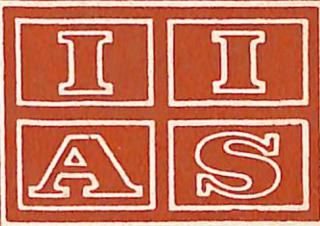


THE PROBLEM OF ~~WORLD LIQUIDITY~~
WORLD LIQUIDITY AND
OTHER ESSAYS



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PUBLISHED FOR INDIAN INSTITUTE OF ASIAN STUDIES BOMBAY, INDIA

THE ECONOMIC PROBLEMS of the world are pressing – trade must be enabled to expand – aid must continue to flow and must be increased in magnitude. It is imperative that the monetary system be strengthened in order that it might not prove an impediment to what might be done. Real improvements which should safely enable us to pass through the next few years have been carried out, but for the longer term radical rethinking is likely to be necessary. We cannot do better than to conclude with some words used by Keynes on the occasion of his explaining his own scheme to the British Parliament – "here is a field where some sound thinking may do something useful to ease the material burdens of men."

The symposium includes five essays, not coherently inter-linked, but are separate and independent treatment of five topics. These topics are of varied nature and are having a common denominator – the denominator of underdeveloped countries. The compilation will enlighten many people in many lands about the problems of underdeveloped countries.

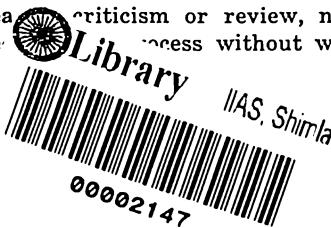
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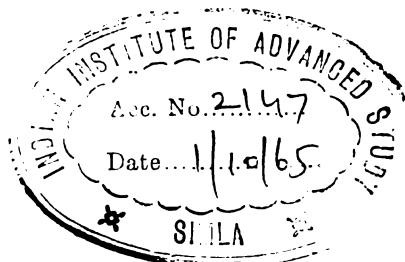
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THE PROBLEM OF WORLD LIQUIDITY AND OTHER ESSAYS

Editor :

M. R. SINHA

“To divide the world as between the aiding and the aided is both wrong and psychologically damaging. Development is a task in which many need help and as many have something to offer.”

John Kenneth Galbraith
(Harvard University, USA)

*Published for
Indian Institute of Asian Studies, Bombay*

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P

P R E F A C E

The problem of world liquidity is a newcomer on the economic scene. Until recently the idea of transfer of public funds from one country to another was completely unknown. During the last ten years, international financial aid has increased steadily and the growth rate of aid has been around 15% per annum and to-day it is now in the general region of about \$ 5-6 billion. This is a higher growth rate than either the export receipts of the developing countries, or their national income, or their investment, or the national incomes of the aid-giving countries, or their government expenditure.

The total export proceeds of the underdeveloped countries are broadly in the area of \$ 20 billion per annum, when compared with aid at \$ 5-6 billion means that aid adds about 25% to the foreign exchange receipts of the underdeveloped countries obtained from trade.

The aid represents a very significant item for the underdeveloped countries, because saving and capital accumulation are exceedingly painful in a poor country where the pressure of current need is very great.

The symposium includes five essays, not coherently inter-linked, but are separate and independent treatment of five topics. These topics are of varied nature and are having a common denominator-the denominator of underdeveloped countries; the flow of aid to these countries or the problem of world liquidity is discussed by Mr. Colin Clark; the commercial intelligence required for international communication, indeed very

vital for the underdeveloped countries, has been discussed by Mr. John S. Ewing; political and administrative problems of implementing the plan for economic growth has been discussed by Dr. H. K. Paranjape; and the use of statistics in planning for the national development of underdeveloped countries has been discussed by Mr. M. Mukherjee and lastly Dr. Saburo Okita's paper discusses the problem of savings and economic growth in post-war Japan.

The book would not have seen the light so early had the assistance and co-operation of my colleagues Kumari Amala Roy, the executive secretary of IIAS and Kumari Kamala Iyer were not at my calling.

Dhun-Villa,
Jaiprakash Road,
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THE PROBLEM OF WORLD LIQUIDITY

by Colin Clark

One of the major problems which faces the world to-day is that of the redistribution of income as between the developed countries of the Northern Hemisphere and the under-developed countries of Asia, Africa, and South America. The raising of standards of living in the under-developed world requires, in the first place, that developed countries should be able and willing to supply direct aid on a massive scale. In the second place, it depends upon the ability of the under-developed countries to find trading outlets for their products in the developed countries. Though the subject with which this article deals, the problem of world liquidity, may appear to be somewhat remote to Asian eyes, it is in fact of vital significance. During the past few years growing dissatisfaction has been felt about the way in which international trade is financed. Our object here will be to show the manner in which the system appears to be unsatisfactory, and we will attempt to show that the heated discussions which have been going on amongst Western Economists had a vital significance for the future of under-developed countries.

To get to the root of the problem we may begin by considering the role of money in what may be described as "a closed economy". This may be imagined to be a country which does not engage at all in international trade. The beginning student of economics is very familiar with text book examples of this type and he very quickly learns of the advantages which accrue from the use of money. He is told, quite simply that its use facilitates the exchange of goods, allows of the development of a price mechanism as a means of allocating scarce resources between competing uses, and allows the division of labour, with

concomitant increases in standards of living, to proceed. Money, in fact, is shown to be the handmaiden of trade; without its use economic progress would be completely impossible. Later he is told that the monetary system must be made to function efficiently — if it does not do so grave economic trouble ensues. The truth of this can be demonstrated by consideration of the important role of the Banking System within a country. As we all know, the pivot of the system is the amount of "legal tender" money in existence. The public will hold a certain part of this, but the remainder forms the cash reserve of the banking system, on the basis of which credit can be created. In fact, it is the created credit which is used to facilitate much of the trade which takes place. If trade is to continue to grow it can be financed in one of three ways — either by an increasing velocity of circulation of money (though there is a limit to this set by the nature of financial institutions), by lower prices (this is difficult because of the many price rigidities which exist) or by an increase in the amount of legal tender money which, in turn allows for an increasing creation of Bank Credit. It is this latter method which is of greatest importance. In the days of the operation of the Gold Standard System expansion of the amount of money could, of course, only come about as a result of the increase in the Gold reserves of central banks, except in so far as it was allowed to proceed by the expansion of fiduciary issues under strict governmental control, which were not backed by reserves. If, as trade expanded, the amount of money available to finance it failed to grow, trouble would begin to arise. This would come about since the scarcity of money would tend to raise rates of interest, which in turn would deter investment, thus hampering further growth, and perhaps producing trade depression. Much would depend upon increases in the supply of gold, for it would be only on the basis of such increased supplies that increasing credit might be allowed. Today, of course, gold does not play such an important part in the internal credit arrangements of most developed countries. The amount of legal tender money which is in existence is now decided by central banks, acting as agents of the national Government. The amounts of such legal tender money can be expanded in accordance with the needs of trade. The solemn words "I promise to pay the bearer on demand the sum of One Pound",

which appear on the face of Bank of England notes to-day are, in fact, completely meaningless in so far as the internal British situation is concerned. The whole economy operates on trust and confidence in the fact that a pound note will always be taken in payment for goods and services. Internal liquidity does not depend upon the vagaries of gold, and there is no reason why the internal monetary machine need ever hamper economic progress by failing to supply adequate means whereby a growing volume of trade can be financed. We must naturally be careful to point out that expanded money supplies will not in themselves, foster economic growth. But we can say that monetary factors need never hinder real expansion. Naturally the whole system could crash to the ground if confidence in the currency were destroyed. This could happen, for instance, if too much legal tender money were printed with ensuing inflation. The important point, however, is that internal monetary matters can be controlled in a sensible and beneficial manner.

We may now drop our assumption of a closed economy and consider the manner in which the existence of international trade affects what we have said. We must assume here that the relative values of different currencies are fixed. It is in this type of institutional framework that we work. To take the simplest possible example let us assume that there are only two countries in the world, Britain and the United States. Let us assume too that both of them have central banks who hold reserves which are to be used as the ultimate means of international settlement of debts. In such circumstances should Britain import more from the United States than she exports to her the pound would tend to depreciate in terms of the dollar on foreign exchange markets. In order to maintain the par values of the currency the British Central Bank would, in these circumstances, have to supply gold to the foreign exchange market in order to offset the excess of pounds. Britain could only continue in balance of payments deficit so long as the gold reserves were able to last. If they were in danger of running out a number of courses of action might be possible. Let us for the moment assume that a depreciation of the pound is out of the question and see what follows. The need is clearly for a reduction of British imports relative to her exports. This might

be achieved by erecting a tariff against U.S. goods. The difficulty here is that the erection of such tariffs would almost certainly be countered by the erection of tariffs by the U.S. in retaliation. Such a state of affairs would tend to reduce very appreciably the volume of trade being carried on between the two countries. In other words the benefits of international specialization with all that it means for growth and raising of standards of living would be sacrificed. The second possibility is that Britain might attempt internal deflation at home. If this had the effect of reducing the internal level of British prices there would be a tendency for the balance of payments deficit to be corrected. Prices of British goods would fall, and with a fixed rate of exchange imports of British goods would be an attractive proposition to the United States. However, in the circumstances of a modern economy it is far more likely that what would happen would be the creation of a depression in Britain. This would hamper British growth, and would keep standards of living below what they might otherwise have been. The important point to notice here is that all of these effects stem from the fact that there must be some means whereby disequilibria in balances of payments might be settled. In the normal course of events, assuming that the exchange rate between two currencies is about right, no great problems will arise. Deficits and surpluses on balances of payments may arise to some extent but they will tend to cancel themselves out from year to year. Britain's reserves will in some years increase, in some years decrease, but over a longish period of time they should remain stable. It is here that we must consider the relative size of the reserves and of British imports. If the reserves are large, temporary movements in the balance of payments can easily be met. Let us now assume that the amount of trade taking place between the two countries is growing but that the reserves are not. With a greater amount of trade being carried on a balance of payments deficit in Britain of say the order of two per cent of its imports will represent a far greater absolute deficit than it would, were the volume of trade much smaller. The ultimate means of payment, the gold reserve, would become small in relation to the strain imposed upon it. In such circumstances it would become far more likely for Britain to indulge in the erection of tariffs or harmful internal

deflation than would otherwise have been the case. In other words if the volume of international trade is to be allowed to grow smoothly then there must also be some growth in the ultimate means whereby international debts are settled. This in its simplest terms is what the problem of world liquidity is about. If gold production were also rising the problem would not occur, in other words a growing volume of trade can only be financed satisfactorily if there is also a rise in the ultimate means of payment.

Let us now complicate the issue, and bring our model more into accord with the real world, by assuming that other countries exist and that they fall into two groups. In one of these, group A, we assume that the countries have foreign exchange reserves partly of small quantities of gold, but partly of sterling, which is a British liability. Their central banks, in fact, hold sterling balances (in the context of the real world these will largely have been created as the result of World War II). Now within this group surpluses and deficits can be balanced off one against the other by alterations in sterling balances. Suppose, for example, that India runs into deficit with other sterling area countries — her sterling balances fall while those of other group A countries rise. Gold need not enter the picture at all. As time passes and the volume of trade grows exactly the same problem occurs as occurred in our previous Britain-U.S.A. example. International means of payment within the group, sterling balances in this case, diminish relative to the size of the trade taking place. The countries become conscious of this, and balance of payments considerations come to dominate economic policy. In such circumstances as these, however, the situation can be remedied. For example, development aid from Britain might be used partly as a means for increasing the purchase of British goods, and partly to increase the Central Bank's holdings of sterling balances. The important position of the "Key Currency" country in this is clear — it has in its hands the control of liquidity.

The countries within Group B, which we assume to be the dollar area, are in an exactly similar position though in this case the foreign exchange reserves will be largely held in terms of dollar securities. The growth of trade within the group will depend to a very large extent upon the policy to be pursued by

the United States Government. If it is prepared to allow dollar balances to be accumulated, an increasing volume of trade within the group can be financed.

What we must now do is to consider the relationships between the two groups of countries. Trade will take place not only between countries within groups but also between countries in group A and in group B. In these circumstances it is possible that group A countries will be in a net deficit position with group B countries. The maintenance of the existing par value between dollar and pound could only be maintained in these circumstances by a running down of the British gold reserve, and an increase in the American gold reserve. We are back to where we started. If the par value between dollar and pound is about right, net deficits and surpluses should cancel out within short periods of time. However, as trade between the two groups grows the absolute sizes of the discrepancies will increase so that unless the ultimate means of payment is also increased severe balance of payments difficulties will arise. The trade between the two groups will be curtailed and some of the advantages of international specialization will be lost. Other consequences will also follow. Let us assume for example that Britain is giving aid to countries in the sterling group. Provided the countries are willing to buy British goods no difficulties will arise but if they should buy goods from the dollar area the ultimate consequence may be a net deficit of the sterling area with the dollar area, running down of the British gold reserves, which of course are the reserves of the sterling area, and the reluctance on the part of Britain to continue with her aid programme. Similar considerations also apply if the under-developed countries of the sterling area are attempting to find larger markets in Britain. If the pounds which they earn through these exports are converted into dollars on the foreign exchange markets and used to buy American goods the sterling area again moves into deficit. In this case Britain would be reluctant to allow growth of her trade with under-developed countries to continue. In addition, of course, she might find that it was necessary to curtail growth at home for balance of payments reasons, and this would damage her long-term aid-giving potential.

So far as Britain is concerned this type of problem has been

with her since the end of the war. However, there are indications that the same sort of difficulties are now being felt by the other key currency country, the United States. In fact in October 1960 there was severe speculation against the dollar in the London gold market, and there were even hints that the dollar might have to be devalued. In July 1962 Late President Kennedy, in the first live trans-Atlantic television broadcast was at pains to state categorically that the United States would not be forced into devaluation.

We are now back to our starting point. As was stated earlier, aid to less fortunate parts of the world can come only from growth in the real wealth of the developed countries. How is it possible for them to grow, on the other hand, if the pursuance of expansionist policies at home is hampered by balance of payments considerations? How too can they be expected to reduce tariffs against imports of under-developed countries if they fear balances of payments consequences? There is no doubt of their desire both to trade with and to aid under-developed areas. The problem is one of so organising the international monetary system that such trade and aid should develop as rapidly as possible.

We may now consider the role which the International Monetary Fund plays in the world today and consider some of the schemes which have been put forward for extensions of its powers.¹ The basic aim of the Fund is to help countries in balance of payments difficulties to overcome them without having to resort to excessive internal deflation or to the erection of trade barriers. All the countries which are members of the Fund pay to it a subscription known as their quota, 25% of which will be in gold and the remaining 75% in their own currency. The effect of this is to provide the Fund with huge-reserves, at present valued at 15,000 million U.S. dollars. If a country runs into balance of payments difficulties it can bolster its own reserves with drawings from the I.M.F. and it can draw

¹ For further details relating to whole question of international finance readers can be referred to F. Machlup "Plans for the Reform of the International Monetary System", Princeton University, Special Papers in International Economics No. 3. August 1962 and simpler exposition is to be found in the London Economist (May 6th 1961, p. 528).

in the currency which it needs. Thus if Britain runs into a dollar deficit it can draw from the I.M.F. in dollars which provide a second line of defence over and above the value of its own international reserves. The mechanism of drawing is complicated but it usually entails a country purchasing, with its own currency, other currencies from the pool. This results in the Fund's holding of the drawing country's currency increasing. Generally the practice now is that a country has a more or less automatic right to drawings of up to 25% of its quota (this is the amount of its own gold subscription) while in addition, providing it can show that it is making reasonable efforts to solve the balance of payments problems, it is likely also to be able to borrow a further 25% of its quota. This arrangement, of course, provides a very powerful bolstering of reserves, when a country can gain purely from I.M.F. resources currency to the extent of 25% of its quota. (The first 25% of the quota in gold, is of course no real addition to reserve—in the absence of the Fund the country would have been able to use the gold paid over to the I.M.F. it is the second 25% which matters). In addition to this the Fund may, in exceptional circumstances offer to a country further "standby" credits. In essence, of course, the object of the arrangements is to provide time. If reserves are slender a country in balance of payments deficit will have to act very rapidly. This action may be very harmful internally if it involves deflation or it may do more permanent damage to the whole structure of international payments if it involves the erection of tariffs. Arrangements such as these were of great value to Britain in 1961 and to France in 1958. However, many smaller countries have also benefited. The enlargement of the quotas which was achieved in 1958-9 has given to the I.M.F. far greater resources than was previously the case. It is now in a very much stronger position and it seems likely that it will be able to do much to help the two key currency countries, Britain and the United States to cope with the difficulties with which they are faced. However, the question does arise as to whether or not the I.M.F. should be completely transformed. Plans for the extension of its role have been put forward recently by a number of eminent financial experts. We may consider three of them, those of Bernstein, Stamp and Triffin.

Before we consider these plans two other points should be

cleared up. The first of these relates to the possibility of an up-valuation of the price of gold. It will already have become apparent that one of the causes of the present difficulties is the fact that the ultimate means of payment of all-gold-is not increasing in supply at a fast enough rate relative to the rate of expansion in world trade. Surely it might be argued the way to overcome this is simply to raise the price of gold. There is something to be said for this argument; but very much more to be said against it. It would certainly increase liquidity but it would do so in a very haphazard manner. It might also in future years, should the problem of liquidity arise again, cause intense speculation in the gold market. It might have important psychological confidence-destroying effects; while in addition it would lead to more and more essentially unproductive earth-digging in South Africa, the U.S.S.R., Canada, the U.S.A. and Australia. In addition it would appear to be politically impracticable.

The second solution, which must also be ruled out, is that we should cease to attempt to maintain constant par-values of currencies, and adopt instead a system of floating exchange rates. Such action is commended by many notable academic authorities; but it appears to offend against the instincts of practical men. The main argument used against it, is that the uncertainties of international trade are great and that the imposition of further uncertainties in the shape of fluctuations in the relative values of currencies is unjustifiable.

The first plan which we might consider is that of Mr. Bernstein.² This recognises the fact that the key currency countries are in a very vulnerable position and that in time speculative pressure may from time to time develop against their currencies. At the same time other countries would be increasing their international reserves. Under the Bernstein Plan countries in surplus would undertake to loan parts of their increasing reserves to the I.M.F. which would then lend them out to countries in deficit. This would provide the deficit country with a reserve of sufficient size to immediately deter speculation. Thus if Britain and the sterling area went into deficit the Bank of England would have

² Details are quoted in Brian Tew: "The International Monetary Fund: Its Present Role and Future Prospects" Princeton University, Essays in International Finance No. 36, March 1961.

as reserve its own holdings of gold and foreign exchange, drawing rights from the I.M.F. which it now has, along with further loans agreed under the auspices of the Bernstein Plan. In fact practices essentially of this nature have already begun to develop between central banks. Thus the European Bankers Agreement of 1961 operates in the following fashion. A country in deficit would normally have to maintain the par-value of its currency by selling in foreign exchange markets gold and foreign reserves. Under the Bankers Agreement the countries in surplus are undertaking to buy the deficit countries' currency in the exchange markets, holding it in their reserves. Within the limits of the agreement they undertake not to attempt to convert the deficit country's currency into gold acquired from the Central Bank of the deficit country. Thus, for example, Germany has to some extent acquired dollars, has not converted them into gold by buying gold from the U.S.A. and has eased the U.S. gold outflow by so doing. Mr. Bernstein simply imposes that such mutual assistance should be handled within the framework of the I.M.F. rather than being carried out by outside agreements among central banks. Such steps are of very great value. However, it should be noted that they ease rather than remove the problem of the key currency countries. The growth of the reserves of the sterling and dollar areas would still depend upon the ability and willingness of Britain and the United States to see their currencies being increasingly used as part of the reserves of countries in their respective orbits. The basic liquidity problem, in fact, is not removed. It is simply made slightly more easy to live with. Such arrangements as these, however, do show that there is an increasing willingness on the part of governments to recognise the importance of international monetary arrangements. We have already learned of the dangers of collapse of the world monetary system through the events of 1931. The steps already taken are such that one can be fairly confident that no such disaster will occur again. It certainly seems true that we will manage to move through the next few years without too many monetary upheavals. The long term prospects on the other hand are far less certain and it is in this connection that the more ambitious plans of Stamp and Triffin need to be considered.

The Stamp plan is perhaps the simplest and less ambitious

of the two and it is convenient to treat it first.³ To set the scene let us imagine that an under-developed country which is receiving aid from abroad suddenly discovers a large hidden reserve of gold. In these circumstances it would be able to use the gold to purchase goods and services abroad. This would both ease its own development problems, and, at the same time, add to the reserves of the country from which it bought. This country would now possess greater reserves of international liquidity and would be in a much stronger position to handle fluctuations in its own balance of payments. The essence of the Stamp Plan, quite simply, is that, instead of the under-developed country suddenly finding gold, it should be given I.M.F. certificates of a certain value. The developed countries might then agree to take such certificates in payments for goods and services, and to treat them as part of their own international reserves. If all the countries of the developed world were to act in this fashion, and treat the certificates as being "as good as gold", world liquidity would be increased. In short, the certificates would be in effect a fiduciary issue of the I.M.F. Furthermore the number of certificates in existence would be determined by the I.M.F., and this would give it the power to increase world liquidity to any extent which it thought fitting. All that would be required for the operation of the system would be the growth of confidence in the acceptability of I.M.F. certificates as means of settling adverse balances of payments. There would of course be the further advantage that the increase in liquidity would also aid those countries which needed it most. To maintain confidence in the certificates the I.M.F. could stand prepared in certain circumstances to redeem them in gold or in national currencies, of which they have a stock as the result of all countries having paid a quota, the existing quota in fact, to the I.M.F. In these circumstances the I.M.F. would be acting very much as a world Central Bank capable of increasing credit in much the same way as can be achieved by the Central Bank of a country though it would be doing so in an unconventional manner. It must be noted, of course, that such steps might very easily lead to inflationary pressures developing within Northern Hemisphere countries. To counteract this there would need to

³ Fuller details are to be found in his article "The Fund and the Future" *Lloyd's Bank Review* (London) October 1958.

be close control of the granting of certificates which developed countries would need to specify the amount of certificates which they were willing to absorb in any given year. In effect what they would have to do would be to adopt internal financial policies which would leave resources free for the supply of goods to be purchased using the certificates. In terms of elegance and simplicity this plan has much to commend it, while at the same time it is much less complicated than the more ambitious Triffin Plan. The difficulty which it has in common with the Triffin Plan is that an essentially paper medium would be beginning to play the part which has in the past been played entirely by gold. Its acceptance would therefore require Central Bankers to jump many intellectual hurdles which, in their present mood, they seem unlikely to be willing to do. We may now turn to Triffin's proposals.⁴

This owes much to the famous plan for the setting up of an international clearing union proposed by the late Lord Keynes, and it bears some similarity to the proposals recently put before the I.M.F. annual meeting in Washington by the British Chancellor of the Exchequer, Mr. Maudling. From our previous discussion, it would be obvious that many of our current problems stem from the use of key currencies and from the fact that the supply of gold is increasing but slowly. The Bernstein Plan envisages, the continuance of the use of key currencies, but aims to make the available supplies of gold "do more work". Stamp also seems to envisage the continuance of key currency systems but aims to increase liquidity by means of his certificates. Triffin goes even further. He holds that the whole key currency system is obsolete. His now famous phrase, "the use of national currencies as international reserves constitutes a built-in-destabilizer in the world monetary system" has almost become a catch-word. He wants both to remove the key currency system and at the same time provide the I.M.F. with means of increasing the world's liquidity base without being dependent on gold. His scheme is less ambitious than that of Keynes, but in the present state of world monetary opinion it seems to be impractic-

⁴ For full elaboration of Triffin's ideas see his articles "The Return to Convertibility : 1926-1931 and 1958- ? and "Tomorrows Convertibility : Aims and Means of International Monetary Policy" Banca Nazionale del Lavoro, Quarterly Review March and June 1959.

able, in political if not in economic terms. But it is well worth some brief discussion here, even though it is likely to be a starter only in the long term future. Triffin, of course, fully recognises this himself.

