

OUR
SECOND
FIVE YEAR PLAN

(A Critical Appreciation)

by
R. D. GUPTA

1957



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SECOND FIVE YEAR PLAN

(A CRITICAL APPRECIATION)

By

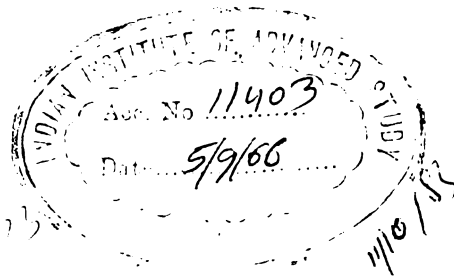
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PREFACE

I am attempting this critical appreciation of the Second Five Year Plan in the form of a Brochure with a view to meeting the demand of a large number of university students, businessmen, administrators and laymen. They shall not have to go through voluminous books on planning, whenever confronted with the problem.

All the technical expressions, tedious details and quoting of large figures have been scrupulously avoided to make the whole plan intelligible and understandable. Though the main purpose of the attempt is a simple but critical analysis of the plan, yet it has been felt that a preliminary chapter on the Idea and Essentials of Planning would be inevitable. The achievements of the First Five Year Plan have been fully elaborated, along with the salient features of the Second Five Year Plan. Chapters on the Role of Public and Private Enterprise, Deficit Financing, Physical versus Financial Planning, Philosophy of Economic Planning and the Role of Administrator under the plan have been added. I feel convinced that the attempt will go a long way to meet the urgent needs of students and laymen.

The ideas expressed are purely academic and pragmatic and do not uphold or commit to any particular 'view' or 'ism', because it is felt that any 'system' or 'order' is good enough which can deliver the necessary goods and services and therefore, situated as we are, the trial and error method along with Mixed Economy with a Socialistic bias is most suited.

I am grateful to Shri P. C. Varma, Lecturer in English, Hindu College, Delhi, who read through the manuscript and Basant Parihar who typed the same. My thanks are also due to Shri Giri Raj Mal, Librarian, S.D. College, Gurgaon.

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CONTENTS

CHAPTER	PREFACE	PAGE
I. <i>The Idea and Essentials of Planning</i> ...		1
(i) Why Plan ?		1
(ii) Planning Defined		2
(iii) Totalitarian versus Democratic Planning		3
(iv) Functional versus Structural Planning		4
(v) Planning no panacea for all Economic ills		5
II. <i>First Five Year Plan—Its Achievements</i> ...		6
(i) Achievements		7
(ii) Plan consciousness		8
(iii) Deficiencies		8
III. <i>Second Five Year Plan—Its Salient Features</i> ...		9
(i) Objectives		9
(ii) Industry, Agriculture, Investment, Employment, Finance etc., under the Plan		12
IV. Physical versus Financial Planning		16
V. Public versus Private Enterprise under the Plan		19
VI. Deficit Financing under the Plan		22
VII. Foreign Exchange and Foreign aid under the Plan		25
VIII. Economic Philosophy under the Plan		28
IX. Concluding Remarks :—		30
(i) Flexibility an essential ingredient		30
(ii) Role of Administrator		31
(iii) Can the Plan be Implemented ?		32

CHAPTER I

The Idea and Essentials of Planning

Why Plan ?

Space and purpose preclude more than a brief, simple and elementary treatment of planning. The system of free enterprise under capitalism has been largely discredited during the course of its working on account of its nonconformity with certain social ideals and during the course of its evolution developed certain aberrations manifesting themselves in inequalities of wealth and income and breeding the spectre of unemployment. So long as capitalism was flourishing and reaching its climax the inherent weaknesses of the system could be glossed over. It could now be confidently asserted that free enterprise had collapsed, because it failed to cope with the unusual and complex situation into which the economic system drifted between the two World Wars.

Free enterprise has outlived its utility, because it is attended by many defects and suffers from serious limitations of which a critical public opinion is becoming increasingly aware. A political democracy with conscious public opinion with an environment of economic oligarchy is rather reluctant to socio-economic maladjustments under free enterprise and uncontrolled economy.

It is generally recognised that free enterprise with its elaborate paraphernalia of free 'Market Economy', 'Economic Laws,' 'Economic Harmonies' and 'Invisible Hand,' has manifested itself in the past to be extremely extravagant in the use of resources by its absolute indifference to social ends. Frequent

failures of capitalism, resulting in unprecedented poverty, mass unemployment, inequalities of income and wealth, precipitated serious doubts concerning the advantages of planless society.

Humanity got so terribly shocked by the great depression of 1929-30, that it could illafford the risk of being taken unaware once again by such a 'Blizzard' and allow things to drift their own way under capitalism. The society felt convinced of supplementing free enterprise by proper state action through planning with a view to safeguarding against the frequent recurrence of such economic catastrophies. Planning therefore, has not only become respectable and fashionable but is considered absolutely essential economic order of the day, most fit to deliver the necessary goods and services. It has crossed the realm of academic discussion whether to plan or not, but how to plan? It has become an essential plank of practical policies.

