

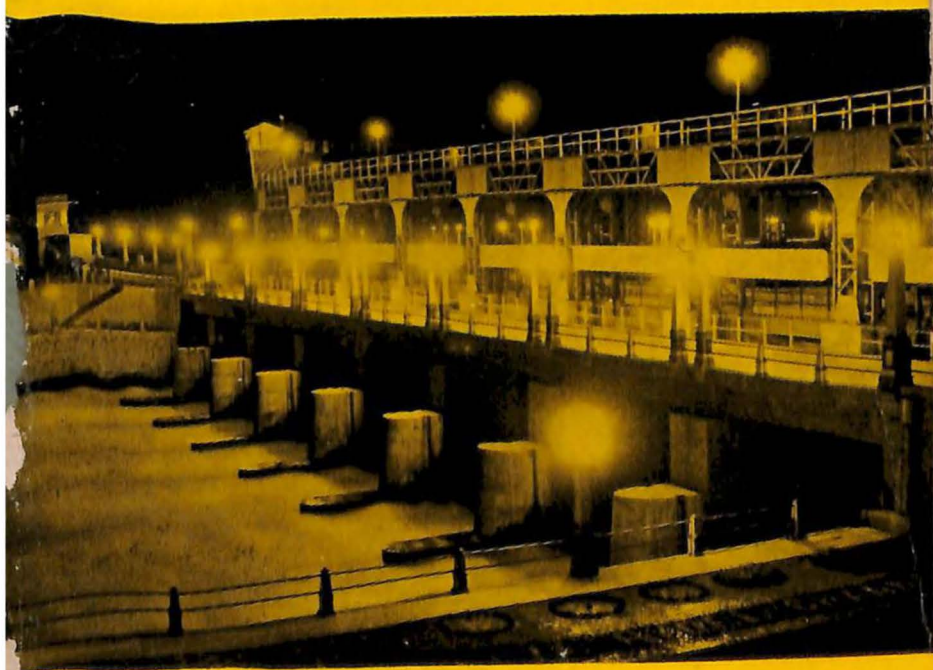
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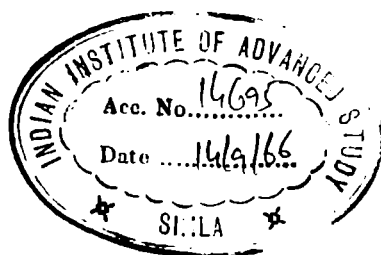
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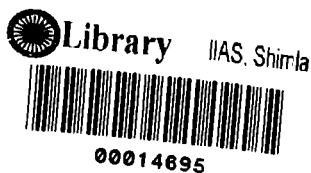
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PREFACE

The third plan is the most important landmark in the history of India, representing as it does the proposals for a massive effort to lead the economy close to the stage of 'take off' into self-sustained growth in the plans to follow and the fulfilment of the plan is expected to deal a fatal blow to the demon of poverty which has been devouring the masses of our country for centuries together. For those who identify themselves with the soul of the nation, there is nothing more romantic and exciting than the grand endeavour to pull ourselves out of the quagmire of wretched want and poverty. We have already laid strong foundations for the economic development of India in the first and the second plans and the third plan proposes to raise the glorious edifice of rapid industrialisation. In the words of Shri V. T. Krishnamachari, "The Third Five Year Plan represents a crucial stage in the fulfilment of our basic social and economic objectives." (Introduction to the Draft Outline). It is essential, therefore, that every individual interested in the economic affairs of our country ought to know at least the broad quintessence of the proposals embodied in the plan.

The B. A. (Hons.) and M. A. students of economics are under an obligation to know the plan in its essentials much closer than the "pass" students and the best way of getting into the spirit of the plan proposals is to unlock the logic and reasoning which motivate the plan proposals. An endeavour has been made in this booklet to lay bare the essence of thinking behind the plan-proposals, with a totally unbiased commentary and criticism wherever it is called for, and almost the whole of the plan is presented in brief in a series of lucidly written essays which cannot but be of immense help to the students of economics for their papers on Indian Economics and also for the paper on 'Essay' which more often than not is just a leap in the dark. The other intellectuals of our country who do not have the time to spare to go into the details of the plan proposals might be well advised to know the essentials contained in this small book of ours. We earnestly hope that this effort of ours would be of great help to the students and laymen alike and thus be of service to the country at large.

—AUTHOR

CONTENTS

<i>Chapter No.</i>	<i>Page</i>
1. The Third Plan—A Critical Appraisal of the Approach	1
2. Resume and Lessons	6
3. The Logic of Priorities under the Third Plan	12
4. The Size and Pattern of the Plan	17
5. Criteria for the Phasing of Projects	22
6. Targets Set for the Third Plan	32
7. Resources for the Third Five Year Plan	37
8. The Problem of Surplus Labour in the Rural Areas	42
9. Execution of the Plan	46
10. The Problem of Backward Areas in Development Planning	50
11. Agriculture in the Plan	54
12. Land Reform and the Third Plan	59
13. Village and Small Industries	63
14. The Programme of Industrialisation	68
15. Foreign Trade and the Third Plan	72
16. A "Take Off" into Self-sustained Growth	76

CHAPTER 1

THE THIRD PLAN—A CRITICAL APPRAISAL OF THE APPROACH

Despite a decade of planning, India stands today almost at the lowest rung of the ladder among the comity of nations arranged in order of descending *per capita* income. Appalling poverty as well as exceptionally low subsistence living has been the age-old lot of the over-whelming masses of people due to the economic backwardness of the country, accompanied by great inequalities in the distribution of wealth and income which depress the income of the non-privileged classes much below the national average, which by itself is awfully low. The vast majority of the people whose life hangs by a slender undependable thread could hardly be expected to feel the thrill of political emancipation. To make life secure and joyful, people must be liberated from the pressing anxieties of intolerable penury and given an opportunity to develop themselves to the best of their inherent abilities which remain throttled today due to unparalleled poverty. People's faith in the good values of life stands in great danger of getting disintegrated when their very existence is threatened with extinction due to the miserable economic circumstances of the country. It is for this reason that the third plan says, "From the beginning, it has been stressed that the objective of planned development is not only to increase production and attain higher levels of living but also to secure a social and economic order based on the values of freedom and democracy in which "justice, social, economic and political, shall inform all the institutions of national life."* As decided by Parliament in December, 1954, the broad objective of planning in our country is to establish a socialist pattern of society, which could be taken to imply (a) inducing under the auspices of planned development a rapid rate of growth in the national income and (b) ensuring distributive justice to see that there is a wide

*Draft Outline, Third Plan, p. 1.

diffusion of benefit, especially over the low-income layers of the community.

It would be wrong to construe that the goal of a socialist society is to aim at a total extinction of private initiative and enterprise, as is apt to be interpreted by big 'money-bags' already well-entrenched in industry and commerce and mortally afraid of the rapid expansion of the public sector in umpteen fields of the economy. The Planning Commission has made it abundantly clear that the socialist pattern places special emphasis on the needs of small producers with a view to encouraging a rapid growth of the co-operative sector especially in respect of agriculture, medium and small-scale industry, trade and distribution and many fields of social services. The approach to the third plan could best be appreciated in the light of the over-all objective of establishing a socialistic pattern of society which aims at a rapid rate of economic development, with a leading role assigned to the government and a special stimulus being given to co-operativisation so that the Indian society might be able to derive the advantages of private initiative and enterprise as well as a vigorous planned programme of development. The basic desideratum is to raise the level of *per capita* real income as rapidly as possible so that the country may get out of the strangulating thralldom of poverty. The third plan has been formulated keeping in view the basic socio-economic needs of our country and the Planning Commission has laid down clearly five of the following considerations which constitute the basis of the plan :—

1. "to secure during the third plan a rise in national income of over 5 per cent per annum, the pattern of investment being designed also to sustain this rate of growth during subsequent plan periods ;
2. to achieve self-sufficiency in foodgrains, and increase agricultural production to meet the requirements of industry and exports ;
3. to expand basic industries like steel, fuel and power and establish machine-building capacity, so that the requirement of further industrialisation can be met within a period of 10 years or so mainly from the country's own resources ;

4. to utilise to the fullest extent possible the manpower resources of the country and to ensure a substantial expansion in employment opportunities ; and
5. to bring about a reduction of inequalities in income and wealth and a more even distribution of economic power.”*

The logic of these objectives is obviously derived from the need to bring about a rapid economic development and ensure equitable distribution of wealth and income so as to subserve the goal of establishing a socialistic pattern of society. We have to investigate further the significance of the objectives set by the Planning Commission. The objective of raising the national income by 5% per annum over the five years of the plan appears awfully modest in view of the exceptionally low income of our country even at the end of a decade of planning and the pressures of a rapidly growing population which is expected to be 48 crores by the end of the third plan. Presuming that the plan is going to be a complete success, the total rise in the national income over a period of 15 years from 1951 to 1966, would be of the order of 80% over the base of 1951. A rise of 80% in the national income over a period of 15 years sounds pretty high and one is apt to be carried away by the “percentage” success. It must, however, be kept in mind that the measurement of success in terms of percentage rise in the national income is a poor indicator of the reality in which we are placed. Starting as we do from an exceptionally low base, even a doubling of the national income as is envisaged to be done by 1971-72** will not mean much in absolute terms, especially so, because of the fact that our population would have increased by that time from 36 crores in 1951 to about 53 crores by the end of the 4th Plan. *Per capita* incomes are expected to be doubled only by the end of the 5th Plan by 1977-78. The impact of development would penetrate to the lower strata of society only when there is a significant rise in their income and levels of living and this depends not only on the rapidity of growth in the national income but also on the equitability of distribution. There is reason to believe that the target for raising the national income could certainly be much higher, given a proper administration

*. Planning Commission, Govt. of India, Draft Outline of the Third Plan, p. 11.

**Planning Commission, Second Plan, p. 11.

for the country. Pessimists feel, however, that even the target of 5% rise per annum is too high in view of the limitations on the resources which could be mobilised for purposes of investment. We have to examine how far this feeling is valid. It would be enlightening to compare our actual performance over the first two plans as well as the proposed performance over the third plan with the performance of the U.S.S.R. between 1928-37. Over this decade officially they claim an increase in net national income from 25.0 to 96.3 billion "1926/27" rubles *i.e.* 3.85 fold or by an annual average of 16%. Even if one is inclined to disbelieve this as an exaggeration, one can not brush aside objective estimates like the one made by Jasny who puts the rise per annum at 9.1%*. This means that we cannot achieve over a period of five quinquennial plans what the Russians achieved just over a decade. One could concede to the fact that our back-grounds and antecedents as well as the motivating values have been totally different and all the same, it is difficult to say that we could possibly not think of better targets, within the democratic frame-work and the socialistic pattern of society which we propose to bring into existence.

The second goal of achieving self-sufficiency in foodgrains and an increase in agricultural production to meet the requirements of industry and exports is highly laudable. During the first plan agricultural development received a high priority with 45% of the total outlay being allocated to agriculture, community development and irrigation and power. There was an over-fulfilment of the targets set for agriculture because of the favourable monsoons accompanied by the emphasis of planning on the development of agriculture and production of foodgrains increased from an estimated 54.0 million tons in 1949-50 to 63.5 million tons in 1955-56, an increase of 18%, as against a target of 14%. Perhaps, because of the complacency produced by the unexpected success of the first plan, agriculture during the second-plan has received a reduced share of the total outlay—30.8% comprising of 11.8% to agriculture and community development and 19.0% to irrigation and power. Our food requirements are ever on the increase because of a rapidly growing population and the need for improving the nutrition standards and all the same as against the average production of 75 million tons by

*Abraham Bergson (Editor), *Soviet Economic Growth*, p. 5.

1960-61, our requirements would be about a 100 million tons. The gaps have to be filled by increasing the imports in order to avoid a possible famine which would deal the greatest blow to a growing economy. The need for raw-materials originating from agriculture would naturally grow with the growth of industrialisation and it is good the third plan shows an acute awareness of the issues which confront the country in the field of agriculture.

The goal of rapid industrialisation by developing the capital-goods industry is basic to the growth of any economy and in view of the fact that the necessary over-head facilities have already been created in the course of the first and the second plans it should be easier for the third plan to see through the logical consequences which inevitably follow in the wake of the development of the iron and steel industry, accompanied by the growth of power and transportation. With the development of the capital-goods sector of the economy, we would well be on the road to a take off into a self-sustained process of growth.

One of the most under-utilised resources of our country has been labour and our hopes of rural development obviously rest on a fuller utilisation of this under-utilised rural man-power. Skilled labour as well is not completely utilised. This is a colossal wastage implying a huge loss of potential productivity, apart from the misery which unemployment generates in society.

There is every fear that the fruits of growth have been accruing mainly in the hands of the well-to-do members of the society. This is a very unhealthy tendency totally antithetical to the establishment of a socialistic pattern of society. It leads to distortion of production in the private sector and creates a spirit of frustration among the masses. Inequalities have to be pruned.

By and large the third plan is in the right direction though some shortcomings are clearly discernible.

CHAPTER 2

RESUME AND LESSONS

In order to appreciate the proposals under the third plan, it is essential to take stock of the things as they stand today towards the end of a decade of planning. The first and the second plans obviously constitute the foundation for raising the superstructure of the series of plans to follow to lift the Indian economy out of the morass of strangulating poverty.

When the first plan started in the year 1951, India was confronted with very serious problems created by the war and the partition of the country. The primary goal of the first plan was to strengthen the economy at the base by building the agricultural production capacity so as to ensure a sufficiency of food and industrial raw-materials and repairing the colossal damage done by the two calamities—war and partition. The size of the first plan was necessarily conditioned by the pressing urgency of rehabilitating the migrants from Pakistan and the large allocations made there-for, in the national budgets. The second plan makes a bolder attempt to raise investment, production and employment and the emphasis shifts from the development of agriculture to the creation of the necessary conditions for the rapid industrialisation of the Indian economy.

The plan emphasized the need for accelerating the rate of growth of the national economy, reducing unemployment and preventing the concentration of economic wealth and power. The impact of the plans over the economy could be measured in terms of the total investment outlay and fructification of investments ensuing in the form of increased flow of the stream of the national income. Both investment as well as income can be measured in money as well as real terms and the latter is best done by showing the relevant

changes in the index numbers of production, over a period of time. Absolute figures also can be given, wherever such a citation is felt necessary. The following table gives an idea of the development effort made under the first and the second plans :—

Outlay and investment of the two plans

	<i>Rs. in Crores</i>		
	<i>First Plan</i>	<i>Second Plan</i>	<i>Total</i>
	1951-56	1956-61	1951-61
Public sector outlay	1960	4600	6560
„ „ investment	1560	3650	5210
Private sector investment	1800	3100	4900
Total investment	3360	6750	10,110

We have to make a distinction between total outlay and investment outlay. The former includes non-investment expenditure which is not a part of the development effort. This does not of course, mean that the so called non-developmental expenditure would not have its own multiplier effects. There could be unplanned and unintended development outside the sphere of the regular scope of the plans executed. All the same in view of the non-availability of data regarding such of economic off-shoots as were not planned for, we had better concentrate our attention only on the planned development effort.

