiscal, monetary and commercial policy can influence the allocation of resources, but physical controls are also necessary....The targets of production defined in a plan cannot also be achieved unless a structure of relative prices favouring the desired allocation of resources is maintained....A simultaneous increase in production in all lines is not possible by merely raising the money reward for work. In the case of certain key commodities, it may be necessary to keep down their prices in order to obviate the need for price rises in several industries which use these commodities. To make this policy effective, control on production and on movement and physical allocations to consumers become inescapable.
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> Controls in a word are the means by which Government maintains a balance between various sectional interests. Under certain circumstances the accent may be on the maintenance of certain price ceilings, and through these of the real purchasing power of the incomes accruing to certain classes. Under other conditions, the enforcement of minimum prices might be a necessary corollary to a policy of ensuring a reasonable rate of return on effort in certain lines of economic activity. Viewed in the proper perspective, controls are but another aspect of the problem

[1]*First Five Year Plan*, p. 42 *et seq.*

of incentives, for to the extent that controls limit the freedom of action on the part of certain classes, they provide correspondingly an incentive to certain others and the practical problem is always to balance the loss of satisfaction in one case against the gain in the other. For one to ask for fuller employment and more rapid development and at the same time to object to controls is obviously to support two contradictory objectives."[1]

2. It was certainly recognised by the writer of these paragraphs that controls might be harmful, as well as unpopular; "It must be recognised that controls ineffectively or inefficiently administered may do harm rather than good. It is also true that so long as the public regards controls as so many hindrances to be circumvented if possible, to be put up with otherwise, there will be resentment against controls. ...it is an essential condition that the rationale of each control is made clear to the public and the rights and obligations of the parties affected defined in a manner which leaves little scope for doubt as to what is expected of the public and where redress may be had inca se of any grievance. It isa lso vital to the success of controls to make necessary adjustments in their working from time to time as the conditions governing the supply and demand of the commodities in question change."

3. It is safe to say that, viewed in the light of these statements, the present system of controls in India is extremely unsatisfactory and that there *are* large-scale attempts to "circumvent if possible", especially in the case of consumer goods.

4. There are two main sources from which controls in general, and price controls in particular, derive. The first source is the "determinations" of the Tariff Commission, which aim at setting prices sufficient to yield a given industry

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[1]The truth of these statements will be far from "obvious" to many. They beg the whole issue.

a given return on capital (though the definition of capital is a difficult matter) sufficient to enable the industry to meet a certain series of defined costs, to pay taxes and so on. This source of price control is far less spectacular than the second, namely, the legislation comprising Chapter III B of the Industries (Development and Regulation) Act, 1951, and the Essential Commodities Act, 1955. Chapter III B of the first named Act gives power to Government, in order to secure the "equitable distribution and availability at fair prices of any article or class of articles relatable to any *scheduled industry*", to regulate the "supply and distribution thereof and trade and commerce therein." Moreover, by Sub-section (4) of Section 18G of the Chapter: "*No order made in exercise of any power conferred by this section shall be called in question by any Court.*" The regulatory power is not only very wide, it is legally unchallengeable. Under the Essential Commodities Act, when the "Central Government is of opinion that it is necessary or expedient for maintaining or increasing supplies of any essential commodity[1] or for securing their equitable distribution and availability at fair prices, it may, by order, provide for regulating or *prohibiting* (sic) the production, supply and distribution thereof and trade and commerce therein": the Act provides for the appointment of authorised controllers, and powers and

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[1]By Section 2 of the Act "essential commodity" means any of the following classes of commodities:—

(*i*) cattle fodder, including oilcakes and other concentrates; (*ii*) coal, including coke and other derivatives; (*iii*) component parts and accessories of automobiles; (*iv*) cotton and woollen textiles; (*v*) foodstuffs, including edible oilseeds and oils; (*vi*) iron and steel, including manufactured products of iron and steel; (*vii*) paper, including newsprint, paperboard and straw board; (*viii*) petroleum and petroleum products; (*ix*) raw cotton, whether ginned or unginned, and cotton seed; (*x*) raw jute; (*xi*) any other class of commodity which the Central Government may, by notified order, declare to be an essential commodity for the purposes of this Act, being a commodity with respect to which Parliament has power to make laws by virtue of entry 33 in List III in the Seventh Schedule to the Constitution. ("Food crops" include crops of sugar.)

duties in connexion with the carrying out of the purposes of the Act, may be conferred or imposed upon State Governments.

5. The Planning authorities cannot surely complain that they are left without adequate power to enforce "controls". So far as food supplies are concerned, the problems involved have already been discussed above: it now remains to survey the field in general.[1]

6. So much has been written in India, and in the world at large, on the subject of price controls (and of physical controls as well) that it might appear unnecessary to go over the ground again. But the difficulties with which particular industries are struggling at the present time show that the lessons of experience have not been fully learned, if learned at all.

7. "A price" cannot be considered in isolation, it is in reality part of a *structure* of prices. Consequently, to fix "a price" is to disturb the relationship between it and other prices ; and, therefore, to disturb the relationship between the production of the commodity which is being price-controlled and other commodities, the prices of which are not being controlled. This is true, even if the price system as a whole is relatively stable, but the difficulties resulting from disturbance become very much greater if prices generally are moving upwards in consequence of inflationary tendencies in the economy generally, as is the case in India to-day.

8. If the commodity, the price of which is controlled, is a "raw material", its production will be discouraged if the land and labour by means of which it is produced, can be directed to the production of non-controlled articles, the prices of which are rising, or are falling in price less fast, in a period

[1]It may be added, that "Forward Markets" in a number of commodities are subject to control in virtue of the Forward Contracts (Regulation) Act, 1952: there is a separate body, the Forward Markets Commission, which administers the Act.

of generally falling prices. If the commodity, the price of which is controlled, is a finished product, the price of the components being uncontrolled, its production will be discouraged if the margin between its price and the prices of the components is reduced. Even if the prices of the components (or some of them) are also fixed, the margin may leave no profit or an insufficient profit to the producer unless the margin is subsequently restored. If the prices of the components (or some of them) are only controlled in *that* one use, but not in other uses, the components will be used in the direction of those other uses.

9. Since price control affects not only "supply", but also "demand", if the price is fixed in such a way as to stimulate demand, *i.e.*, prices are fixed lower than they would be if left uncontrolled, whilst supply is discouraged, there will be imbalance. If, in order to correct imbalance, "physical controls" are resorted to, such as control over distribution and "rationing", then there is the danger, if there is not enough of the controlled article "to go round", of some of the available supply being surreptitiously removed from the open market, and sold clandestinely at higher prices. That is the phenomenon of the "black market" *i.e.*, of the appearance of prices higher than the nominal controlled price.

10. Even if the controlled article continues to be produced and sold at "controlled prices", the quality of the product may be changed for the worse, so that in effect the consumer is paying a higher than nominal price. Or there may be resort to other devices, such as short-weight, to adjust demand to the really available supply. Or, again, in the case of ration-cards, they may be forged, or ration-cards themselves may be dealt in in a black market.

11. All these are matters of common knowledge and, as regards food-stuffs, of common experience. They show that price-controls and the physical controls which they inevitably bring with them, are excessively difficult matters to handle,

and the difficulties increase with every extension of the system—both from the administrative and the economic aspect.

12. The number of commodities in India subject to control in one shape or other is considerable: indeed a recent official estimate was that "direct controls on prices cover commodities which have nearly 25 per cent of the total weightage in the wholesale price index and on a rough estimate about half the weights in the wholesale price indices are influenced directly or indirectly through the present system of regulation and control. Some of the most important raw materials are price controlled, and distribution control is also involved in certain of these cases". Among the controlled articles are coal, steel, petroleum products, electricity, fertilizers, cement, sugar and paper. Cotton is also subject to a species of control, and the most recent regulations have been the subject of violent objection.[1] But dissatisfaction is widespread and the whole matter of price control has recently been adversely commented on in a Memorandum submitted to Government by so representative a body as the Federation of Indian Chambers of Commerce and Industry.[2]

13. In general terms, the objections voiced by the leaders of specific industries is that the margins of profit arising from the "determinations" of the Tariff Commission are such as to deprive the industries concerned of the opportunities of expansion which are necessary if production is to increase to meet the requirements of an expanding economy, though this is in effect only an indirect way of saying that the present prices at which the products of particular industries are being sold are too low.

14. In the case of cement, for instance, the Chairman of the largest group, The Associated Cement Companies Ltd.

[1] On this matter, see *The Eastern Economist*, issue of June 3, 1960 p. 1156.

[2] *Price Fixation and Return on Capital*, Memorandum dated June 1st, 1960.

stated at the 23rd Annual General Meeting on January 29th, 1960 that:—

"On the recommendation of the Tariff Commission, based on cost examination up to the end of 1957, the Government of India allowed the company an increase of only Rs. 3·50 per ton in the ex-works price of unpacked cement effective from 1st July, 1958. In the industry's representations to Government, it was pointed out that the price increase granted was quite inadequate, particularly as it ignored various elements of cost such as the commission to stockists, the annual bonus payments to employees and the remuneration payable to Managing Agents; but these representations were summarily rejected. Moreover, simultaneously with the price increase, Government imposed a ban on the use of second-hand bags for packing cement, which item alone has put your company to a loss of as much as Rs. 1·50 per ton. Furthermore, subsequent to the completion of the Tariff Commission's enquiry into costs, there have occurred several increases in specific items of cost during the year under review, such as the upward revision of railway freight, rise in the pit-mouth price of coal, rise in wages consequent upon wage settlements and adjudications, new levies and increases in the rates of duty on power, revision of Electricity Tariff, etc.

There was also a major basic error in the Tariff Commission's approach to the problem of costs in that, while computing the company's manufacturing costs, the Commission proceeded on the assumption that despatches, and therefore production, would be equal to the installed capacity. Even apart from market considerations resulting from slackness of demand, the company had strongly urged the Commission not to equate attainable production with installed capacity, since experience had shown that over a period of time actual production was technically incapable of being maintained at a sustained level of 100 per cent of installed capacity. Taking the performance of all the factories of the company into account, it was a virtual certainty that production could not be continuously sustained at the maximum level for any appreciable length of time. And this technical situation was re-inforced during the year under review by commercial considerations, because the poor offtake due to slackening of demand did not, in any event, warrant full capacity production. All this has been borne out by the fact that the company's total output in India was only 95 per cent of the effective rated capacity, resulting in a production of only 32·11 lakh tons during 1958-59 as against an estimated 34·71 lakh tons assumed by the Tariff Commission. Consequently, the cost of production 'per ton' was naturally higher than it would have been, had production and despatches been fully up to installed capacity.

In the circumstances, your company was compelled to make a fresh representation to Government urging them to allow an increase in the retention price of cement sufficient to offset the various post-1957 increases in costs to which I have referred."

15. In the case of steel, the position is complicated by the fact that the price at which steel is sold is not the same as the "retained price" of the steel producers, owing to the existence of the so-called Equalisation Fund,[1] which was originally established during the War for meeting the problem of the differing prices of imported and indigenous steels. The position, as regards the steel producers, has been very carefully examined by Sir Jehangir Ghandy, Director-in-charge of the Tata Iron and Steel Company.[2] After explaining the inadequacies of the earlier determinations, which "failed to provide resources for development" and prevented the proper expansion[3] of the steel industry at a time when equipment prices were lower, he went on to say[4] :—

"In the price scheme that was adopted in 1955, Government had specifically asked the Tariff Commission to ensure that the producers obtained from their earnings some portion

[1]For a short historical resume, *q.v.* Agrawal, *Price Controls in India since 1947*, New Delhi, 1956, p. 81 *et. seq.*

[2]*Steel: Some Problems of Development* (an address to the Engineering Association of India, Calcutta, December, 1959).

[3]"Had we been able to do so, this new capacity would have been in operation for most of the Second Plan period and helped to reduce the foreign exchange drain on steel imports." (Address cited p. 14).

[4]Address cited pp. 14-16.

of the resources required for expansion. Accordingly, prices included an element of Rs. 50 per ton, for Tata Steel and Rs. 7 for Indian Iron, which was to be credited, after taxation, to a development fund to be used solely for the purpose of expansion, and was not to count for dividends, managing agency commission or profit-sharing bonus. The total yield from this quantum was estimated on certain assumptions of production from year to year, based upon the completion of the expansion programmes by the very tentative data the producers were able to furnish at that time, even before project reports had been drawn up or contracts awarded. In the event, the production schedules then furnished proved too optimistic, because of some delay in completing the construction of new facilities and the teething troubles encountered in bringing new plants into full production. Likewise, the price fixed for 1955-60 included an element for paying depreciation charges, and interest on the funds that would have to be borrowed to meet the total cost of expansion. Here again, producers quoted tentative figures of cost because the details of the expansion had still to be settled and there was, therefore, no means of assessing precisely the likely capital expenditure. Costs were actually higher than the tentative and very rough estimates originally given to the Tariff Commission, resulting in larger borrowings than assumed earlier. The increased capital cost makes the steel companies liable for higher.... obligations than allowed for in the price by the Tariff Commission. While liabilities on account of expansion have thus increased, the resources position has been weakened because the production assumptions have not fully materialised.

