"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

FINANCING UNDER PLANNED ECONOMY

M. A. MASTER*

India has now been trying to build up a Welfare State under planned economy since 1951.

It is not necessary to go into the question as to whether the Plan should be first drawn up and attempts shoud be made subsequently to find the resources for its implementation, or examination should be made first in regard to the finance that will be available and then the Plan should be drawn up within the limitation of the resources that could be found. For all practical purposes, the Plan is there. The outlay involved in the Plan is Rs. 7,500 crores for the Public Sector and Rs. 4,100 crores for the Private Sector, i.e., a total outlay of Rs. 11,600 crores. It is, therefore, difficult to appreciate the statement that the Third Plan is a Plan of Rs. 10,400 crores. This is arrived at by deducting Rs. 1,200 crores from the outlay in the Public Sector. It is also difficult to understand why the Current Outlay of Rs. 1,200 crores has been deducted and why Inventories to the extent of Rs. 800 crores has been included and the Plan is called the Plan for Rs. 10,400 crores and not the Plan for Rs. 11,600 crores. When we have to consider the question of finance for the Third Plan, we shall require Rs. 11,600 crores and not Rs. 10,400 crores. One would have, therefore, wished to find some convincing explanation in the Report of the Planning Commission, as to why the figure only of the investments is taken and not the figure of the entire Outlay.

It has been the practice of the Planning Commission, before estimating the amount which could be raised from different sources for financing the projects and programmes of the Plan, to assess the amount that would be

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available as surplus from the revenues of the Central, and the State Governments estimated on the basis of taxation obtaining at the beginning of the Plan i.e., in this case on the 31st March, 1961, during the period of Five years, which could be utilised for meeting the needs of the planned economy. Additional taxation to the tune of Rs 240 crores was levied during the Second Plan period. This additional taxation would certainly bring more than Rs. 1,200 crores during the Third Plan period. In view of the growing tempo of our economy, this amount would be more than Rs. 1,200 crores and in no case less than that. The Planning Commission, however, estimated that the total revenue from the Central and the State Governments over the Third Plan period would be Rs. 9,250 crores. Expenditure, both non-developmental and developmental, would come to Rs. 8,700 crores. The surplus that would consequently be available, will only be Rs. 550 crores from revenue, based on the taxation as it stood at the beginning of the Third Plan.

This naturally raises a question of very vital importance. When additional taxation is levied for the specific purpose of meeting the needs of the Plan, it is the bounden duty of the Government to see that it is not diverted for non-Plan purposes. According to the Report of the Estimates Committee and the statement made in the Economic Survey which is issued by the Ministry of Finance along with the budget papers, almost 1% of the national income, out of this additional taxation, is spent for non-Plan purposes. The Economic Survey of 1958-1959 remarks:

> "Public revenues have increased significantly over the last three years, partly as a result of the measures adopted and partly in consequence of the rise in money income. The proportion of public revenues to national income has gone up from 9.1% to about 10.1% but that rise has been absorbed, more or less, by the increase in non-development expenditure. In consequence, the reliance on borrowings from the public, from the banking system and from abroad for financing the Plan has tended to increase".

The Economic Survey is a document issued by the Union Ministry of Finance. It concedes the fact that 1% of national income is spent on "non-development expenditure" out of the revenues raised by taxation. This means that during the period of the Second Plan, a sum of Rs. 600 crores was spent for non-Plan purposes out of the revenues raised by additional taxation which was specifically raised for meeting the needs of the Plan.

It will be generally agreed that if such large sums are spent away from the revenue raised by fresh taxation for non-Plan purposes, it will defeat the fulfilment of the very object with which the Plan is drawn up.

The Plan Outlay does not include the Committed Expenditure. The planners have estimated that the expenditure, which will be incurred during the course of the Third Plan, on the maintenance of schemes completed by the end of the Second Plan period, will come to Rs. 3,000 crores. This expenditure is outside the Outlay of the Plan. The Plan has stated: "Expenditure on development services and institutions established up to the end of the Second Plan, estimated at about Rs. 3,000 crores for the Five-Year Period, falls outside the Third Plan Outlay shown in Table (2)".