Planning Defined

Planning, as understood by Economists, is an art of using limited resources in a deliberate and conscious manner eliminating all wastage and promoting the maximum economic benefit in relation to certain defined social ends. It is essentially a way and a part of the life of all of us. "Economic planning is the making of major economic decisions, what and how much is to be produced, and to whom it is to be allocated, by the conscious decision of determinate authority, on the basis of comprehensive survey of the economic system as a whole."¹ "Planning is purposive adaptation of resources to social ends."² Thus, amongst essentials of planning are—, the conscious and

1. Dickinson—Economics of Socialists 1939 Page 41.

2. Planning Commission Report.

deliberate aim, with the sole object of economic welfare covering the entire economic field ; with a single undivided authority, responsible for planning and co-ordinating various economic activities.

Totalitarian Versus Democratic Planning

It is argued that unnecessary effort is made to distinguish between Totalitarian Planning and Democratic Planning. Planning by its very nature has got to be Totalitarian—in as much as the control by the State of one form of economic activity say Production—involves automatic control of all other forms of economic activities. Planning again, by hypothesis and in these days of highly complex economic system—presupposed the existence of a body of experts or Planning Commission charged with the duty of laying down the general lines of policy, within the framework of the activities set up by the society. Planning therefore, to be successful has got to be in the hands of an all-powerful central authority.

But the experience of the working and the growth of planning in various countries has established it beyond doubt that planning can co-exist in any form of economy. The patterns of plan no doubt vary with the type of socio-economic and political set up. Even under capitalism planning is possible. All the paraphernalia of free enterprise *viz.*, private property, individual incentive may be retained but subjected to greater State control. “Planning in a Democratic State is a social process in which in some part every citizen should have the opportunity to participate.”¹ The success and popularity of the plan depends upon how far it has been able to enlist the association and co-operation of the people. “Democratic planning means choosing the hard way of

1. Planning Commission Report.

persuasion and evolution but what may seem to be easy way or short cut is, perhaps, nowhere more dangerous than in this sphere.”¹ Thus, we find, the Totalitarian and Democratic planning are similar in that both involve sacrifices and the surrendering of basic values with the difference that under the former they are obtained under conditions of hardship, suffering and coercion, while under the latter they are made voluntarily on the rational acceptance of the ideals of planning.

Functional Versus Structural Planning

Again, in the Industrially advanced countries of the West with better living standards and advanced technical knowledge the emphasis of planning is on correcting the shortcomings of existing system of private enterprise through changes which shall secure equal distribution of wealth, stability of prices and maintain the level of full employment. But Functional Planning of this nature is entirely unsuitable to the analysis of backward and under-developed economy, where the problem is to promote the rapid development of a new order with far-reaching institutional changes in our social and economic life, paving the way for better future and raising the hope for egalitarian society. It is the Structural Planning with its emphasis on revolutionary changes at the very base of backward economies which will bring in its wake essentially a new order and not the Functional Planning with the existing socio-economic order with an emphasis on Mixed Economy. Functional planning is narrow, conservative and aims at repairing rather than building a new socio-economic order. Planning therefore, in a particular country whether ‘Functional’ or ‘Structural’

will again depend upon the peculiar circumstances prevailing in the country and shall be conceived within the framework of political structure set up by the constitution.

Planning no panacea for all economic ills

Planning, however, is not an unmixed blessing. It is not a panacea for all economic ills. We have to guard against the tyrannies of the all-powerful central authority and concentration of power in the State. The most serious doubts concerning the planned economy revolve round the issue of liberty. "For the planned society still has to prove that it can achieve its economic goals without the loss of fundamental liberties, without the police state and by the use of incentives, rather than compulsion"¹

"There is no magic in the phrase 'Planned Economy'—it is not a key which will spontaneously unlock the door to Utopia. It means embarking upon uncharted seas, for everything depends upon the nature of planning."² If we really want a practical solution of the problems that lie ahead we must not allow our minds to be hypnotized by slogans like Capitalism, Socialism or Communism as though economic salvation is to be found in any particular 'ism'.

1. S. E. Harris—Economic Planning Page 7.

2. Lesson of History—E. Lipson.

CHAPTER II

First Five Year Plan—Its Achievements

INTRODUCTION

India like many other countries of the West had her usual share of various trials in planning. There had been a plethora of paper plans commencing as early as 1938, when the idea was mooted by late Shri Subhash Chander the then Congress President. Since then, we added a few others *viz.*, Bombay Plan, People's Plan, Gandhian Plan, Birla Plan, Government Plan and eventually the process culminated in the appointment of Planning Commission in March 1950, presided over, by the Prime Minister Mr. Nehru, which gave us the First Five Year Plan. This was followed by the Second Five Year Plan, because planning to be real and effective must be a continuous affair extending over a long period.

The first Five Year Plan was framed at a critical juncture when the country was passing through a great economic turmoil and faced dislocation caused by the war, partition, inflation, the hostilities in Korea, shortage of food and essential raw materials. The plan thus aimed at setting right these chronic imbalances and lending tempo and speed to an otherwise faltering and stagnant economy. The central objective of India's First Five Year Plan, therefore, was to strengthen the economy at the base and to impart it a measure of strength and stability with a view to generating

certain forces, which would pave the way for the smooth and successful working of the successive plans, resulting in the realization of socio-economic ends.