The result is that the steel industry in the private sector is faced with a crisis of resources from which it can find no relief because its representations for a review of prices based upon the genuine difficulties just mentioned have been over-ruled. In large part, these difficulties stem from the somewhat rigid interpretation put on the price formula. For instance, the retention prices of steel have been increased in a number of steps from an average of Rs. 393 per ton to Rs. 424 per ton. These increases totalling Rs. 31 per ton, excluding separate reimbursement of the increased excise duty, have been given under the escalation clause to compensate the producers for cost increases due to Government legislation, increased freight charges, labour awards and the like. Under the interpretation put on the clause, the increases requested on account of operation problems, which have arisen since the prices were fixed, have been disallowed. For instance, a one per cent increase in ash content in the coke means an increase of Rs. 3 per ton in the cost of steel. The allocation of coal is entirely beyond our control and rests with Government. On the basis of 1960 allotments, we estimate that the average ash content of our coke will go up from an earlier average of 21·5% to 23%. Yet, the increase we sought was turned down because this factor did not exist in the reference period of 1954-55, on the basis of which the price was fixed, and is, therefore, beyond the purview of escalation. To cite another example, we are unable to recover the higher cost of DVC power because we were not using any in 1954. I cite these instances to exemplify the unnecessary rigidity with which the price control formula is enforced. The total effect is a very substantial rise in our un-compensated costs with the result that the shortfall has to be met from the already small profit margin, leaving little or nothing for the shareholder. Two important repercussions may be noted. Both the producers in the private sector have an unfavourable debt-equity ratio but the chances of attracting fresh capital are certainly not being improved by these policies. Again, steel shares are the leading counters on both the Bombay and the Calcutta Stock Exchanges, imposing a special obligation on the steel companies to maintain a healthy market sentiment, which they are not wholly able to fulfil."

16. Coal, as well as steel and cement, is one of the basic raw materials upon which the expansion of the entire economy depends. Speaking at the Annual General Meeting of the Indian Colliery Owners Association on March 31, 1960, the President said that[1] :—"It was only when a price control was introduced that the coal industry began to find a footing and a chance to stabilize itself. At the same time labour

[1] Calcutta, *The Statesman*, April 2, 1960. See also the pamphlet, *A Fair Price for Coal and Coke*, published jointly by the four mining Associations.

wages, prices of materials and other things began to shoot up on such a scale that though the coal prices were raised several times by the Government, the industry remained on the border of economic existence. At no time the industry was able to rehabilitate itself. It has been our constant endeavour to impress the Government that there should not only be economic coal prices, but that those prices should also include an element for rehabilitation. In view of the wage-price structure ruling the coal industry, a wage increase should immediately and automatically be followed by a corresponding price increase. In fact, wage increase and price increase should be concurrent so that there may not be any unjustified time lag and the employers may not have to suffer any losses."

17. A very vigorous controversy is currently going on between the paper making industry and the Government. A large expansion of paper production is being called for, yet the industry contends that it has not the necessary resources for expansion. An elaborate memorandum has been prepared by the Indian Paper Makers Association, dated February 29, 1960. The conclusion of the documents is that "this Association is satisfied that the price structure for the Paper Industry recommended by the Tariff Commission and accepted by Government does not correctly reflect the Paper Industry's costs and will not permit the Industry to expand sufficiently to meet the rapidly increasing demand in the country. This Association consequently urges that a revised schedule of paper prices is introduced immediately based on a price for White Printing [paper] adequately increased to cover:—

(*a*) The difference between the weighted and simple averages of the fair ex-works prices calculated by the Tariff Commission.

(*b*) Increase in Contingency Allowance.

(*c*) Rehabilitation Allowance.

(*d*) Increase in return on capital employed."

18. All the main difficulties of control are exemplified in the history of price-control in the sugar industry. Consumption of sugar is rising rapidly in India, but production is hampered. Sugar-cane can be used, either for the production of white sugar or for competing products—Gur and Khandsari. The price both for sugar-cane delivered to the mills and for sugar ex-works is controlled, and distribution is also controlled through dealers appointed by Government ; the industry is also subject to heavy excise taxation. The ex-factory prices were raised by five per cent in the Northern region in October, 1959 and a rebate of 50% of the basic Excise Duty on the excess production over the average production of the two preceding seasons was also given. The minimum price of sugar-cane was raised by 12½%. The differential burdens borne by the sugar industry has enabled the producers of gur and khandsari to divert cane supplies to them : the rise in the factory price for cane has given the growers of cane a large excess of return over other agricultural products : the margins in the industry have declined, distribution is unsatisfactory—and has at times led to the appearance of a "black market."[1] A further rise in factory prices for cane is to take place and ex-factory prices will have to rise also, but the industry—"will continue to suffer from an excessively rigid and high cost structure. The industry is hedged about with every form of control. Apart from the fact that the price of cane is fixed, wages have been fixed either by the Government or by various judicial awards. The prices of essential mill-stores have also been fixed. Thus, out of a controlled price of Rs. 37·95 per maund, ex-mill, the present price of cane accounts for Rs. 16·55, taxation for

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[1] From a memorandum by the Upper India Chamber of Commerce, Kanpur. "Apart from the fact that the administration (of control) was faulty, scarcity developed a flourishing black market, and in October, 1959, the Food Minister was compelled to admit in an address at Kanpur that there were 7 lakh 'ghost' ration cards in Bombay city out of a population of 4 millions and that crores of rupees worth of sugar were being diverted to the black market."

Rs. 13·16 and manufacturing charges, including wages and salaries for Rs. 6·05. The total leaves a balance of Rs. 2·19 which in itself is too small to encourage an increase of production, even if cane supplies were fully adequate."

19. Other cases could be cited: the South India Plantation Industry has also to complain, not only of the general burden of taxation and of social charges, but also of the difficulties of arriving at "the appropriate allowances in the price structure for "rehabilitation" in the case of rubber and the numerous misjudgments at Ministerial level over the export and retention of coffee crops in the past ten years."

20. Whilst, for technical reasons, discussions of price control by leading industries take the form of questioning the "adequacy" of the percentage allowance of profit allowed by the Tariff Commission, the problem is clearly one arising, fundamentally, from the fact that given rising costs, a fixed price for the product works in an inequitable fashion. Attempts to make adjustments for rising costs—whether wages or "rehabilitation costs" or whatever they may be—take *time*, even if they take place at all. The resulting falling margins of profit mean that the capital needs of the industries in question cannot be easily met by an appeal to the new issues market and the ability to expand is hampered. This consequence is in clear contradiction to the requirements of India's economy and of the planning effort in which the country is engaged.

(F) STATE TRADING

1. The view that trade in general, and foreign trade in particular, can be more efficiently run by the State than by private enterprise is common to the Planners of all nations.

2. It is believed by them that great economies can be achieved by "bulk trading", not only because it is believed that the actual cost of the commodity per unit can be thereby reduced, but also because it is held to be possible, by concentrating trade in one hand, to reduce the overhead, by the elimination of the "horde" of middlemen, of traders and commission agents, who are believed to "levy toll" on the sellers *and* the buyers of the commodities they handle. Moreover, it is believed that if trade is monopolised, bargaining advantages accrue—whether the State appears as the only "buyer" or whether it appears as the only "seller", it has an advantage over the individual trader in the price-field: it can reduce the price of what it buys, and raise the price of what it sells, thus getting the best of both worlds.

3. Other economies are also held to accrue. Monopolisation or concentration of trade, it is argued, can enable bulk orders to be placed on manufacturers, thus securing "long runs" of production and a consequent economy of costs of production, as well as stability of employment: it can enable economy of freight since bulk shipments can be arranged and "cross" movement of goods avoided. All that is required is the "necessary organisation."

4. Very much is assumed by those who argue on these lines, and they are many. The two main underlying assumptions are that all commodities are capable of a high degree of standardisation, otherwise bulk purchases are not possible, and that foreign trade (for that matter internal trade also) is simply a matter of "exploiting" known and predeterminate markets. But where the commodities are not capable of

standardisation, and where "the market" is not calculable, things become more difficult—markets have to be found and this calls for flexibility and imagination and a capacity to run the risk of loss. New products compete with old ones: if the prices asked or bid are out of line with those offered by others, trade will be lost. Where there is international competition, even in the case of "standardised" commodities, monopoly offerings by a single country may still not be able to retain the established connections, and any attempt to exert "power" may recoil disastrously. The degree to which international competition persists is always under-estimated by those who believe in the "planned" organisation of foreign trade. Textiles are of infinite range and variety: natural fibres compete against man-made fibres: there are many possible alternatives in the markets for oil-seeds and for fuel : ores come from many sources: metals compete with one another (*e.g.* copper and aluminium): new products are constantly pushing their way into trade. All this calls, to repeat, for flexibility, imagination and courage and these are not attributes which spring first to mind when a State organisation is called on to carry out trading operations. But considerations such as these considerably diminish the practical advantages of monopoly trading organisations.

5. It is safe to say that no other aspect of planning in India has raised so much ill-feeling—not even price controls—as the attempt to introduce State trading (in commodities other than food grains) into India and that on a large-scale. The proposal was first discussed in 1955, and in May, 1956, the State Trading Corporation of India Ltd. was registered with an authorised capital of Rs. 1 crore, and a subscribed capital of 5 lakhs. The whole capital was held by Government.[1] The "General pattern proposed for the expansion of

[1]The State Trading Corporation of India Limited, has recently been the subject of an elaborate enquiry by the Estimates Committee of the Lok Sabha (New Delhi, Eighty-Sixth Report). Referred to subsequently in this Section as *Estimates Committee Report etc.*

the State Trading Corporation's activities" as set out in Appendix I of the Report cited above was[1] :—

"(*a*) Monopoly import of cement, caustic soda, soda ash and raw silk ;

(*b*) Trading with countries where trade is canalised through State channels to the extent practicable, more direct interest being taken in such developmental items as handicrafts, boots and shoes, and woollen textiles, only intermediary services being provided for items such as cashewnuts, pepper, oils, jute goods and tea ;

(*c*) Trading with monopoly organisations in other countries where such a course might become absolutely necessary in order to improve the bargaining position of Indian traders ;

(*d*) Export of ores being canalised through the State Trading Corporation ;

(*e*) To promote trade on link basis wherever this is estimated to bring about economies in freight and savings in foreign exchange or facilitate import of items which are specially needed for the Indian economy and which are in short supply ;

(*f*) To take necessary steps to promote the export trade of the country ;

(*g*) To diversify foreign trade and to cultivate new markets ;

(*h*) To make compensating transactions by arranging for import of one commodity and export of other commodities ;

(*i*) To stabilise prices in the internal market ;

(*j*) To enter into barter deals and thereby increase export and arrange for import of essential commodities ;

(*k*) To arrange for procurement and distribution of scarce commodities in the interest of the consumer."

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[1] *Estimates Committee Report etc.* p. 45.

6. Cement imports ceased altogether as from March, 1958, but the Corporation retains a monopoly of exports of iron ore. In July, 1956, the Corporation was given a 33⅓ per cent quota of the export trade in manganese ore, which was increased to 50 per cent in July, 1957. It retains monopoly of imports as regards caustic soda, soda ash and raw silk.

7. That the special arrangements in regard to "Iron Curtain" countries and countries with "bi-lateral trading" arrangements may be useful is not in question, and the Corporation may claim some success in dealing with these countries, a success which is naturally stressed in the Annual Reports of the Corporation. It has also been successful in concluding "bulk contracts" for iron ore, to Japan and to the Iron Curtain countries[1]. The question, however, is really whether, in the absence of the State Trading Corporation, bulk contracts with countries other than the Iron Curtain countries could not equally well have been entered into by the trade, and on this point the Annual Reports of the Corporation throw no light ; *possibly* some difference has been made to iron-ore exports, *e.g.* in the case of Japan.

8. The case is different with manganese ore, though the wording of the last annual Report of the S.T.C. makes it appear as if the unsatisfactory nature of the actual performance was due to the Corporation having only 50% of the export

[1]Report of the S.T.C. for 1958-1959. "Bulk supplies to overseas consumers by a large organisation like your Corporation...have enabled India to become a dependable source of supply to Japan and to the European countries. Czechoslovakia, Hungary, the German Democratic Republic, Yugoslavia and Poland are increasing their imports of iron ore from India. For the first time Rumania came forward during the year under review as a buyer of iron ore." Again, generally, "As a measure of export promotion, your Corporation has organised trade teams composed of exporters participating in the Fairs at Poznan, Leipzig, Zagreb and Budapest. These teams were successful in popularising Indian goods in these new markets and in concluding an encouraging volume of business in cashewnuts, pepper, handicrafts, handloom products, tea, shoes, etc., of a total value of over Rs. 1·60 crores."

quota, yet the performance "was not as satisfactory as in the case of iron ore." Indeed India has failed to hold its own in world markets.[1] New producing centres are being developed, *e.g.* in Brazil "in collaboration with the [U.S.A.] steel producers" and there is increased competition from Russia "which is the world's largest producer."

9. It is evident that the Corporation is not succeeding in eliminating the private trader, but that there is an increasing degree of "co-operation." In regard to manganese ore "the recent joint marketing arrangement which the Corporation has developed with leading mine owners and exporters will, it is hoped, give the required strength to Indian manganese ore in competing in world markets, when buying starts on a substantial scale during the course of the current year." Again,

> "in other fields, also, the necessity of concerted action on the part of exporters and the Corporation is being increasingly realised. In salt exports, the exporters agreed in April, 1959, that exports to Japan and other countries should be handled by the Corporation, and on the basis of their recommendation, the Government of India canalised exports of salt through the Corporation with effect from June, 1959. As a result, the Corporation was able to enter into a bulk deal with Japan."

As regards certain classes of imports, apart from monopolised imports, there are imports "made/arranged for and on behalf of actual users" and imports by private firms assisted by S.T.C. by way of the acquisition of import licences and foreign exchange clearances, introduction of buyers and sellers to one another and registration of contracts under Special Payments Arrangements.[2] What is not dealt with, either in the Reports of the State Trading Corporation or in the Lok Sabha Report is the degree to which these "co-operative arrangements" are really voluntarily subscribed to by traders because they are useful or how far they are entered into because traders know that Government could, if it wished, extend the S.T.C.'s

[1] *Estimates Committee Report, etc.* p. 27.
[2] *Estimates Committee Report, etc.* Appendix IX p. 74.

monopoly and eliminate the private trader altogether. In any case, the S.T.C. earns fees of one kind or another.