It is, therefore, necessary to realise that the country has to find not only finance of Rs. 11,600 crores for the implementation of the Third Plan, but it has to find also the sum of Rs. 3,000 crores as committed expenditure for the maintenance of schemes completed up to the end of the Second Plan period. It is an expenditure which has to be incurred, as a result of planned economy. This committed expenditure will go on increasing from plan to plan. This is an important aspect of the financing of the plan, which deserves very careful thought.

Let us consider the sources from which finance is raised. Finance is needed for the execution of the programmes of the Public Sector, as well as the Private Sector. We are continuously advised that we should not refer to the Public and the Private Sectors because there is only one sector in the country, viz., the National Sector. However, from the Prime Minister downwards all Ministers have been referring in their speeches to the claims of the Public Sector over those of the Private Sector and to the necessity of reserving certain fields of activities for the Public Sector alone. For instance, recently the Prime Minister emphasised in the Lok Sabha, that "We want to encourage the Public Sector in oil and we are doing so" and added "we do not want the Private Sector to expand at the cost of the Public Sector refineries."

While the Planning Commission deals exhaustively with the sources from which finance should be raised for meeting the needs of the Public Sector, such a treatment is not extended to the important problem as to how finance should be raised for the Private Sector. This is rather unfortunate because the Private Sector cannot raise capital without the consent of the Central Government. Moreover, the Public Sector has got special advantages over the Private Sector in the matter of raising finance under planned economy. The revenue raised by additional taxation can only be utilised for the working of the Public Sector. Such taxation revenue cannot be made available and is not available to meet the requirements of the Private Sector. Deficit financing is another source from which the Government can meet the needs of the Public Sector. That is not available to the Private Sector. This makes it perfectly clear that the field of saving from which the Private Sector can draw is not co-terminus with the field from which the Public Sector can draw the finance which it needs.

It will be interesting to note that out of an outlay of Rs. 1,960 crores in the First Plan in the Public Sector, the sum of Rs. 575 crores came from taxation, which meant nearly 29% of the Outlay. During the Second Plan period, Rs. 1,002 crores were drawn from taxation to meet the outlay of Rs. 4,600 crores. This meant 22% of the total outlay. So far as the Third Plan is concerned, the sum of Rs. 2,260 crores would, as estimated today, come from taxation for meeting the outlay of Rs. 7,500 crores of the Public Sector. This means 30% of the total outlay. When we shall come to the end of the Plan period, we shall find that this amount would have increased very substantially. Anyhow, the broad fact remains that the Public Sector will not have to pay any interest on the 30% of the amount invested in it since it comes out of the revenues raised by taxation. That is not the case with the Private Sector. When, with the permission of the Government, the Private Sector raises capital, it has to remember that it will have to pay dividend to its shareholders. If such a dividend is not paid, no capital would be forthcoming. We should, therefore, bear in mind this vital distinction between the nature of financing of the Public Sector as contrasted with the nature of financing of the Private Sector.

In addition to the financing of the Public Sector from the revenue raised by taxation, which is not available to the Private Sector, the Government has also resorted to deficit financing. During the course of the First Plan, the amount raised by deficit financing came to Rs. 531 crores. During the Second Plan, it was Rs. 948 crores, or say, 20% of the Outlay. During the Third Plan, this amount has been estimated at Rs. 550 crores. It is too early to know what it would be when we reach the end of the Third Plan.

Let us examine what additional taxation is going to be levied during the Third Plan period for raising the finance necessary for the Plan. The balance from current revenue, that is excluding the revenue to be raised by additional taxation, would be Rs. 550 crores. Additional taxation to be raised by the Central and the State Governments would come to Rs. 1,710 crores — Rs. 1,100 crores from the Centre and Rs. 610 crores from the States. Let us, however, examine the extent of the taxation that is already levied during the first three years of the Third Plan. Additional taxation proposed in the budget of the year 1961-62 was Rs. 60.87 crores. According to the Accounts for that year, the additional amount of taxation realised was Rs. 184.89 crores. It will thus be noted that there was a rise of Rs. 120 crores over the budget figure of additional taxation. So far as the second year, i.e. 1962-63, is concerned, the additional taxes leveied came to Rs. 60.80 crores. According to the Revised Estimates, this additional taxation would jump up from Rs. 60.80 to Rs. 138.96 crores. The additional taxation imposed in 1963-64 is Rs. 275.50 crores. This does not take into consideration the amount to be raised under the Compulsory Deposit Scheme. Even if no further taxation is to be levied during the next two years of the Plan, on the actual performance up to today, it is estimated that the additional taxation which the Central Government would be able to raise would come to Rs. 2,400 crores against the sum estimated in the Plan of Rs. 1,100 crores. This view receives further support from the statement made in the recent report by the Central Board of Directors of the Reserve Bank of India. They remark that "**the performance of the Centre in the field of additional taxation has already exceeded the five year target laid down in the Plan**".