The total investment outlay over the two plans in the private and the public sectors together has been of the order of Rs. 10,110 crores comprising of Rs. 5210 crores in the public sector and Rs. 4900 crores in the private sector and constituting about 7% of the national income over the first plan and 11% of the income over the second plan. Over the first plan investment in the private sector was greater than that in the public sector, being Rs. 1800 crores and Rs. 1560 crores respectively. The second plan, however, makes a departure. Investment in the public sector during the second plan exceeds the investment in the private sector—Rs. 3650 crores in the public sector as against Rs. 3100 crores in the private sector. This indicates a faster rate of expansion of the public sector in keeping with the ideal of establishing a socialistic pattern of society. Apart from idealistic considerations, the total outlay as a proportion of the national income falls short of the minimum necessary to take the economy on the stage to the “take off” which implies a total investment of at least 15% of the national income. The conclusion

which emerges is that the first and the second plans have laid the foundations to prepare the economy to inaugurate the stage of the 'take off' in the course of the third plan. One phase in the course of development of the Indian economy is complete with the coming to the close of the second plan.

Our national income increased during the first plan by 18% and over the second, by 20%. Over the decade 1951-61, the increase in the national income comes to 42%. The increase in the *per capita* income, however, has been of the order of only 20 per cent obviously due to the growth of population over the decade by nearly 5 crores. What the critics have to note in this connection is that population growth has been exerting a tremendous pressure in restraining the rise in *per capita* income to lower levels and the success of the plans to come would hinge as much around the rapidity of growth of income as on the efficacy of the measures to control the rate of growth of population. The plans have to open two fronts—one to raise the income and another to reduce the growth of population. The second aspect seems to have been neglected over the first and second plans in view of the fact that the impact of measures to propagate the dire urgency of family planning ideals is nowhere to be seen to any significant extent. The prosperity of those who are born depends on the extent to which, the infiltration of potential numbers is held in check. This has to be made one of the major planks in the schemes of the third plan. On the side of incomes we have to note that the success of our plans would be ensured if a greater emphasis is placed on the use of indigenous factors of production as against, the imported ones. The second plan was pruned off to its core in the year 1958-59 from Rs. 4800 crores to Rs. 4500 crores, due to unavoidable difficulties of foreign exchange. There is reason to believe that the severity of foreign-exchange problems could be reduced by emphasising the increasing use of locally produced factors of production, even if it implies a re-orientation of the composition of our plans in favour of priorities which do not fit into the scheme drawn on the basis of the usual assumption of our plan. One of the important lessons to be drawn from the first and second plans is the need for giving a high priority to the employment of the factors to be found in our own country.

We can turn our attention to the achievements of the two plans in terms of the increase in agricultural and industrial produc-

tion and examine what lessons we could possibly draw for the third plan. Agricultural production trends since the commencement of the first plan are as follows :—

Index of agricultural production (1949-50=100)

	1950-51	1955-56	1958-59	1960-61
All commodities	95·6	116·9	132·0	135·0
Food-crops	90·5	115·3	130·0	131·0
Other crops	105·9	120·1	136·0	143·0

It is gratifying to note that over a 10 year period our total agricultural production has gone up by 40%. A major part of the rise has come about over the first plan and during the last three years the progress of agriculture has been very much disappointing. The monsoons continue to play the key role in spite of the plans and this has to be kept in mind over the third plan as well. Agriculture bids fairly certain to continue to be intractable because of the unavoidable dependence on the rains. Contribute as our agriculture does about 48% of the national income the success or failure of the third plan is going to be determined as much by the whims of nature affecting agriculture as on the fruition of the schemes of industrialisation.

A second lesson to be drawn for the third plan is that the non-food crops are likely to respond to plan-treatment much more than the food crops as is evidenced by the relative stagnation in the output of food-crops over the years 1958-59 to 1960-61, as against the impressive performance of the non-food crops over the same period. This shows that there is a significant section of farmers working under the incentive of rising prices of the commercial crops and there is every possibility of diversion of manure and water in favour of commercial crops away from the food-crops. If this tendency continues, the planners will have to design measures to see that the food situation in the country does not get aggravated owing to the comparative neglect of the food-crops. This is of particular importance, because of the fact that non-food prices keep on soaring, providing an ever rising incentive to switch over to the production of commercial crops. This is an important lesson for third plan. The institutional reforms of the second plan in the field of agriculture would not deliver goods so far as food is concerned unless other complementary measures be undertaken to increase the production

of food. We produce only 75 million tons of food grains annually as against our requirements of 100 million tons of food-grains. We are on a much surer ground in the field of industries, eliminating as we do the precarious dependence on nature. The index of industrial production over the two plans stands as follows :—

Index of industrial production

	1951	1955	1956	1959
All commodities	100	122·4	132·6	151·1
Cotton textiles	100	111·9	117·5	111·5
Iron and steel	100	113·3	119·4	163·1
Machinery	100	163·9	215·0	424·3
Chemicals	100	159·0	171·0	214·0

The progress of industrialisation has not been insignificant taking into consideration the fact that over a period of 10 years the index of industrial production rises by as much as 50%. The most spectacular advance has been made in the machine-making industry show as it does a rise in production from 100 to 424·3. This is based on the fact that the production of iron and steel has made a clean jump to 163·1 from the base 100 in the year 1951. Heavy chemicals also have registered a significant increase. Cotton textiles, however, do not present an impressive picture, mainly because of the fact that some artificial shackles have been hand-cuffed in order to provide a prop to the hand-loom industry.

With the development of the iron and steel industry, machine-making industry, improvement in the sources of power—from 2·3 million k.w. in 1950-51 to 5·8 million k.w. by the end of 1960-61, the foundations are now firmly set for rapid industrialisation in the course of the third plan which must emerge in line with the corollaries of the schemes already undertaken and the fruits realised. The lesson to be drawn in this connection is that the capacity built up for the production of iron and steel, machines, power, chemicals, transportation etc., must be fully utilised in the course of the third plan. It would be a totally inexcusable wastage of scarce resources to build up production capacity at great cost and then allow under-utilisation of installed capacity. It should be one of the basic tenets of the third plan to see that whatever capacity in various fields is raised is fully employed.

The most important of the resources which is allowed to waste has been our under-utilised and unutilised manpower ; all the same ironically enough, we shall have more of unemployed persons by the end of the second plan than at the beginning. To create adequate employment opportunities ought to be one of the king-pins of the third plan.

Above all is the master—the rupee. We have exerted so much pressure on the rupee that it has grown thin to only 70% of its former value at the time of commencement of the first plan. People may desert this faithless piece of paper if depreciation continues further and our plans may end up in smoke, unless we hold the inflationary pressures under control. This is a 'must' for the third plan, if our dreams of a prosperous India are to be realised in practice.

CHAPTER 3

THE LOGIC OF PRIORITIES UNDER THE THIRD PLAN

Under the regime of private enterprise the motivation of maximising profits is the guiding factor in the direction of investible resources into various possible channels of production. The priorities for the allocation of resources would be determined by the preference of the private entrepreneurs on the basis of the profit-making possibilities as seen by them on their own experience. The decisions arrived at are necessarily individualistic in character and the allocations made in accordance with the profit-making-interests of the capitalist classes may not be in line with the needs and requirements of the society, because of the fact that our society is characterised by great inequalities in the distribution of wealth and income and hence, the demand for comforts and luxuries on the part of the wealthy minority is bound to exert a decisive influence in bringing about a given pattern of allocation of resources, if things be left totally to an unplanned society. The lopsided investment-pattern which ensues from the profit-making motivation of the capitalists is likely to be antagonistic to the interests of the majority of the people, engaged in hard labour to eke out a pittance for a living. A study of the investment pattern in the pre-plan era in our country or for that matter, the investment pattern in the private sector of the economy even under the auspices of the over-all planning of the country reveals what outrageous priorities allocations receive guided by the motivation of profit. It is seen that plenty of resources are allocated to the construction of palatial residential mansions, building up of vastly expensive picture houses, raising of de-luxe restaurants in the fashionable centres at a colossal cost of resources and the production of thousands of other commodities which on a

rational consideration of the fixation of priorities purely in the interest of the overwhelming masses of people would not receive even a low priority for many years to come. The colossal misuse of the scarce resources of our country must be prevented as early as possible if we are to achieve a rapid rate of growth in bringing about a speedy economic development. We have to realise that the resources at our disposal are necessarily scarce and demand the exercise of the highest rationality in drawing up a scheme of priorities in accordance with the rationale of promoting a rapid growth of the economy in order to promote the welfare of the masses of the people. The Planning Commission observes : "The pattern of investment embodied in a five-year plan reflects the priorities and the relative emphasis in different sectors during the plan period. In turn, these derive as much from an assessment of the current economic situation and the likely trends as from the analysis of the basic economic and social problems of the country and the long-term goals."*

Two sets of considerations have been taken into account by the Planning Commission to accord weightage to various competing schemes and fill up the priorities on the basis of their relative importance from the social angle. There are some general considerations and others which are specific in view of the immediate situation into which we are caught in mid-stream as though, in the course of planning and development. In view of the general situation of our economy, the first priority necessarily belongs to agriculture. The considerations which have been specified in this connection are that agriculture is the source of food and raw-materials for many an industry, it is agriculture which determines the economic fate of the vast majority of the people of our country ; it is agriculture which will determine the over-all rate of growth of the economy, contributing as agriculture does nearly half of the annual national income and it is in the field of agriculture that the problem of un-utilised man-power is the acutest to be seen. Consequently, if our planning and development are to leave the impression of a living reality on the masses, agricultural development must be accorded the top priority. In fact, there could be no successful scheme of industrialisation unless agricultural rehauling released the surplus of man-power,

*Planning Commission, Govt. of India, Third Plan, Draft Outline, p. 23.

raw-materials and food resources to support the industrial centres of production in the urban areas.

It is also realised that development of agriculture hinges on the growth of such of the industries as are closely allied and complementary to agriculture. It is for this reason that the Planning Commission observes : "It is recognised that beyond a stage, the growth of agriculture and the development of human resources alike hinge upon the advance made in industry".* This is a self-evident fact. Far from there being any inherent contradiction between agriculture and industry, it must be realised that the development of the one depends on the development of the other in view of the mutual complementarity between the two. The production of chemical fertilisers, agricultural implements, equipment of transport and power etc. are basic to the development of agriculture and these industries in turn depend on the other industries like the iron and steel industry, machine tools industry, heavy electricals etc. The point at issue is the arrangement and serialisation of the various steps in a clearly understandable logical sequence so that the possible obstacles to growth are forestalled and disarmed in advance.

Again, we have to realise that there are some projects which by their very nature take a long period to come to fruition and there are others which can be completed as early as possible. There has to be a proper balance between projects with a long period of gestation and those which generate fresh streams of income in the short period. For instance, small irrigation schemes could be expedited into production within a period of 6-8 months whereas the construction of big dams would take years together leading to the generation of inflationary incomes well in advance of the flow of supplies of commodities in the market. To counteract such tendencies, it is essential to strike a balance between slow-yielding and quick-yielding projects. This, however, does not mean that one could afford to overlook the need for keeping a firm eye on the necessity of ensuring the maximum rate of growth within the limitations of our economy, the goal eventually must be the creation of those conditions which would lead our economy to the stage of self-sustaining growth. It is for this reason that adequate attention must be given to basic industries like steel, machine-building, fuel and power.

*Third Plan, p. 24.

The Planning Commission observes further that economic development is only a means for social development which means improving the health and quality of the human beings who inhabit this country. Care must be exercised to see that our endeavour to improve the economic lot of the people does not bring about a social deterioration. The lesson which we have to draw in this connection from the economic history of the advanced countries of the world is that economic development, especially in the early stages of growth is accompanied by several concomitant evils which bring about a degeneration in the physical and spiritual health of the working classes. The third plan must institute adequate measures to see that the evils are remedied in time. Towards the end of ensuring a balance between economic and social development education must receive a due weight in the scheme of priorities. Social development in fact is complementary to economic development. Schemes for scientific research, technical education and the training of craftsmen and the provision of housing facilities in the newly created townships have far reaching implications economic as well as social.

Moreover, the priority assigned to a particular project must take care to see that the creation of assets does not precede far too much in advance of the schemes of utilisation. The construction of a dam for purposes of irrigation must be followed soon after the completion of the project by a full utilisation of water by the farmers. It has been found that there have been quite a few cases in which huge investment outlays remain unutilised for long. No country and much less a poor country like ours could afford to lock up scarce resources into unutilised assets. The gap between investment and the utilisation of investment must be reduced to the unavoidable minimum.

The assignment of priorities to the several competing schemes in the public sector is much easier than the direction and control of investment in the private sector which even today is responsible for the production of 75% of the national income. In fact all the 'ado' about priorities in the public sector may constitute just a marginal affair in comparison with the performance of the private sector—including the non-organised private sector about which statistical information is not available. While thinking of priorities in the public sector, some priority must also be given to the need for controlling investment in the private sector so as to ensure that the private

sector does not go out of harmony with the over-all planning of the economy. The weapons in the hands of the state under the present set up include licensing, supply of basic raw materials and other finished products like iron and steel, supply of power, water and transport facilities which could be employed to exercise control over investment in the private sector. Withholding the supply of these commodities from those recalcitrant entrepreneurs who refuse to fall in line with the general directions of the state would go a long way in seeing to it that priorities in the private sector do not go astray from the priorities in the public sector. What would eventually count would be the priorities given in the economy as a whole and if need be the state should not hesitate to give physical directions to the private entrepreneurs. It has to be kept in mind that a certain amount of restraint of liberty is unavoidable when one thinks in terms of a planned programme of economic development. After all unlimited private greed is hardly compatible with the ends of a planned society. Assignment of priorities necessarily involves replacement of blind instinct by a rational ordering of the things that we want in accordance with the urges and urgencies of the country as a whole as opposed to the dreams of a few capitalists who nourish the dreams of becoming a 'Midas' some fine morning.

CHAPTER 4

THE SIZE AND PATTERN OF THE PLAN

The size of a given plan could be measured either in terms of the total investment in terms of money proposed to be undertaken over the plan-period or in terms of percentage increase in the national income proposed to be brought about over the plan or in terms of the upgrading in the production capacity of the economy. The pattern of the plan could be measured in terms of the composition and distribution of outlay over the various schemes constituting the body of the plan. It seems the best way to measure the size of a plan is to measure the change in the productive capacity of the economy under normal circumstances. It is quite possible that the productive capacity of the economy might decline despite the implementation of an ambitious plan because of circumstances beyond the control of man. For instance, in a country like ours with a huge agricultural sector, there is always a precarious dependence on agriculture and hence, the productive capacity is likely to vary from year to year depending upon the mercies or otherwise of nature. Consequently, one is compelled to use the phrase 'under normal circumstances' to measure the impact of the plan on the productive capacity of the economy. The size can be measured thus in terms of the functions which the plan is expected to fulfil during a given period of time. It must, however, be realised that to anticipate the likely change in physical output per annum subsequent to the implementation of the plan is necessarily subject to serious limitations in view of the unpredictability of the behaviour of the private sector which plays a decisive role under conditions of the Indian economy. Moreover, the actual production would have to depend on the demand and supply prevailing at a particular point of time. All the same, subject to certain unavoidable limitations, certain estimates have to be made regarding the size of the total investment outlay

and the expected consequences thereof on the economic conditions of the country.