10. The real questions are whether the Corporation has successfully added to the total volume of India's foreign trade: whether its efforts to "promote" trade in view of the fact that there are other "promotional" organisations at work are necessary: and whether the Corporation has really succeeded in keeping down prices to the consumer.

11. The Corporation's turnover in the commodities "directly traded in" rose from Rs. 29 crores approximately in the second year of its operations to Rs. 36 crores in the third year ; a rise of some twenty-five per cent. Nevertheless, India's total trade in 1958 was Rs. 1,432 crores and in 1959 Rs. 1,495 crores. Thus the direct trading operations of the S.T.C. were, and are, a very small proportion indeed of the total trade of India.[1]

12. As regards productional activities, the Estimates Committee drew attention to the multiplicity of trade promotion agencies and recommended, as "a large number of commodities are common items of export to most of the countries", that Government "may consider the feasibility of reducing the number of organisations at present dealing with promotion of exports to ensure both economy and co-ordinated effort."

13. Total trade with all Communist countries which amounted to Rs. 14·13 crores in 1954 had risen to Rs. 24·27 crores in 1959, but imports were still in excess of exports.[2] In comparison to India's total trade, the figures are still very small indeed.

14. As regards holding the "price-line" for the consumer, the S.T.C. itself points out, in its third Annual Report that

[1] *Third Annual Report* of the S.T.C. p.1 and *Estimates Committee Report, etc.* p. 6.

[2] Figures in Appendix V, *Estimates Committee Report, etc.* p. 63.

"In regulating the distribution of some imported scarce commodities, the interest of the consumers has been kept in view: *The sale of caustic soda*, soda ash and muriate of potash was *continued to be organised through established distributing agencies and associations of established importers.* Arrangements were made for the sale of copper and other non-ferrous metals against certified requirements. The distribution and sale of nitrate of soda were supervised in an effort to assess its utility in stimulating agricultural production of specialised crops. The gaps between supply and demand which persisted caused a heavy strain to the distributing mechanism with the result that it was not always possible to ensure sales at the prices fixed by the Corporation. *Wherever possible, however,* the benefits of advantageous procurement were passed on to the consumer as in the case of soda ash, where the price was reduced in February, 1959".[1] In other words, the Corporation has not always been successful in dealing with the problem of the black market.

15. The activities of the Corporation, though no doubt intensely irritating and harmful financially to the firms affected by its monopolies, can hardly be said to have profoundly modified the situation, whether for good or evil, so far as foreign trade as a whole is concerned. With the growth of world trade and of production, the shortages with which it was intended to cope as part of its activities, have diminished in importance. But it is a potential threat which requires, from the standpoint of private trade, careful watching. But there is one aspect of its activities which needs separate consideration. This is its control over the internal market in cement.

16. As already pointed out, an import monopoly in cement was given to the State Trading Corporation. At that time the cost of imported cement was higher than the cost of cement produced in India, and it was considered desirable to "equalise" the price of cement, which necessitated a

[1] Italics not in the original.

surcharge on home-produced supplies, which became known as the "import subsidy". At the same time, to prevent cross-freights and to secure a uniform price throughout the country, the internal trade in cement was centralised through the State Trading Corporation in virtue of the Cement Control Order of June 26, 1956, which by various prolongations is to remain in force up to 30th June, 1961.[1]

17. When cement imports ceased, the necessity for an "import subsidy" of course disappeared, and so far as that aspect of the problem is concerned, the necessity of centralised control and distribution disappeared. Nevertheless, the situation became complicated owing to the Government having encouraged new producers to enter the market, some of which were "high-cost" producers and these would have lost their market, or part of their market, when in consequence of cutting back of Plans, consumption threatened to lag behind production. Part of the trade, therefore, desired a continuance of control. The situation was still further complicated by continuous increases in the excise duty on cement, which took place because Government at certain stages desired to curtail cement consumption, though this again, became unnecessary where production ran faster than consumption.

18. Nevertheless, the price policy actually pursued by the State Trading Corporation has resulted in a situation in which the uniform price to the consumer is much above the prices paid to producers, in spite of a rise in the price paid to producers as a result of the recommendations of the Tariff Commission. True, the "import-subsidy" was dropped in the calculations of cost from March 1, 1958, but the reduction of Rs. 5·50 per ton which *might* have been effected was compensated by a rise in excise duty and an increase in the charge for "contingencies".

19. The result has been that the State Trading Corporation has made very large profits due, as the Lok Sabha

[1]This paragraph, and the one following, is based on *Estimates Committee Report, etc.* pp. 35-44.

Committee points out, to "inflation of the various elements of cost included in the price". The Estimates Committee came to the conclusion that "it was most inappropriate that in addition to the considerable revenue raised by levy and high excise duty, Government should have taken advantage of its monopoly in raising additional revenues by fixing high prices for cement. They are of the opinion that if such additional revenue had to be raised it should have been done through a specific taxation measure with the approval of Parliament and not under executive action by charging high prices for an essential commodity like cement. They recommend that the entire fixation of price of cement be immediately reviewed and the price fixed on the basis of actuals". The Committee further points out that "if the principle of internal distribution of cement by S.T.C. at the request of the producers or for the purpose of protecting the new units of the industry were to be accepted it would have to extend its business to a number of other industrial units". The Committee thinks that if pooling is necessary, it should be done by an organisation of the producers themselves, and that the Cement Control Order be not extended.

20. The largest group of producing companies have violently objected to the whole policy of centralisation through the S.T.C. from the very beginning. Moreover, "the purchase and sale of cement is actually arranged by the State Trading Corporation through the existing selling agencies of the cement manufacturers, who are appointed as Agents of the State Trading Corporation for this purpose".[1] A pool could most certainly be formed by the producers without difficulty.

21. The truth is that the State Trading Corporation is being used, so far as cement is concerned, *as an extra-Parliamentary source of taxation.* The same situation has arisen in the case of the Steel Equalisation Fund, which also was originally

[1]The criticisms of the Associated Cement Companies Ltd. can be followed from the speeches made at the Annual General Meetings, and form an admirable commentary on the whole course of action pursued since 1956.

set up to deal with the problem of the different prices of imported and home made steel, but is now being used for quite a different though possibly legitimate purpose—the building of steel works in the public sector. That there are grave dangers arising out of this policy are obvious, since the profit element is no longer a test of the efficiency of production, but of the extent to which monopoly power is being exercised and the interests of consumers and the country are being overlooked.[1]

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[1]Sir Jehangir Ghandy has recently drawn attention to the effect of high steel prices on the future of the engineering industry. (*Steel, Some Problems of Development. p.* 7) :—

> "The hard fact, however, remains that a fuller development of engineering industry depends ultimately on the enlargement of their market. The volume of demand, as it increases, will itself provide a healthy impetus for growth. It is very necessary in a poor market like India to bring down unit costs to enlarge the consumption potential. A significant contribution to this can be made by lowering the present selling prices of steel. Although India is one of the cheapest producers of steel in the world, *the price to the consumer is unduly high on account of the equalisation surcharge of Rs. 110* per ton, in addition to an excise duty of about Rs. 53 per ton. The result is that the present controlled prices of certain categories are higher than even the landed duty-paid cost of imports from Japan or Belgium. If we compare home prices, we find bars and rods selling Rs. 118 below the Indian price in the U.K., Rs. 105 in Australia, Rs. 152 in Belgium and Rs. 111 in Japan. I strongly urge, therefore, that we lower internal prices in step with the increasing supplies that will become available in the coming months. It has been suggested that lower prices will strengthen the black market, but this seems to me to be a curious argument because it is the shortage that creates a black market, and not the price level! There is concrete evidence to show that black market prices have been declining in the past few months, as a direct result of the improvement in supplies of categories like bars and rods following increased allotment of billets to re-rollers.
>
> Again, as supplies improve, it would be logical to unwind gradually the rigid control over production and distribution, which was appropriate to a period of shortage. The basic point is that the intervention of control procedures delays the response of demand to supply and creates unnecessary problems for both producers and consumers."

(G) SOME ASPECTS OF FINANCE

1. Economic progress, in the final analysis, depends upon the utilization of real resources, some intangible—technological skills and "know-how": some tangible—roads and railways, factories and plants, irrigation facilities and fertile soils. The task of finance is to put into the hands of Government and of private enterprise the means by which to obtain command over such real resources. Insofar as Government and private enterprise have direct command over real resources at any moment of time, because such real resources are directly owned, the problem of financing is primarily an act of *will*: a determination of how much of current income shall be set aside for stimulating further development. Insofar as the direct command over real resources is inadequate in the light of requirements, recourse must be had to other devices. The State has at its command the powerful instrument of taxation and, in the last resort, of inflation, as means of forcible acquisition of command over resources. But, like the "private sector" it can borrow, internally and externally—from individuals, from banking institutions and from governments. The State can also obtain grants and donations, resources which are of minimal importance so far as private enterprise is concerned, though obviously of considerable importance to universities and to welfare institutions of one kind and another.

2. The relations between the sphere of the State and of private enterprise in the matter of finance are both complementary and competitive. Both arise from the fact that real resources are limited and command over resources is limited also. The State may put funds at the disposal of the business community and has an interest—both as regards the yield of taxation and the ability to borrow—in seeing that business enterprise prospers. But, insofar as the aggregate needs of the State are in excess of the resources over which

it has direct command, there is competition and, it may be, acute competition. Insofar as the yield of taxation from enterprise is in excess of funds placed at the disposal of enterprise, the overall net position is competitive. Both Government and private enterprise may try to borrow in the capital market: in the short run the relations are competitive. This competition, in the present phase of Indian economic development, is of fundamental importance. It gives to State policy, in the sphere of taxation, in the importance and significance it attaches to giving adequate incentives to the building up of private enterprise, in the priorities it assigns to the building up of its own enterprises, in the policy it pursues as regards profit-making in those enterprises and in the treatment it accords to possible sources of finance from abroad for use by private enterprise, an urgency and significance which are not always appreciated. When the State and private enterprise are in competition for finance, it is all too easy for the former to tilt the balance against the latter: of its power so to act there can be no doubt.

3. It is true that insofar as funds raised by the State are devoted to "development" expenditure which results in increasing the national income directly or indirectly, private enterprise stands to benefit, in common with the rest of the community. But such beneficial consequences can be offset, in part or in whole, if the private sector is starved of the funds necessary for its own direct need for expansion through excessive taxation, whether that taxation impinges directly upon business enterprise or whether the flow of savings which might have been invested in business through the capital-market is reduced through high rates of taxation upon individuals.

4. It would not in any way correspond to the facts to suppose that the Revenue authorities in India are altogether insensible to the need for leaving a margin of resources available for expansion: the income tax law does in fact provide for a "development rebate" in respect of new machinery and plant

and for a minimum return of six per cent on capital employed. Nevertheless, the fact remains that *direct* taxation in India is high : it assails the individual not at one point, but at many—it aims at income, at expenditure, at wealth, at capital gains, at gifts *inter vivos*, at property held at death. Moreover, corporate taxation is also high : it may be somewhat lower, all things taken into consideration, than taxation in the United Kingdom and the United States, but it must be borne in mind that these are "advanced" economies, whilst India is still very largely a country of small cultivators and small industrialists and handicraftsmen. The financing of such enterprises is itself a far from easy task (though in the aggregate the contribution made by small enterprise to the national product is impressive), and calls for considerable assistance from the State.[1] [2] There is all the more reason, therefore, for encouraging the process of self-financing of the "organised" sector—the process commonly known as "ploughing back profits". In the Western world as a whole, where direct taxation in general is high, the process of "ploughing back" has become a matter of vital importance to the progress of the economy.

5. In recent years the Reserve Bank of India has been devoting increasing attention to company finance, and has published the results of its inquiries in its monthly *Bulletin*. From the elaborate study appearing in the August, 1959 issue, it appears that in the three years 1955-57 the 1001 companies covered in the analysis retained 35·2 per cent of their profits

[1]Small-scale Industries play a very important role in the Indian economy. Their contribution to the national income was Rs. 910 crores in 1950-51 and Rs. 970 crores in 1956-57, as compared to Rs. 550 crores and Rs. 890 crores respectively contributed by the (larger) factory establishments in the same years. The volume of employment provided in the unorganised sector of industry (which was of the order of 11·5 million in 1950-51) is about four times as large as the employment in the organised sector.

[2]*The Financing of Small-scale Industries* by B. P. Patel, I.C.S., (Managing Director of the State Bank of India), p. 1.

after tax ; this compares with a retention percentage of 38·7 for 750 companies studied for the period 1951-1955. If *profits before tax* are taken as the basis of comparison, the percentage of profits retained were 19 and 23 respectively.[1] Surveying the "pattern of financing" the study remarks that "the main

> feature....was the growing dominance of external sources *i.e.*, sources other than retained profits and depreciation reserves. Of the total asset formation, these sources accounted for as much as....72·4% of the total funds....as against....63% in 1956. Under external sources bank credit continued to be the most important source amounting to....20·5 per cent of the total funds, as compared to....25·2 per cent in 1956. Borrowings through mortgages doubled during 1957.... accounting for 19·2% of the total funds. This is explained by the inclusion, under this item, of loans from the World Bank....received by certain units of the iron and steel and electricity industries...."

6. These absolute figures and percentages are now of purely illustrative significance, since they relate to 1957. They serve however, to throw light upon some trends in the economic life of India, which give additional importance to Government policy.[2] The tendency to rely upon bank credit has continued. Between December, 1955 and October, 1959 the advances of the Scheduled Banks to industry increased from Rs. 221 crores to Rs. 418 crores *i.e.*, nearly doubled. The percentage

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[1] *Finances of Indian Joint Stock Companies*, 1957. Table 4. It should be added that there are very considerable variations between industry and industry: "the ratio of retained profits to profits after tax continued to be the highest in the case of the iron and steel industry, *viz.*, 64 per cent., which was however lower than that in 1956 (72 per cent.). Next in order came shipping, (62 per cent.) other textiles (57 per cent.) mineral oils (55 per cent.) and engineering (39 per cent.)."
(*Reprint*, p. 13).