Achievements

The overall result of the First Plan is reflected in an increase of some 18% in the real national income over five years. In terms of 1952-53 prices, national income is estimated to have gone up from Rs. 9,110 crore in 1950-51 to Rs. 10,800 crore in 1955-56. The per capita income during the period went up by 11% and the consumption expenditure by 9%. The most significant advance was registered in the field of agricultural production. Output of food grains increased by 20%, of cotton by 45% and of major oil seeds by 8%. Over 16 million acres were added to the irrigated land through minor and major irrigation projects. The output of electricity rose from 6,775 million K. W. in 1950-51 to 11,000 million K. W. in 1955-56. The index number of industrial production showed an advance of 56 points from 105 in 1950 to 161 in 1955.

A number of new projects were started in the public and private sectors. The outstanding undertakings in the public sector were the Sindhri Fertilizer Factory, The Chittranjan Locomotive Works, The Hindustan Cables, Durgapur, Hindustan Shipyard, Vishakhapatnam, The Integral Coach Factory Madras, The Hindustan Machine Tools Mysore, The National Instruments Factory Calcutta and The Telephone Factory at Mysore. The total net financial investment in the economy over the First plan period is estimated at Rs. 3,100. crores. The rate of investment went up from about 5% in 1950-51 to 7.3% in 1955-56, the balance of payments position also showed a favourable trend.

Plan Consciousness

The first plan besides the above statistical and material benefits has also set right most of the imbalances of economy. It has generated certain forces which will go a long way to achieve the desired ends of Welfare State and Socialistic Pattern of Society. It has also created plan consciousness and general awakening amongst the rural masses as a result of the wonderful working of Community Development Projects and a net work of National Extension Services. Now people are prepared for voluntary efforts and sacrifices resulting in active Co-operation so very urgently required for the success of the plan, in as much as, the success of the successive plans depends upon the basis laid down and the spade work done under and during the first plan. Hence in this sense the achievements of the First Five Year Plan have been spectacular.

Deficiencies

Though the above gains appear to be quite impressive yet we have a long way to go. The living standards in India are amongst the lowest in the world. Our average intake of food is below accepted nutritional standards. The consumption of cloth at 16 Yds. per capita is still almost at the pre-war level. Housing is very deficient and educational facilities are inadequate and poorly equipped. The per capita consumption of electricity and steel is only 1/73 and 1/122. of that in U. S. A. There is vast unemployment in the country, our population is growing at the rate of about 1.25% each year. This makes it difficult to promote rapid economic development and warns us against any kind of complacency. We have yet to go a long way to achieve the desired goal. Hence, the process shall have to be continued through a series of plans.

CHAPTER III

Second Five Year Plan Its Salient Features

The main aim and objective that is laid down as the basis of the Second Five Year Plan may be summed up in one phrase 'Socialistic Pattern of Society'... which is just a step towards the greater ideal of 'Welfare State'. Under the Second Five Year Plan an attempt will be made to see that there is not merely an increase in National Income and Employment but that the benefits of economic development accrue more and more to the relatively less privileged classes of society and that there is a progressive reduction in the concentration of wealth and economic power in the hands of a rich few, narrowing and ultimately eliminating the discrepancy between the 'Haves and Have Nots', paving the way for Egalitarian Society.

Objectives

1. Under the main objectives and features of the Second Five Year Plan, we have a sizeable increase in National Income, so as to raise the standard of living.
2. The rapid Industrialization with particular emphasis on the development of basic and key Industries.
3. A large expansion of employment opportunities.
4. Reduction of inequalities in income and wealth and more even distribution of economic power.

For the achievement of these objectives of the

Plan the State will have to assume an increasingly important role in the economic life of the community and the Private Sector has to play its part within the framework of the comprehensive plan accepted by the community. This has been achieved by the Industrial Policy Resolution of the Government of India passed in 1948 as amended in 1956 and also the Indian Companies Act of 1956.

Distribution of Expenditure by Major Heads of Development

	<i>First Five Year Plan Total Provision</i>	<i>Per Cent</i>	<i>Second Five Year Plan Total Provision</i>	<i>Per Cent</i>
	Rs. Crores		Rs. Crores	
(1)	(2)	(3)	(4)	(5)
I. (a) Agriculture (including For- ests fisheries and co-oper- ation etc.)	241	10·2	341	7·1
(b) Community Projects and National Ex- tension.	90	3·8	200	4·1
(c) Other Pro- grammes (including village Pan- chayat etc.)	26	1·1	27	0·6
TOTAL	357	15·1	568	11·8

