A CASE FOR AN EXTENDED THIRD PLAN

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INDIA'S second Five-year Plan is now in its last few months, and, with the publication of the Draft Outline of the Third Five-year Plan, there has been considerable discussion in the Press regarding the size and scope of the third Plan and of the targets and priorities included in it. But, if the third Plan is to be realistically conceived and successfully executed, then a quick stocktaking of the second Plan—what we hoped to achieve and what we are likely to achieve—is plainly necessary.

The financial outlay in the public sector for the second Plan was revised to Rs. 4,500 crores. The actual expenditure in the first four years of the Plan was as follows:

Expenditure in 1956-57 to 1959-60

(In crores of rupees)

Item of expenditure	Centre	States	Total
Agriculture and community development ..	42.0	377.3	419.3
Irrigation and power	65.8	600.5	666.3
Industry and mining	770.8	77.7	848.5
Transport and communications..	928.3	134.3	1,062.6
Social services	225.6	343.0	568.6
Miscellaneous	33.2	45.0	78.2
Total ..	2,065.7	1,577.8	3,643.5

An estimate of the current year's expenditure indicates that the target of 4,500 crores *(in money terms)* may well be reached, the shortfall, if any, not exceeding Rs. 100 crores. This shortfall is likely to be more than counter-balanced by a total net investment of Rs. 2,600 crores in the private sector, against the target of Rs. 2,400 crores.

Thus, judged purely in *money terms*, the targets of the Plan can be said to have been attained. However, to judge whether the targets have been attained in *physical terms*, that is, in real values, it is necessary to have a look at the behaviour of prices during the Plan period. This can be done by consulting Table I on page 3.

It is clear that there has been a continuous, progressive and persistent increase in prices of all commodities since 1956, the slight drop in prices of industrial raw materials in 1958 having been more than offset by their sharp rise subsequently.

In the first half of 1960-61, the rise in prices not only continued but became more pronounced, as will be seen from the following table:

Wholesale Prices

(Weekly average. Base: 1952-53=100)

Unit	1960					
	April	May	June	July	Aug.	Sept.
General index	120.5	122.7	122.9	124.7	125.0	125.3
Food articles	118.6	120.0	120.3	124.0	123.9	123.9
Industrial raw materials ..	134.2	140.1	139.7	137.1	137.0	138.8
Manufactured articles ..	117.8	119.8	119.9	121.0	122.3	122.7

II

Rising prices are not, of course, the only factor which has interfered with the achievement of the physical targets envisaged under the Plan. The foreign exchange crisis has been another important factor. The third is the technical, administrative and other limits inherent in all plans for rapid expansion and the innumerable, inevitable and unforeseen bottlenecks which one knows from practical experience are invariably encountered by all such projects. The effect of all these factors, including the steadily rising level of prices and costs, on the fulfilment of physical targets of the Plan must be assessed.

In the agricultural sector, the picture is as follows:

Item of agriculture	Unit	Original target*	Revised target†	Production	
				1958-59	1960-61 (estimated) ‡
Foodgrains ..	Million tons	75.0	80.5	73.5	75.0
Cotton	Lakh bales	55.0	65 0	47.1	51.0
Sugarcane (in terms of raw *gur*) ..	Lakh tons	71.0	78.0	72.0	72.0
Oilseeds	Lakh tons	70.0	76.0	69.2	72.0
Jute	Lakh bales	50.0	55.0	51.8	55.0
Tea	Million lbs.	700.0	700.0	662.0	725.0
Tobacco	Thousand tons	250.0	298.0	263.0	300.0

* Embodied in second Five-year Plan.

† Second Five-year Plan Progress Report, 1958-59 (issued in April 1960).

‡ As estimated in third Five-year Plan, except for cotton which is latest trade estimate.