[2] In March, 1960, the Reserve Bank published in the *Reserve Bank Bulletin* an important study "*Estimate of Saving in the Indian Economy*". Savings are there defined "as the change in earned surplus or earned net worth of an economic unit. It can be calculated either from the balance sheet as the change (excluding

of loans to industry to the total advances of the Scheduled Banks rose from 34 per cent to 45 per cent (in October, 1948 the percentage had been nearly 48)[1] Percentage-wise the most important borrower was the cotton textile industry, whose borrowings rose to as much as 31 per cent of all advances in October, 1958 and remained at 29 per cent in October, 1959. The next largest borrower was the engineering industry, whose borrowings in October, 1959 stood at nearly 20 per cent of the whole in that month.

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valuation changes) in net assets, or from the income account as the excess of current income over current expenditure, including distribution to owners."

Table IV gives an overall picture of "Savings of the Domestic Corporate Sector", including the savings of Public Limited Companies and of Private Limited Companies, estimated by "blowing up" (sic) the figures derived from the 750 companies examined for the period 1950-1954 and of the 1001 companies examined thereafter: a similar procedure was followed in respect of private limited companies. In crores of rupees at current prices the results obtained were as follows:—

	1950-51	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8
Public Limited Companies	26·49	46·80	–1·07	19·02	36·30	51·44	53·83	11·84
Private Limited Companies	7·23	12·78	–0·29	5·19	9·91	13·03	12·27	6·67
Total	33·72	59·58	–1·36	24·21	46·21	64·47	66·10	18·51
Retained Earnings of Indian Subsidiaries of Foreign Companies	2·00	4·00	2·00	2·22	3·55	7·40	11·41	9·00

(In calculating the saving of the domestic corporate sector *as a whole*, it may be added, the retained earnings of Indian Subsidiaries of Foreign Companies, have been deducted).

[1] *Reserve Bank Bulletin*, February, 1960, p. 170.

7. So rapid an expansion of bank advances to industry inevitably raises the question of whether the existing level of bank rate is adequate. In an inflationary phase, it is inevitable that bank advances should increase : not merely for the obvious reason that with any movement of prices upwards, the cost of operations goes up, but also because there is a windfall profit to be derived from borrowing: in *real terms* the sum repaid is less than the sum borrowed. Nevertheless, it has to be added that if there is windfall gain in the short-run, in the long-run a spiral of rising prices brings with it, from the standpoint of the business community, the problem of the adequacy of depreciation reserves.

8. These problems of bank credit expansion are in no way, of course, peculiar to India. It is, however, completely natural that public opinion, in India (and elsewhere), should be sharply divided on the issue of whether interest rates should rise or not. There is the very natural fear that a rise in bank rate will not only cause the cost of borrowing to Government to increase, but that it will entail a fall in the market-value of existing Government debt, with consequential losses to holders. Directly through this fact, and indirectly, by upsetting calculations as to the future course of money rates and security values, it may affect the saleability of Government stocks. There is also the natural fear that a check to the flow of bank money to industry may hold up the Planning effort, so far as the private sector is concerned. All this amounts to saying that one should not "rock the boat" at this moment of time.

These are arguments which should be weighed seriously, but they do not dispose of the counter-argument that if prices continue to rise, and credit-expansion also continues, the resulting distortion may also have serious effects. There is, therefore, much to be said for the suggestion recently put forward by Sir Homi Mody that the whole issue of monetary policy in India should be surveyed by an expert committee.

9. In a period of rising prices, there is, obviously, an inducement to take up equity shares—not, primarily, because of the possibility of increased dividends, but because such holdings are an indirect method of holding physical assets, but with the advantage (which equities share with gold and jewellery) of very ready marketability. Although there are very marked fluctuations from year to year, the evidence points to the rise of new classes of holders of equity shares. The study of saving in the Indian economy already referred to, enables the following table to be constructed[1] :—

	1950-1	1951-2	1952-3	1953-4	1954-5	1955-6	1956-7	1957-8
Saving of Household Sector: Corporate Shares and Securities:								
At current prices	17·8	–5·0	3·5	17.6	13.5	0·54	62·3	30·0
At 1948-9 prices	17·0	–5·0	4·0	17·0	15·0	1·00	61·0	29·0
Percentage of total saving of the Household Sector	3·4	–1·9	0·7	3·4	2·4	0·1	7·5	4·5
Capital issued to Residents	28·7	6·6	7·7	28·0	31·0	28·2	56·8	56·2
Capital issued to non-Residents	15·0	15·0	7·7	17·5	28·1	14·0	11·4	12·4

10. To hold "corporate shares and securities" is, naturally, not the same thing as holding equity shares—for there are in addition to equity shares, preference shares and debentures to be taken into account. The statistics published by the Controller of Capital Issues reveal, however, that as far as current "consents" are concerned, in the industrial sector

[1] Extracted from Tables XI, XIX, XX, pp. 315, 325, 326 *Reserve Bank Bulletin*, March, 1960.

ordinary shares greatly predominate.[1] In 1959, of the total of 149·6 crores of consents given to non-Government companies 63 per cent was represented by ordinary shares. The amount represented by "Industrial Companies" was 127 crores, and of this overall amount, almost 70 per cent was represented by ordinary shares: ordinary shares and preference capital together represented 76 per cent of the total.[2]

11. The increasing importance of corporate finance in the Indian economy raises some important questions. It explains (even if it does not justify) the very detailed regulations in the Companies Act and the bias which undoubtedly exists against the managing agency system and the preference displayed for "direct" control of joint stock companies by the representatives of shareholders. But it also raises the question, whether in the light of Indian conditions, the capital gains tax is really justifiable: for whatever the merits of the tax as an instrument of revenue resource, it undoubtedly acts as a deterrent to a free market in securities and to the holding of such securities.

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[1] Office of the Controller of Capital Issues: Quarterly Statistics (*October-December*, 1959) *and Annual Review for the year* 1959, *p.* 16.

[2] On p. 16 of the Report cited, aggregate figures for the various categories (Ordinary and Preference Shares, Debentures and Loans) are given for each year from 1951 onwards. It is unfortunate that these aggregate figures do not distinguish between Government and non-Government companies.

(H) THE STRANGER WITHIN THE GATES

1. In the era of economic liberation which characterized the now so frequently derided nineteenth century, there evolved a pattern of treatment of "foreign" persons and "foreign" capital which found its concrete legal expression in the so-called "National Clauses" embodied in the innumerable Treaties of Commerce and Friendship drawn up between different States. The foreigner and foreign capital were, by such Clauses, guaranteed treatment not only equal to or similar to that guaranteed to the most favoured other foreigner or foreign capital (the so-called "Most Favoured Nation treatment") but treatment which assimilated him, or assimilated the capital introduced by him as if he were a national of the country in which he desired to reside, and the capital introduced as if it were capital owned by a national of the country into which it was sent. The modern equivalent of the concept of "National Treatment" is the concept of "Non-Discrimination".

Apart altogether from moral or ethical considerations such as human dignity or "natural justice" and the like, the tangible elements of non-discrimination, so far as the right of residence, of the right to own property, to buy and sell such property, to move capital freely in and out of a country, or the right to transfer the interest or profit earned by it, to equal protection under the law, and to non-discriminatory treatment by the tax authorities, find their justification in their utility on economic grounds. If capital is discriminated against, it will not come: no one can *force* a foreigner or a foreign enterprise to invest capital in a particular country, and if the conditions of investment are unfavourable, or are considered to be unfavourable, the remedy from the foreign point of view is simple. Discrimination against individuals, or their treatment in a manner calculated to make their position relatively less favourable than it would be, in their eyes, elsewhere, will deter individuals from coming. In so far as a country needs capital, and in so far as foreign skills and business enterprise and expertise can, just as capital can, help to build up the economy of a country, discrimination against foreign capital and foreign enterprise brings its own punishment with it.

2. Let it be said at once that the views advanced in the last paragraph would not be accepted without question by some, both in India and outside it. Apart altogether from such a matter as national safety, which, it may be argued, should exclude foreign ownership in a given country of certain kinds of property—such as mines or oil reserves—or should exclude foreigners from pursuing certain avocations, there has arisen a school of thought which holds that *private* foreign capital is *inherently* unsuitable to the conditions of an underdeveloped country, and that foreign enterprise is *inherently* undesirable in such a country, except in very special cases. The latter view, it may be recalled, was put forward by the Advisory Committee on Planning in 1947[1] on the ground that freedom of foreign enterprise would inhibit the growth of indigenous enterprise. If capital is to come from abroad, it should come preferably from international institutions or funds, without any specific conditions being attached, or it should come in the form of inter-Governmental loans or grants, again, preferably, without any specific conditions being attached.

3. Of course, it does not follow that, because it is held that institutional or inter-Governmental aid should be *preferred*, private capital should be altogether excluded. Nor does it logically follow from the proposition that foreign enterprises should not be permitted, that borrowing from abroad from private sources, *i.e.*, other than from Governments or international institutions, should be altogether excluded. A variety of intermediate attitudes can be taken up, and are, in fact, taken up. But, in judging the whole problem, it is desirable to dis-

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[1]See foot note on p. 27.

tinguish between what is deemed, or considered, to be desirable, and what is practical and possible in this very complicated modern world.

4. First, it must be pointed out that the attitude of international institutions and of Governments is, in fact at least, influenced by the attitude taken up by recipients, or would-be recipients, towards foreign private capital and foreign enterprise. International institutions, such as the World Bank, are not sovereign bodies, and they derive their funds from Governments which, for the greater part, are subject to public opinion. Directly, in the second case, and indirectly, in the first, pressure can be brought to bear to divert funds to those areas whose attitude, in so far as the treatment of private capital and private enterprise are concerned, accords with what is regarded as the desirable one.

5. Secondly, it may, and indeed, is, a *condition* of obtaining foreign private capital that there should also be private enterprise associated with it. And "foreign private enterprise" is not an abstraction. Their specific needs have to be met as far as possible, otherwise they will not come or will not stay.

6. Thirdly, though public institutions such as the World Bank can, and, in fact, do, put capital at the disposal of private enterprise, yet the risk element involved in pioneering new private enterprise calls for the assistance of private capital, which possesses an inherent flexibility and adjustability, both as regards the terms and conditions upon which it is advanced, the degree to which co-operation with indigenous enterprise is possible, and the conditions governing repayment. Among other advantages, temporary deferment of repayment, when conditions in a particular time-period are unfavourable, can be more easily arranged. Default or delay in repayment, where inter-Governmental loans are concerned, or where a quasi-public institution is in question, is always a delicate

matter. It involves the "credit standing" of a country to a much more marked extent. Negotiations are involved, which cannot well be concealed. Ill-feeling may easily be generated. All this means that there is a definite place for private capital and enterprise. The limiting factors are that, with private resources, there must be a prospect of return commensurate with the risks run ; that there are competing possibilities available elsewhere, and that "risk-capital" is not, in any case, available in unlimited amounts—nor are managerial and technical skills.

7. So far as India is concerned, the choice has been made and definite answers have been given. As early as April 6, 1949, the Prime Minister himself gave an assurance that reasonable facilities for remitting profits would be given to private enterprise. Again, in his speech[1] in the Lower House of Parliament, when the debate on the Economic Situation took place which culminated in the passing of the resolution calling for the "Socialist Pattern of Society", the Finance Minister—then Shri C. D. Deshmukh—after referring to the disinvestment of private capital which took place in the earlier period of Independence,[2] defended the existing (and still existing) facilitites for the transfer of funds "Under the present

> regulations, for very good reasons, profits of foreign business concerns are allowed to be remitted freely, irrespective of whether the foreign company belongs to the soft currency area or the hard currency area". Then, after quoting the Prime

Minister's statement, he went on, "The underlying basis of this

> statement was the actual need for foreign investment in India. Once this need is accepted, we cannot obviously place any restriction in the matter of remittance of profits earned by foreign companies in India. I might add here that economic

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[1] *Lok Sahba Debates*, Vol. IX, columns 3476-3478 (under date of 20 December, 1954).

[2] There were two reasons, one positive, the other negative, for this disinvestment: there were naturally, fears and uncertainties as to the future, and very tempting prices were being offered.

experience indicates that, where such investment takes place, the foreign exchange resources additionally created are usually more than the service charges of the investment. That is to say, there is a net gain to the country concerned even so far as foreign exchange is (concerned).[1]...In the Plan we have formulated there is scope and need for supplementary resources from abroad, partly through loans and grants in the public sector, and partly through investment in the private sector. And I still think this was a wise decision."[2] There is no reason, indeed, to labour the point.

8. To that section of Indian public opinion which is distrustful of foreign private capital and foreign private enterprise, as in some measure endangering the independence of the country, the correct reply is that India is suffering, if she is suffering at all, from a deficiency in the supply of risk capital from abroad, as well as from a lack of foreign born managerial and administrative talent, which should necessarily accompany the influx of foreign risk capital.[3]

The latest figures published in the April, 1960, *Reserve Bank Bulletin* show that the aggregate amount of "foreign" capital invested in India is, in reality, surprisingly

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[1] The official text is defective on this point.

[2] For recent Indian discussions, reference may be made to Mr. G. L. Mehta's "*Prospects for Private Foreign Investment in India*", (speech delivered in New York, on October 6, 1959), and to a study undertaken by the National Council of Applied Economic Research: "*Taxation and Foreign Investment*", New Delhi, 1957.

[3] It may be as well to point out specifically that investment of risk capital and of managerial talent is not, so far as India is concerned, purely a question of "one-way traffic". There are important Indian overseas interests, in East Africa and elsewhere. Discrimination against the "foreigner" might, therefore, have damaging consequences, apart from the direct effect upon expansion in India itself.

small,[1] especially if account is taken of the fact that, in recent years, the World Bank, the Import and Export Bank, and the International Finance Corporation have all entered the field of the financing of private enterprise.