Leaving aside for the moment that part of the Triffin plan which concerns the changes necessary in the key currency system we may deal with the "credit creating" role of an expanded I.M.F. operating essentially as a world central bank. Countries would surrender to it their existing gold holding (the amount surrendered could be gradually increased) receiving commensurate deposits with it expressed in terms of a gold unit. A deficit on the part of one country could now be settled by a transfer of deposits in the books of the Fund. With the growth in trade and consequent increases in the need for liquidity the sizes of the deposits might begin to become inadequate. It is here that Triffin's suggestion that the Fund behave as a central bank becomes important. Liquidity depends on the size of each country's Fund deposit, and these can easily be increased in normal banking fashion by the granting of overdraft loans to a country in difficulty, or by a purchase of securities in the open market. For example an I.M.F. purchase of securities in London would be paid for by a cheque to the seller. He would deposit it with his bank, which in turn would deposit it, with the Central Bank of the country concerned. In turn the Central Bank deposits it with the I.M.F. — hence extra deposits are credited to the country in the I.M.F. ledgers and can be used in international payments. Provided that the managers of the Fund are normally competent in banking practice — that is, provided it is always able to exchange deposits for gold, confidence in the new system could be maintained. Safeguards against inflation would naturally need to be written into the system, in order to prevent its utter breakdown — a limit on the annual growth of total deposits would do this.⁵

⁵ It is important to note that the Triffin plan would not enable deficit countries to defer indefinitely the balancing of their international trade accounts. Provisions can easily be written into it which limit the loan facilities which can be obtained. As in all the schemes there must be a balance between temporary help given in order that a country may not be forced into permanently damaging actions and the need for discipline in handling balance of payments matters. Surplus countries can also be impelled to take action to

It might be mentioned here that development aid could be financed under the Triffin plan by the I.M.F. taking up securities of the International Bank, which could then distribute the deposits which it would thus acquire to finance its aid programme.

The pre-eminent advantage of the Triffin plan however is that it would effectively abolish the key currency system. Instead of holding dollars or sterling in their reserves countries who depend on the system would hold deposits in the I.M.F. An international organisation, specialising in financial matters would have control over potentially the most vulnerable aspect of present day monetary arrangements. The convertibility of currencies, so essential for the smooth development of multi-lateral trade, would be preserved. This, plus the provision which it makes for controlled increases in world liquidity, makes it imperative that really radical reforms, along the lines suggested by Triffin should be explored.

We have now come to the end of our journey. It may appear that the subjects discussed have bordered upon the esoteric. In fact nothing could be further from the truth. The economic problems of the world are pressing — trade must be enabled to expand — aid must continue to flow and must be increased in magnitude. It is imperative that the monetary system be strengthened in order that it might not prove an impediment to what might be done. Real improvements which should safely enable us to pass through the next few years have been carried out, but for the longer term radical rethinking is likely to be necessary. We cannot do better than to conclude with some words used by Keynes on the occasion of his explaining his own scheme to the British Parliament — "here is a field where some sound thinking may do something useful to ease the material burdens of the children of men".

prevent their continuing to build up their reserves (i.e. run up large credit balances with the expanded fund) thus causing additional difficulties for deficit countries.

THE INTERNATIONAL COMMERCIAL ORGANISATION AND DIFFICULTIES OF COMMUNICATIONS

John S. Ewing

The Role of Intelligence in Decision Making

However trite and axiomatic it may sound, the basic responsibility of management is to make decisions. The essential difference between the manager and the non-manager in terms of function is this decision-making obligation; the essential difference between the good and bad manager is clearly the ability of one to make more sound decisions than the other. Even at that, if one competent observer is to be believed, the usual run of managers throughout the world averages only one really good decision out of each three attempted.

Most organizations are hopeful of a somewhat better record for their managers. Whether they get it or not, those managers are certainly to a large extent appraised on the basis of their decision-making records. Knowing this, they will put much time, energy, and managerial thought into improving their showing. At times the result can be self-defeating; pre-occupation with the "hows" and "whats" of decision processing may lead to a decline in the ability to decide.

This is perhaps especially true of an older school of managers, those who tend to decide on the basis of intuition, "hunch", or the feel of the market-place. All of these things are important. Indeed, decision making is the composite of two elements and the first of these, the skill of the decider, is itself expressed as the sum of such variables as intuition, "hunch", intellect, experience, emotion and reason. For years these were enough, since the man who had to decide what to do was skilled enough, sufficiently adroit in all the variables to know how to use them.

But even the old-fashioned manager still had to rely to some extent on the second part of the process, the development of

intelligence. This does not refer to intelligence in the usual sense of intellect or mental capacity but, rather, to the word in the military meaning of "information or news." The intelligence agent or spy secures information, not for the sake of information as news but as the basis for higher level decisions. After the intelligence has been evaluated by the proper staff people, operations officers can decide how it is to be used and whether it can form the basis for a successful battle or campaign.

As Napoleon found out at Moscow and other generals before and after him, faulty intelligence can mean disaster. If intelligence is to form the other part of the decision-making process, it must undergo two appraisals. There must be determination as to its accuracy and reliability and there must be determination as to its fitness to be the basis for action. As in the military, the first of these steps may be taken by screening of staff officers; the second determination is the responsibility of operational people, managers whose job it is to make the decisions.

Intelligence in the Small and Large Organization

The effective use of intelligence by the manager requires certain skills and attitudes. First of all, the manager must know what intelligence he wants and needs, and he may have to go back to the staff or screening officers to be sure that they give him this. Secondly, he needs to know how to use the data once it has been prepared for him. And, thirdly, he needs to be willing to use it, after he has been willing to request it.

This is an essential difference between old-school and new-school managers. The old-school man is inclined to stay with the elements of decision-making which do not postulate intelligence as a separate requirement. They regard their intuitive decisions as complete in themselves, forgetting that they are inevitably based on intelligence — but intelligence that may by now be out of date.

It is out of date because it derives almost wholly from the men's experience. Some managers develop a rigid approach which tends to place experience high up in the scale of decision-basing elements, to make these managers resist new intelligence running contrary to their experience. These are the managers who decide intuitively, the ones about whom the expression has been coined "Don't confuse me with facts; my mind is made up."

In part, at least, this excessive reliance on experience arises from a fear, not of facts, but of the inability to deal with them. Modern decision-making machinery, notably in data processing, is complicated, requires the use of both mathematics and a special language, and seems to eliminate or at least to minimize the human element. Retraining management to adopt the new intelligence-providing sources is difficult, for psychologically understandable reasons.

The intuitive decider may have been conditioned by his company's small origin, since the manager in the small enterprise develops and acts on intelligence often without conscious awareness of the process. When he finds himself forced into the position of having to separate out the two parts of the process he may fail to understand what has happened to the company, or be unwilling to admit that the informal methods which worked so well in the past are no longer sufficient.

Attempts have been made in some organizations to continue the use of those systems which did operate effectively when the company was small. One American advertising agency regularly requires key employees to spend one week each year in client organizations, not as observing executives, copywriters, media buyers and the like, but on first-line production levels, as sales people in grocery stores, attendants in gasoline service stations, and similar points of direct contact with customers.

These efforts derive from the belief that the kind of intelligence necessary for successful advertising can be secured only on the level of consumer purchase. There is a recognition that the small shopkeeper who sees his customers daily, who observes his competitors as he walks or cycles home for lunch, and who picks the brains and the memories of travelling salesmen calling on him does have a well-developed intelligence system through which he can readily decide what and how much to buy. As his business grows into a larger store, as his place of business becomes an office rather than a position behind the counter, he must turn to other methods. But there is not now the guarantee and often not the feeling that these methods are as effective as that direct association with those who make the business successful or who will cause it to fail if once they stop buying.

It should be noted and emphasized here that the methods

which do replace the intelligence systems of the small merchant or manufacturer are almost invariably and perhaps inevitably statistical. Control of the organization has tended to become control through the accumulation and use of figures. Almost everything which is fed into a computer, each variable in the mass of variables with which the computer is equipped to deal must be reduced to a digit or set of digits.

But, unfortunately for the accountant and perhaps also for managers with different backgrounds, figures are not enough. They are useful, essential, inevitable tools for today's complicated enterprise but they contain a hidden danger. This is the danger that the manager who uses them as the basis for all his decisions will forget that these figures are nothing more nor less than the expression of people. Unless he produces something made entirely by robots for sale to robots in a world following completely the mathematical model so dear to the economist, he must somehow make a qualifying adjustment in his thinking when he uses figures. He must allow for the presence of the human element which is not a constant but a variable.

Special Difficulties in Intelligence Development in the International Firm.

The data which a company accumulates as a guide or basis for decision-making are essentially a form of communications. When, as often happens, they appear not to communicate enough, the domestic company can, without great expenses of time, money, or energy, follow up by personal contact to find out what more is needed to make the communication meaningful. The sales manager who senses that the failure to meet quota in territory A may have some other reason than apparently poor selling can go out to territory A, where his familiarity with the territory, the salesman, and the over-all company and industry framework combine to help him speedily develop the additional information he needs for proper judgment.

In the international enterprise, however, matters are not so simple. Expense plays its part; the sales manager may have to justify a trip half-way around the world before he can make it, and justification may be difficult if others do not share his way of reading or interpreting the data. Or, even if he can support, either to himself or his superiors, his case for a trip, it

may be in vain. He moves from a country and an ambience with which he is thoroughly familiar, in which he acts unerringly, secure in the knowledge that he understands and is understood. He finds himself on new ground, hit by what has been referred to as "culture shock" deprived of the subtle, myriad nuances which help him to operate effectively.

Human nature being what it is, defences will quickly be erected against this kind of traumatic situation. The manager who at first resisted what he felt to be an excessive emphasis on data collection and interpretation and preferred to decide on an intuitive, experimental basis may now, in his new move into the uncertainties of the international business world, himself move toward a reliance on statistics. His way of dealing with the complexities of the world wide corporation is to reduce each aspect of it to digits and punched cards.

There are several reasons for this apparent volte-face. One is the good, rational reason that modern business, at home and abroad, once it moves from the stage of smallness is so complex that the variables can only be handled in this way. If this is true of the domestic concern, it is likely to be even truer of the international one.

But another reason may have more importance in terms of the individual manager. Fear of the unknown is common to most men and there is no reason to believe that the unknown cannot be a part of international business. The man who has spent much of his business life within the bounds of one company in one country may very well be afraid of the problems and paradoxes to be found in another country. His own company's branch in that country tends to be different from its branches in his own country because some element of the unfamiliar is introduced, even for the internationally experienced.

The element of unfamiliarity is the human element and to minimize its importance, the manager turns to figures, where humanity is eliminated. But, because these figures are a form of communication, the danger in reliance on them is great. Most, or at any rate many, men in international business, when asked their major problem will reply "communications". It is difficult enough for the man in a branch office to make his home office know what he is talking about; when the branch office or the branch factory, or the branch company are in another country

the difficulty is confounded.

The problem is not one of distance, for modern mechanics of communications have tended to minimize that aspect. Rather it is that those who are communicating are doing so in two different sets of circumstances and, often, from two different frames of reference. This may be particularly difficult when the man in one country is a national of that country and the man in the other country, a national of that. No matter how well each is conditioned by training to the common company, some element of cultural pattern is apt to creep in and cause communication misunderstandings.

Theoretically, perhaps, the use of figures should reduce and perhaps eliminate this particular problem. In some aspects of the business, this may well be true; certainly in financial reporting, common systems may make for common understanding. Again, however, and perhaps to emphasize unnecessarily, the danger to effective communications will arise where figures come to be regarded as, if not the only, then a prime method of communicating intelligence as the basis for decision-making.

If it can be accepted that figures must play an important part in the development of intelligence but not the only part, then the question to be asked is this: "In addition to figures or statistics, what kinds of intelligence-development machinery can or should the international organization develop?" As part of this question there is a subsidiary one: "What circumstances should be anticipated which may require special intelligence?"

Case Studies in Intelligence Problems Abroad

Clearly it is impossible to deal with all the circumstances which may necessitate much more than statistics as a means of action. However, a few case histories of situations where special machinery was needed may be sufficient to make the point about its importance. The reader should, as he studies these, constantly ask himself "What might the company have done differently? How might it have found out the facts in time to prevent trouble? How can it make sure that this does not happen again?"

Problems of Public Relations

An automobile company had enjoyed a number of prosperous years in a Latin American country, where it operated an assembly

plant with profit. The local manager, an expatriate from the home country, had become thoroughly familiar with the ways of the country, its language, and its people, and was well liked by employees, customers, and public officials. When he retired, to live in the Latin country, he was replaced by another expatriate, one who had been trained in a new philosophy which placed heavy emphasis on cost and other data, predetermined budgets and profit centers, and a minimum of concern on people.

The new manager wasted little time in converting the subsidiary to the home office's new philosophy, did not bother to seek advice from his retired predecessor, but did try to establish correct relations with government officials. He and his headquarters were astonished when permission to build a new plant in a large city was denied, with reasons which the company did not think were good but to which it could not effectively object. This happened some eighteen months after the new man had taken over the Latin American operation. A headquarters official, sent down to inquire into the circumstances, learned in a roundabout way that the real reason for the refusal to grant a permit was dislike of the new manager, his insistence on turning everything into the figure-oriented philosophy, and his inability to establish a true rapport in the community. The headquarters man knew that the reports and other data which had come up to the home office had been adequate by the standards established and, as a result, nobody in headquarters had seen fit to raise any questions about the conduct of affairs.

Problems of local associate relations

The negotiator sent to work out details of a licensing agreement in New Zealand took four months to carry out something originally scheduled to occupy two weeks. Apart from the time and expense involved, his behaviour so shocked his hosts that, when his company sent him to New Zealand and Australia for a follow-up in the next year, the New Zealand associate refused to see him and an Australian company cancelled its agreement and substituted another licensor.

Problems of Local employee relations

Problems in this area are particularly numerous. They are important not only because of the effect on the company's

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nal affairs but because, also, they tend to merge into the area of public and government relations. Three which caused particular difficulties are these:

i: The American subsidiary of a large European company had been allowed by its head office to operate almost autonomously, under an Englishman who served as president for many years. On retirement, his hand-picked successor, an American, was given to understand that he would be free to operate in the same way. The American was a man of considerable ability but also of considerable capriciousness, and his employee relations policies were destructive of morale. Reports of his behaviour did reach the European management but management, conditioned for so long to a hands-off policy, took no action until the company's competitive condition became so bad that it finally had to dismiss the executive. The company has never recovered fully from his tenure of office.

ii: The executive of a company operating in another country entered with the determination to demonstrate efficiency and economy from the beginning. One of his first actions was to dismiss an old employee, a national of the host country. The employee complained to a friend in the local Ministry of Labour; although the issue was not advanced as the reason (since a case for the dismissal could be made) the executive's work permit was suspended for two years and a number of obstacles were placed in the company's way.

iii: The European manager of an Oriental subsidiary was uncertain about proper personnel policies in the fields of compensation and benefits. The home management, steeped in the belief that high wages mean high productivity and that benefits should be kept to the minimum prescribed by law, insisted that Western policies only should be implemented. Great difficulty was experienced in attracting skilled employees, despite the higher wages offered by the company.

Ways to deal with the problem

A major difficulty in dealing with case examples is that of finding a correct or complete solution to the problems they raise. Unfortunately, while there was undoubtedly something that could have been done in each case to improve the situation, there is no assurance that the remedy can be a universal panacea.

It cannot be overemphasized that this matter of communications/intelligence requires flexibility and pragmatism in the utmost degree.

There are, however, some generalizations which can be examined for their application to particular situations. Some of these relate to the general establishment of the international organization; others to the operating procedures involved.

i : Creation of two-way receptivity

To the degree possible, someone of high rank in the home office should receive communications from overseas establishments, and this someone (or these someones) should have had experience abroad. Many companies are following a routine policy of requiring all of those destined for senior management to spend some years in foreign branches so that they can develop an understanding of the differences involved in operating there.

ii : Effective Screening of Overseas Personnel, short-term and long-term.

Unfortunately, no psychologist appears to have been successful in the determination of tests which will indicate clearly a man's likelihood of operating effectively in an overseas role. However, careful investigation may bring to light the possession of behavioral characteristics which may impair effectiveness. It should be kept in mind that the short-term assignment may be as disastrous as the long-term one and that technical competence is not the only requirement. In the instance of the man in New Zealand, he had been selected because he had the competence needed to set up an assembly line operation. However, he did not have the ability to get along with other people which was equally and perhaps more important.

iii : Pre-assignment training

It is the responsibility of the man on the spot to develop and transmit intelligence to the home office. However, his effectiveness in this role will depend to a considerable extent on his sensitivity to local factors, many of them difficult for the Westerner (in an Oriental or Asiatic setting) to grasp. Preparation for this aspect of the job should include as much work

and study in the culture of the country to which the man is going as possible. In order to ensure a positive reaction rather than the mere passivity which conventional training methods too often secure, case studies requiring the executive to put himself into an unfamiliar situation have been found effective.

iv : Condition Reports

Once the organization has been established or modified, attention must be given to the kinds of intelligence which will be submitted to the central office. To rely only on conventional reports, dealing essentially with figures, is not enough. Some companies require their operating executives abroad to submit weekly or monthly reports which they write themselves, dealing with all phases of the local operation, including not only company matters but also opinion and information on politics, economics, public relations, and anything which conceivably has any bearing on the corporation's affairs. The operating executive himself, for his part, may, find it desirable to require subordinates to write reports for him, which he can use both as the basis for his own reports for home and for action in his job.

A major difficulty, however, in any kind of internal report system is the lack of objectivity which may be present on the part of the writer. This, in essence, is the hub of the problem and it poses some difficult questions. In each of the cases cited above, the critical situation arose because the company's headquarters did not know what was going on and, in some cases, it had no way of finding out.

Too often there is a tacit assumption that, somehow or other, word of a difficulty will make its way home. This may be true; what is equally true is that the time involved for word to spread may spell disaster. In the instance of the European/American company, for example, rumours apparently did reach Europe fairly soon after the trouble began but some years were allowed to pass before any action was taken. The reason was good enough—the autonomy, which had been granted by tradition—but the company was to be criticized for an automatic passing on of the policy, after the man who had been its original cause had left the company.

Even where the local chief executive may sincerely wish to keep his home office correctly informed on conditions, the diffi-

culties of developing intelligence in a foreign situation for a non-national of the host country may be almost insurmountable. People in most countries will tell a stranger what they think he wishes to hear, not the truth. To aggravate this, the expatriate executive may pride himself on a community identification which is spurious; he really has not been accepted, no matter what he himself may think. He is not getting true intelligence.

To guard against this kind of situation, additional procedures may be necessary. This is the area of most concern, and dealing with it is the most onerous. Some methods which may help are these.

v : Use of an inspection staff

Most international companies will have a travelling auditor or accountant, who makes regular checks of the account. Perhaps, in addition to this assignment, the auditor should be charged with the responsibility to develop information on the state of the organization — employee morale, public relations, all the potential trouble spots. He must be free to by-pass top management since top management naturally enough may want him to hear only the good things.

This is a most complicated problem to solve. In essence, it suggests the creation of a company spy system, a distasteful concept. Yet it is hard to know what alternative exists, for, no matter how able the local management may be, it may be too close to matters to be able to view them correctly. However, if the system is adopted, home office management must be sure that local management is kept informed of the kinds of reports being made, and be given a chance to deal with the issues.

vi : Use of nationals on the local board

One way to secure intelligence for local management is to have nationals of the host country as directors of the local board. The company lawyer, an accountant, a politician, men thoroughly versed in national and community affairs and with their own ways of developing intelligence may serve a vital purpose. In this sort of circumstance, their responsibility is toward their chief executive rather than toward company-management at home. However, such men should be accessible to the company's travelling inspectors or to other visitors from head office

whose job it is to weigh intelligence in terms of its source and reliability.

vii : Use of public relations counsels

Public relations counsels operate now in a great many countries. Their assignment for a company may include not only the creation of a favourable image but, and perhaps more important, the development of intelligence about that image. They should keep both local and international management thoroughly up to date about matters such as legislation which may affect the concern, press and other media coverage of its affairs and those of competitors, how influential segments of the community regard it. Reports should not be confined only to national management but should be sent to the home office. If they are sent through the local manager (in the interest of the chain of authority) he should not be allowed to modify them in any way and may be expected to indicate how he has dealt with the problems raised.