The third plan has the ambition of raising the national income by 5% per annum in keeping with goal set in the first plan of doubling the national income by the end of the 5th plan. As it is our national income is very low and *per capita* income is almost the lowest in the world. With all our efforts in the direction of development our net national output stood in 1958-59 (at 1948-49 prices) at Rs. 11,690 crores and *per capita* income at Rs. 293.6 and the proposal to raise the *per capita* income to double size of what it was in the beginning of the first plan is by no means ambitious. Consequently the size of the third plan in terms of the ambition to raise national income by 5% per annum appears to be perfectly reasonable, if not a bit less ambitious, than what it should be. As pointed out earlier the U. S. S. R. could more than double the national income just over a period of ten years and we propose to do the same over a period of 25 years.

The third plan proposes to undertake a total investment of Rs. 10,200 crores between 1961-65—Rs. 6200 crores in the public sector and Rs. 400 crores in the private sector. As against the investment outlay of Rs. 3650 crores in the public sector of the second plan, the proposed outlay of Rs. 6200 crores in the third plan marks an increase of about 58% and as against the investment outlay of Rs. 3100 crores in the private sector, the third plan proposes to investment Rs. 4000 crores—an increase of 29%. The total outlay of Rs. 10,200 crores in the third plan is slightly one and a half times the investment undertaken during the second plan or nearly equal to the investment undertaken during the first and the second plans together.

It is essential to make a distinction between investment outlay and current outlay as is done by the plan. "*Investment is expenditure on the creation of physical assets (e.g. buildings and plant and equipment), including expenditure on personnel required for putting up these assets. The expression corresponds broadly to expenditure on capital account*", says the plan. Similarly, *current outlay* has been defined as "*outlay (which) corresponds broadly to expenditure on revenue account on plan schemes ; it is expenditure other than that classified as 'investment'.*"*

*Third Plan Outline, p. 25 foot-note.

Thus the total outlay during the third plan includes investment outlay as well as current outlay and together the total outlay works out to Rs. 11250 crores and the whole of it could be taken to be development effort envisaged over the third plan.

We can visualise a third way of measuring the size of the investment effort and this would be in terms of investment as a proportion of the national income. It is well known that investment in the pre-industrial backward societies constitutes about 5% or less, of the total income, per annum, and to come to the stage of self-sustained growth growing societies have to invest at least 15% of the national income as is borne out by historical facts. The first plan sought to raise investment per annum as a proportion of the national income to about 7%, the second plan to about 11% and the third has the ambition of raising investment to about 14% of the national income, presuming that the proposals under the third plan would be implemented in toto, we should be able to break off the barriers to growth on a natural momentum. In view of the fact that our national income in absolute terms is very low, even a 15% investment might not prove to be really significant, considering the needs of the country. The rate of savings in the country is falling short of the investment requirements, leading to the generation of inflationary pressures. Both the rate of savings and the rate of investment have to be uplifted in order to attain to the stage of self sustained growth.

The pattern of the third plan outlay could be appreciated with reference to the distribution of outlay planned as under :—

Outlay and investment in the third plan***public sector**

group	plan outlay	current outlay	invest ment	(Rs. crores)	
				private sector investment	total in- vestment
1	2	3	4	5	6
1. agriculture, minor irrigation and community develop- ment	1025	350	675	800	1475
2. major and medium irrigation	650	10	640	—	640
3. power	925	—	925	50	975
4. village and small industries	250	90	160	275	435
5. industry and mine- rals	1500	—	1500	1000	2500
6. transport and communications	1450	—	1450	200	1650
7. social services	1250	600	650	1075	1725
8. inventories	200	—	200	600	800
9. total	7250	1050	6200	4000	10,200

Out of the total outlay of Rs. 10,200 crores, the aggregate in favour of agriculture (1+2) comes to Rs. 2115 crores or slightly more than 20% of the total outlay. The very fact that about 80% of the total outlay is planned for the non-agricultural sector of the projects is enough of evidence to prove the enormous prospects of industrialisation for our country. This is as it should be because of the simple reason that industrialisation has been almost synonymous with economic development of most of the prosperous countries of the world and there is no reason to believe that we could ever hope to grow economically merely by emphasizing the development of the primary sector of the economy. The colossal burden of ever mounting manpower on our limited area of cultivated and cultivable land could be gradually reduced only by lifting surplus labour off from agriculture to the non-agricultural sector of the economy. In all advanced economies the contribution of agriculture to total employment and income

*The Third Plan In Outline, p. 26.

is a minor proportion of the national aggregates and this is not merely an inseparable accident. There is reason to believe on the basis of empirical knowledge that there is a causal relation between industrialisation and economic development. With iron and steel, power and fuel, transportation and communication being developed on a large-scale the way is now clear for rapid industrialisation. About 52% of the national income originates today in the non-agricultural sector of the economy and this could well be expected to rise considerably by the end of the third plan.

There are two items in the scheme of industrialisation which need special mention. It is seen that industry and minerals are going to receive an allocation of Rs. 2500 crores—Rs. 1500 crores in the public sector and Rs. 1000 crores in the private sector. This means that the public sector is going to expend one and a half times as well as the private sector and this could be taken a step in the directive of establishing the socialistic pattern of society. Transportation and communications have received an allotment of Rs. 1650 crores out of which the share of the private sector is only Rs. 200 crores. Since transportation and communications are primarily public utilities, the role of the private sector in this sphere is necessarily limited. In the sphere of social services, however, the private sector is assigned an important role in view of the fact that out of the total outlay on social services of Rs. 1725 crores, the public sector is assigned Rs. 1075 crores. It is heartening to note that social services have not been neglected. In a poor country like ours with appalling living conditions, for most of the people the social services have a vital role to play.

What passes one's understanding is the low priority assigned to village and small scale industries, particularly in view of the avowed objective of the plan to ensure fuller utilisation of idle manpower. The employment potential of big industries is comparatively low and hence, there is reason to believe that the goal of creating adequate employment opportunities might remain unrealised even by the end of the third plan.

By and large the planned industrialisation envisaged in the third plan could easily be expected to give our economy the necessary big push so as to raise us to the stage of the take off. The size and pattern are in conformity with the logical sequence to be seen in the history of the advanced economies.

CHAPTER 5

CRITERIA FOR THE PHASING OF PROJECTS

A plan of the dimensions of the third plan involving an investment outlay of Rs. 10200 crores over a period of five years has to be phased on a rational basis to ensure implementation of the projects in time giving particular attention to the inter-relationships which obtain as between different schemes and keeping all awake to see that targets set would be achieved within the strict bounds of time which is planned to be the dead-line for the completion of several projects. The problem of phasing as distinguished from the problem of assigning priorities is concerned with the division of a given scheme which has already been given priority on a time-basis in order to see that the entire project is started and implemented with speed and efficiency without leaving unnecessary time-lags. Every project has to run a race against time and a proper phasing is the very essence of speedy implementation. Besides the decisive importance of the time-element, phasing also implies a definite and clear enunciation of policy regarding the locations of the projects which have been assigned priority and the manner of execution including the techniques to be employed regarding organisation and the purchase of the necessary equipment. Phasing implies the need to spell out in detail every possible decision which could possibly be foreseen so that the administrative delays which invariably are seen to occur could be avoided as much as possible. The problem of phasing thus is a question of fixing of detailed and elaborate priorities to various parts of the schemes which have been accepted as important enough to constitute a part of the programme of development over a given plan-period. The Planning Commission has set forth the following considerations to determine the logic phasing :—

1. "The phasing of projects should be worked out with strict regard to the requirements of physical planning especially planning

of manpower and the provision of materials and of the ancillary services, including power and transport ;

2. Priority should be given to the early completion of the projects under execution and those carried over from the Second Plan. For these projects sufficient resources should be provided in the annual plan to facilitate completion within the minimum period necessary ;

3. There should be continuity of output from year to year. The phasing should be such as to ensure that at each stage of investment the maximum benefits possible are secured and there is a balance between projects with long gestation period and those which can be completed over relatively short periods ;

4. In working out the relative priorities of different projects from the point of view of the economy as a whole, through appropriate phasing items included in the following groups should receive preference —

- (a) items important for ensuring rapid growth of agricultural production *e.g.*, fertilizers ;
- (b) items which might become bottlenecks unless they are available at the right time *e.g.* transport, electricity, metallurgical coal etc. ;
- (c) items required for the fulfilment of the export plan ;
- (d) items which are intended to replace unavoidable imports *e.g.* machinery, alloy and tool steels etc. ; and
- (e) technical education and training programmes.”*

The rationale behind these considerations needs a bit of elaboration in order to resolve the tangle of inter-relationships on which bases these criteria seem to have been evolved. The first criterion emphasises the fact that there is a certain unavoidable mutuality and complementarity as between several projects which have received priority and hence it is essential to secure the necessary physical balances from year to year in respect of steel, cement, electricity and other key commodities. This is just to ensure an unfailing supply of the factors of production which alone would make it possible to implement a project in full in time. The recent gaps in production created by the failure of arrivals of coal in time is an instance in

*Third Plan, Draft, pp. 29-30.

point which demonstrates the importance of recognising the need for a physical balance as between different projects.

Planning is a continuous process and projects undertaken in the previous plans have to be carried forward in the plans to ensue. Uncompleted projects have to receive a top priority in order to see that investment-outlay already undertaken starts yielding fruits as early as possible. Projects undertaken in the final year of a plan or projects which require a long time to complete are likely to be carried forward and fixing up of phasing and priority in the next plan must be based on what has already happened. The creation of supplies and the creation of demand must be brought into equilibrium if the process of growth is to continue smooth unabated.

The process of growth is by no means a smooth sailing for the economy involve as it does the infliction of heavy burdens and sacrifices on most of the people. There is always a conflict between the demand for immediate consumption on the one hand and the necessity of forgoing consumption in order to release resources in the form of investment. The burden is the heaviest on the community when the projects require a long period of gestation to come to fruition. The longer the time which the projects take to complete the greater will be the burden on the community. Hence, there is a need for balancing projects which take a long time to complete and those which could be completed within a short time. The quick-yielding projects are likely to be less capital-intensive, more employment-orientated and help in increasing as early as possible the production of some of the basic consumer goods which are badly in short supply in a backward economy like ours. Moreover, small projects could be widely dispersed in the rural areas which helps not only utilisation of surplus manpower but also enables avoidance of the evils of centralisation in crowded urban areas which as they are, are already too unhygienic in most of the cases. There is always an economy in the use of social overheads like housing, water supply, transportation etc. with a wide diffusion of the projects.

The fourth consideration makes explicit some of the thoughts already implicit in the earlier criteria and besides, emphasises the fact that foreign exchange troubles must be kept in mind in a given programme of phasing. Export-promoting and import-saving commodities deserve priority in phasing so that a given firm may not

experience bottlenecks on account of the need for imported stuffs and as far as possible, a helping hand may be lent to the speedy execution of the plan by the promotion of exports. The bottlenecks could be a shortage of raw materials, a paucity of technical personnel, non-availability in time of power and the means of transportation etc. In other words, adequate attention has to be paid to the creation of over-head facilities which play such a vital role in the completion of our plan projects. These are schemes which require a lumpy investment and annually adequate resources must be made available to ensure their completion and functioning as per the plan.

In spite of the fact that a strict programme of phasing is vital, we cannot overlook the need for a certain amount of flexibility in view of the uncertainties involved in being able to secure the factors of production in accordance with the needs of a plan. In this connection the greatest uncertainty is to be found in the sphere of external assistance and foreign exchange. For the third plan in particular this is a weighing consideration because half the resources are expected to accrue from the assistance made available from abroad. In the year 1958-59, the second plan was required to be re-considered and reduced to its core, necessitating a rephrasing of some of the projects. It is quite likely that such a situation might arise again and hence, the plan must be fairly flexible so that the sudden occurrence of an emergency would not take the country unawares. In view of these considerations, the Planning Commission has categorised industries in the following groups :—

1. projects under execution and carried over from the Second Plan ;
2. new projects for which external resources are already assured ;
3. new projects which can for the present be regarded as included in the Plan. Most of these have reached fairly advanced stage of preparation, but foreign exchange has not yet been arranged for them ;
4. other new projects for which preparatory work is less advanced and for which foreign exchange has not yet been arranged. In respect of these projects, definite decisions for inclusion in the Plan have not yet been taken, but the intention is that the projects

should be worked out more fully and may, in due course, be considered for inclusion in the Plan ; and

5. projects of a contingent nature whose implementation will depend on certain developments which cannot at present be accurately foreseen.

It seems the division of industries into the five groups mentioned above has been made on the basis of the descending order of possibility of finding the necessary means of carrying out the plans into practice. The industries in the first category have the greatest chance of being put through and this possibility goes on diminishing in intensity as we proceed further. This is a necessary part of phasing in view of the uncertainties involved in being able to find the necessary resource.

The problem of phasing necessarily flows out of the problem of fixation of priorities and is complementary to it in more ways than one. This sequence leads us further to scan the targets set for the plan as a whole and if possible at different phases of the projects which receive priority out of a group of competing claims.