	(1)	(2)	(3)	(4)	(5)
II. Irrigation & Power (including Flood control and other Projects etc.)		661	28.1	913	19.0
III. Industry & Mining (including Large and Small Scale Industries and Mineral Development).		179	7.6	890	18.5
IV. Transport & Communication (including Railways, Roads, Ports Shipping, Broadcasting P. & T. etc.)		557	23.6	1385	28.9
V. Social Services (including Education, Health, Housing and Social Welfare etc.)		533	22.6	945	19.7
VI. Miscellaneous		69	3.0	99	2.1
GRAND TOTAL		<u>2356</u>	<u>100.0</u>	<u>4800</u>	<u>100.0</u>

Industry under the Plan

It will be observed from the frame-work of the Plan given above, that as against, a total provision of Rs. 2356 Crores in the First Plan, the total development outlay of the Central and State Governments during the period of the Second Plan will be Rs. 4,800, Crore. Thus, we find that a greater emphasis is laid on Industries, Mining, Transport and Communications in the Second Plan. About half the total expenditure as compared with 1/3 in the First Plan is to be spent in these fields. If power is also taken as a part of the industrial development we find that the expenditure works to be 56% of the total. The basic strategy and the most striking feature of the Second Five Year Plan is its topmost priority to Industrialization with greater emphasis on 'key' and 'basic' Industries. With industry are associated Mining, Railways, Transport and Communications. Three steel plants, three more fertilizer factories will be set up. The production of cement, locomotives, coal and industrial goods will go up considerably. Rs. 200 Crores have been set apart for the development of Small Scale Industries.

Agriculture under the Plan

The plan envisages an increase in Agricultural output by about 18%. The production of foodgrains will increase by 10 million tons or 15%, that of cotton 34%, Sugar 29% and Oilseeds 21%. The outlay on Agriculture and Community Development Projects is about 12% in the Second as against 15% in the First Plan. 21 million acres of additional land will be brought under irrigation. The installed capacity of Electricity will be increased and the emphasis on the development of Social Services, Education and Medical facilities will also be stepped up, resulting in an increase of the National Income by about 21%, because

a large proportion of the income and output will be saved and invested.

Investment under the Second Plan

Of the total expenditure of 4,800 crore in the public sector of the Second Plan Rs. 1,000 crore (roughly) represent current expenditure and Rs. 3,800 crores net investment *i. e.* expenditure on building up of productive assets. Taking the public and private sectors together investment in the economy over the Second Plan period has been estimated at about Rs. 6,200 crore, out of this, Investment in private sector for the period of Second Plan is estimated at Rs. 2,300 crore. Whereas, in the First Plan the proportion of investment in the public and private sectors was about equal, In the Second Plan it will be 61 : 39.

Employment Potential under the Plan

The creation of employment opportunities is one of the main objectives of the Second Five Year Plan. The greater emphasis on basic and key industries with increased investment on Small Scale Industries is conditioned by the basic requirement of providing more employment. The total number of unemployed persons in both the rural and urban sectors, who will need full time employment by the end of the Second Plan, is about 15 millions. The new full time employment opportunities likely to emerge in both the public and private sectors are expected to be 8 millions. The Plan also lays stress on the adoption of special measures for the solution of unemployment problem in backward areas. Thus it is clear that in spite of the all-out effort on the part of the government in mobilizing resources, the impact on the problem of unemployment and under-employment will not be as great as the situation demands, as larger investment in the economy is not possible on account of

various reasons with the additional fear of 'Rationalization'. A complete and effective solution of the problem will have to await further plans of very judicious and integrated nature.

Financial Resources under the Plan

It is planned to meet the expenditure in the public sector of the Second Plan in the following manner :—

I. Domestic Sources	(Rs. Crores)
(i) Surplus from Current Revenues	800
(a) at existing rates of taxation	350
(b) additional taxation	450
(ii) Borrowing from the Public	1200
(a) market loans	700
(b) small savings	500
(iii) Other Budgetary Sources	400
(a) the railways contribution to the development programme	150
(b) provident funds and other Deposit Heads	250
2. Resources to be raised externally	800
3. Deficit Financing	1,200
4. Gap to be covered by additional measures to raise domestic resources	400
	<hr/> <hr/>
	4,800
	<hr/> <hr/>

It will be observed that about half the contemplated expenditure on the plan is proposed to be met from domestic sources—taxation, borrowing and other budgetary sources. Of the remaining, 50 per cent will be met through deficit financing and 33 per cent through expected external aid. A detailed and a critical analysis of the financial implications of the Plan is given in the following chapters.

Physical Versus Financial Planning

The amelioration of the plight of the teeming millions, eliminating poverty, unemployment and hunger would be possible only through a bolder approach of 'Physical Planning'. The size of the plan is not to be conditioned by the 'Saving Fund' of the Community but by the Physical Sources in terms of Men and Materials. Although there is a paucity of resources in financial terms, yet in physical terms investment resources are in abundance. Therefore, 'Savings' themselves should be a sort of Camp follower of investment in terms of physical sources, rather than Investment being dependent upon 'Saving Fund'. The leaping progress in Russia in an amazingly short period was possible only through physical approach and the finances were moulded to suit the evolution of these processes. Thus the problem of economic development and industrialization is essentially not a financial one, but that of economic organisation and reorganisation of men, materials and resources. With physical planning emphasis is laid that the real thing is not the output of so much money but achievements of results in term of output secured. This makes planning more realistic. It is, however, gratifying to note that the approach under the Second Five Year Plan is conceived in terms of physical output such as so many million tons of steel, coal, cement etc. and the finances for these physical targets are obtained.