9. The plain fact of the situation is that, in the modern world, both risk capital and enterpreneurial talent are in "short supply", not only in the "under-developed" countries in the narrower sense of the word, but all over the free world. Put into other words, the great economic expansion now being experienced in the more advanced countries at present means that, in each of them taken separately and in all of them taken

[1] Table I of the article above cited is as follows:

OUTSTANDING FOREIGN INVESTMENTS (EXCLUDING INVESTMENTS IN THE BANKING INDUSTRY) IN THE PRIVATE SECTOR

	End of the Period	Crores/ Rupees	From Private sources abroad	From Official sources abroad
June	1948	255·8	255·8	—
	1953	392·1	392·1	—
	1955	456·0	453·3	2·7
	1956	492·8	478·0	14·8
	1957	541·7	494·8	46·9
	1958	570·6	498·4	72·2

Table II of the same study shows the rate of inflow:

INFLOW OF FOREIGN INVESTMENTS INTO THE PRIVATE SECTOR 1954-55

	(Annual Average)	(Rs. Crores) 1956	1957	1958
A. Inflow of private foreign capital (net)	14·9	24·7	16·8	1·7
1. Gross Inflow	19·9	31·0	25·9	26·1
(*i*) Retained earnings	12·0	19·4	9·6	9·8
(*ii*) Cash inflow	1·5	3·1	4·9	4·8
(*iii*) Non-cash inflow	6·4	8·5	11·4	11·5
2. Outflow	5·0	6·3	9·1	24·4
B. I.B.R.D. capital	1·4	12·1	32·1	25·3
C. Gross inflow into the private sector	21·3	43·1	57·9	51·4
D. Net inflow into the private sector	16·3	36·8	48·8	27·0

collectively, there is "domestic" competition for these resources, and an increasing degree of competition to draw such resources from one another. The most obvious case of such competition is the drain which the U.S.A. has exerted on the technical skills of the entire western world, so that young men of ability and training, not only find their position "at home" improved, but they have a highly attractive alternative to take into account, when they are choosing their future place of work and residence. The large "international" companies, particularly the oil companies, are building up what is virtually a new international administrative service and are finding a place for young men who, in the old days, would have taken up posts in the various overseas Civil Services. The "pull" of advanced countries is very great and, as is indeed well known, is even affecting the position of the young Indian trained abroad, who shows an alarming tendency to stay abroad.

10. In spite of high taxation, also, the opportunities for capital investment in such countries are very great. The scale of business enterprise, in the light of mass demand and technological change, is expanding and calling for more risk capital. The fear of inflation has also made it somewhat easier to attract such capital and to employ it domestically. Underdeveloped countries, therefore, are nowadays at a relative disadvantage, as regard both capital supply and the supply of personnel. It is true that the Indian income tax law has made special provision for the "technician" in the narrow sense of the word, and that the special position of the foreigner who has obligations abroad and who intends to retire there, is also, to some extent, recognized. The danger is that managerial talent—which is, in its way, as important as technological skill —will not be attracted on a sufficiently large scale and that, in consequence, risk capital may indirectly be debarred from coming, all question of the direct taxation of such capital apart.

11. There is, of course, another side to this question which must not be overlooked. The place of foreign mana-

gerial and administrative talent is, to an increasing extent, being taken by young Indian nationals. Since Independence, and since expansion on a large scale is taking place, a business career is becoming more and more attractive to young men in India, who would formerly have found their way to the Bar or to the Administrative Services. It will, naturally, take some years before the young Indian now entering business will have acquired the necessary practical experience to occupy the very highest posts: though cases of Indian nationals of more senior years occupying high positions in the world of foreign enterprise in India are far from being unknown. Nonetheless, there is a natural limit to the extent to which "Indianization" in this sense can take place: apart from anything else, Indian business itself must also provide for the future, and large as the population of India is, the very highest kind of executive talent is limited in India, as it is everywhere else. In any event, such a diversion of talent to business is bound to affect the supply of intellect of a high kind, so far as the Administrative Services are concerned.

12. Similarly, the association of Indian risk capital with foreign risk capital is making rapid strides. In this case, the sharing of the capital risk involves, at the same time, the sharing of administrative and managerial responsibilities. Such association, whilst to be welcomed in every way, does not in itself solve the problem of capital supply, for it is scarcer in India even than it is elsewhere. But it does meet the fear, exaggerated though that is, that Indian business may be excluded from the new avenues which scientific and technological progress are opening up.

(I) SOME FINAL CONSIDERATIONS

1. It would be entirely erroneous to imagine that the preceding analysis tells the whole story. It is true that the private sector, as it operates to-day, is subject to much interference and control. The question at once arises: Is *this* degree of control and regimentation really necessary, even given the context of a planned economy? And a second question also inevitably arises: What, *in sum*, is the effect of a planned economy on the private sector?

2. If the fundamental objects of planning are the expansion of the aggregate national income and the improvement of the standard of living of the masses of the population, then, given the existence of the private sector, the aim of policy should be the maximisation of the contribution which that sector can make towards the attainment of these objectives. From this point of view, the motives which inspire the business world are altogether of secondary importance. Even if it is thought desirable to reserve a certain sphere of activities for the public sector, either on the ground that it is the State which alone can have the necessary funds, or on the ground that some lines of activity are *intrinsically* unsuitable for the private sector to pursue, or on both these grounds together, then, nevertheless, whatever the sphere which is reserved for the private sector, the less interference, legal and administrative, with the process of production and income creation, the better for all concerned.

3. A perusal of Section (B) of this Part will show how vague are, in fact, the limits which are set to private enterprise, and how easily a shifting of the "ideological" frontier might lead to a progressive diminution of the sphere left to it. On the other hand, there is equally the possibility of an extension of the sphere of "joint enterprise". A further shifting of opinion towards the right might even lead to a sale of the

equity, or part of the equity in State enterprises, to the general public ; and, indeed, should the international situation lead to difficulties so far as the further financing of the new State enterprises is concerned, that might be a course of action to which the State might be impelled. But, though the delimitation of the "frontier" of private enterprise is an important aspect of this problem, it by no means exhausts the problem. What have also to be considered are the cumulative consequences of very high rates of personal and corporate taxation, of the limitation of profit margins, and of the possibility of self-financing out of residual profits through price controls, and of the progressive burdens imposed by rising social welfare charges, and of rising wages unaccompanied by proportionate improvements in productivity. For the moment, taking enterprise as a whole, the possibly deterrent effects are veiled by the rise of prices which has been taking place as a consequence of credit expansion, "deficit financing" and the growth of the national income in money terms. A serious world recession, or a serious check to the inflow of external aid, or a change in the political climate, might easily lead to a decline in the price level and in a further diminution of profit margins—consequently, to a decline in the willingness, and the ability, of the business world to bear the burdens currently imposed upon it. Should such an adverse economic situation develop, the present restrictions and curbs might have very serious ultimate consequences. It remains to be added that there is nothing in the theory of planning *as such* which requires such detailed restrictions and curbs: they spring from a view of society and what it *ought* to be which has nothing, in essence, to do with the fundamental principle of planning—which is merely the application of *resources* to chosen needs.

4. It remains to be pointed out that, whilst the business world stands to lose by over-elaborate controls and by over-high taxation, it also stands to gain in other respects. A certain measure of financing is directly supplied by State controlled or

State financed institutions, but that is a minor aspect of the situation. It is true, as many commentators have already pointed out, that the public and private sectors have complementary as well as competitive relationships. The expansion of the economic activities of the State have a direct positive influence on the private sector in the provision of "social capital", in the placing of orders for goods to be provided by the private sector, and in the provision of intermediate products, the production of which was facilitated by means not so readily available to the private sector as they were to the State. From this point of view the situation may be summed up in a phrase of the father of financial journalism, Daniel Defoe, several centuries ago—"One hand washes the other, and both hands wash the face". But it does not follow that better results would not have been achieved if a somewhat less doctrinaire approach to the private sector had characterized the detailed planning of the Government of India, at any rate in the earlier period of thinking on the subject.

Part 4

SOME REFLECTIONS ON PLANNING IN INDIA

1. Planning in India raises many issues, some of a general, some of a technical nature. To discuss them in a fruitful way requires certain preliminary observations.

2. In the first place, what distinguishes the intellectual situation in India from the situation in the "West" is not the original decision to "plan" but the decision to continue with systematic planning at a time when the idea has lost much, if not all, of its positive attraction elsewhere. In the late thirties under the influence of depression, and during the war and immediately afterwards, the necessity for planning was almost universally accepted, both for the "developed" and for the "under-developed" world. The reason was obvious enough. "Recovery" and "reconstruction" at a time of universal shortage, were held to be impossible of attainment without a systematic direction of such resources as were available to deliberately chosen ends. The "German miracle" lay in the future; the climate of opinion was strongly "collectivist" and the idea that the pursuit of self interest and "the free play of economic forces" could bring about recovery was generally rejected—not without *some* justification. It is the rise of the "affluent society" in the West which has diminished the attractiveness of planning to the average man. But India, and other countries in a similar position, are *not* affluent societies. It is, therefore, natural that ideas which now seem out-dated in the more advanced communities should continue to be strongly held in the less advanced, though advancing communities. To say this is by no means to admit that the actual form which planning is taking in India is correct: nor that planning in *any* form is *ipso facto* desirable. What is being explained is the continuance of a state of mind.

3. Secondly, though in some respects India is a "one-party" State, given the present considerable predominance in voting strength of the Congress Party, it is not a totalitarian State of the Russian or Chinese type. The result is that there is still competition for political power, which means in effect that it is open to the Communist Party to attempt to gain the allegiance of the masses and it is in fact trying to do so (and it did in fact acquire power in the State of Kerela for a time). The presence of an active, well-organised Communist Party lends to the whole concept of planning an urgency and significance which it does not possess in the West. Even if planning does succeed in the sense that the targets laid down (including the anticipated improvements in the standard of living of lower income groups) are achieved it is always possible to argue that under a more totalitarian regime progress would have been faster. This is, in fact, exactly what the Communist Party in India asserts, and not the Communist Party alone—there are not wanting intellectuals, Indian and foreign, who are saying in effect the same thing by insisting publicly that *unless* the pace of planned effort is quickened, the Communist *bloc* will have demonstrated, by positive results, the inherent superiority of its methods and techniques over those of "democratic" planning, and, *a fortiori*, over those of an unplanned economy. The battle in India, to put it another way, is not merely a battle for more bread and more butter, but a battle for the souls of men, and for the continuation of a way of life which, even if it displays some characteristics of its own, still enables freedom of expression and, in the external sphere, co-operation with the "free" world.

4. It is doubtful therefore in the light of the *de facto* political situation whether, even if planning in India *could* be conclusively shown to be mistaken in its methods and objectives, any Indian Government could afford to make a public confession of failure without disastrous consequences. There is, of course, not the slightest reason for any such confession to be made: on the contrary, some very remarkable things

have been done in India. The practical conclusions to be drawn are that planning in some form must and will continue, and that discussion must therefore confine itself to the issues: is the general direction of planning the correct one and is the execution capable of modification and amendment? These are the matters discussed below. But there are two points to add to this preliminary discussion.

5. No good service is rendered to India or to the West to deny that it *might* be possible by the use of totalitarian methods, to achieve quicker material results. Since enquiry is not free, the statistical argument—and the announced results are essentially statistical in nature—must depend upon the reliance to be placed upon the objectivity and impartiality of official figures. Opinions upon this vital issue may run very far apart.[1] Nevertheless, in the competitive "numbers game" the advantage must always be with the totalitarian state: it may be also that ruthlessness and brute force are more effective spurs than those available in more democratic states—may be, not *must* be. The practical conclusions to be drawn are that propaganda in India should be severely truthful: that no advantages arise from drawing up plans which are not capable of realisation, and that insufficient attention has been paid to explaining to the Indian people as a whole what are the kinds (and consequences) of totalitarian methods employed to bring about the results which some, if not all, Indian intellectuals stress without harping upon their dehumanising and debasing character. In the final analysis, the issues

[1]The last Annual Number of the admirable "*Economic Weekly*" of Bombay contains an article by Prof. Bettelheim on Chinese figures which, in effect, argues that the self-consistency of the figures over a series of years *proves* that deception and fraud are impossible. It is only necessary to remember that the late Ivan Krueger of Krueger and Toll and of Swedish Match managed to convince the most acute accountants and bankers of the West by a series of perfectly consistent balance sheets, which, after his suicide, were proved to be completely fraudulent.

discussed in this paragraph are moral ones: no economic calculus can decide them.

6. The difference between "planning" & "non-planning" is certainly not the difference between the presence or the absence of State-intervention in economic affairs.

When Dr. Millikan of the M.I.T. at the Delhi Seminar on Planning asserted that the United States was twice as "socialist" as India, he may have been using somewhat figurative language. Nevertheless, there is an underlying truth in what he said. The provision of "social capital" is now largely a matter, everywhere, of State enterprise: in the climate of political uncertainty an increasing volume of financial assistance is being provided by State institutions and organisations, national or international; the funds involved being in part provided, either directly or indirectly, by taxation or by governmental borrowing, as well as by borrowing by the institutions themselves in the open market. These positive forms of State assistance or State enterprise are additional to State action, in the shape of subsidies, or to indirect forms of intervention in the form of tariff protection and other methods affecting the conduct of private or semi-private enterprise. But though all State action must be *purposive*, it need not form part of an overall plan: nor need an overall plan necessarily involve an extension of State enterprise in the narrower sense.