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ANNEXURE

Production and development : progress and targets

item	unit	1950-51	1955-56	1960-61 (anticipa- ted)	1965-66 targets	increase in 1960-61 over 1950-51 (percentage)	increase in 1965-66 over 1960-61 (percentage)
1	2	3	4	5	6	7	8
1. agriculture & community development							
1.1 agricultural production							
foodgrains ...	million tons	*52.2	*65.8	75.0	100-105	44	33-40
cotton ...	million bales	2.9	4.0	5.4	7.2	86	33
sugarcane-gur ...	million tons	5.6	6.0	7.2	9.0-9.2	29	25-28
oil seeds ...	million tons	5.1	5.6	7.2	9.2-9.5	41	28-32
jute ...	million bales	3.3	4.2	5.5	6.5	67	18
tea (a) ...	million lbs	613	678	725	850	18	17
tobacco ...	'000 tons	257	298	300	325	17	8
1.2 agricultural services							
area irrigated (net total) ...	million acres	51.5	56.2	70.0	90.0	36	29
land reclamation (ad- ditional area) ...	million acres	...	2.7	1.2	1.0	...	...
soil conservation (ad- ditional area benefited) ...	million acres	...	0.7	2.0	13.0	...	...
nitrogenous fertilisers consumed ...	'000 tons of N	55	105	360	1000	555	178

*estimates of production adjusted for changes in statistical coverage and methods of estimation upto 1956-57.

item	unit	1950-51	1955-56	1960-61 (anticipated)	1955-56 targets	increase in 1960-61 over 1950-51 (percentage)	increase in 1965-66 over 1960-61 (percentage)
1	2	3	4	5	6	7	8
phosphatic fertilisers consumed ...	'000 tons of P_2O_5	7	13	67	400-500	857	497-646
seed farms ...	number	...	...	4000	4500	...	13
1.3 community development							
blocks ...	number	...	1064	3112	5217	...	68
villages covered ...	thousands	...	150	400	550	...	38
population served	million number	...	78	200	374	...	87
2. power							
electricity (installed capacity) ...	million kW	2.3	3.4	5.8	11.8	152	103
electricity generated towns and villages electrified ...	million kWh	6,575	11,000	20,700	42,250	215	104
	thousands	3.7	7.4	19.0	34.0	414	79
3. minerals							
iron ore (a) ...	million tons	3.0	4.7	12.0	32.0	300	167
coal (a) ...	million tons	32.0	38.0	53.0	97.0	66	83
4. large scale industries							
4.1 metallurgical industries							
finished steel ...	million tons	1.0	1.3	...	6.9	160	165
pig iron (for sale)	million tons	0.35	0.38	0.90	1.50	157	67

copper	...	'000 tons	...	7.3(a)	7.9	18.4	...	133
aluminium	...	'000 tons	3.7	7.3	17.0	75.0	359	341
4.2 mechanical and electrical engineering								
cement machinery	value in Rs. lakhs	...		34(a)	80	450	...	463
sugar machinery	value in Rs. lakhs	...		19	440	1000	...	127
machine tools (graded)	value in Rs. lakhs	29		72(a)	550	3000	1797	445
ball and roller bearings	million number	0.1		0.9	2.4	12.0**	2300	400
deisel engines	thousands	5.5		10.0	33.0	66.0	500	100
tractors	number	...		...	2000	10000	...	400
4.3 railway locomotives								
steam and diesel	...	number	n.a.	500†	1250†	1609†	...	29
electric	...	number	...	...	...	232†	...	...
4.4 chemicals								
fertilisers								
nitrogenous	...	'000 tons	9	79	210	1000	2233	376
(in terms of nitrogen)								
phosphatic (in terms of P ₂ O ₅)	...	'000 tons	9	12	70	400-500	678	471-614
sulphuric acid	...	'000 tons	99	164	400	1250	304	213
D.D.T.	...	tons	...	284	2800	2800	...	...
4.5 other industries								
bicycles (organised sector only)	...	thousands	101	513	1050	2000	940	90

(a) relates to calendar year

**by working to capacity on three shifts

†relates to the plan period

(b) in addition to this, facilities would be provided in part-time courses

item	unit	1950-51	1955-56	1960-61 (anticipat- ed)	1965-66 targets	increase in 1960-61 over 1950-51 (percentage)	increase in 1965-66 over 1960-61 (percentage)
1	2	3	4	5	6	7	8
automobiles ...	thousands	16.5	25.3	53.5	100	224	87
cotton textiles (mill made)	million yds.	3720	5102	5000	5800	34	16
sugar ...	million tons	1.10	1.90	2.25	3.00	105	33
steel structural fabrications	'000 tons	...	90	250	1000	...	300
cement ...	million tons	2.7	4.6	8.8	13.0	226	48
petroleum products ...	million tons	...	3.6	4.6	7.4	...	61
5. village and small industries							
khadi : traditional ...	million yds.	7.3	28.9	48.0	3500	558	34
ambar ...	million yds.	...	...	32.0		...	
handloom ...	million yds.	742	1471	2125		186	
powerloom ...	million yds.	148	273	405		174	
6. transport and communi- cations							
6.1 transport services							
railways :							
passenger train miles...	million	95	109	124	143	31	15
freight carried ...	million tons	91	114	162	235	78	45
roads : surfaced including national highways	'000 miles	97.5	122.0	144.0	164.0	48	14
shipping ...	million GRT	0.4	0.5	0.9	1.1	125	22
6.2 communications							
post offices ...	'000 number	36	55	75	95	108	27

telegraph offices ...	'000 numbers	3.6	5.1	6.3	8.3	75	32
number of telephones	'000 numbers	168	280	475	675	183	42
7. education							
7.1 general education							
students in school ...	million nos.	23.5	31.5	41.1	64.8	75	58
7.2 technical education							
engineering and technology							
degree level (intake)	number	4119	5888	13165	18500(b)	220	41
diploma level (intake)	number	5903	10484	24020	34000(b)	307	42
agriculture							
degree level (intake) ...	number	1060	1989	4500	6000	325	33
8. health							
8.1 institutions							
hospitals and dispensaries	'000 numbers	8.6	10.0	12.6	14.6	47	16
hospital beds ...	'000 numbers	113	125	160	190	42	19
family planning centres	number		147	1797	8197	...	356
8.2 personnel							
medical college (intake)*	number	2854	3655	4790	n.a.	68	...
doctors (registered) ...	'000 numbers	59	70	84	103	42	23
nurses (registered) ...	'000 numbers	17	22	32.5	52.5	91	62

*relates to calendar year

CHAPTER 6

TARGETS SET FOR THE THIRD PLAN

The draft outline of the third plan makes it plain that the detailed targets are still to be worked out and whatever has been set forth in the outline represents the broad dimensions of the effort during the third plan. We can, all the same, expect to get greater details in the final version of the third plan which is likely to emerge within a short time. It seems, however, that there is no likelihood of any radical change in the targets set in the draft outline, apart from marginal adjustment in details. From the beginning of the first plan to the end of the third plan, the progress and targets have been depicted in the statistical table on page 38 and one could get a picture of the advance made and likely to be made over a period of three plans. There are certain targets for the economy as a whole which could be examined in terms of total investment, income and employment.

As referred to earlier, the total investment-outlay proposed to be undertaken over the third plan is set at a target of Rs. 10,200 crores—Rs. 6200 crores in the public sector and Rs. 4000 crores in the private sector. The rate of annual investment as a proportion of the national income is proposed to be raised from about 11% by the second plan to about 14% by the end of the third plan. As a result of the investment of the order envisaged, our national income is expected to rise by 25% over the plan or 5% per annum over the base, reached by the end of the second plan. In the course of the third plan about 15 million new entrants are expected to come to the labour market in addition to the heavy back-log carried forward from the second plan which set off with the ambition of creating 8 million jobs outside of agriculture but actually is expected to create only 6.5 million jobs. The third plan expects to create outside of agricul-

ture as many as 10.5 million jobs and 3.5 million jobs within the field of agriculture. In total, the target set for employment is 14 million of jobs as against the 8 million set for the second plan. It is wrong to think that the targets for investment, employment and income are unrelated. There is a close organic link between investment and income, investment and employment, employment and income and income and employment, in so far as they act and react on each other in a series of interacting rounds. The multiplier and the accelerator would unleash further development forces and what would happen in actuality would hinge upon the extent to which the targets find fulfilment and generate certain values of the multiplier and the accelerator.

The general targets thus defined have been apportioned further and approximate targets have been set for different sectors of the economy. Broadly speaking, four categories have been made—(a) Agriculture and irrigation (b) Industry and power (c) Transport and communications and (d) Social services.

It is proposed to step up agricultural production by 30-33 per cent and it is said this depends on the various "area agricultural plans". The targets for some of the important food and non-food crops have been defined as follows :—

Targets for some important agricultural products*

commodity	unit	additional production	% increase over the second plan
foodgrains	million tons	25 to 30	33—40
oilseeds	—do—	2 to 2.3	28—32
sugarcane	—do—	1.8 to 2	25—28
cotton	million bales	1.8	33
jute	—do—	1.0	18

The Planning Commission observes that additional measures would be taken to increase the production of articles like fruits and vegetables, milk, fish, meat and eggs as also of other commodities like coconut, arecanut, cashewnut, pepper, cardamom, tobacco, lac and timber.

*The Third Plan, Draft Outline, p. 33.

The target of bringing about an increase of 30-33 per cent in the output of agricultural commodities over the third plan appears apparently pretty high, the proportion of the national income contributed by agriculture is estimated roughly to be half of the total and if agricultural production rises by 30% over the third plan, this by itself would raise the national income by about 15%. In that case, the over-all objective of raising the national income by 25% over the plan period should be easy of achievement because the targets for the industrial sector should be easier to achieve in view of the lesser dependence on the mercy of nature. The target of 30-33 per cent is, perhaps, set on the consideration that the out-capital ratio in the field of agriculture could be expected to be very high because of the present primitive techniques of production and the large scope for further development. Moreover, the schemes for the utilisation of rural manpower would automatically help in the improvement of agricultural productivity. One, however, can never be pretty certain about the targets for agriculture being fulfilled because of the precarious dependence of agricultural products on the vagaries of the monsoons. If nature be favourable there might be an over-fulfilment of the targets as it happened during the first plan or else there might be an utter failure.

Another observation to be made is about the targets for various crops. In view of the fact that the scope for extensive cultivation is highly limited, increased production has to be realised on the land which is already cultivated through measures of intensive cultivation. The area being limited there would be a competition as between different crops in a given area. Jute, sugarcane and rice could be grown in the same region. Cotton and oilseeds compete for land in the same area. In the absence of over-all crop-planning the micro-decisions of the farmers would obviously turn on the motivation which tempts the farmers most. The rise in the prices of commercial crops has opened to the farmers wide opportunities of making a profit. The money-incentive is likely to win favour with the farmers and if this happens, as is all likely to happen, the proposed target for foodgrains might not be achieved in practice because of the possible diversion of resources from the production of food-crops to non-food crops.

Should such a contingency occur as is feared, there is likely to be an aggravation in the food problem of the country despite the

hopes created because of the assistance assured by the PL 480 agreement with the U.S.A. We could appreciate the anxiety of the situation if we keep in mind that the "target proposed for food-grains would allow for consumption of about 15 ozs. of cereals and 3 ozs. of pulses *per capita* per day" (besides providing some margin against emergencies). The target for cotton is expected to be sufficient to provide for 17.5 yards of cotton textiles per annum *per capita* and in addition allow for some exports.

The agricultural targets are sought to be achieved by increasing the total irrigated area to 90 million acres by the end of the third plan as against the 70 million acres by the end of the second. About 40 million acres would be covered by dry-farming techniques. Soil conservation measures would extend to an additional area of 13 million acres. The consumption of nitrogenous fertilisers is to be increased to 1 million tons and that of phosphatic fertilisers to 400-500 thousand tons. An additional 50 million acres would be covered by green manures. Plant protection measures will be extended to 75 million acres.

By October 1963, the Community Development Programme would extend to the whole of the rural area. The co-operation movement would also receive a fillip.

In the field of industry, special emphasis is being placed on the development of those industries which will help in taking our economy to the stage of self-sustained growth. These include steel, machine-building and the manufacture of the producer goods.

The targets for iron and steel are fixed at 10.2 million tons of steel ingots and 1.5 million tons of pig-iron for sale. The Bhilai, Rourkela and Durgapur steel plants are proposed to be expanded contributing in all 5.5 million tons of steel ingots. The plan also provides for a fourth steel plant to be started in the public sector at Bokaro. All this would be done exclusively in the public sector. The private sector is expected to produce about 2 lakh tons of steel ingots from scrap-based electric furnaces and 2 lakh tons of pig-iron from low-shaft blast furnaces. Steps are also being taken for the production of about 2 lakh tons of alloy, tool and special steels.

The plan has drawn up a heavy programme of manufacture of machinery which is the very foundation for rapid industrialisation of the country. The schemes in this connection include : "heavy

machine-building plant, foundry forge, coal mining machinery plant, heavy structurals plant, heavy plate and vessels works, heavy machine tools factory, doubling of the output of Hindustan Machine Tools, Bangalore, expansion of heavy electrical project, Bhopal, two additional heavy electrical projects and schemes for the production of high pressure boilers and precision instruments." The need for the import of machinery is expected to be heavily reduced by the end of the third plan. The production of nitrogenous fertilisers is expected to increase from 2,10,000 tons at the end of the second plan to 1 million tons by the end of the third plan and that of coal is expected to rise from 60 million tons by the end of the second plan to 97 million tons by the end of the third plan. Besides, there is expected to be a considerable increase in the production of a group of commodities like crude oil, aluminium, cement, paper, sulphuric acid, caustic soda, sugar, cotton textiles, bicycles, sewing machines, automobiles etc.

The programme for power includes the target of raising total generating capacity from 5.8 million k.w. at the end of the second plan to 11.8 million k.w. at the end of the third plan. Nuclear power generation is expected to come to 3 lakh k.w. The number of additional villages to be electrified would come to 34000, marking an addition of 15000.

The production of khadi is expected to increase from about 2610 million yards in 1960-61 to 35000 million yards in 1965-66. The number of industrial estates is expected to rise from 60 in the second plan to 360 in the third plan.

1200 miles of new rail-lines would be constructed and 20,000 surfaced roads would be added to the existing total of 144000 miles. There is expected to be an increase of 50% in the number of commercial vehicles from 2 lakhs in the second plan to 3 lakhs in the third plan.

Important social services include a programme for compulsory free education for all children between 6-11 and other measures for technical education. The number of family planning centres is expected to rise from 1800 in the second plan to 8200 in the third plan.

We can thus look forward to a heavy programme of industrialisation and for the first time in our economic history we can hope for taking a big stride in the direction of becoming a first-rate industrial power.

CHAPTER 7

RESOURCES FOR THE THIRD FIVE YEAR PLAN

The proposed investment of Rs. 10,200 crores over the third plan is more than the total investment during the first and second plans taken together which has been estimated to be of the order of Rs. 10,100 crores. One's excitement gets naturally tickled at the thought that the investment effort over the period 1961-66 is planned to exceed the over-all investment undertaken during the decade 1951-61. The question that immediately comes up before our minds is that we have been bold enough to imagine that we would be able to mobilise the necessary financial resources to see the plan through, in spite of an acute shortage of the means to implement our second plan in toto, which necessitated a reappraisal of the resources position and a rephrasing of the targets, reducing the proposed total outlay in the public sector from Rs. 4800 crores to Rs. 4500 crores. It is really a matter for great surprise that with a scarcity of funds for the second plan in its final stages, we hope to be able to realise Rs. 10,200 crores over the third plan.

This does not mean in the least that the plan is going to be extra-ordinarily big. With all our efforts in the direction of development our net national output stood in 1958-59 (at 1948-49 prices) at Rs. 11,690 crores and *per capita* income at Rs. 293.6 which is almost the lowest in the world. In view of the needs of a rapidly growing population which is estimated to grow to 480 millions by the end of the third plan, the proposed investment of Rs. 10,200 crores is by no means awfully disproportionate either in absolute terms or in terms of the needs of the country. What is intriguing is that the total investment outlay over the five years from 1961-66 is twice as much as that over the ten years from 1951-61. The *per capita* investment per year over the first plan was Rs. 3 and that over second is expected to come to Rs. 6. Over the third plan period

the expected investment *per capita per annum* would approximate to Rs. 42·5, taking into consideration the projected rise in population. The plan, therefore, appears very ambitious in comparison with the achievement over the period 1951-61. In view, however, of the fact that the value of the rupee has gone down by 20% since the commencement of the second plan and by about 30% since the start of the first plan the outlay of Rs. 10,200 crores, even if, it actually materialises would not be extra-ordinarily heavy in real terms. Even in terms of investment as a proportion of the national income, it is not heavy because, in comparison with the investment in the first plan of 7% of the national income, that in the second of 11%, the third plan would bring investment to 14% of the net national output. The rise in income sought to be achieved is 5% per annum and that in consumption 4%. It is, therefore, clear that the goals set are fairly modest in relation to needs, though they appear tall in relation to resources. The way in which resources are sought to be raised has been specified by the Planning Commission as follows :—

Source	(Rs. crore)	
	Second Plan	Third Plan
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	(included in 1 above)	440
4. Loans from the public	800	850
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	1000	1650
8. Budgetary receipts corresponding to external assistance	982	2500
9. Deficit financing	1175	550
10. Total	4600	7250*

*Planning Commission—Third Five Year Plan, Draft, p. 47.