While the amount of the direct and indirect taxes levied by the Central Government in 1951-52 came to Rs. 505 crores, the realisation, by way of taxation, estimated in the year 1963-64 would be Rs. 1,469.71 crores. This is nearly three times the taxes which were being paid at the beginning of planned economy. In the same way, while the direct and the indirect taxes levied by the States brought Rs. 228.40 crores in 1951-52, they would yield Rs. 597.30 crores in the year 1963-64. It will be clear that the estimate of the revenue to be raised by taxes by the Central and the State Governments in the budget year 1963-64 is placed at Rs. 2,067.01 crores today. When the actual accounts will be struck, it wil be found that there would be a fairly substantial rise in this amount. In any case, the people of the country are paying today about Rs. 50/- per head as a result of taxes levied by the Centre and the State Governments. This does not take into consideration further levies which are made by other authorities.

The observation, which was recently made by Sir A. Ramaswami Mudaliar, in this connection, deserves careful thought. He remarked: "The sources of the capital market had been exhausted and entrepreneurs were unable to raise funds from the public. The real reason for this sorry state of affairs was that with high taxation and high prices of essentials the citizens have practically nothing left to invest. Under the present dispensation, the consumer was the last man thought of."

It will, therefore, be not possible, on a careful study of the existing situation to differ from the widespread feeling and opinion in the country that the policy of taxation of the Central Government needs radical revision.

One can understand that the framing of estimates of the revenue, to be raised by taxation, is not always an easy task. At the same time, it must be recognised that the policy of underestimating the revenue should not be allowed to continue year after year. According to the figures given in the Explanatory Memorandum, it is found that during the course of eight years from 1950-51 to 1957-58, there has been, on an average, a regular windfall of Rs. 50 crores in the revenue, year after year. This windfall reached the figure of Rs. 111 crores in 1960-61. It is often said that the Finance Minister cannot visualise all the factors when he makes the budget and, consequently, there is no fault in budgeting, when there has been a windfall. While it may be so when the Finance Minister presents his budget, it cannot be denied that he is aware of the result of the revenue received and the expenditure made for 10, if not 11 months, when he introduces the revised estimates. It will, therefore, cause not a little surprise that when the Revised Estimates were presented for the year 1961-62, the small surplus of Rs. 27 lakhs turned into a big surplus of Rs. 33.96 crores. When, however, the accounts were struck, this surplus went up to Rs. 124.85 crores. This shows that there was a rise of over Rs. 90 crores in the period of a month or at the most two months. The actual rise in the revenue came to Rs. 124.58 crores in the year 1961-62. It will, therefore, be recognised that this continuous system of under-estimating the revenue requires very careful revision. It is unfortunate that while the Finance Minister deals with the budget estimates and the revised estimates in his annual speeches, he makes no reference whatsoever to the actual results, when the accounts are struck.

The problem which has been causing us, however, very serious anxiety and which has developed into a crisis, is the amount of foreign exchange that we need for meeting the requirements of the Plan. There are only two important ways in which foreign exchange can be acquired. The first is by maximising the exports of the country and the second is by securing foreign assistance. There can be no question now of drawing upon our Sterling Reserves. From Rs. 1,700 crores at the beginning of our Independence, they have now seen the rock-bottom of nearly Rs. 97 crores. There will be also practically no income now either by way of interest or by way of dividend from our foreign assets. We shall have, therefore, to ignore these sources from which we were obtaining some foreign exchange up to now.

It is estimated that India will require Rs. 3,200 crores, by way of foreign exchange, for meeting the needs of the Third Plan, as well as for the purpose of importing foodgrains which she needs. According to the arrangements made, the sum of Rs. 600 crores will have to be paid for the import of foodgrains. Consequently, the amount of Rs. 2,600 crores will only be available for meeting the requirements of the programmes and projects of the Plan.