7. It is true that in India the Plans contemplate a large extension of State enterprise, not only as regards the provision of "social capital" and "social services", but in the field of productive enterprise—iron and steel, machine tools and so on. Doubts have been expressed as to whether such an expansion of the "public sector" is wise, not only on the ground of the technical competence of the State and its officials to manage such enterprises successfully, but also on the ground that such expansion *necessarily* involves an ever-increasing strangle-hold over the economic life of the country and *therefore* to political and social freedom.

8. So long as the official policy of the Government of India is adherence to the "socialist pattern of society" these extensions of State activity in the sphere of productive enterprise are probably unavoidable: it does not follow that they are necessary in the light of the fundamental objective of raising the standard of living and the productive potential of the country. There is no reason why the principle of joint undertakings by private enterprise and the State should not be extended: nor why "State" enterprise, if successful financially, should not be offered to the investing public, nor indeed why further encouragement should not be given to direct borrowing by private enterprise—with a Government guarantee if necessary—from institutions such as the World Bank and its affiliated institutions. In any case the danger to economic and political liberty arises, if for once a personal expression of opinion may be hazarded, far more from unnecessary and arbitrary interferences with the "private sector" in all kinds of detailed ways, (discussed in a previous part of this document), from "State trading" (also discussed there) and from the indirect political pressures that may arise from Community Development Schemes and from possible experimentations with "co-operative farming" projects. It is in *these* directions, and not in the State ownership and operation of coal mines or of steel or machine-tool plants, that a real threat exists. The village and the countryside remain the core of Indian life and are likely to remain so for a considerable period of time: the battle for liberty, if there is to be a battle for political liberty, must primarily be fought there.

9. Since planning is concerned with ends, as well as means to ends, there can in reality be no such thing as "scientific planning", except in the subordinate sense that means can be better or worse adapted to bring about the desired end or ends. It is also possible, by an evaluation of "resources", actual or potential, to arrive at some provisional assessment of the possibility of achieving alternative ends—but this is not in the least the same thing as asserting that end A, which

could more easily be attained than end B, is intrinsically the more desirable. Moreover, if assessment of possibilities shows that ends C or D are equally possible, no "scientific" judgment as to which is intrinsically the more desirable can be passed: the ends are equally possible and there the matter rests.

10. It used to be a favourite jibe in academic circles that "None of us are infallible, not even the youngest amongst us." So it might be said of planners, that they are none of them infallible, not even the most highly trained amongst them: whether the training be statistical, economic or administrative or financial, or all of these disciplines together. In a world of rapid technological changes and of abrupt variations in the political climate, "forecasting" and "projections" must inevitably be subject to a margin of error, and the longer the period envisaged, the greater the possibility of a divergence between realised fact and anticipated fact. This is true, not only of India, but of other countries as well. The British Coal Board was mistaken in its projections of possible demand: the immediate future of atomic energy appears much less bright now than it was thought to be a few years ago: demographers have made mistakes in their population projections in more countries than one. In judging the Indian planning experiment, it is unreasonable to start from a perfectionist stand-point and to assume that mistakes have only been made there. That is not the issue: the real issue is whether the degree of error, in intent and in execution, is greater than might reasonably have been expected, in the light of Indian conditions.

11. These conditions are in some respects markedly different from those pertaining in the "West", with which India is so frequently contrasted. The fundamental difference (and in this respect India may be compared with China) is that in the "West" the population grew *with* industrialisation and technical change—in India industrialisation and technical change have to be super-imposed upon an already immense

population whose chances of survival grow with every improvement in the public health services. Contrast this situation with that of the United States of America or Canada or Australia, where there were large "empty spaces" to be filled as well as industries to be created. In such countries there were two scarce products—capital *and* population. The coincident growth of wealth, industry and population is equally true of Europe (including Russia) and Japan. How different the situation in India!

12. The immensity of the Indian population problem is allied to other features of the Indian situation. "Vertical" and "lateral" integration of the population is still impeded by the influence (albeit a diminishing one) of caste and of religion: a serious new check to mobility may be arising, as has already been referred to in a previous Section of this Report, in the shape of linguistic frontiers and of "provincial nationalisms", which must gravely affect the possibility of improving the economic situation in Kerala and West Bengal. Moreover, the physical integration of the country is very far from being complete. Research—for instance, the relevant sections of the Mehta Food Grains Report—is drawing pointed attention to the very great variations in economic conditions even in geographically contiguous areas of the country[1]. Thus it is very questionable whether the benefits from an expanding economy are being as widely distributed, geographically and economically, as they might be if communications were better and the population were culturally and ethnically more homogeneous.

13. The magnitude of the population problem, and, in particular, its relation to the problems of food production and of employment, have in no way escaped the attention of the planning authorities. The overall problem of population in connection with agriculture has been discussed above: it is

[1]And see also on this point, *Approach to the Second Five Year Plan*, Chapter V, para. 20 (in relation to the employment problem), p. 119.

now generally admitted that the seriousness of this issue has been under-estimated in the past. As regards employment, a special chapter was devoted to it in the *Approach to the Second Five Year Plan*: It was there estimated that if unemployment were to be eradicated during the Second Plan period, the following number of jobs would have to be created[1] :—

(In Millions)

	In Urban Areas	In Rural Areas	Total
New entrants to labour force	3·8	6·2	10·0
For backlog of unemployed	2·5	2·8	5·3
	6·3	9·0	15·3

It was admitted that "The creation of employment opportunities, even if it were possible to bring this about, does not solve the equally pressing problem of under-employment".

14. The problem was, and remains, a very serious one. The 1959-60 *Report of the Ministry of Labour and Employment* remarked that—

> "A picture for the Third Plan, though it is still far from precise, emerges from what has been said above. As against the backlog at the end of the First Plan of 5·3 million unemployed, there will be a backlog of about 7·5 to 8 million to contend with at the end of the Second Plan. Estimates for new entrants to the labour force between 1961-66 worked out on different assumptions show that the most optimistic of them places the numbers at about 14·5 million. It is, therefore, evident that to make a sizeable impact on the unemployment problem, the minimum objective must be to try to absorb at least an equivalent of new entrants to the labour force during the Third Plan. Any increase in the backlog of the unemployed from plan to plan is undoubtedly a matter for anxious consideration[2]."

15. "Labour" cannot be stored—this is the fundamental fact from the economic point of view. Altogether apart from the human tragedy represented by the sense of being unwanted,

[1] *Op. cit.* p. 112.

[2] *Report* cited, p. 81.

and the political dangers which arise in a democracy when masses of men are conscious of frustration and of physical deprivation, unemployment and under-employment imply a waste of resources, a loss of potential output, which can never be replaced. And yet the problem is an excruciatingly difficult one to solve—if indeed, it is capable of solution at all—so long as the increase of population is not a response to expanding economic opportunity, but a response to forces much more fundamental and deep-rooted. This is not a problem, in fact, which planning is capable of solving in any *direct* fashion.

16. It is, of course, the case that expenditure on "public works"—roads, railways and power and irrigation plants, as well as on new steel plants and other capital equipment—adds both directly and indirectly to the volume of employment and that expanding the framework of the social services acts in a like manner. Some degree of substitution is possible on public construction: it can be made more or less labour intensive and indeed, this is true generally of modern technologically advanced industries. The direct contribution of a steel works to the solution of the employment problem is really insignificant in the light of Indian population magnitudes. As regards consumer goods industries, attention has already been drawn to the restrictions placed on the cotton textile industry, and on other industries, to retain part, if not the whole of the market, for small and handicraft enterprises: it is, indeed, an open question whether too much has not already been done in these directions[1]. Politically, no doubt, it is difficult to avoid such discrimination and, even economically, *too* rapid a transfer of demand from one type of production to

[1]The appropriateness of adopting such discriminatory procedures was discussed and approved by the *Village and Small-Scale* (Karve) *Committee*. For a considered review, see Dr. B. K. Madan's article in *Reserve Bank of India Bulletin*, December, 1955. His conclusion is that: "After all, it is not the objective of planned development merely to make available a little more cloth, vegetable oil, footwear, etc., besides food, but to be able to raise the average

another might have its disadvantages. Nevertheless, the essential element in the whole problem is the growth of overall national income, without which an increase in aggregate demand, upon which the growth of overall employment depends, is made that much more difficult[1].

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level of incomes through a variety of lines of production so as to increase the demand for and consumption of a number of articles which are relatively little consumed today. *The diversification in the pattern of production and employment will not be fostered by predominant reliance on the protective approach toward traditional industry.* For many decades, economic students in this country have been taught about the bane of immobility of labour which, however, with the development of communications and transport, has progressively diminished ; the new slogan of carrying work to the doorstep of the traditional worker—which the Report echoes—is not calculated to improve either the mobility of labour or its willingness to conform to the Committee's objective of securing a progressive transition to efficient techniques."

[1]These various issues are well discussed in Chapter V of the *Approach to the Second Five Year Plan*, already referred to, especially paras. 9—14 (pp. 112—114). The problems discussed in the text should not be confused with the problem of large and small scale businesses, both employing, though upon a different scale, the same technical procedures. It is now becoming recognised that the supposed opposition between these has been greatly exaggerated : in fact, American and other experience shows that because of, *not in spite of*, the existence of giant corporations such as General Motors, a large market is opened up, through sub-contracting and specialised demands, for the products of smaller firms : a fact which is beginning to be appreciated in India also.

Discussing these issues in connection with the possible policies under the Third Plan Dr. B. K. Madan remarks, rightly, that : "Another aspect of the pattern of development on which there is a much better appreciation of basic issues now relates to abandonment of mistaken identification of the interests of employment and welfare with technically inefficient forms of production. There is more widespread recognition now of the need for finding solutions in the industrial field which reflect the right combination of regard for production *and* employment, efficiency *and* welfare rather than one to the neglect of the other, based on more general acceptance of the fact that the promotion of employment and the fostering of welfare are, over the long term, vitally dependent upon steady pursuit of the objectives of increasing efficiency and greater production." (*The Third Plan, Reserve Bank Bulletin*, July, 1959).

17. It is unfortunate that whilst index numbers of wholesale prices are now stated in terms of 1952-3 prices, and the "projections" of national income and other elements in the *Approach to the Second Five Year Plan* were similarly based[1], the "*Estimates of National Income*" published by the Central Statistical Organisation[2] are still based on current prices *and* on 1948-9 prices, so that, historically, the base relates to a period anterior to the beginning of formal planning. (Moreover, the latest available issue omits all reference to the year 1951-2, the inaugural year of the First Five Year Plan: the missing year is, fortunately, included in the same series as published in the Reserve Bank's *Report on Currency and Finance, 1959-60*, p. 19).

18. In considering the situation, account must be taken not only of changes in prices, but also of changes in population and changes in productivity. *At current prices*, net output has increased between 1951-2 and 1958-9 by approximately 25 per cent ; at 1948-9 prices by 28 per cent approximately. *Per capita* income at *current prices*, rose from 274 rupees in 1951-2 to 313 rupees in 1958-9, or by 14 per cent approximately. At 1948-9 prices, income has risen per capita from 250 rupees to 294 rupees or by nearly 18 per cent .

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[1] *Op. cit.* p. 11.

[2] The latest available edition is that of April, 1960.

[3] The absolute figures on which these percentages are based are as follows :—

	1958-9*	1957-8	1956-7	1955-6	1954-5	1953-4	1952-3	1951-2
Net output in Rs. abja†								
1. At current prices	124·7	114·0	113·1	99·8	96·1	104·8	98·2	99·7
2. At 1948-49 prices	116·9	108·9	110·0	104·8	102·8	100·3	94·6	91·0
Per Capita net output in Rs.								
3. At current prices	313·2	290·1	291·5	260·6	254·2	280·7	266·4	274·0
4. At 1948-49 prices	293·6	277·1	283·5	273·6	271·9	268·7	256·6	250·1

* Preliminary.
† abja=100 crores.

(*Report on Currency and Finance, 1959-60*, p. 19).

19. Per capita figures, are not a completely satisfactory test of increased welfare : a *fall* in average income is completely compatible with a rise in the per capita income of the lower income groups—"a familiar statistical result of a change in the relative importance of the component elements of an aggregate"[1] —which is the important issue from the welfare point of view.

20. The "projection" in the *Approach to the Second Five Year Plan* estimated that aggregate national income would rise from the end of the First Plan (1951-6) to the end of the Second Plan (1956-61) from Rs. 10,800 crores to Rs. 13,480 crores *at* 1952-3 *prices*, or by 25 per cent. On the basis of 1948-9 prices, net output rose from abja 1,048 (abja = 100 crores) in 1956 to abja 116·9 in 1958-9 or 11 per cent. Making all allowances for differences in the base-year prices, it would appear that there must be acceleration in productivity in the remaining year of the Second Plan if this projected target is to be achieved.

21. Between 1951 and 1959 industrial production (base 1951 = 100) has risen by 50 per cent[2]. Agricultural production (base 1949-50 = 100) rose from 95·6 in 1950-51 to 131·0 in 1958-9. As is inevitable, agricultural production tends to fluctuate much more widely than industrial production, but fluctuations in the former are bound to influence the course of the latter. The essential question is not so much whether the results achieved fall below, or rise above, those anticipated, but whether it is possible that better results could have been attained if a different scale of magnitudes, priorities and objectives had originally been envisaged.

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[1] P.T. Bauer "*Economic Analysis and Policy in Underdeveloped Countries*", p. 54.

[2] *Report on Currency and Finance, 1959-60*, Statement 13.

	1955	1956	1957	1958	1959
General index of Industrial Production	122	133	137	140	151

22. This is, of course, an exceedingly difficult question to answer. Firstly, if the overall scale of planning had been less ambitious, difficulties arising both from the administrative and the financial side might have been less acute. The urgency to recruit adequate staff would have been less (*e.g.*, in the field of community development): reliance on "deficit financing" and on the continuance of external assistance might have been less urgent: mistakes arising out of the absence of proper co-ordination would have been less numerous. On the other hand, it is, in all probability, erroneous to suppose that with a smaller overall plan or plans, there would have been no mistakes at all: it is an issue simply of greater or less. On careful and prolonged reflection of the issues involved, the present writer cannot avoid the conclusion that probably (but not certainly), taking into account *all* the circumstances, a smaller scale of planning, in *quantitative* terms, would not have achieved less than has actually been achieved. This conclusion is based, not merely upon admitted errors of omission or commission, but upon a consideration of the covert, as well as the overt, facts of the situation, such as the effects of tax avoidance and evasion upon investment and the spirit of enterprise, and the deterrent influence upon savings of rising prices.