Of the Rs. 7250 crores proposed to be raised to implement the plan in the public sector, Rs. 1050 crores would be current outlays and Rs. 6200 crores, investment outlays. The private sector is expected to raise Rs. 4000 crores, to bring the total investment outlays to Rs. 10,200 crores. In view of the fact that the private sector creates at present nearly 75% of the national income and that the third plan outlay in the private sector is only Rs. 4000 crores, it would not be unwarranted to presume that the private sector does bid fair to succeed in mobilising the necessary resources to fulfil its segment of the plan. It is of course, realised that there is bound to be a certain amount of competition for funds between the public and private sectors of the economy, since the total amount of savings in the community would be the limit of investment be it in the private or the public sectors. Thus it seems plausible to imagine that the success of the public sector in mobilising the resources might well mean a failure of the private sector to find resources for its own schemes, unless there has been an under-estimation of the total volume of savings in the community. The conflict comes out clearly in the sphere of tax and loan resources. Apart from undistributed part of profits set aside for investment, the funds for investment in the private sector would depend on the extent to which they succeed in dodging the taxes. It is a fact well known according to Kaldor's report that the talents for tax-evasion outdo the wits of government. So long as the taxes dodged are employed for investment in the private sector, the speed of economic development of the economy as a whole need not at all slow down, though, the pattern of investment might not be the most desirable from the angle of the community as a whole. Excessive consumption of unnecessary things or investment in 'bad' channels might, however, detract from the development effort. Again we see the same conflict about loans. The more the government succeeds in raising loans from the community, the private sector might feel the pinch of a shrinkage of the loan-market for its own purposes. All the same, there is reason to believe that the incentive of private profit is powerful enough to ensure the mobilisation of investment funds for the private sector of the plan. Doubts, however, persist about the capacity of the government to lay its hands either on the indigenous "milch-cows" or on those which exist abroad which would provide enough for the third plan.

The government desires to raise by way of taxation Rs. 2000 crores—balance of Rs. 350 crores on the basis of existing taxation and Rs. 1650 crores by way of additional taxation. The hitch about this source is not the taxable capacity of the community but the dishonesty and laxity of administration which enables large-scale evasion of taxes. In view of the fact that the national income has risen by 42% during 1951-61, as against the growth of population of 10%, and in view of the fact that the fresh incomes have got concentrated in the hands of the already privileged sections of the community, the extra tax effort involved should not be difficult of achievement. The taxable capacity does increase in proportion to growing incomes, especially when maldistribution of incomes imposes a necessary constraint of consumption on the poor and encourages the rich to indulge in idle titillations which could legitimately be axed without producing any bad effects on their efficiency. The amount of waste indulged in by the urban and rural celebrities could be pruned off in order to release resources to be diverted into investment channels.

More than taxation, an item more striking is budgetary receipts corresponding to external assistance which places the amount to be realised at Rs. 2200 crores. The draft plan states further that Rs. 1000 crores would be the additional external obligation arising out of the need for repayment of loans which fall due for repayment and servicing of loans which continue further. The total value of expectation from abroad comes to Rs. 3200 crores. In view of the fact that our credit abroad is pretty sound and that our plans have already been blessed by the three-man committee, sent by the World Bank and the enormous amount of prosperity which has been attained by the western nations in the post-war period, the necessary assistance from abroad ought to be forthcoming, unless international political rivalries lead to an engulfment of the world in a global conflagration, in which case human civilization might well go to ashes in a bon-fire. We have been getting assistance from both the rivals in the cold-war and there is hope, this would continue over the third plan as well. The snag on the side of external assistance is that our sterling balances have declined so much so that not further banking on this source is possible in the course of the third plan.

The third important source envisaged for the plan is internal loans which have been placed at 850 crores of rupees as against

Rs. 800 crores of the second plan, our experience of the first and second plans provides reason for hope that the target set for the third plan is likely to be fulfilled.

Apart from financial resources, we have already signed an agreement with the U.S. for the importation of 17 million tons of food-grains which should stand us in good stead in implementing the third plan. The abundance of unused man-power resources that goes a waste in the country could profitably be used for development if PL 480 resources be wisely used.

The existing resources could be made to go a longer way by pruning off moon-shines like the national service scheme for university students which is estimated to absorb annually Rs. 20 crores and produce nothing but road-side Romeos ! Another way is to reduce the capital output ratio by choosing less capital-intensive methods of production which in many a case, might be as efficient as more capital intensive methods.

The third plan resources appear to be well within the reach of the country, given proper will and wisdom and ability to organise the affairs of the country.

CHAPTER 8

THE PROBLEM OF SURPLUS LABOUR IN THE RURAL AREAS

By far the most important problem which we have not been able to solve so far and which bids fair to aggravate sharply every year is the problem of surplus labour in the country at large and especially so, in the rural areas. Given a rigid occupational structure as the rural areas have, a rapidly growing labour-force is increasingly being thrown back on a more or less fixed area of cultivated land to eke out a precarious living in the absence of employment opportunities being thrown up in the non-agricultural sector of the economy. The exodus to urban industrial areas absorbs but a fraction of the total rural surplus and the rest of them are supposed to be employed in their traditional occupation of farming. There is, therefore, a large volume of disguised unemployment and under-employment in the sense that there are millions of workers prepared to do more of work than what they are already doing but not finding any opportunity. If we fix up a minimum number of hours of work per day, the number of the under-employed in the countryside may well run into crores. The Planning Commission feels, however, that such a concept is not suited to a backward economy like ours. The concept of under-employment which they agree to accept is that a person is to be regarded under-employed if he is prepared to accept more of work for wages. On this basis, the National Sample Survey Report has estimated that the number of under-employed persons in the rural areas is likely to be 15 millions. There are reasons to believe that this estimate is likely to be an under-estimate. This number, moreover, is ever on the increase due to the annual additions made to the age-group which is supposed to consist of the workers. There are some theorists who believe that even if all the surplus labour be drained off from land into other

occupations, agricultural productivity would not be adversely affected. Even if this proposition is not accepted in toto, the fact remains that, as it is, quite a large number of physically and mentally sound persons are required to waste their time and be more or less idle consumers, whatever the standards of consumption. What should otherwise be a great asset to the country has become a net liability in the present set up and this anomalous situation needs rectification as early as possible. The enormous amount of potential production which a fuller employment could have made possible, is not being realised today because of large-scale unemployment. In fact, there is every fear that the need for diverting potential savings to provide the minimum consumption requirements of the under-employed and the unemployed is eating into the rate of possible investment on land and hence, hampering the growth of our agriculture. In this sense, the unemployed and the under-employed are a clear obstacle to economic development.

Employment, as observed by the Planning Commission, is both the cause and the consequence of economic development and thus the rural areas are badly involved in a mess of vicious circles, extrication from which postulates a clean break away from the strangulating circumstances. The third plan has chalked out the following programme in this direction.

Agricultural production in the third plan is to increase twice as fast as it did during the decade 1949-50 to 1958-59 and this increase in agricultural production is sought to be achieved mainly through the employment labour-intensive techniques of agricultural development. There are quite many jobs in the country-side which require very little of skill and which could be performed with the most primitive of tools requiring comparatively a little of capital. The third plan envisages a comprehensive programme of works in the rural areas in order to make it possible to create adequate employment opportunities on the one hand and bring about an increase in agricultural production on the other. The works envisaged are divided into five categories as follows :—

1. "Works projects included in the plans of States and local bodies which involve the use of unskilled and semi-skilled labour.

2. Works undertaken by the community or by the beneficiaries in accordance with the obligations laid down by law.
3. Local development works towards which local people contribute labour while some measure of assistance is given by government.
4. Schemes to enable village communities to build up remunerative assets.
5. Supplementary works programmes to be organised in areas in which there is a high incidence of unemployment.

There are many schemes included in the plans of the local bodies which need a large volume of unskilled and semi-skilled labour. For instance, minor irrigation, flood control projects, land reclamation schemes, afforestation, soil-conservation, road development etc. which could be done as indicated earlier, with more of labour and less of capital. The assignment of such works could be entrusted to labour co-operatives so that the workers who hail from a particular area could take the contract on their own without the intervention of the professional contractors. In such a case, there is every likelihood of more and more labour intensive techniques being employed to carry out the works programme into practice. In case, the local people find that some skilled labour is not available in their own locality, they can import labour from outside. This seems to be an excellent suggestion to get rid of the contractors who are observed to be making fortunes out of the development schemes of the country.

The law imposes an obligation on certain categories of people to maintain certain works within their jurisdiction—the construction and maintenance of field channels, desilting and maintenance of canals, maintenance of bunds and tanks and desilting the beds of tanks etc. The plan observes that it should be duty of the village panchayat or the panchayat samiti to get the necessary development carried out by the parties concerned and in case, they fail to do the same, the local authorities would do the job on their own and recover the cost from the beneficiaries. In addition, the State Governments also are sought to be empowered to undertake development works such as contour-building and recover the cost later from the beneficiaries. Works such as these would certainly create employment opportunities in the country-side.

The third plan also visualises a minimum amenities programme. This includes development of local works schemes undertaken during the first and second plans which generally speaking were appreciated and elicited participation from the local communities. Instances of this type are : (1) the supply of drinking water (2) roads linking each village to the nearest main road or railway station and (3) the village school building which may also serve as a community centre and provide facilities for the village library. This would be a part of the community development programme.

It is realised that there is a wide scope for creating village community assets through labour-intensive measures of employment. Such assets include tanks, fisheries, fuel plantations and common pastures. In some of the specially backward areas, special works programmes are suggested to be undertaken.

The success of such a heavy programme of works obviously depends on the extent to which adequate interest is evoked in the country-side in the development plans of their own areas and the extent to which resources, especially, basic wage-goods such as food, tobacco, kerosene etc. are made available to the workers.

Frequently, a point is made in theoretical literature on economic development that there is a possibility of realising capital-formation in the under-developed over-populated countries of the world by utilising unutilised labour and it is often suggested that what stands in the way of adopting such measures is the lack of adequate food-supplies on the one hand and the capacity to organise on the other. The third plan has some distinct advantages in both the respects. Our agreement with the U.S.A. under PL 480 for the importation of 17 million tons of foodgrains should go a long way on the food front and our experience in the field of organising community development schemes and rural extension services should help us in making amends for our deficiencies in organising village development schemes.

Dovetailing some non-agricultural crafts with agricultural development is also an essential condition to provide adequate employment opportunities and also to provide the basic consumer goods in the country-side. There is every hope that things would move fast in the expected direction.

CHAPTER 9

EXECUTION OF THE PLAN

To formulate a perfectly coherent and consistent plan is one thing and its execution in practice is another. In fact, the implementation of a given plan is far more important than its formulation which could be done most efficiently by the experts of the Planning Commission with their command over the necessary information regarding the state of the economy and the requirements to be fulfilled to generate the income-raising forces powerful enough to counteract the income depressing factors which is essence of initiating the process of economic growth. In spite of the fact that ours is a democratic form of planning, we cannot deny that the plan is formulated by a few experts at the top in keeping with the requirements of the community. Regardless of who formulates the plan, the point at issue is that to execute a plan efficiently is far more difficult than to design it. This does not mean that the two are unrelated. In fact, formulation and execution are closely related in a democracy. Under a totalitarian form of government the responsibility for formulation as well as execution of a plan is highly centralised and there is a ruthless administrative machinery to carry out the orders which ensue from the top with the greatest speed and vigour. Herein lies the secret of the remarkable success of the totalitarian regimes or benevolent dictatorships which exercise political compulsion in order to achieve economic ends. The severity of penal measures for slackness in execution exerts a sufficiently strong pressure on the administrative personnel to see the plans through in time. This has been the experience of many a developed country in the world which has brought about revolutionary economic changes within a short time. Even in those countries whose economic development has come about through the process of capitalistic mode of organisa-

tion and production in the pre "take off" and the "take off" stages of their economy, the capitalists virtually exercised the self-same ruthlessness as is done under a dictatorial regime, albeit the fact that the sphere of their jurisdiction was limited to what came under their ownership and over-lord-ship. We have, however, accepted the values of a democratic form of society and there is no going back upon them, despite the obstructions which such values raise in the path of speedy economic development.

It has to be realised that the execution of our national plans is entrusted to three sets of agencies—(a) the Central Government (b) the State Governments and (c) the private entrepreneurs who are in charge of the implementation of the plans in the private sector of the economy. There is no problem of execution so far as the private sector of the economy is concerned because the stimulus provided by the enormous outlay of the public sector has been strong enough to induce the entrepreneurs to exert themselves every nerve to reap a rich harvest of profits. Ever since the commencement of planned outlay in the public sector, from the beginning of the first plan, the private sector of the economy has been expanding faster than the public sector and hence the conclusion to be drawn is that the lure of private profit would continue to be powerful enough to ensure over-fulfilment of the private sector of the plan. The fly in the ointment is the difficulties of execution of the schemes in the public sector of the plans.

The administrative mechanism which we have inherited as a legacy from the British is suddenly confronted with functions and duties, and responsibilities which they never had any occasion to discharge in the past and, by and large, barring a small minority of efficient people at the top, the generality of the personnel consists of awfully bad mercenaries whose sole aim in life is to make a fortune by the abuse of the power vested in them by virtue of their being government servants. This has remained and this will continue to be a serious obstacle to the efficient implementation of the programme of development under the public sector of the plan. The *modus operandi* of execution as constituted at present is that the departments concerned entrust the work to the contractors and the actual role played by the administrative personnel is by and large limited to the management of monetary affairs in their interest and the interest of the contractors. It is seen in several cases that the work done is

hardly worth the expenditure incurred upon and the use of inferior material, bad workmanship and an intolerable wastage of public resources has been nothing uncommon. It is really most amazing that the draft outline of the plan has nothing to say as to how this sort of situation is going to be remedied. The plan makes the following suggestions for ensuring efficiency in execution :

(1) "formulation of policies in clear-cut terms by Government and ensuring continuity in giving effect to them ;

(2) clear assignment of responsibility for implementation with full appreciation of the objectives to be achieved at every level including Minister, Secretary and Head of Department ;

(3) ensuring everyday efficiency with speed and prompt disposal, including (a) proper training of personnel, (b) simplification of procedures, and (c) effective supervision of work at each level ;

(4) ensuring in respect of important construction projects that the best results accrue for the expenditure incurred and there is integrity and economy at all points ; and

(5) ensuring right public relations and co-operation from and with the public, including due courtesies and consideration for all citizens."