The secret of physical planning lies in credit expansion. Doubts, however, have been expressed

upon the practical working of the physical planning as resulting in inflation and causing complications due to the absence of proper and reliable statistical data regarding the availability of men, material and resources and their future prices. It is also argued that the inadequate and under-experienced administrative machinery for the needs and the smooth working of Democratic Planning indulging in lot of wastage of public expenditure, stimulating inflation, will further foil the attempts on physical planning. This can, however, be overcome by proper and concerted state action and active public co-operation.

Percentage of Total Expenditure¹

	Rural	Urban	All-India
Food articles	64.1	51.5	61.3
Clothing	8.1	8.8	8.2
Fuel & Light	5.5	5.6	5.5
Tobacco	1.9	2.0	2.0
Services	5.3	6.8	5.6
Ceremonials	5.8	4.8	5.6
Miscellaneous	9.3	20.5	11.8
	100.0	100.0	100.0

Even a casual study of the patterns of consumer expenditure given above would indicate the overwhelming importance of foodgrains and other agricultural commodities. Thus, if we could increase our agricultural produce, creating a marketable surplus of agricultural commodities there would be no inflation, because a stability and lowering of prices of agricultural goods will have the additional benefit of arresting the rising spiral of the general price level controlling and mitigating the evil effects of inflation. Thus our ability to embark upon physical planning and expand

1. Commerce 25th February, 1956.

total investment through bigger use of bank credit depends upon our ability to achieve speedy expansion of output of agricultural commodities and cloth. There is, therefore, absolutely no warrant for any reduction of expenditure in agricultural sphere, specially when it is borne in mind that the larger and quicker development of agriculture will enable us to enlarge the size of the Second Plan without any fear of harmful inflation.

Thus the above analysis reveals that there is a possibility within the Non-totalitarian Concepts of Government (without encroaching upon personal liberty and putting a discount on Democratic Institutions) to make physical planning in which the scale of investment would be determined not by the current financial savings of the society, but the availability of physical resources in men and materials. Fortunately the example of Russia (where the conditions were exactly similar as in India with large-scale unemployment and low per capita income) is before us, otherwise those suggesting a much higher rate of investment based on physical resources would have been called cranks ! It would be rather unfair to condemn physical planning as Communist Planning and to uphold the financial planning as Democratic. The controversy between the Financial and Physical Planning is needless as the one is absolutely necessary for the smooth working of another. Finance is the mobiliser of physical planning. Neither of the two taken by itself can deliver the necessary goods and services without a judicious synthesis between them.

Public Versus Private Enterprise under the Plan

It is sometimes argued that spectacular achievements of the First Five Year Plan were possible owing to the fact that the allocation of the resources and investment was in the proportion of 50 : 50 between the public and private sectors and the latter was given due recognition and allowed free play. Private enterprise, however, is given step-motherly treatment under the Second Plan, since the allocation of resources and proportion of investment on a liberal basis come to 61 : 39 and the State is to play the dominant role in making all the important economic decisions and their implementation. Thus, the material gains under the First Plan were set off by the loss of social and spiritual values due to State domination under the Second Plan.

It is felt that when the human element has been completely overlooked the achievements of the Second Five Year Plan become highly dubious. Again, if the Government were to function not as all powerful and tyrannical executive, hampering the smooth working of private enterprise, but to supervise all economic activities, there is no reason why won't the private sector rise to the occasion without monopolies and concentration of economic power, since the record of the success of private enterprise is more impressive despite odd circumstances. By stifling the growth of private enterprise we gain nothing, rather perpetuate the growth of a class of vested

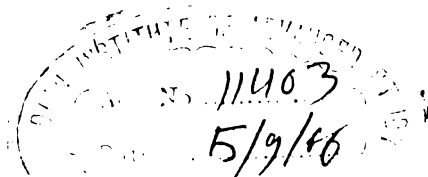
interests in the form of official bureaucracy and concentration of economic power in State, which shall without doubt be more pernicious.

It may be mentioned that a considerable confusion has been created in the minds of the public by writing and loose talk regarding the roles of the government and the private sectors. There is, however, no occasion for any apprehensions of the type expressed in the foregoing paragraph, because any rigid approach in these matters can only be of academic value. It is the misfortune of Indian Capitalism that it should emerge as an entity at a time when practically a large part of the world has found that the system as such has no vitality or popular appeal. Even then, in any scheme of socialist economy within the Democratic framework, the role of private sector could only be limited as to serve the greater needs rather than to do away with it altogether. The private sector in such a set up will be judged, *inter alia*, by its ability to assist the capital formation, the degree of restraint it can exercise on profit motive and the promptitude with which it can serve the larger interests of the society.