Before we consider whether that amount will be sufficient for enabling the country to carry the Plan through or not, let us examine what our experience has been so far as the working of the Second Plan was concerned. In determining the amount of foreign exchange that will be available to the country, the Planning Commission first estimates the amount that the country will have to pay for its imports and the amount that the country will be able to earn from its exports. It was estimated that during the Second Plan, while the exports would bring Rs. 2,965 crores, the country would have to pay for its imports Rs. 4,340 crores. With the earning of the invisibles to the extent of Rs. 255 crores, the gap that will have to be filled in would remain at Rs. 1,120 crores. This deficit of Rs. 1,100 crores was proposed to be financed by utilising Rs. 200 crores from our Sterling Reserves, by the inflow of Rs. 100 crores as private capital and by securing Rs. 800 crores by way of foreign assistance. The calculations went completely wrong. It will be interesting to note that the Third Plan has made the following admission in this connection:

"The adverse foreign exchange situation that developed during the Second Plan was due partly to underestimation of direct foreign exchange requirements of the Plan and partly to failure to take into account sufficiently the growing urgent needs of a developing economy."

As mentioned in the Third Plan, our imports went up from Rs. 4,340 to Rs. 5,360 crores — a rise of over Rs. 1,000 crores. As regards exports, they came to Rs. 3,053 crores against the estimate of Rs. 2,965 crores. Thus, there was a rise in the gap of the Balance of Trade of Rs. 932 crores. The result was that we had to withdraw Rs. 600 crores from our Sterling Reserves instead of Rs. 200 crores,as originally estimated. In addition to this, we had to borrow Rs. 55 crores from the International Monetary Fund and to secure larger external assistance. Instead of finding Rs. 1,100 crores to bridge the gap, the country had to find Rs. 2,059 crores for that purpose. The estimates thus went wrong by almost 100%.

India can ill-afford to forget this bitter lesson of the past. It is estimated that we shall need Rs. 3,650 crores for Maintenance Imports, Rs. 1,900 crores for imports of machinery and equipment for planned projects and Rs. 200 crores for Components and Intermediate Products, etc., i.e., Development Imports. As against this, it is estimated that the exports would bring Rs. 3,700 crores. This would mean, that there would be a gap between the payments for imports and the earnings of exports of Rs. 2,050 crores.

There is another important obligation which the country will have to discharge, that is, the amount of interest that the country will have to pay on its external borrowings and the amount of loans that will have to be repaid. That will come to Rs. 550 crores. This makes it clear that unless the country secures external assistance, other than that secured for the import of foodgrains, to the extent of Rs. 2,600 crores, it will not be able to fulfil the targets of the Third Plan.

The planners have estimated that the exports during the Third Plan would earn the sum of Rs. 3,700 crores. The

Board of Trade has, however, laid down a Schedule of exports amounting to Rs. 3,800 crores in five years. They estimated that the exports in 1961-62 would reach the figure of 680 crores. These exports will go up by Rs. 40 crores every year and they expect that they would reach Rs. 840 crores in the year 1965-66.

But what are our achievements during the first two years of the Third Plan? Exports reached the figure of only Rs. 662 crores including re-exports in 1961-62 instead of the figure of Rs. 680 crores as estimated. In 1962-63, exports rose to Rs. 708 crores which included the exports of the value of Rs. 16 crores from Marmagoa. Even then, they fell short of the estimated figure by Rs. 11 crores. The net result is that India wil have to export goods of the value of Rs. 2,430 crores during the next three years or say, on an average of Rs. 810 crores per year. If India cannot do so—and it is doubtful that it can do so—it will further aggravate and deepen the present acute foreign exchange crisis.

Past experience has also taught us that the imports, which we shall require, both maintenance and development, might witness a rise of about Rs. 600 to Rs. 750 crores. That is, the amount may go up from Rs. 5,750 to Rs. 6,500 crores. That would mean that the country would need a further sum, by way of foreign exchange, of about Rs. 700 crores. The result would be that, as against the sum of Rs. 2,600 crores by way of foreign exchange, the country may require about Rs. 3,500 crores. These considerations will convince every impartial thinker that the problem of finding foreign exchange is a problem of utmost gravity. With the increasing requirements of defence and with the growing needs of development, Delhi will find it a Herculean task to keep the crisis under control and prevent it from becoming more serious than what it is today.