There is really nothing to gainsay so far as these suggestions go in order to improve the efficiency of execution. The point, however, is to what extent these principles would be put into practice. Not that knowledge is lacking as to what needs to be done in order to improve the tone of administration but the precise point is to execute them into action. Clear-cut formulation of policy is certainly desirable along with the assignment of definite responsibility to particular persons. The top level heads like minister, secretary, head of department can certainly play a very important role. To accept democracy and yet believe in centralisation of powers at the top is a contradiction in terms. The best way to ensure speedy execution is to bring about a large-scale decentralisation and devolution of authority to small officials working on the spot. A collective responsibility is likely to lead to a greater amount of slackness and the definite fixation of responsibility on a certain individual would make it impossible for the person concerned to escape the responsibility entrusted to him. Severe punishment must be visited on those who slacken in their efforts or abuse otherwise

their privileged position for personal profit and are found to be guilty of negligence of their responsibility and duties. This has to be treated on par with treason in view of the great importance to be attached to the implementation of the schemes.

The suggestion to cut through bureaucratic red tapism by simplifying procedures and ensuring proper supervision at different levels is welcome. This also is an aspect of the problem of decentralisation and delegation of responsibility to definite individuals.

By far the most important problem is to ensure economy in construction projects. The draft plan gives a ten-point programme in this direction and this is of particular importance because of the experience of the second plan that about 1/6th of the total expenditure was incurred on construction works. Big and grandiose buildings are certainly not vital to the economic growth of the country and wherever there is avoidable expenditure on the construction of magnificent structures, we can take it for granted that so much of money is totally wasted. The suggestions given include limiting construction to inescapable buildings, materials budgeting standardisation, precise estimation, a reduction in the assignments to contractors, departmental execution, encouragement to labour-co-operatives, labour-training etc. These are really most valuable of suggestions and let us hope that they would be duly put into practice to ensure speedy and efficient execution of the third plan.

While the role of the governmental agency is appreciated, we cannot forget the fact that public co-operation is equally vital and important. The government, however, seems to rely more on the well organised urban bodies like the Kasturba Gandhi National Memorial Trust, the Harijan Sevak Sangh, the Gandhi Smarak Nidhi, the Bharat Sevak Samaj, the Indian Conference of Social Work, the Indian Council for Child Welfare etc. than on the institution of smaller bodies at the village level. The big bodies are important and have been doing good work. But most of their activities seem to be confined to urban areas and there is a great need for enlisting the co-operation of the village folks. The suggestions made by the Balvantrai Mehta Committee report in the direction of devolution of authority in favour of village panchayats and the regional panchayats are likely to prove effective in exciting the interest of the villagers in the problems of their own upliftment. Much, however, depends on the quality of the authorities at the village level and there is reason to believe that things are gradually changing for the better.

CHAPTER 10

THE PROBLEM OF BACKWARD AREAS IN DEVELOPMENT PLANNING

It is needless to remind ourselves of the fact that ours is a country of continental dimensions with extremely wide regional disparities with regard to the endowment of natural resources, density of population and the level of economic development attained so far as a result of the historical forces operating in the direction of determining the course of evolution of the sub-societies which exist in large numbers within the Indian community. Since our nation has embarked on a planned programme of development, it is essential to see that such of our fellow countrymen as are compelled to live even today in none too civilized socio-economic circumstances are given a special helping hand so that they might not lag far too behind the rest of the country. This problem of the backward peoples in backward areas—and parenthetically we may note even some of the most advanced of states do have some backward pockets—assumes a critical importance at the present juncture of our country, in view of the fact that the major development schemes are likely to give a historic lead to some privileged areas which receive the benefit of big industrial concerns, irrigation schemes, railways, roads etc. The point to note is that the advanced regions stand a much better chance of further advancement whereas the backward regions are likely to continue to be the laggards that they already have been and hence, there is every likelihood of the regional disparities getting accentuated further if the benefit of development goes to such of the areas as are already better developed. One of the important considerations in the location of development schemes ought to be the extent of development already achieved and the possibility of giving a preferential treatment to such of the areas as have not been able to develop so far. This

does not, of course, mean that economic considerations such as proximity to raw-materials, means of transportation, communication and power, supply of labour, possibilities of marketing etc. should be relegated to the back-ground. Economic considerations are certainly all important and the advantages of the reducing cost are bound to influence the selection of sites in a particular region. All the same the consideration of ensuring some sort of a regional balance ought to weigh with the planners of the country in according backward areas, at least some privileged position. For instance areas like Vidarbha, Marathwada, eastern U.P., Madhya Pradesh, Orissa, Assam, certain portions of Bihar and Mysore are so glaringly backward that they deserve a special treatment.

One of the likely impediments in recognising the claim of a certain area to backwardness in order to be able to receive a special consideration is the paucity of adequate statistical data of the various regions regarding agricultural production, industrial production, investment, unemployment, irrigated area, road mileage, primary and secondary education, and occupational distribution of population which are some of indices to prove or disprove the relative backwardness of one area as against another. There is no detailed information regarding the resources available in various regions and studies are in progress. As it is, there is not available sufficient information for any objective evidence which would justify special treatment to certain areas. All the same, areas and regions which have been in a state of chronic scarcity and have been accorded "relief-measures" in the past may be singled out on an approximately correct basis as the ones which stand in need of special development measures which would automatically eliminate the need for "relief-measures" in future.

It must also be noted that locational advantages are not likely to accrue in the backward areas in the initial stages, before somebody ventures in to create the basic overhead facilities like the supply of water and power, means of transportation and communication, engineering services, banking facilities etc. This entrepreneurial adventure could be undertaken only by the state because it would not be in the interest of the private profit-hunters, to make lumpy investments especially in industries which go by the name of public utilities as may be taken over by the state any time. The state has to give the initial push so that things may get going. In order to

give effect to the idea of balanced regional growth the following considerations have been laid down by the planners :—

(1) "the priority given to programmes like these of community development, irrigation, especially minor irrigation, local development works, etc., which spread over the entire area within the shortest possible time ;

(2) provision of facilities such as power, water supply, transportation and communications, training institutions, etc., in areas which were lagging behind industrially or where there was greater need for providing opportunities for employment ;

(3) programmes to be undertaken for expanding village and small industries ; and

(4) in the location of new enterprises, whether public or private, consideration to be given to the need for developing balanced economy for different parts of the country. In particular, this aspect was to be kept in view where location of an industry was not determined almost entirely by the availability of raw materials or other natural resources."*

One of the best ways of ensuring a speed of development schemes over a wide range of backward areas is to select such schemes as are likely to confer benefit on a larger number of families. Minor irrigation, bunding road development, development of tanks, construction of school buildings etc. are some of the schemes which are likely to leave their impact on a wide area and hence they deserve to be accorded a priority. The second and the third are closely interconnected. The development of village small scale and cottage industries obviously postulates at least some basic facilities and the provision of these facilities by itself might stimulate small scale industries. The fourth consideration might not really be very helpful to the backward areas because of the fact that the location of major new enterprises is bound to be decided primarily on the basis of economic considerations and a backward region which does not have these advantages, stands little chance of receiving the benefit of a big industry. All the same, it is good, the licensing policy of the state keeps this consideration also in mind.

The State plans, play an exceedingly important role in ensuring regional development in general and the backward areas in particular. Agriculture, community development, village and small scale industries, irrigation and power and social services are mostly provided for in the State plans and a wide dispersal of schemes such as these so as

*Third Plan, A Draft Outline, p. 71.

to confer benefit on the backward areas is the responsibility of the State concerned. Over the first and second plans together the State plans account for a total expenditure of Rs. 3800 crores of which over Rs. 2200 crores have been extended to them by way of Central assistance. In addition to the State plans special programmes have been formulated in certain areas which face especially scarce situation. In 1953-54 a special programme was executed in some areas of Andhra Pradesh, Assam, Bihar, Bombay, Madras, Mysore, Rajasthan, U.P. and West Bengal, involving an expenditure of Rs. 40 crores.

In the third plan, the State plans are expected to account for a total outlay of Rs. 3650 crores, which is roughly equal to the outlay in the first and the second plans together in the State plans. Schemes for universal compulsory education for all children in the age-group 6-11 years, special emphasis being placed on industrial location in the backward areas, the expansion of technical education, development of occupations complementary to agriculture and ensuring mobility of labour to thinly populated areas which offer better opportunities for employment would go a long way in giving a fillip to the development of backward regions. More and more of knowledge about the potentialities of the backward regions is one of the basic essentials for their upliftment and it is heartening to note that sincere efforts are being made to discover and diagnose the troubles of the backward regions.

CHAPTER 11

AGRICULTURE IN THE PLAN

It would not be an exaggeration to hold that the success or otherwise of the third plan hinges largely on the fulfilment of the targets set for agricultural production. Agriculture contributes even today employment and living to nearly two thirds of the total population, accounts for nearly half of the national income, provides basic raw materials like jute, sugarcane, cotton, oilseeds also to a number of industries, and it is generally agricultural production which plays an important role in stabilising or destabilising the level of prices which in turn determines the course of business outside of agriculture. A problem which we have been facing right from the middle of the last century, as is evidenced by a series of famines which took a heavy toll of life, has been the food problem and there are experts who foretell the almost certain prospects of a famine in our country in the near future because of the fecundity of our people and the relative slow rate of growth of agriculture. Moreover, it is agriculture which is the reservoir of the "reserve army of labour" to be drawn upon to supply the needs of a rapid industrialisation programme. It is again the earning and spending habits of the rural agricultural population which make the marginal or even structural alterations in the demand for non-agricultural commodities and hence in their production. It is agriculture which offers the largest scope for the utilisation of unutilised indigenous resources and it is agricultural production which will largely influence the pattern of imports and exports and hence the nature of the foreign-exchange problem. Above all, it is in the field of agriculture that the output-investment ratio is likely to be the maximum in case nature does not foil the frantic efforts of man. In view of these large number of credits in favour of agriculture, there are some development theoreticians who hold that India could

have a prosperous economy on the basis of a thriving agricultural sector, even though the industrial sector be minor in comparative terms. It is also argued that the heavy sacrifices which the common people are made to undergo today because of the emphasis on a heavy programme of industrialisation and the consequent inflationary pressures generated during the period of gestation of the investment programmes could be easily avoided by shifting the emphasis from industrialisation to agriculture. In any case, there is no denying the fact that the destiny of our country largely hangs by our agriculture.

The allocation to agriculture as envisaged by the plan under the heads of agriculture, minor irrigation, major and medium irrigation and community development is shown in the following Table :

group	(Rs. crores)		
	public sector investment	private investment	total
1. agriculture, minor irrigation and community develop- ment	675	800	1475
2. major and medium irrigation	640	—	640
			<hr/> 2115

Of the total investment outlay of Rs. 10,200 crores in the public and private sectors together, Rs. 2115 crores have been directly allotted to the development of agriculture—this works out to slightly more than 20% of the total. In view of the significant role which agriculture is expected to play, an allocation of only 20% of the total investment outlay to agriculture appears rather too small. This line of reasoning, however, would not be warranted if one takes a view of the problems confronting our economy in a correct perspective and appreciates the close complementarity between the development of industries and the growth of agriculture. To consider the problems of agriculture in isolation is likely to lead to misleading conclusions. For instance, the requisites for the growth of agriculture such as the extension of irrigation facilities, soil conservation, dry farming and land reclamation, supply of fertilizers, provision of adequate transportation facilities to enable disposal of surplus agricultural produce etc. hinge largely on the development of the

industrial sector of the economy. The point which we are trying to make is that the development plans of agriculture could not be adequately accounted for merely in terms of the proportion of the aggregate investment outlay allocated to agriculture. Most of the agricultural requisites are likely to come from outside of the agricultural sector of the economy and hence, the allocations made to the non-agricultural sector would have decisive influence on the development of agriculture.

It is also seen from the plan proposals that agriculture would continue to be the biggest single segment of the private sector of the economy and in view of the scattered nature of farming, development of agriculture has to be done more by direction than by dictation. With characteristic individual farming practised by most of the peasant-proprietors, agriculture is likely not to lend itself to over-all planning in order to ensure the due fulfilment of the targets set for the production of different crops. It is doubtful whether the objects of the plan agree in toto with the incentives which motivate the farmer's behaviour. A divergence between the two is not ruled out as is evidenced by the experience of the second plan which has revealed many cases in which farmers diverted to the production of commercial crops, fertilizers, water, pesticides etc. which were made available to them for the specific purpose of augmenting the production of food. It is difficult to believe that agriculture under the governance of millions of families with millions of individual plans would proceed on the lines on which it is expected to develop by the farmers. It is, perhaps, for this reason that the planners are anxious to co-operativise agriculture as rapidly as possible so that the business of farming may be reduced to a smaller number of easily manageable co-operative units. It is also because of the impossibility of bringing agriculture under the penumbra of over-all planning, that the chief execution agency for the agricultural plans is expected to be the local institutions like the village panchayat, the block panchayat and the zila parishads (district boards).

The plan visualises an increase in agricultural output of 30-35% of that which is estimated for the year 1930-31, over the five years of the third plan and some principal targets for different commodities are as follows :—

commodity	unit	production in 1958-59	expected production in 1960-61	target of production in 1965-66	% increase
foodgrains	million tons	73.5	75.0	100-105	33-40
oilseeds	"	7.0	7.2	9.2-9.5	28-32
sugarcane	"	7.2	7.2	9.0-9.2	25-28
cotton	" bales	4.7	5.4	7.2	33
jute	" "	5.2	5.5	6.5	18
coconut	million nuts	4455	4500	5750	28
arecanut	thousand tons	85	93	100	8
cashewnut	"	69	73	150	106
pepper	"	26	29	30	3
cardemom	"	n.a.	2.26	2.62	16
lac	"	33	50	62	24
tobacco	"	263	300	325	8
tea	million lbs.	716	725	850	17
coffee	thousand tons	44	45	80	78
rubber	"	25	26.4	45	71
all commodities		—	—	—	30-31

These targets are sought to be achieved on the basis of the village production plan which would pay particular attention to

1. "full utilisation of irrigation facilities, including maintenance of field channels in good condition by the beneficiaries, economy in the use of water and increasing the area under multiple cropping,
2. multiplication in the village of improved seed and the supply on credit to those who are not in a position to pay in advance,
3. supply of fertilisers,
4. programme for composting and green manuring,
5. adoption of improved agricultural practices, e.g. soil conservation, contour-bunding, dry farming, mixed farming, plant protection, etc.,

6. programme for new minor irrigation works to be undertaken in the village, both through community participation and on an individual basis, and
7. programme for the introduction of improved agricultural implements." (page 156).

With the extension of community development programme to all the villages of India by the end of the third plan, the removal of institutional obstacles, the development of co-operatives, the devolution of authority to the local authorities, the emphasis on the extension of scientific methods of cultivation, the intensification of state efforts to provide some of basic requisites of agriculture, the increasing plan consciousness in the countryside etc. are all measures calculated to ensure the fulfilment of agricultural production targets, if nature is not unduly harsh.