Conclusion

It is a human characteristic to tell people what they want to hear, and for the junior to place himself in the best possible way in the eyes of the senior. There are other things involved in any kind of reporting/responsibility situation, one of them being the close identification with local affairs which makes objectivity difficult.

Yet, in the increasingly complex international business world, some element of intelligence which takes human relations into account is vital to the firm. Not only does it affect the company's operations in a strictly business sense, but the rising tide of nationalism makes it more and more important to develop a sensitivity to what is going on in each country where the company operates. A brush fire is best extinguished when the match is lit, not after a full-scale holocaust has broken out.

Development of an intelligence system which will help international management most effectively involves a willingness to go beyond figures as a communications method, careful selection and training of men for foreign employment, controls and checks on the information sent back, and a willingness to accept and act on information when it is received. Along with this must

go the creation of an atmosphere which will make local management believe that the purpose of the intelligence system is the improvement of the total corporate operation, not to spy and sneak for the sake of spying and sneaking.

[This is the working paper prepared by the author for the Winter Session of Indian Institute of Asian Studies, 1963-64.]

POLITICAL AND ADMINISTRATIVE PROBLEMS OF IMPLEMENTING THE INDIAN PLAN*

by *H. K. Paranjape*

Introduction :

India's development effort has evoked considerable attention. There are many reasons for this. India (together with Pakistan) was the first large country to attain Independence after the war. India's freedom struggle was already well known and so were the aims and ideas of her leaders. Moreover unlike many other newly Independent countries India retained her political stability, produced a workable constitution and has continued to work as a democratic system. She has already held three General Elections and the system has been functioning smoothly up to now in spite of various difficulties including the aggression on her frontiers in 1962. India was also the first amongst these countries to produce a long-term development plan and the system of planning has been working uninterruptedly since that time, the present plan being the Third Five Year Plan.

India's achievements in the first ten years of planning are not inconsiderable. Her national income has increased by about 42% (per capita income increasing by about 16 per cent) during this period. The rate of savings has increased from 5 to 8.5% and the rate of investment has increased even faster, thanks to

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substantial external assistance. The production of food increased by about 46 per cent, area under irrigation increasing by 36 per cent; the capacity for electricity production has increased by 148 per cent and industrial production by about 94 per cent. Moreover a substantial beginning has been made in the establishment of economic overheads, social overheads especially by way of large scale expansion of health services and of facilities for general and technical education and of basic industries like steel, chemicals and machine tools which should provide the wherewithals of further growth.

These achievements however are inadequate in relation to the essential requirements of the country. It has been well recognised that over the next ten years or so, India's economic progress must take place at a rate higher than in the past and that this period is going to be a crucial one in India's development.¹ If Indian planning succeeds in the tasks that it has undertaken there is a good possibility that a firm basis would have been laid for continuous and self-sustained economic development in the future and the democratic pattern of life will be strengthened and stabilised. But if the plans do not succeed, considerable economic and political strains will be created in the country and the future of Indian democracy may then be in jeopardy. The success of the present i.e. the Third Five Year Plan and the next one or two plans is therefore of considerable significance to those amongst us who prefer democratic and orderly progress.

It has been increasingly accepted by students of economic development that while the shortage of capital and other material resources is a crucial factor for economic development, the creation and maintenance of a governmental system which can provide the basic framework and the drive for development is equally important. The political and administrative problems of planning are therefore of great significance.

The scope of the subject is wide and it is not easy to encompass it within the confines of a discussion paper. What is attempted is an indication of the more important political and administrative problems faced in implementing the Indian plan. The selection of the problems is bound to be somewhat subjective.

¹ See for an elaboration of this, John P. Lewis, *Quiet Crisis in India*, Washington, D.C., Brookings, 1962, Chapter I.

Moreover these problems are so closely interconnected with economic, social and other factors that a certain degree of simplification and generalisation is inevitable. As the purpose of the paper is to illustrate the principal problems and the solutions that are being tried and considered for meeting them, no attempt is made here specially to highlight the achievements made in this field.

The Objectives of the Indian Plan

The Third Five Year Plan is based on a long-term perspective regarding the development of the Indian economy. This perspective is of course, not rigid; it has been undergoing many changes since the formulation of the First Plan in 1951, based on the experience gained in this period and also due to changes in external and internal circumstances.

The conclusion that is now emerging about the long-term perspective plan is that it is essential to attain a certain minimum level of consumption for the mass of the population by 1975-76 (about Rs. 100/- p.m. per family at 1960-61 prices). It is obvious that this is not a very high target by the standards of advanced countries. But for our people, even this would make a substantial increase in present standards and the attainment of at least this level is judged to be essential if the rising expectations of the people are to be satisfied and political stability maintained. This consumption level has to be attained together with building up an economy which will be able to maintain self-sustained economic growth. This would require—given the expected rate of population increase — a cumulative rate of growth which would be even higher than the rate of 6% p.a. which was accepted as appropriate at the time of preparing the Third Plan. For this the net investments in the economy will have to rise from about 11% of national income at present to about 20% and domestic savings from about 8.5% to about 19%. The strategy visualised also emphasises the important role of the State, both in guiding and in actively participating in the developmental tasks and the necessity to co-ordinate the increase in production with greater equity in distribution. The former involves a properly balanced development of all sectors, especially agriculture and industry, planned development of the human resources — technical, administrative and managerial —

and the development of an economy that can pay for such imports as it continues to require. The latter involves the elimination of the massive underemployment and unemployment in the country and equalised employment opportunities for all; these will provide the major instruments of bringing about a reduction in the existing large inequalities in the distribution of income.

The Socialist Pattern

In broad terms, the twin objectives of Indian planning can be described to be economic growth and "a socialist pattern of society". The movement for Indian Independence had from its early beginnings concerned itself with problems of the poverty and backwardness of the masses. This led to the inclusion of a statement of "The Directive Principles of State Policy" in the Constitution that was adopted by the country in 1950. In this statement, it was stated:

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

"The State shall, in particular, direct its policy towards securing:

- (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
- (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
- (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;"

Following this, in 1955 the Indian Parliament adopted "the socialist pattern of society" as one of the major objectives underlying the country's policy. It should be noted however that the objective was stated to be not "socialism" but "the socialist pattern". This indicates basically the compromising and pragmatic attitude in policy formulation in India. It was explained in the Second Five Year Plan:

"Essentially, this means that the basic criterion for determining lines of advance must not be private profit, but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment—and in fact all significant socio-economic relationships—must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged classes of society.

"The socialist pattern of society is not to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. Each country has to develop according to its own genius and traditions. Economic and social policy has to be shaped from time to time in the light of historical circumstances. It is neither necessary nor desirable that the economy should become a monolithic type of organisation offering little play for experimentation either as to forms or as to modes of functioning."²

It will thus be seen that the Indian approach is to bring about a revolutionary change in the Indian economy in an evolutionary manner, without any radical break with tradition. While it will have a definite direction, the speed and the methods of change will be so adjusted as to carry the bulk of the people with the programme. Indian planning has therefore continuously attempted to bring about a national consensus about the basic development strategy and even about the tactics to be adopted from plan to plan. It might even be said that the philosophy of co-existence prevails in regard to the internal economic policy also. The attempt is to evolve the new on the basis of the old and to do it in such a manner as to allow time for necessary adjustments to be made.

The ideal of equality is attempted to be pursued in such a way as to subserve economic as well as political requirements. There are not only large disparities between the rich and the

² Second Five Year Plan, Government of India, Planning Commission, New Delhi, 1955, pp. 22-23.

poor but also between the urban and rural areas. There are also significant disparities amongst different regions of the country. It is necessary for political stability as well as for economic development that these disparities are reduced with as much speed as possible. There is very little scope in India now for internal migration and this together with language differences make inter-regional mobility somewhat difficult. The plans have therefore emphasised the importance of "the development of resources in different regions of the country so as to spread the benefits of development as widely as possible without slowing down growth itself". The emphasis on reducing urban-rural disparities is essential because the large majority of India's people live in rural areas and if they have to play their proper part in economic development, they must gain their proper share of the national product. Because of the social institutions like caste that have traditionally existed in India, certain sections of the population have remained perpetually in a relatively handicapped and depressed condition. Indian planning therefore places special emphasis on the improvement of the conditions of these sections of the population. It will be easily seen that these objectives are not only morally desirable; they are also essential if adequate incentives are to be provided for different elements in the population to bear their proper share in the common tasks, and what is equally important, explosive forces are to be contained and political stability maintained. There is thus a close relationship between the broad objectives of the Indian plans and the necessary conditions for the attainment of these objectives.

The Objectives of the Third Plan

In this context the objectives of the Third Plan are — to raise national income by about 30% in five years (about 5½% p.a.), and for this purpose, to increase the rate of investment to about 14-15% of national income at the end of the plan period, domestic savings being raised to about 11.5%. This involves, to mention some broad targets, increases in agricultural and industrial production by 30% and 70% respectively, the latter involving a significant increase in the output of large and basic industries such as steel (163%) and machine tools (445%).

These are difficult enough tasks. The aggression committed

by China on India's borders in 1962 has added to the difficulties. In addition to the targets essential for development, the necessary defence preparedness now involves a further addition to some of them. While requirements of defence and development are likely to be largely complementary in the long run especially in the case of basic industries and economic overheads, in the short run they are likely to be somewhat competitive. If the consumption target envisaged for 1975-76 is judged to be the absolute minimum for political stability—as many knowledgeable persons do—a much greater push is necessary in the way of economic progress. The responsibility of the State which is admittedly "the principal planner, energizer, promoter and director of the accelerated development effort"³ has increased further as a result.

The Role of the State

The Five Year Plans in India serve the basic requirements of Indian economic development through providing a long-term perspective of growth, reducing uncertainties, underlining the crucial shortages in the economy and supporting the necessity of forced savings, the proceeds of which would be available for growth both through the public and the private sectors. The role of the State is crucial in the carrying out of the Plan. In addition to deciding on the broad strategy of development, formulating detailed programmes and revising and modifying them continuously as required, the very heavy burdens that it has to carry in this scheme of things will be understood from the following list of its main tasks in regard to the Plan :

- (1) Industry—Organise and manage a large number of key projects in the field of basic industries like steel, heavy machine-building, machine-tools, heavy electricals, fertilisers, petroleum and coal-mining. Regulate, guide and assist private sector industry, large and small, in the light of plan requirements.
- (2) Agriculture—build up an organisational system which will enable agriculture to be carried out more efficiently and productively; arrange for increasing and timely supply of the essential inputs for increased production.

3. John P. Lewis, *op. cit.*, p. 25.

and credit and marketing facilities; organise agricultural extension services.

- (3) Economic overheads—organise and manage power-generation projects, expand and operate the railways and the air lines systems; increase and improve roadways, internal waterways and coastal transport and regulate operations, carry out geological, mineral and other such surveys; organise public works programmes in the rural areas so as to provide employment and at the same time increase essential facilities for rural development.
- (4) Social overheads—expand various kinds of education, training and research and especially ensure the rapid growth of training facilities for the crucial shortage categories; provide for improved health services, drinking water supply and housing, the last especially in the urban and industrial areas.
- (5) Maintain India's international balance of payments and for this purpose obtain, and regulate the terms of obtaining, foreign capital, expand exports and control foreign exchange transactions.
- (6) Ensure a price policy which will, in terms of relative prices, accord with the priorities and targets that have been set in the plan and prevent any considerable rise in the prices of essential goods that enter into the consumption of low income groups; regulate markets and devise physical and/or price controls where necessary for this purpose.
- (7) Increase the financial resources internally available to the State from about Rs. 26 to about Rs. 47 billion; and do this in such a way that, on the one hand, the private sector is enabled and encouraged to carry out its tasks and, on the other, large income inequalities are not permitted to grow but decline.

A question is sometimes raised whether it is really necessary for the State to undertake such enormous and difficult tasks, whether economic development will not be smoother and faster if the State confines itself to the tasks of guiding and, to some extent, assisting economic activity, perhaps even taking active part in fields like education, training and research and social

services, but stopping short of taking such an active part in economic life as the Indian plan requires. Without entering into an ideological discussion, it can be said that in India (outside of a few persons on the extreme fringes of the system) there is broad agreement about the role of the State in her economic growth. The organised private sector is in broad agreement with this⁴ and most political and intellectual opinion supports this. There may be marginal differences—and such differences there are. But about the broad strategy of development and the role of the State, there is a large measure of agreement. In the Indian context, there is no practicable alternative to this.

There are many reasons for this, the most important ones being the shortages of experienced entrepreneurs and capital for private industry, the large amounts of capital required for new industries and the long time-lag before profits can be expected, the necessity to obtain foreign credits and technical know-how and also the objective of preventing undue concentration of wealth and economic power. There are vital sectors

⁴. See for example the following extract from a statement issued by the then President of the Federation of Indian Chambers of Commerce and Industry on the publication of the Third Five Year: "The size of the plan is more or less the same as proposed by the Federation and the allocation of resources between private and public sectors and between different fields of production, is broadly similar. This evinces the identity of final objectives and the purpose of planning, viz., to build a technologically mature society that will provide higher employment and better standard of living to all members of the community". The complementary role of the public and private sectors was stressed specially both by the present President of the Federation and the Union Minister for Steel and Heavy Industries at a seminar recently (August 1963) organised by the Federation on "Problems of Private and Public Undertakings". It may also be interesting to note the following from a recent (July 1963) statement of the Chairman of the Tata Iron and Steel Co. "Some shareholders and others may have been surprised that as Chairman of the largest producer in the Private Sector, I should have gone out of my way to support the Bokaro Project (a proposed steel plant in the public sector) both in India and abroad. I am sure, however, that most people, including our shareholders, will approve of my action. India's economy and the standard of living of our people cannot grow without additional steel and it is clear that the Private Sector, even if permitted to do so, would not be able to undertake on its own a programme of expansion at an average rate exceeding a million tons of new capacity per year".

like agriculture where without State initiative the necessary development will just not occur. However this in no way implies full-scale public ownership even as a long term objective. Large areas of the economy including agriculture, trade, banking and small and large industry continue to be in the private and the co-operative sectors and there is no intention that these should be taken over by the State. The Industrial Policy Resolution (1956) of the Government of India, which continues to provide the guide lines of policy, makes it quite clear that while "the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities" and while State trading may also increase, the private sector has an essential role to play and will have therefore an opportunity to develop and expand. As it has been emphasized in the Third Five Year Plan, "With the rapid expansion of the economy, wider opportunities of growth arise for both the public and the private sectors and in many ways their activities are complementary".⁵

It can thus be seen that the Indian approach to the role of the State in India's economic plans is essentially an operational and pragmatic one; it has arisen out of the economic and political conditions in the country and the requirements of economic growth, and enjoys a wide measure of support in the country. Instead of entering into a discussion of the merits of this approach therefore it may be worthwhile for us to accept this as a datum and to examine the problems involved in the State effectively carrying out its role in India's development plans.

THE CONSTITUTION AND THE PLAN

Union—State Relations:

India is a Union of States. Under her Constitution there is a specific division of functions between the Union and the States and within their own constitutional jurisdiction one is not subordinate to the other. It needs to be mentioned however that the Indian Constitution has certain provisions which make for a federal system which is considerably centralised. Thus while the States have independent powers of taxation and borrow-

⁵ Third Five Year Plan, Government of India, Planning Commission, New Delhi, 1961, p. 7.

ing, the Union Government can exercise considerable financial control over them. Most of the more flexible taxes are included in the Union list, the States' power to borrow is subject to the consent of the Union Government if any loans made by the Union Government to the concerned State are outstanding (which in effect means permanent control) and foreign assistance for development can only be negotiated by the Union Government. The result is that the States are heavily dependent for their plan finance on the Union Government.

Subjects of vital importance like agriculture, small and medium industries, internal communications, health and education are under the jurisdiction of the States; but there is a large Concurrent list in regard to which the laws of the Union legislature can prevail and further there is a provision under which the Union legislature can legislate on a state subject provided that the Council of States (on which States have representation mainly in proportion to their population) consents to this by a two-thirds majority. The creation of all-India civil services, which are subject to the control of the Union, can be similarly decided upon by the Council of States. Ultimately, various emergency provisions of the Constitution can provide overriding powers to the Union Government if the Union finds this to be necessary.

"Economic and social planning" is a concurrent subject under the Constitution. There is no provision in the Constitution for a Planning Commission which can work for both the Union and the States. As a matter of fact the Planning Commission has been created by an executive order of the Union Government and the States have no representation on it. But because of the political authority of the Union Government's leadership (which is also represented on the Planning Commission), the general acceptance in the country of the necessity of national economic planning, the greater competence of the Union authorities and various kinds of financial inducements that the Planning Commission and the Union Ministries could offer if the schemes and programmes suggested by them were agreed to by the States, they have accepted the guidance of the Planning Commission. An extra-constitutional device used for the purpose of ensuring the acceptance of the plan and providing broad guide-lines to the Planning Commission has been the National Development

Council which is a body consisting of the Chief Ministers of States, the members of the Planning Commission and senior Ministers of the Union Government. It serves as the highest national forum for planning discussion. The Council has in practice embodied and given informal sanction to the underlying concept of partnership and co-operation between the Centre and the States over the whole range of development.

Planning in the States:

One major reason for the lack of concreteness and workability that has been experienced in important parts of the Indian plans up to now has been that the planning machinery in the States has been weak and undeveloped. The result has been that the States have not put forward realistic plans of their own; they have mainly contented themselves with asking for larger plans (with more of Central assistance) or particular preferences in locations etc., and it has been relatively easy to meet such difficulties through negotiations and compromises. But this situation is not likely to continue. In the interests of more effective planning it is essential that State Governments should develop proper machinery for planning. This has already been emphasised by the Planning Commission⁶ and special planning agencies are being increasingly organised in the States. As a result of this, the planning process is bound to become more complex. While in the interests of overall national development, the Planning Commission and the Union Government should be in a position to have the last word (and this they can have because of financial as well as constitutional factors), they will have to give much more thought to the diversity of conditions and requirements in different parts of the country in formulating plans. In dealing with State plans and programmes, the Planning Commission will have to rely much more on drawing up common criteria and principles and much less on bargaining and ad hoc decision-making.

Some of the difficulties in pursuing proper plan policies have arisen because of the failure up to now to produce long term development plans for States. Thus the reason for competitive demands from States for location of large industrial projects within their territories irrespective of the economics of the

⁶. Third Five Year Plan, *op. cit.*, p. 289.

location, which are a source of trouble especially in the public sector, is the States' failure to build up a long term projection of their development pattern. As the Third Plan points out: "not all regions can offer equally favourable conditions for the development of industry. It is also possible to overestimate the significance of the location of large industrial units in relation to the living standards of the population."⁷ It is clear that this kind of rational approach will be accepted by the States only if they have before them a long term programme of development which will indicate the better alternatives for them to pursue. As Pitambar Pant has pointed out:

"It is very difficult to carry conviction to people whose interests are at stake with the simple argument of national interest where thinking is confined to a short horizon of time and the alternative of letting the project go is to have no project for the region at all. But the proposition would be seen in a different light if the needs of different regions were to be clearly anticipated in a perspective plan of say 15 years so that people of every region are able to find their own place in an overall and region-wise design of development, with activities spelt out in space and over time. There could then be a reasonable chance to persuade them to wait their turn in respect of their own share of projects which would be both to their benefit and to the benefit of the nation, instead of clamouring for others manifestly unsuited for their region. In this way regional and national interests could be reconciled. In our special situation, with regional and local loyalties increasingly pressing against national loyalties such reconciliation brought about on a rational plane is all the more urgent".⁸

It is for this reason that the Third Plan emphasises the importance of drawing up long term development plans, not merely in broad national terms but for regions. That is an important reason for the emphasis it places on the improvement of the planning machinery in the States. From the time of the First Five

7. Third Five Year Plan, op. cit., p. 143.

8. P. Pant: Some thoughts on Perspective Planning (Mimeographed), August 1962.

Year Plan, the importance of helping balanced regional development has been recognised and various policy-measures adopted for the purpose. But all this could not add up too much. Such data as are available show that regional per capita incomes even now show quite large disparities. This was inevitable because even the collection of regionwise data about economic trends and potentialities has only been taken up recently. A great deal of work is now being done to correct this deficiency. This will considerably increase the possibilities of realistic state planning and the possibility of friction between the Union and the States will not then pose much of a threat to successful planning.

While the Union Government, as mentioned above, has been able to obtain the support of the States in regard to the plan and the broad policies that follow from it, it has not been equally successful in ensuring that the States in practice actually carry out their share of the responsibilities and tasks under these. This has been due to many reasons the most important of which has been the lack of clarity or concreteness in the plans or policies. This is true for example about food policy or even agricultural policy. In some cases, the problem has been the fear of political difficulties on the part of the State Government or its lack of conviction regarding the policy even though for convenience lip sympathy is paid to it. This has been the cause of many lapses on the part of States to carry out land reform measures with necessary care as suggested by the Planning Commission. Even in regard to schemes for which a substantial part of finance was provided by the Union Government, it has not always been possible to ensure that these are carried out in the proper spirit and with a view to attaining the results expected. In the earlier years of planning, this was attempted to be checked through insisting on close and detailed control by the Union authorities. But as this was found to be too rigid, and affected plan implementation adversely, a greater degree of flexibility has been permitted in recent years. This was no doubt necessary.

In matters like land reforms, development of co-operative and other institutions etc., some variation of pattern and speed are inevitable because of the diversity of conditions in different States and all the Planning Commission can do is to evaluate

what is happening and bring it to the notice of the authorities and the public. This is already being done through reports of the Programme Evaluation Organisation, the Committee on Plan Projects, the Panel on Land Reform etc. However in cases where a lapse on the part of a State is likely to create serious difficulties in the overall implementation of the plan, it is necessary that the Union authorities should exercise a more direct and vigorous control. This would require not so much any legal or constitutional change as clearly stating what is expected, a reporting system which will indicate in time the possibilities of failure and willingness and courage to make an erring State mend its ways, through such sanctions as are available. The Union authorities are now trying to bring about an improvement in the first two of these requirements; the third of course requires a political solution.

One important factor that makes for smoother working of Union-State relations in planning as in other fields is the existence of all India services. The fact that many of the top officials both in the Union and the State Governments belong to a common service—the Indian Administrative Service—is of considerable help in this respect.