Although the State is to play increasingly important role and the proportion of investment comes to 61 : 39, yet it should be borne in mind that the public expenditure is not inherently antagonistic to private sectors, rather, it is a condition precedent to the better working of private sector, giving it the necessary lead in economic matters. Again, a judicious scrutiny of investment programmes in the public sectors will convince any fair-minded person that the bulk of the outlay is not only of non-competitive character with the private sector, but is actually aimed at making the private sector to function more efficiently and smoothly. Thus the investment programme on Agriculture,

National Extension Services, Community Development Projects, Irrigation and Flood Control is intended to raise agricultural productivity and not to bring it under public ownership. Similarly, investment outlay in the field of social services is meant to raise the efficiency of Indian labour. Too much seems to have been read into the figures of investment outlay. We find that out of the total public outlay of Rs. 3,800 crore, about 3,100 crore or 82% is non-competitive with private sector and as such we find that there is no real rivalry between the two.

Thus private enterprise must give up their suspicion and must use their influence to promote political and financial stability. The business community in India must not fail to rise to the occasion and promote better understanding of how private enterprise works—how it can produce benefits for all—and how it can grow and take firm roots—for everything depends upon the behaviour of free enterprise and how far it can create confidence and inspire the popular sentiments—so that the governments would be encouraged to create a climate in which private enterprise can conduct business in a useful and profitable manner promoting the general welfare of all.



Deficit Financing under the Plan

The time of orthodox budgetary approach when we must have a surplus budget is now gone. The modern trend is towards deficit financing in order to finance the huge economic reconstruction and development programmes of backward economies, resulting in economic regeneration. The approach towards deficit financing cannot be rigid or categorical. It has got to be experimental and one of trial and error. We cannot lay down any hard and fast policy of deficit financing because of the very peculiar and fluid circumstances prevailing in the country. Deficit financing assumes significant role in the development of backward economies on account of the slow rate of capital formation and inadequacy of domestic savings and specially when the approach is made in terms of Physical Planning laying greater stress on men, materials and resources. Up to a point, deficit financing is therefore, not only permissible but even desirable to give a stimulus to backward economy.

Deficit financing, broadly speaking, implies the use of newly created money to finance the public expenditure. There may be a gap between public revenue and public expenditure which may be met either by running down the government's cash balances with the Central Bank or borrowing from the Central Bank. Whatever may be the method adopted we shall give it the name of deficit financing.

The Government of India have been following quite a wise policy in this respect and did not commit

to any categorical or particular scheme. All that, they were interested in was to see that the deficit financing did not result in inflation. It should however be noted that the very theory of deficit financing implies an increase in price level but we have to ignore this aspect of deficit financing, especially in the immediate short period so that in the long period we may be able to reap the advantages in the form of increased goods and services and economic development of the country.

Rise in prices in 1956-57, in India during the first year of the working of the Second Plan is due to the fact that the whole investment is in the channels of producer's goods like machinery and huge irrigation projects which will ultimately result in the production of consumer's goods and bringing down the price level. In order to assess and comment upon deficit financing we have to spread its working over a number of years, though at the same time trying to be extremely cautious regarding the manner and the extent of its operation.

Planning commission have therefore rightly given due recognition and importance to deficit financing in financing the plans and encouraged by the extent of deficit financing in the First Plan the Commission provided under the Second Five Year Plan a total outlay in the public sector of Rs. 4,800 crore one fourth of which *i.e.*, Rs. 1,200 crore is to be raised through deficit financing. The overall budget deficit in the budget of 1956-57, is placed at Rs. 356 crore.

Though great caution and vigilance is required regarding the manner and the extent to which the deficit financing can be undertaken under the Second Plan, yet the approach as already pointed out has got to be pragmatic. It would be disastrous to get

panicky or even pessimistic, simply because the prices during the first year of the working of the second plan have gone up. No doubt, this is a highly disquieting feature and calls for prompt fiscal and monetary action on the part of the authorities. It would, however, be appreciated that the rise of prices is not only due to deficit financing but also due to various other factors like—the limitation on the production of factory goods, high production costs, additional taxation, reduction in imports and paucity of foreign exchange, Suez Canal crisis—have all contributed to the rise in prices. Some seem to have got so much dismayed that they feel that the deficit financing contemplated under the plan would be impossible and if carried beyond the safe limit of Rs. 500 to Rs. 700 (even this limit some of them are reluctant to concede to) it would bring untold suffering to mankind. But we cannot afford to develop defeatist mentality at the very outset, for every thing in these matters depends upon the nature of circumstances and how far Indian economy reacts to the successive doses of deficit financing and how far the Government can use their fiscal, monetary and physical measures with efficacy. And even if every thing does not go well in spite of all this we might extend the duration of the plan or revise the scheme of priorities, but there is no point to get disheartened at the very outset. In the absence of deficit financing the economy will be condemned to slow progress. The choice before us is between economic stagnation with balanced budget and economic progress with deficit budget.