CHAPTER 12

LAND REFORM AND THE THIRD PLAN

Unless there is a congenial institutional set up in the agricultural sector of our economy, the proposed goal of raising agricultural production during the third plan, by 30-33 per cent over the targets achieved by the end of the second plan is likely not to be adequately realised. Among several conditions the fulfilment of which alone could fairly well ensure the realisation of the targets set for agricultural output, by far the most important appears to be the relationship of the tiller of the soil to the land that he cultivates. Prior to the institution of landreforms during the first and the second plans, over half the land cultivated in our country was under the tenancy system of cultivation in which the actual cultivator had no *locus standi* on the land and that he cultivated excepting for about half the share of the crop, the remaining portion going to the owner of land. Sub-infeudation and the interposition of a number of intermediaries between the tiller and the state led to many malpractices chief among which might be reckoned rack-renting, insecurity of tenure, lack of adequate incentive for investment on land due to the tenant's feeling of uncertainty about his being able to continue on land, diversion of disposable savings to satisfy the craze for conspicuous consumption on the part of the landed gentry, and in general inefficiency of cultivation which adversely affected agricultural production. The land reforms which have already been brought into force seek to eliminate all elements of exploitation and social injustice within the agrarian system and to provide security for the tiller of the soil. Most of the rent-receiving tenures have been abolished and with regard to the minor tenures left so far, there has been a considerable regulation and the scaling down of rents. The most important of all reforms, however, is the conferment of ownership rights on certain class of tenants.

There is, however, no easy solution for the agrarian problems of India in view of the fact that there is too much of overcrowding on land due to the rapidity of growth of population and the grossly inadequate opportunities for employment in the non-agricultural sector of the economy. There is the problem of a large number of landless labourers whose conditions are reported to have deteriorated recently according to the findings of the Second Labour Enquiry Committee Report (1957-58). It has to be realised that land-hunger is too great to be satisfied in the situation of our agriculture with great masses of people scrambling for tiny bits of land in order to eke out a living.

In general, the object of tenancy reforms in our country has been to create a class of owner-cultivators who have a feeling of unquestioned security on the land that they cultivate and who consequently could put in the best of their efforts to improve agricultural productivity. A class of self-reliant and hard working peasant proprietors are expected to contribute their best to the improvement in agricultural productivity. This, however, is a partial solution of the problem and that too for a short while because, it in no way helps in the elimination of the discrimination against the landless labourers; nor does it give any reason as to why rights of ownership be conferred on a particular set of people, let alone the question of adequate compensation being paid to the former owners who are deprived of their means of livelihood. The land reforms as they have been executed so far have shown a particular discrimination in favour of a certain class of tenants who wield a considerable political influence by virtue of their importance in throwing a particular party into power. The lesser tenants and the landless labourers who are mostly the members of scheduled castes and scheduled tribes have not been given a fair deal and there does not seem to be any chance for them of ever becoming cultivators on their own. The only way open to these people is to move out of agriculture in search of occupations in the small scale and cottage industries or elsewhere in the urban areas in favour of the least skilled of menial jobs in order to make a living. Consequently, the claim made by the draft outline of the third plan that the land reforms seek to assure "equality of status and opportunity to all sections of the rural population" appears to be completely ill-founded.

Be it what it may, the next point to consider is how far the system that has been brought into existence bids fair to deliver the

goods. It is true peasant proprietors are likely to work much harder when they acquire a sense of security and a fair deal and this is likely to improve agricultural productivity. It is also likely that the phenomenon of the backward sloping supply curve of labour might induce some of the former tenants not to work hard but be self-complacent with the increased share of the normal produce, over which they now have a command because of the reduction in the share of the landlord. Should such a thing come to pass, there might actually be a fall in output due to the slackness of the cultivators. The volume of investment on land is also likely to fall owing to the lack of investible funds with the average cultivator and the elimination of some of the enterprising landlords as well along with the indolent idlers. There also has been a considerable shrinkage of credit facilities with the restrictions which have been imposed on the money-lenders who in accordance with the findings of the Rural Credit Survey Reports used to satisfy nearly 70% of the credit requirements of the farmers. In the context of the land reforms of our country, all these are relevant considerations which have to be accorded a due weight in interest of securing maximum agricultural productivity during the third plan period.

The draft outline of the third plan observes : "The main task during the third plan will be to complete as early as possible the implementation of policies evolved during the second plan and embodied in the legislation which States have recently undertaken in pursuance of the accepted policies." (p. 94, para 98). It is also proposed to consider the subject more fully in the final report on the Plan when the suggestions of the Panel on Land Reform and the views of the State Governments would also be available.

The third plan would not be much bothered about the problem of rent which is more or less solved and all that needs to be done in this respect is that laws already passed should be strictly enforced. What is required is not fresh legislation but enforcement of the ones already passed. For instance, it is seen that there has been a large-scale ejection of tenants in many States under the guise of "voluntary surrenders" and thus, the law providing for the security of cultivators has been circumvented and rendered ineffective in a legal way. It should be the task of the third plan to take up all such *mala fide* transfers and restore the lands back to the tenants. It is

also essential to see that tenants of non-resumable lands are made the owners as early as possible.

Laws about the imposition of a ceiling on land-holdings have already been passed by many of the States and this measure apart from the achievement of some egalitarian ends is expected to lead to intensive cultivation in so far as the possibilities for extensive cultivation are reduced. (The same measure needs to be applied to urban housing property which now goes totally Scot-free). The land obtained after the imposition of ceilings is to be given to co-operatives.

The reforms would succeed to the extent that they induce the farmers to work harder, invest more, save more and consume the minimum for efficiency. In view of the complexity of the situation and in view of the fact that land reforms touch only a fringe of the problem, there is a great need for complementary measures to be enforced if the targets set for agriculture are ever to be realised.

CHAPTER 13

VILLAGE AND SMALL INDUSTRIES

Ours is a country with an abundance of unskilled labour and a comparative scarcity of capital-resources and organisational ability. Placed as we are in the pre-industrial state of under-development, quite a proportion of our human and natural resources remain unutilised, under-utilised and this accounts for the exceptionally low level of our national income and the consequent appalling poverty and low levels of living for the masses of our people. Regardless of whether we deem it desirable or undesirable to emulate rapid large-scale industrialisation of some of the western countries, the pattern of our plans for the economic development of the country is bound to be conditioned by the fact that there is a great scarcity of capital and an abundance of labour, equipped with neither the high levels of health and skills of the west, nor spear-headed with a class of dashing entrepreneurs who take the initiative in organising the production and distribution of a variety of commodities. Given the state of over-populated under-development, we are constrained to design such schemes as would lay the greatest emphasis on the fuller utilisation of unutilised manpower and provide employment to the largest number of people with whatever investible resources are made available.

In other words, the employment-capital ratio ought to be the maximum in order to create more and more of employment opportunities. The importance of achieving this objective could be appreciated when we remind ourselves about the magnitude of the volume of unemployment and under-employment whether open or disguised, which we find in our country. It is well known that we have failed to achieve the employment target sought to be achieved by the end of the second plan. As against the target of creating

employment opportunities for 8 million workers, the expected achievement is estimated to be only 6 millions and taking into consideration the large accretions to the labour-force which must have been made year after year, the problem of unemployment in the country is bound to be acutest in the course of the third plan. The amount of frustration and moral debasement which enforced idleness causes to the physically and mentally sound young men of our country due to enforced unemployment is too well known to need any emphasis. The impact of our development plans would not penetrate to the lower strata of our society unless actual achievements filter down to them in some visible form or the other and one of the best ways of creating a consciousness about our development schemes is to provide increasing employment opportunities.

The need for the promotion of development of village and cottage industries arises out of the fact that that is the only way to create adequate employment opportunities, with the minimum of capital. In other words, our capital can be made to go the longest only when the capital-employment ratio is the minimum and this ratio is likely to be the minimum in the case of village and cottage industries.

There is one more point to be noted before we come to the actual proposals in the third plan. This is the question of productivity. It is often argued that employment is not an end in itself but it is only a means to achieve the goal of increased productivity in order to augment the supply of goods and services which is basic to the objective of raising the levels of living of the people at large and the point is to examine how far this objective is likely to be fulfilled, if our emphasis be on the promotion of village and small industries.

The conflict between employment and productivity arises out of the supposed greater productivity of the capitalistic round-about methods of production and hence, it is argued that those techniques of production should be employed which would provide the greatest of production, regardless of what happens to employment. This argument is really very powerful and difficult to refute merely on economic grounds. But the snag of this line of reasoning lies in the fact that there is no evidence to prove that the total production obtained by a large number of decentralised small units is in any way

less than what is likely to be got out of a few big units which absorb the same amount of capital as done by several small units. Without sacrificing production, we can choose a variety of village and small industries, which can ensure a low capital-employment ratio and a high output-investment ratio which alone would serve the interests of the community.

The third plan proposals would be guided by the following principles as laid down by the draft outline of the third plan :—

- (1) "the relative contributions of small and large units in meeting the growing requirements of the community will be defined as part of common production programmes for various industries ;
- (2) small units will be assisted to improve their organisational and technical efficiency ; and
- (3) artisans and craftsmen will be helped to organise on co-operative lines, especially in the rural areas."

The help visualised to be extended to village and small scale industries will "take care of the various requirements of the rural artisans and craftsmen, namely, adequate facilities for training, provision of credit under an easy procedure and at reasonable rates, technical assistance provided through extension services and common service facilities, supply of improved tools, facilities for purchase of raw materials in short supply, assistance in the marketing of goods through sales depots and purchase of Government stores and, where necessary, construction of worksheds." It is seen that this is quite a comprehensive programme which needs a large amount of investment. The total allocation to the development of village and small industries out of public funds, in the course of the third plan is of the order of Rs. 250 crores and in addition, the total private outlay is expected to be to the tune of Rs. 275 crores, bringing the total to Rs. 525 crores. The third plan public outlay is going to be distributed as under :—

	second plan (anticipated expenditure) (Rs. crores) -	third plan (tentative allocations)
handloom and powerlooms in the handloom sector	32.1	36.0
khadi, Ambar khadi and village industries	80.5	89.0
small scale industries and indus- trial estates	56.3	107.0
handicrafts	5.3	8.0
sericulture	3.8	7.0
coir industry	2.0	3.0
total	180.0	250.0

The third plan visualises the establishment of 300 new industrial estates and hence, the allocation to small scale industries and industrial estates comes to as much as 43% of the total of Rs. 250 crores. The handloom sector, including powerlooms in the handloom sector, has been allotted Rs. 36 crores. Out of the 13000 powerlooms sanctioned to be installed so far only 3500 have been actually put up.

The principal physical targets for the third plan are as follows :—

	unit	1960-61	1965-66
handloom	million yards	2,125	3,500
powerlooms	"	405	
others	"		
khadi	"	48	
traditional	"	32	
Ambar	"		
		2,600	
raw silk	million lbs.	3.7	5.0
industrial estates	no.	60	360
powerlooms to be installed in the handloom sector	no.	3500	13 000

The village and small scale industries have already made a remarkable progress under the first and second plans, especially because of the growing demand consequent upon rising incomes. This process

could confidently be expected to intensify in the course of the third plan because of the enormous outlay of Rs. 10,200 crores. In order to hold the likely or almost certain inflationary forces under control, it is essential to augment the supply of a variety of commodities and the village and small scale industries could be expected to play a decisive role in this direction.

CHAPTER 14

THE PROGRAMME OF INDUSTRIALISATION

The third plan proposes to launch on a heavy programme of industrialisation, with the total outlay envisaged for industrial mineral schemes being as much as Rs. 2500 crores net—Rs. 1500 crores in the public sector and Rs. 1000 crores in the private sector. In addition Rs. 525 crores are expected to be expended on the development of village and small industries—Rs. 250 crores in the public sector and Rs. 275 crores in the private sector. Thus, of the planned investment outlay of Rs. 10,200 crores over the third plan, the allocation to industries, big and small comes to Rs. 3025 crores. The proposed outlay on the generation of power in both the sectors together comes to Rs. 975 crores—Rs. 925 crores in the public sector and Rs. 50 crores in the private sector. Transportation and communication have been allotted Rs. 1650 crores—Rs. 1450 crores in the public sector and Rs. 200 crores in the private sector. The total outlay on power, transportation and communication works out to Rs. 2625 crores. The aggregate outlay on the development of power, transportation and communications, village and small industries and heavy industries and minerals adds up to Rs. 5650 crores which is more than 55% of the total outlay of Rs. 10,200 crores, envisaged to be undertaken over the third five year plan.

Two things prominently emerge out of the allocation-pattern as visualised by the third plan—(a) There is going to be a revolutionary change in the role played by the industrial sector of our economy especially with regard to the contribution made by industries to the national income and (b) the public sector is rapidly extending its tentacles into many a key and strategic field and our economy is fast moving towards the socialistic pattern of society, in the well organised sector of big industries the state playing an increasingly important

role. The state proposes to have almost monopoly in the field of power, transportation and communications and so far as the big industries are concerned, the outlay in the public sector is one and a half times the outlay in the private sector. In spite of such a heavy programme of industrialisation, the occupational structure is likely not to record a significant change in the sense that the proportion of the labour-force employed in the industrial sector of the economy would continue to be comparatively small. As a country advances from the pre-industrial economic situation of backwardness to a stage of growth, the proportion of labour employed in the primary sector of the economy gradually declines and in fact in all the advanced countries of the world only a minor portion of the workers would be employed in the primary sector of the economy. There is an overriding necessity for the occurrence of the same phenomenon in our economy as well in view of the tremendous pressure of population on land. With the marginal contribution of quite a big proportion of the workers on land being nearly a naught, the third plan is expected to lay strong foundations in order to stimulate a rapid process of industrialisation over the plans to come so that there could be a growing transfer of labour to the secondary and tertiary sectors of the economy. This process of rapid industrialisation should also be helpful in securing some freedom from the law of diminishing returns which largely accounts for the low productivity of our agriculture. The objectives as set forth in the draft outline are as follows :—

“The industrial plan for the period 1961-66 has to be governed by the overriding need to lay the foundations for rapid industrialisation over the next 15 years, if long term objectives with regard to national income and employment are to be achieved. From this point of view it is essential to press forward with the establishment of basic capital and producer goods industries—with special emphasis on machine building programmes—and also with the acquisition of the related skills, technical know-how and designing capacity, so that in the following plan periods the growth of the economy in the fields of power, transport, industry and mineral production will become self-sustaining and increasingly independent of outside aid.” (p. 204)

The emphasis is placed heavily on the development of the capital goods sector of the economy and the removal of inhibiting factors to rapid industrialisation. It could be well appreciated that the development of machine building industry is the very foundation

for rapid industrialisation. Immediately, however, this is likely to involve two disadvantages : (a) The allocation to the production of consumer goods industries would be smaller and (b) the employment-investment ratio is also likely to be adverse.

The demand for consumer goods is bound to increase with the enormous outlays expected to be undertaken during the third plan, with the normal positive income-elasticity of demand, especially for the working classes. The supplies, however, are not expected to come forth with the same strength as the increase in demand because of the smaller allocation to the consumer goods industries. There is likely to be already quite a big pent up demand, left unsatisfied and if this be so, we are in for further inflation in the country. Restriction of unnecessary consumption would be as much necessary during the third plan as during the first. It seems there are built in inflationary pressures in the very womb of the third plan and unless these are held in check the estimates made about the cost of the various schemes are likely to be upset, as it happened during the second plan, especially to the iron and steel industry. The probability of the inflationary pressures being brought under control, rests to a very large extent on the success of the plans for the development of agriculture in so far as it is agriculture which provides most of the wage-goods.