TABLE I

INDEX NOS. OF WHOLESALE PRICES

(1952-53=100)

For the year ended March	All commodities	Food articles				Industrial raw materials				Manufactures		
		Total	Cereals	Pulses	Sugar and *gur*	Total	Raw cotton	Raw jute	Oilseeds	Total	Cotton manufactures	Jute manufactures
1955-56 ..	92.5	86.6	76	62	89	99.0	96.9	117.1	85	99.7	105.5	96.1
1956-57 ..	105.3	102.3	96	81	98	116.0	110.6	125.6	120	106.3	116.1	95.1
1957-58 ..	108.4	106.4	101	82	108	116.5	106.1	132.7	120	108.1	116.2	95.2
1958-59 ..	112.9	115.2	107	104	127	115.6	98.6	117.7	127	108.4	111.8	86.5
1959-60 ..	117.1	119.0	104	94	147	123.7	105.7	116.1	135	111.6	116.7	90.6

It will be seen that thc estimated production in 1960-61 has, except in the case of cotton, exceeded the original targets. The latter have been revised upwards to correct a lacuna in the planning on agriculture. In the case of foodgrains, cotton and sugarcane, the 1960-61 estimates of production fall considerably short of the revised target. The shortfall in some items of agriculture and in particular foodgrains is of serious import, for with both population and money increasing, it is of the utmost importance that the agricultural production should also have rapidly increased.

Equally serious is the shortfall in the achievement of the area under irrigation. The heavy capital-consuming medium and major irrigation projects create a potential for bringing in extra acreage under irrigation whlch, if not properly utilised, is a waste of national resources. The area brought under irrigation is as follows:

(In million acres)

	1950-51	1955-56		1960-61	
		Target	Achievement	Target	Achievement
Major and medium* irrigation.	22.0		24.9		31.0
Minor irrigation and other sources ..	29.5		31.3		39.0
Area irrigated (net total)	51.5	67.0	56.2	88.0	70.0

* Irrigation projects costing more than Rs. 5 crores are classed as major schemes and those costing between Rs. 10 lakhs and Rs. 5 crores as medium schemes.

The expected achievement of 70.0 million acres under irrigation falls substantially short of the target of 88.0 miliion acres.

The production of fertilisers, which can substantially increase agricultural productivity, has also fallen seriously short of expectations as follows:

(In thousand tons)

	Original target	Revised target	Production in 1959	Production achieved as % of revised Plan targets
Superphosphates (P_2O_5)	120.0	120.0	About 50.0	42
Ammonium Sulphate(N_2)	290.0	290.0	About 75.0	26

Even allowing for a further period of 15 months in which actual production may rise, it is quite unlikely that it will approach the revised targets.

To sum up, shortfalls of considerable magnitude exist in the agricultural sector in the production of foodgrains, fertilisers, and in bringing acreage under irrigation which constitute a serious imbalance in the economy. A strong and stable agricultural sector is a prior "must" on which a large industrial base can be built in the third Plan.

Turning to transport, in recent months, the movement of coal, industrial raw materials and finished products has been considerably handicapped by the inadequacy of the railways to provide the wagons or power units or both, with the result that the goods traffic actually carried in 1958-59 was only 134.8 million tons. The Plan forecast a total goods traffic demand of 181 million tons in 1960-61, of which it was proposed to meet 162 million tons; but the heavy import of foodgrains from abroad was not envisaged in this estimate of traffic demand on the railways. A position has, therefore, been reached when industrial production may have to be slowed down due to the inadequacy of the railways to move both raw materials and finished products. This obstacle has largely been reached in some basic industries, notably coal, steel and cement.

The production of locomotives (in the private sector) and railway wagons, so necessary to create carrying capacity, has been as follows:

	Unit	Original target	Revised target	Production in 1959	Production achieved as percentage of revised Plan target
Locomotives (private sector)	Nos.	100	100	102	102
Railway wagons ..	Th. Nos.	25	25	8.46	34
Automobiles (all sorts) ..	Nos.	57,000	57,000	34,075	60

While the production of locomotives has been most satisfactory, the shortfalls in the production of wagons and automobiles, particularly trucks, have been a contibutory factor to the present transport bottleneck.

Furthermore, the attainment of the target productions in the industrial sector will almost certainly be handicapped not only due to the inability of the railways as shown above, but also due to the insufficiency of available power. The power position, according to informed estimates. is as follows:

Original target Installed capacity under second Five-year Plan		Revised target installed capacity laid under second Five-year Plan	Installed capacity likely to be achieved by March 1961
Capacity at end of first Plan ..	3.4 million kw.		–
Add. capacity under second Plan	4.8 million kw.		Not likely to exceed 5.8 million kw. on the basis of present progress.
Total ..	8.2 million kw.	6.4 million kw.	

The electrical industry's production in respect of some of the major items has reached the following levels:

	Unit	Original target		Revised target (Installed capacity)	Production in 1959	Production achieved as percentage of revised Plan target
		Capacity	Production			
Power transformers ..	Th. kVa	..	..	2,200	1,095.65	50
Electric motors ..	Th. H.P.	600	600	1,200	582.53	49
A. C. S. R. cables ..	Tons	20,400	18,000	30,000	14,612	49
V. I. R. and plastic coated wires ..	Lakh yds.	..	..	5,000	1,670.60	33

The electrical production in 1960-61 may fall short of the targets by a sizable margin, even when allowance is made for increase in production over 1959 figures.

In the basic industries which constitute the "hard core" of the Plan, the current levels of production are as follows:

	Units	Original target. Installed capacity	Revised target	Production in 1959	Production achieved as percentage of revised Plan target
Coal	Th. tons	..	60,000	47,032	78
Finished steel ..	Th. tons	4,700	4,300	1,673 40	39
Cement	Million tons	16	16	6.83	43

With the exception of cement, where the installed capacity expected by March 1961 seems adequate, the production of coal and finished steel lags woefully behind targets as well as immediate needs.

In the remaining industries a mixed picture emerges. In the following industries the target has already been exeeded by the end of 1959:

Industry	Unit	Revised target	Production in 1959	Production achieved as percentage of revised Plan target
Sugar machinery ..	Rs. lakhs	250.00	283.15	113
Locomotives(pvt. sect)	Nos.	100	102	102
Bicycles	Th. Nos.	895	990.48	111

The target is likely to be achieved in the cotton textile industry. As against a target of 5,350 million yards, production in 1959 was 4,925.56 million yards and in 1960 it was of the order of 5,000 million yards.

In the other industries, the current rate of activity is as shown in Table II on page 8.

It will be seen from the above that there is considerable leeway to be made in the above industries before the targets of the Plan can be reached. Considering that a time interval of only 15 months remained after the period to which the foregoing figures relate, and that some of the industries may nevertheless attain the desired level of production, the clear picture is that the majority of industries, particulary food, fuel, steel, transport and power, i.e., the basic industries constituting the' core' of the Plan, will require a greater period of time in which to reach the desired level of production. The target production levels will be attained in many industries only after the industries constituting the 'core' of the Plan have reached the desired levels. The time interval for some of the other industries to reach the targeted productions may be as much as a year *after* the basic industries have fulfilled their targets. Moreover, the extent of shortfalls in transport, power and basic industries are such that an additional year or two, i.e., upto March 1963, may be required to enable them to achieve the desired levels of activity. The groundwork from which the third Plan will start is thus unlikely to be completed before the end of 1962, and the third Plan itself will then stretch till the end of 1967. Or, looked at differently, the third Plan may be a seven-year Plan commencing with the actual levels prevailing in March 1961.

TABLE II

Industry	Unit	Original target				Production achieved as percentage of Revised Plan target
		Capacity	Production	Revised target	Production in 1959	
Aluminium ..	Tons	30,000	25,000	30,000	17,242.53	57
Ferro-manganese ..	Tons	171,800	160,000	170,000	61,700	36
Sulphuric acid..	Th. tons	500	470	500	283.51	57
Soda ash ..	Th. tons	253	230	253	93.82	37
Caustic soda ..	Th. tons	150	135	150	68.68	46
Industrial explosives ..	Tons	..	..	5,000	3,475.70	70
Plastic, synthetic moulding powders—						
P. F. moulding powder ..	Tons	..	..		1,764.00	
U. F. moulding powder ..	Tons	..	..	12,810	317.50	42
Polystyrene moulding powder	Tons	..	..		3,314.40	
					5,395.90	
Refractories ..	Th. tons	1,000,000	800,000	1,250	496.84	40
Rubber manufactures (automobile tyres) ..	Th. tons	..	..	1,450	1,138.64	79
Dyestuffs and intermediaries — finished dyes:						
Dyestuffs ..	Th. lbs.	..	..	27,000	10,109.69	37
Radio receivers.	Th. Nos.	..	..	300	214.92	72
Sugar	Th. tons	..	..	2,500	2,085.05	83
Newsprint ..	Tons	60,000	..	60,000	19,679	33
Paper and paper board ..	Th. tons	450	350	450	290.91	65
Paints and varnishes ..	Th. tons	..	..	65	53.99	83
Vanaspati ..	Th. tons	..	..	445	316.78	71

III

It is of the utmost importance that the period required for the consolidation of the 'core' of the second Plan, and which would constitute the base of the third Plan, that is to say, a period of eighteen to twenty-four months should be allowed for to enable the physical targets of the former to be achieved and to bring down the prices to levels more in keeping with those prevailing at the beginning of the second Plan. Unless this is done, the planning and achievement of the third Five-year Plan will fall even further short of targets in real terms, than in the current Plan. Together with allowing the additional period mentioned above for consolidation of the second Plan, the following fiscal and monetary restraints should also be observed to stamp out inflation:

(*a*) During the past four years, large dosages of deficit finance has been injected into the economy as follows:

Deficit Financing (Central and States)

Year	Rs. crores
1956-57	—253
1957-58	—503
1958-59	—136
1959-60	—228*
	—1,120

* Provisional.

Source: *Report on Currency and Finance—by the Reserve Bank of India.*

During the suggested period of consolidation of the second Plan, the deficit finance must not exceed what is budgeted in the present Budget; in other words, there should be no deficit financing at all during 1961-62 and 1962-63. Only so will it be possible for production and national income to catch up with the vastly expanded money supplies.

(*b*) The Union Government should refrain from borrowing directly or indirectly from the large 'rupee counterpart' funds arising out of transactions under P.L. 480, which in fact ought to be frozen. These funds should be utilised only when (and to the extent that) agreements are concluded between the U.S. Government and the Indian Government for their specific utilisation. Government borrowing of or against 'rupee counterpart' funds from the State Bank of India can only lead to inflationary finance.

(*c*) Advantage should be taken of the period of consolidation to reduce the drain on sterling balances and, if possible, to build them up.

(*d*) Government administrative expenditure has tended to increase from year to year—the combined non-development revenue expenditure has risen from Rs. 529.75 crores in 1950-51 to Rs. 600.56 crores in 1955-56 and to about Rs. 780 crores in 1958-59. This rising trend in Government expenditure has steadily reduced the net capital formation by Governments out of their current savings, as will be seen from the following table:

(In crores of rupees)

Year	Net capital formation by Centre and States	Gevernments' savings
1951-52	212.4	177.5
1952-53	210.3	70.2
1953-54	256.2	29.9
1954-55	340.6	43.5
1955-56	482.3	29.2
1956-57 (R.E.)	586.8	91.5
1957-58 (likely actuals) ..	717.6	38.1
1958-59 (B.E.)	860.5	—25.9

It is plain that what is needed is, first, a flat ban on any further increase in the strength of Government establishments and secondly the drastic pruning down of the man-power strengths in Government departments to at least the 1955-56 levels.

(*e*) In the monetary field, the Reserve Bank should persist with its "dear money" and "tight money" policies and should consider also:

(i) Raising the Bank rate and exercising more rigid "selective control" over commercial banks' credit expansion.

(ii) Attracting more money into the banking system by raising (not lowering) the "call money rates" and "term money rates" which may be offered by commercial banks.

(iii) Advising the Union Government to raise its long-term and medium-term borrowing rates to, say, 4 1/2 per cent. and 4 per cent., respectively.

(*f*) The Reserve Bank's role in facilitating Government borrowings on new issues needs re-examination. The arguments advanced in defence of the Bank's present policy in this respect (*Reserve Bank Bulletin*, February 1960) are defective in two respects: (i) It involves anticipatory *inflationary lending* by the Bank to Government on a very large scale against possible subsequent purchases of new issues by the State Bank of India and/or the commercial banks and the public. This encourages bound less extravagance in Government spending. It would be better, instead, to make new issues available "on tap" for some time after they are floated and until the next busy season. And (ii) even then, the 'tap' ought *not* to be turned on for the above purposes until these later demands have first absorbed the securities taken up by the Reserve Bank itself in conversion of Ways and Means Advances and/or Treasury Bills held in the Banking Department.

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