CHAPTER VII

Foreign Exchange and Foreign Aid under the Plan

The Second Five Year Plan with its huge investment outlay and stress on the development of basic and key industries will involve greater strain on the foreign exchange resources. The imports of large and heavy machinery, vehicles, iron and steel and other metals needed for the development programmes in the public and private sectors are estimated to cost Rs. 2150 crore. The net aggregate deficit in the balance of payment over the period of five years is estimated to amount to about Rs. 1100 crore. It is however proposed to meet part of this deficit by withdrawing Rs. 200 crore from the accumulated sterling balances. The inflow of private capital may contribute another Rs. 100 crore. This means that external aid amounting to Rs. 800 crore will be necessary. Concerning the last item, an unutilized balance of Rs. 94 crore is available from past authorizations, and credit to the amount of Rs. 76 crore have been secured for the Bhilai and Durgapur steel plants. This leaves a balance of only Rs. 630 crore for which arrangements shall have to be made during the remaining period of the plan.

In the First Five Year Plan the component of foreign exchange in the development programme was less than 10%. In the Second Plan, with its greater stress on industrial expansion, it is but natural that the dependence on foreign aid is increased to 17%, but even 17% is modest as compared to the foreign

aid received by other countries in their march towards industrialization. Foreign exchange component for countries like Ceylon and Pakistan is 40%. All advanced industrial countries like U. S. A., U. K. and Canada depended on foreign aid at one stage or another in their march towards economic development. Without foreign aid many projects would be held up, there is therefore, little to be apologetic in our attitude towards foreign assistance. The overwhelming importance of such an aid is realized from the fact that it has both marginal and substantial role in the development programme of India, without it, and due to various other limitations with which the country is faced today, much of the Second Five Year Plan is likely to be frustrated.

If the history of economic development of various countries is any index and be taken as a guide, it is evident, that the backward countries in their transition to a more industrialized stage cannot progress without foreign aid, for the simple reason of slow capital formation, paucity of domestic savings and infra-structure of the economy. Foreign aid becomes absolutely essential because domestic investment and saving as such may not bring any exportable surplus. Moreover, it is undesirable for underdeveloped countries to resort to too much saving at the cost of reducing consumption excessively, because such a reduction of consumer goods might affect indigenous industry in the consumer sector. Again foreign investment is bound to stimulate domestic investment and mobilise such resources. If the pace of economic development must be accelerated by more than what the domestic sources may permit, specially with a view to mitigating or eliminating unemployment, then inflationary finance of development

may not be of much use. Consistent with the individual liberty and democratic institution the only way of extending the investment and enlarging employment opportunities is to ensure the stepping up of foreign aid by offering it proper and even direct inducements.

The external aid during the First Five Year Plan has been of the order of Rs. 300 crore. The largest contributor being U. S. A. with Rs 142 crore, if we add the wheat loan and philanthropic agencies like Ford Foundation the total aid comes to Rs. 238 crore. The loan of World Bank towards the end of March 1956 amount to Rs. 60 crore. Total aid from Canada as capital assistance amounts to Rs. 36 crore, from Australia 10 crore, Newzeland £ 1 million, U. K. Rs. 50 lakh, Norway Rs. 67 lakh and Norwegian Foundation Rs. one crore. Out of Rs. 300 crore only Rs. 204 crore will be used up to the end of 1955-56. The main reason for the delay in utilizing these resources is inevitable time lag between the authorization of assistance or sanction of a loan and its utilization on agreed projects by procurement of stores, equipment etc. The amount of foreign aid that would be forthcoming under the Second plan will depend upon international situation. There is, however, no cause for taking unduly pessimistic view. Many countries in Europe and elsewhere are prepared to give grants and liberal trading credits, and inspite of the hesitant note struck by the World Bank it would not be unsafe to expect about 300 to 400 million Dollars from the Bank. India can always have foreign exchange facilities from the I. M. F. to the extent of Rs. 100 crore. There is, therefore, no cause for despondency on any account and with the help of foreign aid it would be possible to steer clear through the unusual situation.

CHAPTER VIII

Economic Philosophy and the Plan

A few economists have even gone to the extent of criticizing the Second Five Year Plan as lacking in its own independent economic philosophy. They feel it is a vague, haphazard plan subservient to the exigencies of political programme, just trying to satisfy a few interests and struggling against heavy odds with an undue socialistic bias.

On a superficial knowledge, it may however be true that we have not yet evolved an economic philosophy of our own—and such as it exists, it is necessarily ambivalent. For many of our peculiarities, there may be no clear-cut explanation—economics does not solve the problems in the absolute and abstract manner, both as an art as also a science, it is essentially pragmatic. We cannot borrow wholesale from the examples of other countries, because our problems are essentially our own, and in some sense most unique, complex and unusual—an enormous and multiplying population, overcrowding, unemployment, shortage of land, machines and material. These obviously cannot be solved by any single set of solutions or the experiences of other countries, howsoever impressive they might seem from a distance.

It would be, however, unfair to condemn the Second Five Year Plan as lacking in economic philosophy, simply because it is to function under certain limitations or shall operate within defined limited

objectives. The democratic planning with a pragmatic outlook is itself the underlying philosophy of the Second Five Year Plan. Its greatest philosophy lies in its faith in, that in a relatively underdeveloped economy like India, it is possible to increase production, raise the National 'ncome and employment within specified period, consistent with individual liberty and democratic institutions respecting human values and upholding the concept of Mixed Economy, only if certain methods of finance and investment are adopted and the necessary organisation set at all levels. This, according to the philosophy contained in the Second Five Year Plan can be achieved even without full-fledged public ownership of all means of production and absolute control of economy at all points. All that is necessary is, that the state should remain ever vigilant ; if any sign of strain appears the necessary corrective should be applied at the appropriate time, at the appropriate point and at the appropriate stage. Like the non-violent political struggle, the success of democratic planning through Mixed Economy is a unique experiment and gift to the world, but it will take long time, since we have chosen the hard way.

Concluding Remarks

Flexibility an essential Ingredient.

Equally refreshing, though, is the striking feature of the plan being 'flexible' and therefore subject to revision from time to time in the light of the availability of resources and its practical working, yet even this has been criticised on the ground that it makes nonsense of planning and may lead to chaos when some project or the other has to be dropped or suspended for want of resources.

It would however be fair under the circumstances to have a flexible plan which could be moulded according to the needs and requirements than to have rigid one. Too much planning is neither feasible nor desirable in a democratic society. An annual stocktaking of what has been achieved in the previous year and a determination of what should be done in the year ahead within the broad framework of the plan is surely not something to be looked down upon. It is of course, presumed that revisions will be made diligently with utmost care and without abandoning some of the projects which require continuity of efforts. We are sitting on an Economic Volcano and situated as we are, a lot of caution is required on the part of the authorities. It will therefore, be proper to keep the plan flexible at every stage so that the public and private sectors might continually be engaged in supplementing rather than supplanting, each other. Moreover, flexibility of the plan will avoid wastage of resources and facilitate adjustments

in the light of price trends, employment trends and availability of resources.

Role of Administrator

In a democratic planning, administrators have the primary function of rebuilding and resetting the objective world according to the newer patterns posed by the creative spirit. The administrator needs lot of imagination to visualise how existing patterns can be developed into newer and larger patterns. While modern planning has been initiated by the U. S. S. R. the ideology of planning by that nation is different from the ideology that guides the democratic planning of India. The administrators in the U. S. S. R. as intellectual workers have a secondary status, while in a democratic set-up they occupy an integral position. They need the integrity of thought and action to rebuild the objective world. It is likely that as the plan proceeds difficult issues will relate less to matters of policy and approach and more to questions of administration and organisation. The most important administrative tasks during the Second Five Year Plan are to ensure the integrity in administration, purging it of all types of corruption and devising speedy, efficient and economic methods of work, but for this it would be difficult to create the confidence of the public in the administration and to ensure the success of the plan.

We have amongst us an Economic Society in which Agriculture languishes, masses lack the basic necessities of life, little attempt has been made to attack unemployment. Such a society can never be said to be healthy, on the other hand it tends to destroy and ruthlessly shatter greater values of life—truth, goodness, beauty. There is a great crisis in human values, professions tend to be contaminated by the desire to

get rich. Law has become commercialised, medical practitioners are graded in rank by the size of their income. We can survive the efforts of inflation and adulterated goods but we can't survive the degradation of mind and soul. India and the West have sought to synthesise matter with mind and spirit greater emphasis being laid by India on spirit. In planning and development by the west, 'organisation' has received the first place and that by India 'understanding'. There is now the need and opportunity for a judicious synthesis of organization and understanding into a reality that unites action and vision.

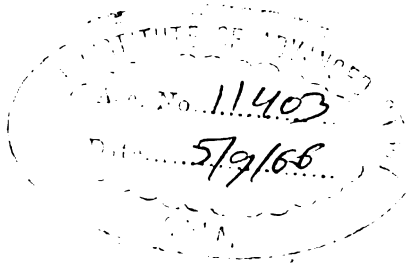
These are loud thoughts of self examining mind. The situation though quite explosive is by no means discouraging, we must put our house in order and be prepared to face the realities, we must adopt higher standards of courage, consistency and efficiency. The pitfalls have been there, and stumblings frequent but our virility will surely take us to the land of promise and make the experiment of Mixed Economy a success, without loss of human values and fundamental liberties.

Can the Plan be Implemented ?

Doubts have been expressed in recent months regarding the implementation of the plan. It is rather difficult to give a Categorical reply. If, however, the present state of affairs continue and the Government and the public do not adopt changed patterns of behaviour in economic matters, necessitated by the circumstances, we may soon find ourselves in a very complex and unusual situation, resulting in unprecedented catastrophe.

Changed patterns of behaviour on the part of the Government imply *inter alia* an acute sense of priorities of public expenditure (for instance expenditure

on a Luxury Hotel and Auditorium could certainly wait) a fillip to small savings by raising the rate of interest, stimulating the national efforts, inducements to foreign aid, better information and Co-ordination amongst the different departments of the Government and active Co-operation on the part of the public by rational behaviour and understanding. Investment in private sector should be productive rather than merely speculative or in channels yielding quick profits. Plan could certainly be implemented if the Government were to steer clear through the confusion worse confounding due to wrong execution of Economic policies.



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