The distribution of outlay over various heads illustrates the emphasis on the capital-goods sector as follows :—

industrial group	investment in 1961-6 (Rs. crores)
1. metallurgical and engineering industries	1200
2. chemical and allied industries (heavy chemicals, fertilisers, drugs, plastics, dye-stuffs, cement, paper etc.)	650
3. textile industries	125
4. food industries	75
5. minerals	405
6. miscellaneous (including town- ships and housing colonies for Government industrial projects)	45
	<hr/> 2500

The weightage given to metallurgical and engineering industries and chemical and allied industries reflects the anxiety of the planners to provide the basic essentials for rapid industrialisation over the plans to come.

The fixation of priorities has been done on the following considerations as given by the draft outline (p. 206) :

1. "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.

2. 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.

3. Increased production of major producer goods like aluminium, mineral oils, basic organic and inorganic chemicals and intermediates.

4. Fuller utilisation of existing installed capacity and production or where by multiple shift operation it is possible to economise investments and achieve better output-investment ratios.

5. Increased production from domestic industries of commodities required to meet essential needs like essential drugs, paper, cloth, sugar, vegetable oils and housing materials".

Should all the industrial schemes as envisaged in the third plan come to fruition as most of them are likely, we shall be in a position for the first time in our history to break the barriers to growth and be on the march towards becoming one of the first-rate industrial powers of the world. We shall have a peep into the possibilities for a 'take off' into self-sustained growth in the concluding chapter to follow.

CHAPTER 15

FOREIGN TRADE AND THIRD PLAN

Trouble has been long brewing in the sphere of the foreign trade of our country owing to the pressures generated by the pangs of rapid economic growth necessitating large scale imports of basic capital goods, raw materials, chemicals and a variety of other commodities. The latter are required to build up our own industries so that in future we could produce as many import-substitutes as possible within the domestic economy and also create a large measure of export-surplus after allowing for the satisfaction of internal consumption requirements which also keep on growing with the rising internal incomes in our extensive home-markets. It has been estimated that for the first four years of the second plan imports have averaged Rs. 1050 crores per year while exports have been around Rs. 610 crores per year. This sort of situation cannot obviously continue for long and we may have to reduce the size of the third plan due to a foreign exchange crisis as happened with the second plan in the year 1958-59 when we had to prune the plan to its core and rephrase some of the projects in keeping with the availability of foreign exchange resources. Thus forewarned as we have been, we have to be forearmed as well to face the consequences of a plan of the magnitude of 10,200 crores over the coming five years. We must also remember that loans outstanding which fall due for repayment to foreigners during the third plan come to no less than Rs. 1000 crores and this bids fair to aggravate the foreign exchange problem during the third plan unless we receive a clean gift of substantial aid from some important country like the U. S. A. In order to be sure that we would not allow ourselves to get involved in serious troubles, we have to keep on harping on the slogan "Maximise exports, minimise imports" and take all possible measures in the

direction of further restricting imports and liberalising exports so that gap between the two would be narrowed down to the minimum, unavoidable.

Minimisation of imports is possible only if we concentrate on the indigenous production of things which we have been importing so far and to the extent we succeed in producing import-substitutes within the country there is a greater chance for our plans to succeed. If the pattern of our development schemes be such as to encourage the utilisation of indigenous products, the need for imports is likely to be reduced to the minimum. There has already been a great scarcity of some of the imported consumer goods in the country and all the same, the need for further restriction on the imports of some of consumer goods is unavoidable in view of the great need for importing other goods essential for building up our industries. All the same a purely negative policy of restricting the imports may by itself be a serious obstacle to the growth of our economy. The crucial point is to stop the importation of non-essential commodities and ensure the importation of all such commodities as are crucial to the growth of our agriculture and industries. In order to ensure adequate imports of essential commodities we have to export as much as possible. But commercial policy in the external sphere must be directed towards the promotion of exports on as large a scale as possible in the third five year plan. The aim set by the Planning Commission is to secure a balance on external account within a period of ten years or so.

The Government of India has already taken a number of measures in order to promote exports. The removal of quota restrictions, abolition or reduction of export duties, simplification of customs procedures regarding the importation of such commodities as are required for the manufacture of export goods, allocation of raw materials especially to export industries and extension of special facilities to the transportation of goods meant for export are some of the instances in point.

In order to facilitate organisation of exports, eleven export promotion councils have been set up. Their function is to suggest measures for market research and improvement of techniques and to adapt production to the requirements of overseas markets. Exporters' associations also have been formed in several fields, and Commo-

dity boards such as the Tea Board, the Coffee Board, the Coir Board etc. have been rendering valuable service in the direction of promoting exports. In addition the government has set up an exports promotion advisory council whose main duty is to assist the exports. In order to diversify export markets, trading agreements have been concluded with 25 countries. We have also been actively participating in a number of international exhibitions in order to popularise Indian goods abroad.

One of the most important measures in the direction of promoting exports has been the institution of an Export Risks Insurance Corporation which was set up in 1957 with a view to encourage exports on credit terms as well as to explore new markets. The setting up of the State Trading Corporation in the course of the second plan has been greatly helpful in organising exports, and securing a good price for our exports. A large number of competing exporters are likely to weaken their bargaining strength which if vested in a single body like the State Trading Corporation is likely to confer a great benefit on our country by increasing our export earnings.

For purposes of the third plan it has been assumed that exports will increase progressively from an average of Rs. 602 crores during the period 1956-57 to 1958-59, to an average of Rs. 690 crores during the third plan period. Over the third plan as a whole total exports are expected to come to Rs. 3450 crores.

It is a plain fact that we have to produce on a large scale in order to be able to squeeze out the marketable surplus for purposes of exports. More of production could hardly be feasible unless a good proportion of our investment is directed into those channels which are contributing to the building up of an export surplus. Even if production increases on a large scale, there is no guarantee of an export surplus unless domestic consumption is restrained to allow the emergence of such a surplus. There are many commodities which are required for consumption both at home and abroad. For instance, tea, coffee, vegetable oils, pulses, fruits, vegetables, cotton, tobacco etc. could as well be consumed at home, if the prices be allowed to fall a bit by restricting exports. All the same, we have to impose hardships on our people in order to ensure export earnings. Apart from our traditional exports, we have also to think of exporting a number of engineering goods, such as diesel engines, electric motors, pumps,

sewing machines, household electrical equipment and appliances like air-conditioners etc.

The question of promoting exports is not merely a question of producing more but also a question of producing at competitive cost. The buyers abroad will obviously look for commodities of good quality and at a highly competitive rate. It is a question of standing competition in the world market.

In this connection, we have to note the fact that our prices have been ever rising under the inflationary pressures generated by the enormous outlays under a planned programme of development. According to an estimate made by the Reserve Bank, the value of our currency has already gone down by 30% since the commencement of our plans. This means that those who buy the Indian rupee at a given exchange rate buy less in real terms and should this tendency continue long, it might as well lead to a loss of faith in our currency and this in turn is likely to affect adversely our external trade. Stabilising the internal prices is as much vital for ensuring our exports as for the smooth development of our economy.

Given an appropriate investment policy, price policy and fiscal policy, there is reason to believe that we should be in a position to overcome the hurdle posed by the foreign-exchange crisis. We have already been seeing some improvement in our exports and if tendencies built are not to be allowed to slacken, we have to exercise further vigilance in permitting only those imports which are unavoidable and try every nerve for the promotion of exports.

CHAPTER 16

A "TAKE OFF" INTO SELF-SUSTAINED GROWTH

A highly exciting question which emerges out of a study of the planned programme of economic development of our country over the decade 1951-61 is the probability of our being able to launch a "take off" into a period of self-sustained growth by the end of the third plan. This question has been agitating the minds of economic historians and theoreticians all over the world and predictions have already been made by some of the keenest of critics that India should be in a position to break off the barriers to growth and manage to arrive at the stage of a take off into self-sustained growth by the end of the third plan. This prognosis needs to be examined in detail with a view to sift the factual evidence proffered in support of an optimistic prediction.

It might be recalled that Prof. Rowstow divides the economic history of some of the advanced countries of the world into five stages—(a) the pre-industrial stage in which there is a predominance of the primary subsistence sector, (b) a preparation for the take off—a stage in which communities build up their propensities in such a way as would be conducive to the "take off", (c) the take off proper in which the productive capacity of the community registers a distinct upward rise, (d) the stage of self-sustained growth in which the economy keeps on moving forward and (e) the age of mass consumption. The point at issue which we need to examine is whether India would be in a position to emerge out of the pre-industrial subsistence position and complete the preparation for a take off into self-sustained growth by the end of the third plan. It must be remembered that the central point on which the concept of the "take off" is founded is the rate of savings and the rate of investment—the rate as a proportion of the national income, which makes it possible for a given

economy to afford to its members a rising *per capita* income. Empirically, it is observed that growing economies save and invest at least 12-15 per cent of the national income whereas under-developed stagnating economies save and invest 5 per cent or less of their national income which enables them just to maintain themselves at the subsistence level. The break away from the pre-industrial situation comes about when there is a distinct improvement in the capacity of the community to save and invest and through the process of increased savings and investment raise the national income, faster than the rate of growth of population which alone could ensure a rise in the *per capita* incomes. We have to examine, therefore, whether India would be in a position to raise the national income faster than the rate of growth of population, by raising the rate of savings and the rate of investment to around 15 per cent of the national income by the end of the third plan, so that there might be a visible change in the *per capita* income.

The third plan is an important landmark in the history of planning in India and the achievements of this plan would have a crucial significance in shaping the future prospects of development. "The first plan presented a picture of economic growth over the thirty years between 1950-51 and 1980-81. On certain assumptions concerning the rate of growth of population, the proportion of the increase of national income which could be ploughed back into investment at each stage of development, and the return by way of additional output on the investment undertaken, it was envisaged that the level of national income in 1950-51 could be doubled by 1971-72 and that of *per capita* income by 1977-78. In the light of the experience gained during the first plan, the earlier projections and assumptions were reviewed in the second plan, which suggested that in relation to 1950-51 the doubling of the national income might be achieved by 1967-68 and of *per capita* income by 1973-74. Another important objective to be achieved by the end of the fifth plan was the reduction of the proportion of the population dependent on agriculture from the present level of about 69 to 70 per cent to about 60 per cent." (p. 4).

The point to notice is that we have to wait till the middle of the 4th plan (1967-68) for a doubling of the national income over the base of 1951-52 and the middle of the fifth plan (1973-74) for a doubling of the *per capita* income. Over the last decade the total increase in the national income has been of the order of 42%—18%.

during the first plan and 20% during the second plan. The third plan aims at raising the national income by 25% over the quinquennial period 1961-66, leading to an annual rate of growth of 5%. Over the 15 years from 1951-66 covering three five year plans our national income would have risen by 80%.

This is an impressive performance in absolute terms, though there are examples of countries with a much better record of performance. The point, however, is how far this rate of growth will enable us to realise the ambition of coming to a stage of self-sustained growth. It has to be realised that start as we did at an extremely low level of income at the commencement of the first plan, even a doubling of national income by 1967-68 would not make a very significant difference to levels of living of the people at large. Over the last ten years national income has gone up only by 20% and *per capita* income by 16%. Agricultural production has gone up from 100 in the year 1949-50 to 135 in the year 1960-61, whereas industrial production records a rise of 51 per cent over the base of 1951. As against the annual rate of growth of national income of about 4% over the last decade, the rate of growth of population has been of the order of nearly 2 per cent and thus the net rate of growth of the economy has been only 2 per cent which is by no means significant. By the end of the third plan our population is expected to rise up to 48 crores from the 43 crores estimated for the year 1961. Over the third plan period the annual rate of growth of the national income is expected to be of the order of 5% as against the rate of growth of population of approximately 2.5%, which leaves a net rate of development of only 2.5% per annum as compared with the net growth of 2 per cent during the second plan. In view of the fact that the net rate of growth is extremely slow as is evidenced by the statistics provided by the Planning Commission, it is highly doubtful, how far we shall come to the stage of the take off by the end of the third plan.

The most important hurdle to economic growth has been the enormous increase in population from 362 millions in 1951 to 431 millions in 1961 and by the end of the third plan, it is expected to grow to 480 million. It is mainly for this reason that the rate of savings in the economy is not coming up to the expected levels owing to the increasing consumption requirements of a growing population, albeit at the subsistence level. As it is we have been experiencing great inflationary pressures because of the gap between real savings

and money-investment and if the present trends be any indicator, it is doubtful whether we shall be in a position to raise the rate of savings from the estimated 11% by the end of the second plan to 14% by the end of the third. The success of our economy in mobilising savings of the order envisaged depends largely on the behaviour of agriculture because agriculture is capable of throwing up a surprise as it happened during the first plan. If the climate for crops be not particularly inclement, we can hope for a better performance and our industrial targets as well may come on par with the expected targets.

What, however, comes as a soothing redemption is the thought that our achievement in the field of iron and steel, machinery and chemicals has been remarkably striking. Over the past decade the production of iron and steel has gone up by 63%, that of machinery by 325% and that of chemicals by 114% and the third plan has a heavy programme of industrialisation with the total envisaged expenditure of Rs. 2500 crores. By the end of the third plan, we shall have a firmly built capital-goods sector in our economy and this opens the way for further expansion of the consumer goods sector in the plan to follow. This is a necessary condition for a march in the direction of the take off but not sufficient by itself; for, as is pointed out by Prof. Simon Kuznets, what is needed for the development of under-developed economies is not merely an abundance of material capital but also a good fund of human-capital which is represented by the health and skill of the people. An average rise of 16% in the consumption standards of our people over the past decade, which again is likely to have been particularly in favour of the urban population, could hardly be expected to produce, the necessary human-capital, especially in the rural areas. Our nutrition standards and education standards are still much below the requirements of a decent minimum and even by the end of the third plan, we are not going to have anything like an amazing change. Our consumption of foodgrains *per capita* per day is going to be only 15 ozs. of cereals and 3 ozs. of pulses and of cotton textiles 17.5 yards per head per year. It is also feared that we may not be able to prevent the colossal wastage of un-utilised human resources which constantly brings about a depreciation of human capital. We are going to have only elementary education made compulsory for all children between the age of 6-11 by the end of the third plan. What is required for a self-sustained rate of growth is the right type of the human being equipped with the necessary health, skills, zeal and dynamism and

the necessary propensities and attitudes which are conducive to economic growth. It is highly deplorable that this side of the problem of growth has not received adequate attention in our plans of economic development. In spite of the community development and national extension services, the quality of the rural population, has not undergone any remarkable change and resistance to growth on a scientific basis has not been eradicated to any significant extent. It is doubtful whether we have succeeded in creating a universal plan-consciousness throughout the country in spite of a decade of planning and the very fact that we have miserably failed in controlling the rapid rate of growth of population clearly indicates that the message of planning has not made a clear entry into the hearts of the people.

If one could be bold enough to make a prediction as to whether India will or will not come to the stage of the take off into a self-sustained rate of growth by the end of the third plan, all that one could say is that in all probability, we should be able to complete the preparations for a take off in the 4th and the 5th plans, by the end of the third plan. As is cautiously put by the draft outline, "the targets for the third plan as at present envisaged will take the economy a considerable distance towards the stage of self-sustained growth". Subject to one all important condition that we shall not get involved in any war with our neighbours, we should be well on the way to the take off by the end of the third plan.



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