23. What has been written above does not dispose of the more general question which is often put: is the overall pattern of planning in India the right one? In fact, posed in this fashion, no really valid reply can be given. Naturally, to attempt to raise the standard of living, to increase agricultural output, to push on with "industrialisation", to provide improved social services and to attempt to break down social and regional barriers, are all, in themselves, admirable objectives. The real issue is whether the detailed priorities and the relative magnitudes are correct and on *this* issue there is much more room for doubt.

24. Even without planning there would have been some progress in India: one must beware of the assumption that

the *de facto* situation, and the results actually achieved would none of them have been possible without planning. One is entitled to doubt whether in the absence of official planning and effort, it would have been possible to raise so much external assistance: on the other hand, planning *has* involved interferences, such as intensified exchange and import controls and deterrents to the expansion *e.g.*, of the "organised" textile industry, which must have had the result of restricting output in certain directions. One is *not* entitled to argue, simply, "*post hoc, ergo propter hoc.*"

25. Finally, to assert that planning has resulted in increasing material welfare above the level which could have been attained without planning (even if true), is not the same thing as asserting that planning has resulted in increasing human happiness to an equivalent extent. There are "intangibles" which have also to be taken into account, including the effect on the *quality* of life implied in the extension of the coercive powers of the State. There has always been an element of asceticism in Indian spiritual life which ranks a mere increase in material welfare somewhat low in the scale of human values. This is an aspect of the problem of planning which no non-Indian can properly evaluate, but it is one which should not be overlooked in the final analysis.

Part 5

SOME ASPECTS OF THE THIRD PLAN

1. Ever since the publication of the *Approach to the Second Five Year Plan* in 1957, the figure of Rs. 10,000 crores, more or less, as the overall figure to which investment and expenditure under the Third Plan should attain, has been known to the public.[1] It would therefore have been difficult, politically speaking, for the Government of India to have accepted a figure substantially lower than this when the time came in the spring of 1960 to initiate public discussion of the Third Plan. In fact, since between 1952-3 and 1959-60 the general level of wholesale prices had risen by seventeen per cent, a figure of Rs. 10,000 crores for the Third Plan implied, in realistic terms the acceptance of a level of effort in real terms, substantially less than the planners of 1957 had contemplated.

2. Firstly as regards the overall magnitudes "investment" as distinct from "current outlay" is to be Rs. 6,200 crores in the public sector and Rs. 4,000 crores in the private sector—a total *investment* of Rs. 10,200 crores, including, in the public sector, Rs. 200 crores for "inventories" (though it is contemplated that buffer stocks will involve an additional Rs. 200 crores). "Current outlay" in the public sector amounts to Rs. 1,050 crores, the *total* "plan outlay" will thus be Rs. 7,250

[1] Actually the figure (total net investment) was Rs. 9,900 crores. *op. cit.* p. 11, but the table of projections was based on the 1952-1953 price level.

+400 crores = Rs. 10,200 crores (*without* the cost of the buffer stocks). The breakdown is as follows :—

TABLE I—OUTLAY AND INVESTMENT IN THE THIRD PLAN

(Rs. crores)

Group	Public Sector Plan Outlay	Public Sector Current Outlay	Public Sector Investment	Private Sector Investment	Total Investment
1	2	3	4	5	6
1. Agriculture, minor irrigation and Community Development	1,025	350	675	800	1,475
2. Irrigation (major & medium)	650	10	640	—	640
3. Power	925	—	925	50	975
4. Village and Small Industries	250	90	160	275	435
5. Industry and Minerals	1,500	—	1,500	1,000	2,500
6. Transport and Communications	1,450	—	1,450	200	1,650
7. Social Services	1,250	600	650	1,075	1,725
8. Inventories	200*	—	200	600	800
Total	7,250	1,050	6,200	4,000	10,200

*In addition to Rs. 200 crores for buffer stocks.

3. Comparing the Second and Third Plans (the figure for Second Plan Outlay in the following table represents "likely expenditure over the five year period"),[1] the overall picture is given in the following :—

TABLE II—OUTLAY AND INVESTMENT IN THE SECOND AND THIRD PLAN

(Rs. crores)

	Second Plan	Third Plan	At 1952-3 prices (1959-60 = 117)
1. **Public Sector**			
(*i*) Current Outlay	950	1,050	
(*ii*) Investment	3,650	6,200	
(*iii*) Plan Outlay (*i*) and (*ii*)	4,600	7,250	6,200
2. **Private Sector** Investment	3,100	4,000	3,400
3. Total Investment: (2) and 1(*ii*)	6,750	10,200	9,000
4. Total Outlay 1(*iii*) and (2)	7,700	11,250	9,600

[1]Note to Table I on p. 99 of the *Report on Currency and Finance, 1959-60.*

4. Thus in nominal rupees, total outlay has gone up by 46 per cent: total outlay *in the public sector* has risen by 57 per cent; total investment has risen by 53 per cent: and investment in the public sector by 70 per cent approximately. Thus, even allowing for the fact that, in *real* terms, the increases are smaller, the financial task involved is a considerable one. In comparison to the contemplated growth in investment in the public sector, the growth in the private sector is relatively insignificant. This is the *first* of the striking features of the Third Plan.

5. When it is asked how is it proposed to finance these magnitudes, the overall picture presented is as follows:—

TABLE III—FINANCIAL RESOURCES[1]

		Second Plan Rs. Crores		Third Plan Rs. Crores	
1.	Balance from revenues on the basis of existing taxation	(—)100		350	
2.	Contribution of the Railways on the existing basis	150*		150	
3.	Surpluses of other public enterprises on the existing basis	**		440	
4.	Loans from the public	800	1,180	850	1,400
5.	Small savings	380		550	
6.	Provident funds, betterment levies, steel equalisation fund and miscellaneous capital receipts	213		510	
7.	Additional taxation, including measures to increase the surpluses of public enterprises	1,000		1,650	
8.	Budgetary receipts corresponding to external assistance	982		2,200	
9.	Deficit financing	1,175		550	
	Total	4,600		7,250	

*Inclusive of increased fares and freights.
**Included in (1) above.

[1]Based on Table 4, p. 102 of *Report on Currency and Finance, 1959-60.*

6. There are some very striking features in this set-up, to which it is necessary to draw specific attention.

(*a*) The first is the drastic reduction in the proposed volume of deficit financing, from Rs. 1,175 crores in the Second Plan to Rs. 550 crores in the Third Plan—or, in other words, a reduction in the percentage contribution from approximately one quarter or 25 per cent to approximately 7½ per cent.

(*b*) An equally noticeable feature, secondly, is the greatly increased contribution which it is hoped will accrue from foreign aid. The figure in the Resources Table is, it will be noted, a residual figure—since there are other aspects which have to be taken into account (on which more will be said below). But even taking no notice of these other aspects for the moment, budgetary receipts from external assistance are expected to much more than double in absolute terms: in relation to total outlay, to rise from approximately 21 per cent to approximately 30 per cent.

(*c*) The third feature of the Resources Table is the relatively small additional contribution which is expected from the aggregate of the two items Loans from the Public and Small Savings: in absolute terms from Rs. 1,180 to Rs. 1,400 crores. In terms of percentage contribution to total outlay this represents a fall from about 25 per cent to about 20 per cent. Since it is hoped that over the Plan period national income will rise by over 5 per cent per annum, these estimates are rather surprising.

(*d*) Against this, it is hoped substantially to increase the surpluses of public enterprises and the contribution of provident funds, betterment levies, the yield from the steel equalisation fund (in effect a form of extra-parliamentary taxation) and miscellaneous capital receipts. Including the railway contribution, the aggregate (items 2, 3 and 6 in the Table) will, it is hoped, rise from Rs. 363 crores to Rs. 1,100 crores, almost a fourfold increase. The percentage contribution to total outlay will thus rise from 7½ to 15.

7. This summary analysis must give rise to some serious thoughts, if not misgivings. It is all to the good that the planning authorities have drastically revised their concept of the extent to which resort should be had to deficit financing: indeed, the current exchange crisis (September, 1960) through which the country is passing is an emphatic warning that should resort be again had on an increasing scale to deficit financing, the "offsetting factor" in the shape of loss of foreign exchange is not available, as it previously was, so that the import effect on the price level (and, therefore, on export possibilities, the cost of living and the state of confidence) will be *ipso facto* that much more serious.

8. But the possibility of doing without deficit financing on the old scale turns upon the degree to which the other estimates of future receipts are capable of realisation. If they are not, then the alternatives are simple but depressing: either a renewed resort on a larger scale to inflationary procedures or an adaptation of the Third Plan to the harsh reality of non-availability of the necessary resources. And, once having announced its intention of *not* resorting to deficit financing on the old scale, the psychological, political and economic repercussions are likely (especially in the absence of countervailing influences in the shape of loss of exchange reserves) to be the more serious, if the words of Government are belied by deeds.

9. It is difficult, at this stage, to tell whether the additional contribution to be made by the tax system is over-optimistic or not. A rise of Rs. 650 crores in the tax contribution *i.e.*, on the average by Rs. 130 crores per annum, at a time when, if everything goes right, national income will expand by 5 per cent per annum, is not perhaps an excessive figure in itself. But it must be borne in mind that plan expenditure cannot be considered in isolation, and there are other claims on tax revenue: "non-plan" development expenditure, defence expenditure and the general overall expenditure on adminis-

tration. If it were to be the case that the Rs. 650 additional crores were to constitute the *sole* object of additional taxation, the position would be easier than if that figure were only to be part of a much larger sum required for overall increases in expenditure, the magnitudes of which obviously cannot be known in advance. In any case, it must be borne in mind that as a general election is due in the near future, and that the States, in particular, are not likely to increase their tax revenue substantially before the awards stemming out of the next financial settlement between the Centre and the States are made known, there are likely to be delays, even if, in the long run, additional taxation *can* be imposed. Further, the magnitude of the sum involved should not be under-estimated: the revenue receipts of the Centre and the States in the last year of the Second Plan, on the basis of budget estimates, amount to Rs. 1,670 crores: to add even a *net* figure of Rs. 650 crores is to bring the total to Rs. 2,320 crores, and this may not be the end of the story.[1]

10. It must, at this stage, be altogether a matter of conjecture whether the "surpluses" from public enterprise and the yield from provident funds etc., will attain the figure hoped for. In the absence of a detailed "breakdown" (not available at the time of writing) only some general remarks can be made.

(*a*) Insofar as these figures include sums placed to reserve for depreciation, renewals etc., they are *not* net additions available for general expenditure. Sums accruing may, indeed, be temporarily invested in Government of India securities etc., but when the time comes for the renewals and replacements to be made, such investment will have to be repaid, otherwise the corpus of invested capital will decline, and future productivity will be affected.

(*b*) Whilst profit-making by public enterprise is to be welcomed, the pricing policies necessary to enable

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[1]The general tax and revenue situation has already been examined in Part 1(D) above, paragraph 28 *et. seq.*

such profits to be earned may have adverse repercussions on the rest of the economy,[1] so that *net* overall benefit may be smaller. This is particularly the case when the profits are earned by enterprises producing goods and services consumed by other industries, whose profits are also subject to tax. The adverse effects of high steel prices on the nascent engineering industries has already been referred to in a previous section.[2] The same applies to the element of taxation contained in the pricing policy of cement, also previously referred to.

11. It would be possible, though at very considerable risk, to compensate short-falls in internal receipts from revenue, savings and so on, by a further recourse to "deficit financing". No such easy expedient is available as regards the foreign exchange needs: indeed, if the Plan is to be carried out unchanged and rising prices affect the export situation adversely, the foreign exchange needs of the community would *rise*, whilst a further drain on the country's foreign exchange *reserve* is barely conceivable, in the light of the actual figures.

12. The Resources Table of the Third Plan allows for receipts of Rs. 2,210 crores of foreign assistance. In fact, however, the position is more complicated. Over the Plan period, interest and amortisation payments will be called for—unless the Government of India is successful in securing a moratorium: in part or in whole, for such payments. The food imports under P.L. 480 bring no cash resources, and a part of the

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[1]See above, Part 1 (D), para 21.

[2]See above, Part 3, Section H. The deterrent effect may be compared to the deterrent effect on enterprise generally of over high direct taxation, and of the effect of increasing excise taxation on the consumer's willingness to go on working at current wage rates and salaries.

proceeds will, in effect, be "frozen" in the shape of buffer stocks. The overall position appears to be as follows[1] :—

	Rs. Crores	
I. Direct Plan Requirements:		
(*i*) Machinery and Equipment	1,900	
(*ii*) Component and intermediate products for increase in the production of capital goods	200	2,100
II. Amortisation and Interest Payments		500
		2,600
III. P.L. 480 Imports (foodstuffs)		600
		3,200
IV. Private Imports		300
		3,500
Less		
V. Net P.L. 480 Assistance (*i.e.*, III minus buffer stock of 200 crores)		400
		3,100
VI. Excess over *direct* Plan requirements		1,000

13. Can these amounts be raised ? It has already been necessary to make emergency (though insufficient)[2] arrangements for the immediate future *i.e.*, before the completion of the Second Plan, and some preliminary arrangements have already been made as regards the financing of the requirements of

[1] Based on the calculations on pp. 103-4 of the *Report on Currency and Finance, 1959-60.* In the important letter addressed to *The Economist* (London) (issue of September 24th, 1960) Dr. P. S. Lokanathan puts the matter as follows :—

"With a capacity to export of the order of Rs. 3,070 crores, India finds herself with an inescapable need for imports of raw materials, intermediate products, components, etc., of the value of Rs. 3,570 crores, leaving a deficit of Rs. 500 crores. In the estimate of total foreign exchange requirements of the Third Plan the sum of Rs. 500 crores has been included, because it is clear that no further cut in imports is possible."

[2] "When Mr. Desai was asked in London yesterday whether he was pleased with the outcome of his talks, he made it clear that India was still short of foreign exchange to cover the last part of the Second Plan." *The Financial Times*, London, September 24th, 1960.

the 1st year of the Third Plan.[1] Nevertheless, the threat of drastic import cuts still exists. In fact, however, this would not solve the overall problem at all. Some Plan projects might be proceeded with, but if further restrictions on imports cut production, then national income as a whole will decline (or at least not increase), with consequential waste of capacity and manpower and a worsening of the position of the public finances, with grave implications as regards the Plan itself, taken as a whole. Dr. P. S. Lokanathan, pleading for a moratorium on interest and amortisation payments in the letter already referred to, puts the issue perfectly validly, in the opinion of the present writer:—

> "Capacities that have been built up with foreign aid and with domestic effort and sacrifice would remain idle and unutilised if this extra foreign exchange is either denied or becomes unavailable. Already several industries are unable to achieve full production ; the tea industry, a major export earner, is starved of fertiliser for want of foreign exchange. To the present writer the order of priorities in the utilisation of foreign aid should be first to utilise more fully the built-up capacities, and to use the rest of foreign exchange available on new projects with heavy foreign exchange content. A different approach would lead to a further worsening of the foreign exchange situation each time by creating precisely the same problem of import requirements for maintenance."

He adds: "The fact is that, in the present economic situation of India, restraint in consumption and greater austerity—while it may do moral good—will not substantially mitigate the foreign exchange problem. Restraint in consumption will not enable her to produce the kind of raw materials needed, the plant and equipment and the components needed for maintenance and expansion, not to speak of new

[1] According to the statement issued in *The Financial Times*, (London) of September 24th, 1960, the U.K. has agreed so far to advance £30 million for the Third Plan and adds that "Following the Paris discussions, it appears that India will get some £20 million from West Germany and not less than £35 million from the U.S. for the first stages of the Third Plan. India will also be drawing on the £180 million credit opened to her by Russia, and it seems that of her requirements of around £200 million, in 1961-62 all but £50 million is assured."

development. Nor is she in a position to bring about immediately a substantial expansion in exports. Thus, unfortunately, she needs foreign aid both to balance her current account deficit and for her development needs."

14. When the Finance Minister was recently in London, he explained to the Press that "it was now India's policy not to place any orders abroad until the foreign exchange needed to pay for the goods was actually assured." This is most certainly a wise policy, in and of itself, but it obviously follows that *unless* the foreign friends of India are prepared to do *more* than commit themselves to a year-to-year, or project-to-project policy, overall long-term planning, insofar as that depends on foreign assistance, becomes exceedingly difficult. Yet it must be recognised that the foreign friends of India are also faced by exceedingly difficult problems ; the menace of a dollar crisis, the ever more clamorous demands of nationalistic Africa, the burden of armaments, the claims of the local tax-payer for relief—against all this, the mounting ability of Western Germany to contribute to the needs of the under-developed world.

15. It is, therefore, of more than normal importance in the context of Indian planning, to have regard to the proposed objectives of the Third Plan. The percentage distribution of Plan expenditure among the various projects is as follows :—

DISTRIBUTION OF PLAN OUTLAY BY MAJOR HEADS UNDER THE SECOND AND THIRD PLAN

Public Sector

	SECOND PLAN		THIRD PLAN	
	Outlay (Rs. crores)	Percentage	Outlay (Rs. crores)	Percentage
1. Agriculture & minor irrigation	320	6·9	625	8·6
2. Community Development & co-operation	210	4·6	400	5·5
3. Irrigation (major & medium)	450	9·8	650	9·0
Total, 1, 2 and 3	980	21·3	1,675	23·1
4. Power	410	8·9	925	12·8
5. Village and small industries	180	3·9	250	3·4
6. Industry and minerals	880	19·1	1,500	20·7
7. Transport and communications	1,290	28·1	1,450	20·0
Total, 4—7	2,760	60·0	4,125	56·9
8. Social services	860	18·7	1,250	17·2
9. Inventories	—	—	200	2·8
Grand Total	4,600	100·0	7,250	100·0

16. Since aggregate expenditure in the "public sector" has risen, it naturally follows that in absolute terms, there should be substantial increases in the several items. But agriculture, community development projects, power projects, "industry and minerals" show also *percentage* increases—irrigation, village and small industries, social services, show relatively small percentage declines ; transport and communications, on the other hand, shows a very marked decline, though the absolute figure shows some rise. (The overall percentages are affected by the inclusion of the new category "inventories" which accounts for 2½ per cent of the total expenditure in the public sector). The increase in the significance of agriculture in the Plan outlay reflects the very justifiable concern with the food situation ; the fall in the *relative* importance of outlay on transport and communications appears difficult to justify, in the light of the pressing necessity of linking town and country more closely together by more and improved roads and in the light, also, of the fact that road construction is more capable of adjustment to changes in the financial situation as it develops from time to time than, say, metallurgical projects which call for large unit expenditures which, once embarked upon, cannot be varied without grave risk of loss.

17. It is, however, the rubric "industry and minerals" which, in conjunction with the proposed outlay in the private sector, requires most attention. *The Programme of Economic Development*, published as part of the "*Draft Outline of the Third Five Year Plan*" has this to say on the "*Experiences and Lessons of the Second Plan*"[1] :—

> "Though foreign exchange difficulties have somewhat retarded industrial progress in the second plan, the achievements are on the whole by no means discouraging. The total financial investment over the five year period is expected to exceed the outlay of Rs. 1,094 crores originally envisaged and amount to about Rs. 1,450 crores net, the shares of the public and private sectors being Rs. 775 and Rs. 675 crores

[1] Documents cited, p. 9 Paras. 4-5.

respectively. *A large part of the excess expenditure is in respect of the iron and steel expansion programmes which, partly owing to a rise in prices, have cost considerably more than originally estimated.* As against this excess expenditure there are shortfalls in respect of certain projects and physical targets. In the case of several important projects, *e.g.*, the Heavy Electrical Equipment Project, Raw Film Project and Rourkela Fertiliser Factory, while action has been initiated during the Second Plan, progress has been rather slow mainly on account *of foreign exchange difficulties.* As regards physical targets, the level of output of industrial machinery at the end of the Second Plan is likely to be lower than was originally hoped. The other notable shortfalls are in respect of the production of iron and steel, nitrogenous fertilisers, aluminium, newsprint and chemical pulp. In the case of iron and steel the shortfall has deprived the economy of benefits reckoned upon for the start of the Third Plan. The shortfall is not so much due to delays in installation—except in the case of coal washeries which have fallen considerably behind the plan schedules—*as in securing smooth and continuous operation of new capacity.*

In retrospect, the experience of the Second Plan has highlighted the stresses and strains imposed by rapid industrialisation on an economy which, owing to lack of domestic industry and deficiency in many basic industrial raw materials and also in technical personnel, is compelled to depend upon external sources for the machinery and know-how required for expansion and for a considerable portion of the raw materials required to keep industry in operation. *It has also brought out that the gestation period of a project, is generally longer than anticipated, especially in the case of heavy industries.*[1]"

18. This passage very adequately illustrates the dangers to be avoided: they grow and do not diminish in significance, if the magnitudes involved expand. The keynote of the programme of industrial expansion in the Third Plan is on the saving of foreign exchange as a *long-term* aim. Discussing "industrial priorities", it is remarked that:

"In the initial years of the Third Plan the emphasis will

[1]Italics throughout not in the original.

have to be on the completion of schemes, already under implementation or at an advanced stage of planning, for the indigenous production of machinery and components and of producer goods like alloy and tool steels, organic intermediates, dissolving pulp, synthetic rubber, carbon black, and aluminium. During this stage when attention and resources will have to be devoted to the development of production which will reduce the requirements of foreign exchange for the operation of industries at the levels already reached, it will not be possible to allow significant expansion in industries, such as the rayon industry, which are largely dependent on the import of raw materials and whose expansion, therefore, at present swells the demands for foreign exchange on maintenance account.

Plans for industrial expansion have to hold a balance between different and competing claims of nearly equal importance. Over the next few years the emphasis to be given to programmes and projects will have to be broadly in accordance with the following priorities :—

(*a*) Completion of projects envisaged under the Second Five Year Plan which are under implementation or were deferred during 1957-58 owing to foreign exchange difficulties.

(*b*) Expansion and diversification of capacity of the heavy engineering and machine building industries, alloy tool and special steel, iron and steel and ferro-alloys ; and step-up of output of fertilisers.

(*c*) Increased production of major producer goods like aluminium, mineral oils, basic organic and inorganic chemicals and intermediates.

(*d*) Fuller utilization of existing installed capacity where there are wide gaps between capacity and production or where by multiple shift operation it is possible to economise investments and achieve better output/investment ratios.

(*e*) Increased production from domestic industries of commodities required to meet essential needs like essential drugs, paper, cloth, sugar, vegetable oils and housing materials."

19. The "overall outlay tentatively envisaged" when the *Draft Outline* was written, so far as industrial projects were concerned, was (subject to certain qualifications as to inter-sector transfers and modernisation projects) Rs. 2,300 crores, Rs. 1,300 in the public sector and Rs. 1,000 in the private sector. (There is, it may be noted, a margin of Rs. 200 crores between this figure and that contained in the overall picture of outlay in the public sector).

Industrial Group	Investment in 1961-66 Total		Foreign Exchange Element	
	(Rs. Crores)			
Metallurgical	447		223	
Machinery and Machine Building	270	545	165	290
Other Engineering Industries	275		125	
Chemical and Allied Industries:				
(*a*) Chemical	315	650	158	281
(*b*) Allied	335		123	
Textile Industries	130		64	
Food Industries	78		12	
Minerals	405		210	
Miscellaneous (including townships and housing colonies for Government industrial projects)	45		10	
Total	2,300		1,090	

20. In *absolute* terms of total outlay, the "metallurgical" group as a single entity, which, in effect, is iron and steel, dominates the picture. In *this* respect, at least, "*plus ca change, plus c'est la meme chose.*"[1] Nevertheless, from the standpoint of *immediate* exchange requirements, the issue is

[1] In considering the overall position, it must be borne in mind that expansion of the metallurgical group calls for complementary expansion in the minerals group also. The expansion of agricultural production, in the same way, calls for an impressive increase in the output of fertiliser, duly provided for in the Third Plan and involving both public and private sector production.

more or less open between the *main* different industrial groups :—

PERCENTAGE OF FOREIGN EXCHANGE ELEMENT

Metallurgical	50
Machinery and other Engineering Industries	53
Chemicals	43
Minerals	52
Textiles	50
Food Industries	15

21. Obviously, from the employment point of view, the situation is likely to be very different. But, since the emphasis is on long-term economies in the use of foreign exchange, the question at issue is really this: which of these various (and competing) alternatives will save most foreign exchange, and which therefore, if there are going to be difficulties in obtaining sufficient foreign assistance to carry out *all* the projects, should be given preference ?

22. Upon this particular point, the "*Draft Outline*" throws no detailed statistical light, and yet it is the dominating issue from the long-run point of view. It would, of course, be desirable, if possible, to carry out the entire programme, but if a choice *has* to be made, then it would appear—to repeat a point already previously referred to—that as the foreign exchange content of machinery and finished products generally is greater than that of iron and steel, preference should be given to the engineering rather than the metallurgical projects,[1] the more so as the metallurgical projects assume that adequate supplies of coking coal will be available, which may not in reality materialize. It is as well not to disregard the warnings referred to in para 17 above, as to the dangers involved in delays and lack of co-ordination.

23. In connection with the whole problem of priorities, the desirability of giving India as free a hand as possible in the disposal of the foreign aid granted her cannot be over-stressed. It is natural enough that foreign countries should seek to know *what* it is intended to do with the aid extended by them, and

[1] See above, Part I(D) paras. 13 *et. seq.*

should attempt to obtain orders for manufacturers in their own countries in return for aid given. But such restrictions may add to imbalances within the Indian economy, nevertheless, and imbalance, on this as well as on other grounds, must be prevented to the greatest extent possible.

24. If foreign aid is not forthcoming to the extent postulated, then it will be *impossible* to fulfil the targets laid down: there is no way of evading that conclusion. But a further important point follows. A plan is, or should be, a coherent whole and the element of complementarity is therefore a very important aspect of planning. It follows that it is not simply a question of cutting out a piece here or there, if the volume of foreign aid is reduced, but of re-thinking the whole Plan in the light of the magnitudes available. There should, in fact, be a series of Plan projections based on the assumption that over the whole period overall amounts of varying size will be available: otherwise there is the danger of waste and of imbalance. The issue, in other words, is not merely one of overall size, but of internal coherence and consistency.

25. For the rest, though the magnitude of the Third Plan is greater than that of the Second, no fundamental change in orientation is involved. The public sector in the metallurgical and engineering and mineral sections will continue to grow, and the activity of the State in the sphere of oil refining will also expand. The political, administrative and social implications have already been referred to elsewhere in this Report: there is no noticeable swing towards a more "pragmatic approach", so far as the division of activity between the public and the private is concerned. But one final word of caution is in place: all the experience of the past tends to show that there is likely again to be a lag between intent and performance, even if the necessary volume of foreign assistance is forthcoming. It is, therefore, quite possible that a somewhat less ambitious plan would, in the end, give no less favourable results, without the risk of further inflation and of further pressure on the tax-payer, with all the difficulties that very high taxation inevitably brings with it.