The question of external assistance brings before us very vividly the question of ability to meet our external obligations. India has earned her reputation for honouring her obligations fully and in time. Our Public Debt is rising very fast. It stood at Rs. 2,746 crores at the beginning of planned economy. The explanatory Memorandum, issued by the Ministry of Finance, estimates that it would reach Rs. 9,364 crores by March, 1964. There has thus been a rise of Rs. 6,618 crores in 13 years—a rise of a little over 240%.

One may not take an alarming view of the situation if there was a mere rise in the Public Debt of India. We have to take into consideration two other vital factors: one is the amount of interest on our external debt, which we have to pay; the second is the increasing gap between the interest-bearing obligations and the interest-yielding assets. As regards the payment of interest charges, according to the Ministry of Finance, they stood at Rs. 92 crores at the beginning of the Second Plan. They will go up to Rs. 275 crores at the end of March, 1964. The rise in the interest charges in eight years will come to Rs. 183 crores. This is a rise of nearly 200% in the interest charges which India has to pay. It will be interesting to know that the external debt is estimated to reach the figure of Rs. 1,790 crores by March, 1964 and the interest which will have to be paid would come to Rs. 60 crores. As India has been continuously borrowing from abroad, it will not be difficult to realise that these figures will be constantly rising. This has put us to the serious necessity of borrowing money from external sources, not only for the payment of the interest that is due, but also for the payment of the instalments of the loans borrowed. This is a matter which India cannot lightly ignore. While India is grateful to all foreign countries for the aid which they have been giving and while India deeply appreciates the fact that some of the aid is not only practically free of interest, but will have to be repaid over a period of 50 years, the broad fact, unfortunately, remains that apart from the very sound advice given to her by some of her best friends that aid cannot be always a substitute for trade, she will have to recognise the grim reality that the gap between her requirements and the assistance she is likely to receive may not be fully covered by the end of the Third Plan. We all know that the Members of the Aid-India Club had promised to give assistance to India of Rs. 616 crores for the year 1961-62, Rs. 509 crores for the year 1962-63 and Rs. 500

crores for the year 1963-64. The total of such help, therefore, comes to Rs. 1,626 crores. It is very likely that India will need about Rs. 3,500 crores to fill the gap of her foreign-exchange requirements. It would not be in consonance with the realistic view of the situation that India would be fortunate to secure the sum of Rs. 1,900 crores as help during the remaining two years of the Third Plan. Unless, therefore, our exports show a substantial expansion, year after year, it will be impossible for India to implement successfully the obligations which she has undertaken for execution during the Third Plan period.

As regards the gap between our interest-bearing obligations and our interest-yielding assets, it stood at Rs. 738 crores at the end of March, 1951. This gap will be further widened and will reach at the end of March, 1964, as mentioned in the Explanatory Memorandum 1963-64, the mark of Rs. 1,559 crores. It should not be forgotten that the sum of Rs. 300 crores, which Pakistan owes to India, has been included under the Head of Interest-yielding Assets. As the situation stands, India may not recover even a single rupee by way of principal or even interest in connection with this loan. That will widen the gap still further. Moreover, during the Third Plan, India will have to borrow a fresh sum of Rs. 550 crores for the servicing of her debts. It has, therefore, been estimated by responsible authorities that the gap may widen still further and exceed the limit of Rs. 2,500 crores at the end of the Third Plan. While India would earn nothing on this huge amount, she will have to meet both the interest charges, as well as the payment of instalments in connection with it. Such a situation will naturally cause concern to all who are anxious to maintain India's reputation for honourably discharging her obligations. Under the circumstances, India should carefully bear in mind the implication of the wise observation, which Mr. Eugene Black made, when he remarked: "the under-developed countries in many cases have mortgaged a dangerously high proportion of their future export earnings in the task of paying back their aid debts."

We have dealt with two important sources from which finance can be raised : taxation and external assistance.

We do not propose to refer to other sources of revenue, such as Contribution of Railways, Provident Fund and Steel Equalisation Fund, which it is estimated, will provide finance to the extent of Rs. 470 crores. It is very likely that the contribution, as estimated, will be actually made.