Democratic Structure:

The Constitution guarantees the fundamental rights of citizens, such as those regarding personal, religious and political freedom, equality before law, and freedom to pursue any profession or occupation. The right to acquire, hold and dispose of property is guaranteed and it is further laid down:

“No property shall be compulsorily acquired or requisitioned save for a public purpose and save by authority of a law which provides for compensation for the property so acquired or requisitioned.”

However, the basis of compensation is a matter that is left to be decided by the legislature. Further, when this right is found to come in the way of the carrying out of a basic economic or social policy, as was the case in respect of legislation for the abolition of landlords' rights and for the protection of tenants, the Constitution has been suitably amended. The Constitution provides

for the enforcement of the rights of citizens through an independent judiciary. Adult suffrage is guaranteed under the Constitution.

The Indian Constitution is a written document but amendment of the Constitution is relatively easier. In this and other ways it provides enough flexibility for a society that wants to carry out a planned but rapid change in its economic and social system. On the other hand, it provides a basic structure which helps political stability which is essential to economic progress. The rights about property and occupation make it possible for the private sector to function and develop according to its own logic. The partial autonomy guaranteed to the States which represent significantly diverse linguistic groups (though there is a basic unity underlying this diversity) helps to ensure that the interests of all the groups in this large country receive adequate attention. The political freedom and the democratic framework make it possible for different sections of the population to organise for the redress of their grievances and to that extent, a sense of confidence in following the rules of the democratic game is being created. With the enormously difficult tasks that India faces there are many potential and actual sources of dissatisfaction which, unless properly channelised, can lead to an explosion. The constitutional structure seems to be essentially fitted to prevent such an occurrence.

The Cabinet System:

India has adopted the parliamentary and cabinet system of government. The entry to the top positions of the state hierarchy is only through the legislature and the stability of Government depends upon the continuing support of the legislature. While this system has proved itself in older democracies, India is a somewhat unique case of a federation with a large number of constituent States, trying to plan its economy and doing this under a cabinet system of government both at the federal and the state levels. The Cabinet system normally involves a greater sense of equality among its members vis-a-vis their leader than would be the case in a presidential system. A greater degree of consultation is necessary and a minister, however marginally concerned he may be with a particular subject, can always manage to delay if not modify a decision that he does

not like. Where a problem involves consultation between the Union and one or more States, this consultation and delaying process can occur at both these levels. This may be aggravated by the possibility that the Prime Minister may not always have a genuinely free choice about whom to include in his cabinet. Even the Prime Minister of India, with a political standing that puts him head and shoulders above others, recently said that in a 'mixed' country like India, one cannot avoid having a somewhat 'mixed' cabinet. This is even more so in the States where almost invariably the party is divided into factions. The presidential system, with decision-making power concentrated ultimately in the hands of one chief executive who derives his authority directly from the people, may perhaps have been more useful especially for implementing a plan. Another reason why such a system may be more attractive is that a chief executive who has to rely on continuous support of his legislative party for continuance in office may find it more difficult to take decisions with speed and to decide in favour of policies which may hurt particular interests or otherwise prove unpopular in the short term but whose beneficial effects can be seen in a few year's time. The weakness of some of the State Governments in decision-making and in carrying out seemingly unpopular measures for plan implementation to some extent arises because of the fact that they are not certain of receiving continuous support of their legislative parties. There has also been a demand arising in India from time to time for a "Government of talents" for the effective implementation of the plan. But this is much more difficult under a cabinet system than under a presidential system. On the other hand, there is a greater possibility of a deadlock between the chief executive and the legislature under the presidential system. This is too large a subject to be further explored here—but it indicates the kind of problems that arise because of the adoption of economic planning which could not be adequately foreseen at the time of Constitution-making.

POLITICAL PROBLEMS

While a distinction may be conceptually drawn between political and administrative problems, in practice it is well known that these overlap to a considerable extent. However for convenience we would divide the problems into those which

are predominantly political and those which are predominantly administrative.

Continuity in Plan Policies:

The first essential requirement of economic planning in any society is continuity in basic policy. It is true that some degree of continuity is inevitable because the decisions taken today are bound to determine the subsequent situation for many years to come. But unless some degree of certainty about the broad strategy of development that underlies the plan is guaranteed, undertaking of plan programmes of a long-term character is bound to prove somewhat difficult. In some crucial sectors of the economy there are bound to be long time lags between initiating work and the successful completion of a programme. Institutional and organisational reforms of a fundamental character which are essential for economic growth similarly take a long time to be carried out. If there is much uncertainty about the continuance of such basic policies at the time of every election, the process of development is bound to be significantly interrupted every five years, with a gap of one or two years before progress commences again. This is bound to be a hindrance to planned economic progress.

Fortunately in India this problem is not troublesome at present and it does not seem as if it will create much difficulty in the future. The first reason for this is that because of various factors, one political party continues to have overwhelming support in the country and this continues without any denial of rights to opposition parties. This is indicated by the fact that the opposition parties together could muster slightly greater electoral support in the last election than the ruling Congress party. The institution of single-member constituencies is an important factor which helps the stability of government. It is true that the Congress majority is not stable in some States, that even where it is stable the party is divided into factions and some people have an apprehension that similar factions may divide the party at the centre when the present charismatic leadership is removed from the scene. But it seems fairly certain that the different factions in the ruling party are not based very much on any basic conflict regarding policies, and that the broad strategy of the plan is acceptable to all of them. Such factions

may however have an adverse effect on plan implementation because of a lack of clear and forceful direction from the political executives.

The fact that the ruling Congress party includes a very wide spectrum of opinion and ideas at all levels has also led to difficulties in clearly laying down policies and in carrying them out. To maintain unity among all these different elements, compromises have to be made and these many times are of a verbal character which represent no clear understanding about concrete policies and programmes. This is more serious in the case of the Congress party because it is in power all over the country. Because of the failure to arrive at workable and clear conclusions, there is considerable disparity between the policies and objectives laid down and accepted in the plan and the actual administrative decisions and implementations. The history of land reform policies is replete with instances of this.⁹ Similar is the history of food policy. Despite the definite policy indicated by the Planning Commission in its "First Five Year Plan—Draft Outline" for the maintenance of the basic system of food control and its reiteration of this approach in the final report of the Plan, a policy of decontrol was accepted in 1952 and even though the policy decision was to maintain the organisation for control intact, in actual practice most states went ahead with full scale decontrol and dismantled the organisation. Since then various policies have been discussed and the principle of building up a machinery for stabilising prices adopted. The implementation of that policy has been considerably weak because of a lack of clarity at the top and the reluctance of those in authority either at the Union or the State levels to carry out the measures required for it. The principle that the well-to-do sections in the rural areas should be required to contribute more to development resources has similarly been accepted but most States have been reluctant to take effective steps for implementing it. Thus while the fact that one party dominates India's political life is useful for ensuring the acceptance of the broad development strategy underlying the plan, the nature of that party makes effective implementation difficult.

As regards the opposition parties, most of them support the

⁹. See Planning Commission, *Progress of Land Reform*, New Delhi, Government of India, 1963.

basic strategy underlying the Plan and its principal objectives and methods. This may be considered to be a signal success of the planners. The main controversies raised by the opposition parties centre around issues which can be classified as follow:

- (i) marginal issues which can be politically useful for election purposes but do not really touch the core of the Plan; demands for nationalisation of particular industries may be said to belong to this category;
- (ii) distributional problems; about the principal objectives of long term policy, there is no controversy but there are large differences regarding short term measures of taxation etc.;
- (iii) disparities between regions give rise to considerable controversy especially as there can be major differences as to the effectiveness and adequacy of the measures that are proposed for meeting the problem; and
- (iv) efficiency of implementation is quite naturally questioned and attacks are made on the ruling party for alleged inefficiency of the Government in this respect.

Thus party controversy mainly does not touch the core of the Plan. This is not quite fortuitous. The Planning Commission and the Union Government have tried to ensure that the Plan gets acceptance as a national and not a party document. There is a Parliamentary Consultative Committee on the Plan on which are represented all the major parties in Parliament and regular information is supplied and consultation held with this Committee especially at the time of the formulation of the Five Year Plan. The draft of the Plan is also widely circulated, comments are received from various organisations and individuals including representatives of the private sector, and these are considered before finalising the Plan.

The basic strategy of the Plan has from the beginning shown an awareness of the necessity to carry different sections of the people with it. That is one reason why so much emphasis is given in the Plans on policies for reducing inter-personal and inter-regional disparities, amelioration of the difficulties of specially distressed sections of the population (special notice was taken, for example, in the First Plan of the problems of

persons who were displaced at the time of partition in 1947) and on measures for providing employment to the under-employed and unemployed and even specially vocal sections of these like the educated unemployed. When it is felt that there is a certain change in the atmosphere, the relative emphasis in the Plan is suitably changed. The most significant example of this was the adoption in 1954 by the Congress party, and following it, the Government and the Planning Commission of the "socialist pattern of society" as an objective of economic policy and planning. The opposition parties even accused the Congress party and the Prime Minister of stealing away their clothes; but they could not quarrel with this change. The Planning Commission's formulation of objectives and policies is so reasonable and it is so worded that almost everyone finds that his ideas are mirrored in the Plan document and this helps the overall acceptability of the Plan in the country as a whole.

Conflict Between Compromise and Concreteness:

This attempt at compromise however is also responsible for the lack of clarity and operational workability in significant parts of the Plan and creates special difficulties in plan formulation as well as implementation. The nature and composition of the Planning Commission is to some extent responsible for this. While the close association of the Prime Minister and other senior ministers of the Union Government was undoubtedly helpful in lending importance and authority to the Planning Commission, its failures in arriving at clear and workable policy decisions are also due to this. The acceptance in principle of the Plan does not seem to lead to enough concrete commitments to programmes and policies because of the somewhat fuzzy nature of the thinking in the document. There has been considerable discussion in the country¹⁰ whether it may not be better to have a Commission which is genuinely and purely a technical expert body which places before the country the principal alternative choices and then works out the impli-

¹⁰. See Estimates Committee, Twenty-first Report on Planning Commission, (2nd Lok Sabha) 1957-58. Lok Sabha Secretariat, New Delhi, April 1958; also D. R. Gadgil, "The Role of Planning Commission in Indian Planning" in his Planning and Economic Policy in India; Poona, Gokhale Institute, 1960.

cations of the particular choice made.

The problem is complex, many weighty arguments can be posed on both sides and it is not easy to decide on which side the balance of advantage would lie. One effect of the present policy as it affects party controversy as well as plan implementation may be specially emphasised here. The published work of the Planning Commission does not provide material about the limited number of alternative choices and their implications. It provides material on the alternative chosen and it is difficult for any outside body or individual to come out with another alternative. Moreover, as mentioned above, even the final Plan document to some extent tries to "provide something to everybody"¹¹ in the sense that everyone can find some of his ideas included together with others of quite different — almost contrary — character and therefore it lacks clarity and concreteness. This is due to various reasons — lack of data, lack of competent expertise, the dominance of non-experts and the convenience of presenting a compromise document; but the result is that the document includes concrete operational programmes together with broad policy guide lines and pious platitudes. That is an important reason why it is so common that various parties, including important sections of the ruling party, agree with the Plan and still baulk at supporting particular measures which are essential for its implementation.

Up to now the discussion on a new Five Year Plan and national general elections have coincided. While there has not been much of an electoral battle about the Plans, the ruling party has quite naturally staked its claims on them. But because real alternative choices are not clearly presented by the Planning Commission, parties can get away with false battle-cries and the electoral process has not sufficiently served to create public awareness about the implications of the plan choices. Many of the difficulties that we face in India in implementing the

¹¹. cf. "The final drafts of democratic political documents — especially of legislative programmes — have an inherent tendency to become blurred. This is one of the costs exacted by the process for organizing consent in an open society, and India's Third Five Year Plan has paid in full measure. The Third Plan is a considerably blurred document. Its language is frequently fuzzy and equivocal; it tries to put the best foot forward in all directions; it strives to provide something to everybody". John P. Lewis; *op. cit.*, p. 112.

Plan, especially in regard to measures where special burdens have to be borne by various sections of the community, arise out of this failure to create public knowledge and awareness. If the planning process is so organised as to evoke genuine public discussion about alternatives, false battle-cries of political parties may give way to controversies about really important alternatives—faster (6%) or slower (4%) rate of growth, for example—and as the main implications of the alternatives will be known, parties will be committed far more concretely than they now are to the implementation of the Plan.

Political Leadership:

An important task of political leadership in a developing society is to interpret people's urges and aspirations to the planners and to see that the plans that are formulated are set to satisfy these to the best extent possible, to interpret plans to the people so as to obtain popular support and co-operation for the implementation of the plans and to evaluate the actual effects of the plans from the point of view of the people. For this a political leadership which is bold and imaginative but which has its ears near the ground is necessary. It is also essential that it should have sufficient intellectual sophistication to understand the implications of the development strategy and qualities of creative leadership for evoking popular response. India has been fortunate in having had a few top leaders with clear understanding of popular aspirations and a vision about the strategy necessary to meet these aspirations. But in the older leadership there have also been some who have shown no such understanding and who lack the necessary intellectual sophistication. The old generation leadership also suffers from inadequate experience of concrete administrative management. The number of persons with experience of administration, management or technology drawn into this leadership has been very small. The result has been, at the higher levels, over much emphasis on generalities with inadequate attention to concrete tasks. There has also been in recent years an increasing gap between the top political leadership and the mass of the people.¹² But there are signs of a new kind of political leader-

^{12.} cf. "(There is) an insufficient appreciation and knowledge of conditions in the field on the part of those in ultimate authority. The extent of this may be best illustrated by the fact that it is possible

ship arising. This leadership has grown up mainly in the post-Independence period. Many of these persons are not very sophisticated intellectually but they have their ears near the ground and are conscious of the importance of winning elections under adult franchise and they cannot rely upon the charisma of the freedom struggle. It is true that this leadership has many times up to now used caste, religion and language issues for the purpose of obtaining political support. But that is mainly because these were the only issues they could think of for obtaining electoral support. If the other issues of greater importance to the welfare of the people are open for genuine discussion, leadership of this kind may adopt them and this is likely to be of significant use in a genuinely welfare-oriented plan such as the Indian plan is.

Rural Revolution:

Another major role that political leadership has to play is in bringing about the revolution in the rural areas that is an essential part of the Indian plan. The broad policies required for bringing about this revolution are well known and properly emphasised in the plan. The main difficulty in this respect has been organisational. There has not been adequate leadership either political or administrative for carrying out the structural and institutional reforms necessary for this purpose. No political party has as yet succeeded in creating cadres who will be capable of and interested in carrying out such tasks. The new institution of Panchayati Raj¹³ has revolutionary implications from this point of view. It creates the possibility of for highly-placed persons in Delhi to talk about a social revolution brought about in India by community projects. There are no signs of even an impending large change anywhere in the country". D. R. Gadgil, *op. cit.*, p. 56.

¹³. 'Panchayat Raj' is the name by which the newly established institutions of decentralised democracy are known in India. The basic principles of this system are:

"(a) It should be a three-tier structure of local self-governing bodies from the village to the District, the bodies being organically linked up.

(b) There should be genuine transfer of power and responsibility to them.

(c) Adequate resources should be transferred to the new bodies to enable them to discharge these responsibilities.

local political leadership enjoying both the authority and the responsibility for carrying out rural development. A possibility has been created of genuine inter-party competition in providing leadership and drive for this programme. There is a good chance that this will provide the impetus necessary for rural development. But this depends upon how the political parties concerned — and specially the Congress party—organise themselves for making use of this new institutional framework. In spite of land reforms, significant inequalities in land holdings and income continue to prevail in the rural areas. The backward castes are also generally among those holding the smallest and poorest holdings and the traditional caste hierarchies are still quite strong in rural areas. Unless considerable care is taken to see that these poorer and backward sections enjoy a proper share of power in these local institutions, the plan objectives of increasing total production and securing more equitable distribution are unlikely to be furthered. The other danger in the case of these institutions is that unless the political parties take care to select their workers and train them properly, their lack of sophistication and experience is likely to create friction between them and the administrative and technical personnel which is to work with them. Realising the limitations of his functions and not interfering with the proper field of the administrative personnel is bound to be more difficult for a political worker who is newly entering into a position of political power. There are already some indications that this is happening. On the other hand, steps are increasingly being taken to organise study-camps and courses for the newly elected officials of these institutions. If these are effective, the possibility of a troublesome transitional period may be minimised and the Panchayati Raj institutions may be able to succeed in the great but difficult task that is set for them.¹⁴

(d) All developmental programmes at these levels should be channelled through these bodies.

(e) The system evolved should be such as will facilitate further devolution and dispersal of power and responsibilities in the future".

See A Digest on Panchayati Raj, Government of India, Ministry of Community Development and Co-operation, New Delhi, 1962, p. i.

¹⁴. cf. "Recent legislation establishing Panchayati Raj institutions, is, in the last analysis, a product of the belief, first expressed many years ago, that under conditions of democracy, the maximum deve-

Politicians and Civil Servants:

An important problem that specially arises in new democracies is the relationship between the politician-ministers and the administration. This is even more important in a planned economy where the State has a large number of key functions to perform. If a minister does not realise the distinction between his role and that of the civil servant, interferes in executive and administrative matters instead of confining himself to laying down main policies and checking on their execution, does not support his subordinates and own up his responsibility when things go wrong and discourages impartial and objective advice and only looks for that which supports his pet notions, administration is bound to suffer. Political pressures in making appointments and promotions, in the award of contracts and licences, in the decisions on taxation cases, in deciding on the policy to be pursued regarding trade unions belonging to opposition parties, in deciding on the location of industrial projects etc. are bound to affect plan implementation adversely. To some extent, in a new democracy, these difficulties are inevitable and Indian experience shows that as the politicians settle down and gain experience, they tend to mend their ways and show increasing awareness of the importance of observing their proper limitations. It is even more important to note that correctives to these errors are built in a democratic system. However small, an opposition has a sobering effect. There has been an awareness right from the time of the First Five Year Plan¹⁵ of the

lopment will be achieved when responsibility is placed upon the people and their representatives, and local communities, groups and individual families are directly involved in the developmental effort. What was initially a set of acceptable assumptions is now seen as a series of questions to which satisfactory working answers have yet to be found. While it would not do to fetter the discretion and judgment of democratic institutions unduly, it remains yet a matter of first importance that there should be planned development capable of resisting factional pulls and pressures, and that the strength of local institutions should make it more, rather than less, possible to achieve important national goals". Tarlok Singh "Administrative Assumptions in the Five Year Plans", Indian Journal of Public Administration, Vol. IX, No. 3, July-September, 1963, pp. 336-343.

¹⁵. First Five Year Plan, Government of India, Planning Commission, New Delhi, 1951, pp. 111-112.

necessity to establish proper tradition in this respect. However, as Tarlok Singh has pointed out, "Remedies (in matters like these) are not easy to suggest, much less to enforce. Part of the answer may lie in suitable conventions being laid out, both at the political level and at the level of the administration. Another part of the answer may be to place certain key activities in the hands of Boards or Commissions or other authorities which can function largely on their own and enjoy internal autonomy."¹⁶

Semi-autonomous Bodies:

This last remedy is already being used over a wide area of Governmental operations. Most of the new programmes and activities that the Government has undertaken under the Plans in fields like finance, transport, irrigation, power, mining, trade and manufacture have been entrusted to different kinds of semi-autonomous authorities. This however has not effectively solved the problem up to now because of inadequate delegation of powers to these authorities, officials in the ministries or departments and occasionally even fellow-politicians of the ministers serving on boards as members and the appointment of top executives on these boards from amongst career civil servants. These organisations have also been subjected to the traditional kind of treasury control and the propriety audit of the Comptroller and Auditor General. The legislatures, like ministers, have been overconscious about the accountability of these organisations and have sometimes attempted to probe into details of their working. But the difficulties that arise due to this kind of control and interference in the efficient functioning of the undertakings are being increasingly recognised. One of the most severe indictments of this kind of interference was made by a committee set up by the Congress party¹⁷ and presided over by a senior cabinet minister. As a result of their report, as well as various other studies that have been carried out, a number of changes are under way in respect of these boards.

¹⁶. Tarlok Singh, *op. cit.*

¹⁷. "Parliamentary Supervision over State Undertakings", Report of the sub-committee of the Congress party in Parliament (New Delhi) 1959. Also see "Administrative Problems of State Enterprises in India", Indian Institute of Public Administration, New Delhi, 1957.

Controls and Corruption:

An inevitable result of the type of economic planning adopted in India combined with a mixed economy is that the Government has to exercise various kinds of regulations and controls on the economic system. These take the form of licensing of new industrial establishments, foreign exchange control, control over the production, supply and prices of scarce commodities, etc. Such controls are essential in an economic system which is being developed according to a plan and where severe shortages exist in respect of important resources. The power to regulate is bound to be vested in administrative officials who are in the final instance subject to the control of politician-ministers. Abuses are possible and to some extent inevitable and this leads to allegations of political and personal corruption. If widespread, such allegations, and popular belief in them, can lead to considerable demoralisation, inefficiency and political instability. To the extent that the controlling powers are abused, their purpose is lost and plan implementation suffers.

There has been persistent criticism of Government in India on this score and popular belief in these allegations has been on the increase. Such abuse of power partly arises because of confidence in the ruling party about their continuance in power. This can only be removed by a political corrective. This is possible in a democratic system and the ruling party in India is showing an increasing awareness of this. It also needs to be noted however that this matter has been exercising the minds of planners and administrators for some time now and various steps are being taken to reduce the possibilities of abuse and corruption. The Planning Commission has suggested a number of measures for preventing corruption¹⁸ and some of these have been accepted by Government.

While certain kinds of control are inevitable in an economy like India's, not all controls belong to this category. The area over which control is exercised and the nature of controls need to be continuously kept in review. Controls once established tend to continue even if the situation changes significantly. Moreover, unless the area and nature of controls are related to the administrative talent that Government can spare for the

¹⁸. First Five Year Plan, *op. cit.*, pp. 115-118. Second Five Year Plan, *op. cit.*, pp. 127-129.

purpose, in trying to attain perfection the basic purpose of the control may be defeated and various distortions may be created in the economy. Considerable thought is being given in India in recent years to this problem. The two major conclusions that are emerging are:

- (i) wherever possible, clear guidelines of policy should be laid down so as to reduce the area of pure discretion and also indicate to the parties affected by the control what they can expect;
- (ii) the area of control should be reduced as far as possible and the price mechanism should be relied upon more and physical allocations less. A recent report by a committee that was appointed by Government to examine the problem of steel control has strongly supported this line of thinking and this seems to be gathering increasing support in Government as well as business circles.¹⁹

Foreign Aid:

One problem of Indian planning in which political policy has played a crucial role is that in respect of foreign aid. At the current phase of India's economic development, the import content of her development plans is high. Our traditional exports cannot increase rapidly and the development of new export items takes time. The trade restriction policies of some

¹⁹ A Preliminary Report on Steel Control (Mimeographed), New Delhi, 1963. The Minister for Steel and Heavy Industries recently observed, "(The) most important problem that industry faces in this country today can be summed up in a phrase — 'Controls in detail'. Many of these controls may have served useful purposes in the past but they become too cumbersome and detailed for a developing industrial society such as ours. We have, therefore, to think seriously about altering our framework of detailed controls and reducing the multiplicity of points and levels at which they operate. We must examine the totality of aims attempted to be achieved by the control mechanisms, how essential these aims are, and how best such aims as are essential can be served by a set of alternative procedures, which minimise the irritations and delays which are endemic in the present system". (Inaugural address at the Seminar on Industrial Problems in the Private and Public Sectors in India, New Delhi, 6th August, 1963).

of the advanced countries also come in the way of quicker increase in exports. This is an important reason why Indian planning aims at creating production capacities on an adequate scale in the next two decades for meeting crucial growth requirements internally. This does not however solve the immediate problem of scarcity of foreign exchange for importing equipment for important projects. Hence the importance of foreign aid. Foreign assistance is also necessary for meeting the deficiency in technical know-how.

While we have had and continue to have serious difficulties regarding obtaining adequate foreign aid to meet our development needs, our difficulties have been somewhat eased by the fact that we could obtain aid from multiple sources. Private capital, foreign governments—both from the 'Western' and the 'Eastern' groups of countries—and international agencies have all contributed. This has been specially useful from the point of view of developing various sectors of the economy because aid for certain sectors could be available from one source but not from others. The political stability in India, her record about honouring her financial commitments and the policy of friendship and non-alignment that she has tried to pursue, all have made a significant contribution to achieving this result. The fact that the Indian people have been undertaking increasing development efforts on their own and the continuous improvement in our planning also seem to be increasingly appreciated by the aid-giving countries.

ADMINISTRATIVE PROBLEMS

Shortage of Personnel:

It is well known that one of the crucial shortages faced by a developing economy is that of technical, managerial and administrative talent for carrying out various development tasks. As far as the technical talent is concerned, its basic importance has been well recognised in India, especially since 1956, and considerable expansion of facilities for technical education has been carried out. It is expected that the supply and demand at the fresh-graduate level will balance within a few years. Of course, the scarcity of mature and experienced technical personnel cannot be met within a short time, but steps are being taken by way

of accelerated development of personnel to meet this to some extent. A significant part is being played in this respect by the training programmes for building up personnel with specific technical and professional skills and knowledge that are being organised by industrial and business units and especially by new units in the public sector. These require large numbers of persons with training that was up to now hardly available in the country; many times one of the first steps taken in the construction of a new industrial project has been to set up an elaborate training programme for newly recruited personnel. The chain of national scientific laboratories that has been organised in the last decade is also of potentially great significance not only because important research projects are being undertaken in them but also because a large number of young scientists are being given opportunities for developing their talent.

As regards administrative and managerial talent, while it is true that the situation in India has been better than that in most other underdeveloped countries, the scarcity is still considerable. As seen above, the functions of the State are rapidly expanding but there is a shortage of personnel with knowledge and experience to carry out these functions. The non-governmental sector cannot very much help in meeting this scarcity, partly because considerable expansion is taking place there also, and partly because this sector had not developed very much before independence. It is necessary therefore: (i) to recruit, train and rapidly promote all available talent, (ii) to get better work out of existing talent through appropriate policies, and (iii) to relate the programmes and plans to the expected availability of talent.

Disparities in Compensation:

One difficulty that the Government faces in obtaining and retaining good talent, especially in the short run, is the disparity in the rates of compensation in the governmental sector and the large organised private sector. This is due to the influence of egalitarian ideas in the country. From before Independence, the high salaries of civil servants was an important point of criticism levelled by the nationalist movement against the British and this, combined with the increasing influence of

socialist ideas, has led to the fixation of civil service salaries at a level somewhat lower than those prevalent before Independence. There is no doubt that under the British rule, a pattern of salaries for the higher civil services was set which was quite out of keeping with the general economic situation in the country. This was done because a substantial proportion of the officers was British and these had to be paid high enough salaries to attract them for service in India. But when the services began to be Indianised, the same salaries had to be given to the Indians in order to show that there was no discrimination. The earlier business concerns established in India were also British-owned and managed and they similarly set up for their higher-level personnel a salary pattern suitable to attract British personnel. Thus the level of compensation for high level personnel in India before Independence had come to be related to that in advanced countries rather than to the requirements under Indian conditions.

In the period since Independence, private business, both foreign and Indian, has expanded considerably. The level of high salaries in these, especially the former, has been related to that prevalent abroad. Under the Industrial Policy adopted by Government, considerable scope has been given to the private sector and Government has sought shy of attempting to control the emoluments in that sector. On the other hand, with the influence of egalitarian ideas in the ruling party and the country, Government could not permit comparable salaries to be paid in the public sector. All that it could do was not to accept the demand for any significant lowering down of the highest salaries. As a commission²⁰ appointed by Government for examining the question of salaries of Government servants pointed out, since 1948, the relative position of salary earners in the higher income brackets in the public and private sectors has changed radically and a very large increase has occurred in the number of salaried persons in the private sector earning over Rs. 40,000 p.a.

It has been increasingly obvious that this trend was likely to affect the supply of talent to the public sector adversely. It is

²⁰. Government of India, Report of the Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees, 1957-59, (popularly known as Second Pay Commission), New Delhi, 1959, pp. 76-87.

true that for general administrative services, with the pattern of recruitment adopted in India, the public sector has been able to get young men of good intelligence recruited to the public service and then because of advantages like the status and security that they enjoy and the challenging tasks to which they are put, they continue in the civil service. The fact that they do not have much of a demand outside except when they have obtained considerable seniority in service also helps prevent their migration. But in the case of persons with technical and professional qualifications, where there is continuous competition at all levels for talent and experience, the public sector has been facing difficulties in recruiting and retaining good talent. This has been specially the case with different categories of engineers of which there is a shortage in the country.²¹ It is true that in the case of personnel qualified in fields like agriculture, veterinary science etc. where Government is almost the only major employer, there is no question of the trained personnel being lost to the private sector; but there the problem arises of sufficiently good talent not being attracted to these lines. The Government has similarly found it difficult to attract persons with managerial or industrial experience to fill up senior positions in public sector enterprises and in the departments and ministries dealing with these subjects.

The Government has been trying to meet this problem in various ways. In order to make scientific work in Government and other public sector agencies attractive, special steps have been taken to improve the prospects of a person entering such organisations for a scientific career.²² While the idea of a ceiling on incomes or emoluments has not been accepted, the Government has now put a limit on the deductible expenditure on emoluments paid to an individual for the purpose of calculating company income for taxation. In the long run, the problem is likely to decline in importance with the Government and the public sector becoming the major employer for many

²¹. I submitted in 1962 a report on this subject to the Government of India entitled "A Study of the Flight of Technical Personnel and Related Problems Affecting Public Sector Undertakings". This will be shortly published. See also my Industrial Management Pool : An Administrative Experiment, New Delhi, 1962.

²². This was done on the basis of the recommendations made by the Second Pay Commission, *op. cit.*, pp. 150-160.

engineering categories and with a substantial increase in the supply of such personnel. In order to meet short-term difficulties, Government has already permitted specially high salaries to be paid to a few persons who had to be obtained from the private sector steel industry for meeting the urgent needs of public sector steel plants. This flexibility may be shown more frequently in future. The somewhat doctrinaire approach that has prevailed up to now is increasingly being seen to be out of place and given up.

Training Programmes :

In order to meet the increasing demand for personnel trained for carrying out the increasing number of complex and new functions, a number of training programmes have been organised in the last ten years. The National Academy of Administration and various specialised training schools have been organised for training new recruits to public services. Arrangements have been made for training the increasing number of persons required for agricultural extension, rural development, co-operation, banking, costing and accounting and business management. These provide training to new recruits and also provide orientation and refresher courses to persons already in service. Institutions like the Administrative Staff College and the Indian School of Public Administration provide training programmes for middle-level managers and administrators. Thus the shortage of personnel with new skills and knowledge is being reduced rapidly and this is bound to make a significant difference to plan implementation in the years to come.

The importance of Manpower Planning was specially recognised at the time of formulating the Second Five Year Plan. It was pointed out there that in view of the large scale development envisaged, it was "necessary to visualise in advance the difficulties likely to be experienced in finding technicians in the required numbers and to take steps to meet these difficulties".²³ Special studies were organised to work out the manpower requirements of the Third Plan and to make advance arrangements for meeting them. In order to insure that manpower requirements are planned well in advance and also to make studies which will help the best utilisation of available manpower,

23. Second Five Year Plan, *op. cit.*, p. 175.

an Institute of Applied Manpower Research has been recently established in New Delhi.

The Importance of Administrative Reform:

The important place that administrative reform enjoys in planning has been recognised from the very beginning of Indian Planning. The First Five Year Plan clearly stated:

"The Five Year Plan represents the first attempt on the part of the Central Government and all the States to translate (the Directive Principles of the Constitution) into a national programme based upon the assessment of needs and resources. It is now the task of public administration to carry out this programme in co-operation with the people."²⁴

The tasks faced by public administration in India have increased enormously in magnitude and complexity in the period since Independence. In addition to the increasing tasks for planning, difficult problems of various kinds but all of large magnitude and complexity have had to be faced — problems arising out of partition, the introduction of the new Constitution, the integration of old princely states and the reorganisation of states and now the problems created by the Chinese threat. Large numbers of new organisations have had to be set up, a much larger amount of resources had to be collected and a considerably large number of persons had to be recruited, trained and organised for the purpose of carrying out administrative tasks.²⁵

Because of the peaceful transfer of power from British to Indian hands, the new Government inherited a going administration. The post-Independence leadership realised the advantage of this and guaranteed the continuance of the conditions of employment of the civil servants that it inherited. In keeping

²⁴. First Five Year Plan, *op. cit.*, p. 111.

²⁵. The draft of the Government of India's private income has increased from 7.9% in 1948-49 to 10.8% in 1960-61; the collection of direct taxes has increased by about 55% and that of indirect taxes by about 17%. The number of Central Government employees alone has increased from 697,000 to 2,089,000. The total employment in the public sector increased by over 33% between 1956 and 1961.

with the basic approach of building on the basis of what already exists, no attempt was made to bring about any immediate radical change in the administration. The approach was to modify, change and improve as demanded by the situation but in a way which would not upset the continued functioning of the existing set-up. What we have to examine now is :—how far has administration been able to meet the challenge of planning?

The answer to any such question is bound to be a complex one. As mentioned earlier, Indian planning has succeeded significantly in some of the tasks undertaken by it. But there have also been significant shortfalls. The conclusion of one of our senior administrators closely concerned with planning is—“Experienced has tended to strengthen the view that in its structure, methods of functioning and capacity to meet the requirements of rapid development, the administration has not been able to catch up, and the distance may be increasing rather than diminishing”.²⁶

The main problems can be best illustrated by taking two areas where difficulties have been experienced in carrying out plan tasks. They are—agriculture and public sector projects.

Agricultural Administration :

In agriculture, the main indication of a shortfall is clear: even though the attainment of self-sufficiency in foodgrains and the provision of basic food requirements for all people was emphasised as one of the principal tasks of administration from the First Five Year Plan, we have not succeeded in doing so. The causes for this have been examined by a large number of persons and we may briefly state their conclusions in as far as they illustrate the failures of administration. In spite of various experiments, carrying out a well co-ordinated programme by which the millions of farmers will be induced and assisted to increase their output and to participate in different ways in the various common tasks that will have to be carried out if their economic and social conditions are to improve has not been successfully possible up to now.²⁷ The programming has been

.²⁶ Tarlok Singh, *op. cit.*

²⁷ The following studies may be useful for information on this problem : (1) Report of the Study Team for Community Develop-

defective in that too much emphasis has been placed on individual programmes like improvement of supplies, irrigation, technical assistance etc. and too little has been achieved in working out an integrated approach to the farm problem. Each department concerned with different aspects of the programme has mainly concentrated on its own tasks and has not always taken care to see that its programmes move in step with other related programmes. Thus irrigation works have sometimes been completed without simultaneous carrying out of the tasks of constructing field channels and instructing farmers in the new methods of farming. The Community Development approach under which the technical programmes were all to be closely co-ordinated at the local level did not very much succeed in its task. The procedure for sanctioning of funds has been slow-moving so that funds and supplies have not reached the farmer and the technical agencies in time. Annual appropriations for schemes which continue from year to year and the delay in conveying actual sanctions have led to interruptions in work and concentration of large parts of the expenditure over a few months of the year.

Team work which is so essential for integrated programming and execution has many times suffered because of a lack of common understanding and mutual confidence between different technical officers and their not seeing eye to eye with the 'generalist' officers who were expected to work as leaders of the team. The frequent transfers of persons at various levels have made it difficult for them to acquire the local knowledge and confidence that is essential for their work. The emoluments and promotion prospects offered to certain types of personnel crucial for the agricultural development programme like agricultural and veterinary specialists and village level workers have been inadequate to attract sufficient competence and talent to these services. There has been inadequate delegation of powers so that personnel in the field have been handicapped in carrying out their

ment and National Extension Service (New Delhi) 1957; (ii) Report of the Agricultural Administration Committee (New Delhi) 1958; (iii) Report on Indian and State Administrative Services and Problems of District Administration by V. T. Krishnamachari (New Delhi) 1962; and (iv) Reports of the Programme Evaluation Organisation of the Planning Commission.

tasks and have to waste considerable time and efforts in getting the sanctions and approvals of higher authorities. The field officers cannot devote enough time in the field because of their having to attend a number of meetings and functions and also because of the continuously increasing amount of paper work that they have to do to fill in a large number of reporting forms. These are some of the most significant conclusions reached by various studies that have been made about this subject. It is true that the agricultural problem is an extremely complex one and to expect it to be solved within a few years was probably overoptimistic. As mentioned earlier, the increase in agricultural output is also not inconsiderable. But further and more rapid increases in agricultural output are so vital to India's economic development that the above-mentioned administrative problems need urgent attention.

As a result of various studies, a number of changes are being introduced so as to make rural development programmes more successful. The new set-up of Panchayati-Raj, to which a reference has been made earlier, has been evolved with a view to ensuring that co-ordinated and programme-oriented functioning is made possible through the close and active participation of administrative and technical personnel on the one hand and local leadership on the other. Increasing powers for raising resources and for expenditure are being delegated to these bodies. The procedures for sanction of funds made available by the Central Government have been simplified and the States are expected to take similar measures. Various measures for improving the promotion prospects and conditions of service of different kinds of personnel are under consideration, one of them being the creation of an all-India Agricultural Service with higher emoluments and promotion prospects than at present current in the agricultural services of different states. All these and similar other measures, when carried out, may be expected to ensure a much better performance in this field than has been the case up to now.

Public Sector Projects :

The construction and operation of public sector projects has been an important new task faced by Indian administration. The problems faced in carrying out this task are manifold and

complex because most of these projects are either in fields where India has not had any significant previous experience — e.g. chemical fertilisers, heavy chemicals, machine tools, heavy engineering, heavy electricals, shipbuilding — or where the scale of operations economically or technically required is much larger than before — e.g. new power stations, steel plants and mining. Moreover the tempo of these developments has been increasing from plan to plan and this was inevitable if economic development was to be attained at the desired rate.

In the construction of these projects, two shortfalls are noticeable — longer time and higher capital costs as compared to original estimates. To some extent these are only apparent and not real due to rather overoptimistic estimates about the time and cost that would be required. Inexperience is mainly responsible for this; the fact that in the case of projects like the locomotive construction works and the telephone factory,²⁸ such shortfalls did not appear supports this conclusion.

Some of the causes of delay arose from factors beyond the control of Indian authorities. Securing the required foreign and technical assistance has in some cases involved protracted negotiations. (The delay in obtaining aid from the U.S.A. for the proposed steel plant at Bokaro is a current and significant example of this).²⁹ Because of tied credit arrangements, material supplies and technical assistance has had to be obtained for certain projects from particular countries and, because of their own difficulties, they have not always been able to keep to the time schedule regarding these. However there are also significant delays arising on the Indian side and we may briefly review the principal causes of these.

Long-term perspective planning was not very much attempted in India before the Second Plan and even since then, its importance and implications are being only slowly understood.

²⁸ The Indian Railways and the Posts and Telegraphs (including telephones) have been in the public sector for a long time now.

²⁹ Because of the difficulties in the way of obtaining U.S. aid for this project, the Government of India has now withdrawn its request for such aid and alternative ways for proceeding with this project are now being explored. But these negotiations have resulted in a loss of valuable time. See in this connection: D. K. Rangnekar: Bokaro: A Story of Bungling, The National Institute of Public Affairs, New Delhi, September, 1963.

Time-lags were not sufficiently allowed for and this has resulted in a number of difficulties in the way of project formulation and execution as required by the Plans. The importance of preliminary planning being undertaken sufficiently in advance not having been realised, a number of key projects which were originally expected to be completed in the Second Five Year Plan period are being completed only in the Third Plan period. Work has many times not been taken up sufficiently in advance for items like land acquisition, site-preparation, provision of essential preliminary requirements like transport facilities, power, water and housing for the construction staff, preparation of a detailed project report, invitation of tenders and award of contracts, arrangements for securing materials like steel sections, cement etc. which are in shortage and recruitment and training of construction staff. Lack of knowledge about and experience of using programming techniques have also played a significant part in delaying the progress of projects.

An important reason for the difficulties lies in the organisation set up for these projects and the procedures followed. One persistent difficulty has been the failure to distinguish clearly between decisions that can be taken by the normal governmental type of organisations and processes and those that should be left to professional specialists properly organised. The formation of specialised professional groups capable of handling the task of preliminary planning and project preparation, with sufficient aid and stability, has been delayed for long. Moreover, the authority for decisions even on technical matters has many times tended to be concentrated in the hands of groups of persons without adequate experience and knowledge about the problems involved and carrying other heavy administrative duties; and a decision can only be taken when such groups at two or three levels have agreed to it. Even purely technical matters may be questioned again and again by such groups, many times because of a lack of understanding of the whole problem, and while finally the proposal put forward by technical experts may be accepted, the process involves long delays and causes frustration.

The importance of building up teams of specialists for designing and construction of complex projects for fields in which continuous development is inevitably required was not realised

till recently and the personnel who obtained such experience have sometimes been lost because of this. The importance of selecting appropriate top-management personnel for such projects, placing them in position in advance and giving them sufficient authority to carry out their responsibility has also many times not been appreciated. Because of a general shortage of persons with experience of handling large and complex projects, unsuitable persons have sometimes been appointed as top managers. These have included persons with experience only of handling traditional government functions, or regulatory and advisory functions. Retired persons have also been used; while this is useful in conditions of shortage, not infrequently such persons have been found to be lacking in the resilience and adaptability required for such a job.

Where personnel with experience of work in the civil service have been employed for these projects, not enough attempt has been made to change their attitudes and methods of operation through appropriate training and reorientation programmes. The troublesome effects of this failure are specially noticeable in the field of financial control. The traditional "treasury-control" approach has not yet made way for new and business-like methods.

Similar difficulties have come in the way of efficient management of enterprises in the operating stage. The record up to now is somewhat uneven; the public sector provides examples of very good, fair as well as poor management. Teething troubles are inevitable in the case of new and complex undertakings and there is no cause for despondency or alarm because of the poor record of some of them. Certain problems, however, need urgent attention if improved efficiency is to be attained. Adequate delegation of authority and proper systems of higher control at all levels are an urgent necessity; so also is improved personnel management, especially a more experimental approach regarding recruitment, appraisal, and development of personnel and methods of compensation.

A number of studies — official and non-official³⁰ — have been

³⁰ See : Reports of the Estimates Committee of the Lok Sabha on various public sector projects; also Report of the Damodar Valley Corporation Enquiry Committee (1952-53); Indian Institute of Public Administration, *op. cit.*

made about these problems and many reforms are under way. The Third Five Year Plan³¹ contains a number of recommendations for improved management of public sector projects. These relate to the necessity to correlate authority and responsibility, setting up specific targets and subsequent appraisal of fulfilment, working out performance standards and providing incentives on their basis, building up technical planning units for major sectors of development, increasing use of programming techniques, suitable changes in the organisational structure etc. Training for finance officers in these projects has been recently taken up and a pilot project for developing a proper system of programming and reporting undertaken. Experiments about methods and organisational structure are being undertaken in a few key undertakings. Thus the importance of bringing about reform in the management of these projects is being increasingly realised and practical steps in that direction are being taken.

The Civil Services :

Independent India inherited from the British a good number of able and intelligent civil servants, well-trained and experienced in the traditional functions of Government and organised in a service-pattern similar in some respects to the British pattern but adapted to Indian conditions under the British rule. This involved the creation of a select service, chosen on the basis of a competitive academic examination, recruited at a young age and rotated among a number of positions until they were considered to be mature enough to hold the full charge of a district and later on of a group of districts. Personnel for top policy-making positions in the secretariats, either in the provinces (now States) or in the Centre, were also selected mainly from the same service. A number of other services were also gradually created, some for looking after specialised functions like revenue collection, audit and accounts, police, posts, railways, etc. and some for lower level work in the districts or the secretariats. The administrative services were thus divided into a number of caste-like groups, mobility between which was virtually impossible, and with one amongst the services—the Indian Civil Service—being treated as an 'elite'. Further, the whole public service was vertically divided into four broad categories (Classes I-IV), with

³¹ Third Five Year Plan, *op. cit.*, Chapters XVI and XVII.

sometimes further sub-categories in a class. The emoluments and privileges of a person, as well as his promotion prospects were largely determined by the point at which he entered service. There was hardly any lateral recruitment, little attempt at refresher courses or other forms of mid-career training and guaranteed security involving not only permanency of tenure till super-annuation but also promotion based mainly on seniority. Specialised knowledge of any kind was not considered necessary for the type of work that the top-services had to undertake; commitment to any kind of programmes or close connection and acquaintance with people over whom they governed was considered somewhat undesirable. The idea was that "for being effective, a government servant must consider himself as external to the society in which he functions."³²

This structure of the civil service, which India inherited from the British, has basically remained unchanged after Independence. No doubt a great deal of expansion has taken place, the number and types of services have enlarged, some holes have been made in the closed services through ad hoc lateral recruitments and some degree of inter-service mobility, and the idea of an "elite" service working as an "arbiter" is going out of fashion. But the question is increasingly being raised whether the original purpose for which the structure was designed having undergone a sea-change from a 'Night-watchman' State to a growth and socialism oriented State — and the political milieu in which it operates also having been transformed, it is not necessary to set up an entirely newly designed structure, using of course such parts of the old one as are useful in the new set-up.

The principal change that has been suggested is to make the public service a more integrated and more open one. A Government Commission recently stated in its report, "We attach importance to the need for developing among civil servants a feeling that they all belong to a common public service",³³ and therefore it was suggested that the broad horizontal classification

³² D. R. Gadgil, *op. cit.*, p. 55.

³³ Commission of Enquiry on Emoluments and Conditions of Service etc. *op. cit.*, p. 562. Also see D. R. Gadgil, *op. cit.*, and Paul H. Appleby: *Public Administration in India, Report of a Survey*, New Delhi, Manager of Publications, 1953, pp. 11-12.

of the civil servants into four classes should be abolished. The Government has not however accepted this suggestion. The Commission also made some other valuable suggestions like the desirability of appointing persons with the necessary technical background as Secretaries,³⁴ of departments where the work is mainly technical and further suggested that even in departments which have a considerable amount of technical as well as administrative work, technical officers should not be excluded from the field of choice. The importance of specialized knowledge or experience on the part of officials who have to deal with complex tasks of development is being increasingly emphasised. It has been pointed out in the Third Plan.

"Work in projects as well as in important programmes has frequently suffered because of rapid transfers of officials. For tasks of any importance, it is essential that the responsible officials should not only be selected with care and suitably trained, but should also remain long enough to grow to the full measure of their responsibility. In any major key assignment a period of less than five to ten years is rarely sufficient for producing large results."³⁵

How troublesome frequent transfers can be has been emphasized in the various studies relating to agricultural development referred to earlier. The preliminary results of a recent survey show that the average tenure of a district officer in a district in recent years has been less than two years. No wonder that he cannot provide the leadership in development that is expected of him.

One general point about the civil service in India that may be mentioned is that there is as yet little of 'professionalism' in the service. The tradition of the 'intelligent amateur' dies hard. The non-expert Minister is advised mainly by a non-expert Secretary who is principally assisted by a whole host of non-experts with the expert's voice not always able to make itself heard.³⁶ Whether it is a matter of management of the civil

³⁴ In India, the 'Secretary' is the principal civil servant head of a ministry or department.

³⁵ Third Five Year Plan, *op. cit.*, p. 238.

³⁶ This is also a heritage of the British tradition of what T. Balogh calls "two-tier dilettantism", (See his "The Apotheosis of the Dilett-

service, managing various action programmes or providing principal staff services, the top personnel in charge is hardly ever chosen because of expert knowledge in the field and, as mentioned already, it is not left in position long enough to acquire mastery over the field through study and experience. The various other defects in administration which have become more prominent now because of the complexity of the new tasks all follow principally from this.

Administrative Organisation and Methods :

Like any large bureaucracy, Indian administration is not finding it easy to mend its old and traditional ways of functioning. Modernisation has not yet made too much of a dent even in matters like filing and record-keeping, use of stationery, office organisation and the use of mechanical gadgets. It is neither possible nor necessary to dwell on these points except to say that these certainly affect the quality and speed of administrative functioning.

The main problem that needs to be mentioned is that administrative organisation and procedures have not changed enough to facilitate the successful conduct of large action programmes. As a matter of fact the powers of at least some among the field agencies (for example, the district officer) are less now than they were formerly in practice; and a significantly high proportion of them feel this inadequacy. The idea that large scale action programmes can be run or at least controlled in detail from the secretariat of the Government is not being given up fast enough. The organisations put in charge of major programmes have not been obtaining the necessary authority and powers to carry out these effectively. Such lack of delegation helps those field officials who are not action-minded and who therefore find safety in relying on superiors to give them decisions so as to avoid responsibility; but it is irksome for the increasing number of those who are interested in carrying out the programmes. The Planning Commission and various other authorities have emphasised the importance of increasing delegation at all levels and this is gradually having some effect. Even where delegation of

tante" in Hugh Thomas (ed.), *The Establishment*, London, 1960). Also see John P. Lewis, *op. cit.*, pp. 129-30, for an evaluation by a foreign observer of the Indian scene in this respect.

powers is increased, there is far too much insistence on the use of centralised agencies for functions like staff recruitment and purchase of materials, leading to blurring of responsibilities. Another method by which initiative and experimentation even on the part of semi-autonomous agencies is restricted is through insistence on standard procedures which are time-consuming and do not necessarily serve the purpose of the particular agency. In matters like recruitment, promotions, purchases and award of contracts, the emphasis is on maximum fairness to all rather than on quick and effective solutions. There is an insistence on aiming at a vague standard of perfection and justice and this involves procedures which tend on balance to be disadvantageous. At all levels of public administration, committees consisting of representatives of various sections and departments are used to decide matters that should be left for decision by an individual; he should decide what kind of advice he needs and take the responsibility for the decision. The system of financial control is still oriented towards preventing wrong expenditure rather than on promoting right expenditure. At every level, whether in the Government or in public sector undertakings, the financial adviser considers himself not so much as an aide of the line executive but as a watch-dog on behalf of the Ministry of Finance and ultimately the legislature.

An important factor that has prevented enough progress being achieved in these matters has been the inadequate understanding of new systems of higher control like programme-budgeting, performance audit etc. An increasing attempt is now being made through the work of agencies like the Planning Commission's Committee on Plan Projects to set up standards and check lists of requirements which should help the process of delegation and higher control.

Another difficulty has been that the number of administrative agencies has been rapidly increasing and it has not always been possible to group them properly so as to ensure on the one hand that a common direction is provided to closely related functions and programmes and on the other that the control function would be manageable. There is also a tendency to set up a new agency for even a marginally new function than to allow the expansion of a competent existing agency for taking care of it. Paul Appleby had pointed out in one of his reports on Public

Administration in India the importance of ensuring that "there should be a persistent movement of consolidation of the special organisations according to some schemes of coherent missions."³⁷ In the field of public sector enterprises, a holding company type of structure is gradually being built so as to satisfy these requirements. But this problem has not yet received in the public sector as a whole the attention that it deserves. One of the difficulties that private sector enterprises feel about obtaining the required sanctions for their expansion or new projects programmes is that they have to pursue the matter in a number of governmental agencies instead of being able to rely on any one agency to deal with their proposals.

One major difficulty in ensuring that administrative reform receives continuous and effective attention has been that there is no agency in Government which has both the necessary status and expertise to look after this problem. Units such as the O & M Division, the Special Reorganisation Unit of the Ministry of Finance and the Committee on Plan Projects have been performing very useful functions. But their attention is concentrated mainly on improvement of organisation and procedures; they have taken too little note of the importance of the human relations side of administration, of "reorientating the attitudes of administrators and developing their capacities to deal effectively with people so as to achieve effective results,"³⁸ and their recommendations do not form part of a total scheme of administrative reform. Paul Appleby had suggested "the establishment of a central office charged with responsibility for giving both extensive and intensive leadership in respect to structures, management and procedures".³⁹ This has not yet been done. In 1961, the Government of India appointed a high level Committee on Administration consisting of senior civil servants and intended to provide a standing machinery for locating administrative deficiencies, facilitating decisions for their removal and assisting in speeding action on the decisions.

³⁷ Paul H. Appleby, *Re-examination of India's Administrative System*, New Delhi, Manager of Publications, 1956, p. 13.

³⁸ A. M. Banerjee, *Fifteen Year of Administrative Reform: An Overview*, Indian Journal of Public Administration, July-Sept. 1963, Vol. IX, No. 3, pp. 441-456.

³⁹ Paul H. Appleby: *Public Administration in India*, *op. cit.*, p. 63.

Similar committees have been set up in a few states. The Central Committee has done some useful work up to now. But it is not quite certain that such a committee is adequate for the purpose of creating a 'citadel' for giving continuous leadership in what Appleby called "Administrative management". The Committee⁴⁰ has no adequate staff aid, due to the other heavy responsibilities of its members it has not been able to meet frequently and the recommendations made by it up to now are mainly in the nature of ideas rather than concrete proposals for immediate implementation. It has not even been able to ensure speedy decisions on recommendations that have already been made by other study groups and committees. The Government of India has now decided to set up an enquiry commission on administration somewhat on the lines of the Hoover Commission in the U.S.A. "An inquiry into the entire administrative system of a country of the size and population of India, and one with a federal constitution, would be a vast and unique undertaking".⁴¹ But this may help in bringing the problem in proper focus in its totality and thus facilitate plan implementation.

OUTLOOK FOR THE FUTURE

Indian administration has for a long time had a tradition of critical self-evaluation. The introduction of democratic institutions has given further support to this tradition. Parliament and its special committees like the Estimates Committee have been examining many of these problems quite critically. With the introduction of planning, various agencies have been created for the purpose of study and examination of Administrative agencies concerned with plan formulation and implementation. The Government has also invited a number of experts, Indian and foreign, to conduct studies and make recommendations regarding administrative reform. The Indian Institute of

⁴⁰ R. N. Vasudeva: "Organisation and Management—the Centre", Indian Journal of Public Administration, Vol. IX, No. 3, July-Sept. 1963, p. 382; for the recommendations made by the committee, see the same journal, July-Sept. 1961, pp. 264-70 and April-June 1963, pp. 267-271.

⁴¹ Editorial Note of the Indian Journal of Public Administration, Vol. IX, No. 3, July-Sept. 1963, p. 310.

Public Administration was specially established with considerable and continuous support from Government for the purpose of creating an awareness of the new problems faced by the administration and studying, recommending and creating a suitable atmosphere for carrying out administrative reform. The free press in India also plays a crucial role in giving publicity to lapses and failures and brings home to the authorities concerned the importance of bringing about necessary changes. The fact that India faces so many difficult problems in carrying out the necessary transition from a traditional and backward society to a progressive and growing one and that some of them have proved somewhat intractable up to now is not very surprising. The fact that the top leadership of the country, administrative, political and intellectual, is aware of the necessity of freely discussing these problems and finding solutions for them creates hope that these difficulties will be surmounted. The essentially pragmatic⁴² approach that is being increasingly accepted by Indian leadership in regard to the problems faced by the country should also support this conclusion. Pragmatism dominates, the outlook not only of politicians and administrators but also of the business community, a large section of which supports the idea of planning. Bringing about economic development in India, with its size, population, diversities and backwardness, is a complex task and the political and administrative problems of bringing it about are formidable in nature. But the maintenance of democracy and the national consensus about the basic strategy of development create confidence that the problems can be solved and the objectives attained.

⁴² One of the principal examples of this is the support by the Government of India to measures for population control.

ON THE USE STATISTICS IN PLANNING FOR NATIONAL DEVELOPMENT IN AN UNDER- DEVELOPED COUNTRY*

By M. Mukherjee

Introduction :

Planning for national development is undertaken with an intention to increase the rate of economic development of a country. The rate of economic development in this context could conveniently be measured by the change in the per capita national income at some constant prices. While it is admitted that real per capita income comprehends very inadequately different aspects of economic development, there seems to be a consensus of view that this affords the best possible single measure of economic development. Thus the problem which planning seeks to solve is one of increasing the rate of growth of per capita national income in real terms. Posed in this way, the problem appears to be quite concrete and a scientific investigation of the problem seems to be a worthwhile endeavour.

It is necessary, however, to have one qualification. The aim of planning is not just to increase the rate of growth conceived in the sense described. It is possible to increase the current rate of growth of per capita national income in a manner which would jeopardize the possibility of having a high rate of growth in future. This is clearly undesirable and the objective of planning should be to achieve a sustained growth in per capita national income at the highest possible rate.

Increasing the rate of growth of real national income in a country is possible only when the working population in the country on an average gradually produce more and more. For

* This is the working paper prepared for the winter session of Indian Institute of Asian Studies, 1963-1964 by the author.

this, it is necessary to provide the working population with more machinery and equipment per head, because a man with more equipments and machinery normally produces more than a man with less equipments and machinery. In other words, a sustained increase in real national income is possible only when there is continued increase in plants, machinery and equipments, and other means of production in the country. A large rise in the rate of growth in the immediate future, at the expense of or without taking proper care to build up the capital stock in the country, is thus a type of growth which no nation should try to attain.

An underdeveloped country is characterised by a low level of per capita income and a meagre amount of capital stock per head of working population. Also, generally, the rate of growth of per capita real income in these countries during the last fifty or hundred years had been very low. Without a deliberate effort, it is almost impossible for such countries to achieve a higher rate of growth of per capita national income. Planning for national development is thus more important for underdeveloped countries. A developed country would usually have a reasonably high rate of growth in per capita income even without planning; it may, however, increase its rate of growth by planning. An underdeveloped country, on the other hand, cannot possibly increase its rate of growth sizably without planning.

Planning, in essence, involves setting apart a larger part of current production for uses which would increase the rate of growth of the country. A low level of per capita income in an underdeveloped country implies that the available per capita production itself is very small, and hence it is difficult to set apart a large part of this for growth oriented uses. Thus, planning for national development in an underdeveloped country is not an easy task. But, still it is necessary to have recourse to planning because this is the only way by which a poor country can hope to be rich within a reasonably short period of time.

It follows from this that a scientific investigation of the basic problem of planning (i.e., how to increase the rate of growth of per capita real national income in a sustained way) is more important for underdeveloped countries than for developed economies. Since actual operation of planning involves socio-

logical and political issues, it is difficult to think about the basic problems of planning in a dispassionate and scientific way. But underdeveloped countries should not avoid this for obvious reasons. Also, it is idle to hope that advanced countries would solve the problems for poorer countries because the problems of poorer countries would always remain partly academic to advanced countries.

Rate of growth in India and in other countries :

In table (1) below presents some data on the rate of growth in real national income of 16 different countries for which information is available over long periods. The figures in Cols. (4), (5) and (6) give respectively the rates of growth of population, national income and per capita national income per decade. It will be seen that the highest long period rate was observed in Sweden (29.2 per cent), while the U.S.A. and U.K. developed at the rates of 16.4 and 11.0 per cent per decade respectively.

The table brings out clearly the available factual information on long period rates of growth of per capita real national income of different countries. Only one country has achieved something like 3 per cent per year and very few countries have obtained more than 2 per cent per year, most countries lying within the range 1 per cent and 2 per cent per year. But there are some countries which failed to achieve a rate of even one per cent per year over long periods. This gives a perspective for examining rates of growth to be achieved in underdeveloped countries through planning. In this paper, observations have been made in the context of a typical underdeveloped country, India. But many of the propositions will hold for other underdeveloped countries as well.

We have no reliable data on long period growth of national income and per capita income in India. Some people believe that per capita income has fallen over last fifty or hundred years in India, while some think that we have just been able to maintain our per capita income. I, personally, think that over last hundred years our per capita income has gone up at a very slow rate of about a half of one per cent per year. What we intend to achieve by planning is to increase this rate of growth in successive decades in future.

TABLE 1

Percentage change per decade in population, national product and product per capita at constant prices in the first half of 20th century: selected countries.

Countries	Period		Percentage change per decade		
	Initial	Terminal	Population	National product	National product per capita
United Kingdom excluding Southern Ireland	1895-1904	1949-1953	5.6	17.2	11.0
France including Alsace-Lorraine	1901-1910	1949-1953	0.6	11.1	10.4
Germany	1895-1904	1950-1954	9.8	19.9	8.3
Switzerland	1890-1899	1949-1953	7.7	24.4	15.3
Netherlands	1900-1908	1950-1954	14.3	24.6	9.0
Denmark (net domestic product)	1894-1903	1950-1954	11.9	30.6	16.7
Norway (gross national product)	1900-1908	1950-1954	8.2	33.5	23.4
Sweden (gross domestic product)	1894-1903	1950-1954	6.6	37.8	29.2
Italy	1794-1903	1950-1954	7.0	22.2	14.2
Spain	1906-1913	1949-1953	8.8	14.9	5.6
United States of America	1894-1903	1950-1954	15.0	33.8	16.4
Canada	1895-1904	1950-1954	20.9	41.4	17.0
Union of South Africa	1911-1912	1949-1950/ 1952-1953	20.9	49.7	23.8
Japan	1893-1902	1950-1954	13.3	37.9	21.7
Australia	1898-1903	1949-1950/ 1953-1954	17.2	28.4	9.5
New Zealand	1901-	1949-1950/ 1953-1954	18.7	32.7	11.8

Source : Quantitative Aspects of the Economic Growth of Nations, I : Levels and Variability of Rates of Growth by Simon Kuznets. Economic Development and Cultural Change, Vol. V, No. 1, October 1956.

The movement in per capita national income in real terms for 1948-49 to 1962-63 is given in col. (3) of table (2) below. The rates of growth in per capita real national income over the two plan periods are given in lines (5) and (6) of table (3).

TABLE 2
Per capita national income in India at current and at constant 1948-49
prices: 1948-49 to 1961-62.

Year	Per capita national income in Rs.	
	Current prices	Constant prices
1948-49	249.6	249.6
1949-50	256.0	250.6
1950-51	266.5	247.5
1951-52	274.2	250.3
1952-53	165.4	255.7
1953-54	278.1	266.2
1954-55	250.3	267.8
1955-56	255.0	267.8
1956-57	283.4	275.6
1957-58	279.6	267.3
1958-59	303.0	280.1
1959-60	304.8	279.2
1960-61	326.2	293.7
1961-62	329.7	293.4
1962-63	—	293.7

Notes : The table is based on Estimates of National Income, 1948-49 to 1961-62 issued by the Central Statistical Organisation, 1963 and a press release in Amrita Bazar Patrika of 5 May 1963 which stated that national income at constant prices increased by only 2.1 per cent between 1961-62 and 1962-63. We assumed a rate of population growth of 2 per cent to work out the figure given in col. (3) of line (15).

Table (3) shows that the rate which we achieved was lower than the long period rates of countries such as Sweden, Norway, Union of South Africa and Japan and is of the order of long period rates of Canada, Denmark and the U.S.A. Our rate, however, is considerably higher than the long period rate of the U.K., France, Australia or New Zealand. Further we may claim that our rate is strikingly larger than what we achieved before the plan era, because that rate is considerably less than 10 per cent per decade. On the other hand, we have to admit that our rate relates to an economy in which there is an attempt

TABLE 3

Percentage rise in per capita national income at constant prices over the two Five Year Plans.

	interval	percentage increase
	(1)	(2)
1. First Plan	1955-56 over 1950-51	8.2
2.	1956-57 over 1951-52	10.1
3. Second Plan	1960-61 over 1955-56	9.7
4.	1961-62 over 1960-61	6.5
5. Two Plans	1960-61 over 1950-51	18.7
6.	1961-62 over 1951-52	17.2

to plan economic development deliberately, while the long period rates in table (1) relate to countries which did not consciously plan for economic development.¹ Thus, we did not succeed in attaining a rate of growth which the more efficient of the free economies achieved over a long period in the past. Also, our rate relates to a short period of ten years, but the comparable rates for other countries relate to longer time horizons including periods of both prosperity and depression, the latter naturally pulling down the long period rate. To sum up, the rate which we have achieved, while large in the perspective of our own history, cannot be regarded as very satisfactory in the international context. For this reason the scientific investigation we have suggested in the beginning is of importance in the Indian context even today.

The essence of scientific approach :

In the scientific investigation, the first step is to observe facts and to classify facts into a number of meaningful categories. Such facts, in some scientific disciplines, arise out of controlled experimentation while in some other disciplines, controlled experimentation is not possible and the scientist is obliged to observe the facts as they occur in nature. The principle of

¹ In spite of a professed goal of planning, various sectors of the Indian economy are not subject to any detailed planning and consequential control. On the other hand, planning measures have been used in many free economies, and some of these economies are planned in this sense. The distinction between a planned and an unplanned economy is not sharp.

classification adopted is basically arbitrary in nature, and the justification of meaningfulness of the categories used for classification has to be found in the social evaluation of the end results. But when a discipline has grown over a long period, the investigator need not concern himself with the question of social evaluation every time when a problem of classification arises because he can draw upon categories which have proved their worth in the past. The next step in scientific investigation is to observe uniformities between suitably classified facts or classes of facts and to formulate so-called scientific laws embodying relations between classes of facts. There is very little philosophically fundamental about scientific laws, and all scientific laws could be regarded as short hand expressions of relations between observed facts. Hence the validity of scientific laws depends on their ability to predict in relation to observations which will be made in the future, and, in general, a law is not very useful unless it is a guide to future action of this type. The spirit of scientific investigation is the inherent human striving for observation of facts, their classification, noting uniformities among facts and working out scientific laws which relate classes of facts and which are guides to future action because they help in predicting events in future.

Scientific investigation of the problem of planning :

We may now analyse the problem of economic development as a field of scientific investigation in the light of what has been stated as the essential features of scientific investigation. Firstly, there cannot be any denying of the fact that the problem of economic development is a very real problem and its solutions can be regarded as a social objective of great importance, particularly in underdeveloped countries. In other words, it is a real problem worth solution.

The investigation has to start with an observation of facts relevant to the formulation and solution of the problem. Looking at various nations of the world, we find that some nations are highly developed while others are less developed according to our criterion of per capita national income. Also, in table (1), we have observed that some nations have developed more rapidly than others according to the same criterion. Various difficulties of measurement exist both in relation to international

and in relation to intertemporal comparison of per capita real national income, but notwithstanding this, the variation noticed above probably reflects the real state of affairs. Thus, the available estimates of national income of different countries, and also of the same country at different points of time are accurate enough to arrive at broad generalizations of the type we have made. But it does not follow from this that the detailed data used for plan making, plan assessment and plan implementation are adequate for the purpose in view particularly in underdeveloped countries.

Statistical information needed for planning :

For purposes of working out a development plan and to watch its progress, a large volume of statistical information is needed apart from the global measure of national income. To start with a plan depends very much on the factual information about the physical resources, such as geological, hydrological, soil, forestry, fishery, etc. Next, in the field of national income, it is necessary to have various breakdowns of national income : by industrial origin, by distributive shares and by final uses, i.e., as an aggregate of consumption and capital formation. These breakdowns would enable one to construct national accounts to be used for short period projections. We need further distributions of income, expenditure and some other variables by size for studies on demand, savings and taxation. To explore production possibilities, it is necessary to have a detailed analysis of intermediate flows in the economy in both physical and value terms, the former leading to 'material balances' and the latter to 'input-output' tables. Further, for production planning, we must have information on the relation between capital investment and resulting increase in output bringing in the study of capital output ratios as well as dynamic formulations of inter-industrial studies. Information on stock of capital by suitable breakdowns is needed for studies relating to capital output ratios and this leads also to working out of national balance sheets. In relatively free economies, separate information on monetary flaws is useful for monetary, banking and financial policies. It will be seen that some of the information we require relates to uniformities in human and institutional behaviour patterns, and such information is indispensable for sectors which

are not subject to detailed planning. We need some of the figures by regional breakdown in a large country to take cognizance of the spatial dimensions of the problem. Also, all value figures have to be expressed at constant prices for the sake of comparability, and once this is done, the available information of real growth in income and wealth and allied variables enables us to grasp the true nature of economic growth. Side by side with a study of these aggregative estimates, we have to analyse the growth in population and labour force, bringing out the characteristics of the human agency as a contributory factor in economic development. And while in this field, one would need data on health and other social services, education and training of technical manpower, and cultural achievements. For working out concrete projects to be included in a plan, diverse technical and engineering data in the particular subject field of the project are needed and it is almost impossible to give even a summary of the types of data which could be pressed in service in the task of project making. Thus, taking everything into view, it may be asserted that for formulation and assessment of economic development plans, almost all socio-economic and technological data currently available in a country are needed and it is frequently necessary to supplement these by fresh collection of both socio-economic and technological information through sample enquiries, case studies or otherwise.

Illustrations of data needed for planning :

Some illustrative material on some of the items considered above are presented in tables (5) to (11) given below. All the illustrations relate to India, though some comparative international data on consumer expenditure have been presented in two of the tables.

Table (4) presents the available estimates of population and labour force in the country.

Estimates of working force given in lines (1), (6) and (10) are independent of 1961 census and are based on projections. The census estimate for 1961 clearly shows that both the sets of projections used by the CSO are somewhat off the mark and involve under estimation. Since estimates of national income partly depend on estimates of working force, this indicates one kind of error inherent in official national income statistics. For

TABLE 4
Population and working force in India.

Year	Popu- lation (million)	working force million					
		Conventional			revised		
		agr.	non-agr.	total	agr.	non-agr.	total
1950-51	337.6	103.6	39.6	143.2	102.9	39.3	142.3
1951-52	363.6						
1952-53	370.0						
1953-54	376.8						
1954-55	383.9						
1955-56	391.3	111.6	43.2	154.8	104.4	44.6	149.0
1956-57	399.1						
1957-58	407.3						
1958-59	415.8						
1959-60	424.7	118.4	46.7	165.1	105.9	50.7	156.6
1960-61	434.1						
1961 Census	438.3	131.0	57.4	188.4			

Notes : The table is compiled from the National Income Statistics, Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60 published by the Central Statistical Organisation, 1961 and the Census of India, 1961. The conventional estimates are used for official national income statistics.

planning, it is necessary to have annual estimates of population with age, sex and other breakdowns. Generally, these figures are based on projection and subject to unknown margins of uncertainty. Even though errors involved are unlikely to be large, an attempt to collect annual information on population characters and labour force would be a move in the right direction.

Table (5) below gives the composition of national income conceived as an aggregate of final expenditures. The table also presents the percentage of capital formation to national income (or the rate of capital formation). Data are given for 1950-51, 1951-52, 1955-56, 1956-57 and 1960-61.

It will be observed from the table that the rates of saving and capital formation in the country have increased considerably over the decade in which we had two Five Year Plans. The share of Government in current consumption has also increased considerably. As a consequence, the share of private consump-

TABLE 5

Percentage composition of final expenditure and the rate of capital formation in India.

Year (1)	percentage composition of final expenditure			Net national expenditure at factor cost (5)	Net capital formation/ national income (6)
	Private (2)	Govt. (3)	Savings (4)		
1950-51	89.5	5.9	4.6	100.0	5.0
1951-52	88.4	5.8	5.8	100.0	7.9
1955-56	83.7	7.2	9.1	100.0	9.9
1956-57	81.9	7.0	11.1	100.0	12.7
1960-61	81.1	8.2	10.7	100.0	12.8

Source : Figures are based on Estimates of Gross Capital Formation in India for 1948-49 to 1961, a mimeographed paper of the Central Statistical Organisation and Estimates of National Income 1948-49 to 1961-62 an official release of the CSO.

tion in national income has gone down from a little below 90 per cent in 1950-51 to a little above 80 per cent in 1960-61. This shows why a breakdown of national income by final expenditure is useful for purposes of planning. The figures given, however, are not supposed to be very accurate for various reasons and it is necessary to have more accurate estimates of these important ratios.

International data on these topics are summarised in tables (6) and (7) below. Table (6) gives the movement in consumer expenditure per capita at constant prices for seven countries over long historical periods. It is possible to see from the figures how far our achievement during the decade 1950-51 to 1960-61 is satisfactory in the international context. The rate of growth of consumer expenditure (in real terms) in India during the decade 1950-51 to 1960-61 (about 1 per cent per year) is less than the long period rates of many of the countries covered; the U.K. and Italian rates, however, are lower than the rate we achieved. Table (7) gives figures comparable with those given in cols. (2) and (5) of table (5). It will be noticed that for all the countries covered, over a reasonably long period of time the share of private consumption has gone down and the shares of Government consumption and capital formation have gone up. Thus

TABLE 6

Long term movements in per capita consumer expenditure at constant prices.

Country	Unit	Initial Period		Terminal Period		No. of years	Overall p.c. increase	Geometric rate of increase per year
		year	estimate	year	estimate			
1. United Kingdom	£	1880-89	60.9	1945-54	91.5	65	50	0.63
2. Germany	marks	1851-60	264	1911-13	568	57	116	1.37
3. Italy	lire	1861-70	1760	1946-55	2707	85	54	0.51
4. Norway	kroner	1865	524	1950	1574	85	200	1.32
5. Sweden	kroner	1864	260	1948	1232	84	374	1.87
6. USA I	\$	1869	157	1924-33	595	59	279	2.28
7. USA II	\$	1909	447	1946-55	904	41	102	1.73
8. Canada	\$	1870	163	1946-55	503	80	209	1.42

Source : Quantitative Aspects of the Economic Growth of Nations VII : The Share and Structure of Consumption by Simon Kuznets, Economic Developments and Cultural Change, Vol. X, No. 2, Part II, January 1962.

TABLE 7

Share of consumption and capital formation in gross national product

Country	Period	Consumer expenditure		Gross national capital formation	total
		Private	Govt.		
U.K.	1860-69	83.0	5.1	11.9	100.0
	1950-58	66.9	16.9	16.2	100.0
Germany	1851-60	82.6	3.8	13.6	100.0
	1950-59	58.7	14.4	26.8	100.0
Italy	1861-70	87.9	4.7	7.5	100.0
	1950-59	68.2	12.0	19.8	100.0
Norway	1865-74	83.8	3.8	12.5	100.0
	1950-59	60.0	12.5	27.5	100.0
Sweden (GDP)	1861-70	86.3	4.5	9.2	100.0
	1941-50	67.5	12.0	20.5	100.0
Canada					
Firestone	1870-	88.2	4.6	7.2	100.0
Official	1950-59	63.5	19.1	22.4	100.0
USA					
Kuznets	1869-78	79.7		20.3	100.0
Official	1950-59	81.6		18.4	100.0

Source : Same as Table 6.

the tendency we have noticed for India in Table (5) happens to be a general feature of long period development of nations.

Some details about intermediate flows in the economy are given in tables (8) below. The figures here relate to 1955-56 and are condensed from a larger input-output table for the country for the year. It may be noticed that the aggregate value of output in the country was of the order of Rs. 17,000 crores in the year. The gross national product was about Rs. 11,000 crores and the remaining Rs. 6,000 crores was the value of various inputs used up in the production process. Studied row-wise the table gives the allocation of output of four important sectors of the economy. A column-wise study on the other hand gives an analysis of cost of these sectors. Categories used in national income comes in marginal rows and columns of the table. Since in planning one has to explore production possibilities, it is necessary to study the inter sectoral flows of

TABLE 8
A condensed input output table for India, 1955-56

Sectors	primary etc.	Sectors				total inter- mediate	consumptions plus capital for- mation	Figures in Rs. Crores	
		heavy industry	transport & const.	services	6			7	8
0	1	2	3	4	5	6	7	8	
(1)	3450	110	339	235	4134	5820	218	10172	
(2)	180	290	266	56	792	520	-389	923	
(3)	81	32	56	54	223	2100	17	2340	
(4)	376	95	209	149	829	2614	58	3501	
						11054	-96	16936	
(5) total inter- mediate	4087	527	870	494	5978	gross national product at market prices = Rs. 10958 crores			
(6) value added	6085	396	1470	3007	10958				
(7) total output	10172	923	2340	3501	16936				

Note : The table is based on a detailed 36 x 36 table prepared by the Indian Statistical Institute and presented in their mimeographed paper, Inter-Industry Relations in the Indian Economy, 1955-56, Studies relating to Planning for National Development, No. 217. The sectors distinguished are :

- (1) primary production, small scale and household industry and large scale light manufacturing industry,
- (2) large scale heavy industry,
- (3) transport and construction, and
- (4) services:

The table is adopted from a study by H. Katano, a visiting research worker of the Indian Statistical Institute from Japan.

intermediate goods over and above the national income and allied estimates which occur in the margins. This makes input-output analysis important for planning. Preparation of input-output table is possible only when data on cost structure of various enterprises are available. In the Indian tables, a part of the material used is not very dependable and continuing effort is being made to improve the statistical basis of such tables.

Movements in the capital stock in the country in the recent past are given in table (9). It will be noticed that our capital stock has moved at a larger rate than our national product during the last decade. Estimates of capital output ratios are given in table (10) according to different sources. It will be observed that different sources give figures of same dimensional order. Estimates by such broad sectors are useful for overall planning. However, for detailed planning, it is necessary to have estimates for smaller sectors as well as for individual industries. Apart from this, a good deal of work has been done on estimates of capital per worker, a ratio which has been used for both detailed and overall planning. For detailed work on capital output and capital labour ratios, it is necessary to make use of a vast body of statistical data from different sources, and the accuracy of the overall and sectoral ratios naturally depends on the accuracy of the material used.

Scientific approach in collection and use of data in planning :

An attempt has been made in the last sectors to give a brief descriptive account of some of the important types of data used in planning. The survey is by no means exhaustive. We have, for example, left out a consideration of data on consumer expenditure which have been widely used in Indian planning for projection of consumer demand and other studies relating to uniformities in consumer behaviour pattern. But since our basic purpose is to give some illustrative material we feel that the sample given is sufficient. This would convey to the reader the diversity and vastness of the statistical information needed for planning.

It is now necessary to examine, to what extent we adhere to scientific standards in the collection and use of this vast body of statistics. We may start doing this by taking the simple measure of economic growth, per capita national income. This

TABLE 9
Growth in reproducible tangible assets in India

	year			p.c. rise in 10 years
	1950-51 (2)	1955-56 (3)	1960-61 (4)	
1. Reproducible tangible assets in India in Rs. crores at 1949-50 prices	17086	20165	26476	
2. Reproducible tangible assets in India in Rs. crores at 1960-61 prices	21556	25440	33402	
3. National income in Rs. crores at 1949-50 prices	9040	10705	13024	
4. National income in Rs. crores at 1960-61 prices	9829	11638	14160	
5. Population (million)	357.6	391.3	434.1	
6. Reproducible tangible assets per capita in Rs. at 1949-50 prices	478	515	610	28
7. Reproducible tangible assets per capita in Rs. at 1960-61 prices	603	650	769	
8. National income per capita in Rs. at 1949-50 prices	253	274	300	18
9. National income per capita in Rs. at 1960-61 prices	275	297	326	

Note : The table is based on a mimeographed paper by the author, An Estimate of the Reproducible Tangible Wealth of India in March 1961, Studies relating to Planning for National Development, Indian Statistical Institute, October 1962. National income and its deflator are taken from Estimates of National Income, 1948-49 to 1961-62 released by the Central Statistical Organisation. Capital stock has been deflated by an investment cost deflator obtained from a CSO mimeographed paper, Estimates of Gross Capital Formation in India for 1948-49 to 1960-61, 1961.

TABLE 10

Capital output ratios for major sectors according to different sources.

Sectors	Mukherjee					
			marginal			
(1)	stock net output	from terminal points	as average of annual ratios	Mukherjee and Sastry stock/net output	Reddaway marginal	
1. Unorganised sectors	1.2	1.8	1.5 (7)	1.0	0.9	
2. More organised sectors	2.9	3.5	3.2 (8)	2.8	3.2	
3. House property	11.4	16.6	8.4 (4)	11.0	18.0	
4. Sectors (1) — (3)	2.2	2.9	4.0 (9)	2.0	2.3	
5. All Sectors	1.9	2.4	2.5 (9)	1.8	2.2	

Notes : (1) The table is derived from Mukherjee: An Estimate of the Reproducible Tangible Wealth of India in March, 1961, ISI mimeographed paper No. 249; Mukherjee and Sastry : An Estimate of the Tangible Wealth of India, Income and Wealth, Series VIII, 1959 and W. Reddaway: The Development of the Indian Economy, 1962.

(2) Unorganised sectors include agriculture and allied activities as well as small scale industries; more organised sectors comprise mining, manufacturing, commerce, railway, transport and communications, and house property covers both urban and rural residential properties. We have not included Government Services, profession and liberal arts and domestic services in line (4) of the table, the total capital stock being assumed to be allocated between sectors (1) — (3). The figures in line (5) are obtained when these three sectors are also included in the national product.

(3) Negative and large positive values are excluded in obtaining the figures in col. (4), the figures within brackets against the entries stand for the number of annual ratios actually used to obtain the averages.

(4) The figures are, in general, based on data relating to 1950-51 — 1960-61. Capital output ratios are based on estimates of capital and income reckoned at constant prices.

readily available measure giving the stage of economic development of a nation is a derived statistic, and our observations on the stage of economic development are influenced by the accuracy of the measure which is used. This accuracy is affected not only by the lack of availability of adequate primary statistics on which the derived measure is based but also on the haziness in the concept itself in the context of its being a measure of economic development. This conceptual difficulty has two aspects, in available historical data, different concepts are found to be adopted in different periods thus jeopardising comparability. But a more fundamental difficulty relates to the concept of national income itself. Are we justified in accepting this as the best possible single measure of economic development? It is conceivable that some other concept could be better than per capita national income. Also, is it really worthwhile to aspire after a single measure knowing fully well the multiplicity of aspects of economic development?

But even if we grant the usefulness of the concept of per capita national income in the present context, there seems to be a serious difficulty about the procedure of estimation based on available statistics. Conceived as an aggregate of net values added by all productive enterprises, the estimation of national income depends on data on output and costs of various productive enterprises. Bulk of this statistical material is obtained from the records of administrative departments and enterprises. The entities concerned are obliged to prepare these records to meet legal and administrative requirements and such records are believed to be available for most of the units. But there is very little knowledge, so far, as to the validity of this body of statistics. In certain fields, for example, in the case of agricultural output, deliberate effort is usually made by the government to get at the estimate of the output in the country through administrative channels and collection of data here involves a vast body of persons. It is difficult to assess validity of information collected through lakhs of persons working under a particular administrative set up. Also, is it possible to regard a process like this as an act of scientific measurement? Similar remarks apply to collection of population data through a census operation which has to utilise a very large human agency which is necessarily imperfectly trained and co-ordinated. In the field of industries,

the return given by enterprises gives the output, but here again how is it possible to ascertain that the outputs have been physically measured?

Coming to the field of sample enquiries, the position is somewhat superior because here at least there is a deliberate attempt at collecting data through a rational design. Quality of field investigation is potentially superior in sampling enquiries because it is possible to teach a manageable number of investigators the art of data collection. The response biases are, however, there and these could be generally more in a sampling enquiry than in the regular collection of official data as a by-product of administrative procedure. But one could think of fields in which sample enquiries are likely to give rise to less response bias than the usual official procedure because the respondent may deliberately try to withhold an information with the knowledge of the administrative use to which the data would be put. But the basic difficulty in sampling is the sampling error which is likely to be large whenever information is needed for a small region or in respect of an activity which is not generally prevalent. Thus sampling enquiry, today is useful at a somewhat macro-level and one has to have recourse to complete enumeration data whenever information is needed with a high degree of disaggregation. But this difficulty, partly, is a result of tradition. A large cost is incurred for collecting complete enumeration of statistics and the real question to be posed is whether with this cost a more efficient design of data collection could be derived by making use of sampling. Except for a few fields, the answer to this question ought to be in the affirmative. In a fully planned society, if it is assumed that all enterprises maintain their records properly, there also a procedure could be thought of which would make use of a sample of these enterprises to get the estimates, the size of sample depending on the accuracy needed for a particular type of information.

Apart from these two broad approaches, case studies have frequently been used to obtain data needed for purposes of planning. But case studies do not give valid estimates except when the population variability of a particular character is negligible and one justification of its use is the absence of any other data. When one has to use just guess work in actual practice, one should also be allowed to use case study material. Case studies,

however, are useful for purposes other than estimation because they give insight into the entities being investigated upon and helps in formulating the type of questions which could be asked in a sample enquiry.

While we have discussed different methods of data collection in the context of estimation of various elements of the derived measure, per capita national income and commented on the different procedures usually adopted, these considerations also apply to the method of collection of data used for any other body of information, needed for planning. A survey of the available data used for planning in India (a brief sketch of which has been made (earlier in the article) would show that a large part of the information used is not based on a procedure of data collection which is scientifically valid. The estimates of the variables and the uniformities and relations noticed among several variables, therefore, are likely to be subject to unknown biases and errors involved in the process of data collection and data processing and could not be regarded as accurate estimates or true relations existing objectively. To-day many economists will grant that one should adopt a strictly scientific approach in economics, but unfortunately, the uniformities they notice about the working of the economy are partly a result of a defective procedure of data collection and hence the statistical laws they establish about the working of the economy frequently go wrong in the field of prediction — which is regarded as a basic test of validity of a scientific law. The only way to improve the situation is to put the facts on a firmer footing and to strive towards a better theoretical framework. Adoption of sample surveys on a larger scale with a good deal of emphasis on elimination of various biases would do a lot in the field of data collection. In the field of theory building working out of models enabling one to predict correctly in different fields of economics appears to be the correct approach, and this is bound to take time. However, one need not despair because it has not been possible to get a theoretical framework as neatly and concisely expressible and as helpful in prediction as in the case of physical sciences because a theory in a field must correspond to the reality of the field which itself may be somewhat odd and angular.

Appendix : A note on statistical information needed for Planning.

Two stages of economic planning are usually distinguished: (1) formulation and (2) implementation. Statistical information is indispensable at both the stages, and the quality of formulation and implementation of a plan depends on the extent and accuracy of the statistical data which could be put into use at the two stages.

Data needed for plan formulation and plan making could be thought of at two levels. The broad outline of a plan depends very much on the factual information about physical resources (geological, hydrological, soil, forest, fishery, etc.); population; existing stock of capital assets; current output of goods and services; social, political and economic institutions and their characteristics; and social and economic behaviour uniformities of the population. Of course, it is not possible to have perfect knowledge in respect of these matters, but the more detailed knowledge we have, the more we know the country and its development potentialities. We are thus able to work out realistic plans incorporating some sort of an optimum rate of growth. We may term this class of information as the background knowledge about the country. While some of the information here will be non-statistical in nature, the bulk of the information will be statistical. It is not possible, however, to collect data in order to have a perfect background knowledge before embarking on planning. This will imply an indefinite period of waiting. One has to embark on planning with imperfect background knowledge. Also, any short period programme to get complete background knowledge has to be eschewed — the background knowledge should grow slowly and steadily with time, because getting background knowledge in many of the fields is not only a question of collection of data but also a question of interpretation and understanding of the data collected. This is a relatively slow process and cannot be rushed very much.

When the broad outline of a plan is prepared, it has several interrelated components. At this stage, the interrelated set of variables and parameters are not quantified. The outlined plan chosen has to be regarded as feasible in the light of background knowledge but not all the parameters and variables need be

known at this stage. While some variables and parameters should be known, others should be considered as 'knowable' within a reasonable period of time, provided an effort is made to collect data in the field.

When this outline of a plan is available, the need of statistical information becomes very concrete, and it is possible to start work on summarization of existing data and collection of fresh data. The extent and variety of statistics needed would naturally depend on the type of outline plan chosen. One could think of a type of planning in which more data are needed than a type of planning in which less data are needed.

One hypothetical example, drawn partly from Indian experience may clarify what we intend to convey. A plan outline chosen required estimates of national income and capital formation. Now it may so happen that estimates of national income are available but estimates of capital formation are not available, but the view is that it should be possible to estimate capital formation from the existing primary data. In this case, the work on plan making should include a project for quickly obtaining estimates of capital formation. Some other figures may be necessary which are not given by existing primary data, e.g., unemployment in urban areas or value added by some industries, say, not covered by a census of manufactures. In such cases, quick sample surveys can be planned along with the work of plan making so that proximate ideas about urban unemployment or value added by these industries are available before the plan is finalised. To meet needs of this type, a permanent sample survey organisation has been built up in India, which could take up any high priority work of this type, apart from having a useful long period programme of its own, in the field of increasing background knowledge.

It is possible to embark on planning with very little statistics; but richer statistical information is generally of great help. Normally a country will have reasonably good foreign trade and payments data, as well as accounts of public authority transactions. If on the top of this, output data are available for important commodities and there are rudimentary national income data, it is possible to start working out a plan, and get the work on other data needed included in the plan making programme.

One particular point may be noted here. If the intention of the plan is to directly organise production in the public sector as well as to have direct control over production and other activities in the private sector, then it is necessary to have a good deal of technological information, norms, etc. If, however, the intention is to let the enterprises proceed on their own with only marginal interference, then it is necessary to have data on behaviour uniformities of enterprises. Since consumption of households are left free in all planning, data on uniformities of consumer behaviour are useful in all types of planning.

A plan when formulated gives a projection of certain variables (targets) year by year over the plan period, and also a set of measures intended to help in achieving the targets. In the sectors, which are to be regarded as almost untouched by planning efforts, these projections may be based on past trends. In the planned sectors, projection of past trends is not useful. Any set of targets chosen for a particular year, however, should at least be considered as feasible and be consistent among themselves. The consistency is usually secured by the method of balances. This means that the amount of a commodity produced in a particular year should be fully utilised. The number of kilowatt hour of electricity planned to be produced in a particular year should be equal to the anticipated purchase of electricity in that year by various users including industries, electrified railways and households for domestic purposes. The steel produced similarly should be fully utilised by domestic enterprises and capital development projects, though one could think of some exports in this case, and shortages here can be marginally met by imports. When households are purchasing a commodity, say cloth, one has to ensure that the personal income of households is sufficient to generate a demand of exactly the same quantity of the commodity as the enterprises are planning to supply. In a like manner, it has to be ensured that sufficient resources are raised to make possible all the investments planned. Similarly, the planned training programme should produce the requisite number of hands in all categories needed in the development process. Next, the private and government income and outlay are to be balanced, and such balancing can be done through what is technically known as national budgeting. But it is conceivable that a consistent

picture can be built up with targets which are not feasible. It is necessary to guard against paper plans portraying consistent utopias.

The type of data needed for these consistency checks are obvious; some have been sketched earlier. Apart from what has already been indicated, it is necessary to have some idea of inputs of various activities, including the labour and technical man-power inputs, for getting a consistent picture of current production. Engineering information frequently comes to help here when recent data are not available. For investment plan, it is necessary to have some idea of income-capital ratios in different activities. In fact, it is necessary to estimate the increase in personal income resulting from all productive activities including the capital building projects, and balance this against production and imports of consumer goods. For this, estimates of income elasticities obtained from cross section family budget data are of great help. The annual flow of income from a new enterprise, when it is completed, has also to be estimated, for obtaining a long period picture of income growth. Apart from this, it is necessary to have data on technical manpower, training programmes and allied activities.

A plan when formulated has to be implemented. That is, some current decisions flow out as a consequence of adoption of a plan. Such decisions relate to current actions. Thus, it should be possible to take out from a plan all the current decisions which have to be taken up in a particular year. This gives an annual plan of action. The plan, which relates to a relatively longer period, say five years, is more vague according to this notion, because the effects of some of the decisions taken currently, may result in some changes in the anticipated actions. Still, a five year plan, by and large, is considered as implementable except for unforeseen situations. Only it remains more flexible than annual plans.

It is not possible, however, to think about the long period growth of an economy in terms of annual or five year plans. Current decisions about development of heavy capital goods industries, training of technical man-power, development of forest resources, etc. relate to flows of output after a period ranging from ten to forty years. It is, therefore, necessary to think about the long period development of the economy in terms of

perspective plans relating to 15 or more years. The Five Year Plans have them to be fitted in with the perspective plans. The perspective plans naturally remain more flexible than Five Year Plans. While annual and Five Year Plans are relatively concrete and more or less fixed in view of the need of taking decisions about immediate actions on the basis of these, long period plans are more in the realm of background knowledge of a forward looking type, which are to gradually improve with time with accumulation of knowledge. The entire body of background knowledge defines the data content of a perspective plan at any point of time.

Coming to the stage of implementation, two types of data needs are to be distinguished : a general appraisal and a special feed back mechanism for implementation of particular projects. General appraisal may relate to the nation as a whole. One may be interested in finding out, for example, how the national income and household consumer expenditure per capita are moving? Are these moving as anticipated in the plan? Or one may be interested in noticing whether any inflationary tendency has generated as a result of planning. Are the prices moving up too rapidly? Is urban unemployment rate going down? There may be national appraisals of this type. Secondly, one may seek indicators for regions, industrial sectors, occupational classes, types of activities, etc. Whether a particular backward region is advancing rapidly? Are industries as a whole meeting the standard of growth, or productivity laid down by the plan? Whether the conditions of handloom weavers or scheduled tribes improving? Some of the answers to these questions could be had from the periodically produced regular official statistics. But random sample surveys afford a very useful tool for furnishing data enabling us to answer many of these questions.

In devising such sample surveys, estimation of change has to be distinguished from the estimation of the level, even at the state of design. Obtaining a good estimate of level is an endeavour associated with the notion of background knowledge and a practical planner should not worry too much about this. He should be satisfied with an imperfect estimate of the level if he gets a good estimate of the change.

Direct feed-back processes are not associated with general

appraisals. The policy measures to be taken up when something out of the way is noticed partly depend on the data collected and partly depend on various other considerations. The measures to be taken up may be diverse and of general purpose.

A plan may be considered as an aggregate of some very concrete projects and some projections relating to relatively unplanned activities. General purpose measures usually apply to the relatively unplanned sectors. A project, however, has a definite time programme and for efficient working of a project, there must be a flow back of information as to how the project is working. Then, there must be a system to collate the flow of information, to devise corrective measures whenever anything is wrong and to implement the corrective measures setting the operation of the project right again. The statistical data needed for this purpose depend on the project. It is however, possible to incorporate the system of data collection and analysis with the project itself. Usually, such information relates to key outputs, key materials, etc., and do not cover the entire range of outputs and inputs.



SAVINGS AND ECONOMIC GROWTH IN POST-WAR JAPAN*

By *Saburo Okita*

Introduction :

Significant data for Japanese economy of the post-war period have become available and on the basis of these data, an attempt is made to analyse the recent development of savings and economic growth in Japan.

TABLE 1
International comparison of GNP growth rates
(annual average, in per cent)

	1950-55	1955-60	1950-60
U.S.A.	4.3	2.3	3.3
U.K.	2.6	2.7	2.6
West Germany	9.0	6.0	7.5
France	4.5	4.2	4.3
Italy	6.0	5.9	5.9
Japan	9.1	10.0	9.7

Source : OECD; Policies for Economic Growth, November 1962
(Figures for Japan were separately prepared by the
Economic Planning Agency).

Table 1 shows average annual growth rates for several industrialized countries of the world during the last decade. Japan's rate of growth was much higher than the western industrialized countries. Average annual rate of growth of GNP in India

* This article is a follow-up of the author's paper "Savings and Economic Growth in Japan" (pp. 32-41, October 1957, Economic Development and Cultural Change; the University of Chicago and was prepared by the author as his working paper for the Winter Session of the Indian Institute of Asian Studies, 1963-64.

during 1950-59 was estimated at 3.1 per cent,¹ and this implies Japanese economy grew with a rate of three times that of India during the last decade. Direct comparison with the growth rate of USSR economy is not possible because of the difference in the definition of national income statistics, but in terms of the industrial production index Japan exceeded that of USSR during the last decade as indicated by the following figures :

	1950	1960
USSR	100	301
Japan	100	371

Source : United Nations, World Economic Survey, 1961. (Asian Edition) October 26, 1962.

It is worth noting that Japan's growth rate during the second half of the last decade was higher than the first half as indicated in the Table 1.

This indicates that the high rate of growth of the Japanese economy in recent years is not merely due to post-war recovery factor but to more fundamental causes. The author has already written a few articles giving the reasons for the high rate of growth of post-war Japanese economy.² Therefore, only a brief account of the causes of the rapid growth will be stated here. The major causes are :

- (a) post-war recovery from the ruins of the war;
- (b) substantial reduction in military expenditures and disappearance of the colonial expenditures;
- (c) availability of an abundant and high quality labour supply;
- (d) high rate of savings and investment;
- (e) increased self-sufficiency in capital goods supply;
- (f) generally favourable world economic environment for Japan's expanding foreign trade.

¹ Economic Survey of Asia and the Far East, 1961; United Nations ECAFE.

² e.g. "Japan's Economic Prospects" Foreign Affairs, October 1960. "The growth of Japanese Economy and South-East Asia" Time (Asia Edition), October 26, 1962.

Basically, the fact that Japan is undergoing a period of transformation from a society with strong underdeveloped elements to a highly modernized society enables Japan to attain an exceptionally high rate of growth viewed both historically and internationally. In other words, the existence of a large number of under-utilized labour force which have so far been employed in relatively low productivity and low-wage sectors are now being absorbed into high productivity and high-wage sectors as the process of capital accumulation proceeds and as advanced techniques are introduced. Moreover, highly developed educational system enables Japan to meet the basic requirements for the quality of labour necessary for running modern industries. The experience of Japan in recent years may indicate the possibility of an explosive expansion at a certain stage of economic development, and this may also suggest a possibility of similar process for newly developing countries sometime in future.

Trend of Capital accumulation :

As was mentioned in the preceding chapter, one of the main causes for the high rate of growth is the high rate of capital formation supported by a similarly high rate of savings.

TABLE 2
Components of capital formation as percentage of GNP

	(%)					
	1934	1936	1951	1955	1956	1960
Personal residence	1.4		1.3		2.2	
Equipment	13.1		19.0		25.8	
Private		9.9		11.4		17.4
Government		3.2		7.6		8.4
Changes in inventory	4.5		6.8		5.3	
Private		4.5		6.2		5.1
Government		—		0.6		0.2
Total domestic investment	19.0		27.1		33.3	
Surplus of the nation on current account	0.1		1.7		0.3	
Grand Total	19.1		28.8		33.6	

Source : Economic Planning Agency.

Table 2 indicates the breakdown of gross capital formation, both for pre-war and post-war years. As shown in the table, post-war rate of capital formation as compared to GNP is much higher than pre-war. This rate is also much higher compared with the rates of other countries in the world. In most industrialized countries, the rate of gross capital formation is around 20 per cent of GNP, whereas in Japan this rate was 28.8 per cent during the first half of 1950s and 33.6 per cent during the latter half of 1950s. The fact that the rate for the recent years was even higher than the preceding period is another remarkable feature of the post-war Japanese economy.

The breakdown of the gross capital formation reveals several important features of post-war economy.

In first place, capital formation in the government sector in post-war years is very much higher than the pre-war. Up to 1955, higher rate of gross capital formation, as compared with pre-war period, was chiefly attributed to this difference, that is, the higher rate of capital formation in the government sector. The reason of this difference may be explained by the fact that the Government was faced with an enormous task of reconstructing devastated public facilities and that a larger allocation of financial resources for public works was made possible due to a sharp decrease in military expenditures.

Secondly, the rate of capital formation in private sector in the latter half of 1950s was much higher than the preceding five years.

Thirdly, inventory change as percentage of GNP in Japan, which has been 5.6%, is much higher than the other industrialized countries, where the rate was about 3 per cent of GNP. This difference is explained by the much higher growth rate of GNP and multigrade structure in wholesale and retail trade in Japan.

Fourthly, investment in personal residence as percentage of GNP is lower compared to other industrialized countries where this rate is around 5 per cent.

Above mentioned gross capital formation was financed by gross domestic savings and net inflow of foreign capital. As shown in table 3, gross savings is composed mainly of three elements; corporate savings, including depreciation allowances, personal savings and Government savings. Relative share of

those important sources of savings in 1960 were 46, 35 and 22 per cent, respectively. During early post-war years, share of Government savings was much higher accounting for nearly half of the total savings. In later years, share of corporate and personal savings gained importance. This tendency reflects shift of relative shares in sources of savings from government to private.

TABLE 3
Composition of gross savings by sources.

	(%)			
	Corporate	Personal	Government	Others
1946 — 1950	26.0	10.8	44.3	18.9
1951 — 1955	38.6	36.3	19.7	5.4
1956 — 1960	46.1	35.6	19.3	1.0
1956	44.9	33.1	17.4	3.6
1957	42.5	34.0	21.3	2.2
1958	48.2	41.4	21.9	1.5
1959	45.7	35.3	18.8	0.2
1960	46.2	35.0	21.9	3.1
1961	43.2	32.2	21.6	3.0

Source : Economic Planning Agency.

Another feature derived from figures in table 3 is relatively small importance of foreign capital supply as compared to domestic savings. This was one of the features of pre-war Japanese economy throughout its course of economic development and again after the war Japan attained economic recovery with relatively small dependency upon foreign capital import.

The high rate of gross capital formation or gross savings as compared to GNP is attributed to high rate of savings of both corporate and personal savings.

Table 4 shows average propensity for saving in Japan. Recent rate of savings of around 20 per cent out of personal disposable income is an exceptionally high rate compared to other countries. This rate is around 10 per cent in most highly developed countries. In the underdeveloped countries this rate is even lower. The causes for the very high rate of personal savings are enumerated as follows: (a) high rate of increase in personal income enables high rate of savings due to lag of family

TABLE 4

Average propensity for personal savings as percentage of personal disposable income.

Year	(%)
1953	10.6
1954	10.4
1955	13.9
1956	14.9
1957	15.3
1958	15.5
1959	18.3
1960	20.1
1961	21.3

Source: Economic Planning Agency.

expenditure from increase of income. In this connection traditional way of living combined with historical habit of thriftiness in Japan has resulted in a relatively moderate rise of family expenditure thus leaving a larger margin for savings in the family budget. (b) Wage system of paying bonus twice a year, mid-year and end of year, encourages saving because family budget is usually adjusted to regular monthly income and the bonus is taken as an extra income to be saved for the future. (c) Loss of personal assets, both liquid and residential, through war damage and inflation stimulates higher rate of savings due to strong desire to recover or to attain certain level of personal property.

Sometimes unequitable distribution of personal income is taken as one of the causes of high rate of savings, but according to Professor R. Komiya's analysis, post-war distribution of income in Japan is rather equitable compared with other highly developed countries. Professor Komiya shows the share of the ten per cent top income bracket as follows: U.S.A. (1958) 30 per cent, Sweden (1954) 27.3 per cent, Denmark (1952) 30.7 per cent, West Germany (1950) 34.0 per cent, U.K. (1955) 29.3 per cent, and Japan (1959) 29.0 per cent.

Some people argue insufficient social security measure is also one of the reasons for high rate of personal savings. However, compared with pre-war, post-war Japan has developed social security measures to a considerable extent, and this contradicts

to the much higher rate of personal savings in the post-war years as compared with pre-war.

As for the corporate savings, relatively high profit margin of the corporations together with a large amount of depreciation allowances form a major part of gross savings. Combined with liberal lending policy of banking institutions in Japan, this has stimulated very high rate of equipment investment in private sector. One of the basic causes for the high profit margin is due to a gap between rapidly increasing labour productivity resulting from modernization of productive facilities and techniques and the relatively low level of consumption.

Table 5 gives relative movement of productivity and wage in manufacturing industry during 1950 — 1960. During this period output per worker was more than tripled while the wage level was only doubled. This gap between productivity and wage is one of the important sources of high rate of corporate savings. In this connection, under utilization or surplus supply of labour force has worked as a depressing factor against a rapid rise in wage level. Co-existence of modern high productivity sector and pre-modern low productivity sector is often quoted as one of the peculiar characteristics of the Japanese economy. This dualism in the economic structure may be counted as one of the

TABLE 5
Productivity and wage in manufacturing industry (1952 = 100)

	Productivity	Average wage
1950	62.7	71.1
1951	92.1	86.4
1952	100.0	100.0
1953	119.9	111.3
1954	132.6	119.1
1955	140.2	123.2
1956	153.0	132.9
1957	161.3	140.4
1958	172.1	145.1
1959	185.5	149.3
1960	212.4	163.8
1950 — 1955	223.6	173.3
1955 — 1960	151.5	133.0
1950 — 1960	338.7	230.4

Source: Economy Planning Agency.

reasons for above mentioned gap between productivity and wage level.

Mechanism of financing investment :

During early post-war years priority of investment was given to basic industries such as coal, fertilizer, shipping, electric power and iron and steel. Because of the post-war confusion and inflation private sector could not respond effectively to the need for investing in these basic industries. Government financial institutions such as Reconstruction Finance Bank, which was later dissolved and succeeded by the Japan Development Bank, supplied major part of the equipment capital in the basic industries.

Korean War, broke out in 1950, gave a strong impetus to Japanese economy by giving sharply increased external demand, which in turn stimulated investment in wider sphere of the economy. With a few years' lag expanded consumption stimulated the investment in consumer goods industries. With the ending of the post-war inflation and the restoration of price mechanism due to decontrol measures, private sector gradually assumed more and more positive function in investment activities.

Since around 1955, an investment boom was started and accumulative process of larger and larger investment activity continued.

Only balance of payments' deficit could temporarily stop this investment boom as in the case of 1958 and again in 1961. As shown in table 6, equipment investment in private sector rose from 770 billion yen in 1955 to 4050 billion yen in 1961. To this process of investment boom, peculiar characteristics of Japanese banking system contributed considerably through accelerating investment activity. Japan's industrial enterprises depend heavily upon borrowing from external financial sources. Table 7 shows nearly two-thirds of total capital are from external sources. In particular, commercial banks in Japan supply not only working capital but also equipment capital required by enterprises. Ratio of credit outstanding as compared to total deposit outstanding is nearly 100 per cent and this is sometimes called over loan practice of Japan's commercial banks. The banks in turn depend heavily upon the borrowing from the Central Bank, Bank of Japan. This banking practice was com-

TABLE 6

Recent trend in private equipment investment (billion yen)

1953	800.7
1954	760.1
1955	777.4
1956	1372.6
1957	1693.2
1958	1649.6
1959	2170.2
1960	3069.5
1961	4950.4
1962 (estimate)	3600.0
1963 (outlook)	3500.0

TABLE 7

Share of external capital to total used capital of Japan's

	industrial enterprises.	(%)
1934	first half	42
	second half	41
1940	first half	45
	second half	45
1950	first half	77
	second half	69
1955	first half	60
	second half	61
1957	first half	67
	second half	67

mended by some foreign observers including the London Economist³ for its flexibility in application and its effectiveness in regulating level of economic activity. Professor G. C. Allen of London University College also commended the practice of over loan as it enables Japanese economy to stretch to its maximum extent within the limit of balance of payments and thus to realize maximum potential growth.⁴ However, this practice of over loan generally is not very much favoured in Japan as it aggravates cyclical fluctuations and it impairs soundness of both banking system and enterprise management.

³ "Consider Japan", Economist, 1st and 8th September, 1962.

⁴ "Causes of Japan's Economic Growth" Three Banks Review, September, 1962.

In November 1962, the Bank of Japan introduced, as one of the corrective measures for this situation, a new approach strengthening its market operation.

Economic situation in recent years :

As shown in the table 8, Japanese economy in recent years has undergone a phenomenal expansion and a following period of adjustment. For the three years, 1959, 1960 and 1961, average growth rate of GNP in real terms was 15 per cent per annum, extraordinarily high figure even compared with Japan's own record. Rate of equipment investment in private sector rose from 7.4 per cent of GNP in 1955 to 22.9 per cent in 1961. This sharp rise in equipment investment in private sector was the major leading factor for exceptionally rapid expansion. In early 1961 a serious deficit in the balance of payments position became apparent and accordingly the government introduced a tight money policy to check excessive demand expansion. As the result, balance of payments again turned to surplus in the summer of 1962 and at the same time growth rate of the economy has come down to a more moderate level.

Equipment investment in private sector has also declined and its share in GNP is expected to come down to about 17 per cent of GNP in 1963. While the rate of investment in private sector has come down, investment in government sector is increasing considerably. This is due to the government policy to improve basic public facilities such as roads, ports, water supply and sewage system. This is in line with the established government's policy in the "Doubling National Income Plan" to strengthen social overhead capital.

It is one of the controversial issues in Japan whether present adjustment period is followed by another new wave of expansion or by a more moderate cyclical movement than the one experienced during the past few years.

Conclusion :

National income for 1963 is estimated at 16.7 trillion yen (U.S. 46 billion dollars). With a population of 96 million, per capita national income in 1963 will be about 480 dollars. This is about half of the present income level of Western European countries. Government ten year plan of "Doubling

TABLE 8
Gross National Expenditure and its components (Japan)

GNP=GNE (in current prices 1000 million yen)	Growth rate of GNP (in real terms)	GNE components (per cent of GNE)				
		Personal consumption expenditure	Gross private capital formation	(equipment investment)	Government purchases	(government investment)
1955	8,236	10.3	62.1	16.7	(9.5)	19.5
1956	9,293	9.0	59.2	24.4	(14.8)	17.5
1957	10,150	7.9	58.9	23.7	(16.8)	18.0
1958	10,395	3.2	60.5	18.3	(15.9)	19.3
1959	12,573	17.9	54.7	26.2	(17.3)	18.2
1960	14,665	13.2	52.5	29.0	(20.9)	18.4
1961	17,702	14.0	50.4	32.8	(22.9)	18.8
1962 (estimates)	18,860	4.2	53.0	25.2	(19.1)	20.8
1963 (outlook)	20,390	6.1	54.8	23.2	(17.2)	22.0

Source : Economic Planning Agency.

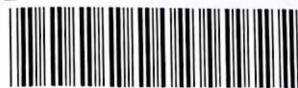
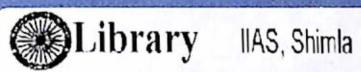
"National Income" expects doubling of national income by 1970 and the population is expected to increase about 10 per cent in the course of 1960s. In the light of these figures estimated per capita income of Japan is likely to reach the present Western European level by early 1970's. At the same time, existing underemployed labour will gradually be absorbed by the expanding economy and Japan will approach to full employment condition similar to the present Western European countries. The rate of savings as well as the rate of economic growth is likely to come down to a more moderate level as the Japanese economy proceeds its process of modernization and approaches high income and full employment condition. It is also expected, in the course of coming ten years or so, existing imbalances between the private industries and the basic public facilities will gradually be corrected to realize better harmony in the economic structure.

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