Borrowing from within the country is one of the most vital sources from which finance is raised. The Plan has estimated that the Government would be able to raise Rs. 800 crores from loans from the Public and Rs. 600 crores from Small Savings Programme. It is difficult to say whether this entire sum of Rs. 1,400 crores will be realised or not. During the period of the Second Plan, the market borrowings amounted to Rs. 780 crores. They included, as remarked in the Third Plan, "substantial investments in Government Securities by the State Bank of India out of deposits of PL. 480 Funds as also sizeable purchase by the Reserve Bank". The Report of the Third Plan, then makes the following significant observation: "The net absorption of market loans by the public including commercial banks, but excluding the Reserve Bank, was less than Rs. 300 crores." It means that the fresh money which the Government secured from their loan borrowings during the Second Plan was not actually Rs. 780 crores, but only Rs. 300 crores.

Even the receipts of the recent loans, amounting to Rs. 364 crores, included the sum of Rs. 90 crores from the Reserve Bank of India. That clearly indicates that that is not fresh money which the Government has secured from the savings of the people. In the absence of the fullest statistics of Receipts and Payments, in connection with these internal borrowings, the task of ascertaining the correct position becomes difficult. What the public is really anxious to know is the actual amount by way of new finance which the Government has secured as a result of the floatation of their loans and as a consequence of their endeavours to promote small savings. The Third Plan has stated that these amounts would be Rs. 1,400 crores. It is the duty of the Government to tell the public what the correct position is now and what it would be in the future in this important matter.

So far as deficit financing is concerned, the amount provided in the Third Plan is Rs. 550 crores. It is not a source of finance. It is the creation of money to tide over certain difficult financial situation. As the sum provided is a fairly reasonable one, it is not necessary to discuss this item here.

Another important source from which finance is to be acquired is the surplus of other Public Enterprises. From the context, this naturally excludes the contribution of the Railways. The Plan states that these surpluses represent not only net profits, but they also include — "net accretions to Depreciation Reserve Funds and other Funds of these Enterprises, but the assumption being that these Funds will be utilised for financing the expansion programmes of these enterprises". The Report has wisely sounded a note of caution that the "estimate is tentative as the data on which it is based are not sufficiently firm." It is estimated that Rs. 350 crores will be contributed as surpluses by the Undertakings of the Central Government and Rs. 150 crores by the enterprises of the State Governments.

The question is often asked whether the surpluses, as estimated, will be received. From such data as is available, the presumption is that the amount estimated will not be forthcoming. For instance, let us consider the surpluses which are likely to accrue from the greatest Undertaking by the Central Government, viz., the Hindustan Steel Limited. With a paid-up capital of Rs. 307 crores and a loan amounting to Rs. 357 crores as on 31st March, 1962, the total loss incurred by the Company upto 31st March, 1962, as stated in the Audit Report (Commercial) of the Central Government, 1963, comes to a little over Rs. 40 crores. The loss would have been far greater than this amount, had that Company to pay interest over the loan, which stood at Rs. 357 crores. As the Hindustan Steel Limited enjoys a holiday in the matter of payment of interest for a period of seven years, it is not difficult to estimate how further the existing losses would have swelled had the Company to pay interest at six per cent on the loans granted to it by the Government. The latest figures are that till March 31, 1963, the investment was Rs. 698 crores and the losses were Rs. 61.5 crores.

The question of the surpluses from public undertakings raises a very important question as regards the profits, which these Undertakings should make. We are advised that social justice is the aim of Public Undertakings. Their object is not to make profits. But the Finance Minister stated in his budget speech for the year 1962-63, that "we must get an adequate return on the vast amount of capital we are investing in our railways, power plants irrigation works, fertiliser plants, steel plants and the like. By making past investments pay for future investments, the rate of economic growth can be accelerated. This is the experience of all countries irrespective of whether they rely mainly on the Public or the Private Sectors for development. The Private Sector in India is already relying, to a considerable extent, on the ploughing back of the profits and savings in the Corporate Sector for its expansion. The Public Sector must do the same if it is to play an increasing role in the development of our economy." Thus, the Public Sector wants to follow the Private Sector so far as the making of profits is concerned. If so, why is the Private Sector held up to ridicule, when it wants to make profits for paying interest over its borrowings, dividend to its shareholders, and a fair amount of surplus for its expansion? Let there be no two standards of judgment — one for the Public Sector and the other for the Private Sector. While it is desirable to meet the claims of social justice, in running our industries, it must be recognised, as has been done by the Finance Minister, that neither can the Private Sector nor the Public Sector be allowed to function without earning reasonable profits from which a fair return can be claimed on the capital invested and a fair amount can be retained for the development of the Undertaking itself.

The Planning Commission has stressed the great importance of collection of enlightening data and accurate satistics on which the Plans should be based. Unless they are properly presented and made available in time, the object of a planned economy cannot be achieved. A lot of confusion is created in some of the fundamental matters, as a result of conflicting facts and figures emanating from different Government authorities. For instance, at a time, when we have been passing through very acute foreign exchange crisis, it is of supreme importance that we should have absolutely correct information about our Balance of Trade position. We find, however, three different sets of figures in regard to our Balance of Trade position in three authoritative publications of the Government of India. They are as under:—

Year	Economic Survey	Reserve Bank Bulletin	Report of Currency & Finance
1956-57	-464.3	-229.13	-283.29
1957-58	-609.5	-400.59	-401.26
1958-59	-452.7	-287.20	-331.00

When the figures of the adverse balance of trade for the same year differ by over Rs. 200 crores in different Government publications, as they do in the figures quoted above, it will not be considered unreasonable by anyone to ask the Government to examine the matter closely and set it right in every respect.

There is only one pool of savings in the country. Both the Public as well as the Private Sectors have to draw from it. We should not, however, forget that part of the pool which is fed by the revenues from taxation and money from deficit financing, is not open to the Private Sector. It is also, as the Report says, the policy of the Government that "to a considerable extent programmes of investment in the Public Sector have to be financed by channelling into the Public Exchequer part of the aggregate saving, arising in the Private Sector." Moreover, not a rupee can be raised as equity capital and not a Pound or a Dollar can be obtained by the Private Sector as external assistance without the express consent and permission of the Central Government. The planners themselves admit the difficulties of the Private Sector in these matters when they say in the Report that "shortages of foreign exchange and of power are likely to impose throughout the period of the Third Plan limitations on the free growth of the Private Sector such as have only begun to be seriously felt during the closing years of the Second Five Year Plan." Further, the Government allows first the Public Sector to quench its thirst from the water contained in the common pool of savings. Private Sector can drink water from that pool only after the Public Sector has drawn its requirements. The situation is further aggravated by the unprecedented taxation that is imposed upon the country. If about a thousand crores of rupees are drawn away from the market by taxation, loans, small savings, Emergency Risk Insurance, contributions to the National Defence Fund, etc., in the course of a single year, it does not require any serious study to come to the conclusion that very little will be left for others to obtain from the market to meet their requirements. The Central Board of Directors of the Reserve Bank has made it clear in the recent Report that "over the entire Plan period, the total yield from the various measures of additional taxation undertaken by the Central Government during the first three years of the Third Five-Year Plan would be around Rs. 1,900 crores." Further, "additional taxation at the Centre and the States during 1963-64 (B.E.) is expected to raise the ratio of the Central and the States tax revenues to National Income from 9.6% at the end of the Second Plan to over 13%." The implications of these frank, categorical observations of the Directors of the Reserve Bank lends unquestionable support to the general view in the country that the limit of taxation has been reached and it would be unfair to call upon the people to undergo further sacrifices.

Although nationalisation of banks may not be now immediately on the anvil, there is every possibility of the ideology of the Government leading to this drastic step for acquiring and controlling large sources of finance like the one which was acquired and controlled when life insurance was nationalised. If such an unfortunate thing happens, the Private Sector will be deprived of its real sheet-anchor which supplies it with the finance which it badly needs to keep it going. The great role which the scheduled banks play in sustaining the economy of the Private Sector will be realised when we know that even at the peak of the season when the Bank advances reached the figure of Rs. 1,630 crores, the amount granted to industry formed 54% of that amount. The Private Sector and democracy will be in danger if banks are nationalised, and the people have to look to the Government alone for the finance which is required.

While the paramount need of the day, as recently observed by the Finance Minister is, therefore, "that of stimulating the rate of growth of the economy" and of enlarging "the pool of available resources" the conviction is growing all round and among all shades of opinion that this cannot be achieved unless the Government faces boldly the existing situation and makes such changes in their fiscal, taxation, credit and other economic policies, as would not only strengthen the defence of the country, but would also enable the Private Sector to play its vital role vigorously and successfully in building up a strong and prosperous India of tomorrow.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff