

Prof. D. R. Gadgil

**PLANNING & ECONOMIC
POLICY IN INDIA**

59



This is an enlarged and revised edition of the earlier publication *Planning and Economic Policy in India* by D. R. Gadgil. It contains a series of notes, memoranda, etc. connected with planning in India and the policy of Government, written by Prof. Gadgil from the beginning of 1955 to the end of 1966. The three articles, 'Notes on Rural Industrialization', 'Monopoly and Concentration', and 'Planning Without a Policy Frame', published elsewhere between 1964 and 1967, and a radio talk on 'Devaluation', in July 1966, are new additions. The article on planning was presented in a seminar towards the end of 1966 and published in 1967,—only some months before Professor Gadgil assumed responsibilities as Deputy Chairman of the Planning Commission.

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Enlarged & Revised Edition

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AND ECONOMIC POLICY
IN INDIA**

D. R. GADGIL

**GOKHALE INSTITUTE OF POLITICS
AND ECONOMICS
POONA 4**

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PREFACE

This is an enlarged and revised edition of our earlier publication *Planning and Economic Policy in India* by D. R. Gadgil. It contains a series of notes, memoranda, etc. connected with planning in India and the policy of Government, written by Prof. Gadgil from the beginning of 1955 to the end of 1966. The three articles, 'Notes on Rural Industrialization', 'Monopoly and Concentration', and 'Planning Without a Policy Frame', published elsewhere between 1964 and 1967, and a radio talk on 'Devaluation', in July 1966, are new additions. The article on planning was presented in a seminar towards the end of 1966 and published in 1967,—only some months before Professor Gadgil assumed responsibilities as Deputy Chairman of the Planning Commission.

Gokhale Institute of
Politics & Economics,
Poona 4
April 1, 1972

V. M. DANDEKAR
Director

FOREWORD

THIS PUBLICATION contains a series of notes, memoranda, etc. written by me since the beginning of 1955 all of which are connected with planning in India and the policy of government. A large number of these were written for the Panel of Economists of the Planning Commission. Most of the notes, memoranda, or articles were written at somewhat short notice, and they examine problems chiefly from the point of view of formulation of practical policies. They are presented together in this publication and reprinted because of a variety of considerations. They might give the reader an idea of the level at which an economist in India, advising government in connection with planning, works or has to work. Special attention may be drawn to two aspects of this operation. For the most part, the panel of economists and its members did not work in relation to specific problems presented concretely for their consideration and it was not possible for them to take for granted definitive government policy decisions in the context of which plan developments could be analysed or projected. The first paper in this publication raises a number of issues in relation to policy, which appear relevant to the making of plans. It is no exaggeration to say that, in relation to a majority of the issues so raised, no firm decisions have been reached even today.

My main justification for reprinting the papers written on specific occasions over the last six years is that the problems discussed in them and the issues raised seem to be still with us in much the same form today. In almost every direction little progress in action or in thinking can be noticed. For example, in a number of contexts, the problem of distribution of wealth and income has been discussed in these papers. The view has been expressed that instead of any movement in the direction of more equal distribution, indications are that the distribution in, at least, some respects has become less equal than that before. It is easy to demonstrate *a priori* grounds why this should happen with forced development, unless effective precautionary measures are specifically undertaken. However, as such reasoning may appear of doubtful validity, I have tried, in different places, to indicate bits of supporting evidence. The evidence is scanty and its scope and quality have not improved with time. For example, after adducing figures of annual average factory earnings, etc. from 1951 to 1957, I ventured on the suggestion that it was likely that this had fallen in real terms since 1957 (pp. 135-6). It should have been possible to check this statement a year later. Unfortunately, the data in the latest issue of the *Indian Labour*

Journal (October, 1960) do not make it possible to compare the all-India position even in 1958 with that of 1957. I had also expressed the hope that data with the Pay Commission might throw light on the position of the salariat during the Second Five-Year Plan period (p. 136). The report of the Commission (the Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees, 1957-1959) does not contain any information in this regard. Reference may, however, be made to an interesting study attempted by the Commission, which has relevance to problems of distribution. The Commission made a detailed study of information relating to salaries and other emoluments of persons employed in the private sector. The latest year for which data were available to the Commission for this detailed study was 1956-57. The main purpose of the Commission's study of the data was a comparison between earners of high salaries in the private sector and those in government employment. Incidentally, however, the Commission also instituted a comparison between the highest salaries and the lowest wages in the private sector; the results of this are set out in the report in the following terms:

"The disparity ratio between the highest salaries and the lowest wages in the private sector is also far higher than in the Central Government sector, and has, moreover, increased considerably since 1948-49. The table below brings this out:

Table IX

(Income per annum in Rs.)

	1948-49	1956-57
<i>Category</i>		
I. Total emoluments of an unskilled worker:		
(a) Cotton Textiles, Bombay	999	1,185
(b) Jute Textiles, W. Bengal	702	806
II. Average post-tax salary income of the highest salary earners	77,250	2,86,929
III. Disparity ratio		
II : I (a)	77	242
II : I (b)	110	356

The valid comparison is with wages in jute and not cotton textiles, and in fact even the jute textiles wages are not the lowest in organized industries. We have, however, made a comparison also with the wages of an unskilled worker in cotton textiles in Bombay because they are about the highest wages which an unskilled

worker gets in the private sector. And we should invite attention to the fact that we are all through this chapter referring to incomes of purely salary earners in the private sector; earnings in other forms at the top levels of that sector are higher." (Report pp. 82-4).

It is good to note that government has recently appointed a high-power committee to examine aspects of questions of distribution of income and concentration of economic power. It is, however, too much to hope either that the findings of the committee would be available at an early date or that they would have any important effect on the speed with which or the direction in which policy is made.

Another important problem which has been repeatedly discussed in these papers relates to movements of prices and inflation. I may take this occasion to make clear what I mean when I say, in a number of contexts in this publication, that the Indian economy was not operating, during 1957-59, under heavy inflationary pressures. As the general exposition in the various notes, etc. will make clear, it was never my intention to suggest either that no type of inflationary financing was currently being undertaken or that such inflationary financing would not have some effect on the operations in the economy and on prices. My remarks about inflationary pressures in particular contexts have to be interpreted as subject to assumptions regarding adoption of appropriate policies that were in the background. The memorandum submitted by the Panel of Economists on the Second Five-Year Plan had laid down very clearly the general approach to policy-making needed with the size and type of the plan envisaged, and had indicated many specific measures that might have to be undertaken during the Second Five-Year Plan period. My notes and memoranda were presented against this background. When I say therefore, in any context, that heavy inflationary pressures did not exist, what I meant was that inflationary pressures were not so heavy as could not be effectively coped with by appropriate policy-measures. My whole contention regarding the operation of the Second Five-Year Plan, in its first three years, was that it was neither the size nor the structure of the plan but the failure of policy, especially in the context of the foreign-exchange plan and of the prices, procurement and distribution of food that were responsible for the relatively bad performance.

In this context, I confess that I do not feel satisfied with the analysis and discussion of price situations presented in the various notes and memoranda included in this publication. To a large extent, they are partial and superficial. At the same time, I feel that it is difficult with existing information and in the existing state of

economics to achieve a much more satisfactory job. What I mean may be made clear by reference to a particular subject, e.g. analysis of prices of food-grains in India. The Indian market for cereal food-grains is not even notionally a single market. The markets for the main cereal food-grains of general consumption in various regions of the country, viz. rice, millets and wheat have little direct connection with each other. As wheat is known to be not an acceptable substitute in the rice region there is not much point in taking the aggregate production of rice and wheat together and relating the total to another series. Wheat may, however, have some direct influence on the markets for millets. This is only a part of the complication. The behaviour of prices in the deficit areas and the surplus areas may vary greatly, and this may be peculiarly so where administrative regulations intervene. The fact that the bulk of supplies of cereals are grown within a small number of months and that on this account operations on part of producers and traders can vary greatly, from time to time, the available supplies in the market in an area or during a part of the year, further complicates the problem of price analysis. Bans on movements, in particular, may increase, in a considerable measure, the average levels of stocks of cereals in the hands of producers and traders and thus effectively withdraw a part of the supplies from the markets, especially when there is a rising trend of prices. Part of the supplies may also be moved not through regular channels but by smuggling along prohibited frontiers. All this emphasizes the need to pay close attention to possibilities of the technical relation between supply and demand at particular times and places being manipulated by certain classes and practice of such manipulations on a large scale having a cumulative and quasi-permanent effect on the situation. I am in these notes concerned with pointing out that there is a world of difference between an initial inflationary movement creating a situation where producers, speculators or traders could operate successfully to raise prices only in the absence of appropriate government action and continuous and heavy inflationary pressures creating a situation which even properly administered and intelligently conceived government policy is unable to cope with. The usual models, abstractions or simplifications to which economists resort are far too simple for situations described above, and reasoning based on such simplifications cannot yield causal explanations and can have little significance for policy decisions in such contexts. The review of the analysis of rise in prices attempted by the Food-grains Enquiry Committee (Report, Chapter IV) which was specifically charged with this work exhibits how general, superficial and largely subjective such analysis tends to be. The defect is in both directions. The statistical data relating to production, stocks, surpluses, turnover at various markets,

costs, charges in a variety of contexts are all very meagre for presenting a full narrative of total developments, and also it is not possible to undertake, with objective assurance, an adequate analysis of the variations in movements over years in such imperfect and disjointed markets subject to a variety of external interferences and with possibilities of cumulation of effects. In the event, one is forced to take an overall view, with the help of some essentially subjective valuations of the importance of various factors; the result is an analysis which is to a very large extent a matter of personal judgement. There is little doubt that what I say on questions of prices and inflation, among others, in these notes is, in this particular sense of the term, just personal judgement. All that I can plead is that all other attempted analysis is also in the same category and that because of somewhat extended experience in the matter and because also of natural personal vanity, I continue to place some faith in my own judgement.

Decentralization with emphasis on small-scale industries has been an accepted principle of planning in India all these ten years. In relation to production in traditional industries a committee of the Planning Commission formulated an approach in 1956 which was accepted in the Second Plan. However, during the last five years, little effort seems to have been made to operate according to that approach, and developments in various spheres have taken different directions. As a result, the idea of a common production plan has receded more and more into the background, and the reasonable aim of preventing technological unemployment, while at the same time improving techniques, has been lost sight of. In consequence, present policy in this field has neither a firm basis nor definite direction. The Khadi Board's most conspicuous success during the Second Five-Year Plan period appears to have been in preventing co-operative processing societies making headway in directions like rice milling, oil expelling and indirectly reserving this sphere for private operators. The situation in administration and public sector management appears as unsatisfactory as before. The stranglehold of the single administrative service on all undertakings managed by departments and statutory bodies has not been loosened at all, and no imaginative policy either of recruiting or training managers for public industries has been evolved.

All of this raises the fundamental question as to the extent to which in conditions like those of India planning can be said to be in operation. Critical studies of communist planning have recently pointed out limits under which planning even in these highly centralized economies works. The following quotation presents a possible approach towards understanding the operation of these economies :

very large coercive authority and also has wholehearted support of, large or small, strategically placed sections within the population, it can, in part, through education and propaganda and, in part, through force, bring about considerable changes in habits of living, patterns of work, standards of consumption, levels of savings, and directions of investment within a relatively short period. The absence of large powers of enforcement and of wholehearted support of particular sections of the population has to be compensated for by a larger degree of foresight, intelligence, and efficiency in planning and by greater understanding and willing support on the part of generality of the people. The largest difficulties of Indian planning today seem to arise from these needs of the situation. It is the doubtful quality of the leadership in planned effort and its failure to evoke adequate public response that appear to be at the centre of the existing problem.

Attention may be drawn to particular features of the existing situation. Firstly, there is the heterogeneity of the Indian social structure. The wide extent of the country, the diversity of linguistic and cultural groups, the rigid stratification and social isolation created, in particular, by the caste system, all make it difficult to establish a unified view of government policy and its operations. Inevitably, each region, group or class is bound to look at government activity and policy from the point of view of immediate effects on own interest. All this holds good not only in relation to the large inactive masses of people but also, and in particular, in relation to the classes and groups in authority. Whatever their professions these do not in effect appear to be guided in policy or action, by any broad social objectives or overall national tests. A great number of policy decisions, and even more their absence, in relation to Indian planning, can only be explained reasonably in the light of interests of classes or groups in power. The deliberate shilly-shallying about food policy has no meaning except as arising out of the desire to protect the threatened interests of the rural moneylender-trader and the grain wholesaler who even today form an important part of the base of the Indian capitalist class. In the same way the foreign-exchange debacle of 1956-57, the continuance of *ad hoc* licensing policies for export and import quotas with the large speculative gains which they flagrantly make possible, the two-fold misdirection of the plan involved in the special licensing of imports of industrial capital goods and materials in the supposed interest of promotion of exports, all these appear related more closely to profits of private groups than to national development policy.

An interesting recent illustration is afforded by the decision to make a free port of Kandla. It has to be noted that the decision is outside the plan and it has never been made clear how it is related

to plan-objectives and plan-targets. It will lead obviously to creation of another heavy concentration of industrial activity, while the plan-objectives are presumably for lessening such concentration. The resources for industrial development in this new concentration could be obtained only by withdrawing them from elsewhere. Moreover, the concentration is sought to be created in a completely new centre situated in an extremely sparsely populated area. Obviously, if an experiment with a free port had to be made, it should have been made in an existing port area with heavy unemployment around it, such as Cochin and not in the desert at Kandla. The particular decision can be explained and understood only in the light of the present balance of politico-economic power in the country.

The heterogeneity of socio-economic structure and the concentration of politico-economic power heavily misdirect policy decisions and as a reaction of this a strong suspicion is created among the mass of the people about neglect or worse of their interests. A plan of development in a poor country like India involves above all some hardship and considerable self-restraint, at least in the initial stages. The willing acceptance of hardships and self-restraint can come about only if there is a feeling of common purpose, common interest and common sharing. Such a feeling appears totally absent in the country today. Most overt developments are against the possibility of creation of such a feeling. In relation to consumption standards of the rich not the least extent of physical controls or deprivation are attempted by government. The attempt to operate a plan with most of large organized business in the private sector has led to adoption of a policy of incentives for savings by the rich, which leads inevitably to heavy concentration of economic power and can result in adequate savings only after the highest standards of living attainable by the rich have been reached. The results of present policies are reflected, in the biggest cities in India, by the increase on the one hand, of the number of slum and pavement dwellers and, on the other, of amenities like air-conditioning and the mushrooming of places of feeding and entertainment on the most extravagant international standards.

The dilemma faced by the country and the attitudes of the ruling classes, including the top civil servants, may be illustrated by reference to the recent report of the Central Services Commission. Discussing the proposal that the highest salaries in government service may be scaled down, the Commission refers to the fact that, since 1948, the relative position of salary earners in the public and private sectors had changed radically and a very large increase had occurred in the number of salary earners with incomes exceeding Rs. 40,000 per annum in the private sector. The Commission remarks: "It is obvious that the higher salaries in the private sector are determined by wider economic factors and the state of particular

business or industry; and in some cases, it seems even circumstances outside the country influence those salaries. The concerns controlled by foreigners pay to their non-Indian employees salaries comparable to what those employees might get in their own country; and the rates so determined for non-Indian employees in turn influence the rates fixed for Indian employees." (Report p. 82). Because of this, the Commission recommends that the highest salaries paid by government could not and should not be reduced. This interesting exposition together with details of the levels of private salary scales given by the Commission brings into relief an extremely important aspect of the operation of Indian economy. The largest units in private industry and trade in India pay their highest employees salaries comparable to those paid in the most developed and the richest countries of the world. And these scales of salaries affect levels paid to top employees in other parts of private Indian business and the highest salaries in government. Influence in the same direction is exercised by salaries paid by International organizations which also recruit some members of this class in India. We have thus a situation in which the standard of living and consumption not only by private businessmen but also of the highest-salaried employees in the private sector in India are fixed in relation to or at least oriented towards the levels obtaining in the richest countries of the world.

The reverse of this picture may be brought out also by pointing to another recommendation of the same Commission. In relation to the demand that the dearness allowance given to the lowest-paid government employees should automatically compensate for a rise in price, the Commission records categorically that it would not "place Government under an obligation to compensate any class of their employees to a particular extent in the event of a rise in the cost of living." After which, it proceeds to express its sympathy with the plight of this class in the following cautious and deliberately ineffective terms: "A substantial and persistent rise in prices normally creates a *prima facie* case for compensation and it should be the government's endeavour not to allow the standard of living of their employees in the lower ranges of remuneration to fall."

Many foreign experts who take a naturalistic view of stages of economic growth are apt to tell Indian critics of private Indian business that India is at present in the age of tycoons and that this will inevitably pass. Whatever that may be, it should be observed that in no country can tycoons possess the moral leadership required to evoke from the mass of the people willing self-restraint in national interest. The intelligentsia, including the professionals and the top salariat, who formerly commanded wide respect are also fast losing it because of their exorbitant claims on the national product and increasing association with private business. The rot has progres-

sively spread to political leadership. The full situation in this respect is to a certain extent masked today by the fact that political power is overtly in the hands of certain national leaders with a historical background. The most prominent of these were leaders of national political struggle in which their capacity for sacrifice and for objective national leadership was tested and proved. This fact has been helping the Indian government to a large extent during the last ten years. However, it is obvious that neither this leadership nor the hangover from the previous epoch can last for ever. In the not-too-distant future, there is bound to be definite confrontation of the actual possessors of politico-economic power in the country, the large business interests, the top administrative and professional groups and the political parties supported by them with the mass of the common people, and such a confrontation would have very serious results for the plan and for stability and order in the country. Such a situation could be avoided only if political leadership becomes more intelligent and more progressive. The present crisis is essentially a moral crisis. If those in power can regain moral authority, which they can do only by showing some convincing overt signs of their sincerity and sacrifice for planned development of India on democratic lines, the mixed economy may still prove practicable. If not, the last abortive strike of the central government employees may prove to have been only the first in a series of disturbances and conflicts that may shake the country.

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November 5, 1960

'The Public Interest and Unscrupulous Big Business'.

'Monopoly and Concentration

The Agricultural Labour Committee of the Plan Consultative Committee of the Maharashtra State for the note 'The Problem of Agricultural Labour' submitted to them.

The Nagpur University for: 'Socio-Economic Situation in India—Convocation Address'.

Rehovoth Conference on Comprehensive Planning of Agriculture in Developing Countries, Israel, 1963, for: 'Successive steps in Planned Agricultural Development'.

The Planning Commission for: 'Notes on Rural Industrialization' submitted to the Rural Industries Planning Committee.

Monopolies Enquiry Commission for: 'Monopoly and Concentration'.

All India Radio for: 'Devaluation', a talk given to them in July 1966.

The Editor, *Economic and Political Weekly*, for: 'Planning Without a Policy Frame'.

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NOTES ON THE GOVERNMENT OF INDIA'S FIRST FIVE-YEAR PLAN *

THE FOLLOWING are brief notes on the draft outlines of the first five-year plan. They are intended to bring to notice certain important gaps and points of criticism. For a variety of reasons no attempt has been made to argue out the points elaborately.

In these notes the plan has been examined chiefly from three points of view. (1) The programme of investment that has been set out and the manner of its determination; (2) Measures proposed for attaining targets and production plans, their adequacy and efficiency; (3) The social directives in the Indian Constitution and the possible economic and social results of the plan.

1

The main investment outlays are concerned with agricultural production; and chief among these are the irrigation and power schemes. It is not clear how the list of irrigation and power schemes included in the plan was made up. There could, for example, be two important criteria used in locating expenditure on irrigation developments. Firstly, expenditure on irrigation works could be concentrated in regions where insecurity on account of scarce or uncertain rainfall is heavy; or expenditure could be concentrated in regions where additional production brought about because of investment in irrigation gave the largest returns. In practice, some consideration may be given to both these criteria.

An examination of the actual works finally included in the five-year plan in relation to, for example, Bombay State, shows, at least apparently, a disregard of both these criteria and can be explained in relation to no obvious tests on which the final decision could be supposed to have been based. The statement (*not reproduced here*) sets out the projects in what was the central division of the Bombay Province included in (1) the post-war plan of reconstruction in Bombay Province published by the Government of Bombay in 1944, (2) post-war reconstruction in Bombay Province five-year plan 1947, and (3) the proposals regarding the same area contained in the first five-year plan. It should be noted that this area contains one of the most extensive tracts of Peninsular India liable to famine. Irrigation expenditure in this tract secures not only protection but

* Submitted to the Planning Commission in September 1951, published in *Economic Development and Cultural Change*, Chicago, March 1952.

also leads to increased production in a specially large measure per acre because of the low utilization capacity previous to irrigation. Both these special advantages have been recognised since the days of the Irrigation Commission (1900) and a large number of projects have been in an advanced state of preparation for a long time. The entire elimination, progressively since 1944, of irrigation works in this tract, excepting for one work on which nearly one-third of total expenditure has already been incurred, is presumably based on reasons which have nothing to do with economic or social objectives. The plan, no doubt, contains figures about the number of areas proposed to be irrigated by each work and it may be supposed that these together with the cost estimates may have formed the basis for determining priorities. Such an assumption would, however, be unwarranted. It is well-known that even the technical and engineering aspects of many of the works included in the plan have not been prepared in full detail. A land utilization plan for the area under command after completion of irrigation was not undertaken even in the past, when the engineering plans were prepared in a more leisurely and thorough manner; and an assessment, of economic benefits, it is safe to assume, has been attempted for no work. The area figures, therefore, represent calculations with no real agricultural or economic significance.

An additional criterion for investment expenditure on development could be disparity in regional development. The poorer regions should obviously be allotted special priority in development investment if such investment can profitably be made in them. From this point of view again the allocations made in Bombay State are difficult to understand. The Bombay State allocations have been specially referred to because I have personal knowledge of comparative conditions within the state. Nothing is, however, said in the plan to indicate that in framing the plan of irrigation investment in other areas also any set of criteria or tests had been adopted.

What is said regarding irrigation seems to apply equally to investments for generating electric power. The study of economic effects of irrigation may not be always considered essential as it is presumed that an increased and secure water supply is bound to benefit every tract (the proposition is, of course, not universally true). In case of electric power, however, a study of the possibilities of economic use as related to cost is of the utmost importance. It is only if, for either agricultural or industrial purposes, a considerable amount of electric power generated in a particular place can be utilised profitably in the neighbouring region that an investment for its generation is immediately justified. In the absence of such utilisation what will happen is either a waste of investment resources or an unprofitable

diversion of electric power from the centre of production to the nearest large city centres. A plan of development of electric power which is not integrated with a plan of development of industries with special reference to their location is thus completely meaningless. At present, investment in electric power generation appears to be proposed merely because certain engineering possibilities exist. Obviously in this respect as in schemes of irrigation, a series of criteria and tests must be laid down for testing priorities of investment expenditure.

A necessary corollary of generating electric power in regions where there is no demand for it or where *pari passu* proper industrial development is not planned is that the power is diverted to distant centres of existing industrial concentration. This further intensifies regional disparities by diverting the developed resources of backward regions for the increased benefit of the already well advanced. Thus here as elsewhere in the plan it is assured that those who have, get more.

Another aspect of plans of irrigation and electric power development is the planning of the subsidiary and ancillary works that are necessary for the proper utilization of water and electricity. It has been the experience both in India and the U.S.A. that without the previous planning of such works an unnecessarily large time elapses between provision of water and electricity and its full use, and even when full utilization is reached, it does not, when left to chance, necessarily take the most desirable directions. It does not appear that this aspect of the problem has been at all attended to in the schemes drawn up for the five-year plan.

We may next consider another main aspect of investment expenditure, that of industrial investment. A plan for industrial investment may be framed in relation to a number of criteria. These criteria, it may be expected, will be explicitly stated in the plan for the first five years, of what is presumably a long term development process.

There is some discussion of priorities in planning in the sphere of industry, chiefly from the short period point of view, in the plan. From this discussion it would appear that the development of producer goods industries is related chiefly to the development plan of agriculture, irrigation and electricity. Curiously enough, generation of electricity itself is nowhere considered as having special significance only in relation to a plan of potential industrial development. Even with a recognition of the fact that conditions in India are favourable for the expansion of steel, cement and fertilizer industries, no substantial provision for investment in these industries is made in the plan. Similarly though it is recognised that the development of other producer goods industries is useful from the

point of view of establishing some sort of balance in the industrial structure, no special provision for the expansion of these industries has been made. The same gap is evident in relation to pig iron, though the report places more emphasis on it. As a matter of fact, the additional industrial investment visualised in the plan is very limited and the increase in production of even important consumer goods industries is to be achieved chiefly by utilization of fuller capacity.

In the entire field of large scale private industry the total new investment is expected to be of the order of Rs. 125 crores. This together with the requirements of the accumulated need for replacements and renovation is expected to require a total investment of about Rs. 250 crores. The figure of Rs. 250 crores is in addition to the Rs. 80 crores that are provided as investment on account of government in the field of large scale industry but is inclusive of an indefinite sum, of the order perhaps of Rs. 35 to 40 crores, which may be provided through semi-official agencies like the Industrial Finance Corporation or directly by government. It is thus clear that the five-year plan visualises only a very limited expansion of industrial equipment or employment and that further it does not plan this development in such a way as to lead to any progressive expansion of employment or an elaboration of the industrial structure in subsequent periods.

In relation especially to a country like India, it is obvious that importance should be attached to an increasingly complex structure of economic society and the generation of a rapidly increasing pace of non-farm employment. The plan of industrial development should properly have been presented in the light of some such general considerations. The fact that it is not so presented makes it difficult to pass an informed judgment on it. In all countries at an early stage of development special emphasis is placed on the rapid growth of basic industries on which the later development of industrial structure depends. (This is emphasized by the almost equally urgent consideration of defence industries.) In countries in which the fundamental conditions are not favourable to the increase of basic and capital goods industries special efforts are made to force their growth. It is thus surprising that in spite of the favourable conditions for production of basic materials such as pig iron and steel no large planned provision is made for their expansion. Thus apart from the details of the plan of industrial development the relative weight attached, in the plan, to agricultural and industrial investments is itself difficult to appreciate.

The picture of the industrial employment plan becomes even more confused and less intelligible when one considers the section on small scale and cottage industries. The total expenditure by gov-

ernment on these industries provided in the five-year plan is less than Rs. 16 crores. At the same time, however, these sectors are relied upon to provide the main avenues of additional employment of the future. The development of small scale and cottage industries is supposed to be capable not only of providing additional employment but also of building up local industries capable of expansion and of developing domestic markets. It is unfortunate that a sector on which so much is supposed to depend is treated most unsatisfactorily in the plan. It would appear from one of the recommendations contained in the plan that the conditions and problems of small scale industries are yet not fully understood and that a detailed survey in which evidently technical assistance from foreign experts may be required is yet to be undertaken. Whatever the results that such a survey may bring forth, attention should have been drawn to certain fairly obvious facts. The basic problem of economic development in a country like India has been described as that of underemployment; and it is the lack of continued employment in agriculture together with its inadequate equipment that is supposed to be responsible for its very low productivity. It needs to be emphasized that the productive efficiency of the small scale and cottage industries is equally low, and that the low product per worker in all cottage and most small industries is also due to inadequate equipment and underemployment. The problem of small scale and cottage industry has to be consequently treated essentially in the same way as that of agriculture; only there are two circumstances which make the task of development of rural, cottage and small scale industry even more difficult than that of agriculture. There are no possibilities such as that of irrigation works in agriculture, of the intensification of exploitation in the field of small scale and cottage industry. Secondly, the position of these industries is being continuously undermined, to an extent unknown in agriculture, by competition of products of large scale industry. The rehabilitation of these industries is thus a delicate problem which has at least three important aspects: (1) finding out ways of technical and economic reorganization which would make production in these industries much more efficient than at present without altering its social character, (2) investment in capital and technical training required to bring about this reorganization and (3) guaranteeing, for a given period, a sheltered market for the product of these industries so as to make the reorganization possible and durable for a minimum period. Without these three steps a proper rehabilitation of small scale and cottage industries cannot be contemplated. Even when all these steps are taken employment in these industries is not likely to increase. All that could be done would be to stabilise the employment by stages at progressively

lower levels but attain, at the same time, higher productive efficiency.¹

Not only is additional employment in small scale and cottage industry difficult to visualise if their productive efficiency increases but also all the three steps indicated above require action and investment which are not visualised in the plan. With the measure of expenditure given in the plan and the steps contemplated in it, an increase neither in employment nor in the level of earnings in these sectors of industry seem to be possible.

II

We may now turn to the production targets set up in the plan and the manner in which they are expected to be attained. It is not our intention to examine whether the estimates of production to be attained are related realistically to the investment programme. Assuming that they are so related we would discuss the means by which it is expected that they would be attained. It is pleasant to note one feature of the draft outline plan which marks a definite advance on official thinking so far. The plan clearly states that for the fulfilment of the objective defined in the plan it is necessary to have a price policy that secures the appropriate allocation of resources and that a structure of controlled prices is an important adjunct of the plan. However, the difficulties of working only with a price plan do not seem to have been adequately realised. It should be obvious that a price policy which is related to certain overall objectives may not fully subserve the detailed objectives of the plan. For example, the maintenance of a given parity between sectional prices and the larger objective of holding and in due course reducing the general price level may not at times be mutually compatible. Moreover, the price policy has to be determined and price relatives fixed for the country as a whole. These relatives may not be fully appropriate for given allocations of, say, crops in each agricultural region. The relative margins and differentials required for diversion of lands between cereals and oil seeds will not be the same in all regions and yet the general price relations will have to be fixed on the basis of certain all-India estimates or averages. In the circumstances, it is clear that the targets laid down in the plan for specific crops cannot be attained until these are broken down for regions and smaller area units and specific supplementary provisions made for their attainment.

The only means of planning agricultural production contemplated

¹ A programme for the creation of small scale industries which are ancillary or subsidiary to large scale machine industries is entirely another matter; but such a programme would be possible only with a properly planned development of large scale industry.

in the plan is that of village production councils. The village production council is obviously not a suitable agency for overall decisions like general regional crop plans or targets of production. Unless crop plans for comparatively large homogeneous areas are worked out in the broad and legislative or other regulatory devices framed for directing cultivation or laying down lower and upper levels of particular crop allocations there is no guarantee that the targets in the plan will be attained. With an area, crop-plan backed by regulatory powers and devices, village production councils may prove useful; but without it the energies of these councils are not likely to be specifically directed, and their performance is likely to vary enormously with local circumstances.

Apart from the direct attainment of crop production targets, attention may be paid to the proposals of the commission for the reorganisation of agriculture. The commission refers to certain measures of land reform like the abolition of Zamindari and the protection of tenants. These questions are of old standing and nothing departing to any marked extent from the trend in previous policies is suggested. The really important aspect of the Plan is that dealing with the reorganization of agricultural production and the productive unit. The three main proposals of the Commission in this behalf are the establishment of village production councils, the establishment of registered farms and the promotion of co-operative farming societies. Village production councils will be chiefly advisory and consultative bodies and will have little direct productive work. The concept of registered farms follows from the case argued out by the Commission against any ceiling on further land acquisition. The Commission argues against the break-up of specially large holdings existing today and the limitation of the possibility of increasing the size of such holdings. It proposes no bar to an increasing concentration of the ownership and operation of agricultural land; instead of preventing increasing capitalization of agriculture the Commission proposes to create a special class of large-sized farms and to treat them in a special way. In relation to the value of production the proposal will depend on the control over production plans and performance of registered farms which the State is able to obtain and the efficacy with which these powers of control and direction are capable of being exercised. The social aspect of registered farms will be considered later.

The number of registered farms and even the total agricultural area controlled by them will at least for a long time, remain small. The main reorganization proposal in relation to agricultural production is, therefore, the proposal for the promotion of the co-operative farming societies. It is no exaggeration to say, that there are today in most states of India, no co-operative farming societies proper in

existence and that the formation of co-operative farming societies has been found to be one of the most difficult problems in co-operative organization. The pooling together of existing holdings of land and forming a joint co-operative productive organization has been realised everywhere to be the most difficult and logically the last step to be taken in agricultural reorganization. There are a number of steps which would have to be taken to increase the income of the agriculturist and to influence his productive methods and efficiency before going on to complete co-operative organization of production. The most serious handicaps of the agriculturists and the largest sources of his loss of material income are the marketing and processing activities. Even in times of boom the largest advantage is obtained by the intermediate merchandising and processing agencies. This can be seen by reference to the rapid increase of wealth of these agencies in various tracts during the last 10 years. Also these agencies are chiefly instrumental through a variety of practices in making difficult the progress of co-operation and the operation of State measures of direction and control in all sectors of rural life. It is surprising, therefore, that the Plan nowhere makes any reference to the important part played by marketing and processing activities in agriculture and the possibilities of reorganization through their being nationalised or being brought into the co-operative fold. A programme of agricultural reorganization must begin by concentrating attention on the reorganization of marketing and processing activities. A programme by which all marketing of agricultural products comes within a period in co-operative hands is a *sine qua non* of agricultural advance. There is also a strong case for nationalization of agricultural processing activities. In most instances there is redundant capacity in processing industries and in a large number of cases the processing agencies can and do act in agreement with each other regarding charges, etc. The location of processing activity in relation to marketing activity is also important in agricultural organization. Processing activity is, in many instances, closely connected with problems of agricultural procurement and maintenance of agricultural prices. These activities should, therefore, be nationalized as early as possible if a planned progress of agriculture is visualized. There is a much stronger case for nationalization of these than there was for the nationalization of road transport. When processing is nationalized and marketing comes into co-operative hands it would be found easy to influence productive activities of individual agricultural producers and gradually conditions may be created in which a further step forward, i.e., in the direction of co-operative farming, may be taken. To talk in terms of co-operative farming without thinking of the intermediate steps appears highly unrealistic.

It may be noted that in relation to the reorganization of agriculture no reference is made by the Commission to the problem of unemployment resulting necessarily from any scheme of reorganization of production units. That reorganization of agriculture in more efficient units is impossible without making redundant a significant proportion of people employed on land today may be taken *axiomatic* for most regions of India. It is therefore surprising that no reference is made to this central problem by the Planning Commission.

We may next turn to proposals relating to industrial production. Almost all large scale industries are left in the private sector. The programme of suggested expansion in this sector is said to be based on previous discussions with private industrialists. Presumably it reflects the judgments or expectations of leaders of industry in that sector. It is, therefore, not a programme drawn up by the Planning Commission in relation to certain overall objectives and trends determined by the Commission but only a summary of what the private industrialists think may well happen during the next five years. Perhaps this curious species of planning is the only one possible in the Indian type of mixed economy. Even in these circumstances, the important question as to how the expansion programme will, in effect, fructify has still to be faced.

There are two main aspects to the industrial development programme of the Planning Commission. There is, in the first instance, increase to be brought about through fuller utilization of existing capacity. In most existing industries increased production is estimated to come about much more through a better use of present capacity than through increase in installed capacity. It is obvious that this expectation could be fulfilled only if extensive measures in such directions as the rationalization and standardization of production could be enforced by government on industry. There is no discussion in the report of the Planning Commission, of action required for the utilization of the private capacity, and regarding powers of government there is only a reference to the Industrial Development and Control Bill. The Industrial Development and Control Bill, as it has emerged from the Select Committee, is an obviously inadequate instrument for the enforcement of a plan. The report of the Planning Commission contains the following statement of objectives. "The system of private enterprises will have to be very different from that which now exists; industry will have to accept not only the objectives of social and economic policy but also its own obligations towards the worker, the investor and the consumer. Private industry will have to fit into the scheme of national planning equally with other sectors of national economy and will have to be so conducted as to satisfy the public at large that it meets social needs adequately and avoids misdirection of national resources

as well as exploitation or corruption." The Industrial Development and Control Bill makes no provision for the overall direction and regulation of the conduct of industry such as is required by this objective of the plan. According to the proposals of the Select Committee government can undertake investigation in specific industries or undertakings only when they show a fall in production or deteriorating quality. Such investigation will be made by a Central Industrial Board and the steps that the government is able to take will depend upon and be subsequent to a report of this Board. This dilatory procedure of limited application can prove useful only in cases of flagrant malpractices and mismanagement in individual units and cannot serve where a whole industry has to be reorganized. The experience of previous attempts at planned production in the cotton industry or management through consultation with industrialists of the affairs of the sugar industry cannot, in this context, be lightly disregarded. A Planning Commission which assumes that without adequate powers government will in future obtain from industry a very different response from that in the immediate past cannot be considered to be very serious about its proposals.

Where proposals embodied in the report fall short of the essential requirements of a programme of attaining full capacity in production, it is obvious that in other respects there is even less guarantee of fulfilment of the plan. Essentially, government powers even after passing of the Industrial Development and Control Bill will be negative. They may be able to prevent some misdirection of resources or some acts of gross mismanagement; there is nothing in them to support positive steps towards more rational or efficient practice and still less to enforce a detailed programme of private investment. The expansion programme in the industrial sector is thus no more than a hope or a wish. This may be fulfilled if conditions are favourable in terms of the private entrepreneur and investor; on the other hand, there is at least an equal chance of its miscarrying.

The unrealism of the whole production plan becomes even more marked when the proposals for production planning in relation to small scale and cottage industries is taken into account. The whole plan regarding development of small scale and cottage industries is dependent on the ability of government not only to direct the production of small scale and cottage industries but also to delimit the markets of large scale, small scale and cottage industries respectively. Such delimitation involves control on the production pattern and quantitative performance of domestic and large scale industry and of imports in specific direction. There is nothing in the report of the Planning Commission to show that the Union Government or the State Governments will be given powers in this

behalf or indeed to show that the Planning Commission considers any such powers essential for the fulfilment of its own plan. Reference may be made in this connection to the minute of dissent of Bishwanath Das to the report of the Select Committee on the Industrial Development and Control Bill. Mr. Das points out how the Bill in its revised form may have the effect of actually limiting powers of state governments in certain directions.

No reference is made in the report of the Planning Commission to policy relating to industrial prices. In so far as the Planning Commission depends on an integrated price policy as the chief instrument of directing production in agriculture and presumably in industry also, it would have been expected that the Commission would discuss some of the more difficult problems of devising a price policy which could be effective for this purpose. The difficulties in relation to determining relatives among even the more important agricultural commodities have been already mentioned. The problem in relation to industrial prices is even more difficult. Two major aspects of it may be here indicated. Firstly, there is the question of the relative price level of manufactured goods. A policy which is anti-inflationary would require that the level of prices of manufactured goods should be kept as low as possible and no increases be allowed except those which are demonstrably necessary, all increases in costs being, as far as possible, absorbed within the existing margins. Such was the policy followed during war in most countries whose economic affairs were well managed; and this is again being enforced in all countries where concern is being felt over possibilities of inflation following upon rearmament expenditure. Since 1947 the Indian government has deliberately followed an opposite policy. This has been that of granting an increase in prices wherever a plausible case could be made for such increase. The truth of this assertion can be checked by the level of profits made by and the prices of industrial shares in all industries, the prices of whose products have been controlled. It may be argued that such a policy is dictated by considerations of giving adequate incentive to industry. If so, the two aims of policy will ever be in conflict; a disinflationary policy not being consistent with this view of adequate incentives. The second important aspect of the control of industrial prices is that of the relation of detailed production performance to price control. It is presumed that when the Planning Commission desires, for example, an increase in production of certain types of consumer goods this is for increasing the consumption of specific classes and is, therefore, related to particular types of products at particular prices. The example of the working of price control in cotton industry during war has demonstrated the virtual impossibility of working this arrangement. In industrial production there

is even much less guarantee than in agricultural production that specific targets in particular types of production would be attained through price control alone. This is only another instance of the Planning Commission not having thought out clearly even what it wants to do, much less how to attain it.

III

A third important point of view relates to the social effects of the Plan. The Planning Commission claims to have been guided by the directives set out in the constitution of the Indian Republic. It is necessary to see how far this claim can be sustained. Comment may be made on a preliminary defence that is likely to be offered. It may be argued that the first five-year plan is in the main a production plan and that the planners will turn to specific social objectives after production has been significantly raised during the period of the first plan. The validity of such distinction between a production and a distribution plan must be challenged. A production plan is necessarily based on a specific productive organization of society. A plan of development while increasing productive activity must necessarily strengthen the important economic and social elements in the existing production structure. If, therefore, there exist strong vested interests or dominant or ruling groups in the production structure, a production plan which pays no attention to social or distributive effects will inevitably increase the economic strength and social and political power of the vested interests and the governing elements. The operation of such a production plan would make it not less but more difficult to frame and carry out a plan for attaining social objectives at the end of the period of the first plan. It is, therefore, essential that the social directives of the constitution be paid attention to during the period of each plan. This is apart from the consideration that no plan is likely to arouse the enthusiasm of the majority of the population, which all planners desire, unless it is expected and demonstrated to make an immediate beginning towards attaining of a more just and equal order in society.

The social effects of a plan of development will be made clear by considering the manner in which the increase of wealth and income brought about by the plan is distributed among various classes and various interests in society.

The Planning Commission remarks in more than one place in the report that the recent increase in agricultural prices has led to a diffusion of income over a wider sector in society. It is not clear what is meant by this remark or on what data it is based. If all that is meant is that during the last decade the relation of agri-

cultural prices to industrial prices has become different from the relation that obtained during the thirties, i.e., during the period of the world depression, no objection may be raised against it. If, however, it is meant to convey the impression that the distribution of incomes in society has now been stabilised on a more equalitarian basis than some assumed norm of the interwar period, the statement obviously goes beyond any ascertained data that are known to me. Again the phrase "the diffusion of incomes over a wider sector" is capable of being misunderstood and is likely to mislead. As between two sectors, say, agricultural and industrial or rural and urban, the extreme position reached during the depression may have been corrected somewhat. This does not, however, mean that the results of the improvement of the position of the agricultural sector are themselves widely distributed either in terms of regions or of classes within a region. A readjustment of the comparative position between two sectors cannot necessarily be considered to lead to a wider diffusion of wealth and income over society as a whole. The Planning Commission has not made even a reference to the present pattern of distribution within the industrial or urban sector. The only reference to the phenomenon in the agricultural sector is the one mentioned above.

Some enquiries have been made in recent years regarding the effect of the rise in prices of agricultural produce on, say, the indebtedness of farmers. Most of these indicate that the real benefit of the rise has been reaped by farmers who had a significant surplus to sell and especially those who grew important commercial crops. This would indicate that substantially higher incomes are received by agriculturists only in some regions and that even in those regions the majority of the farmers do not benefit greatly. The ability to profit from the change in price relations is dependent obviously on having not only a large enough scale of operations but also having the resources to exploit one's opportunities. The inability of the Commission to deal with the fundamental problem of the uneconomic holding has been commented on above. The other aspect refers chiefly to a policy relating to agricultural credit. The Planning Commission contents itself with a vague statement of abstract policy on this question. The large problem of financing rehabilitation of depressed areas and classes it entirely ignores. Even for the financing of the smaller body of creditworthy farmers it suggests nothing concrete. The question is not primarily one of organization. Organizational experiments are already being made in some states. However if they succeed the problem of providing a very large volume of finance at a low rate of interest will have to be faced almost immediately. The resources of the co-operative movement cannot possibly expand rapidly enough for the purpose and the Reserve

Bank can help chiefly in the field of crop finance. An integrated system of agricultural credit will require drawing upon the resources of all existing financial agencies and institutions. It is symptomatic of the present trend in Indian economic policy that thought should be now concentrated on subsidising private commercial banks and the Imperial Bank of India for extending activities in rural areas rather than on how a co-operative-cum-state system could draw upon the resources in private hands to finance agricultural industry in a systematic manner all over the country. The Imperial Bank has been helped in the past to increase its activities and currently holds large governmental funds. Nationalization of the Imperial Bank is obviously an important and necessary step in building a countrywide system for the finance of agricultural production and marketing.

Indian rural society presents today a picture of a mass of un-economic and poor production units that are ordinarily and without help unable to reap much benefit from such a phenomenon as the rise in prices. The benefit of an investment or development programme in such a society, will equally be unavailable to the large mass of poor producers, unless special efforts are made in that direction.

Not much study has been made, so far, of the evolution of economic and social patterns in areas which have, for example, been brought under command of major irrigation schemes. It would, however, appear that in such areas the benefits of irrigation tend to be concentrated among a smaller and smaller number of farmers unless special measures are taken to counteract this tendency. The Plan refers approvingly to the Bombay irrigation cess. The Bombay irrigation cess, however, is a purely fiscal device having been evolved with no relation to either the distributive or developmental aspects. It is to be compared to such taxation as betterment taxes in town development schemes. In a new irrigation scheme there is in the first instance, the danger of land speculation which means speculative buying up in advance and necessarily ultimate concentration of wealth. The irrigation cess can have no effect on this except that of making a small owner even less able than otherwise to withstand a tempting offer. The other danger in a scheme of irrigation development is that unless such a scheme is accompanied by subsidiary and ancillary works and by schemes of training the existing body of small producers in irrigated farming and of financing the increased cost of such farming, the bulk of such producers may be ousted by aggressive elements from outside; and this will have the effect of creating both the evils of concentration of wealth and also of special types of social conflicts. That an unplanned and unregulated development must ultimately lead to concentration and to

conflicts has been clearly demonstrated in the areas under command of the major canals in the Bombay Deccan. One of the safeguards that the British Government adopted in this area for preventing the more extreme forms of concentration was to make water rights periodically revisable. The obvious intention was that small men who in the early stages of irrigation development were unable to take advantage of the water facilities either because of ignorance or lack of financial resources should later be enabled to do so. Recently, however, the Bombay Government in the irrigation department has become socially even more retrograde than the British. It has now become clear that the Government intends to treat present water rights as permanent vested rights, and it is learnt that on some of the major canals where revision is due in 1952 government has refused even to entertain applications of old small holders of land who had not, in the past, acquired water rights. This is perhaps justified on the plea that the larger the farms the more is the production. The plea is not supported by any concrete data such as that the average out-turn of the sugarcane farmer with two acres under sugarcane is always lower than average out-turn of a farmer with twenty times that acreage. However, even if, under the existing conditions, this were so, the acceptance of the plea should lead to a rapid elimination of the small farmer in favour of the larger. It amounts indeed to saying that as the larger of the existing producers are the most efficient, all investment and development expenditure must further add to the resources, strength and sphere of operations of these producers.

What is necessary, however, to emphasise is that in all underdeveloped economies where lack of resources and ignorance are so widespread as among the majority of producers in Indian agriculture, a development plan is bound to result in increasing inequality of wealth and distribution even without a bias in favour of the rich such as is reported to have been avowed publicly by the Bombay Irrigation Minister. The experience of the *laissez faire* regime of the British period confirms this conclusion which one would expect even on *a priori* grounds. It was necessary to draw attention to this issue with some emphasis as there is nothing in the agricultural plan of the commission which could counteract this strong inherent tendency.

The Registered Farmers would presumably be all large capitalist farmers who would get government assistance at the technical level and would obtain special supplies of materials. Obviously, therefore, their productive efficiency would be specially increased by government policy and government expenditure. How the increased income of these producers which would presumably follow upon their increased productive efficiency would be distributed is not

made clear by the plan ; except, perhaps, that they would be expected to sell the bulk of their produce to government at, presumably, normal prices, nothing is suggested. It would be noted that public investment in the five-year plan is largely concentrated in irrigation projects and that the direct effect of these irrigation projects will be confined to very limited areas. In these limited areas the major benefits will be derived by a comparatively small number of specially advantaged people. As pointed out above, the plan makes no reference to marketing and processing activities, which are to a very large extent in the hands of private persons, who are the major exploiters in the rural sector. The plan leaves this aspect of the matter entirely outside its consideration. In the agricultural sector, therefore, it can be said entirely to ignore social objectives and to be content with the continued operation of present trends which make for increased inequalities of distribution.

It has been indicated above that the use of electric power generated by the multi-purpose etc. schemes has not been planned. To the extent that the power is used privately for irrigation and other agricultural purposes it will benefit the bigger farmers who alone will be in a position to afford it. In the field of industry increased electric power may serve social objectives only if it is deliberately used for dispersal of location of industry or for encouraging smaller units. This could be achieved if, not only is there a previous detailed plan of industrial development and location related to schemes of generation of power but also if the specific measures indicated above for demarcation of the field of small industry are taken.

In the matter of location nothing whatever is said in the Plan. It is presumed that some action in accordance with the plans prepared by Industrial Panels may be taken. But it is clear that the Planning Commission has paid no attention to the serious social and economic problems created by such overgrown centres of industrial location as Bombay and Calcutta. State governments have taken no action in these matters so far and it would, in fact, appear as if the Bombay Government's policy is to encourage a further growth of industrial activity, in the vicinity of Bombay and even to divert water resources which could be employed for maintaining a green belt of vegetable and fruit farming round it to industrial uses. The high social costs of this policy are reflected in the housing situation in these concentrations of population ; and the only large new expenditure indicated in the plan on social objectives is that on industrial housing in the large cities. Estimation of the dimensions of the problem of industrial housing today makes clear how the expenditure of even large sums could not create much impression on the existing situation and that the only radical remedy is not only to stop further growth of existing concentrations but also to

see that there is an immediate diversion of population away from the largest centres, to localities in which conditions of life would be healthier and housing facilities could be provided much more cheaply.

The increased generation of electricity in the absence of a deliberate plan of dispersal is likely to increase concentration of location because the new power will be most readily absorbed in existing centres of industry. Without state help and regular direction regarding location, i.e., without a detailed plan of industrial location which is capable of being properly implemented, generation of further power will help only concentration. It is notorious that in the absence of regulation or direction private enterprise naturally prefers location in the biggest centres, and that the private entrepreneur class, as a whole, never undertakes deliberate development of backward areas, as from the point of view of returns to the private investor these are ordinarily not attractive. The absence of a plan of industrial location and of the development of backward areas is another important gap in the five-year plan.

By neglecting to pay any attention to this aspect of the problem the plan helps the continuance of present trends of concentration of economic power and the continued increase in the riches of those classes and regions which are already comparatively richer. This trend is most clear in the attitude of the Planning Commission towards private industry. All large scale industry is to continue to remain in the private sector. At the same time, all existing plans of state aid by protection, allocations, subsidies, etc., for the growth of private industry will continue. In addition the plan makes provision for the supply, by the state directly or through semi-official corporations, of large funds to enable the largest industries to expand production and improve efficiency. It is one of the curiosities of the results of recent official policy that whereas the state, since 1947, has been giving continuous relief to industry and to the income and supertax payers, presumably, to aid further investment in industry, the biggest and the most central schemes of expansion of industry have still to fall back on the state for investment capital. It would also be interesting in this connection, to calculate the extent of the tax-relief the state has given in recent years and the results that this has had in terms of additional investment. The calculations are necessarily complicated and cannot be made without information which could be available only from official sources. Proceeding, however, merely on the estimates of loss due to concessions that succeeding Finance Members have made in their budget speeches each year and allowing fully for increased taxation during the current year, it would appear that the net relief in concessions would amount today to at least Rs. 20 crores per annum and may have been near Rs. 30 crores last year. This sum may be

set against the Rs. 15 crores per annum which the capital market is reported to have raised in recent years and the Rs. 125 crores which is estimated as the total cost of the programme of capital expansion in the five-year plan. It would be not far wrong to say that if the state had kept up its taxation at the level of the 1947-48 budget it could have built up a fund for industrial investment roughly of the same order as the investment that is expected to take place in the private sector of industry in the five-year plan of expansion. And in this case, of course, the direction of the investment could have been fully controlled and its fruits accrued to public revenues. The insistence on the retention of the whole sphere of large scale industry in the private sector is difficult to understand in view of these facts regarding investment finance available for large scale industry from that sector.

The continuance of the private sector is apparently not justified by performance. More importantly it results in continuously increasing unequal distribution. A glance at the industrial growth of India during the last 30 years makes clear how almost each industry has grown through support, direct and indirect, given by general revenues or by laying burdens on the general consumer. In terms of distribution of income and wealth in society the process of industrial advance, which was largely the result of state policy and social sacrifice, has meant an increasing concentration of wealth and income in the hands of restricted groups, and a limited number of individuals. This policy is to be, evidently, pursued through the five-year plan. When Government lend money for industrial expansion to a private concern or help to build up or reform particular units by special technical assistance or other aids it is, in fact, increasing wealth in private hands through expenditures and costs which are borne by the public at large. There appears no justification for this procedure. It is indeed doubly inequitable; it not only increases artificially the present income-earning capacity of particular individuals or classes at the cost of the general public but also later when the possibility of acquiring any of these concerns by the State arises, it would have increased, by present policy, the capital compensation that the general public which has helped to build up the concerns or units will be called upon to pay. Whatever might have been the justification during the British period for supporting such policies as tariff protection without any safeguards for public interest, present and future, it does not hold any longer. It is clear that either the field of industry has to be increasingly nationalised or, at least, to the extent that in any sphere industrial units continue to receive assistance directly or indirectly, this must be accompanied by suitable conditions both as regards their present incomes and future compensations.

The spheres in the Indian economy today in which large incomes and opportunities for considerable capital formation arise are strictly limited. These are the fields of large scale industry, finance and trade. It is in these fields specifically that government postulates the necessity of private operation. Obviously, therefore, all talk of social objectives in the plan is futile.

There is some reference in the plan to the possibility of state trading in certain sectors; but the reference is vague and the performance of government, so far, in such clear cases as oil seeds and jute gives no hope that any radical action in this regard will be taken. There is obviously a clear case in relation to important export industries for assumption of an export monopoly by government. This is supported by action taken in many undeveloped economies. It is also the only possible method of enforcing a proper price policy in relation to commodities of which prices on the international market are liable to fluctuate widely. However, though this view has been pressed on government by various Boards and Committees since 1947 it has found no favour and the five-year plan, though making vague references to possible state trading, formulates no concrete proposal in any particular respect.

To sum up, existing distribution of wealth in our economy is very uneven and a small number of people in each sector are placed in strategic positions; it is these that stand to benefit most from any large public investments leading to economic development. Large public investments, in circumstances like ours, lead to all sorts of unearned increments; these accrue to a few and whatever the increase in national product that is brought about by the investment it is distributed in an even less just manner than the distribution before. This tendency could be counteracted only if special precautions are taken in the plan of public investment itself. These precautions could be (1) limiting by legal action existing rights of private property (refer above, for a discussion of this in connection with agricultural development); (2) providing in the investment plan itself for dispersal of investment or of effects of investment or (3) fiscal policy designed to redistribute increased incomes. (1) is too radical to be considered by this Government, and (2) has not been provided for in the plan. (3) Fiscal policy for social redistribution would have two aspects: (1) taxation and (2) expenditure in relation to tax income. The plan makes clear that no burdens heavier than the existing one are to be laid on the rich. The only redistribution measure specifically included in the plan is the suggestion for the imposition of death duties. This is a hardy perennial and whenever it is implemented it would require a period of decades before its distributive aspect really became prominent or effective. From the fiscal point of view there is thus no corrective to the

inherent inequitable tendency of the plan indicated above. There is nothing also to indicate, on the expenditure side, that the plan may lead to a correction of social inequality by any measures of state regulation or expenditure. The plan contains a section on what are called social services; almost the entire expenditure under these is merely the summation of current expenditures already undertaken or planned by state and central governments on such services as education and health. Even in relation to these there is no indication of a new policy or a special redistribution of effects of expenditure. None of these expenditures are, for example, of the type that may be termed transfers, i.e., either through measures of social security or through subsidising of particular activity or product, making for an indirect increase in the income of the poor. A possible exception is the expenditure on industrial housing. I have already indicated, however, that this expenditure is of doubtful social use. As a matter of fact, it is possible to argue that such expenditure, by making possible the continuance of location of industry in congested areas, which only benefits factories owned by industrialists in these locations, is in the long run actually inequitable.

In the other direction, it may be pointed out that the whole fiscal policy underlying the plan is one that makes for increased inflationary pressure. The policy of controls and state powers outlined in the plan is not such as to hold these pressures effectively in check. Therefore, to the other trends of the plan a continuous inflationary movement may add further inequality on the distributive side. A reference may be made here also to the absence of a foreign trade plan. It has been suggested that that plan is yet in the making. It is important to note, however, on the distributive side that in England the increased standard of living of the poor and decreased standard of the rich was brought about largely through controls of exports and imports. No such policy seems to be contemplated in the five-year plan, so that the standards of consumption of our rich will not even have the ceilings that are current for the rich in England.

It may finally be permissible to question whether the "Plan" could be at all properly called a plan. In the main, it is no more than a compilation of existing and expected plans of public investment, chiefly in irrigation and transport, by central and state governments put together on the basis of no clear criteria; in the field of industry the "plan" presents just a resumé of discussions with private industrialists; in other spheres it mostly indicates existing expenditure, objectives and levels on the part of state and central governments. The production figures contained in it are not the results of any detailed working out by regions or sections but are mere average calculations of the sort made familiar by the Grow

More Food campaign. Nothing is suggested in the plan to see that production targets will be fulfilled either in the sphere of agriculture or large scale industry and in relation to trade and small scale industry it contains no more than vague generalizations. The plan effectively ignores all problems of social policy and does not even elaborate or deal adequately with problems of price policy which is supposed to be its main operative instrument. Thus in all important respects, in coverage, in concreteness and in degree of integration it falls far short of what may properly be expected of a plan of economic development.

ECONOMIC DEVELOPMENT IN INDIA *

I

THE PROBLEM of the rapid economic development of the underdeveloped areas of the world has assumed great importance in the post-war period. This is largely due to the progress of the sphere of communist influence. Governments of the underdeveloped countries in non-communist areas have begun to become aware of the need to improve internal economic conditions in order to keep in check the growing influence of communist parties and it has become an established axiom of American policy that the communists can be effectively contained in the long run only if the standards of living of peoples in the underdeveloped countries rise rapidly. The problem was recognized and formulated in its present form only in the post-war period and it has received steadily greater attention with the increase of tension between the U.S.A. and the U.S.S.R. and the growth of effective communist influence, especially in Asia.

The growing sense of urgency has been exemplified by the constant presence of the subject on the agenda of international authorities. Last year the Secretary-General of the U.N. appointed a group of experts to report on the problem. The appointment of the group did not flow directly from consideration of the problem of economic development. Formally, the group was the counterpart to the body of experts that had been appointed previously and had reported on the problem of full employment. This earlier group had considered the problem of maintenance of full employment only in relation to the industrially advanced countries and chiefly in relation to its cyclical aspect; it had stated that for the underdeveloped areas the important problem was that of chronic underemployment, the solution for which could be found only in rapid economic development. It was recognized by this group that rapid economic development of the underdeveloped areas was a necessary precondition even for the success of policies of maintenance of full employment in the industrially advanced countries. It thus happened that the group of experts appointed formally as counterpart to the full employment group devoted almost all its attention not to the problem of unemployment or underemployment but to economic development which had been agreed on universally as its only remedy in the underdeveloped countries.

The second group of experts submitted its report in May 1951. This report has been considered at many stages of the organizational

* *India Quarterly*, April-June, 1952.

structure of international authorities. The reports of debates in these bodies throw valuable light on the points of view of the various countries and the time is opportune to consider the possibilities of national and international action.

The U.N. experts divided the measures necessary for economic development into two classes—internal and external; but the main controversy in international organizations has centred round the recommendations of experts regarding international or external measures. This for two reasons: first there was not much that international authorities could do directly in respect of the internal measures recommended by the experts; there did not also appear much difference among representatives of the various countries on the recommendations of the experts in this division. This absence of any expression of differences of opinion was due not to real agreement but to no attempt having been made to explore fully the implications, in terms of concrete policy, of these recommendations. Another feature of the debate to which attention may be invited was the large measure of agreement on a number of points of the analysis of the experts. The chief expressions of difference of opinion on these points came from the representatives of the countries of the Soviet Bloc. To them it was clear that the analysis of the experts, in so far as it did not accept their orthodox formulations, was at fault. Outside the Soviet Bloc, there appeared, in principle, agreement on certain major points which would have been surprising some years ago. In relation to internal measures the experts had emphasized the need for large political and social changes and had referred to the need of a social revolution which would bring about a shift in the distribution of income and power. This need was not directly challenged. Secondly, there appeared no opposition to the idea of an integrated plan for economic development; even the official memorandum submitted by the United States Government on the report of the group of experts accepted this idea. Here, as elsewhere, fundamental differences in approach became clear only through the details of the programme of action put forward by the different groups.

Regarding the general approach Americans and representatives of other older colonial areas contended that the development of the underdeveloped areas could take place on the same lines as the development of these older colonial areas. It was largely through the initiative of the private capitalist that the colonial economies had grown. None of them required even initially the importation of large amounts of foreign capital. Therefore, the spokesmen of this group urged, the underdeveloped countries should rely as far as possible on their own resources and should build up their economies with incentives offered to private capitalists. Even the foreign

capital that these countries would require should be obtained through investments made by private capitalists; the main requirement for this purpose was the creation of favourable conditions in the underdeveloped countries. Thus the thesis of the representatives of these countries was that the underdeveloped countries should create stable conditions, assure private capitalists from abroad and encourage domestic private enterprise to function actively within their own areas. If they did this, economic development would proceed in a normal and natural manner. The implication of the thesis was, of course, against an integrated overall economic development directed mainly by a central authority, and many representatives of these countries doubted both the utility of such a plan or the ability of the underdeveloped countries to implement it even if it could be usefully formulated. Some representatives of countries like Australia and Canada went so far as to doubt whether it would ever be possible for the underdeveloped countries to increase productivity fast enough to counteract the effects of the growth of population.

It would be useful to examine this plea of the recently colonized countries that the development of the underdeveloped areas should take place on the lines of their own past development. Their reasoning is based chiefly on historical analogy. It is hardly possible to imagine a greater contrast than that presented by the picture of conditions in which development in countries like U.S.A. or Canada took place and the existing conditions of the more populated underdeveloped regions of the Asian continent. At the time, the modern process of development began, that is in the 18th century and after, these colonial countries were largely bare of population and had enormous unused natural resources and vast land areas in which populations in possession of the most improved techniques in the world were being slowly introduced. For a century and more land and other natural resources were abundant, a large body of comparatively trained, vigorous and enthusiastic immigrants was steadily arriving and the countries generated considerable incomes and investment resources internally and also attracted substantial funds from abroad. When these developments took place large parts of the world, i.e. countries other than those of Western Europe, were backward and the terms of trade between the agricultural and industrial economies were favourable to the latter. Also, the social and economic structure and philosophy of these colonial countries were, at least initially, largely egalitarian. The position of the Asian countries of today presents a sharp contrast to this picture. All these countries have age-old economies in which the process of settlement on land has gone on for centuries and the units of cultivation have been adjusted to low sizes compatible with an older technique and the older ideas of possible standards of living. These economies

have further been subject for a century or more to forces which have upset their balance, destroyed the fabric of their traditional industry and increased the pressure of population on land. They have also a highly stratified society riddled with privilege and quasi-monopolistic positions.¹ The existing internal situation of these old economies is, therefore, vastly different from that of colonies formed by Europeans in North America and Australia in the 19th century. Moreover, the transition from the older economies to a post-industrial revolution economy entails high cost. Technological unemployment of resources is the chief element of such cost. The costs of the transition in countries of Western Europe were, in this respect, successfully transferred by them to the colonial and dependent parts of the world. In countries like the U.S.A. and Canada there were no large pre-industrial revolution structures which would be affected by the transition, and the immense unused natural resources and the constant stream of immigrant population kept up a constantly high tempo of development. Even so, the U.S.A. maintained for the greater part of its development a high protective tariff. The situation is radically different in the underdeveloped areas today. There are large populations and extensive old structures of traditional industry which greatly intensify problems of unemployment of resources. The external situation is also materially different. A larger and larger part of the world is being organizationally transformed. Therefore, industrial development of these areas takes place in a much less favourable world situation than that of industrial transitions in the 19th century.

Apart from pressing the general analogy of the development in the colonial countries, representatives of these countries urged a broadly cautious attitude in planning for development. In this they were joined by representatives of the countries of West Europe. Together the representatives of all the industrially advanced countries formulated a programme of development which they called realistic.

One may summarize as follows the contents of this realistic programme. It favoured essentially an effort at education and at increasing productivity, especially of agriculture and traditional industry, by the improvement of techniques. The problem of the reorganization of agriculture was considered chiefly in relation to the remnants of the older landlord system where they existed. Active measures were advocated to eradicate that system and to bring into existence instead a society of peasant family farmers. In this connexion it was important to observe the American insistence on men-

¹Note the following description by an American economist of existing West European capitalist society. 'Restrictions upon entry, concerted cartel practices, use of government to maintain vested positions, and the like, are the rule there and as a result the economy is highly rigid and extremely inefficient.'—*American Economic Review*, Sept. 1951, p. 565.

tioning specifically in the resolution on land reform the aim of creating small independent farms and on opposing everything that could be interpreted as smacking of collectivization. Little reference was also made by representatives of the developed countries to problems of industrialization. In relation to this aspect emphasis was placed on the large requirements of capital and of the greater possibilities of advance in and the immediate requirements of the extension of consumer industries. To the extent that the field of industry was capable of profitable exploitation, it was emphasized that it should be left to private enterprise and that if the underdeveloped countries held out proper assurances and made conditions favourable, the foreign investor would be in a position to supply the necessary funds. In short, the attitude of the spokesmen of this group was that it would be wrong for the underdeveloped countries to pitch their aims too high; the only social revolution that they should content themselves with should be that of abolishing the older landlord class and creating a small-peasant class; in industry the emphasis should be on development through private investment, domestic and foreign, mainly in the direction of simple consumer goods industries started by domestic manufacturers and the exploitation of special resources by foreign capital. The approach was thus both simple and direct. The immediate requirements of the standard of living could be satisfied by growing more food and more industrial consumer goods. The peasant would be content with acquiring a farm and, for the rest, the domestic and the foreign capitalist would look after the problems of long-term industrial development.

II

Before discussing further possible approaches to problems of development it is necessary to point to some important differences in underlying conditions among countries which are collectively described as the underdeveloped areas of the world. At least four broad divisions may be made. There are the countries in Central and South America which are in many respects close to the European historical traditions; also, in these countries the ratio of resources already fully utilized to those not so utilized is not large and the problem of chronic underemployment in agriculture does not usually arise. In many of them, modern industry has made considerable progress, at least in specific areas; and broadly their problems may be said to be of a type less urgent and difficult than those of the others. We have, next, the larger part of Africa in which the existing conditions of technique and material development are among the most backward. The pressure of population is not so insistent but the continent, as a whole, is still suffering from a colonial regime which it may take

some years to shake off. In Asia, the problems of the Middle East have to be differentiated from those of the countries of the South and the East. The speciality of the Middle East area, which includes Egypt, is oil; a full control over the exploitation of its oil resources may give this area an asset which may solve a great many of its problems of investment resources and economic development. Also, countries of the Middle East, other than Egypt, have no immediate problem of population. The countries of South and East Asia, including Pakistan and the countries of the Far East, face, on the other hand, most of the problems of underdevelopment in their most serious aspects. They have, in relation to their large populations, a comparative paucity of undeveloped resources and no special valuable asset like oil. Pakistan, India, Ceylon, Central Indonesia, Central Philippines and China—all of these suffer mostly from problems of a like nature and it will be the problems of development of these areas to which I shall pay special attention.

We may begin by considering the possible progress in development if the realistic approach as defined by the industrially advanced countries is adopted. There are available two national development plans which exemplify the possible results of this approach. One is the development plan for Colombia prepared by a mission sponsored by the International Bank and the other is the Indian five year plan. The main approach in both these plans is similar. There are, however, important differences which must be noted before commenting on the adequacy of performance of the two. Firstly, Colombia is a country much richer in natural resources and in per capita wealth and income than India; also, the magnitude of the effort outlined in the Colombia plan is very much greater than that in the Indian five year plan. Because of these two important differences the criticisms we shall make of the Indian five year plan may not apply to the Colombia plan. I am not in a position to say anything regarding the Colombia plan nor is it possible to say that the conclusions flowing from the criticism of the Indian five year plan will apply to countries of South America. The conclusions to be drawn from an examination of the Indian five year plan are valid, in the first instance, for India itself and would, by analogy, hold good in many respects for countries of South and East Asia which are similarly circumstanced.

The main features of the Indian five year plan are as follows: The plan is in the main a plan of public expenditure in which the emphasis is on construction of irrigation and power projects and on the development of productivity of agriculture through spreading of advanced techniques. There is considerable expenditure proposed on the development of transport facilities and a small amount on development of industry. There is no well-defined plan for the reorgani-

zation of agricultural production or of ancillary activities connected with agriculture. Large-scale industry, banking and commerce continue as before in private hands and the targets in the plan, of investment and production in the industrial sector, embody expectations of the extent to which, in appropriate circumstances, private industry might develop. An important objective of the plan is increase of food production within the country and the plan pays special attention to increasing the supply of industrial consumer goods, for the manufacture of which large-scale industry exists in India at present. In common with the American view and with what has been attempted in the Colombia plan, the Indian five year plan does not look beyond its period, and does not think in terms of a developmental process which will be continuing and for which the initial basis is afforded by the performance in the first five years. The five year plan is thus closely modelled on what one may term the American view.

It would be unfair if this is taken to imply that the Indian Planning Commission deliberately adopted the views of the representatives of the industrially advanced countries. The correspondence between these views and those in the approach of the Colombia plan and the Indian five year plan merely underlines the logical consequences of the adoption of a particular approach. Once it is determined that the field of modern industry and trade is a field that is reserved for private enterprise, the sphere of the planning effort is automatically very largely limited. In the Indian case Government goes so far as to reserve to itself the right to initiate or launch industrial activities in which the private industrialist takes no interest, i.e., Government undertakes to start such activities as either require capital investment so large that it is beyond the resources of private industry or to establish activities which are considered too risky by private enterprise. For the rest, it leaves the field open to private enterprise, suggesting later intrusion if private enterprise fails to develop in particular directions. Even this modified approach limits severely the possibilities of planning in the industrial sphere; for, Governmental activity is looked upon as merely supplementary to private activity and as coming in only when private enterprise seems to have failed. It is obvious that in these conditions Government can neither impose a pattern of development on private activity nor dictate the pace at which progress is to take place. Special activities requiring large investment funds, e.g., building of irrigation works, generating power or building a modern transport system, have always to be undertaken by other than purely private enterprise. These, therefore, become a direct responsibility of the State in such plans. In the agricultural sphere, the abolition of a landlord system is generally agreed upon; but no important steps for the reorganization

of a small farmers' society can be taken. With the prevalence of the notion of a strict private enterprise system in the industrial sphere, any drastic change in the organizational unit in peasant agriculture would be taboo. Again, any efforts at, say, reservation of agricultural marketing and processing to the cooperatives would offend against the overall aim of maintenance of the private trade and operator. Therefore, excepting the spread of newer techniques, nothing much can be attempted in the sphere of agricultural production. The similarity in the different proposals thus stems from the central idea, accepted by all the three, of trying to achieve development mainly through the instrumentality of the private enterpriser and investor. In effect, a long-term plan of development of an integrated character is inconsistent with the fundamental acceptance of this idea because such a plan would lay down in advance lines of a process which should properly, from this point of view, be left chiefly to the operation of economic incentives and market forces.

We may now proceed to see to what extent the magnitude and direction of a programme based on such an approach can be adequate and appropriate. The aims of our economic policy stem from the wider national objectives. These are the development of internal resources so as to gain in strength abroad and contentment at home. There is no difference of opinion that rapid economic development is desirable from both these points of view. The present economic situation of the country cannot be said to be satisfactory. We seem to be just holding our own for the last decade or more. All the broad indications point to no increase in the standard of living. The availability of food is certainly not greater than before. Food crises seem to have become as normal a feature of our economy as the dollar crises in Britain. Calculations of the average length of cloth available for domestic consumption do not show an improving situation and in the matter of shelter and housing, the conditions in our cities and in even the large towns have notoriously worsened since 1940. There may be some credits to be put on the other side, such as that of an improvement in the condition of some classes of agriculturists as compared with the situation in the thirties. The whole picture, however, is not reassuring and no tendency or operative trend during the post-war period has indicated that relief will come from any quarter or that advance is being made in any particular direction. The problem created by the pressure of population on land is also urgent. The rate at which our population is growing is not among the highest; but it is high enough to cause concern. The existing situation regarding underemployment in agriculture is serious. Statistics relating to the size of the average cultivated holding in almost all the States point to a situation where consider-

able proportions of the working population at present engaged in agriculture could be easily removed from that occupation without affecting productivity; also, they point to a unit of productive organization so small that no considerable advance in productivity could be made and no proper basis for improving the economic structure could be found without significantly increasing its size.

It is clear that we require a rapidly increasing production of material goods; but a slogan of more production is by itself of no use. What is required is an integrated plan of development which would bring about larger and more varied production. The obvious approach to this problem is, of course, that of exhorting workers to greater efforts and of taking steps for improving technique while maintaining the present structure. This is essentially the approach of the Indian five year plan. Such an approach would be justified if the difficulties of the situation were not fundamental and structural. Our economic backwardness or our poverty are not the results merely of low intensity of human effort or of a backward technique. The history of the last two centuries in all the industrially advanced areas of the world has definitely proved that economic development means a shifting of emphasis from primary production, in the sense of the direct exploitation of natural resources, to industrial production. In all countries the general level of incomes has, in modern times, been greater in the industrial sector than in the agricultural sector and reorganization or advance in agriculture has usually been brought about by shifting workers from agriculture to industry. It has also been found that mere emphasis on improving technique in primary production is not only inadequate but that it does not bring about a lasting solution.

The last feature is related to the main characteristics of modern population growth. The growth of population in the post-industrial revolution period has been marked by two separate trends. Firstly, with improvements in public hygiene, especially through control of epidemics responsible for considerable mortality in the past, the death rate has been progressively lowered. The trend towards a lowering of the birth rate, wherever it is in evidence, has been usually associated with the correlated phenomena of industrialization and urbanization. The first trend, that of a lower death rate, is in operation throughout the world and is associated merely with the existence of a government of minimum efficiency and not with any particular type of economic structure or any level of economic well-being. The peculiar features presented by the population problem in most countries of Asia are due to this first trend having been in operation for a long time, while the second trend in most of the countries had been artificially kept down from emerging through the operation of colonial regimes. As long as industrialization and urbanization do

not take place no balance could be attained in the populations of these countries. It has often been doubted whether modern methods of controlling population growth will be readily accepted and will spread in use in the industrial and urban communities in Asia, as they have done among similar communities of peoples of European stock. Whatever the doubts be on this score, it is clear that these cannot make significant progress directly in societies which are in the main rural, and that it is by slow filtering of ideas from urban communities that in time the pattern of birth rates in the rural communities may also become affected. Therefore, any programme which lays emphasis on agricultural development is a programme which by its success merely postpones the time when the inadequacy of resources to population becomes again apparent. The recent history of countries like Egypt has emphasized this lesson.

In the same way a programme for immediately increasing the supplies of consumer goods is a programme that has chances only of a short-term success; for, economic development means a complex industrial structure and an economy which is well-balanced internally. An emphasis on increased production of consumer goods because this can be easily achieved or because the products are immediately in demand exhibits only a short period view. This view aims at an immediate increase of certain goods rather than at general economic development. In this sphere again universal experience shows the necessity of starting at what would appear to be apparently a more remote point, i.e., with the basic industries on which alone lasting economic progress or development can be based.

The adequacy or propriety of the approach may also be brought out by an examination of what the Indian five year plan expects to achieve in terms of increased welfare or merely increased production. It is clear that the extent of social security and assistance measures in India today is insignificant. A beginning has been made with some measures related to industrial workers, but measures of this type affect a microscopic minority of the Indian population. For the large bulk of people even the most elementary social services are not available. Among the directive principles of policy embodied in the constitution of the Indian Republic is one which promises securing compulsory free primary education to all within a period of 10 years. No State, excepting Bombay, has yet framed a programme for attaining this end and the Bombay programme is already breaking down for want of funds. Any programme of social security or assistance for large populations in a poor country like India requires resources which far exceed the current capacity of the Governments of either the Union or States in India. The five year plan does not point to or provide for any real extension of welfare activities of the State.

It does not in any way also indicate more equal distribution of income or wealth. The Finance Members in India have been, for some years past, engaged in lessening the burden of direct taxation. As long as Government feels that the limit has been reached in the matter of direct taxation increased government expenditure can be sustained only by proceeds of indirect taxation or by inflation. The burdens of indirect taxation and of inflationary pressures bring about greater inequality and not greater equality in distribution. Also since industrial development is to be brought about by leaving the field in the hands of the private industrialist, most of the extra gains of the development process, it must be clear to the meanest intelligence, will remain in those hands and not be diffused broadly.

The magnitude of the effort indicated in the five year plan is also very inadequate. It is difficult to say what results the Planning Commission itself expects to be reached at the end of the five year period. The most detailed calculations made by the Commission are in relation to agriculture. Here it is seen that not much more than maintaining the position of 1950 in terms of per capita availability at the end of the five year period is expected to be achieved in the basic requirement of food. A special effort in food production is included in the five year plan. In other directions no such effort is indicated and the Planning Commission is content, in relation to the production of commercial crops, with the ordinary progress which it expects will come about in view of favourable factors which, it says, prevail at present. Industrial production is almost wholly in the private sector and the estimates of production made in that sector are obviously liable to a considerable margin of error, because of the forces of fluctuating market conditions and price relations during the intervening period. In the field of small-scale industry definite action by way of investment and direction is visualized to an even less extent than in the sector of large industry. Therefore, while it is impossible to conjecture the magnitude of results that may be achieved, it does not appear that the per capita income level would be expected even by the Planning Commission to be increased significantly as a result of the plan. As regards distribution of the total income, it has been pointed out how the distribution is not likely to become more even with the progress of the plan, in spite of the many assertions to the contrary made by the protagonists of the plan.

The reasons for the inadequate effort and uncertainty of realization are not far to seek. The Indian five year plan falls neatly between two stools. It is not prepared to go far enough in the direction of creating conditions favourable for a rapid development through the agency of private enterprise. To do this, it would have to reduce much further the burden of direct taxation, dismantle a great deal of its labour legislation and disavow its social aims. For,

by doing this alone could present sacrifices be imposed to a sufficient extent on the mass of the people. On the other hand, being wedded to private enterprise the Indian Government cannot think in terms of a central pool of savings, of centrally directed investment and of a general regime of austerity imposed through direct controls and fiscal devices. The failure to take boldly to one or the other of these lines logically leads to a plan which can accomplish little.

III

Most areas which are today underdeveloped have, in the recent past, been under the influence, direct or indirect, of the highly developed capitalist countries. Among them there are no instances of rapid economic development. The Philippines may be cited as an example of a country governed by a modern industrially advanced State which had no need of obtaining a net direct return from exploiting the resources of its colony. Even so, the trend of economic development in the Philippines was not strikingly different from that of the neighbouring colonial areas of South-East Asia. Puerto Rico is another example of a small colony benevolently administered, receiving considerable external aid and yet failing to develop its resources at a rapid enough pace.

The largest numbers of recent cases of development of underdeveloped areas are within the communist bloc of countries. It would, perhaps, prejudice unnecessarily the case if one reasons largely from the experience of these countries. Though no underdeveloped country has developed rapidly outside the communist bloc during the last thirty years, there is the instance of Japan which started its course of development towards the end of the last century and made very considerable progress during the opening decades of this century. It is possible to reason by analogy from the case of Japan and from the general previous experience of the other industrially advanced countries. A discussion of some of the problems involved and of the lessons to be drawn may be found in Dr. Singer's lectures on 'Development Projects as part of National Development Programme,'² delivered at the U.N. Asian Centre on agricultural and allied projects at Lahore. One refers with special confidence to Dr. Singer's discussion, as the U.S. Government in its memorandum on the report of the group of U.N. experts referred in approving terms to this Centre conducted by the U.N. The process of development in most countries and circumstances may, according to Dr. Singer, be described as follows: 'It is the story of the present sacrifice, main-

²Included in the U.N. publication *Formulation and Economic Appraisal of Development Projects*.

tained over extended periods and someone to see that the results of these sacrifices went into economic development.' Dr. Singer's view of the process of development in Japan is that, 'in the first instance the process of development meant a steady increase in concentration of wealth amongst a small group of capitalists. These capitalists with the help of the ruling classes were able to keep wages low and go very slow, on social improvement in the early stages.'³ It was again, in Dr. Singer's terms, a combination of a very unequal income distribution with exhibition of a puritan spirit on the part of those people who received the big incomes. Evidently, the Japanese industrialist was not only puritanic like his fellow industrialist in England a century before, but was also patriotic and worked in close collaboration with Government in attaining the aims of national economic policy. The business of seeing that the result of present sacrifices went into economic development was done in Japan largely by the Government which had a fairly well defined picture of its priorities and which had a public development programme closely synchronized with the private development programme and which happened to have obtained in this work the full and honest collaboration of the industrialists. To the extent that Japan obtained foreign aid, that aid is stated to have been channelled by Government into high priority investments. It is thus clear to Mr. Singer from the experience not only of Japan but also of other countries like the U.K. and the U.S.A. that economic development can follow only a large effort involving considerable present sacrifice, the central direction of pooled investment resources and dominance of a puritanic spirit over both present consumption standards and the manner in which investments for the future are made.

The first decisions to be made in relation to a programme of economic development in a country like India are regarding the minimum magnitude and the main direction of the effort. Dr. Singer, for example, talks of a minimum starting level for the cumulative process. It is interesting in this connexion to note that he considers the crucial phase in Russia was through the period between 1921 and 1926 when he feels that collectivization of agriculture took place and some surplus in food supplies was achieved. This appears to be a version of the case which is slightly different from that generally accepted. One would have thought that the term collectivization is properly applied to what happened after 1927 and not before it, and that the main reason for the somewhat dangerous experiment in collectivization was that in the New Economic Policy, surpluses that may have been generated in agriculture were not yet available

³ See also, Saburo Okita—'Japan and Asia's Economic Development,' *India Quarterly*, October-December, 1951.

for a communal investment effort. Dr. Singer seems to believe that there are opportunities almost everywhere of no-cost institutional changes which might bring about a large increase in productivity. It is not necessary to inquire whether the concept is a valid one and whether there are available in any society such no-cost changes. It appears clear that in India no such opportunities exist. Ours is a system already of innumerable peasant farms, in which the abolition of zamindari would have no organizational effects, and would not release enthusiasm or effort in the way that the Green Revolution is supposed to have done in the countries of South-East Europe or in China. Therefore, with us, the problem of attaining the minimum level of investment to start the cumulative process has to be considered in terms of available real resources.

Ideas regarding the magnitude of the effort required and the proper direction of it are closely interrelated. The U.N. experts made in their report an estimate of the magnitude of capital resources required for the economic development of the underdeveloped areas of the world. This is the one direction in which statistical measurement of the problem was attempted. It is not possible to measure the magnitude of the problem of internal, political and social adjustment. This may be large or small or more or less difficult from country to country. Some aspects of internal work such as that of training industrial personnel or generally educating the masses may be defined in some quantitative terms. But the quantitative measure of even educative or public health efforts has to be ultimately conceived in terms of total resources that can be spared for such work. There are, no doubt, some directions in which physical shortages may affect the timing of the development programme as a whole. One of the most important of such directions may be the availability of technical personnel. However, most of such difficulties may be met by an extra expenditure of national resources. Ultimately, apart from the changes required in the social or political structure, the most important aspect of a plan of development is the availability of resources. By and large, it may be taken for granted that if the total resources are adequate the development programme will not be significantly held up on account of inadequacy in particular directions provided that it is properly planned from the beginning. Therefore, the most important magnitude to be assessed or estimated was that of the total resources required for initiating and sustaining an integrated programme.

It is obvious that any attempt to measure such magnitude involved assumptions regarding the nature of the process of development. Therefore, before it was possible to discuss the magnitudes it was necessary to arrive at some agreement regarding what was involved and what were the objectives of the plan. The U.N. experts ap-

proached this question from two points of view. The immediate origin of the appointment of the experts was concern with the problem of full employment. It was chronic underemployment in the underdeveloped countries that had drawn attention to the need for their planned development. Therefore, the plan of development had to be such as could resolve chronic underemployment in these areas of the world. Secondly, the experts were told that the U.N. authorities were concerned about the great gap in the national incomes of various member countries and that for fulfilling objectives specifically laid down in the U.N. Charter as well as for helping the attainment of generally peaceful conditions in the world it was vital that the existing differences in the levels of national income between the rich and the poor countries be reduced. Most of the rich countries were increasing year by year their average per capita productivity and incomes. Therefore, the aim of a plan of development for the underdeveloped countries would be to generate in these countries a rate of increase in per capita national income which was larger than the corresponding rate of the industrially advanced countries. It has been noticed that in recent years the underdeveloped countries had failed to show progress in relation to levels of their per capita income, and that consequently the difference between the rich and the poor had been increasing instead of lessening. The aim of increasing per capita productivity and national income involved increasing productivity and income at a rate that would, firstly, neutralize the current increase in population in these countries and subsequently lead to higher levels than the present. The admittedly crude and rough estimate made by the group of experts was related to the two requirements of reducing underemployment and increasing per capita incomes.

The statistical calculations of the group of experts are based on certain simple assumptions. Firstly, it is assumed that development must lead to a growing proportion of the total population being absorbed in non-farm occupations. This is both because the state of chronic underemployment is the acutest in farming in the large, populous, underdeveloped countries and because in most of these countries the present average incomes from non-farm occupations are much higher than those in agriculture. The calculations of the group of experts are based on the minimum objective of preventing further increase of persons occupied in farming; this objective involves providing non-farm occupations for all increases in the number of gainful workers brought about by future increases in population. One set of figures is derived from estimates of the number of such workers multiplied by an average estimate of the amount of capital required to provide non-farm employment for each worker. Another item in the estimates of magnitude is related to expenditure which

would increase agricultural productivity. As the average amount of capital investment required per non-farm worker was pitched at a figure which would provide for use of modern technique there was no need to make calculation of other investment for increasing productivity in non-farm occupations. In agriculture an increase in productivity was held to be possible through an improvement in technique; and the resources required to spread the knowledge of new techniques and to enable the adoption of these techniques had to be estimated. The experts made a rough and ready calculation and arrived, on the addition of the two items, at a rough estimate of the total magnitude of resources required to finance the economic development of the underdeveloped areas of the world. The calculation of the experts referred to a volume of investment which the experts expected would increase the per capita income of the underdeveloped countries at the rate of two per cent per annum; that is, if a country had a per capita income of 50 dollars in 1950, this would become, in 1970, \$75 approximately. If in the meanwhile the per capita income of the U.S. moved from 1,400 dollars a year to, say, 1,750 dollars a year the proportionate difference between the two would have been reduced; the absolute difference in the two levels of incomes may, of course, become even larger than before. Put in such statistical terms the calculations of the magnitude of effort required, made by the group of experts would be seen not only to have not been extravagantly high but to be almost the minimum required if the aims of the U.N. authorities are to be given concrete shape. In fact it would be seen that in terms of the goal of greater equality between the rich and the poor countries the target set by the experts is extremely modest. In the same way the target in relation to the occupational structure means no more than that the present numbers of workers on farms will in no way be increased, i.e., the process of development will take place at a pace which though not reducing significantly the extent of existing crowding on land will at least prevent making it worse.

While the approach of the Colombia plan and the Indian five year plan may be said to be similar, the magnitudes of their proposed performance are of entirely different dimensions. The Colombia plan supposed a rate of annual investment for the five year period which was continuously at a level of between 17 and 19 per cent of the total national income and of which, roughly one-third was investment on account of Government. Government investment in the plan moves up during the five years from roughly 5 per cent of the national income to about 6 per cent in the last year of the plan. The magnitude of the total investment required in India on the basis of the calculations of the U.N. experts would also be very large. The U.N. experts assume that capital investment at the rate of 2,500

dollars⁴ per new worker employed in non-farm occupations would be necessary, and that capital expenditure for improvement of agriculture may be roughly 4 per cent of the total national income. If it is held that about 70 lakhs of workers may be added to the total working population in India during the period of the five year plan, capital investment for employing all these workers in non-farm occupations would amount to Rs. 8,750 crores approximately during the five years. Assuming a national income of roughly Rs. 9,000 crores the investment for agricultural development may be about Rs. 360 crores per annum. Ignoring any increase in this total national income, we may take the total investment for this purpose in a five year period at five times this amount, i.e., at Rs. 1,800 crores. The total investment for the five year plan period on these calculations would amount to Rs. 10,550 crores which gives a rate of annual investment of Rs. 2,110 crores. This represents about 23.3 per cent of the assumed national income of Rs. 9,000 crores in the initial year. The Indian five year plan makes no calculation regarding the total investment in the whole of the economy during the five years. However, it is clear that the scale of investment contemplated by the plan is very small compared either to the requirements as calculated by the group of experts or the figures projected in the Colombia plan. The total expenditure on capital investment in all directions in the public sector including education and social services amounts to no more than Rs. 1,500 crores in five years of the first five year plan. The expected investment in large-scale industry by private capitalists is put at no more than a gross figure of the order of about Rs. 250 to 300 crores for the five years. These very low figures which are expected to be increased by only another Rs. 300 to 500 crores through possible external aid are seen to stand in great contrast to the proposals of the Colombia plan, which must be considered as fairly realistic, the plan having been produced by an expert mission of the International Bank. Incidentally, comparison with Colombia figures also proves that the calculations of the U.N. experts are by no means extravagant. The experts worked with average figures with which to make global calculations. Therefore, the results of their calculations would, in terms of percentages, appear much higher for countries with very low levels of per capita income. The Colombia plan assumed total capital formation and investment of the measure of between 17 and 19 per cent of the national income. The rates of investment of the group of experts worked out in the case of India at a little over 23 per cent which is not high if we note that the per capita national income of Colombia is nearly three times that of

⁴ Dr. Singer assumes this figure of 2,500 dollars for persons engaged in light industrial and allied employments and stresses that this is not an American or West European figure, which would be much higher.

India. It is interesting to note in this connexion that the Japanese post-war economic plan estimates planned capital formation to be between 23.1 and 23.5 per cent of the national income for each year of the plan, i.e., from 1949 to 1953.⁵

Apart from considerations of magnitude, the direction and structure of the plan require careful attention. The large requirements of resources for development make it imperative that the effort should be in terms of the maximum possible for the Government and the society. This maximum effort may be reached by either leaving the field free to a small dominant group of private capitalists, or by socially directed concentration of the savings and investment effort. The maximum social effort could be made only by imposing a general regime of austerity on all classes and tapping to the fullest possible extent the sources from which savings can emerge; as Dr. Singer has emphasized rapid economic development, in a poor country, also requires a careful direction of all investment according to a carefully drawn scheme of priorities. In all countries in a position similar to that of India the main savings possibilities are few and are comparatively concentrated. There are not many studies of the distribution of savings possibilities. The report on Colombia of the International Bank Mission, however, contains some illuminating data and comment. It is pointed out in the report that personal savings in Colombia formed a small percentage of the total and that, in relation to the size of the sector, the savings in agriculture were small. The bulk of savings out of the current income is supplied by retained business earnings and reserves of various kinds. 'An exceptionally large proportion of Colombia's savings accrues to relatively few people. Likewise a substantial portion of earning is retained by the enterprises which make them.' The Mission adds 'This may not provide the requisite capital for the expansion of more socially beneficial projects in other sectors of the economy and the measures we have proposed may be insufficient.' (P. 610). It may safely be assumed that these features of Colombia's economy are reproduced in an even exaggerated form in India. The bulk of

⁵ Following features of the Japanese post-war plan will also be found relevant. 'Although one of the primary aims of the economic recovery programme is to raise the people's standard of living, it is planned at the present stage to put emphasis on the increase of capital formation, with a view to increasing the productive capacity necessary for the attainment of a self-supporting economy... New investment during the five-year period is planned to be concentrated mainly on important industries, such as electric power, marine transportation, coal mining, chemical fertilizer, iron and steel and agriculture. The Government will play an important role in the total investment. The percentage of government investment in the total investment will be 35.8 in 1949, increasing steadily to 41.8 in 1953.'—U.N.: *Economic Survey of Asia and the Far East*, 1949 (p. 419).

personal savings and savings in most types of agriculture with us also appear to be small. Most savings are made and are possible only in the restricted fields of modern industry, banking and insurance, foreign trade and internal wholesale trade, and, of course, in the large speculative activities of all kinds. These savings are concentrated in the hands of a relatively few. They are largely retained in business and there is no guarantee whatsoever that they would be directed to socially beneficial channels. In these circumstances, it is obvious that a policy which leads to the State acquiring control over the saving potentials in these fields, i.e., over the businesses in which it chiefly emerges, is the only one that can meet the needs of the case. This obviously means a policy of socialization of the most important areas of the fields indicated above. This socialization is made equally necessary by the need of centrally directed investment. A large part of the newly directed investment will have to be in fields of modern business and without social control over these fields, effective progress in them could not be assured; also socialization would be necessary to see that the benefits of planned rapid development are not concentrated in the hands of a few.

Dr. Singer's requirement of present sacrifice also indicates the need for considerable social control. Present sacrifices if they are to be readily acceptable must have some grounding in equity. Any effort at imposing sacrifice by the State as a preliminary to rapid economic development must begin with considerably reducing existing inequalities in wealth. Socialization of fields where large concentration of wealth or income exists is then an obvious condition precedent. At this stage in the development of political and social ideas in the world, imposition of austerity on the mass of the people by a business class, however 'puritanic,' would be impossible. In the special circumstances of India any regime of austerity which left the business classes to thrive and prosper as before is not likely to be tolerated for any length of time. Therefore, a realistic programme from the point of view of India, if it is to lead to rapid economic progress, is a programme which would be oriented in a direction very different from that sketched for the underdeveloped areas of the world by representatives of the industrially advanced countries.

The large effort necessary dictates a pool of savings and centrally directed investment for all the main lines of development. The structure of the plan must also lean heavily on the side of industrialization, and it must think of industrialization as a long-term, continuous and self-sustained process. That rapid industrialization is the remedy for underemployment in agriculture is a view endorsed by the U.N. resolution on Land Reform. From the point of view of the structure of the programme the most important lessons are

those afforded by the post-war planning effort in the Balkans. It is curious to observe that even opponents of the communist regimes in these countries often admit that but for a planned rapid drive the necessary industrialization would never have taken place in them and they hope that when these regimes, which they wish to destroy, vanish, the fact of the industrialized economic structure will remain.⁸

Another thorny problem which a plan of development for India and countries similarly situated must face is that of increasing the production of and the available surpluses from agricultural activity. The problem is already being faced in India. The only fundamental solution is to reorganize and enlarge the unit of production in agriculture. Before the reorganization can be undertaken plans for absorbing parts of the rural surplus population in non-farm occupations will have to be put in operation and certain preliminary reforms completed. These are either socializing or putting into the hands of co-operative organizations the credit, marketing and processing activities connected with agriculture. Only after this is done would it be possible to think of setting up co-operative farming units on any large scale. Planned effort in all these directions obviously means government direction, reservation of the fields for co-operative activity, and perhaps legislation to compel minorities to join a communal co-operative effort.

The needs of both austerity and directed investment lead to a drastic control over foreign trade also. Even the comparatively simple objective that the British economy set before itself, of attaining an export surplus of a given size, required considerable control of both export and import trade. Such control in an underdeveloped area is necessary for a variety of reasons. Firstly, the use of foreign exchange resources has to be carefully planned so that the resources required for the development plan are all obtained. Secondly, measures of austerity necessarily imply reducing to a minimum expenditure of exchange resources on non-essential consumer imports. Exports have to be adjusted to the requirements of the plan in terms of the retention internally of the materials required for the plan and obtaining externally, through sale in adequate amounts of products in which the country holds a strategic position, the necessary exchange resources. During the post-war period, a number of countries producing important materials made efforts to pool all gains from export trade in these materials. The need has also been emphasized of conserving and evening out the supply of these gains for the financing of a development programme, especially by coun-

⁸ Cf. Jan Wazelaki: 'The Rise of Industrial Middle Europe,' *Foreign Affairs*, October, 1951.

tries the prices of whose strategic exports are liable to considerable fluctuations.

Another important aim of the early stages of the plan would be to attain comparative self-dependence. The needs of development of a large country like India are immense. The process would continue for a long time and with the size of the country and the varied natural resources within it, it should be possible to plan development in a manner that is mutually helpful and largely self-supporting. Attainment of a large degree of self-dependence in a long-term plan of development cannot be too highly emphasized. The experience of the last three decades has shown that it is dangerous to the progress of a plan of development to depend to any large extent or in any essential feature on international trade of a given volume or direction. Apart from interruptions which result from a global war, the possibilities of which cannot be totally discounted in any present thinking, there are two dangers to be guarded against : (i) current non-availability of foreign exchange and (ii) current physical non-availability of the goods that are required for the programme of development. The ability to buy abroad continuously or import goods from abroad required for the development programme depends on the capacity to raise the required funds, which, in turn, depends upon the power to sell sufficient goods on reasonable terms abroad. This cannot always be depended on. Secondly, in periods such as that of the rearmament drive, the goods, especially the capital goods required for a development programme, cannot always be available from abroad. Therefore, it is a prudent course to plan economic development in such a manner as to provide, within an early stage of the development plan, for freedom from dependence on essential imports from abroad. Of course, development planned in this manner requires resources of a minimum size and of a minimum variety. India, has, fortunately, adequate resources in both these regards; therefore, to plan economic development in India along other lines than those sketched above is to turn away deliberately from the lessons of the experience of other countries in the recent past, and to stake our future on a gamble on international trade and international progress.

IV

Before going on to consider the problem of external resources likely to be available for economic development of the underdeveloped areas it is necessary to pay some attention to the general reaction to this process on the part of the advanced countries. Most peoples of these areas are today independent and have begun to form their own notions regarding objectives of national policy. These objectives,

are, of course, broadly similar to the objectives of all other political States, which are to obtain for their States a political, economic, and cultural position which is on some measure of equality of status with other political States with whom they are in contact. The ultimate objectives of the new political States of Asia, for example, can be framed in no less generous or no lower terms than these. The implications of the new Asian States setting up such objectives have, however, great significance for themselves and for the world as a whole. There is little doubt that during the last two centuries the whole world has been dominated more than at any stage of its previous history by a small group of nations belonging to the White races. The circumstances favourable to a continuance of such dominance appear to have ceased. It cannot be said whether the present is merely a prelude to another stage where other groups will dominate. However, in the circumstances, all, especially the States that have newly won independence, must strive to gain a position for themselves which will free them from the threat of domination. Till a comparatively small number of decades ago the superiority of the European Whites was complete and that they were destined to rule the world was taken for granted. In recent years the claims made on behalf of the Whites have not appeared as clear as before and the behaviour of the Whites towards the coloured has, in particular respects, been somewhat modified. There is no reason, however, to believe that in fundamentals the situation has greatly changed. The present position and future progress of Asian nationalities presents a challenge to the older concepts of White supremacy and the political and economic assumptions on which they rested.

The situation has an economic as well as political and social aspect. It is no doubt true that in the long run everybody should benefit by the full development of all parts of the world. However, as happens in many other economic discussions, two views can be taken of a process which while raising the total product also brings about a radical redistribution of it. There is no doubt that in a large measure the rapid progress in industrial development made by modern European countries and their resultant prosperity was due to the control over resources of underdeveloped areas exercised by these countries. That the standards of living in the imperialistic countries are likely to suffer because of the loss of colonies has been widely recognized and is now admitted by most. For example, the Liberal-imperialist British newspaper *Economist* writing of the possible loss of Malaya by the British says: "The chain of direct and indirect consequences, flowing from such an event would be far greater for Britain, for the standard of living of its people and for the whole Western position in Asia than is generally realized."¹

¹ 'Consulting on Asia,' *The Economist*, 24 November, 1951. (Italics mine.)

Obviously, the end of colonialism cannot be expected to be welcomed by the imperial powers. The U.S.A., which perhaps played some part in the decisions made by many imperial powers in the immediate post-war period that their position in Asian countries was generally untenable, has in recent years inclined to other views because of the needs of the anti-communist strategy. It has been forced, as in Malaya and Indo-China, to countenance and help actively the retention of their position by imperialist powers. Moreover, though for the bulk of Asia an active colonial regime is a thing of the past, the case is very different with Africa. Almost the whole of that continent is in the stage of colonialism and the withdrawal of colonial powers from this field is bound to be a gradual process involving some time.

Even where a modern industrial country does not hold sway over an underdeveloped country as a colony it may exercise such control over its economy through, e.g., exploitation of its key resources that, for all practical purposes, the relations between their economies may be those of a colonial with a metropolitan economy. The most important cases in point arise out of the exploitation of oil resources. The oil concessions operated by industrially advanced countries in relation to fields situated in the underdeveloped areas have been in recent decades progressively contributing larger and larger incomes to the underdeveloped countries in which they are situated. However, the exploitation by foreign concessionaries means that the oil resources contribute, in the main, to the economic strength of the exploiting country. The economic strength and bargaining power as well as the complex structure of trade, transport and industry raised on the basis of oil resources all belong to the exploiting country and not to the country in which the oilfield is located. The dispute in relation to exploitation of oil is not a question of proportionate division of incomes but a fundamental one as to who will obtain all the important advantages flowing from ownership and exploitation of oil. The sedulous attempts of exploiting powers to draw a red herring across the trail by pointing to large or increasing monetary benefits now fail to conceal the true nature of the struggle from even the ignorant populations of these countries.

The history of the relations of the U.S.A. with the Central and the South American countries is another important illustration and may provide useful material for a study of possible changes in the balance of such relations and the possible pattern of continuous readjustments. It is obvious that the efforts of the underdeveloped countries to free themselves from dependence on industrially advanced countries and to develop and exploit fully their own resources may result in some diminution in the economic strength and in the incomes of the richer countries of today. The possession of colonies

and of concessions for exploitation have important tangible results; their loss is bound to be felt seriously by, at least, some of the European countries who, but for the peculiar political developments of the post-war period, would have made a greater fight for their retention.

It is difficult to judge how, apart from these aspects, the general developments of the underdeveloped countries would affect the economic position of the present industrially advanced countries. There is one apprehension that is already felt and expressed. It is a commonplace of thought on the subject that a rapid economic development of underdeveloped areas may change the terms of trade between agricultural and industrial products in such a manner that economies built on the basis of bulk imports of raw materials would find themselves under great strain. There are other ways in which through affecting the prices or the availability of particular materials the advantages enjoyed so far by the European countries in relation to tropical and colonial products may vanish and this might affect the structure of their economies and their prosperity. Such are some of the general arguments for believing that the economic consequences of a rapid economic development of the underdeveloped areas may not be all to the advantage, at least immediately, of the present industrially advanced countries and that therefore it would be too much to expect them to assist generously such developments.

The U.S.A. are a possible exception to what has been said above. The internal resources of the U.S.A. are both rich and varied and though the country does derive some advantage from its exploitation of, e.g., oil resources in different parts of the world and from the general tutelage exercised by it over Central and Southern American economy the loss of these in due course may not affect significantly the material prosperity of the people of the U.S.A.

The political and cultural consequences of a rapid economic development of the underdeveloped areas may also be important. Many of these areas, especially those in Asia, are heavily populated and if with rapid economic development the economic and political strength and status of these countries is greatly raised an almost revolutionary change will have come about in the present balance of political power in the world. For about 200 years the European peoples have been used to thinking of themselves as the natural ruling powers. It has been with great reluctance and with strenuous opposition at each stage that they have admitted nations of the other races to a position of even theoretic equality. If now these countries, some of whom are extremely populous, attain to a status of something like real equality the mental adjustment required of the European peoples in accepting this fact would undoubtedly put them under great strain. There is little doubt that this is partly the explanation of the great

attention paid by the Anglo-Americans to the population problem of the Asian countries. 200 years ago the population of the world was largely non-white ; within the last 200 years, the white peoples have grown rapidly in numbers as a result of having occupied large areas of the world. In many of these areas colonized by the Europeans, older populations have been almost completely wiped out as in the present U.S.A. and Canada, Australia or New Zealand, and when in these areas a non-white element has been admitted it has been only on the status of and for use as slaves or serfs.

The racialism of the Whites has been incorporated in and expressed through many institutions and legislative enactments. At one extreme stands, no doubt, the South African segregation policy. The sentiment appears in the extreme form in South Africa only because the sense of fear under which the South African Whites labour is so much the more immediate, constant and large. The immigration laws of the U.S.A. and Australia are, in principle, based on concepts no different from the South African policy of segregation. If the economic development of the whole world was a single indivisible process, the movement of population from areas in which the productivity of labour was low to those where it was high would be the obvious first step to bring about increased prosperity. That not only can such steps not be taken but that they should be considered so impracticable that nobody should find it worth while even to mention them on an international plane is itself an adequate commentary on the present distribution of the political power in the world. There is no doubt that countries, especially like Australia, look on this matter of economic development of underdeveloped areas as something like a race against time ; their constant apprehension being as to what would happen if large areas of their country are still unpeopled when coloured peoples of Asia have become strong enough to voice their real sentiments in the matter and to exercise their power accordingly.

V

The above discussion would indicate that there is no reason why the rich and developed countries which belong almost entirely to the West European group, directly or indirectly, should take any interest in the rapid economic development of the underdeveloped areas. In actual fact also, before 1940, none of the rich countries took an interest in the development of the underdeveloped countries, except as complementary economies. The problem of the availability of external aid for the underdeveloped countries, has, therefore, to be looked upon as entirely a post-war phenomenon. The communist countries claim to have solved the problem of the rapid economic

development of underdeveloped areas. They claim to have actually developed many such economies without significant external aid. Whatever the extent of their actual achievement in this respect, they are seen to have attained an impressive political status in the world. They are also supposed not to entertain a racial bias. Their appeal to peoples of the underdeveloped areas is obviously great. It is in the context of counteracting this appeal that the aid policies of Western countries must be judged.

This would explain why in spite of some immediate considerations to the contrary the rich countries are disposed at present to help the underdeveloped areas. What are likely to be the terms and what the magnitude of such help? In this connexion the views of the representatives of the developed countries, indicated previously, have relevance. They illustrate what in effect is a universal phenomenon, that thought in economic policy in a society is closely related to its immediate experience and to the comparatively short-term economic interest of that society. As the experiences and immediate interests of the developed and underdeveloped areas diverge greatly, it is not necessary for us to take seriously their thinking on our problems. I have shown above that the programme indicated by them is neither appropriate nor adequate. It is, however, pertinent to enquire whether the terms and extent of the external aid available are likely to depend on the nature of the policies followed by the underdeveloped countries. The problem may be considered separately for the different sources of available aid.

Before considering future prospects, reference may be made to discussions in international authorities on recommendations regarding external aid made by the U.N. experts. The points of open disagreement were the recommendations of U.N. experts regarding the creation of a new and independent International Development Authority and the making of grants through such authority to the underdeveloped countries for certain specific types of non-self-liquidating expenditure. The division, outside the Soviet Bloc, was as among representatives of the developed and of underdeveloped countries. In opposition to the recommendations of experts it was urged that a new International Authority was not necessary and that the experts had ignored the work that was being done by the existing international agencies and that while it may be true that at least some underdeveloped countries stood in need of grants the resources available today with the developed countries for the purpose were not adequate for the functioning of such authority. All the developed countries, other than the U.S.A., pleaded that in view specially of the rearmament expenditures they had no surplus resources and those that they had were fully required for their existing commitments in their own colonial or commonwealth areas. The United

States Government took the view that there was no justification for setting up an International Authority unless it was in fact international, i.e., unless a substantial part of the funds of that authority were raised by contributions from a number of Governments. There was, in its opinion, no point in creating such an authority if almost all the funds, as appeared certain, would have to come from U.S.A. itself.

The ultimate decision taken by the General Assembly was the result of continuous pressure exercised by representatives of the underdeveloped countries. The Economic Committee of the Economic and Social Council, entrusted with the task of preparing a draft resolution for consideration of the Council, had emphasized the need for the underdeveloped countries providing appropriate conditions for an inflow of foreign capital, especially private capital, had drawn special attention to the non-availability of funds for grants and to the improved terms of trade of the underdeveloped countries which made grants unnecessary and had merely asked various organizations to keep the question of grants under consideration. The draft resolution of the Economic Committee came under severe criticism in the Council and was substantially modified in it; it underwent further change in the Assembly. It is, however, doubtful whether this modification of the draft resolution as originally sponsored by the developed countries will prove of any concrete use.

Consideration of the measure of likely assistance forthcoming from external sources for the development of underdeveloped countries must be made without much reference to resolutions passed by international authorities. We may begin the consideration by passing under review what has already been done in this behalf. During debates in various U.N. authorities the charge was often levelled against the U.N. experts that they had failed to pay due attention in their report to the work being done or already accomplished by existing international authorities. No doubt, a large number of international authorities have been brought into existence since the war. Some of these such as the U.N.R.R.A., which had notable achievements in the work of rehabilitation to its credit have been wound up. Most of the others such as the W.H.O., F.A.O. or the much older I.L.O. are all specialized agencies devoted to work in particular fields. They perform in their own fields useful service in bringing about international agreements, exchanging ideas and giving advice; their contribution to a programme of economic development cannot, however, go further than helping in the formulation or definition of particular aspects of the programme and rendering some technical assistance in its execution. The work of these agencies is also by no means confined to or concentrated in the underdeveloped areas of the world. The one recent activity under-

taken on an international level and directed specifically to the economic development of underdeveloped countries has been that of technical assistance. Here again the assistance given is in the shape of the services of experts in particular fields; this could be fruitfully utilized only by a country which had previously formulated a plan of integrated development and which had the resources with which to implement it. The Technical Assistance Board set up by the U.N. has itself begun to realize this fundamental limitation on the scope of its activity.

Three elements are essential in any successful programme of economic development of an underdeveloped country. These are (1) state of internal preparedness, social and political, (2) the formulation of an integrated plan, (3) resources required to fulfil the plan. Existing international agencies could do little regarding the first requirement; the definition of the scope of existing specialized agencies and the development of their activities has also made clear that their utility in the other two respects was confined to helping the formulation of plans in particular fields and supplying the services of some expert personnel in them. The international agencies are, of course, not to blame for the manner in which their scope has been defined and the consequent limitations on their usefulness in the large task of economic development. Equally, U.N. experts were also not to blame for the fact that in view of the way in which they had analysed the problem and defined its magnitude they found no occasion to refer to the activities of these agencies.

The above has been written without reference to the international agencies which have command of general resources and could, in appropriate circumstances, supply them to individual countries. These are the International Monetary Fund and the International Bank. The resources with the International Monetary Fund are available mainly for meeting short-period balance of payment difficulties and could not be counted on in a programme of long-term development. The International Bank, though its activities are not confined to underdeveloped areas, was on the contrary specially set up to provide investment resources. The U.N. experts, therefore, made special reference to the work performed so far by the International Bank and the part it could and should play in an international programme of economic development. The experts were somewhat critical of the extent of the assistance that the International Bank had been able to give so far. Whatever the circumstances responsible for the fact it cannot be denied that the actual performance has been disappointing. At the same time the experts noted that there had been, on the part of the International Bank, a reorientation or reinterpretation of policy and an attempt at quickening the pace and recommended that a definite target should be set up and reached.

It should be noted that the recommendation to set up an International Development Authority does not imply an underestimation or depreciation of the role of the International Bank. The International Development Authority is required because the Bank cannot perform a number of vital functions essential in formulating and implementing an international development programme. The International Bank has no doubt been driven by necessity to assist countries applying for loans to formulate plans. However, the giving of such assistance or advice is not a primary function of the International Bank and it could undertake the function only in particular circumstances and only to a limited extent. It could not initiate, even in an indirect manner, the formulation of integrated development programmes in individual countries or give the assistance required in many forms in the various stages of such formulation. The International Bank could not, also, undertake the coordination of plans or constantly help in their implementation, especially in times of international difficulties. Also the International Bank did not desire to have anything to do with the distribution of grants or with even the administration of loans at concession rates. The International Bank held the view that its activities should be confined to banking proper and that any admixture of other functions would be undesirable from all points of view. Taking an integrated view of the whole process of development and assisting in it at all stages is a task which neither the International Bank nor any arrangement of coordination between various international agencies could carry out. If the nations of the world did really consider the development of the underdeveloped areas the most urgent problem of the present, it could be adequately dealt with only by a special authority created for the purpose. Such were some of the considerations which led the U.N. experts to recommend the setting up of an independent International Development Authority.

It has been pointed out above that aid from international agencies other than the International Bank was not likely to be substantial. The views of the international agencies also revealed large differences of opinion among themselves. At one extreme we have Dr. Ezekiel of the F.A.O. who considered that the ability of the underdeveloped countries to direct and control far-reaching programmes was limited and who professed belief in a programme chiefly of mass education. On the other hand, there were some representatives of the International Trade Union organizations who thought the U.N. experts had paid insufficient attention to problems of the workers' standard of living and there was also the complaint that the U.N. experts had not paid sufficient attention to the problem of underemployment. It was only the International Labour Office and the International Organizations of Trade Unions that supported wholeheartedly the

approach of the experts and their estimate of the magnitude of the effort involved. This difference in reaction may have been due to the fact that these labour organizations were in touch with conditions of workers and the poorer classes in the underdeveloped countries and not merely with investment markets and leaders of private enterprise. The reactions shown in the official representation of the International Bank are highly interesting. The International Bank fully agrees with the need for the internal political and social changes which the experts advocated. It also supported the idea of an integrated plan of development and felt that if grants were available for non-self-liquidating expenditure the security of the loans made by the International Bank would be greatly strengthened and the terms and amounts of the loans offered by it could be improved. It did not admit that much more could have been done by the Bank in the past or that it was practicable to set up a target of annual loan amounts to be reached within a specific number of years.

The International Bank is no doubt strongly in favour of development taking place through private enterprise. In many plans of development, as, for example, that in connexion with Turkey, it has deliberately put in the forefront of the programme the development of private industry and it may safely be assumed that the check to the progress of nationalized industry in Turkey was connected with the large American aid and with help from the International Bank received by that country. It would appear that in other countries also where the International Bank has helped in preparing the blueprint of a development programme, emphasis has been placed on working through private investors. However, it may be that the International Bank would not necessarily refuse or grossly curtail help if other circumstances determined or indicated that help should be given. A notable instance is that of Yugoslavia. The International Bank has begun to grant development loan funds to the country even though it is known to profess a communist ideology in matters of economic development, though even in Yugoslavia a decided change in direction has been alleged following the help received.

Assistance from governments of individual countries, either directly or through their own agencies set up for the purpose, and assistance from private individuals in foreign countries are the other sources of external aid. The Export-Import Bank of the United States of America is an important example of an agency set up by an individual country. The U.N. experts have referred appreciatively to the work of this Bank. In fairness to the International Bank it must be observed that the Export-Import Bank operated in conditions which are somewhat peculiar. The Export-Import Bank administers resources set apart for the purpose by the Government of the United

States of America and, unlike the International Bank, had not to pay any attention to reactions of its policy in making loans on the international capital market. Secondly, the administrative organization of the Export-Import Bank was such as to make it very responsive to the policy of the United States Government and highly elastic in its terms and conditions. The International Bank operated necessarily in a more rigid framework, and there were severe limitations on the possible variations and elasticity in its terms or methods of doing business. The Export-Import Bank was in brief an instrument of policy of an individual government, while the International Bank was an international agency. However, this very difference made it difficult to place as much reliance on an organization like the Export-Import Bank in a programme of long-term international economic development as on the International Bank. While the Export-Import Bank had in recent years done some useful work the total amount of assistance made available through it had not been large.

The help given or to be given by foreign Governments stands in a class by itself. At the present there is no programme of aid in Asia comparable to the Marshall aid for European countries. It is likely, however, that in the near future offers of substantial help may be made by the Government of the U.S.A. to some countries like India. These offers of aid will, most probably, be directed towards specific objectives and programmes. Help from the U.S.A. or from any foreign Government is likely to depend much more largely on political and military considerations rather than on considerations of internal economic policy of the recipient country. If the Government of a country, say, India, takes any large steps towards socialization or drastic control of foreign trade, the Government of the U.S.A. may not entirely relish the step, but it is not likely to revise its aid programme merely on that account. Receipt of aid from the International Bank or from the Government of the U.S.A. will thus mainly depend on the political situation. It is equally clear that aid from the International Bank or from the Government of the U.S.A. will be available after a country embarks on an economic programme which they do not approve, only if political circumstances make the giving of that aid imperative. This is tantamount to saying that such aid may be available in particular circumstances but that it cannot be completely depended upon. Experience of other countries who have received American aid shows clearly that the aid always has, as such aid received by one Government from another must always have, some political implications. Action of the U.S.A. in relation to the embargo on trade with China or the case of the agreement obtained on the Japanese Peace Treaty are important illustrations of what is likely to happen. The mechanics

of political action in the U.S.A. are also very peculiar and it is not certain that aid programmes in a given direction launched at a particular time will always be kept going year after year. While, therefore, it may always be perfectly honestly stated both by the donor as well as by the recipient that no strings or conditions are attached to receipt of particular aid, the political relations which the giver of aid, of a constant recipient or of one who expects a stream of gifts in the future, are necessarily of a type which must shackle political discretion in a significant manner. It is specially important to observe that as matters stand there is continuous likelihood of a sharp difference of opinion on important issues between the U.S.A. and India. The peculiar position that India occupies, its tradition and history and the evolution of its foreign policy in recent times all point to possibilities of recurrence of these differences. In the circumstances, while it would be unnecessarily foolish to refuse any specific aid that is currently offered or given, only because it may give rise to possible embarrassments later, it would be highly unrealistic to continue to count on any receipt of such help or to make a programme of development dependent in any essential respect on receipt of help from a foreign Government such as that of the U.S.A.

At this stage a word may be said regarding the position of the Soviet Block. It must be clearly recognized that the Sino-Russian group of countries are among the poorer countries of the world and most countries within the group are undergoing or awaiting development. In particular, the development of China will require specially large resources. Therefore, even if India adopts parts of ideas on planning and economic development which have been evolved largely in the communist countries, it should not expect any substantial help from this group of countries. Not only are the surplus resources required for giving such aid not available with these countries, but also the political implications of receiving such aid from them may be found to be even more embarrassing and more inconsistent with our past and present than those of receipt of aid from the U.S.A.

We may lastly consider the possibilities of private investment by foreigners. It is obvious that such private investment effort is compatible only with a plan drawn on the lines favoured by the advanced countries. The implications for economic policy of encouraging private foreign investment for internal development are many. Investment effort by foreigners is, in the first instance, fairly costly. The minimum returns obtained and expected on such investments is of the order of 15 per cent or so. From the point of view of generating investment surplus from exploitation of resources, this is a rate of return which is very high and could be given only by

a country which finds no way of bringing about development by other means. Secondly, encouragement of investment by foreign private entrepreneurs may influence long-term economic policy. It may imply the entrenchment of domestic private effort for periods and in conditions in which alone the foreign investor will choose to invest. The encouragement to foreign private investment may thus involve a commitment relating to domestic policy which is in fact a long-term commitment.

In the context of modern conditions it is also clear that increased foreign investment effort strengthens not only indirectly but also directly the position of domestic private enterprise; this is because, whether compelled to do so by local Government regulations or not, foreign capitalists nowadays seek everywhere to exploit resources chiefly in collaboration with groups of local capitalists. The privileged position and superior bargaining status of foreign capitalists in relation to the national government thus fortifies by association with them the position of domestic capitalist classes also. In effect, therefore, encouragement to foreign private capitalists is tantamount to wanting or guaranteeing to maintain a private enterprise economy internally for an indefinite period of time. Such a policy may fit in with the aims and the scale of efforts contemplated in the five year plan in India. It would, of course, be incompatible if any more vigorous or more radical measures are taken for development. External capital from private sources could not, therefore, be counted on in such a programme as a significant source.

It is difficult to estimate the magnitude of the help that might be available to any country from external sources. However, making a rough guess, the external aid that India may receive during the next decade may in favourable circumstances be put at from Rs. 100 crores to a maximum of Rs. 200 crores per annum. In a plan where the total investment in the public sector is no more than Rs. 300 crores per annum, external help of this magnitude will prove important. Also, in such a plan help from all sources, including foreign private investment, can be drawn upon and help from the International Bank and the Government of the U.S.A. may be liberal and certain. The other approach which I have indicated as providing the only solution to the problem would require an initial minimum planned investment by or through Government of the order of about Rs. 1,000 crores per annum. In such an approach utilization of private investment capital from abroad will not be possible; also in it, in comparison with the requirement of internal effort, the available foreign aid could not be proportionately large. Hence, though foreign aid of the dimension of even Rs. 100 crores per annum can never be ignored or chances of obtaining it neglected by a country

like India, its absence would not affect the plan fundamentally.⁸

VI

The final decision regarding the approach to the plan and the magnitude of the effort required will ultimately be arrived at in relation to circumstances other than the availability or non-availability, or the magnitude of foreign aid. The decision will be taken by the Government of a country in relation to what it thinks is possible and necessary. If small efforts of the type of the Indian Five-Year Plan are all that the situation needs, the ruling classes are not likely to do anything more strenuous and risky, and may then, incidentally, benefit from all types of foreign help. The masses in India have lived in great poverty for generations; there is no reason why they may not continue to live in equal poverty for more generations. There may be no special urgency about economic development and no particular reason why economic development should not take place in India through private enterprise by increasing concentration of economic power and the sacrifices imposed on the poor. If the people of a country continue to stand a regime of that sort, there is no particular reason why it should be disturbed. If, however, internal pressures make it necessary for Government to embark on more difficult policies, the possible cessation of foreign aid is not likely to deter them from the effort. Absence of foreign aid would only mean that the efforts would have to be more intense, more well-planned and the sacrifices larger than might otherwise have become the case.

Whether foreign Governments, in this instance chiefly the Government of the U.S.A., extend help or not—and the conditions on which they extend it—is entirely their concern. Indians have no reason to hold any particular set of expectations in the matter. It does, however, appear unnecessary for the Americans to give the impression that in giving aid they are favouring a particular approach to the problem of development and frowning on the other. The great emphasis laid by representatives of advanced countries on private enterprise, on foreign investment capital and on the need for recipient countries making conditions easy and favourable for the investment of foreign private capital has undoubtedly created an unfortunate impression. American spokesmen do not adequately

⁸ In this discussion I have treated loans and grants from foreign Governments together. The justification for doing this is that ultimately the bulk of the funds for all purposes come from the U.S.A. and whether aid is in the form of an outright grant from the beginning or of a loan to be repaid over a long period the difference in the early stages of development to the plan will not be significant.

realize the great differences in conditions and dispositions between their country and the Asian countries. Even the Europeans find it difficult today to accept all American ideas on economic policy. The following quotation from an article in the Economist (15 December, 1951) on a conference of European industrialists in New York addressed by Americans will be found illuminating:

It was beyond dispute that the visitors had come to the most prosperous area of the world from one not so prosperous. The Americans were well-entitled to assume that explanations of how the United States had achieved such prosperity, coupled with some advice on the methods by which the same admirable results might be reproduced elsewhere, came within the definition of helpfulness.

This from a British liberal newspaper is significant; for, the British have exhibited during the last 150 years similar helpfulness in relation to the Asians and find only recently the role reversed in relation to the Americans.

If the British and the West Europeans find the cry of more competition meaningless and unhelpful, it may well be that many people in countries where modern private enterprise has been seen in some of its more unsavoury aspects may consider the American attitude and insistence as being worse than merely unhelpful. For many Indians, it is difficult to understand why a plan of integrated development which imposes a uniform regime of austerity should on account of its rejection of the concept of a private enterprise economy be considered less democratic than one which professes welfare and equality, but in effect maintains a regime of gross inequality and the denial of welfare. Also, it is difficult for many of us to understand how, to think in terms of a socially integrated planned economy, is necessarily more wicked than maintaining a system which avowedly works on the dictum: 'The race is to the swiftest and the devil take the hindmost.' These are, of course, all large disputes in which sharp differences of opinion are bound to arise and each is likely to judge according to his own experience and disposition. What I think is unfortunate is that the American help potential should, in this dispute, appear inextricably mixed up with one approach to the problem. American aid in Asia is available today largely to regimes which have been judged by the peoples of Asia as being essentially undemocratic, socially, economically and politically. The emphasis on private enterprise everywhere is interpreted, at least by many in India, as reflection of a policy which on the plea of strengthening the democratic front could only lead to bolstering up undemocratic regimes. This is a matter connected not so much with the quantum of economic help as with mutual understanding and good relations

and is, therefore, one on which an Indian may express a frank opinion, thus far.

For us in India the moral of the considerations set forth in this article is clear enough. Our Government has guaranteed the maintenance of the present field of private enterprise and Finance Ministers have declared that they cannot increase direct taxation further or curtail imports. Therefore, the maintenance of the present standards of living of the rich in India is assured and no diminution can take place either in the economic resources concentrated in their hands or in the fields open to them for profitable activity. The magnitude of investment contemplated by Government in the public sector is relatively no larger than the investment made by the British when they were building railways or canals. Government will also find it impossible to increase significantly the burdens on the poorer classes or to generate general enthusiasm. The only new factor that has recently emerged is the availability of some foreign government aid on very easy terms. Evidently, the Indian Government expects the economic development of India to take place at the needed rate without any sacrifice on the part of the rich and without any special effort on the part of the Government. This is rank delusion. India is one of the oldest, biggest and poorest of the countries of the world; its problems are among the most complex and its resources among the slenderest. In such a country no rapid economic development can begin without a social revolution which changes radically the existing distribution of economic power and income; and such development will involve the imposition of great present sacrifices on all and will call for patience during the long period which will elapse before the fruits of development accrue. The need for social cohesion and solidarity is great and the situation demands, in a high degree, intelligence in planning, honesty and ability in execution and discipline within the community. It is high time thinking men within the country woke up to these realities of the situation.

PRESIDENTIAL ADDRESS
TO THE FIFTEENTH ANNUAL CONFERENCE OF THE
INDIAN SOCIETY OF AGRICULTURAL ECONOMICS
HELD AT ALLAHABAD ON DECEMBER 26-28, 1954

I AM THANKFUL to members of the Indian Society of Agricultural Economics for electing me to preside over this Fifteenth Annual Conference of the Society. I shall utilise the opportunity thus offered to place before this distinguished and influential gathering some thoughts on what I consider to be the central problem of Indian agricultural economy. The subject I have chosen for the address is usually discussed under the broad heading land reform or agrarian reform. There are many aspects of agrarian reform and I shall deal only with what I consider to be the core of agrarian reform in India, namely organization of agricultural production with particular reference to the size and structure of the unit of agricultural production. I need not emphasize that I shall confine myself to the problem as we face it in India today but may add that I shall deal with the Indian problem chiefly in the context of or as part of, a plan of rapid economic development.

I shall begin by giving a brief account of what is being done and being thought of about the subject at present in the country. The main constituents of the programme of agrarian or land reform currently undertaken by the State in India are classified as follows in the progress report for 1953-54 of the Five Year Plan :

- (1) The abolition of intermediaries ;
- (2) Tenancy reforms designed :
 - (a) to scale down rents to 1/4th or 1/5th of the produce ;
 - (b) to give tenants permanent rights subject to the landlord's right to resume a minimum holding for his personal cultivation within a limited time ;
 - (c) to enable tenants (subject to the landlord's right of resumption for personal cultivation) to acquire ownership of their lands, on payment of moderate compensation to the landlord spread over a period of years ;
- (3) Fixing of ceilings on holdings ;
- (4) Reorganisation of agriculture including the consolidation of holdings, the prevention of fragmentation and the development of co-operative village management and co-operative farming.

Many of the items included in the above have been subjects of attention and activity on the part of governments for many decades past. However, a number of important elements are of recent introduction and the programme has begun to look like an integrated attempt only within the last few years. An important feature which has received emphasis only since the attainment of independence is the abolition of intermediaries, popularly regarded as equivalent to the abolition of zamindari. Theoretically, it is possible to argue that it is not necessary to abolish the zamindar or other intermediary or intermediaries between the State and the actual tiller of the soil. The State could effectively regulate activities of the superior holders so that all the conditions required for an efficient conduct of productive operations by the tenant-cultivator are obtained. Indeed, it has been suggested that a programme of tenancy legislation such as that adopted in a rayatwari state like Bombay could have done equally well in zamindari states like Uttar Pradesh and Bihar. However, landlordism, where it is a recent product and holds only a part of the field, in an essentially owner-cultivator community, operates very differently from the way it operates in an environment where it is of long duration and well-nigh universal. Experience of legislation in the recent past has shown how it is difficult to stop even irregular exactions by landlords in the zamindari states. As in all other spheres of Indian economic activity, in this also, it remains true that it is easier, and in the long run more profitable, to abolish a powerful private interest whose activities are apt to run counter to desired goals of national policy, than to attempt to regulate it. The abolition of intermediaries, especially in areas in which landlordism has been all-pervading in extent and influence is thus no more than a primary step in making possible the creation of a politico-economic democratic society.

While emphasizing the primary importance of the abolition of zamindari it is necessary to remember that, in India, it affects, in the main, the distribution of the total agricultural product and not the size and organisation of the unit of agricultural production. Barring a small number of exceptional areas, to which reference is made later, the typical agricultural producer in India both in the rayatwari and in the zamindari States is a peasant family operating with a small and fragmented holding. The abolition of zamindari may put heart into the erstwhile tenant, may give him hope and will most probably reduce the share of the agricultural produce with which he has to part in terms of revenue and or rent; but it will not alter the size or shape of his holding nor indeed increase immediately his total working capital resources. This is because, in the first instance, the abolition of intermediaries does not mean the break up of large farms or farming estates or the redistribution of

land and secondly because, even if this had been a part of the programme, there are, in fact, with the exception of a small number of regions, no large farming estates in India. The very description of the reform as abolition of intermediaries, emphasizes this aspect of the redistribution of the product and reduction of the burden on the actual cultivator. It is conceived of essentially as establishing, as far as possible a direct relation between the actual tiller of the soil and the State.

Tenancy reform or tenancy legislation has a much wider sphere of operation than legislation for the abolition of intermediaries. It has significance both in the zamindari and the rayatwari states. Indeed, tenancy legislation is found necessary wherever private ownership and operation of land exist, though its direction and content may vary from one system of land tenure to another. The abolition of zamindari may result in landlordism ceasing to exist as a general feature of the situation in an area; it cannot, however, entirely and for all times prevent the emergence to some extent, of temporary or permanent tenancies which must be regulated. In fact, the very effort to keep in check the emergence of tenancies postulates existence of appropriate tenancy legislation. Tenancy reform is essentially directed towards obtaining for the tenant, who in the present Indian context is generally supposed to be the actual operating cultivator, security in the cultivating possession of his holding and reasonable, if not generous, terms relating to share of produce with which he has to part in favour of his landlord or other superior holders. Where it provides for the acquisition of rights of ownership by the tenant it seeks to establish ultimately a direct relation between the cultivator and the State. It may, however, be doubted whether in areas where landlordism has not been deeply rooted and tenancy legislation can, therefore, be effective in protecting the tenant, it is necessary to divert, for acquisition of ownership rights, such financial resources as the tenant cultivator may possess.

Tenancy reform also, it will be obvious, does not affect the size and shape of the agricultural holding. It brings about, in the main, a redistribution of the total produce in favour of the tenant and also gives him a sense of security regarding the future which should react favourably on the economic and technical operation of the tenant-cultivator. However, there is one important difference between tenancy reform and the abolition of intermediaries. The latter is, for the most part, a once-for-all operation; the former, on the other hand, has not only continuous effect but has further to adapt itself constantly to a changing situation. In consequence, though tenancy legislation may not operate directly on the unit of agricultural production, the framing of tenancy legislation is always influenced by the total land policy including policy relating to size

and structure of the unit of agricultural production. In India, tenancy legislation has to concern itself with problems such as those of subletting or of the alienation, transfer or inheritance of land; and all of these have relation with objectives of policy relating to the unit of agricultural production.

The fixing of ceilings on holdings is likely to affect the size of the unit of agricultural production much more directly than either the abolition of intermediaries or tenancy reform. Before proceeding further I may note that the omission to distinguish clearly between the ownership holding and the cultivating holding leads often to a confusion in thinking and exposition of the subject of land reform in India. I shall concern myself in this address, except where explicitly stated otherwise, with the cultivating holding. The adoption of a ceiling may be with reference only to acquisition of additional land in the future. This would act as a restraint on the activities, subsequent to the passing of the legislation, of persons who in the absence of such legislation might have increased the size of their holdings above the ceiling limit. If in any area a trend towards formation of very large holdings has been established or was likely to be established, a ceiling on future acquisition would prevent its operation. The immediate effect of the adoption of a ceiling for the future, on size of the production unit would, on the other hand, be negligible, except to the extent that it would encourage actual or notional division of existing large holdings among family members so as not to be affected early by the operation of the legislation. The long term effects are problematical and would depend on the extent to which the existing or future situation otherwise favoured the formation of very large holdings.

The idea of the ceiling has, however, been developed not in the context of checking future possibilities but in that of granting immediate relief. It had its origin in lands where very large landlord estates existed side by side with diminutive peasant holdings and in which there remained some vestiges of serfdom or in which the memories of a serf society were yet alive. The situation created a land hunger and also suggested a not unwelcome manner of satisfying it. The process was best exemplified in the countries of South and East Europe, both within and without the Communist belt, during interwar years; and it was finally worked out in these countries in the years immediately following the end of the Second World War. In India there are few parallels to this situation. The closest resemblance in all features, social, economic and political, was in Kashmir. It is here alone also that the ceiling has so far been imposed so as to bring about some transfer of cultivated land included in large estates to actual cultivators. However, it would appear that even in Kashmir the effect of the legislative reform was mainly that

of bringing about the abolition of intermediaries. This was because even here the element of direct cultivation in big estates was limited, the bulk of the land in them being already cultivated by tenants. The only other State in India which has adopted the ceiling as an immediately operative concept intended to bring about redistribution of cultivated land is Hyderabad. However, it is impossible to judge at present what, if any, redistribution would come about as a result of the somewhat complicated piece of legislation that has finally been adopted in Hyderabad. Even the comparatively large estates of Kashmir and Telangana do not or did not contain elements of direct cultivation large enough for redistribution to affect sensibly the problem of the small peasant holding, in even restricted areas. Elsewhere the contrasts are much less glaring. The concept of the ceiling, if it is to be used in India must, therefore, be different in content and operation from that in countries with large landlord estates, plantations or latifundia.

The concept of the economic holding or a minimum holding called by any name, like the concept of the ceiling, can form the basis of an immediate operation of reorganization or can be confined to setting a limit to future transactions. In the latter alternative it may act as an effective means of preventing a worsening of the existing situation and may partly even help to improve it gradually in the future. These effects will, however, become apparent only slowly over a series of years and a limit for the future cannot help towards reorganization, if the existing situation is itself extremely unsatisfactory. A minimum holding or a floor has not been used in any State in India yet for bringing about immediate reorganisation of production units in lands included in units below the minimum size.

Consolidation as practised in India affects powerfully the internal organization of a holding, though not usually its total size. The process of consolidation may lead to some saving in the land surface used for such purposes as boundaries or roads and may thus enable formation of a pool of land for specific common purposes. But the saving effected in this way is not likely to yield substantial acreage for distribution among existing holders. Co-operative farming or co-operative village management are yet chiefly in the stage of thought. What little action has been taken is experimental and nowhere has any legislation been formulated or contemplated which bases itself on the formation of co-operative farming units for at least a part of state policy relating to land management.

It would be clear from the above account that the present programme of land reform in India does not bear to any significant extent on the structure or size of the unit of agricultural production. Excepting the attempts at consolidation of holdings, which affect the internal organization of the unit, no other feature of existing or con-

templated legislation is important in this context. The ceiling and the floor to the cultivated holding, in the few States in which they exist, are thought of essentially as regulating future activities, and their importance for immediate reorganization must be considered negligible.

Legislation on land reform is essentially a matter for governments of States. Therefore, the programme is usually framed in the context of particular problems of each State. The activity of the National Planning Commission affords the chief occasion and instrument for integrating policies of different State Governments and for formulating a common Indian policy. Considerable importance, therefore, attaches to the views regarding land policy contained in the first Five Year Plan. It is difficult to piece together in a consistent whole the ideas contained in the chapter on Land Policy of the Plan. The problems of the policy are divided into two aspects: Land Management and Land Reform. It is evidently considered that there is some conflict between the two; for, it is said that "Land Policy should include both elements but should maintain a balance between the two" (p. 88)*. The abolition of intermediaries is accepted unequivocally, though it would appear from later sections that all land-owners are not considered to be intermediaries in relation to all land-surface not cultivated directly by them. There is a similar lack of clarity in respect of the distinction between the cultivated holding and the ownership holding in other instances. Without entering into a discussion of these peculiarities of exposition, the main ideas of the Planning Commission may perhaps be summarised as follows. A limit for future acquisition of holdings or for resumption of personal cultivation is favoured. The limit proposed is three times that of a family holding, which is defined as equivalent to a plough unit or work unit. In relation to existing large cultivated holdings it is laid down that the principal consideration should be whether or not such management is in public interest; and public interest, in this context, is somewhat narrowly interpreted. It is to be judged on the single criterion as to whether the management fulfils the standard of efficiency necessary to raise production in conformity with the plan. It is only when the large cultivated holdings are palpably inefficiently managed that land management legislation would give the appropriate authority power to take over the land "in excess of the prescribed limit" and to arrange for its cultivation. Here again, there is evident confusion between the two possible reasons for taking away any piece of cultivated land from a person cultivating it; one, that the holding is too large and the other, that

* For ease of general ready reference the quotations have all been given from the Peoples' Edition of the First Five Year Plan.

it is inefficiently managed. The most curious feature of this part of the exposition is the optimistic forecast that the proposals would provide for a large measure of redistribution of land belonging to substantial owners.

The suggested land reform policy is again not uniform; it is evidently to change with size of land holding. The most important result is that the tenants of small and middle owners are recommended much less protection than the tenants of large owners. As middle owners are defined as owners of land upto three times the family holding the field of tenancy protection is thus seriously narrowed. The main reason given for the maintenance of a large class of tenants-at-will in this way is that otherwise movement of people from agriculture and rural areas into other occupations and towns may be seriously checked. It is fortunate that most State Governments have paid little attention to this recommendation in their legislative programme.

In relation to the landless worker the main concrete reference is to the Bhoodan movement. "It offers the landless worker an opportunity not otherwise open to him" (p. 92). This can be only interpreted as meaning that the State itself considers it neither necessary nor possible to do anything for him. It is added that the problem of the landless worker must be considered in terms of institutional changes which would create conditions of equality for all sections of the population. The essence of these changes is described as a system of co-operative village management. Co-operative village management is referred to in the Plan in other contexts also. For example, after having formulated the important and unexceptionable proposition that "the basic condition for increase in agricultural production is increase in the unit of management of land" (p. 93) this also is said to be possible only through co-operative management at the village level. With regard to the small and the middle farmers again it is recommended that they should be encouraged and assisted to develop their production and organize their activities on co-operative basis. With this emphasis on co-operation it would be expected, that co-operative organization or co-operative village management would be described in specific detail as a programme sketched out for establishing it. The following extract summarises the ideas of the Planning Commission on co-operative village management.

"Broadly speaking, however, we envisage that the village panchayat should become the agency both for land reform and for land management in the village. In the first place it should be the body concerned with the management of land taken over from substantial owners, and also of village waste lands. The leasing of lands by small and middle owners should also be done through the panchayat and not

directly. In this way the village panchayat may be able to provide cultivating holdings of economic size, at any rate for landless cultivators. The exercise of these functions would naturally lead on to the wider conception of the co-operative management of the entire land of the village and the undertaking of activities for creating non-agricultural employment in the village."

It is not necessary to comment on the above except to note that it does not deal with the problem in the comprehensive manner that might have been expected, that it is over-optimistic and also that the working model presented is obviously unsuitable and inadequate in most respects. Moreover, no concrete programme is provided for progress in the direction of co-operative village management even according to ideas contained in the Plan, beyond the Rs. 50 lakhs provided for study, training and experimentation. It would not be unfair in the circumstances, to suggest that the Plan proposes little of importance in relation to land management and that we have at present no effective programme in contemplation for dealing with what the Planning Commission itself recognizes as the basic problem viz. that of "the increase in the unit of management of land."

Not only is the subject treated unsatisfactorily in the Plan but also the subsequent activities of the Planning Commission and the Central Government do not indicate that it is currently held in importance or receives any special attention. The progress report of the Plan for 1953-54 notes that the Government of India constituted in May 1953 a Central Committee for Land Reforms consisting of members of the Planning Commission and some members of the Union Cabinet. It is, however, not indicated what policy decisions, if any, have been taken by this Central Committee and no advance in ideas or concepts over those contained in the Plan is anywhere recorded. The Community Projects are supposed to be the special field of the Planning Commission and great reliance is placed on them in relation to agricultural development in the future. Not only do these Projects pay no attention to land reform or land distribution but even experimentation in relation to land management appears to find no place in them. The complete absence of any attention to it in the programme of Community Projects is evidenced by its not having been necessary to devote any attention to the subject in the Evaluation Report on the first year's working of these projects. And the later report of the Evaluation Organization, "Community Projects—First Reactions" contains enough evidence to show how the project authorities completely ignore land management and land reform problems.* In regard to co-operative organizations we have the

* See, for example, the following :

"This is a very poor village and most of the villagers are illiterate.

following comment in the Evaluation Report. "While in the very initial stages of the formulation of community plans this aspect of mutual dependence between community development and co-operative organization was not so explicitly stated, during the course of the year increasing emphasis was placed by the Community Projects Administration on promotion of co-operative organizations" (p. 39). The co-operatives to which increasing attention is reported are still the credit, purchase and sale and other organizations and not experiments in increasing scales of land management. The putting forward more recently of agricultural extension as the panacea for all rural ills is, perhaps, a reflection of the same attitude. It appears to be considered by the Planning Commission, as by many foreign experts, that all that is required to increase agricultural production in India adequately is to arouse enthusiasm and to transfer techniques. The problem as to whether conditions in the field are such as to favour generation of enthusiasm and the acquisition and continued practice of new techniques does not evidently need prior consideration. Finally, it is reported that in some States the Central Government, presumably acting through the Planning Commission, was responsible for persuading Governments to modify their original ideas regarding immediate operation of a ceiling on holdings. All in all, one gathers the impression that while in its theoretic formulation the Planning Commission may recognize the existence of the problem of land management it is not ready to give this recognition any immediate or concrete form.

For a statement of integrated thinking on the subject, the steps in which have been fairly reasoned out and which appears to have influenced to some extent action of Governments, during the last few years, one must have recourse to the Report of the Congress Agrarian Reforms Committee. It cannot be said that this Committee was not impressed with the importance or the urgency of the problem. Writing at the time it did, the Committee was specially impressed with the need for an immediate and complete abolition of intermediaries. It, therefore, gave a great deal of attention to that problem and argued effectively the case in favour of the abolition. For the same reason, it tended to treat the problem of the reform of the unit of agricultural production as subsequent to the effective abolition of intermediaries. Therefore, though its approach to this

Majority of the families are landless and land is their greatest felt need. The community programme being mainly related to agricultural improvement has not touched the basic need of many (majority being of non-land owners) and has not been appreciated by them. Due, however, to the VLW'S contacts and propaganda, many know about the programme and there is nothing in the project which would make them hostile or apathetic towards it", *op. cit.*, p. 72.

problem is outlined fairly fully the Committee does not make recommendations in regard to it that are as specific or definite as those made in relation to the former, more immediate problem. The general approach of the Committee turns on three separate definitions of the holding which it formulates and which it calls respectively the basic, the economic and the optimum. The basic holding of the Committee may well be interpreted as a watered down or a "realistic" economic holding. In the words of the Committee the basic holding is the holding "smaller than which would be palpably uneconomic from the point of view of efficiency of agricultural operations." The economic holding, the Committee defines in terms of the standard of living afforded by it to the cultivator and the employment that it provides to a family of normal size and at least a pair of bullocks. The Committee realised that the economic holding so defined sets a standard with which it would be impossible to operate in India unless the large majority of peasant family farms are to be denied independent existence. It, therefore, provides for a lower operating unit called "basic", the criteria for determining which are for obvious reasons somewhat vague. The "optimum" unit of the Committee, which is the same as the general concept of the ceiling, is defined as three times the size of the economic holding. It is difficult to argue out a case for any particular figure as the proper multiplier in this instance. The important point to notice in the context is that the Committee is definitely against mechanised capitalist farming and that it recommends the operation of the ceiling on holdings so as to make impossible holdings which could be worked or managed and supervised by an owner only when mechanised. The "optimum" of the Committee is thus the largest unit which an operator can manage without the farm falling within the category of capitalist mechanised farming. The basic or the economic holding are both concepts which are highly relative especially when based on a measure of the standard of living. The actual or aimed standard of living in any country must have some reference to the resources and the national income potential of the country. Whatever the problems involved in defining the various units of holdings the Committee's approach involves the use, as generally suggested, of the two limits which may be called the floor and the ceiling respectively.

The Committee does not, however, work out in detail a land management policy based on these two operative limits. It states clearly that the ceiling should be effective and lands above the ceiling should be redistributed. It also holds definitely that lands below the basic holding should not be allowed to be cultivated independently and that they should be generally pooled into some type of co-operative productive organisation. The Committee, however, nowhere gives consideration to the crucial factor in an operative pro-

gramme, that of relative dimensions. What number of peasant households or what proportion of land is at present included in holdings below the basic, what proportions are likely to be available for redistribution by the operation of a ceiling and how the total land surface to be redistributed is to be reconstituted into effective operating units; these are the basic data in relation to which alone the large number of administrative and legislative problems connected with any policy based on the ideas of a ceiling and a floor could be solved. In the absence of such detailed calculations the Committee accepts or at least acquiesces in the prevalent notion that the vast bulk of existing units would continue to operate independently.

It is the merit of the Committee's Report that it indicates an approach to the problem which in Indian conditions is both economically feasible and is likely to be acceptable politically. As pointed out above its great pre-occupation with, logically, the earlier problem of the abolition of intermediaries did not, perhaps, allow it or induce it to work out the practical programme in detail.

Barring the report of the Congress Agrarian Reforms Committee there is no comparable official or semi-official document which contains a reasoned discussion of this problem. It is understood that some foreign experts have in recent years also advised the Government of India and the Planning Commission in relation to problems of land reform. The reports of these experts are not readily available to the public and it is not, therefore, possible to say what they contain and what the reactions of Government have been to the recommendations that might have been made. It is however, known that a number of foreign experts, especially American experts, lay a great deal of store by the independent peasant unit of operation. There is, on their part, usually a considerable distrust of State effort and they entertain a generally sceptical attitude towards a co-operative effort. It is in their tradition also to frown on any State assistance or direction to the building up of co-operatives. The notion of a "collective" is, of course, totally repugnant to them.

As indicated above, the Planning Commission appears content to operate with the existing unit of agricultural production and does not propose to change in any radical manner the organization of land management and operation. The Congress Agrarian Reforms Committee also formulates its actual programme very largely in terms of the peasant farm and it does not appear to consider that a programme of reorganization involving large numbers of families and a considerable land surface is insistently called for. The experts appear to talk almost exclusively of the peasant unit and their ideas of land reform are confined mostly to abolition of intermediaries and dealing with large estates. In the circumstances, it becomes necessary to examine existing conditions carefully, especially with

a view to throwing light on the strength and efficiency of the independent peasant farm as the unit of land management and agricultural production.

It is generally known that the size of the large bulk farms in India is very small and that numbers of them cannot be called family farms in any valid sense of that term. However, no attempt is usually made to indicate with figures the dimensions of the problem. I shall, therefore, note certain salient features of the situation very briefly. My concern is with the unit of land management, the cultivated holding, and data relating to ownership of land are not relevant to my purpose. The data required are those relating to size, scale of operations and of investment, receipts and employment, etc., from farming, of the independent farming units. Through courtesy of the authorities of the Reserve Bank of India I am enabled to use data contained in their forthcoming publication—the Report on the Rural Credit Survey. The data were collected from a stratified sample of 15 cultivating families in 600 villages in 75 districts in India and relate to the year 1951-52. In the context of the subject of my address the most revealing figures are those relating to the reported value of gross produce. According to the Survey a little over half of the cultivators reported a value of gross produce of farm business lower than Rs. 400 for the year. There was a possibility of some underreporting or underestimation in these values. However, the most generous allowance for this factor would yet leave an estimate of more than half of the total cultivating families as falling in the class of value of gross produce of less than Rs. 600 per year. The usually cited figures of acreages of cultivated holdings present difficulties of interpretation because of the large variety in size of holdings and quality of land from region to region. The value of gross produce, though its detailed significance may no doubt vary from area to area, gives yet sufficient indication of the size of total business in comparable terms.

This then is a useful starting point of the description, that half or more of the farm units, i.e., independent units of land management in India may have a gross produce of farm less than Rs. 600 a year. The next step is to assess the relative importance of farming activity to the farm family. In the total number of cultivators reporting less than Rs. 400 of value of gross produce during the year two divisions were made representing those with a value of gross produce below Rs. 200 and those with a value of gross produce between Rs. 200 and Rs. 400. The former formed slightly more than 29 per cent of the total cultivators and the latter group 21 per cent. Those reporting value of gross produce less than Rs. 200 reported total farm expenses which exceeded their value of gross produce and those in the latter class reported total farm expenses that were on an

average only about Rs. 60 less than the average value of gross produce. The average reported cash receipts from sale of crops and fodder in the two classes were about Rs. 20 and Rs. 70 respectively and both classes reported cash farm expenses that were more than Rs. 50 on an average than the average cash receipts from sale of crops and fodder. Making all allowance for errors in reporting, etc., it is clear that the cultivators included in these groups earn little, if any, net cash income through their farming activity and the main advantage derived by them from farming is some contribution in kind to family living.

This is emphasized by the data relating to the relative contribution of the different sources of cash income to the total cash receipts of the cultivating family. Here, the data used are those relating to the upper and lower half of cultivators divided, per village, in relation to the size of their cultivating holdings. Because of the possibility of some small holdings yielding proportionately greater values of produce and *vice versa* the division by the cultivating holdings does not completely coincide with the division by value of gross produce. In the main, however, cultivators in the lower strata have much lower values of gross produce than those in the upper.

To illustrate the importance of farm business to the family, I cite the data relating to the sources of cash receipts of families during the year. The average cash receipts per cultivating family of the lower strata during the year was about Rs. 310; of these the largest single source was cash wage receipts amounting to Rs. 133 or nearly 43 per cent of the total. Value of crops and fodder sold was only about Rs. 108. Sale of milk and milk products represented a little over 7 per cent of the total cash receipts and carting and remittances each contributed between 4 and 5 per cent of the total. Perhaps even more illuminating in relation to the size of operations of the individual cultivating family and the role of farming in it are the corresponding data for the upper strata of cultivators. The reported total cash receipts of the average upper strata family were Rs. 594, less than double the average cash receipts of the lower strata family. That these families were mainly concerned with farming is evidenced by their receipts from sale of crops and fodder amounting on an average almost to Rs. 400. Sale of milk and milk products are relatively of the same importance for the upper strata as for the lower strata, representing 7 per cent of their total cash receipts. But the most significant feature is the amount of receipts from cash wages and remittances. Remittances received by families of the upper strata amounted to nearly Rs. 25 per family and cash wages to over Rs. 83. The proportionate share of cash wages in the receipts of the upper strata was much less than in that of the lower strata, but the difference in absolute amounts was much less striking. The cash

wage receipts of the average family of the upper strata were more than 60 per cent of the corresponding receipts of the family of the lower strata and the amount of remittances received by the former was almost double that of the latter. The remarkable fact is that taking wages and remittances together as representing outside labour employment that cultivating families had to undertake, the average of such employment in the average upper strata family is not much less than that in the average lower strata family. The main difference lies in the overwhelming importance of receipts from wages for families of the lower strata.

The picture may be elaborated by reference to other data which relate to all the families in 600 villages. The grouping of families in this case is by each tenth or decile, in the list of all cultivators arranged in order of the size of their cultivating holding. Of the total borrowings of even the middle four deciles, more than half represented borrowing for family expenditure items; for the last three deciles the corresponding proportion was almost 60 per cent. The capacity of the average cultivating family to undertake capital expenditure was obviously extremely limited. The average expenditure, undertaken on all items such as bunding, reclamation, irrigation - sources, implements, etc., including expenditure on repairs, maintenance and replacement was about Rs. 22 for families of the lowest three deciles and Rs. 51 for families of the middle four deciles; the corresponding amount was Rs. 311 for families of the first decile. But if this expenditure is taken together with expenditure on purchase of livestock by the respective groups of deciles and the total calculated on a per acre basis the expenditure incurred actually increases as one goes down the groups of deciles. This means that while the total outlays of the families of the middle and lower deciles are small and are known to be inadequate their burden in terms of per acre costs rules high.

It is not necessary to labour the point further. What I want to emphasize is that the size of farming business of at least half the cultivating families in India is such that it is futile to consider them as independent units of land exploitation in any plan for a developing economy. It is irrelevant in the light of the data cited above to talk in terms of family farms or economic holdings. Even the definition of basic holding of the Congress Agrarian Reforms Committee cannot cover these units. Therefore, a land policy for a developing economy must face up to the serious problem of the reorganization of these units. A vague recognition of these facts is seen in the general comments made in various contexts by numerous experts and Committees on the "non-creditworthy" or the "marginal and sub-marginal" groups. This recognition must become more explicit and must lead on to a realisation of the inability of any

supply or credit reorganization to deal with fundamental defects of the small size and turnover of the existing basic units and of the large numbers involved in any scheme of reorganization.

Before going on to a further consideration of the problem it is necessary to pay attention to an important factor which has emerged during the last few years. I refer to the movement for Bhoodan initiated and actively led by Acharya Vinoba Bhave. The movement is so original in its conception, so novel in its methods, and so revolutionary as to its objectives that special effort has to be made to understand it and to place it in its proper perspective. I begin the discussion by presenting a summary account of what I consider to be the essential features of the movement. Though I have read some of the original writing on the subject and also sought to profit from informed commentaries and interpretations, I am deeply aware of the limitations on my knowledge of the subject and can only hope that the summary presented by me is fair and that I have not misinterpreted or misrepresented the essence. The movement may be said to owe its origin to an overwhelming feeling of revolt at the gross social injustice existing in our society and a deep compassion for the disadvantaged classes in India. It embodies an attempt at initiating a social revolution such that these submerged classes, of whom the numbers and proportions are extremely large in the Indian countryside, obtain some immediate relief and a ray of hope for the future. The chief initial propositions are that rural society in general and the landless rural classes in particular are heavily disadvantaged in India today, that rural society is being continuously exploited by urban classes, that in terms of political power, economic strength or social influence, it gets a very rough deal and that unless the balance is rectified there can be neither peace nor prosperity in the land. The immediate problem to which the Bhoodan movement addresses itself is that of the landless labourer but, as the extension of the movement in directions such as Sampattidan or Jeevandan shows, it is an all-embracing movement directed at the total problem of social injustice. The main objective of Bhoodan is to provide for each family in rural society with at least a small piece of land to cultivate. This is aimed at as the only way of giving every family some means of livelihood and the feeling of a stake in society. Rural reconstruction as envisaged by the Bhoodan movement is also directed towards encouraging rural industry and attaining comparative self-sufficiency. It is not clear whether these are considered to be primary objectives, as having values in themselves, or as methods of rehabilitating rural society. The doubt arises because Vinobaji seems to have made clear on various occasions that he does not object to an urban structure as such. In his opinion it is possible to have a proper division of labour between urban and

rural society which is a just and a non-exploiting one. He does not also apparently object, in principle, to the use of machinery. He objects, in a measure, to its present use because it is evidently the instrument of exploitation, on the one hand, and concentration of power on the other.

The programme of action which the Bhoodan movement sets out is that of asking for voluntary gifts of land from present owners. It is made clear that the word 'dana' is not used in the sense of simple gift or charity. Starting from the definition (दानं संविभाजनः) that 'dana' is proper or just distribution, the gift is sought as voluntary redress of present injustice. The process seems to be conceived of as follows. The awareness of distress of others may arouse sympathy, compassion (daya) and such sympathy joined to reflection may bring awareness of the existing stage of social injustice and one's responsibility, in part, for it. Such awareness would induce action to redress the injustice to the extent possible for oneself; and this is the basis of the general demand made of everyone of a fifth or sixth or some similar proportion of his land possessions. The programme for redistribution of land thus begins with a gift, conscious and voluntary, by present owners of a part of their land in favour of the landless. The land so collected forms the pool for redistribution. It is realized that the voluntary movement may not necessarily be sufficient. Legislation may ultimately come in, but legislation is thought of as the ultimate expression of a popular will, the culmination of a popular movement. To arouse public conscience and to obtain for redistribution of land general support, to create in its favour what is called Janashakti—a power, a strength, or a force, arising from among people themselves: this is expected to be one of the results of the movement; it appears at least to be one of its primary objectives. On the manner of redistribution itself, there seem to be no dogmas, no hard and fast rules. The essence is that any pool obtained in a village must be redistributed according to the wishes of the people of the villages. Vinobaji personally, it is said, would emphasize the role of co-operation. For him the preferred general pattern would be widespread co-operative cultivation with a kitchen garden for every family. He is also supposed to favour both a ceiling and a floor for holdings. However, sensing perhaps that a voluntary movement will not be called upon to deal with general problems of redistribution, he appears content with each small piece of land acquired for a landless person as a step forward in curing social injustice, creating an element of stability and making possible the reconstruction of rural society.

Such, in brief is the account that I have gathered regarding the objectives and programme of the Bhoodan movement. It now becomes necessary to subject these to some scrutiny. It is a task which

I approach with some diffidence and with all humility. In Vinobaji we have not only the greatest but also, perhaps, the only force that has acted in independent India for dealing with the problem of concentration of economic and political power, which is at the root of all evil in our society. Such an effort made in such a bold, all-embracing manner and involving such vital reinterpretation of our traditional values must needs receive the instinctive sympathy of all Indians. At the same time our intellectual tradition enjoins on us the responsibility of examining whether the premises of the movement are correct, its objectives appropriate, whether its programme leads us in the right direction and whether there are no repercussions of it that will deflect us from the desired goals.

Examining the premises from which the movement starts it is possible to show that they are well founded. The facts on the cognition of which the movement is based can be evidenced from statistical data. The data of the Rural Credit Survey can, for example, be drawn upon to support the premises in two important directions. The first is that of the existence of land hunger accompanied by the fact of extremely low sizes of holdings of land. The extremely small size of the holdings of what might be called the middle and the small farmers are emphasized in the data over and over again. These, however, are matters of common knowledge. The more remarkable support to the premises is brought out by the indirect evidence obtained during the Survey on the existence of land hunger. This was made clear through replies to questions asked to cultivators regarding their credit needs and the direction in which they would use credit if they obtained it. A very large proportion of the credit requirements, especially of cultivators amongst the lower strata, i.e., the lower half of the body of cultivators arranged according to size of cultivated holdings, was for purchase of land. The average need for credit for purchase of land reported by the average cultivating family was much more than Rs. 300 and more than 40 per cent of the total reported credit needs of the lower half of cultivators was for purchase of land. The data attain special meaning when they are compared with the actual expenditure which had been incurred by the reporting families on purchase of land in the year in which the Rural Credit Survey had been conducted. The average actual expenditure of the lower strata was Rs. 12 as against their reported credit needs for purchasing land which averaged at Rs. 333. The limited purchases were due both to non-availability of credit as well as to non-availability of land. It does not follow that if credit had been available the purchases would in fact have been more. If everybody wanted to purchase additional land and there was no new land available, net purchases of land could not be made by everybody, whatever the credit facilities. At the same time, the replies

emphasize the great urgency, the high priority above everything else given by members, particularly of the lower strata, to purchase of additional land. Land hunger is thus clearly exhibited in the Rural Credit Survey statistics.

Other data, supporting the premises, available from the Rural Credit Survey are those relating to the economic position of the non-cultivating classes. The non-cultivators of the Rural Credit Survey included all classes other than cultivators, cultivators being defined to include all those who cultivated even a small plot of land. The non-cultivators of the Rural Credit Survey thus comprise traders, moneylenders, artisans, labourers, all those who had no cultivating holding of their own. Though a mixed class, it was, in the main formed of the artisans and the labouring classes. According to the Rural Credit Survey data the average performance whether in level of debt, of repayment, of borrowings, of family expenditure, of capital expenditure, of financial investment, of the net balance of capital-transactions or any other indicator of economic well-being of the non-cultivators, on an average, was worse than that of even the last three deciles, i.e., the last 30 per cent of the cultivators arranged in accordance with the size of their cultivated holding. These are average figures for a somewhat mixed class. It can be realised from the data how the economic condition of the classes to whom Vinobaji directs attention, the landless labourers and the inferior artisans, in particular, is much worse even than of the smallest of the cultivators. In this context, to have land, even a small plot of it, must appear to the landless as leading almost automatically to improvement or possibility of improvement which must remain beyond their hope till they obtain possession of this essential means of livelihood.

The premises on which the Bhoodan movement rests can thus be supported both by statistical data and general experience. We may next see whether granted the premises the objectives and methods of the movement are justified. Here again it is possible to argue that in a static society in which no technical change is going on an increase in population would require a redistribution of land such as is sought by the Bhoodan movement. There are a number of simple agricultural societies in which periodic redistribution of land has been practised as a means of adjustment between the resources of society on the one hand and the needs of groups of families or of the individual family on the other. The argument may be extended so as to apply to a society in which the progress of total technical change was overshadowed by the growth of population. The resulting situation may not be widely different, especially in the agricultural sector, from that of a society with a stationary technique and growing population. Conditions in India during the

last century approximate to this picture. Since the time we have had comparatively reliable data, say 1880, a trend has been in evidence towards increasing numbers depending for support on agricultural activity which, in turn, was based on a comparatively non-expanding area of cultivated land and on techniques which were changing only very slowly. In the earlier stage it was not only a case of larger numbers being supported by land but even larger proportions of the total population depending on it. In more recent decades this trend has stopped and the growth of urban population has been somewhat faster than that of rural population. Comparative data in regard to occupational distribution of the population cannot be set out because of the many defects, in this regard, of the Census data. However, even though in recent years there might have been a slight decline in the proportion of the people depending on agriculture and a definite trend towards more rapid urban growth it yet remains true that the total absolute numbers of those depending on land and agriculture is steadily increasing and continues so to increase. The consequent adjustment that has taken place through the recent decades in India is that of a progressive diminution in the size of the average holding through successive sub-divisions and the creation of a larger class of the completely landless. The Bhoodan movement may be said merely to look on these facts and to insist that while the existing situation lasts the landless must not be completely deprived of the primary means of sustenance, i.e., some land and equipment, and that society must look at this problem as a problem essentially of social justice. Given the existing situation in India and given the present apparent powerlessness of the Government either to initiate rapid economic development in general or to devise any logical solution to the land problem in particular, the Bhoodan approach cannot be dismissed as either irrelevant or ill-directed.

The possible results, if the movement affects large areas, will obviously be a partial reduction of the average area of the large holdings, a partial reduction of even the area of the average or below the average holdings, and the creation of a large number of extremely small new units. *Prima facie* all these results may be called unsatisfactory. However, the real question is whether they are more unsatisfactory than the existing situation or than the situation that will develop with existing trends. It may no doubt be unsatisfactory to create a large number of very small new units of holdings. But, if the only alternative to the creation of these very small new holdings is for the landless to continue to exist as they do without alternative occupation, without sufficient sustenance and with no hope or zest in life, can it be said that the creation of these new small holdings is an evil or that it is not an improvement, however small, over the existing situation? A small reduction in size of the average

holding or in size of the large holding is no evil, looked at in this manner. If finally it is realized that the movement desires specially a transfer of land from the largest holders to the smallest or to the landless and that it accepts gifts from the average or below the average holder as merely a token, as contributing to the creation of Janashakti the whole will be placed in its proper perspective. The above argument necessarily proceeds on certain assumptions regarding technical change and economic development to which attention must now be directed.

The first assumption is that the cultivating possession of even a small plot of land brings about a radical change in the economic position or outlook of the landless and that even small additions to diminutive holdings have a large actual and psychological effect. Where employment of agricultural labour is extremely uncertain and the level of wages very low and where rural artisan industry is chronically depressed, a plot to employ oneself with and on which to grow some part of one's food supply, may conceivably bring about a transformation, economic, social and psychological. Further, a wider distribution of land may rectify the existing distorted balance of terms of exchange between classes; the possibility is indicated by the reported opposition, for fear of not obtaining sufficient agricultural labour, of the larger landlords to the Bhoodan movement.

The second assumption is that of the almost complete divisibility of land surface as a means of production, or to put it in alternative terms, the assumption that consideration of economies of scale can be ignored in agricultural production. This, no doubt, is a large assumption; but it would come naturally to the protagonists of the movement who are used to thinking in terms of a simple non-mechanised technique and a simple structure of economic organization. And it may be argued that for the large bulk of agricultural producers in India actual conditions are not far different from the assumed simple technique and organization. For the larger part of the crops grown, the methods of cultivation, the degree of intensity, etc., are all actually at a uniformly low level and the per acre product does not appear to differ widely as between small plots and large holdings. The resource most wastefully employed is, in these circumstances, labour; but we are reasoning about a situation where labour has, after all, no alternative employment. Finally, it may well be asked whether the existing policy of the State in India with its neglect of the problem of land management and emphasis on agricultural extension is not itself tantamount to ignoring economies of scale. If propaganda aided by a little reorganization of credit and supply is supposed to achieve the desired results in the existing distribution of size of holdings, the same achievement ought

not to be difficult with a somewhat more even distribution of the same.

If one grants these assumptions, and I have argued that they are tenable and are also implicit in the ruling policy of the State, considerations of social justice must take high priority over those of economic production. The Bhoodan movement, in the circumstances, is not only completely justified but also remains, in face of the indifference or powerlessness of the State, the only instrument of the desired social transformation. This is not to say that if a plan of rapid economic development was under way and an appropriate land policy had been evolved, it would still be necessary to adopt the immediate objectives and programme of the Bhoodan movement. In fact, one could point to certain aspects of the movement which may, in that event, hamper the working of a plan of development and to certain repercussions of it which may create grave difficulties in the way of future progress. Before I leave the subject, it is necessary to pay brief attention to these.

It is assumed that a plan of rapid economic development and an appropriate land policy will be conceived in terms of advanced techniques and comparatively complex forms of economic organization; such a plan and policy will also not find it possible to ignore economies of scale. It follows that a movement which increases the number of diminutive holdings in the country will act in a direction which will be contrary to that of the plan. The Bhoodan movement has, further, no bearing on, and indeed ignores the problem of, the rational layout and utilization of the land surface. Both these are bound to be important parts of a plan and the movement's emphasis away from them may prove a handicap. Supporters of the movement may reply that what are logical features of the programme in existing circumstances need not persist and need not prove obstructive when circumstances alter. If the movement itself leads to the State undertaking a plan and a policy which result in increased and more diversified employment, wider security and greater equality for rural society, it will have largely succeeded in its ultimate aim and need not necessarily pursue existing programmes.

There is one possible repercussion of the Bhoodan movement which I greatly apprehend and in regard to which the above would not prove an adequate reply. This is that of increase in intensity of the sentiment of ownership or possession in relation to land. No doubt, the Bhoodan movement is itself based on a denial of rights of private property, especially in the means of production. Its slogan in relation to land is: "All land belongs to God" (सबै भूमि गोपालकी). But its actual programme results in investing rights of ownership of land in a vast number of people. Even its appeal for gifts is couched in terms of a more equal distribution of ownership of land; so that

those who do not give, through their gift, subscribe to the doctrine of the social ownership of the means of production; rather, they would be strengthened in their sentiment of rightful possession, after their discharge of the social obligation through the gift. Practical considerations have no doubt made it impossible for the leaders of the movement to lay the emphasis on co-operation, on collective ownership and use that would logically follow from their basic philosophy, except when they have obtained gifts of, say, the entire lands of a village. Granting this, the fact remains that the main result of Bhoodan would be creating a large body of very small new holders and of generally intensifying the sentiment in relation to the ownership of land, its social prestige and its economic value. Taken together with steps such as that of the abolition of intermediaries and the provision for tenants to acquire ownership of land, the total situation, in which landownership was not largely diffused in vast areas of the country and large bodies of peasants had no vested rights in the lands they cultivated, is being rapidly changed to one, in which most of the cultivated land surface will be vesting in a very large number of small holders who are likely to hold to their newly acquired rights with great tenacity. I am not arguing against steps such as that of the abolition of intermediaries which I hold as essential preliminaries, but only in favour of trying to avoid the undesirable effects, in term of popular sentiment, resulting from it.

It would be unwise to ignore the dangers that might develop out of the existing situation. Bhoodan owes its origin to Communist activities in Telangana and it might be relevant, in this connection, to cast a glance at the pattern of Communist history. It shows consistently, in the first instance, a movement towards redistribution of land to win popular support and arouse popular enthusiasm, followed at no distant date, by a move towards socialisation, collectivisation and other programmes which all necessitate wresting lands away from the peasants in whom they had been recently vested. The latter step has invariably created a grave crisis. It is held that the Russian Revolution passed through its most critical phase at the time when the first large movement towards collectivisation was made and communist countries of South and East Europe have, in the post-war period, found collectivisation to be the toughest problem with which they had to tackle. It is unnecessary to enter into the justification or logic of Communist strategy. I merely suggest that Communist experience presents a grave warning to which we must pay heed. There is nothing in the Indian situation today, if we conceive it in terms of a rapidly developing economy, to require or to justify a further diffusion of the ownership of land. At present the jurisdiction of the State in regard to plans of distribution of land surface

and its utilisation is widely recognised. It seems to me to be highly unwise to disturb this situation and to create conditions under which efforts of the State to create a new pattern of land management units may meet with active opposition. If this happens, the State in India, with its much smaller capacity to deal with such opposition may find the problem well-nigh insoluble. I feel strongly that it is the special responsibility of the leaders of Bhoodan to pay attention to this aspect, as their avowed emphasis is on the overall social or collective view and as, whatever they do or say, its influence on popular sentiment is likely to be much greater than even their concrete achievements.

Before proceeding to a discussion of the main ingredients of a land policy appropriate to a plan of development I must recapitulate why I consider the Bhoodan approach unsuitable in this context. Bhoodan tries to attain comparatively equal distribution of income through a similar distribution of the means of production. It conceives the problem in terms of a simple economy of family producers. How this cannot apply in case of a more elaborate economic organization may be made clear with reference to the concept of Sampattidan. Sampattidan is supposed to be the counterpart of Bhoodan in the sphere of urban economy. But the problem of concentration of power in the urban economy cannot be dealt with by any attempted simple transfer from large holders to small holders. In the urban economy the organizations who hold the key position, to whom the greatest surpluses accrue and who have great economic strength and wield political influence are not simple divisible units like land. These organizations are complex integrated units which represent transport systems, power generation, international and internal trading on a large scale, credit and financial organizations, large mechanized units in all types of industrial activity. Bits of these cannot be separated and given away; the problem of concentration of properties and power in private hands, in this case, can only be dealt with by transferring the ownership of the integrated units to organizations—new or old—which represent social and collective interest. Sampattidan in the circumstances cannot result in diffusing or socialising control over concentrated means of production; it can only result in some giving away of current income and can thus only become charity in the worst sense. Agricultural production in a plan of development will necessarily be concerned more and more with advanced techniques and must resort to more complex forms of economic organization. Therefore, in this case also considerations of distributive justice must be kept separate from those of organization of production. The production pattern must be determined by the available proportions of productive resources and by the possibility of increasing absorption of advanced technique.

Economic and social policy can separately deal with the problem of distribution. Land management units must be shaped in accordance with the needs of the production pattern.

There appears at present general agreement on the nature of the problem and the main approach to its solution. The following statement by the Prime Minister, Pandit Jawaharlal Nehru, may be taken as representative of this.

"As agriculture is the principal occupation of the great majority of our people, it must be the first concern of the State. The abolition of the zamindari system has been the first reform and this must be expedited. But it must be remembered that this by itself is no solution of the problem. Even before this abolition a very large proportion of land was self-cultivated. An addition to it, without any further reforms, will not help much. The small subsistence farm makes progress difficult. We have to think, therefore, and think soon, of other and further steps. There should be a diversion of a part of the agricultural population to other occupations. There should be a development of cottage and small-scale industries. But essentially the problem of agriculture needs co-operative cultivation and the application of modern techniques. This does not mean necessarily mechanising agriculture all over India, though some degree of mechanisation is taking place and is desirable. But there is no escape from some form of co-operative cultivation, if we are to make agriculture progressive."*

Adopting the general approach indicated in the quotation it is possible to frame a land policy utilising only the concepts and methods that have already been widely discussed and partially adopted. These are the floor and ceiling to holdings, consolidation of holdings and farming co-operatives. I assume it to be accepted that the very small holding can find no place in the production organization of the future. None of the problems of inadequate or disproportionate equipment, of backward technique and inefficiency, of underemployment and wasted labour, of poverty and exploitation can be solved as long as the bulk of farming units are small.

The concept of the floor is required to define the lower limit to the size of holding. The ceiling is not equally obviously justified from the point of view of productive organization. For, the very large units may be also efficient in production. The main reason for adoption of the ceiling is socio-political. Among all resources the supply of land is the most limited and the claimants for its possession are extremely numerous. It is obviously unjust to allow

* Quoted in H. D. Malaviya : *Land Reforms in India* (1954), pp. 91-92.

the exploitation of any large surface of land at the hands of single individuals unless other overwhelming reasons make this highly desirable. Further, in light of the available supplies of land, labour and capital it would be undesirable to encourage capital intensive methods of production in regard to which the very large holdings may have special advantage; without intensive use of capital the very large individual holding operated with hired labour is not specially productive. Moreover, whatever the economies of large scale management, they should, in the congested state of our countryside, accrue to collective or co-operative bodies of cultivators rather than to an individual family. It may be noticed in this connection, that even the U.S.A. Farm Ownership Farms programme contemplates creation of such farms by subdividing large holdings and recognises both a ceiling and a floor to the farm ownership farm. On the other hand, barring a very small number of exceptional cases, as that of certain types of plantations or orchards, it is unlikely that the reduction in size of a very large holding to a holding of moderate size will bring about any diminution in per acre productivity. Such diminution has been reported where land surface included in large commercial estates had been broken up into very small holdings. But this procedure is not contemplated by us. A ceiling is finally necessary if social policy requires immediate redistribution, to some extent, of the land surface.

I shall not devote much attention to the problem of the determination of the floor or the ceiling. All the terms used and definitions given in this connection, such as that of the economic, the family, the basic, are capable of wide variations in interpretation. The determination of the limits, I consider, as essentially a matter of practical policy. If the concept of the floor is properly applied, its fixation gives the numbers of the uneconomic holders who cannot continue to exist as independent units. The floor will, therefore, be determined in relation to the ability of the state to pool the holdings of uneconomic holders and to form them into some sort of collective or co-operative holdings. The ceiling, on the other hand, has reference to the area of land that can be made available for redistribution. The greater the area desired for redistribution the lower will be the ceiling.

Considerations of production economy do not seem to indicate any particular figures or proportions in this context. However, data from the Rural Credit Survey may be set out to illustrate the relative proportions involved. These data relate to all the cultivated holdings in the 600 villages selected for the survey in 75 districts. The cultivators were arranged, for the purpose, in order of the size of their cultivated holdings. When so arranged it was found that the first 10 per cent or decile of the cultivators held more than 25 per

cent of the total land surface in almost all districts and held more than 30 per cent of it in 51 of the 75 districts. The first 30 per cent or three deciles taken together held more than 50 per cent of the land in almost all districts and in 48 districts they held more than 60 per cent; in no district was this proportion larger than 85 but in 6 it varied between 75 and 85 per cent. The middle four deciles held between 25 and 35 per cent of the total cultivated land in the large majority of districts. The holdings of the last three deciles included less than 10 per cent of the total cultivated land in the majority of districts; but in 27 out of the 75 districts they held between 10 and 15 per cent. Taking the broad division of cultivators into the upper half and lower half the relative size of their holdings of total land surface would be approximately 3: 1.

The above taken together with the data relating to occupational distribution of families should give an idea of the overall dimensions of the problem. We may assume that about 60 per cent of families in rural India are cultivators in the sense of operating some cultivated land and that of the non-cultivators at least half depend for their support on agriculture and land. This gives about 80 per cent of rural families as interested in land management units and policy. We may, on the basis of data set out before, consider about half of the cultivators as having unsuitable units for independent land management, the proportion cannot at a minimum be put at less than a third of the cultivators. If we take the former figure the cultivating families together with the landless interested in reorganization, will form about half the total number of families in the countryside and, if the latter, about 40 per cent of them. Working with the data for existing distribution of cultivating holdings and assuming a transfer, because of the operation of the ceiling, of the order of 5 per cent of the total cultivated land, we have the following figures of the extent of land surface and number of families affected by reorganization; if, half the units cease to be independent about 50 per cent of rural families and 30 per cent of the cultivated land; and if, about one-third of cultivators are so affected, about 40 per cent of the rural families and about 15 per cent of the total land surface. These calculations are so broad as to be almost notional and they have been indulged in at this place only to give some idea of the dimension of the problem. The floor and the ceiling will vary from region to region in relation to the quality of land and size of holding. However, their definition will also necessarily depend on the ability of Government to undertake schemes of reorganization.

The two fundamental steps in reorganization of land management units in India are (i) redistribution of the land surface and (ii) formation of the larger consolidated units out of the pooled resources of the uneconomic units and the surplus available for

redistribution. The first step is an essential preliminary in almost all programmes of land improvement and agricultural development. Its importance is universally recognized in connection with the consolidation of fragmented holdings. It is, however, necessary from other points of view also. One can view the process of consolidation in a wider context as part of the process of a rational layout of the total land surface for agricultural and other utilization. The operation should, therefore, be undertaken as that of laying out areas, sections or fields for total land utilization and not be considered merely as that of mutual exchange of fields or fragments. Full advantage of the redistribution of surplus land could also not be had without this process of redistribution of land surface. The operation of the ceiling would yield small and large plots of land dispersed over a wide area. Some measure of redistribution would be necessary to utilize these appropriately. Therefore for consolidation of fragmented holdings, for pooling together land included in uneconomic holdings and for utilizing surplus land available for redistribution in a similar manner, a general redistribution of land surface must be undertaken. As pointed out above it would obviously be wise to conceive the process as involving also a rational layout for total utilization. This task is no doubt of vast dimensions. But tasks of somewhat similar dimensions have been undertaken in other countries and the total work indicated above is not more complicated or larger than the process of consolidation undertaken currently by many State governments in India. As I visualise it, the first stage in the process will be that of determining the general layout and the second, that of locating in this layout the independent farm units now fixed in location and made impartible, and the co-operative estates or farms.

The formation of larger units out of pooled land and other resources will have two aspects, one compulsory and the other voluntary. I have assumed that once the floor has been defined independent units of farm management smaller in area will not be allowed to exist. Obviously the enforcement of this must be by some sort of legislation. The measure of compulsion may vary. In the early stages the step may be initiated, as in some programmes of consolidation only on the motion of a minimum number of families involved. However, as the development programme advances it must soon be generalised. The abolition of the independent existence of smaller units can only be subsequent to redistribution and consolidation; also, before it takes place steps must be taken to formulate the basis of the new units and to equip them suitably. The formation of these new units out of the total pool may be essentially voluntary. It may be found useful to have floor and ceiling limits for these consolidated units also, so that in relation to their own scale of operations they

might be neither too small nor too large. The number of such units that could be formed in a village would be broadly determined by the ceiling and floor limits; within these limits the formation of particular units would be the result of voluntary groupings.

It has been assumed above that the landless families who depend on land and agriculture would be provided for in the new consolidated units. It would be unnecessary, even unwise, to bring into the organization rural families who have distinct non-farm business and can depend on them. But as the process of reorganization will materially reduce the number of permanent farm servants, etc. and as one of its objectives is to improve the condition of those dependent entirely on casual labour, the landless must be made members of the consolidated co-operative farms. It is not necessary for me to enter here into details relating to conditions of entry, the capital share equivalent granted to each for the land and equipment that he brings into the pool and other similar problems. However, it would be necessary to ensure that the surplus resulting from the operation of the ceiling is specifically the share of the landless; such provision alone can act as inducement for voluntary admissions of the landless into co-operative pools. It would be desirable also to provide for the voluntary accession of the independent farming units to co-operative farms.

Both these tasks, that of redistributing the land surface and the formation of a small number of co-operative farms in each village are immense in extent and complexity. I would argue that not only are they a *sine qua non* of any programme of land reform but also that they are not beyond our capacity, if a sincere and concentrated effort is made. Consolidation is already generally accepted as a necessary part of the programme by everybody. The formation and proper functioning of co-operative farms is undoubtedly less generally accepted as part of universal policy and is somewhat more difficult. It is, however, equally necessary. I shall, without elaborating them, briefly state a number of reasons in favour of this proposition. In the first instance, without co-operatives, collectives or state farms an economic reorganization for operation of the existing numerous small units is impossible. Secondly, except as members of a co-operative the small farmer can never be in a position to avail himself of technical, financial or other external aid of which he stands in need, more than anybody else. The findings of all studies, whether e.g. of the Rural Credit Survey or the Evaluation Organization are that the bigger man gets the greater profit out of everything, government loans, co-operative finance or other financial or technical assistance of any type. One need not go into the reasons for this state of affairs; it is, however, clear from the studies that the scattered, weak units cannot really be helped effectively unless they come together.

Also, as long as there is no consolidation of these weak units the balance in rural society will always remain against them. Any close study of the effects of recent land reform legislation reveals large variations in its results, dependent chiefly on the strength of tenants and smaller holders in a locality or region. In a large number of instances legal protection and other devices prove constantly fruitless because of the strength and ingenuity of the strong. It is sad to record that large deflection of original intentions, brought about by the strong, has been reported even in the working of the Bhoodan movement. The moral is that unless the weak acquire economic strength by joining together they could never stand up and get full advantage of state policy and state legislation. The formation of a small number of co-operative farming societies of the smaller holders and the landless in each locality is a necessary step in this direction. It will be noticed that I consider redistribution as only a part of the process in the formation of the large co-operative farms. I cannot see any virtue in merely tenancy co-operatives which perpetuate the smaller units of management. Leaving scope for allotments or kitchen gardens would be welcome but the main cropping operations must be in terms of the large units. The experience elsewhere, such as with the Ejido in Mexico, emphasises the importance of this.

I do not think that widespread formation of such co-operatives is an impossible undertaking. In the initial stages the progress may be slow but once the movement gathers momentum the field could be covered fairly quickly. Wide extension of the activities of State governments in rural areas together with efforts made by the Central Government in directions of Community Development and National Extension already provide comparatively large staffs in the field; the work of this staff would come to have real meaning and purpose only if it is linked to a programme of the formation and operation of such co-operatives. Instead of chiefly conducting propaganda they would find in these co-operatives numerous local units which could prove centres of demonstration and experimentation. All governmental information and propaganda, aid and assistance could be directed towards and routed through these co-operatives. The special terms of assistance, etc., laid down for these co-operatives should combine the features of the programmes envisaged in the draft outline of the Five Year Plan for the Registered Farms and for the Co-operative Farming Societies. Instead of receiving very little or nothing of government protection and assistance this step would ensure that the most disadvantaged received, as they should, the highest priority and the greatest assistance.

Further, a land medium policy which retains only a limited number of small and medium farms which can operate economically as independent production units and brings all other families into com-

paratively large co-operative farms is likely to lead to a better utilisation of the labour of rural families. The element of under-employment about which a great deal is written will be made clear under such an arrangement and the extra labour uncovered could be made available for programmes of either capital works construction or for rural industrial development in a systematic manner. The rural industrial plan will then be visualised in two clear divisions; one chiefly of domestic work which directly supplements family living for the independent farm families and the other of industrial production for sale, local or otherwise organized within the farming co-operatives.

I should like to emphasize that all that I have said is intimately related to a plan for rapid economic development. If such a plan is not in operation a vigorous land policy is hardly likely to succeed. It is now universally recognized that creation of employment in other spheres is the only remedy to a large pressure of population on land from which India, for example, suffers. Most programmes of improvement of technique in agriculture do not increase employment on the land and even large irrigation works bring about only very limited increase in total agricultural employment. Therefore, the increase in employment has chiefly to be in spheres other than agricultural. The minimum target of an employment plan for India has to be cessation, at the earliest possible moment, of the increase in the number of families dependent for their living on land and agriculture. Unless the number of families dependent on agriculture is stabilized there is little stability for measures of land reform. The prevention of sub-division or the creation of impartible holdings will be effective only if, in successive generations the number of families on land does not increase. The large co-operative farms, even with allied industrial employment, could also not effectively absorb a continuously increasing number of families.

I realise that I did not leave myself sufficient time to elaborate and explain my own concrete proposals regarding the structure of a land policy. It is perhaps unwise, anyway, to compress too much in one statement. Therefore, in concluding I shall content myself with reiterating the following basic propositions. That in relation to land management we are following, in this country today, a policy mainly of drift; that a programme of economic development requires more positive approach in respect of agricultural productive organization and units of land management; that a very large number of existing cultivating holdings are extremely unsuitable for functioning as independent units in a programme of agricultural development and that a rational layout of the land surface for its proper utilization and a programme for the creation of large consolidated holdings are essential ingredients in any agriculture and land development policy.

I may add finally that it would be impossible to deal with this problem except in terms of bold steps and very large and strenuous effort. However, these would be no more radical and strenuous than those undertaken by many other countries in analogous situations, as evidenced, for example, by the Mexican Agrarian Revolution which redistributed land in favour of the Ejidos or the transformations brought about in countries of South and East Europe both during the inter-war years and in the period after the Second World War.

SOCIO-ECONOMIC IMPLICATIONS OF THE EXISTING
INSTITUTIONAL STRUCTURE IN MODERN
BUSINESS IN INDIA*

THIS NOTE discusses briefly the socio-economic implications of the existing structure of the economy and the effects of its operations with special reference to the concept of the mixed economy and role of private enterprise. Initially it needs to be made clear that the term 'private enterprise' is a comprehensive term including many types of economic activity. At least two distinct types need to be clearly separated in discussing the Indian situation. Firstly, there is private enterprise which may be identified with the type of private operation implicit in all classical economic analysis. In this the number of operators or units of activity in each sphere or field are so numerous and relatively of such size that no single operator could by his action affect either the market for his products or the market for the resources which he has to acquire in order to produce. Over the major field of Indian economy, very large numbers of small operators dispersed over wide regions are fully in evidence. The constituent elements of agriculture and most primary productive activity in our economy, barring plantations, are small independent units widely dispersed over the country, which cannot by their own individual operations affect the working of market forces. The same holds good of the large sphere of traditional cottage industries, and even of small enterprises in the repair and other fields subsidiary to modern industry. In relation to the bulk of activity in commerce, transport, and most trades and professions, the small man is the typical operator. There has never been any suggestion from any quarter that this large field of private enterprise should be disturbed or included in the public sector. It has often been suggested that in many of these fields the small operating unit is at present technically and financially weak and does not therefore operate with efficiency in terms of either quality of product or unit cost of production, and the proposal has been made that the handicaps of the small independent operator be removed through co-operative effort of the independent individual units. Such co-operation may be possible in relation to finance, marketing, supply of materials, common technical services, or even in relation to production proper. But such co-

* Memorandum submitted, in April 1955, to the Panel of Economists, Government of India Planning Commission, and published in *Papers Relating to the Formulation of the Second Five-Year Plan*, Government of India Planning Commission, New Delhi, 1955, pp. 557-62.

operation, even when helped by the State or brought about through its agencies, will essentially leave the unit of production and economic operation as an independent unit. It will not be part of a State-socialistic-apparatus. That the co-operative unit has and can be made to continue to have the characteristics of essentially independent private organization, though influenced by the State, has been agreed to by all. The Khadi Board in its scheme of self-employment and dispersed economic activity has recognized the need for the introduction of co-operative units and has included co-operative production in the self-employment category. No dispute between the sphere of private enterprise and the requirements of planned economic development does therefore arise in relation to this vast and essentially private and independent sector of the economy.

The dispute arises entirely in the field of, what may be correctly described, not private enterprise but monopoly capitalism. The sphere of operation of this is confined to certain restricted though extremely important sectors of economic activity within the country. These sectors are modern banking and insurance, large-scale machine industry, modern mining, plantations, foreign trade and internal wholesale trade, and financial operations such as those on the commodity and stock exchanges. The main point to be noticed about this field of economic activity is that, though, in relation to total occupied numbers and total number of economic units and establishments, its constituents are small, they are by far the most dominant in political, economic, and social terms in the country today. Secondly, in almost every single field of their operation a degree of concentration of economic resources and power is in evidence. Further, in almost all these spheres the influence of the comparatively restricted number of operators is further increased by trade associations and other devices of common action. A few facts are enumerated here: In the field of banking and insurance, a small number of units, less than a dozen in each case, control the larger part of total activity. In the field of large-scale industry the bulk of the total field is occupied by a small number of units in a number of newer industries. Even in the older, established, and comparatively more dispersed activities such as those of cotton textile or sugar manufacture, the number of units is not very large, and the number of units under the control of a small number of *entrepreneurs* forms a substantial portion of the total. In the field of foreign trade, there has been, as a result of methods of control developed during the last ten years, a large degree of freezing of the situation. The extent to which the whole business of export and import is concentrated in a few hands is not known to the public at large. But the data must be available with the relevant government authorities and it is of extreme and immediate importance that they should be collated and

published for public information. It is understood that in this field, even more than in others discussed above, entry is difficult. Whatever precautions may be taken or regulations framed for issuing a small number of licences to new entrants, this field must be considered to be a closed field in which quasi-monopoly rules. There is no real free entry in the field and the operation in it is either a matter of older occupation which means continued privileged position or exercise of patronage by State authorities. Also, by definition, as the number in favour of which such patronage can be exercised as new entrants would be extremely limited, the operation of the new entry regulations can at the most amount to a small addition to the privileged class every year. The position is apparently different in internal wholesale trade, in the sense of entry not being formally restricted or closed. But even here the facts point out to a large degree of concentration in a small number of hands.

The total effect of the existence of monopoly capitalism in each separate sphere of modern economic activity in India is further heightened by the device of the managing agency. This distorts the working of the economy in peculiar manner. Instead of bringing about the ordinary vertical or horizontal extensions and combinations common in other countries, the system of managing agency has fostered a development which is peculiarly Indian. This is that of concentration in a small number of units of power over a large number of disconnected fields of economic activity. The effect of this is that the restrictive influence of the operation of monopoly capitalism in each field is heightened many-fold by bringing together the power in many fields in single agencies. Together with the concentration in managing agency goes the concentration in terms of regional and communal or social groups. This is an extremely important sociological phenomenon which cannot be ignored in Indian conditions. It cannot be ignored because the total picture that emerges is that of concentration of control over and patronage resulting from all modern finance, trade, and industry in the hands of a comparatively small number of persons concentrated in particular social groups. The diffusion of the benefits of the rise of modern industry and commerce is thus severely restricted within the community and the joint operation of socio-economic and political power makes certain groups so entrenched that social justice is denied and social peace cannot be guaranteed with the continuance of this state of affairs.

The peculiarity of the existing situation is that it cannot be tackled by breaking up monopoly capitalism. This is due, firstly, to the technical consideration. Economies of scale are here so important that the average unit has to be large, and in the total Indian context the number of operating units cannot be numerous. In common with

I may add finally that it would be impossible to deal with this problem except in terms of bold steps and very large and strenuous effort. However, these would be no more radical and strenuous than those undertaken by many other countries in analogous situations, as evidenced, for example, by the Mexican Agrarian Revolution which redistributed land in favour of the Ejidos or the transformations brought about in countries of South and East Europe both during the inter-war years and in the period after the Second World War.

SOCIO-ECONOMIC IMPLICATIONS OF THE EXISTING
INSTITUTIONAL STRUCTURE IN MODERN
BUSINESS IN INDIA*

THIS NOTE discusses briefly the socio-economic implications of the existing structure of the economy and the effects of its operations with special reference to the concept of the mixed economy and role of private enterprise. Initially it needs to be made clear that the term 'private enterprise' is a comprehensive term including many types of economic activity. At least two distinct types need to be clearly separated in discussing the Indian situation. Firstly, there is private enterprise which may be identified with the type of private operation implicit in all classical economic analysis. In this the number of operators or units of activity in each sphere or field are so numerous and relatively of such size that no single operator could by his action affect either the market for his products or the market for the resources which he has to acquire in order to produce. Over the major field of Indian economy, very large numbers of small operators dispersed over wide regions are fully in evidence. The constituent elements of agriculture and most primary productive activity in our economy, barring plantations, are small independent units widely dispersed over the country, which cannot by their own individual operations affect the working of market forces. The same holds good of the large sphere of traditional cottage industries, and even of small enterprises in the repair and other fields subsidiary to modern industry. In relation to the bulk of activity in commerce, transport, and most trades and professions, the small man is the typical operator. There has never been any suggestion from any quarter that this large field of private enterprise should be disturbed or included in the public sector. It has often been suggested that in many of these fields the small operating unit is at present technically and financially weak and does not therefore operate with efficiency in terms of either quality of product or unit cost of production, and the proposal has been made that the handicaps of the small independent operator be removed through co-operative effort of the independent individual units. Such co-operation may be possible in relation to finance, marketing, supply of materials, common technical services, or even in relation to production proper. But such co-

* Memorandum submitted, in April 1955, to the Panel of Economists, Government of India Planning Commission, and published in *Papers Relating to the Formulation of the Second Five-Year Plan*, Government of India Planning Commission, New Delhi, 1955, pp. 557-62.

the general trend everywhere capital formation now takes place to a very large extent within the operative business units and is only partly drawn from outside. This strengthens the position of existing units and helps the progress of further concentration. Further, the existence of such measures as price controls, allocation controls, production controls, etc. has made it impossible to think in terms of artificially stimulating competition among units in the field. In fact, all steps taken by government during the last decade or so have been towards establishing a regime through which all the units in individual fields of modern activity have been drawn close together and have adopted comparatively uniform policies. The result has been that State policy has actively helped the full exploitation by the constituents of the field of modern business of their position as monopoly capitalists. A study of prices of such commodities as cloth or sugar during the post-war period fully exemplifies this.

It has been the experience in all countries, including the U.S.A., that the operation of any policy of governmental regulation or direction, even that of stabilizing measures, tends to slow down the operation of competitive forces within an industry. This effect would be greatly accentuated with the launching of a plan of economic development. The need for closely directing the operation of the private sector would lead to maintenance of conditions in which, on the one hand, risks would be largely eliminated and there would, on the other hand, be no large gains of and scope for a strenuous competitive drive towards expansion. Apart from the operation of the Regulation of Industries Act, the Second Five-Year Plan in India would define to a large extent, the number of new units to be established within the period in each activity and their location. There would thus be little element of free entry in modern manufacturing and mining, and the existing situation regulating entry into foreign trade would continue. In banking and insurance¹ present legal and regulatory systems favour greatly the large-sized concerns. There is a constant trend towards an increase in their importance, and smaller units are being weeded out or seeking amalgamation with one another in order to survive.

Modern industry, more than any other field in the Indian economy, is sheltered, protected, and helped at the cost of the tax-payer and the consumer. Most industrial activity has been protected directly or indirectly, at one time or another, and some of the most important industries have grown up entirely under protection. In the post-war period, apart from avowedly protective duties, the whole system of import restrictions and quotas has guarded the position of domestic

¹ This refers to the situation before the nationalization of life insurance in 1956.

industry. The most important activity launched during the war period has been thus protected, and new ventures established as in the case of the automobile industry, have been guaranteed a closed market in advance. The largest financial help given by government has been available to this sector. The operations of the Industrial Finance Corporation, lending rupees 10 crores in five years, have benefited chiefly some of the largest units in this sector; and government, which perhaps has never yet lent a single rupee free of interest for normal operations in the field of agriculture and small industry, has lent seven-and-half crores of rupees free of interest for a long period to a new corporation controlled by the biggest elements in this sector. The government has also, during the post-war period, helped many individual units in the field by large loans on special terms because they could not finance themselves on an adequate scale through the private capital market; it has also helped rehabilitation of individual concerns by lending services of government officers. It should be noted that all this help serves strictly private interest, in the sense that the improved positions that are built up in this way are sources of constant and increasing current and capital gains for private owners of the concerns. The current controversy over the compensation to be paid for shares of the Imperial Bank fully illumines the situation. All those concerns whose assets are being constantly protected and improved by public action will on account of that very factor demand high compensation from the public treasury in the event their socialization is decided upon.

The last point emphasizes an inevitable concomitant of planned development. Rationally planned development in an underdeveloped economy necessarily seeks to avoid duplication of effort and to concentrate capital intensive effort in as small a number of units as possible; it seeks equally naturally to protect such units as have been built up and to make their operation as free of risk as possible. All this gives the established units a position of advantage which is constantly growing with the development of the economy. These concerns are in a position similar to that of owners of favourably situated sites in an area of rapid urban development. And, given the decision to maintain the units in private hands, nothing can be done either to diminish the advantage of those units or to diffuse their gains.

This inability is due to two reasons. Firstly, it is due to operation of a rational plan of development. As pointed out above, such a plan must, for reasons of economy and of convenience of direction and regulation, try to eliminate risks and operate through a small number of units. The whole approach of planned development differs radically from that of the highly competitive processes of the model of the free market, especially where units with large resources

are concerned. The second reason why you cannot expect the State in India to break up the concentration of units or to exercise power in this sector is apparently the avowed policy of using them for formation of capital in the economy. If these units are to serve as centres of very substantial capital formation, their power and privileges have to be increased, not diminished. Special tax concessions given to new companies, general or selective incentives for ploughing back of capital, etc., are all devices advocated for rapid capital formation. Their result, if successful, is naturally that of helping the growth of total resources in the small number of units in the field.

Having granted the need for capital formation through these private enterprises, maintenance of large inequality in standards of consumption also becomes inevitable. Those in control of the field cannot be expected to form capital in units they control until after their expected consumption standards are satisfied. One of the most striking features of the history of the last fifteen years is the rapid increase in the standards of remuneration and of living of those connected with Indian modern business in India. (The corresponding standards of those connected with modern foreign business in India are even higher.) That any regulatory or taxing devices can significantly affect these standards appears unlikely. After all, these glaringly high standards of remuneration and living are no more than a reflection of relative economic strength. In a large and poor country like India the vast majority of units of operation, whether independent workers or small establishments, operate with extremely slender resources of capital in fields where remuneration is low, conditions are insecure, and profits slender. In contrast the fortunate few in possession of the field of modern business operate with comparatively vast resources and in secure conditions. The case of those engaged in modern business is not entirely exceptional. The position of those in the modern professions and selected services is somewhat similar. Indian society continues to be honeycombed with privilege. The privileged position, social and economic, of the urban intellectual classes is only slowly being undermined. But the attitudes of mind created by the era of privilege have yet to pass and they continue to be exemplified by concepts regarding rates of remuneration as incentives. That the University Grants Commission should consider raising the salaries of university professors as the most potent instrument of improving university teaching is sufficient commentary on current ideology. Entry into the ranks of urban educated classes is now vastly easier as compared with entry into modern business. Therefore, the position in relation to remuneration and standard of living among the upper strata of these has ceased to be as unique as that in modern business. As a fact, one

could say that this movement among the two classes has taken a contrary direction during the last fifteen years. While the privilege and strength of the one class has sensibly diminished—though far from vanished—that of the other has greatly increased, and the trend in the latter case cannot be reversed because of the logic of a plan of development, and the policy regarding formation of capital.

Emphasis has been placed above on capital formation as it is obvious that this can be the only reason for maintaining privileged private enterprise in the modern sector. Some economists have justified high monopolistic gains because of the innovating service of the *entrepreneurial* class. Such innovation is not required in an economy with a backward technique. The task of the *entrepreneurs* is not so much to innovate as to adapt and imitate. Moreover, the Indian *entrepreneur*, whatever his high skill as financier or speculator, has not been specially marked for progress in production technique or high average productive efficiency. Indeed, as the events leading up to the promulgation of the Managing Agency Ordinance and recent enquiries into management of some groups have shown, financial acumen has often been associated with low standards of production management. To all this may be added the consideration that the ordinary risks of business have been greatly diminished because of the policy of government and will be further diminished with the progress of a plan of development.

The whole of this discussion emphasizes the fundamental incompatibility of two aspects of the industrial policy resolution of 1948: one, the formation of capital through modern private enterprise, and two, preventing concentration of wealth and economic power. If any fiscal or other measures are used to achieve the second objective, the first must be defeated, and the achievement of the first objective must equally inevitably increase concentration. Though no formal enquiry has been conducted into the matter, there appear general indications that concentration has increased, and whether it increases further or not, considerable concentration together with the entrenched position and power of particular social groups must be a continued feature of the economic situation as long as private enterprise occupies the strategic position in modern business that it does today.

The alternatives to the existing position are two. Firstly, the steady extension of the public sector so as to embrace more and more of modern business activity within it. Once no great importance is attached to the private capital market, the financial problem presented by such an extension of the public sector presents no great difficulty. The problem of technical personnel or equipment is also not large. The crucial consideration here is that of efficiency of management of business units in the public sector. This is undoubtedly a serious

and complex issue. However, the whole progress of planned development towards a socialistic pattern depends on its solution, and it must be tackled in any case. The second alternative is to regulate operation of the units in the private sector in the same manner as was done in the U.K. and the U.S.A. during the war. This would lead to prevention of increase in concentration of resources and of exploitation by the units of their quasi-monopolistic position. In both cases capital formation would be not in private hands but in those of public authorities, and the second alternative can be looked upon partially as the transitional stage to the first.

EXISTING DIFFERENTIALS IN SALARIES AND WAGES AND THEIR RELATION TO A SOCIALISTIC PATTERN¹

THE PROBLEM of differentials of wages and salary scales together with the related question of incentives is of vital importance in an economic plan intended to lead society towards a socialistic pattern. In case complete equality of opportunity and complete mobility and freedom of entry already existed, differentials in payments would, it is generally agreed, be determined by (1) costs of waiting and training; (2) compensation for special hardships in relation to nature of work, location, conditions of work, etc., and (3) payment for specially scarce abilities. If attention is concentrated on the first two, it is likely that under the hypothetical conditions the differentials would move within a very narrow range. As the educability of the individual in modern economics has been found to be fairly high, with equality of opportunity, the return to costs of waiting and training would not cause large differentials in the more progressive and richer societies, especially as a larger part of these costs would also tend to be borne by the public exchequer.

In fact, of course, the differentials in India today are very large. The existing situation regarding variations in wages and salaries in India can be attributed, in the main, to pre-existing inequalities in the distribution of wealth and income which the current system of payments and remunerations perhaps further continues to aggravate and certainly does little or nothing to reduce. The existing system of differentials is thus of little relevance to the future socialistic arrangements, except to indicate or measure the extent and direction of corrections that might become necessary.

Before proceeding further with the consideration of the internal situation, we may examine some influences of external factors on payments of salaries, etc., in India. The scales of salaries of higher officials in India had been completely dominated by British scales and the influence persists in spite of the rise in prices during war, and because of the inadequacy of the recommendations of the Salaries Commission. In recent years foreign companies operating in India have been recruiting Indians in large numbers as officers under pressure of government. This has introduced a new disturbing element in the situation. The scales offered by these companies to the Indian recruits are completely out of line even with the prevailing standards of pay in government, or private Indian business.

¹ Memorandum submitted to the Panel of Economists, Government of India Planning Commission, in December, 1956.

These payments are presumably justified on the ground of parity with payments that have to be offered to the non-Indian officers of these companies. Thus an external factor, which in the past determined the scale of salaries of higher officials in India, is now operating towards setting up standards equally irrelevant and equally extravagant in the business sector. Another possible external factor is the scales of remuneration of the new and expanding international organizations. The scales of payment offered by these international organizations are, of course, very much higher than anything contemplated by business or government in India today, and even a cursory glance at the extent of the disparities is enough to prove that no attempt could be made to settle even the highest scales in India *vis-a-vis* the practice of international authorities. At the same time, it cannot be gainsaid that posts in these international organizations have offered alternative employment to some Indians.

The influence of external standards has to be judged from effects in the other directions also. The expectations of the rich in general, especially those of big businessmen, are mostly powerfully influenced by the pattern of consumption by the rich in other countries, particularly those of West Europe and North America. And these expectations set a standard of net income against which all personal tax measures and all proposals such as that of a ceiling on incomes are examined by those who virtually rule the private sector in modern Indian industry and trade. The influence of the same factor is also seen in, for example, standards or targets of standards of hotel accommodation and amenities in railway and other travel that are beginning to be accepted in India. Even the continually expanding provision of internal air travel may be considered directly or indirectly the result of hopes of tourist traffic or the supposed expectations of foreigners. It is a matter to be very seriously considered whether the presumed advantage flowing from, say, tourist traffic may not be counterbalanced by the possible misdirection of national resource utilization through the setting up of unreal standards in this manner. All this seems to emphasize the need to eliminate as far as possible the influence of external factors on our expected as well as actual standards of consumption in all directions.

The restrictions already existing on movements of capital make it unnecessary to consider returns to capital in India in the international context, i.e., from the point of view of a rate of return having to look to prevention of migration of capital from India to other places where it could obtain higher returns. In terms of labour employment, migration possibilities are almost non-existent. That the world is far from being an international community is underlined by the fact that for our labour, and even for our small trader, opportunities in economic activity abroad are contracting

rather than expanding. Perhaps, the one exception where there is a link to employment abroad is that mentioned above of the employment offered by international organizations.

The statement that the existing set of differentials in India is the result of historical forces and of the highly stratified structure of our society may be illustrated by drawing attention to a number of features of the current situation. The first of these is the success of the war-time efforts to train raw recruits from rural areas in semi-skilled and skilled work in machine shops, etc. This success indicates how in terms of modern technology a large reservoir of labour can always be drawn upon, provided an opportunity and a minimum training are given.

The same phenomenon is strikingly brought out by the rapidly growing numbers of the educated unemployed, particularly in urban areas. This growth is the result not of a shrinkage of demand for the services of the educated urban classes but of a rapid and continuing increase of the numbers within the class. This increase may be said to be due to two forces: firstly, the pressure on an increasing number of strata in rural society to find employment for the younger generation in non-rural occupations, and secondly, the growth of opportunities in many rural areas for obtaining the urban type of education. The educational opportunities, newly created in the rural areas, are availed of for obtaining what are considered to be the qualifications for securing employment. With existing disparities in standards of payment, and opportunities of remunerative employment in urban and rural areas, the possibility of obtaining clerical, etc., employment in towns holds very great attraction to the bulk of the rural population which has access to educational opportunities. As far as one can see, with even a modest programme of educational development in rural areas, the numbers of those who will take to all kinds of training—specialized or non-specialized—with hopes of obtaining non-rural employment must continuously increase at a rapid pace. To this will be added the numbers from among those urban classes to whom educational facilities have become newly accessible.

Those who are in cultivating possession of land, in any capacity, hold on to cultivation of land tenaciously, and this happens also in the ranks of traditional hand-industry until it ceases to provide even the barest subsistence. These classes, i.e., the cultivators and the artisans, suffer from varying degrees of underemployment; overt unemployment is not strikingly present in their ranks. In rural areas it is the casual agricultural labouring class to which additions are presumably being made continuously from the ranks of cultivators and artisans, that suffers most from unemployment. But whether it is from classes that suffer from unemployment and from

those that suffer from underemployment, all those who can escape from the depressed rural sector strive to do so, and the only general avenue for such escape in the Indian situation is the attainment of a minimum standard of education, general or technical. It is an entirely wrong view of the situation to explain existing difficulties as arising out of the defects of the educational structure. The prevalence of non-specialized general educational institutions reflects the non-diversified nature of occupational opportunities in the Indian economy. This is made clear by the fact that where the number of any type of technically trained personnel is increased rapidly over the existing level it tends to suffer from unemployment to an extent even greater than that from which the general educated class suffers; it is also emphasized by the significant numbers of those with technical training seeking and being found in jobs where their special training is not required. The last is an illustration of disguised unemployment or "underemployment" as defined by Mrs. Robinson.

One of the most important illustrations of the influence of the stratification of existing socio-economic structure in India is non-continuity in the scale of emoluments obtained by the employed. This is particularly noticeable in the employment of the educated urban classes. In the employment market there is a small number of highly privileged positions to which are attached specially high emoluments. Those who occupy these or have entry to these usually possess certain advantages of background or connections. In particular cases, such as that of recruitment by competitive public examinations, the entry may be said to be comparatively open. That, in fact, the entry by examination is far from being completely open can be discovered from any careful analysis of the successful entrants each year. This will show high concentration of fairly small groups in Indian society. Granting, however, that at least with reference to these groups, members of which have the predominant chance of being recruited to the services, the tests may keep the field fairly open, the element of non-continuity is brought out by the great disparity in the prospects and performances of those who are selected as a result of the tests and those others who are just not selected. The levels of remuneration in every direction obtained by those who are just not selected are ordinarily very much below the average of those who are selected or just selected. The service recruitment is a good illustration of the total situation as it contains no element, as in the returns of business, of individual risk or venture. To the bulk of those who attempt to enter public services through competitive examinations there is only a comparatively narrow range of possible openings. Recruitment to the better-paid jobs in private industry and commerce is confined for the most part to the small

group of communities that own and operate modern business in India. This phenomenon of non-continuity, i.e., of an absence of gradually descending scales of remuneration in important classes of employment not only throws light on the existing situation but also makes clear how it is possible, in this field, to maintain payments for a restricted group at an artificially high level.

The problem of salary or wage differentials is usually considered in two different parts, one relating to the range of differentials within an occupation and the other relating to differentials between different occupations or strata. Before proceeding to offer observations on these two aspects, I may draw attention to an important feature of the context in which this question is being considered. This is that of a planned economy. In a *laissez-faire* economy it might be possible to take the view that whatever the range and character of differentials, they were the result of an open market pricing process, and because this was so, no interference with them was justified. Having given the extent of limitation and modification of the pricing mechanism involved in planning for development in India, the open market pricing explanation is no longer relevant. Differentials in a planned or even the so-called mixed economy will have to be justified either on the ground that they are required for the proper functioning or smooth operation of the economy and the plan or on the ground that they are justified in the light of some ethical or other non-economic value accepted by society. Therefore, in dealing with the problem it is necessary first to consider the two aspects in relation to the functioning of the economy and then go on to consider the overall influence of non-economic considerations.

Within an occupation the differentials would depend on variations in, what may be generally termed, skill; they might also depend on location. With progress of a process of development the locational and regional differences should diminish. This would be the result of a number of different factors. In the first instance, the process of development should diminish the measure of variation in economic conditions and standards of living. With no artificial barriers in the economy and with mobility increasing and costs of movement declining, inter-regional differences should become less. Also, presumably, the plan of development will be specially devoted towards improving conditions in backward regions and among backward classes. The whole emphasis of the world's concern with the plight of under-developed economies is on the undesirability of maintaining wide and widening differences among different constituents in world society. Obviously, the underdeveloped economies which count upon help from outside richer countries must as part of their initial programme bring about greater equality in standards of living, etc., within their own areas. Large differentials among

various degrees of skill, etc., are usually associated with lack of opportunity. The differentials as between the unskilled and the comparatively skilled in the same occupation are relatively much larger in the underdeveloped than in the advanced economies. Among the advanced countries themselves it has been observed that the progress of collective bargaining and of national wage agreements leads to progressive diminution of the range of locational or regional differentials and also of the comparative skill differentials, within an occupation. The total effect of the various forces acting on the Indian situation since 1939 has also been in the same direction. The enforcement of minimum-wage legislation in the important unorganized industries and in the more organized part of agricultural activity, and the adoption of standardized wages in the organized sector of industry, banking, etc., would result in diminishing and rationalizing the differentials within individual occupations.

The main problem, in this context, to be faced by a planned economy is likely to be connected with methods of payment; this will be that of the possibility and pace of the adoption of a system of piece-rate wages. The advantage of this system from the point of view both of incentive payments and of adjustment of payment to productive effort is obvious. With proper safeguards against abuse provided by regulatory devices, it should be possible to extend with advantage the piece-rate system without opposition in large areas of economic activity.

The problem of the range of differentials as between different strata and different occupations is much more important for the subject under discussion than that of differentials within an occupation or grade. Its consideration has to begin with an abstract statement of the governing factors. As existing conditions are the result of a socio-economic stratification, the radical modification of which must be an important part of the programme of any society progressing deliberately towards a socialistic pattern, they cannot serve as guides in determination of the framework of future arrangements. They will of course have to be taken as the starting points of the process of transition. Theoretically, apart from the facts of a given historical situation or of stratification, there is only a small number of factors which may be said to determine differentials between occupations. These appear to be: (1) investments to be made in making an entry into the occupation and the uncertainties in relation to return to be faced in it; (2) pleasantness or unpleasantness of the occupation and of conditions of work in it; and (3) payment to scarce ability. In a dynamic situation, to these may be added the factor of special incentives or disincentives to adjust supply to demand and also perhaps special individual incentive payments to call forth the optimum production effort on the part of individuals.

One of these, (2) may be supposed not to lead to very large differentials though a full allowance for it may change the existing scheme of differentials radically. In a society approaching a socialistic pattern, (1) also would have only a limited effect. In such a society, education including the expenses of waiting during the period of education would be largely socially borne and the uncertainties would tend to be progressively reduced. As investment and production are planned, there would be no special costs of entry. As regards adjustments between demand and supply of labour, a society developing according to a plan would have so many other instruments available for making the appropriate adjustments in labour supply, that it should not find it necessary to use differential wages as an important device for this purpose. Therefore, in the society of the future, the range of variations in level of rates of payments and of earnings should be comparatively small in virtue of all factors other than those relating to payments to individuals as incentives for productive effort and as return to scarce ability. The two are almost identical in a socialistic society. For, in such a society the holders of scarce ability will not be in the position of monopolists in an otherwise competitive market; they will not be able to dictate their own terms. However, the socialistic society may fear that they will not put forth their best effort and may hence be forced to offer them specially high incentive payments.

It is not the concern of this note to discuss the various forms of individual incentives that may be possible or necessary in planned economic development. The large body of knowledge in the field of operation of incentives and of industrial psychology can be drawn upon to determine appropriate individual and group incentives that may be needed and used in particular circumstances. All these forms of incentives are concerned, in the main, with methods of remuneration. For the larger part of the field they do not affect, in an important way, the differentials in the range of earnings. I am also not concerned in this note with the problems of the checks, the controls, and the monetary and the non-monetary incentives that may be required for the proper functioning of large autonomous corporations. Having granted that the size and gains of private business would be limited, the highest level of earnings would be indicated by the payments that are held to be necessary to afford the proper incentives to high public functionaries. In determining the level of the highest range, we are thus concerned with a comparatively small number of administrators, executives, and intellectuals in society. We assume that the standard of comfort appropriate to the putting forth of arduous and responsible effort could be maintained without very high differential payments.

A deliberate effort to improve the standard of living of the most

disadvantaged would bring about a movement of closing in the differentials among the lower strata. This will be helped materially, so far as the differentials between the manual labour and non-manual labour classes are concerned, by the spread of educational facilities and other factors noted above. The closing in of the differentials from the top, however, cannot come about except by deliberate effort. This effort in the context of private business will depend on effectiveness of the steps taken in relation to the concentration of economic wealth and power in private hands and the policy in relation to the formation of capital. As regards payments of salaries in the public and also in the private sphere, the effort is related, in the main, to ideas about appropriate standards of living and about the needed incentives.

The last is a problem that derives special importance from the report that in the communist countries, especially Russia, very high incentive payments are made to certain classes of individuals and from the conclusion derived therefrom that these are necessary for operating a planned economy. The conclusion obviously presupposes a social philosophy and a view of human psychology. It may be emphasized that the psychology which is relevant here is only that of the elite. We have argued above that the range of relative differences necessary to afford appropriate incentives to the large bulk of people will not lead to very large differentials, if the total range as dictated by the requirements of the elite is in itself not wide.

As during British rule, the decisive consideration in determining this range will be the requirement of those who wield economic and political power; and this will depend, in the existing context, on the philosophical and psychological make-up of this group or class. Is there anything in the Indian tradition that should lead to the Russian model being followed in this regard and heavy reliance being placed on the material incentives offered to the people at the top? It has been indicated above that, because of the wide disparity in national incomes, the standards of living in the richer countries set up models before the rich in the poorest countries, which are completely out of relation to the levels of incomes in these countries. In terms of requirements, which to them could be psychologically very important, the elite in poor countries could well consider the standards of the rich countries essential for themselves. This is a matter which can be settled in terms only of attitudes and judgments. The two main questions that emerge in this context appear to be about: (i) motivations of those in power, and (ii) the accepted code of values in society. To a large extent the two are interrelated. If there is a certain set of professed values in society, the leaders of a society to be accepted as such voluntarily must show that their actions and attitudes are influenced at least to some extent

by these values ; this means that the motivation of the leaders must bear some apparent relation to the values they profess and preach as leaders of the society. In terms of traditional Indian values and in the light of the special recent emphasis on certain aspects of them, it is obvious that a large range of differentiation and high economic incentive payments in favour of the elite are not only not required but are also to be positively avoided. The whole set of values associated with democratic functioning of quasi-autonomous small groups and with decentralization of political and economic power makes it necessary that the leaders, the top executives, and the administrators must have standards of consumption which do not mark them off sharply from the tiers below. In fact, in this context and in a poor country where the leaders have constantly to preach the need for abstinence from wasteful consumption, a comparatively moderate standard of consumption for leaders may have a high moral and incentive value for society as a whole. At least high incentive payments would in such a society have adverse effects through their reactions on public psychology. Also, there is nothing in the Indian tradition or in the existing Indian situation to show that socially valuable or highly responsible intellectual effort has been called forth only or chiefly by high incentive payments.

People become accustomed to high standards of living very quickly and begin soon to consider as minimum what they had previously thought unattainable ; undoubtedly the last few decades have greatly enhanced the expectations of our middle and richer classes. This trend can yet be stopped and reversed with comparative ease, if the need for doing so is realized. In the Indian tradition, comparative poverty has not been associated with either lack of character or ability. On the contrary, persons, who have deliberately avoided acquiring wealth, have always commanded and perhaps still command considerable influence in our society. Acceptance of a moderate standard of living by our elite, therefore, seems to be almost a necessary condition precedent, at least in the initial stages of planned economic development.

There might be no opposition to a general theoretical acceptance of the ideas put forth above. It is highly doubtful whether they would be equally acceptable and enforceable if worked out in specific detail. The problem may be said to have two aspects. Firstly, with regard to scales of emoluments in the public and the semi-public service, and secondly, payments in private industry. The dispute relating to payments to employees of banks has recently drawn attention to the public importance of the highest scales of salaries having some relation to levels of payments of the lower staff. However, barring some occasional action in relation to salaries of top executives in some nationalized institutions, little has so far

been done in the matter. Even more important is the fact that there has been no systematic thinking on the subject, and no thought or action appears to have been contemplated or even deemed necessary.

The problem may be illustrated with reference to action by the University Grants Commission about the scales of salaries of university teachers. This particular episode illustrates many peculiarities of the Indian situation. In the first instance, teachers employed by universities are relatively about the best paid among teachers in India. If, therefore, monies were available for improving conditions of work or living of any class of teachers, university teachers should have been the last to be thought of. It is true that in some universities salaries of professors, etc., are at a lower level than in others; but then, in those universities, the salaries of other classes of teachers are also correspondingly low. The first point to be noted in connection with this move is that in India, in any scheme of development or public expenditure, the top executives and administrators not only get prior consideration, but also absorb disproportionately large amounts. The University Grants Commission has not expounded the reasons for its proposals. At one time it was suggested that the low salaries of university professors contributed to student-indiscipline. However, whether it is student-indiscipline, or standards of teaching and education, it would obviously pay to concentrate attention on the ranks of lecturers, etc., in colleges rather than on the relatively well-paid teachers in university departments.

The original scheme of subsidization of salaries by the University Grants Commission was confined to two grades of university teachers. It has subsequently been extended conditionally to college teachers. This raises the second point as to whether there has been any previous thought on the implied problem of the best utilization of available finance. Raising the salaries of existing incumbents or raising existing grades must be related to some objective which is supposed to have priority over possible advantages of new schemes of development, employment, or expansion. It must also have some relation to a framework of comparative payments within the occupation, and the relation of these payments to those outside.

The proposals of the University Grants Commission appear to be modelled on the recommendations of the Radhakrishnan Commission. The only argument put forward by this Commission in support of the scales recommended by it is that "there is no reason why they (universities salaries) should not compare favourably with those of provincial services". The scale of salaries recommended by the Radhakrishnan Commission for professors is Rs. 900-50-1350, and it is interesting that the Commission itself notes the following facts: "In Indian money the average salary of professor in the U.S.A. is Rs. 1,750 a month, the maximum salary (fixed only in Columbia)

Rs. 4,000 a month, and that of professor in the premier universities of the United Kingdom about Rs. 1,750 a month." The Commission, while noting the scales in the U.S.A. and the U.K., does not feel called upon to comment on the close approximation of the scales recommended by it to the salaries of professors in countries so very much richer than India. If the Commission had cared to note the scales in countries nearer our own level of poverty or wealth, it would have found them very illuminating. For example, it may be noted that the salaries of professors in Japan, whose per capita income is roughly three times that of India, do not usually exceed Rs. 700 per month. A comparison of the relative salaries of primary teachers, secondary teachers and university teachers in India with those in other countries would similarly emphasize that the so-called low levels of existing salaries in universities and colleges in India are, in fact, now low relatively to our national economic circumstances.

Another point to note in the proposals of the University Grants Commission is that, even in its revised proposals, the raising of the salaries of college teachers is contingent on a very substantial part of the extra cost being borne by governments of states. Because of this it will most probably happen that in the large majority of states, and certainly in all the poorer states, the proposals in relation to college lecturers, etc., will not be implemented, and only the university professors, etc., will obtain substantial increase in their salaries. It may be that in view of the sphere of direct responsibility of the University Grants Commission, it is justified in making the proposals it has made. However, on an overall view of the matter, the developments are hardly in consonance with planning for economic development. If a purely sectional view of the matter is taken it might be possible to argue in favour of the Commission's proposal even for raising salaries of university professors. The Commission, it could be said, is primarily interested in keeping up standards of university education, and an important course of action for achieving this is ensuring the quality of recruits to the profession of university teachers by way of providing attractive posts at the top. However, such a sectional view, especially at a time when an overall scarcity of trained personnel is impending, can only lead to chaos.

The moral of all this appears fairly clear. In any system, working like the present Indian system, there is little likelihood of any rationalization of the emoluments of the highest paid. There will always be shallow professions of moving towards equality and occasional action under pressure of public opinion in relation to a few posts at the top. For the rest, instead of any revision downwards, as more monies become available through development plans to various departments, there will be a multiplication of highly paid

jobs and a levelling upwards of the scales obtained by those in the relatively less well-paid departments. This process of levelling upwards will most powerfully affect the upper grades in the central and the all-India services. The lower grades and the services of the state governments and of local authorities will feel the influence in a lesser and lesser degree. This is so for obvious reasons: The largest surpluses are with the centre; improvements in the highest grades involve small numbers and are thus not too costly; and also, members of these are closest to those who wield political and economic power and make policy decisions. The only period during which this trend was reversed was that of the inflationary rise of prices. During this period the operation of the system of dearness allowance brought somewhat closer than before the distance between the highest and the lowest. The Central Pay Commission had the opportunity of erecting an entirely new and rational framework. However, that body failed to do this, and developments since then have brought about no rationalization. India continues to have, therefore, one of the most non-equalitarian systems of payments to higher public officials. On a realistic view of the matter, no correction of this, except perhaps through another bout of inflation, appears immediately possible.

To the situation in the public sphere has recently been added another complicating and worsening factor of the salaries paid to their officers by the large corporations and managing agencies, especially the foreign companies, in the sphere of private industry. These are now the highest-paid jobs open to sons of the elite. Apart from the many consequences of the presence of a large section of well-connected young men as employees of private foreign companies, the direct influence of the salary-scales paid to these on recruitment and of salaries of public officials is itself bound to be important. This is not the place to consider whether government will directly attempt to regulate these salary scales or not. It is, however, relevant to observe that all these payments come out of the total Indian national product, and the planned development of the country, with all the regulations on activity and burdens on the consumer that it involves, is largely responsible for maintaining the conditions under which they are earned. Whether the economic activity is in the private or public sector, whether it is conducted by indigenous or foreign operators, and whether the emoluments received are in the nature of salaries, wages, or profits, the absolute and relative heights of all incomes received out of the national pool are the concern of the government and the planning authority. And whether the payments are imposed, prescribed, permitted, or merely tolerated they must be taken as parts of the plan. Therefore, whether through appropriate tax policy or through direct regulation, all salaries as well

as high *entrepreneurial* incomes must be set at appropriate levels.

Attention may be drawn to another type of complication in the existing situation. This arises through the progressive regulation of wages especially in organized industry. It is well known that the standardized or other regulated wages in organized industry are usually set at levels which are notably above current levels. The phenomenon of non-continuity noticed above in the case of salaries of high government officials is noticed in this case also and employees in some types of organized industry find themselves in a privileged position. Similar and sometimes even greater anomalies are caused by some minimum-wage regulations. Especially when these affect payment in rural areas, as, for example, in case of plantation labour or labour in sugar factories, the difference in the regulated and non-regulated wages is seen to be very large. These facts are set out here not to call into question the trend in policy relating to regulation of wages. That policy is one of the important operative factors in levelling up incomes in the community. The anomalies that are created in giving effect to it merely underline the gravity of the employment situation in the country and the extremely low levels of current standards of living, particularly in the rural areas. The minimum at which tribunals or other bodies can bring themselves to set the level of remuneration to unskilled general labour is yet far above that of actual earnings of very large numbers in our towns and countryside. This further emphasizes the fact that a grossly disproportionate share of the national dividend is appropriated by those who wield political and economic power, and by the classes from whom the state and the social leaders are drawn. The disproportion is all the more striking in view of the social philosophy they profess and their continuous preaching of self-denial and abstinence to others.

From the point of view of immediate policy decisions the following points appear to emerge from what has been discussed in the preceding paragraphs: (1) One of the major aims of the Plan should be to raise the standard of living in the poorest areas and of the most disadvantaged classes through appropriate plans of development and employment. (2) The minimum-wage legislation should be enforced in the unorganized sector of industry and in the organized sector of agriculture over as large an area as possible. (3) In the organized sectors of industry collective bargaining and standardization of rates of remuneration be actively encouraged. (4) Continuous and systematic attempts to be made to rationalize progressively scales of salaries and other types of remuneration paid to top executives, administrators, and intellectuals in all official and semi-official employment. One of the main objectives of the rationalizing process should be to see that, by the end of the plan-period, the range of

differentials between the highest and the lowest scale of official payments should not be wider than that obtaining in the U.K. Attempt should be made to narrow the variations between payments by various official departments and agencies and payments by various strata of governmental authority—central, state, and local. (5) Standards of remuneration and earnings at the higher levels in private modern business should be amenable to public regulation. (6) The standards of convenience, amenities, etc., afforded by public services and agencies should not be set at levels current in the rich countries but should be evolved in appropriate relation to the size of our national product and the level of general well-being in our society.

PROSPECTS FOR THE SECOND FIVE-YEAR PLAN PERIOD *

CONSIDERATION of the Second Five-Year Plan period may well begin with some observations on the achievements of the First. The pre-Plan quinquennium was a period of continuous inflationary pressures, anxiety regarding food supplies, terms of trade, and balance of payments. In all these respects the period of the First Five-Year Plan showed a changed picture. The most important change was in relation to domestic production of food. Inflationary pressures also vanished soon after the launching of the Plan and were absent, almost entirely, during the Plan period. In a way, the Plan may be said to have succeeded. Planned expenditure was undertaken to a large extent in the directions projected in the Plan, and it seems to have achieved results. Of course, the First Five-Year Plan was not much more than a programme of public expenditure, more particularly of construction of public works. There was large concentration of expenditure on irrigation and power projects, and on railways and roads. Together, these constituted almost half of the total Plan expenditure. There was no large public investment in the field of industry, and no special view was taken of the pattern of future industrial development. The industrial aspect of the Plan was largely dependent on the behaviour of the private sector. During the Plan period the government had at its disposal a number of instruments through which industrial development could be controlled, notably the licensing powers under the Regulation of Industries Act, and powers for the control of imports. It does not, however, appear that these powers were exercised, especially the import control powers, with reference to the objectives of the Plan as a whole.

Unplanned Achievements

The major achievements of the First Five-Year Plan period may perhaps be said not to have been planned at all. During this period, inflationary pressures came to an end. This may be attributed both to wise financial and fiscal policy internally, and to a favourable trend of events externally. The same may be said of monetary and credit policies. These were, in the main, cautious and they suited the transition from the uncertain and fluid situation of the immediate post-war period to a more normal state. The government may be given full credit for these achievements, but they could hardly be linked to anything that was specifically in the Plan. In relation to the achievement of targets of agricultural and industrial produc-

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tion also, it is difficult to assess the share of the Plan as such. Today, it is agreed that to a considerable extent the satisfactory level of agricultural production attained was due to a remarkable succession of favourable agricultural seasons. Even here, some part must surely also be attributed to government policies in relation to agricultural production. It is difficult to separate the improvement due to a good monsoon from the increase in the general level of production; also, it is clear that credit for any improvement in normal production should be given not only to what was done during the First Five-Year Plan period but also to the programmes and activities of the seven or eight years previous to the launching of that Plan. The emphasis on bringing more land under irrigation, the incentive of high prices, the special efforts at improvement of techniques and supplies as a part of the grow-more-food campaign, and other activities were perhaps together responsible for increasing the readiness of the cultivator to respond to advice and help, and his willingness to bring more land under the plough and put in his full effort. It is impossible to say that any one programme in what had been done over a 10- or 12-year period was more responsible than another for the result. Cultivators since 1942 had evidently become more production-conscious and market-conscious, and consistent effort by the government was bound to lead, over the years, to a marked improvement in results. To the favourable situation in the field of agriculture must be added the influence of the favourable international economic situation as a factor in bringing about improvement. Inflationary pressures generated abroad, which were present throughout the post-war quinquennium, were much subdued during most of this period. The international situation also did not create any difficulties for India on the balance-of-payments front; the terms of trade did not turn substantially against India, and the demand for export products from India kept up well in spite of the post-Korean war slump. A cautious monetary and credit policy taking full advantage of this situation was able to keep the bank rate low, government security market stable, and to conserve or use sparingly foreign exchange reserves.

The performance of large-scale private industry was on the whole good. Production increased at a rate faster than the increase in invested capital—the result, perhaps, of the use of unutilized capacity. It showed ability to build up export markets, and, in certain newly established directions, large-scale private *entrepreneurs* were willing and able to take advantage of their new opportunities. There is no doubt that, during this period, in certain urbanized areas and the areas with concentration of particular crops, the tempo of economic activity increased, and forces making towards comparatively rapid change appeared to have been set in motion. On the

other side, it is necessary to note some unfavourable features. Soon after the launching of the Plan there came a sharp break in prices, particularly of agricultural products. Instead of acting on the prices in such a manner as to maintain some kind of planned relations, the government used the opportunity to bring about decontrol, particularly in relation to food prices and food supplies. The fall in prices affected the position of important classes. It affected notably the position of the agriculturists; subsequently the position of the artisans and small-scale industry appears to have suffered a set-back. Moreover, the volume of unemployment appeared to be on the increase by the middle of the First Five-Year Plan period.

SHIFTS IN GOVERNMENT POLICY

The preceding analysis makes it clear that the First Five-Year Plan did not launch a planned economy into the country and that a large part of the achievements of the Plan period had not been planned. It is, however, noteworthy that a continuous shift took place in the policy of the government during this period. The directions of this shift are seen from the main features of the Second Five-Year Plan. These are: a large increase in planned effort, particularly in the public sector; emphasis on the decentralized cottage industry sector; large expansion of the public utilities and the heavy industries field; and the adoption of the socialistic pattern of society as the objective. The shift does not appear to be the result of forces identifiable with definite groups or personalities in government or public. If anything, it would appear, at first sight, as if most of those in control distrusted and disliked the trends responsible for the shift. Two forces may be said to have worked towards originating the trends and keeping them in operation. One was the reported development in communist countries—in particular, the reported transformation of the situation in China. The other was the economic situation within the country itself.

Unsatisfactory Data

The latter statement may appear somewhat surprising. As pointed out above, the period of the First Five-Year Plan witnessed perhaps a more stable situation than at any time during the last 10 or 15 years. In such a situation, no severe pressures would be supposed to be generated. The apparent contradiction emphasizes the difficulty of taking an overall view in a country like India. The data for making a proper evaluation of the total Indian situation are not really available. Most of the available statistics and reports concern the working of the urban economy. In this also, they refer, in the main, to the operation of the sector which may be called the organized

sector in industry, trade, and finance, i.e. the sector *par excellence* of modern business. The data required for a proper assessment in relation to the very large field of agriculture and small industry are almost totally lacking. We have details relating to acreages of crops, and we have estimates of yields; also, we have the general series of prices of important agricultural commodities, but we have virtually no information about the agricultural employment, or the gross receipts of agriculturists, or their incomes. The data of price and yields may be expected to give some indication of gross receipts, if not of incomes. But even for gross receipts their use is severely limited as we have no data whatever which can be taken as truly reflecting the level of prices received by the agricultural producer himself, and we have no data relating to agricultural costs and the wages or other receipts of the average agriculturist. We have no material at all on the basis of which a judgement regarding the relative fortunes of the main classes of agriculturists in the country can be formed. A number of surveys—local, regional, and all-India—conducted during the last 15 years reveal very considerable regional differences in conditions within the country, and considerable differences in the impact of economic forces on the fortunes of different socio-economic strata within each region. Also, the pattern of inequalities, and differences in results of impacts of economic forces differ significantly from region to region.

While the data in relation to the very large sector of small-scale industry are almost completely lacking, the few figures that are available are so defective that even the number of active handlooms in the country cannot be determined to general satisfaction; and the only way of estimating cloth production by handlooms is through the volume of yarn that might have been made available to them. Obviously, we have no data on the basis of which any statement regarding the conditions of the most numerous industrial class of our population can be made. Because of the absence of information regarding employment and production in the unorganized sector of industry, almost all data and the indexes relating to industrial production in India refer only to modern organized industry. As a rule, therefore, these present an unduly favourable picture of the conditions of industry. A declining or stagnant hand-operated industry may co-exist with an expanding machine-operated industry, and it is suspected that this condition obtained during most of the First Five-Year Plan period.

Data relating to registrations at the employment exchange have, in recent years, come to be looked upon as indicative of the economic situation. The figures of these registrations have mounted steadily through the years. This is partly a function of the contemporary expansion of the employment exchange system and also perhaps

of the growing knowledge and habit of registration. Making all allowances for this, it would still appear that a real increase in unemployment is, at least in part, responsible for the continuous increase in registration of the unemployed. The increase in the number on the registers of the employment exchanges relates almost entirely to urban unemployment; even among the urban population the large numbers of the self-employed in small-scale industry would not be included in this picture. Obviously, agriculture and rural industry do not affect the registrations. Therefore, it would appear that the economic situation in the urban areas has, on the average, been somewhat depressed and has been worsening during the First Five-Year Plan period. This is apart from and in addition to the situation in the small-scale industry sector. Organized modern industry may then be considered as the exception.

Small and hand-operated industry and the urban unemployed were possibly the main fields in which pressures originated. It is difficult to say how the pressures were transmitted so as to result in concrete political decisions. It might appear as if the groups of workers in the village industries and in the *khadi* field were in part responsible for the greater attention to this sector in the Second Five-Year Plan. It would, however, be easy to exaggerate the effective political influence of this group. A reference to the rapid and somewhat sudden change in policy that took place in regard to handloom products during the Plan period would indicate that it was the grasp of the seriousness of the situation by some elder politicians, rather than the influence of any group of social workers, that was effective. Pressures in relation to the unemployed originate chiefly with the unemployed amongst the educated classes. The pressure operates on all political workers, government servants, etc., as these belong mainly to the same set of classes as the unemployed. It should be noted that these pressures have become effective slowly and the situation has changed only gradually. The existence of unemployment, for example, was not even recognized to any significant degree by many in authority three years ago.

The decentralized cottage industry programme is partly the result of the situation in the cottage-industry sector and also partly the result of the pressure of unemployment. The latter has emphasized the need of avoiding increased unemployment in this sector which was bound to arise if the progress of machine-operated industry was not appropriately regulated. The much larger size of the Plan may have been due, again, to persistent unemployment, but most probably owed in a larger measure to the reported pace of progress in communist countries. The emphasis on heavy industry may be similarly due to the experience of the Russian and the Chinese economies and the pattern of their development. The definitive acceptance of the

socialistic pattern of society is more difficult to explain. Something may be due, in this connection, to the persistent hang-over from older pronouncements; but perhaps the example of China was more largely responsible. The only internal force working continuously in this direction may be said to be the Bhoodan movement. The *egalitarian* emphasis of the Bhoodan movement has been striking from the beginning. The very radical *egalitarianism* that now appears in the formal definition of the aims of land reforms in India must be taken to have been shaped largely by Bhoodan. The transfer of *egalitarian* pressure of Bhoodan through land reforms and rural areas to urban and industrial classes also appears to be a continuous process.

No feature of the Second Five-Year Plan is really an innovation. The large size as well as the particular aspects have all been often advocated before. But they had not been accepted; indeed, only a short time before their definitive acceptance, they appeared unacceptable to the Planning Commission and to government. The important implication of even the above simplified account is that the planning process in India has so far not proceeded through an intelligent pre-view or structured logical thinking on the part of any central influential group or authority in the country. Policy appears to have been shaped by an interaction of forces and influences, and the grave handicap of the absence of deep study or of consistent thinking has been neutralized by an entirely exceptional sensitivity and receptivity.

FORMULATION OF THE SECOND PLAN

Some comment may now be made on the manner in which the Second Plan was put together and how its details were formulated. It has been claimed that the approach to the preparation of this Plan was novel. The First Five-Year Plan and the Second Five-Year Plan, both contain aggregate estimates, as of production, savings, investment, etc., for the whole economy. They also contain projections into the future of current estimates. The various estimates may be obtained by independent estimation of each separate magnitude or through estimations of some and assumptions regarding the relations of others to these. A plan presented in terms of total magnitudes for the whole economy must contain a statement of the relations within itself. A simple programme of works or of action need not be presented against the background of aggregates for the whole economy. This would be necessary only where the area affected by the plan and the effect aimed at by it were large. Presentation of data for the economy as a whole appears to have two main objectives in the planning-process. Firstly, it may be intended to demonstrate the feasibility of the targets of investment, production, etc. Secondly, it

would be used to demonstrate that the various parts of the plan were mutually consistent. There is little evidence that either of these objectives had been attained to a greater extent in the Second than in the First Plan.

It would be possible for an authority preparing a programme of public expenditure to take the view that as the extent to which it operated was not large, its programme of public works and other activities need not affect materially ordinary market processes. If the demand for capital or for exchange resources or for particular types of labour or materials made by the authority was not so large as to affect the normal working of the markets for any of these, a plan of action expressed only in financial terms might be sufficient. If, however, the Plan was so large that the ordinary market process in any or all directions was likely to be disturbed by operations of the planning authority, the Plan must look not only to finance, but to physical availability also. That this point has always been recognized is clear by the calculations made by the Planning Advisory Board (1946), regarding the availability of coal, cement, transport, etc., for the post-war programmes.

Was anything done in the formation of the Second Five-Year Plan which made a striking departure from the earlier practice? There were, no doubt, a number of papers produced by statisticians, and some even by economists. It does not appear that they affected materially the structure of the Plan. Ultimately, granting the policy-biases which had been evolved, the Plan-frame was based on common-sense projections out of rough available data in various directions. It was always known that there had never been any real technical examination of the individual projections. There is little evidence that any such examination was actually undertaken during the long period in which the draft-proposals were under consideration. Also, it is clear that the data available for physical estimation even in specific items are very unsatisfactory, apart from the basis of the assumptions involved in each of them. Reference to controversies over the broadest or the most central estimates, such as that of consumption of cloth during the Second Five-Year Plan period, exemplifies fully the unsatisfactory nature of the whole procedure. No weight, of course, need be attached to such projections as that of the level of national income or to ratios such as the capital-output ratio. These should rather be taken as derived from what the planning-authorities had put into the Plan, rather than as being themselves the determinants of the Plan. The most that can be said in relation to them is that when so derived it must not appear that they are outside the bounds of plausibility. The controversies that centred round the allocation for transport, the bottle-neck that prematurely developed in products like cement and steel, and the amazing range

over which basic estimates of agricultural production fluctuated on the eve of the finalization of the Plan and even after, all emphasize the extremely tentative character of the statistics and the framework.

It is, of course, useful to have a framework and to use all the statistics that you have. Improvement becomes possible only when you start somewhere; the refusal to attempt a framework, however crude, or to use the available statistics, though unsatisfactory, is obviously not the part of wisdom. But such experience of forecasts and projections as we have in countries like the U.K., the Netherlands, or Sweden during the post-war period indicates that even with the most elaborate statistical information and a large body of competent technicians the projections or forecasts have to be treated with the greatest caution. In existing Indian conditions, they are to be taken as academic exercises with perhaps considerable potential importance but little immediate significance.

Not only were the overall estimates and broad proportions in allocations arrived at chiefly in a rough manner with a wide range of possible variation, but this was also true of their more detailed breakdown. In the matter of allocation between states, and in the framing of the detailed plans of the states also, no great technical improvement over the methods adopted in framing the First Five-Year Plan was in evidence. The same method of discussions of teams of ministries and state representatives with teams from the Planning Commission, resulting in figures which evolved rather out of negotiations than out of technical examination, was followed for the second time. Nothing indicates that within the Planning Commission or elsewhere in India any great expertise in any of the techniques connected with the formation of plans has been built up over the last five years or so.

If this is the correct view regarding the evolution of the Plan and the manner in which it was put together, how does one proceed to judge of the prospects? The Indian situation is essentially fluid. This constitutes, perhaps, a danger; it is in reality, to my mind, its great merit. What is remarkable of the last 10 years is that the situation in terms of policy has never been stabilized at any point. There have been many periods during which it appeared that the forces of the right had gained definite ascendancy and established a line beyond which progress would not be made for many years; but something has continuously happened to falsify such forecasts of stabilization. The steps taken during the last two years in the direction of the taking over of the State Bank by government, the nationalization of insurance, and the rapid, at least formal, implementation of the bulk of the recommendations of the Rural Credit Survey are signs of a dynamism which, in the light of performance in other directions, was surprising. None of these measures were, of course,

included in the operative Plan. The setting up of the state trading corporations which was not foreshadowed during discussions on the Second Plan but emerged definitely only in the final stages, is another development which, in terms of the future, has very great potentiality. And yet curiously all these steps do not appear to have been the result of a carefully thought out and consistent policy. Therefore, one has to be cautious when talking of prospects; it would obviously be wrong to think solely in terms of possible fulfilment or non-fulfilment of the Plan in taking a view of the next five years.

HANDICAPS OF THE PLAN

Confining attention to the Plan itself, we find that there are a number of features of the Plan and of the existing situation which raise doubts regarding its substantial fulfilment. These may be described under three main groups. The first deals with certain inadequacies of the Plan; the second relates to inadequacies of the instruments which are supposed to carry out the Plan; and the third to the inappropriateness of certain attitudes and approaches to the work of framing and carrying out the Plan.

Inadequacies of the Plan

The most glaring defect of the Plan as such is the almost complete absence in it of provision for techniques with which the Plan would be implemented. In the First Five-Year Plan the central place in this connection was given to prices. The Plan clearly laid down that "the maintenance of the structure of prices which bring an allocation of resources in conformity with the targets defined in the Plan must be the consistent aim of economic policy" (p. 36). In fact, no attempt was made during the First Five-Year Plan period to maintain a related structure of prices. This did not matter as no real planning was intended. In the description of the Second Five-Year Plan there is to be found a general discussion regarding the need of the techniques of planning, but there are no specific proposals. This may mean either that the Planning Commission does not think the matter as of sufficient importance or that it is not yet ready with its plan in this regard. The Second Plan is not only much larger but it is also supposed, in the special context of industrial development, to represent the initial stage of a long, carefully regulated process. In this context, the omission is obviously grave. For activities within the public sector, or those completely subject to the governmental directives, no independent techniques need be elaborated. However, in the very large field of agriculture and private industry, attention must be paid to the manner in which it will be ensured that adequate amounts of various types of agricultural

products or of consumer and producer goods would be continuously available, and in an economy with very large numbers of small agricultural producers, crop-planning by directive would be impossible. The experience of the Growth of Food Crops Act during the war in Bombay State indicates both the limitations and the possibilities of legislative measures in this regard. Therefore, the chief instrument in this field has to be the relative structure of prices. In building this up, two sets of problems are involved. Firstly, the principles on which the relative price-structure would be initially determined and variations made in it subsequently. Secondly, the means by which the price-structure could appropriately and adequately influence the actions of the cultivator. The first has important theoretical aspects to which little attention has yet been paid. The second is related to detailed knowledge regarding the extent to which and the manner in which the cultivator's crop-plans are in fact influenced by relative prices and the variations in them.

There is agreement on the need of the government's maintaining stocks of certain agricultural products and conducting their purchase and sale. A warehousing board has also been set up. It is not yet clear whether there is any intention to invest this emergent system with price regulation and maintenance and whether it would be rapidly built up for this purpose. Attempted regulation of internal prices involves the additional problem of insulating the internal price-level from the international price-level. This is done, to a certain extent today, by the system of export quotas. However, the chief objectives to which the export-control-policy is directed are adequacy of available domestic supplies, and perhaps latterly, the obtaining of foreign-exchange-resources. Unless to these is added the equally important objective of the maintenance of the relative price-structure, export-controls may in fact operate as disturbing influences rather than as instruments of support of the agricultural price policy.

In relation to industry there exist today a number of controls such as on the import of capital goods, on licensing of new establishments and extensions of certain activities, and on the supply of certain basic materials. But all these are again oriented to specific objectives, and nothing has been done or said so far to indicate whether and how they could be used collectively in getting the Plan-targets of production, etc., implemented. With development-tempo-reaching a given level, the problem of the slackening of activity may not arise in the near future in modern industry. However, there would still be left problems relating to alternative uses of production capacity in particular industries and assuring production in the direction and to the extent required by the Plan.

The problem of production by the small-scale and cottage industry is even more complex. Production in this sphere is liable to many

breaks and many periods of under-employment. The Plan appears to assume the maintenance, in continuing production at an even pace, of all existing producers and establishments, and their systematic and gradual technical improvement. It may be stated as a general rule that unless the small producer in this sphere is freed of all responsibilities other than production, a steady level of production throughout the year by the very large number of small producers would be difficult to maintain. The problems of finance, of supply of materials, of technical help, and of marketing of products are too great and too much time- and energy-absorbing for the small producer to function effectively for a large part of the year. A system corresponding to the possible system for agriculture, viz., warehousing, floor and ceiling prices, purchase and sale activities by state boards, etc., has to be evolved for the needs of cottage industry. The idea of evolving a co-operative structure for small industry on these lines has been generally accepted. It does not, however, seem to have been realized that the structure is immediately required for the fulfilment of the Plan, that at the back of the co-operative structure, even when fully set up, must stand a governmental structure of purchase and sale and storage authorities connected with a system of floor and ceiling prices. It is necessary further to remember that while prices for the products of cottage industry must be remunerative enough to keep present producers in constant employment, they must not be so high as to induce any significant number of new recruits to take to production at the lower levels of technique. This again is an objective of policy for which an appropriate technique in implementation must be found.

The present position is not unsatisfactory in the sense of there not being a sufficient number of instruments of policy in existence or in contemplation. The real difficulty is that the various instruments which have mostly been evolved in specific contexts are never thought of together as instruments of the fulfilment of the total Plan and are not deliberately and thoughtfully co-ordinated for the purpose. The more or less complete lack of the thinking out of planning-techniques has been elaborated with reference to production; but it is in evidence in all other spheres also. A number of direct and indirect instruments of control have been evolved in the fields of banking, trading, transport, etc., but in none of these does the practice or theory relating to them rise above limited specific objectives.

Inadequate Instruments

Turning attention to instruments, we may present the basic administrative problem in India in the following terms. The entire administrative system of British India was framed for the unified

governance of a very large country through a very small number of British personnel stationed in each district. The structure of administration and the functions it could undertake effectively were determined by these conditions. The task today is entirely different. Ideally, it may be described as of maintaining living contact in all areas of effort, embracing every aspect of socio-economic life affecting the lives of the people of all strata, and invoking both understanding and co-operation of the bulk of the people. Obviously, a structure evolved during the British regime cannot be expected to function successfully under these radically changed conditions. That it has functioned so well as it did may be considered partly a marvel of adaptation and partly an indicator of the limited extent to which conditions in the new regime have, in fact, changed.

Some of the major sources of existing and impending difficulties may be indicated. The present system operates through a select service, mostly chosen and trained in a uniform manner, in which through the maintenance of the monopoly of positions and privileges the mental attitude of members of a high Hindu caste have been built up. As a result, we obtain some of the advantages of the caste organization, but also all of its disadvantages. It has produced a large number of able administrators who, though not experts in any line, have successfully held a variety of offices and performed, fairly satisfactorily, multifarious functions. All the highest jobs in the country have been virtually concentrated in this service, and the consequence of this restricted choice and universal inexperience of members of the service has at times proved serious and threatens to become much more so in the future. Moreover, the complete denial of the highest opportunities to all other ranks, services, and suitable outsiders has even more serious consequences.

Obviously, the present system is extremely unsuitable for a democratic structure. It is obvious that the country requires personnel in the higher services recruited in much more diverse ways and from among many more diverse strata than is possible under the present system. This would require much greater elasticity in recruitment and, particularly, in creating opportunities for persons who have acquired valuable experience and expertise in activities outside government service. Also, the monopoly of position, the single-track channelling of authority, the sharp differentiation in status, etc., between members of one service and all others are features which must be abolished. Apart from the enormous psychological damage, these features have a highly discouraging effect on members of the other services, because of the knowledge that whatever their record an inexpert from the caste service would gain precedence merely by virtue of membership of the privileged class.

The other feature, which also flows out of our history during the

British period, is the idea that for being effective a government servant must consider himself as external to the society in which he functions. The survival, in another context, of the same notion was found in the recommendation of the States Reorganization Commission that a substantial proportion of officers in any region should belong to regions outside. At present, we still appear to be in two minds. One is the British view of Indian society as a conglomeration of different communities with conflicting interests among whom the officer judged and over whom he impartially ruled. The proper democratic concept is that the government servant is, like anybody else, an integral part of society, with specific functions to perform. There are yet no clear signs of the democratic concept having been accepted at least theoretically by officers, or even by ministers. The change in practice has been slow so far. This necessarily affects performance in all, particularly developmental, activities where government agency carries a large part of the authority and the initiative. The adverse effect is most noticeable in respect of the volume and quality of public co-operation. The officer may emphasize public co-operation with a desire to show results. However, even public co-operation becomes a part of the programme to be achieved, and there has been considerable training given in these directions during the British regime. Everybody agrees that without full understanding and conscious participation on the part of the people, permanent results will not flow. However, as it is impossible to expect a radical change in the pattern of officer-behaviour overnight, and as there has been no overt and conscious effort made and no concrete example set to bring about such a change, the attitude on the part of both the public and the officials remains the same. In the projected development of the co-operative pattern all over the country reliance has had to be placed on official initiative and action, because of the backwardness of some tracts and of the paucity of non-official workers in them. There is ample evidence that effort directed mainly by officials remains external, and the organizations fail to take root. The dilemma is universal. In the formation of the co-operative programme there is at least continuous formal insistence on non-official participation and the ultimate withdrawal of officials. In other aspects of the development programme even this has not been done. It would be wrong to suggest that this is a universal condition, and that there is little spontaneous effort on the part of the people. It is true, at the same time, that conditions approximate to it over very large areas in the country.

Another specific deficiency relates to the supply and training of experts and managers for economic activity in the public sector. Programmes of such training were not undertaken on a sufficiently large scale in the previous period. They are still very inadequate

The progress of the public sector depends in a large measure on the availability of such personnel, and on establishing an appropriate technique of running a public enterprise. The whole of this important question is connected intimately with the structure of the service and methods of recruitment to it.

Inappropriate Attitudes

The third class of deficiencies pertains to attitudes and approaches. The major factor in this 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 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. The most that may be said to have happened during the last 15 years is that in selected areas in the country the class of substantial peasants has made headway through the better returns obtained by the more secure and profitable production systems in agriculture; there has further been evidence in this class some consciousness of new political power. There has also taken place some shift in the balance of power amongst urban classes, i.e., as between the professional and intellectual classes on the one hand, and the trading and financing communities on the other. The considerable importance of the former in the past has been notably reduced, and in general the influence of the latter has very greatly increased. However, the aborigines, the Scheduled Classes and Castes, the landless labourer, and the class of small holders of land have, at the most, all become somewhat more conscious of their own more depressed position than before; but in no large area are there any clear signs of improvement in their position, social or economic.

While the extent of change that has come about in the country is often grossly overestimated, the extent of real poverty, unemployment, and under-employment is not adequately realized. Over the last eight years considerable data have been gathered about the conditions in the country and there is no excuse for ignoring the facts. Yet even today responsible people talk as if unemployment was essentially an educated-middle-class phenomenon, and as if grinding poverty and chronic under-employment were not normal features for large proportions of the population in a large number of regions in India. There is not only an inadequate appreciation of the economic situation, but also a facile belief that announcement of large plans and eloquent speeches from Delhi are sufficient to enthuse the population. In this context it is apparent that we suffer from certain historical traditions. The imperial tradition associated with Delhi, of great ostentation, magnificent buildings and splendid living by the rulers, and the social attitudes springing from the socio-economic

structure of the *Zamindari* areas are obviously formidable barriers in the way of an appreciation of the situation by those at the top. There is, in concrete terms, no realization that a really bold plan must involve considerable sacrifices all round, especially by the rich and middle classes, and that the response of the masses will depend on the examples set by the leaders and the upper classes, and the sacrifices that they seem to make. In this regard there are a number of conflicting influences. There is the older tradition of a highly stratified society. There is the new standard set by foreign businessmen for their fellows in India, and the standards spreading in official and semi-official circles through international contacts and assignments. There are also the reported high emoluments that scientists and commissars earn in the Soviet Union. All these and the natural human weakness make for a perpetuation of existing disparities. On the other side there are only two forces. Firstly, the Indian tradition of austerity and of professing admiration for it, and secondly, the reports of the simple living of the leaders of China and of evidence of a genuine *egalitarian* trend in that country.

In the Plan no significant steps have been proposed regarding checks on consumption, salaries of officials or scales of government expenditure. In the provision of public services it is not realized that restraint on standards of consumption means restraint on standards of public amenities also. The provision of an occasional air-conditioned third-class train on the railways is preferred to providing adequate accommodation at the plainest current standards. The provision of subsidized air services up to international standards seems to command high priority, possibly because of the prestige-value we may obtain internationally through their maintenance,—obviously without calculating the cost to the country.

Another inappropriate approach that appears general is the tendency to concentrate attention on the volume of total expenditure incurred rather than on the directions in which or the care with which it is incurred. Possibly this is one of the by-products of the mechanistic beliefs flowing from the concentration, on mathematical relations and statistical ratios. Economic management of investment, and the technical efficiency of processes seem to have diminished in importance. An attitude threatens to develop which may be similar to that of revenue officers distributing *tagai* in a hurry before the end of the financial year. However, the Plan does not succeed merely by its being large; its success depends on the intelligence and the economy with which resources are used; and the great sacrifices that have to be made in India in making available these resources for investment emphasize the need for extreme care in their use.

In fields in which the investment and returns can be calculated in concrete quantitative terms, some check may operate on waste, which is too great. In other fields such as social overheads where the returns cannot be concretized and mutual comparisons cannot be made, everything depends on a careful definition of objective and priorities. No discussion of the relative merits of extra expenditures in various directions is to be found in the Plan. An illustration or two from the field of educational expenditure will make clear what I consider to be the wrong priorities, and consequently, wasteful expenditure. The Planning Commission finds it difficult to commit itself to financing recurrent expenditure in future years. Therefore, it offers very large grants for immediate capital expenditure. These can be most easily spent on buildings and equipment. So, without relation to the future maintenance of expanded activities, and leaving unsatisfied certain primary needs today which should be satisfied before any expansion is undertaken, a large building- and equipment-programme, including programme for swimming-pools and open-air-theatres, is under way and will be conducted during the next five years in educational institutions throughout India. The equipment of Indian educational institutions is so poor, in all ways, that it is impossible to say that the programme is not wanted in any particular direction. It is at the same time equally clear that a large programme of construction of educational buildings at this juncture was not a high priority, and that it made a considerable demand on building materials, it might profitably have been kept down; also, because of the availability of the grants in this direction, considerable lopsided development is bound to take place. By another programme of educational expenditure very large amounts have been earmarked for the purpose of raising the salaries of teachers, especially university teachers, in particular categories. Such a step could have meaning in the context of a total scheme or concept of wage and salary scales and differentials for the economy as a whole and for various sectors of it. Without such a frame of reference, action in respect of a small number of categories is meaningless, wasteful, and likely to result in the raising of other demands. In face of the large unemployment amongst the educated classes it seems obviously unjustifiable to raise substantially, as part of the Plan, the emoluments of particular groups. The immediate national requirement is to use such resources as are available for training and employing additional personnel. For example, the low level of the teacher-pupil ratio in Indian educational institutions is even more striking than the level of the salaries of any groups of Indian university teachers. When, as it happens, the beneficiaries of this are among the better-paid among the teachers the almost overt class bias of the procedure becomes highly pronounced.

AN ASSESSMENT OF PROSPECTS

How can one put together even the small number of selected elements of the situation, put in a simplified form above, to pronounce a total judgment relating to prospects? The difficulty arises out of the essentially fluid character of the situation. It has to be emphasized that we have neither a dictator nor a small group of determined persons with clear notions as to what they want, nor a monolithic party ruling the country. The seemingly all-powerful Congress Party is composed of heterogeneous elements and is surprisingly sensitive to mass opinion and reaction. In its structure and working, it is fundamentally more akin to Hindu society than to the ruling parties in the communist countries. Most of the inadequacies described above arise out of certain historical circumstances. The ruling section of the Congress Party, as of all other political parties in India including the communists, is drawn mainly from the urban educated professional and administrative service class; to these have been added in recent decades, representatives of certain trading and financial classes who are dominant in modern business. It is the prejudices and interests of these that consciously or unconsciously obstruct the steps needed to bring about a real social revolution. Also, the class composition of the ruling section cuts it off from the rural masses making it less sensitive to their needs as also less sure of enthusing them. The unwillingness to think out the problem of planning techniques is, at least in part, due to the belief that the public is firmly opposed to all kinds of controls.

Pressure of circumstances as well as the compulsion of their own publicized beliefs and programmes has pushed the government, and the country, into a large plan with a specific structure. I personally hold that the country needs to undertake today as large an effort as it can possibly execute. The structure of the Plan I also consider appropriate and logical. Development in a country like India depends chiefly on larger investment and better technique. We have today a serious problem of urban unemployment; we are very short of capital resources, and large numbers of the working population are working with obsolete equipment and methods; also ours has to be a plan for long-term development. Therefore, the new capital has to be so utilized as to add to the basic resources and systems required for development without rapidly throwing out of work the existing equipment and personnel. The construction of our development plan is essentially a problem in phasing the adoption of technique in various directions by appropriately rationing the capital investment. The emphasis on agricultural production methods, irrigation and power projects, the transport system and social overheads, the establishment of heavy industry, and the insistence of going very slow

with further mechanization of fields occupied by traditional industry, all logically hold together. The prominence attained by co-operation and decentralization is also partly related to these. The building up of a large co-operative organization, especially in activities in which large-scale operations are necessary, follows upon the rejection, on the one hand, of high capitalism and, on the other, of state socialism. It is also the appropriate form of organization for a decentralized pattern of society. Decentralization, apart from its socio-political merits, is urgently needed to start the development process all over the country. Such development as took place during British rule was very lopsided, and today there are striking disparities in levels of living and stages of economic development within the country. It is an almost universal experience that economic development is concentrated largely round nuclei of modern trade and industrial activity. Even development throughout the country can take place only when such nuclei or centres are widely spread in large numbers. The demand from all regions for establishment of large industries within them by the State stems from the realization of this. However, the number of such possible industrial units is extremely limited and would affect, in the total, only very limited areas. Therefore, the economic structure has itself to be decentralized for making an adequate number of growth-centres possible. Secondly, a poor country with no prospects of a general security system can give relief only by providing work, and this can be done in a planned way only in a highly decentralized system.

The prospects are best described in terms of the parts of this structure which are likely to be adequately built up during the next five-year period. Private, modern large business may be expected to fulfil in fair measure its allotted share; the performance of government in the fields in which government agency is accustomed to work,—a field such as construction works—may also be adequate. In respect of the big industry programme, both public and private, and of the economic and social overheads to be provided through public expenditure, the Plan may be expected to be reasonably fulfilled. It is chiefly in respect of those parts of the Plan in which a new departure is involved, or where it is necessary to work against the grain that all the inadequacies recounted above will be acutely felt. These will then be felt in building up the co-operative organization and even more in bringing about effective decentralization; and it will affect the programme for cottage and small-scale industry and for the poorer agriculturist and the agriculturist producers in the backward areas—which is in effect to say that where an activity has been already established and something is happening its extension may not prove difficult, but great poverty and backwardness in technique and organization are obstacles which in the existing situa-

tion may not be easily surmounted. Also, where the effort has to be at centres in a few places the administrative machinery may deal with it successfully, but not at all as well when it is dispersed all over the country. Thus it is highly likely that within the Second Five-Year Plan period the trend set in motion during the last three years will continue. Certain urban centres and classes, and particular agricultural regions will continue to develop while the disadvantaged will fall, relatively, farther behind. Cottage industry, the unemployed, and the agricultural poor, i.e., the classes in whose favour pressures for the large Plan developed, are precisely those who are least likely to profit from it immediately.

This is essentially a short-term judgement. For, as has been made sufficiently clear earlier, the Indian situation is fluid and the events may well take an unexpected turn at any time. The cry of inflation, and the many moves of the New Finance Minister are events of which the implications are not yet clear. Again, there is the latest slogan of co-operative farming. This obviously is a step for which we are not at all prepared, and yet there are signs that it may become a policy objective in the very near future. All this may, in turn, generate pressures and lead to unexpected action. However, none of this can be a substitute for the hard and consistent effort required to eradicate the inadequacies in thinking, in attitudes and approaches, and in instruments that are the real obstacles to notable economic progress in India. In the circumstances, it becomes one's duty, however tiringly, to draw attention to these persistently, and if possible, persuasively.

ON REPHASING THE SECOND FIVE-YEAR PLAN*

THERE is little doubt that our economy and the Second Five-Year Plan have at present run into serious trouble. The remedial measures suggested will depend necessarily on one's analysis of the situation and the forces that have created it. A widely accepted view seems to be that the present situation is the result of overall inflationary pressure and increased demand following on deficit financing. I have discussed in some detail in the two notes, written in August 1956 and June 1957, difficulties in accepting the thesis of overall heavy inflationary pressure. Evidence since last June has strengthened my doubts.

One may briefly sum up the situation as follows: The explanation of heavy inflationary pressures due to deficit financing would assume the operation of some version of the quantity theory and would explain rises in prices by reference to increase in, say, money supply with the public. Obviously for such an explanation to be accepted, the relations amongst statistical aggregates must be shown to be holding fairly consistently over a period of time. The difficulty in arguing from a broad relation between money supply with public and prices is that whereas money supply with public has risen, on an average, steadily year after year since 1953, wholesale prices as well as consumption price index numbers fell between 1953 and the middle of 1955 and rose only after June 1955. Another almost insuperable difficulty in arguing in favour of existence of inflationary forces from these statistical aggregates is that prices in general have, in fact, not increased during the last year. The index number of wholesale prices of all commodities stood at 106.9 on December 29, 1956; it stood at 106.3 on December 28, 1957. On the other hand, during the calendar year 1957, money supply with the public has risen by almost Rs. 100 crores, and deficit financing undertaken has been larger than that in previous years.

The report of the Foodgrains Enquiry Committee in analysing factors responsible for the rise in prices states: "While general inflationary forces as well as factors operating specifically on the demand for foodgrains accentuated the rising trend in prices, changes in the supply situation of individual crops usually initiated the uptrend in prices of particular foodgrains in different periods and in different regions."¹ The Committee have set out numbers of series of

* Note submitted to the Panel of Economists, Government of India Planning Commission, in January 1958, and published in the *Indian Economic Journal*, Vol. V, No. 4, April 1958.

¹ Report, p. 41.

statistical data on the appendices to the report. Unfortunately, nowhere in the report itself have these data been pieced together to establish evidence for the operation of general inflationary forces or to indicate their strength. If prices are to be taken as the main indicator of the operation of inflationary forces, those forces must today be held to be non-operative. Other facts which make it difficult to accept the explanation of general inflationary forces as causing present difficulties are trends such as those in the cloth market and in the employment situation. If a general increase in demand had been brought about by deficit financing, that increase in demand should most clearly exhibit itself on the cloth market. The bulk of the supply of cloth in India emanates from a small number of producing centres, the production and distribution processes in the industry are continuous, and the trade is organized on an All-India basis. This is in contrast to the situation of the market in foodgrains in which there are sharply separated zones of demand by reason of difference in dominant foodgrains and the flow of supply on the market is intermittent, allowing considerable room for manipulation by holder and speculator. If therefore the demand for cloth slackens, it should be difficult to hold that there is an excess of demand for consumer goods.

Together with prices and consumption data, employment data are also very important for judging inflationary trends. No satisfactory published data relating to employment are available in India. The Foodgrains Enquiry Committee includes an index of urban employment amongst the selected economic indicators. This appears to have been calculated on the basis of data furnished by the Planning Commission. In absence of details it is difficult to know what it represents and indicates. The only important series of comprehensive all-India published data is the series relating to registration, etc., on the employment exchanges. This indicates no reduction in the level of urban unemployment. The numbers on the live register of the unemployed at the employment exchanges have almost steadily kept on increasing month by month. Data are available for employment in factories, and for numbers employed by the central government. Regarding the former, figures are not available for recent months, but figures for months of 1957 of the latter indicate a distinct slackening of the pace of expansion of employment previously noticed. All in all, there seems little evidence to support the thesis that deficit financing operating via expansion of money supply has led to an increased demand for consumption goods and put prices under pressure and created difficulties in the economy.

No doubt difficulties have been acute in relation to supply of foodgrains. However, if it is agreed that the initiating impulse in raising prices of foodgrains was the technical position of supply in parti-

cular markets for particular grains towards the end of 1955 and after, and if it is recognized that trader action could and did aggravate the situation, this would be a sufficient explanation of what happened to foodgrain prices in 1955-56.² Moreover, if a sharp increase in food prices is itself held capable of initiating disturbances and making for increase in other costs and prices this would provide an explanation of some of the other increases in prices. It would thus appear that there is no evidence of operation of a pressure of demand on consumption goods, in general, leading to bottlenecks and increasing prices, and that the situation in the foodgrains and related markets could be fully held to be explained by the specific factors discussed by the Foodgrains Enquiry Committee without postulating the operation of heavy general inflationary pressures.

This would still leave unexplained the pressures in some of the producers' goods markets and on the banking system in general felt during the last busy season. The most reasonable explanation of this phenomenon seems to lie in the specific situation created by the grant of import-licences during 1955-56 and 1956-57. During 1956 and 1957 not only the volume of imports increased in general, but also the volume of imports particularly of capital goods, and of iron, steel, and cement increased greatly above the previous level. This increase in the level of imports of capital goods, iron, steel and cement necessarily led to a great stimulation of certain economic activities. All activities connected with new manufacturing and other establishments were stimulated. Building and construction industries and personnel connected with these and with the plant-erection, etc., and the transport system, in particular regions, came under heavy pressure, with the result that certain types of personnel and of producers' goods and services were in very short supply. This, however, is not to be related to general government deficit financing but specifically to the heavy imports of capital goods, and of iron, steel, and cement. If such heavy import was required for the operation of the appropriate phase of the Plan, then the pressures on the producers' goods market may be said to be the result of the size and the structure of the Plan; but if, as appears likely, there was some undue intensification of imports during this particular period, then the pressure on prices and supplies could have been avoided with a different distribution of imports in time.

The sudden increase in imports also put the banking system under pressure. It would appear that the rush of imports was somewhat unexpected and had not been adequately prepared for, in advance, in financial terms. Therefore, for part of the finance of imports of

² A recent study of the Delhi School of Economics emphasizes the role of the trader in aggravating the food prices' situation.

capital goods, and even more, for finance of the subsequent stages of plant-erection and going into production, commercial banks had to be heavily drawn on. In particular, during the season 1956-57, commercial banks found it necessary to satisfy urgent demands of old and new clients for such finance. It may be that these were only ways and means advances, pending the raising of funds on a more permanent basis. However, they did undoubtedly place the banking system under unprecedented stress for the time in which the heavy stream of imports lasted. Thus, in relation to the producers' market, particularly the building and construction industries, and the commercial banking system also, it is a specific factor such as the concentration of import of capital goods in time which appears to be the real explanation of what happened than reference to deficit financing and general inflationary pressures. If what has been set out above is correct, then it is not deficit financing, nor the size and structure of the Second Five-Year Plan that could be held responsible for the existing situation.

As a preliminary to indicating what is wrong in the present situation it is necessary to recapitulate briefly what the Second Five-Year Plan set out to do. The Plan set out to spend and invest more resources than were visible in advance. It also envisaged considerable investment which did not promise an immediate return. It contemplated these things because it was thought that with an intelligent management of the economy they could be achieved without any great risk. It was realized that, as a result, some inflationary pressures would be inevitably generated; but it was thought that they could be kept in check, and that with checks on consumption, with a careful husbanding and distribution of resources, and with proper direction and regulation of the economy the situation could be kept in hand. It should be emphasized that together with recommendations regarding the size and structure of the Plan, and what has been called the safe limit of deficit financing were always integrated a number of policy recommendations acceptance of which alone would make it possible for a plan of that size and structure, and for that extent of deficit financing to be undertaken without risk.

The existing situation appears to be the result not of any feature of the structure of the Plan, or of its size, or of deficit financing, but plainly of what was a disregard of the definitive policy recommendations that had always been emphasized in all discussions regarding the Five-Year Plan. The failure in the policy-sphere does not need any elaborate discussion. Policy regarding the stabilization of agricultural prices received, for example, considerable attention in the memorandum of the Economists' Panel. Among the papers prepared for the Panel of Economists during March-April 1955, were two by Dr. Sen, both dealing importantly with agricul-

tural prices and the management of agricultural buffer stocks. The Foodgrains Enquiry Committee's Report contains half of the story in this connection. It reveals that the Ministry of Food and Agriculture did not want to adopt the policy of dismantling of all control apparatus which was actually adopted in 1955. The report is silent on the point of what important forces or organizations vetoed the recommendations of the Ministry of Food and Agriculture. However, in the context of the working of a planned economy, it is extremely important to know how events moved. For, it appears that exactly while the National Development Council was announcing to the country its support to elaborate policy measures for the Second Five-Year Plan period, the Union Government was actively engaged in taking steps which would make it impossible for that policy to be carried out.

The second example of what appears to be the lack of a plan policy is the progress of import-licensing and the use made of foreign-exchange resources. It would appear that no annual phasing of the progress of the Plan with determination of the import component in terms of money and types of goods imported of each annual phase was made, that import-licences were not issued in relation to specific targets in particular plan-years, that there was no machinery by which the volume of import-licences outstanding could be related to the volume of foreign-exchange resources available, and that the quantity and composition of new import-quotas were fixed from time to time. In fact, it was not until foreign-exchange resources had been run down to an alarming extent and a very large and not exactly calculable extent of import-licences were already outstanding that steps to rationalize procedures and conserve resources were thought of.

At the time of the formulation of the Plan-frame a great deal was made regarding the importance of calculations in real terms and physical quantities. When the Panel of Economists examined the Plan-frame, it was clear that the technical relations subsisting between various parts and those which needed examination in relation to plans of even individual sectors had not been undertaken in any great detail. The Panel in its memorandum, therefore, noted that this technical examination should be undertaken at the earliest possible stage. It was obvious that without such technical examination the structure of the Plan and its composition in various directions could not be said to be firmly based. In spite of the general agreement that such technical examination was necessary and vital, it appears never to have been fully carried out. The readiness with which the Planning Commission could agree to a large increase in the Plan targets in agricultural production was perhaps evidence of the earlier calculations not being based on any firm real term

calculations. The difficulties relating to the import component of the Plan and the phasing of import components may also be directly traced to lack of this technical examination. No large planning could hope to succeed in which a minimum of such technical examination has not been undertaken. Technical examination in real terms not only indicates the proportions of various types of resources that are required for any set of programmes, but is also the basis of the forecasts in real terms of the results of undertaking particular investment programme. The average input-output ratio about which much was made at the time of the formulation of the Plan has no meaning except as representing the average of actual calculations made in regard to individual investment projects. Moreover, the determination of priorities and the economical operation of a plan in any sector have to be related to such technical examination. In its absence the idea is likely to gain dominance that all investment or rather expenditure is by itself a part of fulfilment of the plan and will automatically yield results in increased output. At least, this appears to be the only explanation of the large extent of prestige or amenity expenditures undertaken in recent years. The technical examination has, in fact, to be undertaken not only at the inception of the plan but also continuously afterwards, in order to be sure of fulfilment of expectations and to be able to adjust investment in the light of the results of actual working.

The basic problem raised by the existing situation is essentially political and administrative. The failure is not only at the top policy-level but also at the highest administrative levels responsible for watching and for implementation. On a lower level of importance, the failure to discern unfavourable trends early enough might be attributed to the comparative lack of informed public debate on questions of economic policy in our country. No provision appears to have been made for this by the Planning Commission. There is also no provision by which the Parliament or a Parliamentary committee will examine in detail proposals and forecasts for the future in conjunction with the past performance of the economy. In this connection the practices that have grown up with the implementation of the Employment Act in the U.S.A. appear worthy of being copied in India. There is available to the Congress, every six months, an examination of the working of the economy made at an expert level. This contains an appreciation of trends in the economy and a full discussion of fiscal, monetary, and other policies required for achieving, in the ensuing period, objectives of government policy. This analysis of the economy in its dynamic aspect, based on the fullest data and concretely related to government action programme, is subject to close examination by a committee which examines in relation to it not only government officials but also representatives

of private interests and non-officials experts. This is valuable not only in the process of actual policy formation and implementation but also for dissemination of economic knowledge and public education which are extremely important in the operation of a planned economy.

Consideration of rephasing the plan must be preceded by steps that stabilize the situation. This means a number of things. It means policy formulation in an overall manner explicitly in relation to plan objectives; it means close co-ordination in the implementation of policy and also administrative machinery and devices for watchful adjustment. In the absence of this, rephasing will yield no permanent results. Even today it is difficult to know what assumptions and objectives are at the back of such terms and processes as "core", "pruning", and "rephasing".

What appears necessary for stabilization is to take seriously and implement in a co-ordinated manner the policy principles and decisions adopted at the time of the formulation of the plan. In relation to food, for example, adoption in practice of the ideas contained in the chapter on food policy in the First Five-Year Plan would appear immediately adequate. These have, of course, to be linked to a firm policy of the stabilization of agricultural prices. The main lesson of the experience of the last six years appears to be that a highly fluctuating price-level has a discouraging effect on the agriculturist-producer, and that the gains due to high prices in a fluctuating situation accrue, in the main, to traders and money-lenders, and to some extent, to the largest producers. As pointed out by the Foodgrains Enquiry Committee, stabilization of agricultural prices is linked with the concept of a structure of related prices. This is a concept which has already been accepted at the time of the First Five-Year Plan but regarding its spelling out no concrete steps have yet been taken. It is also realized by the Foodgrains Enquiry Committee that, in certain circumstances, the programme of action recommended by it may prove insufficient, and government may have to adopt more comprehensive measures. In view of the fact that situations often worsen suddenly, government has to be adequately prepared in advance for the full range of these measures. It is necessary to recapitulate all this in a note on rephasing because the main difficulty with us appears to relate to appropriate action. It is notable that in spite of the urgency with which the report of the Foodgrains Enquiry Committee was asked for, policy decisions on its recommendations have not yet been clearly formulated; and we shall most probably witness this year the same lowering of prices at harvest and their upsurge later, on which the trader-money-lenders' position in India is based and which was broken into only during years of controls during the war and after.

Consideration of rephasing itself has to begin with the balance-

of-payment position. The latest estimate of this position appears to be that fresh external assistance of the order of Rs. 700 crores will be needed to meet the commitments already entered into on government and private account and to see through the "core" of the Plan. This statement of the position raises a number of issues. The first question that needs to be raised relates to the policy of continuing to make new commitments in terms of foreign exchange on deferred-payment terms or on the basis of foreign investment or loans. Unless there is reason to believe, which there is not, that our balance-of-payment position will materially improve three or four years hence, there appears no justification for the special treatment of deferred-payment-term imports. Deferred-term payment merely means significantly larger payment in the slightly distant future instead of smaller payment in the immediate future and a series of deferred-payment agreements entered into now would merely accumulate in an embarrassing manner payments to be made four years hence. And the greater degree of freedom of operation which we might hope to attain by that time through an immediate strict control of imports would be gravely restricted by a deferred-payment-term policy. Moreover, it appears that ability to obtain deferred-payment-terms or foreign loans and investments exempts a party or a transaction from strict compliance with other requirements. Thus this provides an escape clause for parties favourably situated and obviously runs counter to the very concept of planning.

The second issue raised by the balance-of-payment position is about the definition of the "core" of this Plan and its relation to the structure of our successive plans. I hold that a major drawback of our present situation is that it makes us depend in an obvious and explicit manner on foreign aid. To get out of this position must be an important objective and this could be attained, consistently with progress of planned development, only through attaining a stage of comparative self-sufficiency in relation to development plan requirements as early as possible. The crucial features of our development plans are the power and irrigation projects, the plans of industrialization, and increasing the production of food and primary raw materials. The structure of our third and fourth plans and the definition of the "core" of the Second Plan must be so shaped as to attain at an early stage comparative self-containedness in relation to most of the requirements of these basic developments. The Second Five-Year Plan itself was presumably based on some long-term concept of an integrated and complete industrial structure. It is doubtful whether adequate technical examination of the nature of this concept or the successive stages implied in it had been made. The question becomes urgent in the changed context and it becomes necessary to try and attain self-containedness, perhaps on a narrower

basis, much earlier than contemplated previously. This changed emphasis should affect considerably future industrial plans and even possibly the current definition of the "core". It would also lead to our taking a stricter view regarding special treatment of imports on deferred-payment terms.

The third issue relates to export promotion or rather to export planning. The current dominance of our economic policy by the trader point of view is well exhibited by the composition of the recent Export Promotion Committee and by its report. Its recommendations not only have a strong private trader bias, but, because it could look at the problem only as one stimulating individual lines of export, do not adequately reveal appreciation of requirements of national policy, and sometimes, even of basic facts. As an illustration I may cite in full its recommendation regarding the export of groundnut cake :

"Government have been adopting a somewhat restrictive policy on the export of oil cakes. This has been on account of the fact that oil cakes are required for internal use as manure and cattle feed. There does not seem to be any need to continue these restrictions as we are already producing fertilizers on a large scale and importing that part of the requirements which cannot be met from internal production. Further, molasses could, we are told, be used increasingly as cattle feed. It should thus not be difficult to allow exports of oil cakes. We therefore recommend that Government's policy should be directed towards encouraging the exports of these cakes by appropriate fiscal (low export duties) and licensing measures."

The recommendation is based on the obviously fallacious assumption of substitutability between groundnut cake and artificial fertilizers. Relating to the rest, one may point out that the fertilizer supply position today is not easy ; sugar factories in, say, Bombay State not only find no market for their molasses, but have to incur expenditure for destroying them ; and government action in allowing a quota of exports of groundnut cake suddenly increased its price and seriously upset the calculations of a large body of cultivators all over the country. What is most surprising in this episode is not that the committee should have made such a recommendation, but that government should have acted in the way it did in a matter which vitally concerns agricultural production.

Export planning, properly viewed, can only be based on a rationalization of internal consumption. In a country which has to plan a large development programme, producers' goods and input materials of the types which can be profitably used within the economy are obviously the wrong type of exports to plan. The exports to promote are obviously exports of consumer goods, or of materials which

are in such excess supply that they cannot, at the particular stage of development, be utilized productively within the country. Many items of the latter group should progressively prove less in excess. Even consumers' goods would normally prove in excess only through restrictions imposed on some types of internal consumption. The justification for such restriction is the need of savings to finance development. Reducing internal consumption of some types of goods and making them available for export is part of the total communal effort. This, however, becomes meaningful only when export promotion is tied up with the total plan of production and consumption, and considered as a part of it.

Since independence, import and export quotas have played an increasingly important part in our economy. They have created a closed market in which only the privileged operate; have led to meaningless and sharp variations in prices which have proved costly and sometimes ruinous to *bona fide* producers and traders; and have made large windfall gains for the licence holders. Prof. Shenoy in his recent presidential address to the Economic Conference has quoted figures regarding the premia which holders of import-licences are able to obtain in the market. The fact of a premium reflects no more than the extra charge that the trading community is able to impose on the community at large because of the operation of the licensing system. I have for years emphasized the inequity of the operation of the system and pleaded that a full examination of it be undertaken. Whether this is done or not, and in whatever manner policy regarding imports is shaped in the future, there will necessarily be a large curtailment of them. In the circumstances, the quasi-monopolistic position of holders of import-licences will be strengthened even further. It then ought to prove impossible for government to continue unregulated the present situation. The pricing and allocation of imported goods will now become an important task which must be carried out by government in the manner dictated by needs of the fulfilment of the total Plan. In view of what has been said above the situation in relation to exports will also need close regulation. The proper step would then be for government itself to enter into import and export business. This has happened in many other countries and results in obtaining for the State, revenues which are the results of opportunities created by State action. Such governmental intervention will also prove very helpful in carrying out the policy of general stabilization of prices.

Another aspect of the rephasing-problem is related to the uneven progress of the Plan in different sectors. There appears, for example, to have been almost an overfulfilment of plans in the large private business sector. This was largely the result of the import-licence policy. It is not clear whether in the fulfilment of the Plan, the

priorities have been duly observed, and whether some types of ventures have not got ahead relatively further than they should have. However, the total investment, whether its composition was according to plan or not, has been large and, for the most part, effective. With a limitation on total resources, overfulfilment in one direction may lead to a failure in reaching targets in another. In this connection attention might be drawn to that fact that during 1957 the Union Government persuaded the governments of states not to float loans. The main reason, it is believed, why state governments were advised not to float loans was that the subscriptions to government loans expected from the money market and the public would not be larger than the needs of the central government itself. The expectation was based on the feeling that the commercial banks which in former years had subscribed substantially to government issues would not be able to do so in 1957. This inability on the part of the banks to invest in government securities was itself due to a large extension of credit limits given by banks to the large private business sector during 1956-57. It thus appears that the special extension of bank credit in 1956-57, which itself was related to the heavy imports of capital goods during the period, diverted funds which would ordinarily have been available for finance of the public sector.

In other ways also it would appear that resources in the economy are being specially diverted to the large private sector. The operation of all government-sponsored finance-organizations seems to work in this direction. The Industrial Finance Corporation, the State Bank of India, the private investment funds of the Insurance Corporation, the N.I.D.C. all cater in the main for the large private business sector. The projected Refinance Corporation is also meant to achieve the same end. It is noteworthy in this context that membership of the Refinance Corporation is confined to 15 biggest banks, including exchange banks, so that these large funds will be made available chiefly to the constituents of these banks with a marked resulting bias towards the largest metropolitan centres, and the largest business houses and managing agencies. All this is in sharp contrast with trends in other countries, including the U.S.A., where the activities of government finance and guarantee corporations are, in the main, directed towards providing funds to small and dispersed business.

The trend towards increase of concentration in India is not unexpected. It has been often pointed out in the past that in an economy which is being rapidly developed special differential advantages will accrue to those who hold strongly entrenched position in it unless special steps are taken to counter this tendency. The chief of such steps possible are a rapid extension of the public sector and deliberate operation of all government finance and guarantee corporations in favour of small dispersed business as distinct from large

concentrated business. However, nothing notable in the latter direction seems to have been undertaken during the last two-and-half years, and it seems to have been tacitly agreed that there would not be even a talk of extension of the public sector.

Dependence on foreign aid and looking to foreign investment are likely to increase the power of the large semi-monopolistic private business. It has been said that the confining of the membership of the Refinance Corporation to 15 largest banks was a condition of foreign aid. But whether specific conditions are made for obtaining foreign aid or not, it is clear that the mere effort is bound to affect policy. The possibility of endangering foreign-aid prospects seems to have begun to play an important part in policy discussion in a variety of contexts and the factor always acts in favour of the special interests of the large business sector.

There is also the current trend in thought to make things easy for foreign capital, as for example, through special tax concessions. The claim of large Indian private business that it would be able to obtain foreign aid, when the Government of India is unable to obtain it, is also significant in this context. It is obvious that concessions originating in the foreign business-sector will be transferred, by a natural process, to the Indian business-sector. In a paper prepared for the Panel of Economists in March-April 1955, by the Gokhale Institute the socio-economic implications of the existing institutional structure in modern business in India were emphasized. It was pointed out that unless special steps were taken to colour with public interest large private business growing with government help, and that so long as large private business was looked upon as a crucial medium in capital formation its economic resources and power to dictate were bound to grow. The seeming helplessness of government in the face of large unemployment caused by the closure of cotton mills raises, in an acute form, a chronic dilemma in the operation of a development plan in a mixed economy. Unless government is able to take effective action in relation to inefficient and/or recalcitrant units in the private sector the social costs of the operation of the mixed economy are bound to be high.

In addition to the special advance made by the large organized private business sector, there has been perhaps a relatively better fulfilment of the plans of the Union Government than those of state governments, and, perhaps, as a whole the larger works have done better than the smaller. However, in case of the large public sector projects, the foreign exchange difficulty is likely to prove a grave handicap. Large projects in the large private business sector are individually much smaller than the largest units in the public sector, and they are planned to be completed within a comparatively short time. If, as seems likely, the completion of many large public works

is prolonged, this will accentuate difficulties in the future.

The bulk of State plans should not encounter difficulties arising out of the shortage of foreign exchange resources. However, it is currently reported that all of these are being pruned. This pruning is possibly based on some vague idea of adjusting the size of the plan. One of the main objectives of this note is to argue that present difficulties have nothing to do with the size of the plan. Secondly, it has been pointed out that during the currency of the plan, there has been lopsided development in favour of the large private and public sectors. All evidence points to the effort in agriculture, small industry or small public works as falling short of the country's requirements. No doubt, fulfilment of plans in these sectors is not a matter merely of financial resources. Public response and administrative organization and efficiency are also equally urgently necessary. However, this merely emphasizes the need for special attention, in every way, being concentrated on them and certainly argues for all the resources that can be properly absorbed being made fully available in these sectors.

In the circumstances, the reported cutting down of State plans appears to be entirely misdirected. It is misdirected because it is the opposite of what the present and the likely future state of our economy seems to require, and also because it is a retrogressive step from the social point of view. The large multi-purpose projects appear to progress in some of these, and postponement of others appears almost certain. The effect on employment and other economic activity of the undertaking of these projects is large in their own regions; this is now likely to diminish. Next, because of restrictions on the licensing of imports, the imports of capital goods, iron, steel, and cement should progressively decline. Because of the time lag between licensing and actual import and erection the decline may not affect tempo of economic activity immediately. However, by the middle of 1958, the effect should be apparent and should grow thereafter. Foreign exchange difficulties should also affect the scale of operation of concerns that depend, to some extent, on imports of materials. Therefore, in so far as brisk economic activity during 1956 and 1957 depended on liberal imports of capital goods and materials, it should tend to slow down.

Unfortunately, we possess very little statistical data to enable us to judge the progress of sectors of our economy other than government, and the urban organized large business sector. However, such reports as are available do not indicate that other parts of the economy have shown much internal buoyancy during the last two years. If, for example, it is true that in the cloth market the quantitatively important coarse and medium cloth markets are dull, and the fine and superfine active in comparison, this also would indicate

that the results of the development of the last two years have been favourable only for somewhat limited classes especially in towns, and that the bulk of the rural population and the poorer urban classes have not been affected by it. When now, as appears likely, the concentrated urban activity also slows down, the economy instead of developing may begin to run down unless suitable countervailing action is taken early.

In view of the foreign exchange difficulties and of the lopsided development of the recent past this action has necessarily to be in the nature of stimulation of the agriculture, small business, and small works sectors. If these sectors can be successfully stimulated, they will soon affect favourably the growing industry and other urban business also. It would thus appear that in the rephasing to be undertaken now the State plan instead of being cut should be strengthened to the largest possible extent. While keeping only to the "core" of the Plan in the large private business sector, and the large public works sector, the resources so saved should be diverted to the other sectors which are mainly in the field of State plans. There is little fear that adopting a liberal policy in this regard will inflate expenditure unduly as long as there is proper check on effective use. I should like in this context to emphasize "attitude". It is important today to affect the psychology of the public as also of officials and governments of states. Vague talk of economic difficulties and of reports of the actions of the Planning Commission have had a depressing effect on this psychology. Nothing can be more unsuitable in a country attempting to plan development on a large scale, and nothing, as pointed out above, can be more inappropriate in our existing economic situation than reduced State plans and the psychology engendered by them.

It is obvious that the attitude to rephasing suggested above is based on the conviction that our economy is today not operating under general high inflationary pressures, that deficit financing of a moderate measure is still permissible, and that unless State plans and plans in agriculture and small business are strengthened the pace of our development may seriously slacken. If this is granted, additional reasons can also be shown for the suggested emphasis. It would appear that in the recent past we have made little progress in the direction of the avowed socialistic objectives; if anything, there might have been some retrogression. This would follow naturally on the finding that the main developments in the last two or three years have been within the large organized private business sector and in the metropolitan and large city areas, and the fact that the period has, on the whole, not been favourable for agricultural production. Even maintenance of the *status quo* would then point to a changed emphasis in plan performance during the

remaining period. It will be remembered that decentralization in all its aspects occupied a central place in all discussions relating to the Second Five-Year Plan. This was because the problems of initiating change over most of the country, of dispersing widely the benefits of development, of preventing concentration and lopsided distribution of economic and political power, of keeping down the authoritarian element in planning, of preventing strains and costs of heavy urbanization, etc., could all be resolved only through co-operative effort and economic and administrative decentralization. Unfortunately, almost nothing has been achieved in the direction of decentralization during the progress of the plans. The obvious resulting strains in the country can best be eased through vigorously pushing State plans and plans in the sphere of agriculture, and small industry and other small business.

The emphasis on State plans will chiefly help in bringing about progress which will recover some of the ground lost in recent years. Of positive steps for initiating some improvement in the condition of the poorest and the most neglected only two appear feasible. These are special programme directed towards the creation of employment opportunities, and a programme for the rapid extension of educational facilities. Creation of really widespread and continuous employment opportunities will be possible only through an appropriately-structured public works programme. In a sense, this could be compared with the famine relief works programmes of the past. It would have partly a similar purpose of affording relief through employment wherever this was necessary, and its approach would be similar in that its emphasis would be on the employment of unskilled labourers, and widely distributing the employment opportunities. However, the programme would have to be thought of as more continuous, though allowing for a possible seasonal slack, and it would have to be fully integrated with plans of development. Effort in the direction of conservation of our natural resources such as soil and water is required all over the country, and there is the need for wide development of the road system. One may specially draw attention to the serious depletion of our forest resources during the last fifteen years and their continued neglect. A national programme of conservation of forest resources and of afforestation would eminently fit the needs sketched above and specially offer employment in areas where some of the most neglected classes live. Such a directly conceived employment programme would serve the needs not only of relief of development but also of maintaining the tempo of economic activity through stabilization of incomes of the poorest. I should make a special plea for building a series of development works programme round this concept, in the process of rephrasing.

Finally, I should put in a plea for much greater emphasis on

education in any rephasing of the Plan. In retrospect, the neglect of education appears to me to be the one serious mistake in allocations in the Second Five-Year Plan. Looked at from any point of view—social, political, or economic—a sound system of universal primary and secondary education should be the first objective, for an early attainment of which the most strenuous planned efforts are necessary. So long as this does not exist it is idle to talk of socialistic aims, and wrong even to mention equality of opportunity. Also, and this is becoming clearer and clearer every day, such a system is the most potent instrument of bringing into existence a technically progressive economic society. The bogey of the educated unemployed ought not to deter us from this effort. Unemployment is related essentially to numbers in the working population and not to their literacy status, and the spread of education itself has a cumulative effect bringing about change and creating employment.

It would be wrong to close this note without reference to some measures which have been taken recently and which may counter the tendencies towards concentration of economic power emphasized earlier. These are mainly fiscal measures like the wealth and the expenditure tax, and measures like the compulsory deposit of reserves. However, the fiscal measures have not yet begun to have an operative effect and it is too early to judge how powerful a corrective they will prove; the deposit idea seems to be encountering serious difficulties. It, however, remains true that conceiving of these measures indicates an awareness of the problem and the desire to tackle it concretely.

The main conclusions of this note may be summarized as follows :

1. The contention that the existing economic situation in India is the result of high inflationary pressures generated by deficit financing is untenable. The data relating to prices, money supply, and other related factors since, say, 1953, cannot be explained consistently in any simple manner. Data for 1957, in particular, fail to indicate existence of high inflationary pressures. The index of wholesale prices recorded a small decline in the calendar year 1957, while the extent of deficit financing and of increase in money supply with the public was significantly large. Figures of employment and unemployment do not indicate that the economy as a whole is running at a high pace, and the recent slackening of the demand for cloth gives a contrary indication.

2. The difficulties of the existing situation could be explained adequately by reference (i) to the changes in the relations between demand and supply of foodgrains in particular areas during 1955-56, initiating a rise in prices which was aggravated by trader-speculator activity and which had repercussions on other prices; and (ii) to

the heavy pressure to which the banking system, and the building construction and related industries were subject, as a result of an unprecedented and unexpected volume of imports of capital goods during 1956 and the first half of 1957.

3. The rise in food prices could have been prevented if the agricultural prices and food distribution policy accepted at the time of the framing of the Second Five-Year Plan had been kept into operation; and the balance-of-payment difficulties could have been considerably minimized if there had been annual plans with related import requirements worked out, and if the grant of import licences had been made in relation to such phased import requirements.

4. There is no evidence to show that existing difficulties flow out of either the size or the structure of the Plan. The performance of the economy during the past 12 months, in fact, indicates that if regulatory and other policies, on the acceptance of which the Plan was based, had been followed, deficit financing of the order contemplated in the Plan, or so far undertaken, would have imposed no heavy strains.

5. Failure to prepare and implement phased plans, non-acceptance of required policies or failure to implement them adequately, and lack of co-ordination among activities of authorities and organizations carrying out various parts of the Plan appear to be mainly responsible for the existing difficulties. Many of these also arose out of the initial failure to subject to technical examination in real terms, programmes, requirements, and targets of the Plan. The non-correspondence of actual and planned policies, and the failure to discern unfavourable trends early enough could, in the past, be attributed (in addition to failure at the governmental policy and administrative levels) to non-provision of opportunities for informed examination and debate of programme and policy of the Plan in Parliament and in the organs of the Planning Commission. It is obvious that there is urgent need in this context to establish procedures such as those followed in connection with the U.S.A. Employment Act.

6. Before proceeding to consider the problem of rephasing, it is necessary to see what is necessary to hold and stabilize the existing economic situation. In general terms what appears required is for government to accept, in fact, the policies agreed to at the time of the formulation of the Second Five-Year Plan and to implement them vigorously.

7. In relation to the food front, in particular, the basic principles of food policy as defined in the chapter on the subject in the First Five-Year Plan need to be reaffirmed and adopted. These have to be supplemented by the recommendations relating to the socialization of the wholesale trade in foodgrains, the stabilization of agri-

cultural prices, and the definition of a broader related price structure made by the Foodgrains Enquiry Committee. It is also necessary for government to think out in advance the more comprehensive measures that the Foodgrains Enquiry Committee points out might be required in an emergency, and be prepared for adopting them.

8. In relation to the balance-of-payment position the obvious initial step is to attempt to reach a position of equilibrium as early as possible. Reports indicate that this is held as not being possible for the whole of the plan-period, and that without additional foreign aid to the extent of Rs. 700 crores during the time, even our present commitments cannot be honoured. If this is so, the position even in relation to the Third Five-Year Plan is difficult and an immediate comprehensive review needs to be taken not only of import and export policy but also of the structure of present and future plans.

9. In relation to import policy the definition of what has been considered to be the "core" of the Plan and why it has been so considered must be made clear. Apart from imports in relation to payments for which commitments have already been made, all others even when included in the "core" must be reviewed in the light of the structure of future plans. The basic consideration in this examination has to be as great a reduction as possible of dependence on foreign aid immediately and arriving at a stage, as early as possible, of non-dependence on a large volume of imports for future progress of development plans especially in relation to multi-purpose projects, basic industrialization, and increase in food and agricultural production. This may lead to the conclusion that it would be better to try and build a completed and integrated structure of industry earlier and on a narrower basis than had been contemplated previously. Such rethinking about the long-term structure of successive plans can proceed only on the basis of a much more thorough technical examination of the problem in physical terms than appears to have been attempted heretofore.

10. It would also lead to examination of the whole concept behind the present policy of encouraging deferred-term payments. Deferred payment is merely a buying of time at the cost of additional payment in future. In terms of a long-term structure planned as above this adds to cost without yielding any obvious advantages.

11. Export promotion in the light of a long-term structure is again essentially a problem of economizing and rationalizing internal consumption. The exports to be encouraged are those of consumers' goods or raw materials, which at any point of time cannot be fully used within the internal production economy. Needs of internal development, agricultural and industrial, obviously indicate discouragement of export of materials and of producers' goods that can with

advantage be utilized internally. Export promotion has thus to be integrated with the total plan and has to be based essentially on rationalization and canalization of internal consumption.

12. The severe restrictions that will, in any case, have to be imposed on the volume and variety of imports, and the needs of the regulation and definition of the supply for exports will make government participation in import and export trade and government regulation of pricing and allocation of imported goods inevitable unless the trading community is to be given the opportunity of making extra quasi-monopolistic gains,

13. Apart from the other important grounds for trying to attain, early, a state of relative non-dependence on foreign aid, this is also desirable because of the bias such dependence is likely to impart to policy.

14. The operation of the Second Five-Year Plan has so far led to comparatively heavy emphasis on the development of the large private business sector. Perhaps, in the process, even financial resources have been diverted from the states to the private sector. The larger projects in the public sector and projects of the Union Government have also, perhaps, gone ahead in comparison with others. It is necessary immediately to correct this lopsided development. However, the reported continuous pruning of the State plans may, in fact, worsen the position further.

15. The operation of the State and semi-official financial organizations seems also to have canalized resources chiefly into the large private business sector, whereas in other countries they are specially designed to help small business.

16. The problem of stimulating agricultural production and small business and the related problem of decentralization of economic activity are as much problems of administrative organization and efficiency as of financial organization and resources. Both these aspects require continuous and urgent attention.

17. From the point of view of a resort to deficit financing for internal financing, there is no need at all to cut the plan in the States, minor works, and agricultural and small business sectors. From the point of view of correcting the wrong bias of the recent past, special provision has to be made and attention to be paid to plans in these sectors. This need is further emphasized by the possibility of a slackening of the pace of economic activity in the large private business-sector and the large projects in the public sector.

18. The latter possibility arises chiefly out of the inevitable shrinking of imports of capital goods and raw materials. A stimulation of internal activity through State plans in agriculture, small industry, and public works is needed as a corrective. Current

slackening of the demand for coarse cloth emphasizes the need for such action.

19. Such emphasis in the remaining plan-period is also indicated by the apparent retrogression in socialistic aims because of the growing concentration of activity in metropolitan centres and in large private business. There are few signs of diminishing of inequality or of the diminution of concentration of wealth and power.

20. The best that can be done for making a move in the direction of socialistic aims is to aim specifically at providing suitable and sufficient employment throughout the country in all seasons. Initially this will have to be done through a full programme of works for conserving and augmenting national resources and for building a system of economic overheads in terms of transport, power, etc.

21. Another equally necessary step is a greatly increased emphasis on education. Without a universal and sound system of primary and secondary education no advance towards a socialistic society can be made; such a system is equally necessary for creating a technically progressive society. Insufficient emphasis on education and allocations to it appear, in retrospect, to have been the chief mistake in the allocation of resources in the Second Five-Year Plan.

THE ROLE OF THE PLANNING COMMISSION IN INDIAN PLANNING *

I FEEL it a great honour to be asked to deliver the Laski Memorial Lecture at this Institute. I have been greatly impressed by the essentially private and informal manner in which this Institute was established, and by the open methods of its public work and the wide field of its activities. I am glad to find that, under its young and enthusiastic Director, it has already come to occupy a significant place in the intellectual life of this great city.

I consider it a privilege to be associated in this manner with the name of Prof. Harold Laski. Prof. Laski was, above all, an inspiring teacher and a great humanist. His deep sympathy for the oppressed and the disadvantaged made him a friend of Indian students and the Indian cause throughout his life. He was greatly interested in the new developments in the direction and planning of economic activity. I have therefore thought it appropriate to embark, on this occasion, on an examination, in the context of Indian planning, of the operation of the central planning institution in this country, the National Planning Commission.

I shall begin by making a few preliminary observations on the nature of the planning effort. Planning for economic development implies external direction or regulation of economic activity by the planning authority which is, in most cases, identified with the government of the State. Planning for economic development is undertaken presumably because the pace or direction of development taking place in the absence of external intervention is not considered to be satisfactory, and because it is further held that appropriate external intervention will result in increasing considerably the pace of development and directing it properly. The decision to plan does not by itself, and cannot immediately, increase the total physical resources available to the community. Planners seek to bring about a rationalization, and if possible and necessary, some reduction of consumption, to evolve and adopt a long-term plan of appropriate investment of capital resources with progressively improved techniques, a programme of training and education through which the competence of labour to make use of capital resources is increased, and a better distribution of the national product so as to attain social security and peace. Initially, the planning-effort starts with available

* The *Laski Memorial Lecture* delivered at the Harold Laski Institute of Political Science, Ahmedabad, on March 24, 1958.

resources—natural, human, and in terms of capital equipment. But with the progress of planning it is expected that natural resources will be progressively better conserved and utilized, human resources better trained and better distributed in occupational, etc., categories, and capital resources continuously augmented and made more efficient. Planning, thus, is not a once-for-all effort. For it to make any impression, especially on the situation in an under-developed economy, it has to be a continuous, consistent, and forward-looking effort, sustained for decades. The main components of a programme of planned development, namely rationalization of and restraint on consumption, the training and appropriate disposition of human resources, increasing capital resources, and the adoption of improved techniques, are the characteristics which again have to be manifest at all stages throughout the period of planning, though the emphasis on one or the other may vary from stage to stage.

It was usual in economic text-books of the older times to classify productive resources under three main heads—land, labour, and capital. More recently, organization is usually added to these as an independent factor of production. Planning-effort in this context is an organizational effort undertaken systematically by an external authority. Initially, planning begins with such resources as are available, adding only better organization. This means directing and regulating individual and communal effort with intelligence and foresight so that the total result is larger and better than before. It is the continuous organizational effort that increases the quantity and improves the quality of resources at later stages in a cumulative manner and brings about development. Planning therefore means, in a sense, no more than better organization, consistent and far-seeing organization, and comprehensive all-sided organization; and the political and the administrative requirements of planning are the requirements appropriate to such effort. Directions, regulations, controls on private activity, and increasing the sphere of public activity are all parts of this organizational effort. When stated this way, it may sound somewhat elementary. However, the extent to which an avowed belief in planning is seen to co-exist with violent allergy to even the word 'control', in the highest political quarters, makes it clear that there has not been enough reiteration of these elementary propositions.

The next step in considering political and administrative requirements of planning-effort in India is to look briefly at our political system. Our political structure may be described in general terms as a federal democracy with a representative parliamentary system of government, and with executive authorities of the cabinet type. It is in this context that the planning-requirements of India on the political plane have to be considered. The chief relevant character-

istics of the political structure are the division of functions between the states and the centre, the need for adoption and endorsement of all policies and legislation by bodies of elected representatives of the people, the joint responsibility of cabinet ministers both at the centre and in the states and the stability of the cabinet itself being dependent on the continued confidence of the majority of the elected representatives. In the context of this structure, planning-effort has to be looked upon as an effort undertaken by government. It is an effort, legislative and administrative policy regarding which has been accepted or is acceptable to legislatures of the states and the centre, and an effort, execution of which has to be the responsibility of the cabinet of ministers.

With these preliminary remarks, I shall turn to an examination of the existing situation in India. It is in the light of the experience of the period since independence in India, more specifically, since the setting up of the Planning Commission in 1950, that I intend to discuss this question. The functions of the Planning Commission at the time of its establishment were declared as follows :

1. To make an assessment of the material, capital and human resources of the country, including technical personnel, and to investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements.
2. To formulate a plan for the most effective and balanced utilization of the country's resources.
3. To define the stages in which the plan should be carried out, and to propose the allocation of resources for the due completion of each stage on a determination of priorities.
4. To indicate the factors which are tending to retard economic development, and to determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the plan.
5. To determine the nature of the machinery which would be necessary for securing the successful implementation of each stage of the plan in all its aspects.
6. To appraise from time to time the progress achieved in the execution of each stage of the plan and to recommend the adjustments of policy and measures that such appraisal might show to be necessary.
7. To make such interim or ancillary recommendations as might be appropriate on a consideration of the prevailing economic conditions, current policies, measures, and development programmes, or on an examination of such specific problems as may be referred to it for advice by central or state govern-

ment, or for facilitating the discharge of the duties assigned to it.

The composition of the Planning Commission and the manner in which it operates is described in the following extract from a recent article, in the Indian administrative journal,* by an official of the Commission, Shri P. P. Aggarwal.

"The Commission at present consists of eight members—the Prime Minister (Chairman), four full-time members (including the Deputy Chairman), and the Ministers of Planning, Finance and Defence. The Planning Minister is assisted by a Deputy Minister, and a Parliamentary Secretary. The Statistical Adviser to the Cabinet is an additional *de facto* member of the Commission."

"All members of the Commission work as a body, but for convenience, each member has charge of one or more subjects and directs the study of problems in these fields. The Deputy Chairman is primarily concerned with matters of general co-ordination and administration. The Minister for Planning has been allocated certain subjects, like any other member; but he is also responsible for the Commission as a whole to Parliament and the Central Cabinet. Important proposals which have financial implications or which might have repercussions on economic policy are referred to Member (Finance) in addition to the cases submitted to him as a member of the Commission."

"All cases involving policy are submitted for consideration at one of the meetings of the Commission. The cases to be considered by the Commission as a whole include recommendations in regard to the formulation and progress of the five-year and annual plans, adjustments in the plans, matters involving departure from the plan-policies, advice to a Central Ministry in a matter to be placed before the Cabinet, important cases involving agreement with a Central Ministry or a State Government or difference of opinion between two members of the Commission, and any policy matter relating to the internal organization and methods of work."

Two additional paragraphs from the same article will make clear some of the special characteristics of the Indian planning apparatus :

"The Commission has been established as a multi-member body and not as a usual single-administrative department. The very composition of the Commission ensures effective liaison with Gov-

* Aggarwal, P. P., 'The Planning Commission', *Indian Journal of Public Administration*, Oct.-Dec. 1957.

ernment. Though the Commission is a staff agency to advise Government in matters of planning and development, Government itself is represented on the body of the Commission. The Prime Minister is the Chairman of the Commission and its members include three Cabinet Ministers—the Minister of Planning, the Minister of Finance, and the Minister of Defence. The Cabinet Secretary functions as Secretary to the Commission. The Deputy Chairman of the Commission, and the members concerned, are invited as and when necessary to attend the meetings of the Cabinet and its Sub-Committees. Important economic issues and problems arising in the Ministries are generally discussed in the Planning Commission before they are considered in the Cabinet. Officers concerned in the Ministries are also present at the meetings of the Commission. Thus there is a regular stream of ideas and suggestions flowing from the Commission to Government and *vice versa*. This not only imparts an element of realism to the recommendations of the Commission but also inducts a new vitality into the administration."

"In some ways the Central Planning Commission is a unique institution; and in the sphere of governmental organization there has hardly been any recent development comparable, in its practical importance or in its general significance, from the point of view of the "science of public administration", to the growth of the Planning Commission. It is the chief staff agency—the nerve centre of national thinking—on matters of planning and development. It has, from time to time, also undertaken some line functions, newly emerging from national planning, e.g., general direction and supervision of community projects, enlistment of public co-operation in the implementation of the Plan, etc. The Community Projects Administration was, however, always regarded as a sister organization in the process of development, and it has since been separated as an independent Ministry of Community Development. Though the Planning Commission is an advisory organ of Government, it has come to exercise significant influence over the formation of public policies even in matters other than of development, and its advisory role in a way extends over the entire administration."

It is my purpose in this address to discuss the extent to which the Planning Commission in India has achieved success, and the reasons for its failure.

I have defined planning above as an overall organizational effort. In the total effort, almost all organs of government at various levels, and large numbers of private individuals and non-official organizations must participate. The Planning Commission must be considered to be at the head of this planning-effort.

In examining the performance of the Commission it would be useful to separate consideration of the formulation and operation of the First Five-Year Plan from that of the Second. I think this necessary, because I hold that the First Five-Year Plan in India did not involve, to any material extent, what might be properly called planning-effort. It was only with the formulation and the launching of the Second Five-Year Plan that the problem of planning as such began to be faced. Therefore, in my opinion, the experience of years since 1955 is specially relevant for judgment of the past performance and future potentiality of the Indian Planning Commission. With reference to the First Five-Year Plan period, I do not propose to make any detailed comments. In general, the experience regarding planning and the performance of the Planning Commission during this period may be summed up in the following manner. The preparation of the plan itself may be said to have two aspects. The first is that of definition of the planning-problem and of the proper approach of planning in India, and the construction of a framework of the plan. The second is detailed formulation of programmes, targets, and outlays together with estimations of proceeds of taxes and loans, foreign aid, and with making explicit economic policy decisions involved in the whole process. In relation to the first, it has been admitted on all hands that the performance of the Indian Planning Commission has been at an exceptionally high level. The most severe test to which documents written essentially in relation to an immediate situation, and seeking to define policy in relation to a short period, can be subjected is to see how they read after the completion of the period. Subjected to this test, the First Five-Year Plan report comes out very well. I had occasion recently to go carefully again over the chapter on food policy in the 1951 report. I found the description of the food problem and the definition of the proper approach to its solution in this report not only a meaningful and an adequate analysis of the situation existing in 1951, but also a presentation of the main enduring features of the Indian problem which I have not seen bettered subsequently.

In relation to the drawing out of detailed programmes, targets, etc., the position at the beginning of the First Five-Year Plan was comparatively easy. The Planning Commission confronted a situation in which a large number of commitments had already been entered into by the Union and the state governments. In the circumstances, there was not very much of a room for either entirely new projects being suggested or new priorities being adopted. The task the Planning Commission had to perform was essentially that of rationalization, co-ordination, some pruning, and, very sparingly, a little addition. This was a task which may be described as that of bringing some order and sense of proportion in the mass of programmes and

projects already undertaken by the various states and the central ministries. Because of the nature of the commitments the extent of rationalization could not be very large. However, it was useful and necessary to undertake whatever effort could be undertaken in this direction and there is little doubt that substantial success was achieved in this matter by the Planning Commission. The description of the practical problems faced by the Planning Commission given above implies that, in most directions, the theoretical approach as outlined by the Commission could not, at this time, by and large, be translated into practice. The main achievement of the Planning Commission within two years of its establishment therefore was formulation of the general Indian approach to planning and the co-ordination of programmes and policies of the Union Ministries and the Central Government so as to put the large majority of the existing commitments, with perhaps a few new items of expenditure, in a fairly orderly framework. The Planning Commission, at this stage, is seen retrospectively to have proved of considerable use in persuading state governments to rationalize their schemes of expenditure and moderate their continuous demands on the centre. It also acted as an influence, which induced some state governments to shoulder the responsibility of raising additional resources on their own account.

To this may be added an often-mentioned achievement of making the country plan-minded. However, this last phrase has to be interpreted with considerable caution. For, as stated above, the First-Five Year Plan period did not raise, except at a theoretical level, discussion of the manifold problems of planning. In the first instance, the size of the plan was moderate. The total public outlay was not very large, and the resources in terms of national saving, tax incomes, State loans raised from the public, external aid obtained, were all not far above what had already in fact been achieved or attempted during the years of war and after. Moreover, the period of the launching of the First Five-Year Plan was one of a very peculiar type of transition. In the period since 1944, the State in India had undertaken regulation and direction of Indian economy in a variety of ways. A regime of controls had been built up, attempted disestablishment of which in 1948 had not been successful. There were, therefore, in existence a number of legislative and other devices, controlling the operations of the economy. These, however, as it happened, were all associated in the mind of the public and politicians with the stress and strains of the war economy. Therefore even though the Planning Commission did not give in to the clamour for decontrol and, in fact, argued persuasively in its theoretical writing for continuance of a regulatory regime, this made little impression on politicians and other leaders of public opinion.

A large body of private interest was also openly opposed to such measures as an extension of the public sector. In the event the task of making the public plan-minded was achieved only to the extent of introducing a new jargon and some raising of expectations, but not in the direction of making the public or its leaders aware of the total implications of the planning-effort.

The Planning Commission, when devising the First Five-Year Plan did not find it incumbent to give much attention to the problem of the techniques and agencies of the implementation of the plan. Nothing large or revolutionary was proposed in the public sector and targets in the private sector were looked upon as entirely recommendatory, and what was sought to be done was in no direction large enough for any elaborate measures of enforcement being considered necessary. With the result the First Five-Year Plan programme became a programme of public expenditure at a moderately high level and of recommendations regarding the private sector which were neither mandatory nor very crucially related to programmes or performance in the public sector.

The situation may be exemplified by reference to the position in the sphere of small industry. It is in this sector that implementation presents some of the most difficult problems in planned developments. The large private business in all modern organized sectors may be expected to show, and has usually shown, adequate capacity for looking after itself. This is far from being the case with all types of small industrial or other productive units. We find, in this context, in the First Five-Year Plan a fair theoretical formulation of the problem going even so far as to contemplate a common production programme for all types of units within an industry. However, on the practical side, beyond blessing the programmes already under way, almost no advance is made. That the Planning Commission, after the publication of the plan, did not take seriously even its most crucial and important theoretical formulations may be brought out by reference to some specific instances. I have said above that treatment of food policy in the report of the First Five-Year Plan presents a penetrating analysis of the Indian problem. Yet it remains true that the policy so ably put forward in this chapter by the Planning Commission suffered collapse before the end of the plan-period, and the Commission was unable to do anything about it or perhaps failed to realize the serious inroads into it that were being made from year to year. Or take another, an equally important instance of plan-policy proposals. The First Five-Year Plan report visualizes the control of pricing as the main instrument of regulatory action. A number of paragraphs on price-policy for the plan and the controls, (paragraphs 53 to 73 of the report) make clear how it was necessary to have an overall price-policy, and how

it was this which might be expected to secure allocations of resources in conformity with the objectives of the plan. In particular, an effective regulation of foodgrain prices by themselves, and also in relation to prices of competing crops, was fully emphasized. In view of the careful statements in this regard in the plan, the Planning Commission might have been expected to watch carefully the evolution of the actual situation. The plan was formulated at a time when prices in India were still under inflationary pressure. Within a year of publication of the plan, prices came down and were comparatively free from inflationary pressures for the rest of the period. At the same time, they did not remain stable. There were somewhat wide fluctuations from year to year, and towards the end of the period, prices of agricultural produce reached levels which were definitely low. In the face of this situation the Government of India behaved as if it was concerned only with prices that were too high or under inflationary pressure and was little bothered if they were low. In particular, it behaved as if fluctuations in price were no concern of government. The Planning Commission appears to have pressed on government no views in relation to this development. If the Commission's theoretical formulation regarding the role of prices in the allocation of resources in the plan had any validity, it should have been greatly disturbed at the range over which the prices of agricultural commodities were fluctuating.

Similarly, it was clear that in relation to other matters in regard to which thinking was being crystallized during the period of the First Five-Year Plan, the Planning Commission took little active part, and never the leading role. One such important matter was that of protection or reservation of a field for traditional small-scale cottage industries. It was chiefly political pressures developing in some states that led to almost precipitate government action in this sphere. In another sphere, that of agricultural credit, it was the Reserve Bank that played an active role. It is interesting to observe from records that many of the ideas later incorporated in the recommendations of the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India were discussed in an embryonic form in the agricultural policy sub-committees of the Planning Commission itself during 1950-51. These policy sub-committees of the Planning Commission, which for a short period in the beginning held some active and useful discussions, ceased to meet after the 1951-plan had been formulated.

Thus, it is apparent that the Planning Commission as an active thinking and planning organization operated only before the preparation of the plan. Once the plan had been prepared and published, it seemed to go into quiescence, and became a general co-ordinating or supervisory authority in relation to states and ministries.

That this description of the organization is not incorrect appears from what took place in relation to the Second Five-Year Plan. It was only at the end of 1954 and in 1955 that the Planning Commission appears to have been again galvanized into action. Formulation of the Second Five-Year Plan may be said to record another high watermark in the life of the Planning Commission. Through its various organs of committees and panels, the Planning Commission undoubtedly showed very considerable activity at this time. It also showed, as during the First Five-Year Plan, considerable ability for evolving an appropriate approach to the emergent planning-problem.

From the outside it is difficult to indicate with any assurance the contribution of different persons and organizations in the evolution of the Second Five-Year Plan of India. From all reports it would appear that a crucial part was played at the earlier stages by Professor Mahalanobis, who was not, then, even a member—*de jure* or *de facto*—of the Planning Commission. The basic decisions involved at this stage of plan-making were, firstly, the determination of the size of the Plan, and secondly, decisions regarding its structure. That the size of the Plan would be nearly of the order of Rs. 1,000 crores a year was an important decision which had many serious implications. It is not known by whom, when, and under what pressure it was taken—whether it was a decision of the Cabinet, whether it originated with the Planning Commission, or whether it arose effectively from the Prime Minister, or the Finance Minister, or any of their advisers. In the second decision—regarding the structure of the Plan—the important consideration was the relative allocations to different sectors, and the priorities within the sectors; in this context the emphasis on some branches of heavy industry, in particular, implied a long-term picture of the economy developing by a certain route. In the presentation of the Plan the insistence on defining targets in terms of related physical quantities was an important innovation. What was new was not the discovery that this could be done (there is on record a note by Dr. K. N. Raj in relation to drafting of the First Five-Year Plan in which a tentative approach on this line had been indicated) but the decision to use available data in order to present the total Plan in terms of physical quantities, however crude the estimation. Here again it is clear that the technical competence and expertise required for this effort were present within the staff of the Planning Commission itself. In all this Prof. Mahalanobis, because of his strategic personal position, appears to have acted as the person through whose plan-frame basic decisions regarding size, structure, and presentation, got expressed in a co-ordinated manner. That his role was chiefly that of a co-ordinating link is emphasized by his ineffectiveness in later years as a *de facto* member of the Planning Commission.

It is difficult to say what part the Planning Commission as such played in the evolution of the Second Five-Year Plan. It is, however, only fair to give full credit in relation to the formulation and the preparation of the Plan to the Planning Commission. It is at the same time necessary to note carefully the limitations of the total performance in this regard. As in the First Five-Year Plan, the presentation of approaches and definitions of problems show a high level of competence. However, even in this regard, there is one notable difference. In the First Five-Year Plan the theoretic formulations were not limited by the need to refer to any large amount of factual detail. The larger size and the structure deliberately adopted imposed a responsibility in this respect in the production of the Second Five-Year Plan. It was perhaps indicative of what was to happen later that this responsibility instead of making the formulation more clear-cut and meaningful in the Second Five-Year Plan resulted in its being blurred and indecisive. A comparison of the writing in the two plans regarding any important policy such as that of food, prices, or controls will make this obvious.

Secondly, in relation to the targets and other figures, though the overall figures were placed in the Second Five-Year Plan in a more ordered structure, it was clear even at an early stage that neither the physical targets nor the monetary values had been built up through any realistic examination from below. Therefore, the new exercise in figures still remained abstract in the sense of its representing merely overall national estimates which, though exhibited in the appropriate columns or squares, were without any necessary operative significance, and were not based on tested relationships. In this respect it is undoubtedly necessary to differentiate between, on the one hand, plans of some types of public expenditure such as those in relation to large multi-purpose river-valley projects and, on the other hand, other general programmes of public expenditure and the whole of the private-sector expenditure. It is chiefly the first of these which had been subjected to fairly careful scrutiny before the publication of the plan. Even here, one comes across somewhat unexpected facts. I have, for example, been told by the Chief Engineer of a state (and I have no reason to disbelieve his statement) that in one part of the state, which had come under his jurisdiction through re-organization after the Second Five-Year Plan, even the site of a major irrigation work, which had been fully included and sanctioned in the Second Five-Year Plan, had yet to be determined.

In view of the complexity and volume of the total work involved, it was perhaps inevitable that the overall national figures and allocations presented initially should be somewhat notional. This implies, at the same time, that immediately after the general picture of the size and structure had been accepted, there would follow a careful

examination and the building-up from below of the various financial allocations and physical targets. The real failure of the Planning Commission may be said to have begun from this essential step.

When it is realized that the First Five-Year Plan was essentially a relatively modest programme of public expenditure implementation of which did not involve any detailed technical examination of physical targets or evolution of elaborate planning techniques, the failure of Planning Commission after 1955 may be judged as the failure to meet the requirements of the changed circumstances created by the larger size and special structure of the Second Five-Year Plan.

It has been pointed out above that the emphasis on expressing outlays, targets, etc., in physical terms followed logically from the large size of the Plan. It was now necessary not only to provide for resources in financial terms, but also to see that what was sought to be achieved was practicable in real, physical terms. Ensuring this would require a detailed examination of the proposals from a variety of points of view. There was, for example, the obvious but vitally necessary step of seeing that the money values represented correctly the appropriate physical quantities. Much more important was to test consistency of the proposals in physical terms in a number of directions. The test of consistency may mean, for example, estimating as carefully as possible the total requirement of, say, steel and cement in all parts of the Plan, and examining whether they could be met with by production and/or imports of steel and cement during appropriate periods. There was also involved a more elaborate examination of targets, etc., as for example, in relation to mutual adjustment between sectors. It was a matter of dispute at the early stage of the Plan as to whether the total expenditure provided for transport was adequate to bring about the increase in transport facilities necessary for fulfilling the transport assumed by the physical targets of production, imports, exports, etc., in the other parts of the Plan.

The Plan-frame was no more than a quickly constructed overall frame, capable essentially of only exhibiting the main types of items involved, and indicating their possible relationships. Whether, in fact, any particular figure was appropriate or not could be determined only on rigorous technical examination in a variety of directions. The general impression at the time of the preparation of the Plan was that for the preparation of the Plan-frame, very little technical examination had been undertaken. This is exhibited in the following quotation from the memorandum from the Panel of Economists, presented to the Planning Commission in April, 1955 :

"We are, obviously not in a position to comment on the technical

accuracy of the actual figures given under each head of investment ; in fact, this cannot be determined except through a process of detailed examination at the technical level of the individual projects included in the investment outlay and we presume that this will be done by the Planning Commission during the coming months" (Para 16).

There is little evidence to show that this technical examination was, in fact, ever carried out, and it does not appear that the validity of the estimates and the measure of their physical consistency in the final Plan were guaranteed to be greater than those of the estimates in the Plan-frame. That the Planning Commission itself treated physical estimates very lightly was emphasized by the large revision upward, at a very late stage, of the agricultural output estimate in an attempt to meet criticism from high quarters.

This constitutes, in my opinion, the real beginning and the main reason for the later failure of the Planning Commission. This was again a failure for which the politicians could in no way be held responsible. It was a failure on the level of technical competence. The ministries and the states had little directly to do with this matter. The task involved was that of bringing together a variety of expertise and get performed through it a job which was undoubtedly complicated and which could be performed only in an approximate manner ; but for its non-performance nobody outside the Planning Commission could be held responsible. This failure is all the more surprising as, at the time of putting forward the Plan-frame, a great deal had been made of the physical targets incorporated in it almost as if this had been an entire innovation. The physical targets in a real plan, as distinguished from an illustrative plan-frame could not be notional and would consequently have no significance till a full technical examination of them for practicability or consistency had been carried out. In retrospect, therefore, the Plan-frame appears as a mere *tour de force* which made claims and raised expectations which the Planning Commission and its experts and advisers were later unable to fulfil. In the event, it may prove to have been less than useless. For, even if unwittingly, the whole series of events appears to have discredited an approach and a procedure, which it will not be possible to dispense with in any type of large or serious planning.

Another similar failure on the part of the Planning Commission requires to be drawn attention to. This is in relation to the framing of objective criteria as far as possible in relation to the definition of priorities of activities or schemes for being included in the Plan. When representations were made to the Planning Commission regarding, for example, inclusion of individual irrigation or power projects in the First Five-Year Plan, it was possible for the Planning Com-

mission to say that it was not working on a clean slate. Projects included in the First Five-Year Plan, it was stated, were largely those on which commitments in one way or another had already been undertaken. The Planning Commission went on to indicate, at this time, that it would undertake the setting up of tests and objective criteria when it would begin examination of schemes, projects, etc. for inclusion in the Second Five-Year Plan. However, so far as is known, this promise was not fulfilled, and there was failure on the part of the Planning Commission to formulate any set of objective criteria for the appropriate variety of purposes. If any were formulated, they have obviously not been duly publicized.

It is necessary, in this context, to remember that in the Plan as ultimately formulated the schemes and projects included would not necessarily be only those or all those which passed the objective tests. It has to be recognized that the preparation of a plan is itself, at least in part, a political process. A certain amount of exercise of pressure and some compromise would inevitably affect the final shape of the plan. This aspect of the planning-process brings out a difficulty which is important in relation to the operation of the Planning Commission in India. If the Planning Commission looks upon itself as a technical and advisory body, it can make an effort to make the examination of individual proposals and its total recommendations as objective as possible. On the basis of such objective recommendations, the appropriate political authority will arrive at final decisions which are practicable in political terms. However, if in one and the same authority, both aspects of the process are inextricably mixed, one or the other must suffer. Inevitably, it is the objective approach that suffers. Both the composition and the situation of the Indian Planning Commission have resulted in pushing the aspect of technical expertise and objective examination into the background. To all intents and purposes, in the preparation of plans and examination of schemes or projects, the Planning Commission and its organs appear to act on the level of political practicability. This is undesirable, not in the sense that political factors must not be recognized, but in the sense that this makes it impossible to bring out, as it is important to bring out (even if only for internal record and not for publicity) in a clear manner the distinction between results obtained on an objective examination with certain externally set up criteria, and the results as finally reached by political bargaining or negotiations.

One might refer to aspects of co-ordination and examination which are even more elementary than that of physical examination or a guaranteed consistency of the Plan. One of the most important problems met with in the effort at planned development is that of availability of technical personnel and its salaries. A primary co-ordinating effort required at this stage is to see that the demands

made for technical personnel by all organizations will be kept as low as possible, and that the terms and conditions offered for the employment of the technical personnel by various authorities will be rationalized. That is, they will not be such that to the basic shortage of supply of personnel will be added the complication of an unnecessarily large turnover in personnel through organizations constantly luring away one another's employees by offering tempting salaries and conditions of service. It is clear that the Planning Commission has not exercised overall control even in such elementary matters, which, though apparently of minor significance, play a crucial role in the smooth operation of planned development.

Such are some of the more important failures at the stage of the final formulation of the Plan. The failures were even larger later, i.e. as the process of execution or implementation of the Plan began. A national Five-Year Plan is prepared, considered, and accepted largely in terms of national aggregative figures. For execution and implementation, as in the case of any other plan, scheme, or budget, it has to be expressed in terms of appropriate constituent details. An overall plan has to be broken down, for example, in terms of areas of activity as well as periods of time. Division by time is an elementary and important division. All Five-Year Plans have to be broken down into annual plans, and all annual plans have to be broken down into allocations for different types of activities, located in different regions or areas. This is again an elementary proposition that for the proper fulfilment and the implementation of a plan, the annual plan must be framed; and also that this is the work of the Planning Commission. It appears in retrospect that the preparation of the annual breakdown of the Five-Year Plan was, in fact, never effectively undertaken. I speak with some hesitation on this matter as the facts are not fully known to me. However, all evidence leads to the conclusion that no annual phasing of the Five-Year Plan was completed.

The most important evidence is of what happened to our foreign-exchange resources during 1956 and 1957. That the foreign-exchange position and import requirements were one of the weak spots of a large plan with emphasis on heavy industry had always been fully recognized. That careful conservation of foreign-exchange resources through avoidance or regulation of imports and through encouragement of exports was necessary had always been accepted in theory ever since the formulation of the First Five-Year Plan. No doubt, the turn of events during the First Five-Year Plan period had induced a measure of complacency in relation to this problem. It had been seen that we did not at all have to draw heavily on our foreign-exchange resources during the First Five-Year Plan period. But this was more a reflection of the caution and conservatism that

existed in the operation and framing of the First Five-Year Plan rather than an indication of an impregnable position. Whatever that may be, it is clear that from 1955 to the time of the greatly increased import restrictions late in 1957, policy of licensing of imports was for all purposes unco-ordinated with the requirements of proper plan-progress. It may be that the ministry granting import-licences operated on a system or criteria of its own. It is quite clear, at the same time, that there was no well-known or established annual plan, with an import-content of the plan of each year worked out, in relation to which the ministry granting import-licences was required to work. Further, it is clear, in retrospect, that neither the Planning Commission, nor the Ministry of Finance, nor the Reserve Bank of India exercised any check at any point on the process of the disastrous running-down of the foreign-exchange reserve. It appears also that no such check was exercised, largely because there were no established procedures such as the periodic obtaining or compilation of statistical returns or other data and their analysis or examination, even in a routine way through which the check could be exercised. It is not necessary to go further into details of this failure which has cost the country very heavily, and which is one of the major factors in creating the present difficult economic situation. What is important in this context is to note that the Planning Commission, which is presumably primarily responsible for enabling and watching the progress of the plan, does not appear to resort to such ordinary procedures as of splitting the Five-Year Plan into annual plans, or of defining the import content of annual plans, or of establishing channels of information through which it can keep a watch on the progress of annual plans and their more important components. It may be that some of the things referred to above as not being done, may prove to have been attempted or performed in some instances; the fact remains that the total result on the foreign-exchange front is such as to lead to the belief that most of the needed elementary precautions or procedures had never been adopted.

I may now turn to aspects which may be considered more as matters for policy-advice than of implementation.

In dealing with the activities of the Planning Commission regarding formulation and execution of policy, a difficulty arises. This is due to the impossibility of discovering what specific advice has been tendered by the Planning Commission in any particular context, apart from what is contained in the two plan reports. The difficulty arises not only because there is no published record of the later communications of the Planning Commission, but also because the Planning Commission, as indicated by the extracts quoted from Shri Aggarwal's article, is active in this sphere to the extent of even advising individual ministries about matters to be placed before the Cabinet; and

it continually participates through meetings in the Commission and joint meetings with the Cabinet, in final discussions of important economic issues and problems. In the circumstances, there is hardly likely to be any separate record as such of advice regarding particular problems of policy given specifically from the point of view of the plan by the Planning Commission. The activities of the Planning Commission in this context appear indistinguishable from those of the ministries and of the Cabinet. In the circumstances, the failure on the economic-policy front is a failure of the Planning Commission equally with that of government.

One particular aspect of the problem, however, the Planning Commission may be considered as being specifically charged with, is the co-ordination of measures of policy. It has been often pointed out that there is no dearth in India of regulatory powers and devices in the hands of government. It is at the same time clear—this is emphasized in the memorandum of the Panel of Economists—that there has been little co-ordinated use of the various powers and measures for implementation of the total plan. The failure to co-ordinate regulatory measures during the period of the Second Five-Year Plan continues to be as marked as during the first plan period.

Specially remarkable during all these years has been the failure of the Planning Commission to pay any attention to integrating regulation of foreign trade with the plans. The continuance for the whole period since 1947, and especially since planning has begun, of the administration of import and export quotas on a quarterly basis has been a perennial puzzle to me. The Planning Commission in neither of its two plan reports has given any attention to the operation of import and export controls as related to the designing and implementation of the plans. Even before the present serious foreign-exchange situation, it was clear that the quarterly licensing of export and import quotas created a privileged class of traders, a field of patronage, a source of windfall gains all at high national cost. Moreover, it not only exerted a persistently disturbing influence on many types of consumer goods markets, but also upset, without reason and without notice, the calculations of many classes of producers, and consequently affected productive activity.

I have said above that it is usually impossible to distinguish the role of individual ministries and the Cabinet from that of the Planning Commission in the designing or adoption of particular policies. Purely incidentally, the recent report of the Foodgrains Enquiry Committee throws an oblique light on the part played by the Commission in one important decision in 1955. As the evidence given in this single instance has much to convey, I quote fully relevant extracts from the Report of the Foodgrains Enquiry Committee.

The Report says :

"Many of the shortcomings of policy or execution were, in our view, due to the strong popular preference for total decontrol of foodgrains, a preference that was not unshared in the highest levels of the administration. There appears, however, to have been a misconception about the policy of Shri Kidwai. It was during his regime that the Ministry of Food and Agriculture issued the Foodgrains (Licensing and Procurement) Order 1954. Shri Kidwai was obviously not thinking in terms of having complete decontrol and leaving a vacuum behind. He had an alternative method of regulation which may perhaps be described as "regulated decontrol". Shri Kidwai's policy was, we believe, a natural development of the policy of "strategic control" that his predecessor, Shri K. M. Munshi, had enunciated on the eve of his retirement, and it was the same policy that Shri Kidwai's successor has sought to continue". (Paragraph 4.42)

"As we have referred to earlier, as early as 1952, when decontrol of food was proposed by the Food Ministry, the Ministry had also recommended various precautionary and countervailing measures including the building up of buffer stocks and the licensing of traders as an integral part of the decontrol proposals. The decontrol proposals and with them the recommendation for buffer stocks were not, however, accepted. Again in 1954 the Food Ministry had proposed that minimum reserve stock of 15 lakhs tons should be maintained by the Union Government and a skeleton of Food Administration should be continued in every State. These proposals were accepted. The Food Ministry further proposed that Government should make purchases in the open market at reasonable prices with a view to building up of buffer stocks. This proposal was not, however, found acceptable." (Paragraph 4.36)

"With the intention of getting fuller examination from the Planning Commission about the reasons that had led to the rejection of the proposals of the Food Ministry, we sought an opportunity to meet the Deputy Chairman. We were, however, informed by him that it was not the practice of the Commission to give evidence before Committees and that any discussion informally held with him could not be quoted. Consequently we did not pursue the enquiry with him. We, however, met the Minister for Food and Agriculture who gave us information on his policy on the point". (Paragraph 4.38)

It is clear from this that the members of the Foodgrains Enquiry Committee held that the serious turn that the food situation took after the middle of 1955 could, at least to some extent, have been

avoided if the policy pursued earlier by the Ministry and pressed for at the time had been accepted by Government. It would also appear that, for some reason or other, the Committee felt that the Deputy Chairman of the Planning Commission could throw light on the problem of why the Ministry's policy had not been accepted by Government. It is further clear that this Committee, a public committee charged by government with study of important problems of policy, was unable to obtain from the Planning Commission or from its Deputy Chairman a satisfactory response. The whole episode, though yet obscure, makes at least some conclusions inevitable: that the Planning Commission should not be mixed with taking important policy decisions, and that its intervention or participation in such decisions makes the situation unnecessarily confused and makes it difficult if not impossible to fix responsibility for policy decisions on the proper ministry, or on the Cabinet.

The existing confusion regarding the definition of the 'core' of the plan may be cited as the latest example of the failure or the impotence of the Planning Commission. It is not necessary to continue with further illustrations.

All this would make it clear that we are not yet living in a planned economy. The First Five-Year Plan did not attempt to create a planned economy. The Second Five-Year Plan involved considerable progress towards the planned economy. However, there was a failure to execute the Plan in a planned manner, as exemplified by the non-adoption of elementary appropriate policies required, as of stabilization of agricultural prices and the absence of precautions regarding proper conservation and utilization of food and foreign-exchange resources. There are no signs that, even after the experience of the last two years, any significant improvements in this regard are being attempted or even contemplated. One might, therefore, say that though the formulation of the Second Five-Year Plan has resulted in a number of important developments in the country, the Indian economy is not yet being operated in any planned manner.

In my opinion, future progress of our country is vitally dependent on remedying this situation as early as possible, and undertaking, through intelligent and organized effort, proper shaping and execution of present and future plans. We are too poor to expect always to muddle through successfully somehow, and it is extremely dangerous to adopt a Micawber-like attitude and expect that in all difficulties, resulting chiefly from our own mistakes, something will ultimately inevitably turn up. For us there is no alternative to taking up planning seriously. No progress in this direction can, however, be made so long as the apex planning organization does not properly carry out the functions for which it was originally set up.

The main functions set down in the 1950-resolution, establishing

the Planning Commission, were to assess resources, formulate the plan, define its stages, appraise progress, and make related recommendations on policy and administration.

Examination of events since 1955 shows that barring the theoretic formulation, the Planning Commission has failed in almost every respect. It failed to put together detailed and meaningful plans after due technical and other examination; it did not produce objective criteria relating to composition of programmes allocations, etc.; it failed to produce annual plans with appropriate break-downs, and failed to watch the progress of the plan even in its broadest elements; it failed to give advice insistently on right policies being followed, and at times, even participated in the adoption of wrong and inappropriate ones.

This means that the Planning Commission has failed, and continues today to fail, all along the line. The failure, it should be made clear, is not essentially the failure of its staff of experts or administrators. In such respects, as for example, the theoretic writing in the reports, or some aspects of the work of the Development Wing—to take two rather divergent illustrations—the competence of the staff is shown to be of high order.

The reasons for this total failure are to be sought rather in the special characteristics, to which Mr. Aggarwal draws attention in the extracts quoted by me at the beginning of this address. The root of the failure lies in the process by which the Planning Commission, essentially only an advisory body, has come to mix itself with the actual process of the formulation of public policies even in matters other than that of development.

It was, perhaps, the composition of the Planning Commission which made it inevitable that this should happen. It contained from the beginning as members some ministers of the Cabinet. The other members also were either experienced administrators or public men of standing almost none of whom brought to his task experience, knowledge or expertise, which were also not available among the public men from whom ministers are drawn, or among the senior administrative personnel who were chiefly responsible for co-ordination of policies and their implementation. In the circumstances, it was natural that members other than Cabinet Ministers should seek fields of action for themselves which were suited to their ability and to their inclinations. This naturally resulted in turning the Planning Commission from its proper functions to activities which were largely the same as those of ministries and state governments. In the result, even the expert staff of the Planning Commission lost its special character. The experts at the Planning Commission were merely experts for the time being with the Planning Commission. The esse with which not only the senior officials of the Commission

but also experts changed from government departments to the Planning Commission and *vice versa*, or combined duties in both the organizations, emphasized the basic similarity in the activities of the ministries and the Planning Commission.

The recent report of the Team for the Study of the Community Projects and the National Extension Service has drawn pointed attention to difficulties created by this duplication, and it is well-known that progress of rural co-operation on accepted lines has, for a considerable time, been blocked by the interference of the Planning Commission with the legitimate sphere of the Ministry of Food and Agriculture.

It is the power complex of the Planning Commission or its members, their natural desire to exercise power and patronage like ministers that are chiefly responsible for the neglect by the Commission of its main functions and for a needless extension of its activities over many irrelevant fields. The misdirection has been helped largely by membership of the Prime Minister and the Finance Minister of the Planning Commission which appears to have vested the Planning Commission and its decisions with an unnatural kind of prestige and importance.

The situation can be remedied only by going back to the functions of the Planning Commission as originally laid down and making the Planning Commission fulfil them. It is not my purpose to suggest that the Indian Planning Commission be entirely changed in character and reduced to the level of, say, a section in the Ministry of Finance. The Planning Commission as an organization, not under any particular ministry and with powers in the appropriate context to deal directly with central ministries and governments of states, should retain its present status. What is important is that it should no longer have any executive functions and should not be mixed up with the essentially political process of final policy-making. Final decisions regarding economic policy should fully rest with the special committee of the Cabinet and appropriate committees of secretaries, and in the final resort with the Cabinet itself. It is true that there are said to exist, even today, such bodies in the Cabinet and the Secretariat, but they are apparently ineffective and the intrusion of the Planning Commission in this sphere has affected the efficiency of government itself. The shedding by the Planning Commission of its role of direct participation in policy-making may appear to reduce its importance; in fact, this is likely to increase greatly its usefulness in the first instance, and its prestige ultimately. The cutting out of executive functions will mainly affect only the Commission's special connection with national extension, etc., and with the programme evaluation organization.

Secondly, there will have to be a basic change in the manner in

which the Commission deals with budgets and programmes of the ministry and states. The proper procedure in this regard may be visualized as follows. There are two aspects to all such questions. The first is that of the proper technical examination of any individual proposal. This, on the relevant plane, the Planning Commission must carry out. The second relates to inclusions, or omissions, or size, or phasing in the light of plan size or structure. In this context the effective decisions relating to individual ministries or states must be seen to be derived as corollaries of the basic official decisions constituting and governing the total plan. If there is an adjustment during the plan-period, this also will be on the appraisal of the Planning Commission requiring changed policy, which the government has duly endorsed. The relation of the Planning Commission with states and ministries should be that of an expert body engaged in bringing out the implications of total policy in relation to the activities of particular organizations or authorities rather than an authority engaged in bargaining with, or bullying, or being bullied by another government organization.

There are two other aspects of the Commission's existing organization relating to which a few words may be said. The first is that of panels and other advisory organizations. The Planning Commission appears to have no fixed policy regarding their use and has been active in setting them up and consulting them only at the times of the preparation of new plans. These organizations should be used more consistently for knowing what non-official expert opinion is concerned with, for giving attention to the broad problems of planning in each particular field, and for activating group-thinking in relation to the next plan stage in particular, and future plans in general. Secondly, there is the direction to which efforts of the staff of experts and administrators is oriented. The administrative staff of the Commission ought to be kept down to the minimum; its main function should be to obtain for the Planning Commission such direct knowledge of current conditions as will enable it to make a proper appraisal of the progress of a plan. The staff of experts of the Commission will, however, have to be varied in its composition. There is need for this staff to acquire, over the years, a special point of view, and a particular attitude of mind. These derive from the grounds which justify a Planning Commission retaining a nuclear expert staff of its own rather than depending on a ministry or other government experts. There are two main grounds. Firstly, the ordinary ministry or other expert inevitably takes a narrow point of view; in respect both of the placing of each problem against the background of an operative national plan, and of being comparatively hospitable to novel suggestions the experts of the Planning Commission should appear differentiated. Secondly, official experts such as

those of individual ministries are heavily burdened with day-to-day and routine work. There is no point, as happens today, in the Planning Commission experts being kept at a similar grind. If they have to be forward looking they must have leisure enough to think ahead. I may translate this in terms of what the Planning Commission economists would do. First, I expect them to be engaged in producing periodical overall critical surveys of the operation of the economy such as the Council of Economic Advisers to the President of the U.S.A. produces every six months, and secondly they would plan out a number of long-term studies such, for example, as those of the problems and the costs of the operation of the mixed economy or relative effectiveness of various types of planning techniques.

A changed view of the composition of the Commission will be necessary to bring about the re-orientation suggested above. Obviously the Prime Minister, and the Finance Minister, should cease to be members of the Commission. No minister of the Cabinet should be a member of the Commission except the Minister for Planning, if such a post is continued in the Cabinet, and he should be the Chairman of the Commission. The Deputy Chairman of the Commission should be, by preference, an administrator of wide experience. This is necessary, as the Planning Commission operates essentially through contacts with ministries and governments and their senior officers, and somebody acquainted with their ways should be the administrative head of the organization. For the rest, the members should be experts, all of whom, however, having some experience of the handling of practical problems. The expertise, chiefly required will be that of natural scientists, technicians, social scientists, statisticians, and economists. The total membership need not be, or rather should not be large, because after all the main expertise will be furnished by the superior staff of the Commission together with advisory bodies such as panels.

I hope I shall not be considered irreverent if I put in a strong plea for constituting, after reorganization, a relatively youthful body. Instead of thinking in terms of people above 65, it may be useful to think of the majority of members being below 55. The work of the Commission is likely to prove taxing and will need, for success, comparatively open and vigorous minds.

As a result of this review of the total situation I conclude that there is at present great and urgent need of complete re-thinking in relation to the functioning and composition of the National Planning Commission. The extremely difficult times through which we are passing make it necessary that a revitalized and properly oriented organization be at the apex of our planning-efforts. The present conjuncture may make it possible in other ways also to undertake such basic reconsideration.

HOUSING AND SLUMS IN POONA*

THIS NOTE deals with the problem of housing in Poona, in particular with the problem of clearance of slums. It presents factual data which are available for a period covering nearly 20 years. The Gokhale Institute conducted a socio-economic survey of Poona in 1936-37, and a re-survey in 1954. It helped the Poona Municipal Corporation authorities to conduct a housing-survey in 17 wards of the city in 1956. The information available from these surveys is condensed in four tables which accompany this note. Table 1 gives numbers in each type of tenement classified by the number of rooms occupied by families surveyed, the number of occupants in the various types of tenements, and the number of persons per room in each type of tenement.

As all the surveys followed a proper sampling procedure the proportions revealed by these data can be taken to represent the conditions in the whole of the area surveyed. The area of the Municipal Corporation at the time of the 1954-survey was larger than the area included in the survey in 1937. However, the 1954-data, in all the tables, have been separately tabulated, as for the area of the 1937-survey, and the two are, therefore, strictly comparable. The area of the 1956-survey was slightly smaller than the 1937 and the 1954 area represented in these tables. It omitted wards in which town-planning schemes were under execution. It may, therefore, be said to represent conditions of somewhat greater congestion of population than the average of the omitted areas. In interpreting the data, the slight modification made necessary by this disparity, as well as the greater extent of non-reporting in the 1956-returns, should be borne in mind.

The data in Table 1 indicate that an overwhelming proportion of the total population lived in one- and two-room tenements, and that there was high density per room. There appears to have been some improvement in relation to the percentage of one-room tenements in the total number of tenements as between 1937 and 1954. This might have been due to, perhaps, the enforcement of certain municipal regulations; but the improvement is not marked if one- and two-room tenements are taken together, and there is definite deterioration of the situation between 1937 and 1954, if the numbers of persons per room either in the group of one-room or of two-room tenements are compared. In relation to the density of persons per room, the

* Note submitted to the Mayor, Poona Municipal Corporation, in January 1959 and published in *The Economic Weekly*, Vol. 11, No. 14, April 4, 1959.

TABLE 1
 NO. OF ROOMS AND PERSONS IN TENEMENTS IN 1937, 1954,
 AND 1956

	Tenements		Occupants		
	No.	Per cent.	No.	Per cent.	No. of persons
		1937			
One room	2,555	56	8,232	46	3.22
Two rooms	1,135	25	4,815	27	2.12
Three rooms	405	9	2,107	12	1.73
Four rooms	185	4	1,078	6	1.46
Five rooms or more	249	6	1,663	9	1.34
		1954			
One room	2,281	52.5	8,451	42.9	3.74
Two rooms	1,191	27.4	6,072	30.8	2.59
Three rooms	443	10.2	2,589	13.2	1.95
Four rooms	200	4.6	1,259	6.3	1.57
Five rooms or more	232	5.3	1,349	6.8	1.16
		1956			
One room	1,093	37.3	4,330	49.6	3.96
Two rooms	485	16.6	2,419	27.7	2.49
Three rooms	161	5.5	904	11.0	2.00
Four rooms	75	2.6	513	5.9	1.71
Five rooms or more	64	2.2	498	5.8	1.31
Not stated	1,050	35.8	—	—	—

situation in 1954 appears much worse than that in 1937. The situation in 1956 has worsened still further, as compared with that in 1954. As noticed above, the difference in the area covered in the two surveys would lead to some differences in the average conditions. Therefore, it may not be possible to state definitely that on comparable basis in 1956 the conditions would have definitely appeared worse than those in 1954. However, the 1956-data refer to 17 wards in which by far the largest bulk of the population of Poona lives. It is therefore important, as revealing the existing housing situation in Poona as being one of great congestion.

TABLE 2
 MEDIAN RENT PER 50 SQ. FT. PAID BY SAMPLE FAMILIES
 CLASSIFIED BY DURATION OF STAY IN THE TENEMENT

	Since						
	1956 Rs.	1953 Rs.	1952 Rs.	1951 Rs.	1945-50 Rs.	1939-44 Rs.	1938 Rs.
1954-survey	—	4.39	4.37	4.19	4.00	2.19	2.00
1956-survey	4.40	4.22	3.54	5.53	2.81	1.97	1.74

Table 2 refers to the rents paid by tenants for their tenements. Because of the operation of the rent-control legislation, these data have been tabulated in relation to the time since which the tenant had been occupying his tenement at the time of the survey. Presumably, the older occupant is protected by rent control. However, those who seek tenements of recent construction are not protected in the same manner. This is indicated in the table by the steady increase in median rents paid as the duration of the occupancy of the tenement shortens. There are two points in relation to this table to which special attention may be drawn. Firstly, the level of median rents per 50 square feet area for recent occupancy is over rupees four. This means that, at this level, the minimum tenement of 200 square feet per family would cost well above Rs. 15. The second point to be noted is that, in the median rents paid, the difference in occupancy from 1951 to 1956 makes a difference of about 25 per cent. This may be taken as a measure of the rate of increase in the average rentals charged during recent years.

Table 3 gives the position as regards the availability of water-taps and latrines per family occupying these tenements. This reveals some improvement in the total position since 1937 only in relation to water-taps but none in relation to availability of latrines in houses, though this is a matter in which enforcement of municipal regulations should bring about a change much more readily and easily than in the supply or quality of tenements themselves. The most important feature of this table relevant for the purpose of the note is the large number of tenements in relation to which no latrines are made available by the landlord, and the very large proportion of families which share a latrine with three or more other families.

Table 4 shows income-distribution of the surveyed families in 1954 and 1956. The position as revealed by these data is that of the very large proportion of families which have total incomes below Rs. 1,000 per annum. Even making some allowance for a degree of understatement in incomes reported, it is clear that the bulk of the housing problem in a city like Poona is provision of housing for families whose income falls below Rs. 100 per month and who could therefore not afford to pay rentals of the level of Rs. 15 to Rs. 20 p.m. which appears to be the prevailing level for minimum accommodation of recent construction, and which is the level of even subsidized rentals in government housing.

The problem of the slums as such has to be considered against the background of these total housing conditions. For slum-dwellers, conditions of housing and of public amenities are such that their description in terms of the standard form as that used for house surveys, results of which have been condensed above, is neither

TABLE 3
AVAILABILITY OF WATER-TAPS AND LATRINE TO SURVEYED FAMILIES

	1937	1954	1956
	Per cent.		
1. Proportion of families which did not have a water-tap	18	9	10
2. Proportion of families having one or more water-taps	16	34	47
3. Proportion of families sharing a water-tap with another family	17	6	8
4. Proportion of families sharing a water-tap with two other families	21	6	7
5. Proportion of families sharing a water-tap with three or more other families	28	45	28
	100%	100%	100%
	1937	1954	1956
	Per cent.		
1. Proportion of families which did not have a latrine	18	10	11
2. Proportion of families having one or more latrines	7	11	8
3. Proportion of families sharing a latrine with another family	11	6	7
4. Proportion of families sharing a latrine with two other families	12	9	6
5. Proportion of families sharing a latrine with three or more other families	52	64	68
	100%	100%	100%

TABLE 4
DISTRIBUTION OF SAMPLE FAMILIES ACCORDING TO TOTAL FAMILY INCOME

Total family income	Poona city and suburban area 1954-survey		1956-survey		
	Rs.	No. of families	Percentage	No. of families	Percentage
Up to is. 250		206	4.7	58	1.7
Rs. 251— 500		441	10.1	312	9.3
Rs. 501— 1,000	1,332	30.6	1,168	34.9	
Rs. 1,001— 2,000	1,349	31.0	825	24.7	
Rs. 2,001— 3,500	588	13.5	250	7.5	
Rs. 3,501— 5,000	221	5.1	137	4.1	
Rs. 5,001— 7,500	90	2.1	27	0.8	
Rs. 7,501—10,000	29	0.7	7	0.2	
Rs. 10,001 and above	34	0.8	7	0.2	
Income in kind only	3	0.1	—	—	
Income not stated	54	1.3	550	16.6	
Total	4,347	100	3,341	100.0	

relevant nor significant. These conditions are far below any level which could be described even as barely tolerable. This is so in all respects as regards the extent of the area, the height of the dwelling, the quality of the material used in providing the shelter, and the surroundings in which it is placed. It is, therefore, difficult to give statements relating to conditions in slums in the form given above. However, even in this regard, we are fortunate in possessing more data than are usually available. At the time of the conduct of the socio-economic survey by the Institute in 1937, a detailed spot-count of all the slum-like localities was carried out and a detailed family survey was made of a sample of these slum localities. On the basis of these data, it may be confidently stated that the number of families living in what might be described as slums in 1937, was less than 1,000 and more probably about 800. The Corporation also conducted in 1951 a survey of slum areas. This survey revealed that 6,304 families were living in these areas. It must be pointed out that because the agencies conducting these surveys were pointed out that because the agencies conducting these surveys were not the same, and no rigorous definitions were framed, the three results are not necessarily comparable; but they seem to indicate the broad trends correctly. Between the two surveys conducted by the Institute, i.e. in 1937 and 1954, the number of families in Poona appears to have increased from the level of about sixty to sixty-five thousand to a level of about a lakh to a lakh and five thousand, that is, a net increase of about forty thousand. That this increase should add 5,000 families as slum-dwellers is not an unexpected result.

On the basis of the facts stated above, the following conclusions may be said to be fully warranted: In the first place, Poona city and presumably all other towns and cities in India are suffering from great inadequacy of housing-supply, and secondly, a very large proportion of urban families are living in highly congested conditions and with great inadequacy of amenities. This situation appears to be not getting better but getting progressively worse.

A *priori* consideration indicates the basic factors which are responsible for the steady worsening of the situation. It is generally agreed that the rate of growth of urban population in India is currently much larger than the rate of growth of the rural population. The average rate of growth of the Indian population is estimated to be between 1.5 and 2 per cent per annum. The average rate of urban growth may, therefore, be put safely at between 2.5 and three per cent. If we assume that in Poona there were, in 1951, about one lakh families, then an annual addition of about 2,500 families would be a modest estimate. The picture as revealed in the 1954 and the 1956 data is that the private and public building-activities are not commensurate with the additional demand created by the

increase of population. An important feature to be noted in relation to private building-efforts is that it is concentrated largely in the middle and the richer class sector. There is high likelihood that whereas currently private and co-operative activity is meeting comparatively adequately the needs of the middle and richer classes, it is leaving unsatisfied to a greater and greater extent the requirements of the poorer and lower middle classes. The recent level of median rents taken together with the increasing number of persons per room in our tables would support this contention.

In the circumstances, there is nothing surprising in the trend for the number of slum-dwelling families to grow. As the re-survey of Poona showed, immigrant families in the city usually come from the unskilled and poorer strata. The bulk of these do not find fresh accommodation suitable for themselves and add to existing congestion, and in particular, when they belong to the untouchable or similar communities, they have inevitably to resort to slums.

In relation to policy all this must lead to the definitive conclusion that present programmes are utterly inadequate to deal with the problem. They are adequate even to prevent a steady worsening of the situation. If it is desired to bring about an improvement in the situation within a reasonable period of time, not only must the existing programmes be overhauled but the whole approach to the problem of slum-clearance and housing for the poor will have to be altered.

The first recognition has to be that this problem can be tackled only if the responsibility is undertaken by public authorities. Private effort, and in relation to slum-dwellers and the poorest even co-operative effort, would prove infructuous. Secondly, the problem must be treated as of extreme urgency. Thirdly, the provision of housing in the immediate future for these classes must be conceived on a short-term basis at a minimum level of comfort, durability, and amenities. This minimum level, however, would itself constitute, if properly conceived and implemented, enormous improvement on the existing conditions of the slum-dwellers. The approach has essentially to be that adopted in such emergencies as that of refugee settlement, or even in conditions as that of a new industrial settlement.

The present programme is inadequate largely because it is too costly and it is too costly entirely because it sets itself standards of durability and quality of construction and amplitude of amenities which, as the above picture shows, the large majority of our city-dwellers do not possess. The immediate need therefore is to clear the slums first, which are like plague-spots in our midst, and, at the same time, to provide the slum-dwellers immediately, with dwellings with minimum space and with pooled amenities, but which are clean and are adequately looked after by public authorities. It is when such a programme aiming at a cost of less than Rs. 1,000 per family is

conceived that clearance of slums and housing-supply may be thought of in realistic terms and may appear as a problem which may be dealt with adequately in a not too distant future.

EMPLOYMENT AND SOCIAL POLICY*

I

BEFORE CONSIDERING the approach to the future plan it is necessary to pass in brief review the data in relation to unemployment in the past. The only continuous series available for this purpose is that afforded by the employment exchanges. In spite of all the obvious limitations on the use and validity of these data, they appear to indicate certain broad conclusions. Firstly, that there has been a continuous and significant increase in unemployment in urban areas since 1951-52. An attempt made to estimate the rate of increase of urban unemployment on the basis of the employment exchange statistics reaches the conclusion that during the years 1953, 1954, and 1955, urban unemployment increased at least by 32 per cent. (Krishnan, *Artha Vijnana*, June, 1959). The data for later years do not indicate a diminution of this rate of increase except perhaps during 1956-57. If the rate of increase of urban population in India is placed even at four or five per cent per annum, the indications are that unemployment in towns is increasing at least at double the rate of increase of population in towns. A somewhat higher rate of increase in unemployment than the rate of increase in population in towns may not indicate a worsening of the situation. This would be because a substantial part of the increase of population of towns is brought about by migration into them, and it is highly likely that the proportion of workers among migrants to towns is much higher than that of workers in the normal population. Even allowing for this there is little doubt that the urban unemployment situation has, during the last seven years, steadily and continuously worsened.

In relation to rural areas it is not possible to use any figures of unemployment. The most useful data in this behalf are the advance results of the second Agricultural Labour Enquiry that are to hand. The most important of the summarized results are: that between 1951 and 1956 there was a fall in self-employment and a rise in the number of persons offering themselves for wage employment in the rural areas; that during this period, the wage-rate did not show any improvement; and that the *per capita* income of agricultural labour showed a drop of over 10 per cent could not be explained by any change in methods of calculation, etc. These are, of course, generalized statements. It is likely that in some regions there has been an improvement in the position, instead of a worsening.

* Memorandum submitted to the Panel of Economists, Government of India Planning Commission, in July 1959.

However, if this is so, it would merely mean that the worsening of the position has been greater than the average in other regions.

It is necessary to visualize, in this context, the problem as presented by the growth of population. Some purely notional figures are set out below to illustrate the nature of the problem and to give some idea of the dimensions. We may assume as the starting position that the distribution between urban and rural is 15 and 85 per cent. Of the total population, 60 per cent are dependent on agriculture and 25 per cent are dependent on non-farm operations in rural areas. Assuming a low rate of increase of 15 per cent in a decade the population may stand at 115 at the end. If the rate of increase of urban population is double that of the total population, 20 of these 115 would be living in town, and 95 in villages. Assuming a greater than proportionate increase in the non-farm occupations in the rural areas, one would get a distribution of, say, 29-66 as between non-farm and farming occupations of the total of 95. This would indicate that even under very favourable assumptions, those dependent on agriculture will increase within a decade in terms of absolute numbers by at least 10 per cent. This means, inevitably, a steady worsening of the phenomenon of underemployment.

ILLUSTRATIVE TABLE

	Year 0	Year 10
Total population	100	115
Of which:		
Urban	15	20
Rural	85	95
Of the rural: employed in:		
non-farm occupations	25	29
agriculture	60	66

The results available for a five-to-seven-year period clearly indicate that neither in the agricultural nor in the total urban sector are employment opportunities being created at so fast a pace as to absorb the new additions to the work force. Though data are not available for agricultural labour later than 1956, in view particularly of the nature of the recent seasons, there is no reason to believe that the situation has improved. No data are available to make a firm calculation regarding the effective backlog and numbers of current additions to the work population. However, the data undoubtedly indicate a situation that is serious on all accounts.

There is no information regarding variations in total employment in rural non-farm occupations. However, barring the creation of special employment through the undertaking of particular schemes in

the public sector, there is little evidence of any marked improvement, general or local, in the availability of rural non-farm employment. Rural artisan industry is not reported to have done specially well in recent years.

II

We may now turn briefly to the prospects of increasing employment in particular sector as a result of the trends at present in operation. The first possibility is increased employment in large industries, which is the sector which has shown greatest progress during recent times. Though the overall increase in industrial production, which represents, in the main, production of large-scale or factory industries, has been remarkable, the extent of increase of employment offered by this sector has been distinctly limited. It has been estimated that on the assumption of an annual increase of two millions in the working force, factory employment as percentage of working force remained steady at 2.03 per cent between 1950 and 1955 but increased to 2.23 in 1957. (*Economic Review*, 8-6-59.) However, the increase in proportion between 1955 and 1957 appears to have been temporary. The latest statistics (*Indian Labour Gazette*, May 1959) relating to employment in registered factories in the first half of 1958 reveal the following. In the eight states, each of which had more than one lakh persons employed in factories in 1956, five showed increases in the average daily number of workers employed in 1957 over that in 1956, and among these were included all the four states with the largest numbers viz., Bombay, West Bengal, Madras, and Uttar Pradesh. However, during the first half of 1958 the trend was reversed so that, in seven out of the eight, including the above-named four states, the average daily number of workers employed was less than that in 1957. This decline was so grave that in four out of the eight, including Bombay and West Bengal, the number employed was even less than that in 1956. It is obvious therefore that, even with a continuation of the same rate of growth of industrial production, the relief afforded by factory employment in terms of additional employment will not be significant.

It has been suggested that, with a total increase in the tempo of economic activity, trade and transport may afford employment to significantly higher number. There are some important features that have, however, to be borne in mind in this connection. Firstly, in relation to transport, technological transformation is still proceeding. Mechanical transport has not yet fully displaced bullock transport. In fact, because of the present conditions of roads in certain areas, modern industrial development gives rise to new demand for bullock transport for relatively short hauls. This, however, appears to be

distinctly a transitional stage. As the programme for improvement of roads makes progress, bullock transport is bound to decline continuously in importance. The displacement by mechanical transport of bullock transport, however, makes for a reduction in the number of persons employed per unit of transport service. Therefore, even a considerably increased transport activity in the near future may not lead to any substantial increase in employment in the transport sector.

In regard to employment in trade, an important feature to be observed is the high concentration of this in the biggest cities. Trading may give increased opportunities for employment with increase in urban population; but it is unlikely that this will be a more than proportionate increase. Secondly, trading and processing are vitally connected with increases in the standard of living. It is only when with such increase the distributive margin is increased that these activities and employment in them get stimulated. Therefore, an economy in which the general standard of living is not increasing would not find room for a large proportion of persons occupied in trading activity.

In the field of traditional industries also no increased employment is likely to be available. Even the programme visualized at the beginning of the Second Five-Year Plan for sheltering the market for products of traditional industries and simultaneously improving their technique was no more than a holding operation. It was devised to obtain a larger production of consumer goods from this sector while improving the productivity of workers in it and giving them somewhat fuller employment. It was not a programme designed to offer additional employment opportunities. It is not known to what extent the programme has succeeded. Even if it has, it would not, in the future, lead to increased employment opportunities. If it has failed the situation is worse because, without a successful holding operation, opportunities in this sector should decline rather than increase.

These observations are intended to high-light the characteristics of the employment situation which will be faced at the beginning of the Third Five-Year Plan. The situation is worsening and the fact that migration to towns and cities is increasing, in spite of a more-than-proportionate increase in the rate of unemployment in them, shows the heavy pressures of the basic situation. The continued demand for educational opportunities, in spite of the growing size of the problem of employing the educated, is evidence of the same heavy pressures. The migration to towns and the problems of the educated unemployed do not constitute separate problems but are merely two symptoms of the general malaise. That this will continue to grow as long as population grows may also be taken for granted, unless very special and effective steps are taken early.

III

The above analysis of the existing situation and trends gives some indications regarding future steps to be taken. In the first instance, the base of industrial employment must be broadened by the plan to a much larger extent than what has happened so far. Expanding the base of industrial employment may no doubt be done by increased protection of older traditional industries. This is obviously inadvisable for it will not increase *per capita* productivity and incomes or start the process of development. As has been already accepted, protection to older industries ought not to proceed farther than is necessary to prevent considerable additional technological unemployment. The bulk of the planned industrial development in the new plan must then be what has been called small-scale industry. That is, it must be related to industrial production which adopts advanced techniques but in which, by keeping the scale lower and by avoiding centralization, the labour component can be kept at a relatively high level. This assumes that in a number of fields such as production of the main consumer goods and some intermediate products, it is possible for the more centralized and less labour intensive productive organizations to substitute, without undue cost, smaller units with similar technique, and to employ larger numbers per unit of output.

Another feature of the existing situation reinforces this conclusion. Attention has already been drawn to the intensive migration to towns in spite of the fact that employment opportunities in towns are not adequate. This has resulted in a specially acute problem of urban housing, especially in the larger cities and the metropolitan areas which are growing at a specially rapid rate. Apart from the operation of factors such as rent control, controls or shortages of housing materials, the fact that very large proportions of new migrants to towns are unemployed or underemployed aggravates greatly at present in India the universal problem of housing of urban labour. It is of the utmost importance to prevent, as far as possible, the present movements to large cities and metropolitan areas with all their accompanying heavy economic social costs. A comparison of the data for the Poona city pre-war and post-war conditions gives some idea of the dimensions of this problem.* The recent report of the Study Group on Greater Bombay describes as follows the situation in that area: "The housing situation in Bombay was more or less critical even ten years ago. During the last decade conditions have much worsened and the situation has become more or less desperate." (Report p. 16)

* See pp. 116-122.

Conditions of housing, therefore, make it necessary to disperse the creation of new industrial employment as widely as possible through the country. This means that the plan for the bulk of the industry in the future must be on the lines of development of industries in small towns, which will serve as natural centres for rural areas and for employment in which additional housing would not be necessary to any large extent, and in which whatever additional housing is undertaken would cost much less per unit. This, of course, means that the provision of economic overheads such as of transport, power, water-supply, etc. must be planned with the small towns at the centre of the picture rather than the metropolitan areas.

In addition to the needed emphasis on decentralized and dispersed small-scale industries, Indian plans will have to provide, during a long transitional period and in a large measure, for the rural under-employed and for the educated unemployed. For the former, the programme has to be one of extended public works, both long-term and seasonal. The programme of seasonal public works may be modelled on the lines of famine works and will cater specially for the needs of the agricultural landless labourers, and the smallest farmers. The permanent programme would be in connection with the large undertakings such as major irrigation and power works, roads and railways, etc. The seasonal work would be chiefly local connected with the conservation and development of resources through bunding, afforestation, minor irrigation works, and public utilities and buildings of a strictly local character. This will be universal in its spread. The programme of large permanent works will be shaped by the general requirements of a broad plan, and will provide for that mass of the rural unemployed which is unattached and which is relatively mobile.

The employment aspect thus dictates that there should be a sufficient volume of both kinds of public works in the existing stage of planning. At the present level of availability of socio-economic overheads in the country, such a programme of relatively high priority items should not be difficult to be thought of. This programme will contribute in two ways to the desired ends. Firstly, it will raise the level of incomes among classes who are today the most disadvantaged. By raising their standard of living, at least to the minimum subsistence, it will have achieved an employment end and a social security end as well as provided basic and expanding demand for products of industries. The need for this is emphasized by the relatively stagnant cloth demand during recent years. The total programme will also have the result of preventing, to a certain extent, migration of people to large cities.

It is undoubtedly a part of the whole of this programme that the wage structure it supports will be at a somewhat lower level than

the structure of industrial wages, or of wages paid by large centralized public works today. A decentralized dispersed industry has nowhere operated economically at the same wage level as is afforded by large organized capital-intensive industry in big cities. But this will not be a disadvantage because, apart from raising the standard of living among a large and widespread population, it need not mean any lowering of real wages in the more important directions.

The provision for the educated unemployed would seem to require mainly extension of government operations in a number of directions. A large programme of public works for providing for fuller and more widely dispersed economic overheads will absorb some numbers of the educated. However, it would be necessary to think, in addition, also of extension of services such as the educational, the medical, and of technical assistance essentially on a widespread basis such as will require considerable educated, and trained personnel. It is obvious that such an attempt will succeed only if it is accompanied by an appropriate planning of educational and training facilities and of the extension of local administrative activities.

All these considerations indicate that the structure of the plan in relation to particular important sectors, has to be specially designed and oriented. What has been said above does not affect materially the plan, on the one hand, for the basic and capital goods industries which are highly capitalized and centralized; it would not affect, on the other hand, the plan of investment or employment in agriculture also. It would, however, affect intermediate sectors in particular, the development of industries producing both consumer and intermediate producer goods, and their pattern and size. It should also affect the programme for socio-economic overheads of all kinds, launched in the public sector indicating that its size should be as large as possible.

IV

The other set of problems referred to the Group relate to social welfare and security. One aspect viz. housing has been touched in brief above. Neglect of housing-needs has been one of the gravest blemishes of the earlier plans. What is suggested is that it should be sought to be corrected as early as possible, and further that future planning of industrial development should proceed on lines which do not lead to an accentuation of the existing desperate housing problem. In relation to the housing problem faced at present in the metropolitan areas, and large cities also, some comments may be offered. Firstly, that the setting-up of unrealistic standards of housing in new housing programmes can merely result in permanently condemning very large numbers of the urban population to

continuance of extremely unsatisfactory conditions. Secondly, that in relation to the worst areas a solution on the lines of temporary housing, as for displaced persons, may be found to be a necessary transitory stage. Also where possible the situation may be eased by stimulated dispersals.

In respect of welfare or social security programmes in general, nothing much need be said. The coverage of the existing social security programme is limited to a very small fraction of the population. It also happens that the sections benefited thereby are not among the most disadvantaged. This is not to say that normal development of this programme should not take place; it does, however, appear that in view of the costs to be incurred and of the large administrative problems, the normal social security approach cannot be pursued in the near future in India. The fact that the vast majority of the persons that require welfare and security measures are either self-employed, or employed in agriculture, or small business of all kinds, and include, to a large extent, even floating and casual labour, is also an important consideration. At this stage, therefore, the provision of fuller employment is the best means of increasing social security and welfare. It is notorious that very large numbers engaged in agriculture and small industries of all kinds appear to suffer not so much from unemployment as from low earnings. To offer in all locations and for all kinds of people fuller and more diversified employment is the only cure for this chronic evil.

As the next step, because of the nature of the problem, not specific security programmes but the extension of general services is called for. The most obvious requirements in this direction are in terms of education, and medical and public health services. Their extension at a minimum level in the remotest parts of the country and making them available free to the most disadvantaged is the first step in the direction, not so much of a socialistic state as of attaining a condition where there can be said to be a really responsible government.

We need not go into the details of this aspect. From the social security and welfare point of view we may, however, urge that emphasis in all action should be laid on the needs of the next generation. Two particular aspects may be indicated by way of illustration. Partial and limited programmes of feeding of school children have in recent years been adopted in some states. Undertaking of these on a wider scale and in a more effective way appears to be an essential direction of extension of welfare activities. Secondly, arrangements to take care of destitute children, as have been done in some states, also need emphasis. We would make our point clear if we state that, in our opinion, looking after destitute children as a socio-economic investment for the present and future should have much higher priority than, say, taking care of adult beggars.

THE APPROACH TO THE THIRD FIVE-YEAR PLAN*

I

✓ THIS NOTE is intended to bring out briefly what I consider to be the more important issues to which attention will have to be paid in framing the Third Five-Year Plan. I consider planning in India to be essentially a politico-and socio-economic process. Planning for economic development involves an attempt to force the pace of the economy and to lead it over a period of years along certain pre-conceived routes. The essential operative element in this effort is organized action at all levels by governmental authorities, public and private associations, and individuals. To urge that forcing the pace of economic development and regulating its direction by the joint planning-efforts of State authorities, associations, and individuals is undesirable or non-feasible, is tantamount to suggesting the giving-up of planning for economic development.

Planning for economic development is based, apart from institutional and psychological changes, on deliberately increasing the rate of savings and regulating the channels of investment. With severe limits to further taxation efforts, this necessarily involves some kind of deficit financing. In this respect planned economic development in under-developed countries has close parallels with the financing of war. As war finance has never been possible except with the debasement of coinage, forced loans, printing of notes, or inflationary expansion of credit, in forcing the pace of economic development, poor countries also must have recourse to some such means at least in the initial stage. Therefore, to say that the plan should be limited by the extent of resources in sight is also to recede from planned development effort. However, deficit financing is bound to prove self-defeating in the long run unless appropriate policy-measures accompany it. Holding this view of the nature of the effort, I consider that the basic decisions are politico-economic and socio-economic in the sense that the size and structure of the plan will depend on the ability of government and society as a whole to sustain and agree to a heavy taxation programme, to the setting-up of a regulatory regime which prevents the inflationary effects of deficit financing from becoming significant, and which is able to achieve desirable levels of investment according to a structured programme through a long period.

* Memorandum submitted to the Panel of Economists, Government of India Planning Commission, in August 1959.

In the circumstances, I consider it inappropriate to begin consideration of planning in India with targets such as the rate of increasing national income, etc. The consideration of the plan should start from the definitions of governmental policy, what government wants and is prepared to do, and the response it expects and will obtain from the public. Consciously or unconsciously, through the last ten years, this issue has been dodged. We have no doubt a theoretical formulation of policies incorporated in official plans, but there has never been co-ordination of these policies with a view to implementing the plan as a whole. The avoidance of such co-ordination and overall framing has been so consistent that it is necessary to enquire into the reasons for it and the results of it in some detail. This note sets out a view of the events of the last 10 years and an interpretation of governmental acts of commission and omission.

During the First Five-Year Plan period, the size of expenditure undertaken by government was relatively modest. The international situation was favourable and harvests were unusually good; because of this conjuncture, planning-problems never came to the surface. One thing, however, was made clear, viz, that the extent of the effort undertaken in the First Five-Year Plan period was very inadequate, to ensure, even moderately, full employment of labour resources. At the time of the framing of the Second Five-Year Plan, it was possible to take an optimistic view of the future; as the economy was running at a low tempo, we had not lost any of our accumulated foreign resources, and no inflationary effects of planned deficit financing had appeared. The result was a large plan implications of which, though fully stated in the abstract, were perhaps not fully brought alive to politicians because of past history and current easy conditions.

I shall not attempt in this note to review in detail events since 1955. I wrote two notes, one in 1956, and the other in 1957, which have been circulated to members of the panel, and also a full statement of the rephrasing of the plan written in January 1958. I find no reason to change the substance of the analysis of the contemporary situation as presented in these notes. The main point made in these was that the difficulties then faced were not primarily due to high inflationary pressures created by deficit financing but, in the main, to lack of policy and failure to implement the plans, especially on the foreign-exchange and the food front. The events of the last 18 months also seem to substantiate the projection then made that the economic activity in the country would slacken considerably by early 1958. Instead of going over that ground again, I shall content myself with indicating, to begin with, what appear to me the most significant features of economic developments since 1951.

The most remarkable feature is, perhaps, the apparent contradic-

tion between the behaviour of important economic indicators. Some of these point to no improvement in the basic situation. The availability, per capita, of the most important components of food consumption in the country, viz., cereals and pulses, was no better in 1958 than it was in 1953. The employment data considered in both aspects—urban and rural—indicate a definitely deteriorating situation. The advance results available from the Second Agricultural Labour Enquiry show that between 1951 and 1956 there was a fall in self-employment and a rise in the number of persons offering themselves for wage employment in the rural areas. There is nothing to indicate that the situation in this regard has improved since 1956-57. For the urban areas, basing oneself on such careful studies as have been made of employment exchange statistics and other data, one might hazard the estimate that since 1952-53, in which year the registration statistics first showed a marked increase, except for the year 1956-57, for all the years up to and including 1958-59, urban unemployment appears to have increased at not less than twice the rate of increase of the total urban population. Per capita cloth consumption improved materially during the First Five-Year Plan period. But this had the result mainly of regaining ground lost during war and post-war years. Since 1955 per capita cloth consumption appears stagnant. A judgement regarding the total performance of the economy based on these data would be that in relation to the standard of living of the people or the rate of development as it affects employment no net progress has been recently achieved, at least none during the Second Five-Year Plan period. If this is related to the increase in per capita national income computed for the years 1951 to 1957 or the notable increases in industrial production or in irrigation facilities and power generation, an apparent incongruity emerges, an explanation of which has to be attempted.

Another feature to which attention might be drawn is the uneven tempo of the operation of the economy during the last decade, and the indication that at no time during this period was it working at the pace at which it operated during the closing years of the war. All recent spurts in the economy have been sustained only for a year or two at a time. There was some activation as a result, for example, of the Korean War, which was checked by the general fall in prices in 1952. There was another spurt forward, as a result of good harvests and the outlay in the beginning of the First Five-Year Plan period, but, by 1955, a slackening was noticeable both in the tempo of industrial production and in the measure of employment. 1956-57 was the year of notably rapid industrial activity brought about chiefly by a liberal import-policy, but this could not be kept up and for the last 18 months the economy has definitely slowed down. The indications from the money and banking field of brisk

activity in the 1958-59 season were misleading; this briskness was associated with trading and speculation rather than with any increase in agricultural and industrial production. Thus it has not been possible so far to generate, even in the urban and industrial sphere, a fairly constant rate of growth or a consistent level of the tempo of economic activity. The spurts in economic activity are related to particular national, international, or governmental policy phenomena. The moment the effects of these passed, a lower level was resumed.

Another feature of recent developments is the disparate movements in growth of activity or of well-being. The tentative results of the second Agricultural Labour Enquiry indicate that there was, between 1951 and 1956, a fall by about 10 per cent in per capita income of agricultural labour. The nature of the seasons after 1956 and the movements of prices suggest that, if anything, the position of the agricultural labourers would have worsened after 1956. The agricultural labourers may be said to represent among the most disadvantaged of labouring classes in India. Labourers in big organized industries are presumably the most well off. The table given below sets out data relating to the average annual earnings of labourers in all factory industries together with the all-India working class consumer price index number.

	1951	1955	1957
All-India average price index number	105	95	111
Annual average earnings in all factory industries	Rs. 1,036	1,173	1,234

It will appear from this that between 1951-55 the position of factory labour improved because of an increase in money earnings and some fall in the cost of living. Between 1955-57, however, the small increase in money earnings was more than counteracted by the rise in the cost of living. All indications are that during the last 18 months the position of factory labour today, in terms of real wages, is near what it was in 1951.

Almost no data are available for making any observations about the condition of other classes of labourers. Perhaps a fair statement would be that it falls somewhere between the position of agricultural labourers and that of factory labour. During a period of dull economic activity, labour employed in small and unorganized industries, and casual labour of all kinds, suffer much more than labour employed in organized industry and the gap between the two tends to widen. Therefore, it is likely that today, that is since 1957, all labour has suffered a setback. Some of it might have improved its position between 1951 and 1955, but for the major part such improvement was not likely to have been kept up later. The same is perhaps true of the members of the salariat. Some improvement in money salaries

during the First Five-Year Plan period together with a constant lowering of the cost of living and fair employment might have made for improved conditions. During the Second Five-Year Plan period, especially after 1957, the ground must have been seriously lost. The data before the Pay Commission might throw some light on this.

The other classes are farmers, traders, and industrialists. Data are again not available in relation to changes in the fortunes of the farming community. The results of most rural surveys and other reports indicate variations in the fortunes among the different strata. The top decile or the top quarter in some cases appears to have done well especially where there is secure and intensive agriculture and crops like sugarcane and tobacco are involved. But in areas of predominantly cereal farming, with insecurity of the seasons, even the top decile may have not improved their net position and everywhere it is apparent that the lower half of the third has not made any headway over the position roughly attained in 1951. At the end of the Korean War, the farming community as a whole had experienced fairly good times for almost a decade. The most important indications were a considerable reduction of the burden of the indebtedness, and some net purchase of land. The data available do not indicate that debts, on an average, have stayed at the relative low level of 1950-51. When talking of the fortunes of the agriculturists, it is well to remember that the margin available here is very largely the margin that accrues in the wholesaling and processing stages. Characteristically, it is that stratum of farmers who are either connected somehow with this stage or are able to claim, because of the possibility of withholding supplies, some of the margin at this stage that have done well. For the others, fluctuations tend rather to depress average earnings than to yield occasions of making special profits. All indications also point to a great difference in the fortunes of the richer and those of the more backward regions. Development programmes and expenditure are seen to profit the secure and rich areas, while they leave almost unaffected the backward and the poor. All reports point to the same type of differentiation between classes as within an area.

This general picture is reinforced by indications that the disparities between urban and rural areas have widened during the last decade. There is greater concentration of wealth and income in the cities, and greater display and concentration in the public sector and more prestige expenditure also in them. While in the rural areas, there is little sign of improvement in the standard of living or of effects of public expenditure. This difference between the Indian cities and villages in economic well-being is one of the most frequent ones noticed by foreign observers. The accentuation of differences is evidently a tendency noticed even in industrial areas. For example

a recent survey of the industrial wage structure in India * finds that between 1950 and 1959 the average wage-rates rose at a faster rate where they were already high, and that the regional disparity in workers' average rate of wages tended to grow over the period.

Whereas there appears to have been some increase in per capita national income during the period, the results of this have been evidently spread very unevenly over society and the economy. The cities have profited as compared with the agricultural regions. The rich agricultural regions have done well, but not so the poor ones, and, in all agricultural regions, it is only the top farmer strata that appear to have made any net improvement in their position. Agricultural labour has distinctly deteriorated in its position, and this, most probably, is also what has happened in the case of rural artisans and casual labour, and labour employed in unorganized industry, trade, and transport. Even the earnings of factory labourers have not made any significant progress if 1959 is compared with 1951. The salariat which, next to labour, is important in the cities appears to be in a stagnant even perhaps a slightly difficult position. It is only the traders and the industrialists who appear to have consistently done well, and among them, the bigger and those in the largest cities with the largest organized business appear to have done the best.

II

The relatively mild effect of deficit financing on the economy is a notable feature of recent developments. Reference may be made first, in this connection, to the monetary and credit policy pursued by the Reserve Bank of India. This policy has been fairly cautious and consistent over the last decade. During this period, the Reserve Bank has taken a number of steps such as the Usance Bill Scheme and the adoption of an integrated policy regarding rural credit, which have helped stable progress. Its policy of inspection of banks has prevented unhealthy developments in this sphere. All this has, however, little to do directly with control of inflationary developments. The one important instrument forged by the Reserve Bank in this context has been selective credit control. This takes the form of issuing directives to banks that they shall not lend, beyond certain limits, on the security of particular commodities. This would, presumably, have the effect of curtailing bank credit afforded on the security of those commodities. It has been claimed that the policy has resulted in checking the rise of particular prices. It appears doubtful whether the policy has had such an effect. In respect of such commodities as food-grains, the extent of finance flowing from banks for trading in food-grains or holding stocks of them is a small

* *Economic Review*, July 6, 1959.

proportion of the total of such finance. It appears difficult to believe that restrictions on bank credit in this direction could substantially affect prices of food-grains. Moreover, it is well known that banks and their clients transfer credits required for a particular purpose to general security or clean accounts if the Reserve Bank directive makes this necessary. The well-known special increase in clean credits, and other credits not involving the security of commodities, especially agricultural produce, during the busy season of 1958-59, has been commented on in this connection. It is, therefore, highly unlikely that selective credit control by itself can have any significant influence in restraining the prices of commodities. An interesting development in the policy of the Reserve Bank was the letter issued by the Governor, at the commencement of the slack season of 1957, indicating to commercial banks the desirability of attaining a given lower level of bank credit before the beginning of the busy season of 1957-58. This may be taken to be the first step in the inauguration of a possible policy of overall credit restriction. It is possible that a policy of overall credit limits combined with strict selective credit control may, to some extent, restrain a rise of prices. It is clear, however, that so far little has been done in the direction of framing and operating such an integrated policy.

Apart from official policy, one aspect of recent banking development appears important in this connection. This is the net holding of government securities. The normal pattern has been for the banks to make additions to these investments in the busy season, and to disinvest to some extent during the slack season. In 1953-54, 1954-55, and 1955-56 the disinvestment was less than the additional investment, and the banks ended each year with added net investment of about Rs. 20 crores per annum. During 1956-57, the disinvestment was so heavy that there was net disinvestment for the whole year of about Rs. 10 crores. In 1957-58 on the other hand, there was continued net investment in government securities even during the busy season. In 1958-59, there was a record of added investment of Rs. 175 crores during the slack season, offset only by insignificant disinvestment of Rs. 3 crores during the busy season. The latest development may be attributed chiefly to the acquisition by the American Embassy of large amounts as a result of sale of PL 480 wheat to the Indian government and the impounding of this money by deposits by the embassy with the State Bank of India. It is understood that the deposits on this account held by the State Bank of India amount to nearly Rs. 200 crores, and that a substantial part of this money is, as a matter of policy, invested by the State Bank of India in government securities. It was said that, in 1956-57, the running-down of our sterling balance acted as some check on inflationary pressures. The impounding and neutralization of PL 480 funds may be acting at present also

in the same direction. It is interesting, however, to observe that even the commercial banks, other than the State Bank of India, as a group increased their holding of government securities by about Rs. 40 crores from June 1958 to June 1959.

A phenomenon connected with the relatively mild effects of deficit financing during 1956-57 was a somewhat peculiar movement of prices. In my previous notes, I attempted to analyse the varying behaviour of different types of prices and to seek its special explanations. I had drawn attention in this analysis to the relative stability of cloth prices and of stagnancy of cloth demand. In reply, it has been stated that the explanation of the behaviour of cloth demand is to be found in the draft made on consumer resources through the higher prices of food-grains. However, this explanation would be adequate only if it was not an inflationary situation that was sought to be explained. Obviously, in an inflationary situation, if the resources of net buyers of food are curtailed through higher prices of food-grains and this leads to stagnancy or diminution of cloth demand, the economy must contain to an equal extent net sellers of food whose resources would *pro tanto* be specially increased, and who should, therefore, make a counter impact on the cloth market. This explanation based on the higher prices of food not allowing inflationary forces to affect cloth demand or prices could be held adequate only if it was linked with the statement that net purchasers of food either had a highly inelastic demand for cloth or hoarded their incomes, or utilized it in such ways that it did not materially raise the level of other consumer incomes. If agriculturists as a class are supposed to be net sellers of food, their demand for cloth is not inelastic. Also, they could not be considered to be hoarders of cash on any large scale. Only one explanation appears to cover this as well as other phenomena relating to the pressure on prices of consumer goods being lower than that expected by the size of the deficit financing and the increase of money-supply with the public: The increase in productivity and national income has, in fact, not increased the general level of consumer incomes; the bulk of this increase has been canalized into the hands of a relatively small class of traders and industrial producers; and this class has, to a significant extent, used the increase in the level of incomes, in part, in hoarding money, and in part, in expansion of such activities which affect, to a material extent, the demand for intermediate products without significantly increasing immediately labour consumer incomes. All features of recent behaviour of our economy appear to be consistent only with some such hypothesis.

An obvious explanation of most of the above-mentioned phenomena may be that owing to the non-integrated character of our economy, the benefits of development expenditure and increased economic

activity do not easily pass on from one region or sector to other regions or sectors in the economy. The result is that activity or improvement confined to certain regions or sectors may take place as against the background of general stagnant conditions. The development of industrial production may affect only urban economy or urban industrial economy, and development of irrigation or other facilities may affect only a limited number of agricultural regions. Considered in terms of numbers affected or the proportion of population benefited, the effects may be small and the overall aggregates may not, in the average, register any improvement. In a predominantly *laissez faire* economy, therefore, developments on the lines of recent Indian developments may not cause surprise. In efforts at planned development, however, measures are supposed to be taken to prevent or counteract them. It is my contention that, in spite of all claims to the contrary, planning as such does not operate in India today. There are only schemes of public expenditure or of aid to private or co-operative enterprise. There is no co-ordinated, conscious effort to lead development along pre-defined lines. As a consequence, development proceeds largely as if in a *laissez faire* regime, and the features, to which attention has been drawn, follow. Moreover, to the extent that official policy is active, it aggravates the total effects by loading the dice in favour of traders and of large organized business. This is brought out below through examination of official policy as related to the operation of the mixed economy, fixation of import and export quotas, the stabilization of agricultural prices, etc.

III

The main features of a mixed economy, where economic development is being planned by the State, should be relative elimination of risks from private enterprise through stable prices, buoyant demand for most products, and special aid and protection afforded to private enterprise in particular direction; this would be balanced by restrictions regarding fields of operation, and the existence of a regulatory regime. The total objective may be taken to be to afford private enterprise the needed security and assistance without which it cannot develop rapidly, and to guarantee on the other hand that such assistance does not result in an increasingly favourable distribution of the national product in favour of the private *entrepreneur*. It would be the purpose, presumably, of the regulatory regime to see that profits and gains are not high in relation to risks and costs, and the regulatory regime may also be supposed to fulfil such other constitutional objectives as to prevent concentration of economic wealth and power. It does not appear that in India these expecta-

tions have been fulfilled. There are a number of complaints, on the one hand, that the regulatory regime is unnecessarily detailed and that it obstructs legitimate development. On the other hand, it is equally clear the government has not succeeded in preventing undue gains from accruing to the private sector.

That in India the most important prices in relation to products and services of modern, large, organized business are administered may be taken to be an established fact. Government exercises little or no control in the determination of these administered prices, or in the fixation of their levels. In the area of consumer goods, in an important category like sugar, government's inability to control extra-ordinary profits by traders and manufacturers has proved notorious. Equally important is it to observe that, where government gives special assistance or privilege, the benefits accruing therefrom are compounded into assets of the party assisted by government without any social claim or public interest being created within it. So that as against the possibility of government's stepping into the field in the future, current public assistance results in making acquisition of interest in the field by the State more difficult, than before. That is, there is no *quid pro quo*, present or future, for liberal assistance given by government. This is particularly harmful to national interests at that level where organized business has highly concentrated control and can and does operate as a quasi-monopolist. While thus government takes no action to restrain the power or activities of private business, it is compelled, because of the situation of the developing economy, to give support to all units in difficulties or distress. There are two considerations which impel the government to this action. The first is the consideration of keeping units in production. A developing economy is naturally concerned with full utilization of all plant and equipment. Secondly, there is the social aspect of unemployment which, particularly in relation to organized industrial labour, can be productive of considerable political pressure. Therefore, the more crucial the production of a concern and the larger the numbers it employs the more surely it can count on obtaining government assistance in relation to any financial or other difficulties through which it passes. In view of the particular motives influencing government to take action in this regard it happens that government does not discriminate or finds it possible to do so. It helps or has to help not only if the difficulties are accidental or external, but also even if they are due to internal mismanagement or fraud.

There is no corrective, as government policy operates today, to this one-sided operation of the mixed economy in relation especially to large organized business. Attempts must be made to ensure that the operation is more fair to society as a whole. Firstly, a somewhat

generalized system of price control and of distribution of crucial supplies has to be adopted to act as a restraining force. Secondly, it must be provided that assistance by the State leads to the creation of an appropriate measure of public interest in the unit assisted. Thirdly, suitable conditions must be created in each sphere for government to take over certain units, if this becomes necessary to keep up production and employment. As long as government is determined and announces in advance that it will not intervene or take over operation of individual units in any sphere, the mixed economy must work under this handicap and lead to grave social and national loss.

It has been always recognized that inadequacy of foreign-exchange is likely to be a chronic problem with most under-developed countries planning development. Starting from any given balance of exports and imports, a plan of development is found, in the initial stages, to require a much larger proportion of the additional resources in terms of imports. Also, the process of development may itself, unless special steps are taken in that behalf, lead to a curtailment of exports through greater demands for internal raw materials because of greater planned activity, and for the food and other consumer goods because of higher consumer income. In the circumstances, it becomes necessary to regulate imports carefully and to stimulate exports. Essentially, the policy in this regard has to be a long-term policy which is carefully designed in relation to the total long-term plan. Curiously, Indian foreign-trade policy does not appear to have any such long-term design. The lack of its co-ordination with the total plan was exposed dramatically by the sudden and rapid running-down of sterling resources during the first two years of the Second Five-Year Plan. Even after that experience, however, it does not appear that greater care has been taken in co-ordinating effort. Basically, policy still appears to be framed for a six-month period. There appears little logical justification for such short-term changes in import-policy. Short-term determination of import-policy is appropriate to situations of temporary or cyclical shortages of foreign-exchange. Temporary adjustments are made, in this case, by cutting down, for the time being, imports of some luxuries or necessities, and any easing of the difficulties would then justify corresponding immediate liberalization of imports. Such considerations, however, appear irrelevant in the operation of a long-term plan. The total requirements of imports of necessities, of materials for productive activity, and of capital goods for development, must be closely related to the particular phases of the plan and fairly accurately dictated by them. In such conditions any adventitious gains of foreign-exchange must not be dissipated by immediate *ad hoc* liberalization, but must be added to the reserve for

emergency. On the other hand, any minor worsening of the situation should not lead to changes of policy, but to drawing temporarily on reserves. Instead of a basic long-term policy which changes only in relation to changes in the plan or the total situation, Indian policy is determined almost entirely in the short-term. This appears from the comparison as well as the size of the import-quotas which are liable to such large variations from period to period that the uncertainty of quota is in itself a major factor in the market situation.

Export-quotas appear to be determined largely in the light of the price fluctuations at home. It appears that this results in our exporting the largest amounts at times when the international prices are the lowest. It is not clear that such mechanical operation of export-quota policy ever served any important end in relation to the operation of the plan of the national economy. This feature again is obviously the result of no attempt being made to evolve a long-term export-policy in relation to planned economic development. Apart from this built-in inability to take advantage of favourable terms of trade, variations in import- and export-quotas operate as disturbing influences in the internal market and for producers' plans. As these variations are chiefly determined by traders' advice and prejudices, they sacrifice the interest of the internal producers, especially the agriculturist-producer. The notorious export of groundnut-cake is an important instance of this. It was often insisted in the past, that when a resource important in increasing production and maintaining the fertility of the soil was exported, much more was lost than the export. It is obviously much better to export finished goods and have slightly lesser availability for consumption than to handicap basic agricultural production itself. Thus the export of oil would be much more logical and permissible than the export of groundnut-cake.

Attention may also be drawn to the peculiar practice of extending special privileges to particular producers in order to stimulate exports. This is a notorious example of the purely *ad hoc* approach in our policy-making. To cite one instance, it is said that the import of automatic looms is permitted to certain persons on their agreeing to export the products so as to earn more foreign-exchange. Obviously, a very large number of assumptions have to be made to justify this policy. There are in this case deviations from the foreign-exchange-use plan, the industrial-structure plan and the labour-employment plan. Above all, it involves the creation of a monopolistic opportunity in favour of a private party through special expenditure of highly scarce resources for what is obviously a short-term, and in view of the total international situation, necessarily an uncertain aim.

It is obvious that all this changing and chopping is thought to be justified and useful only because there is no consistent durable

frame in which the total plan of economic development is related to a long-term export- and import-policy. It is notable that the policies redound chiefly to the benefit of the trader and the intermediary. Absence of long-term policy, fluctuations in prices and uncertainty in supplies that follow from it are not to the advantage of either the agricultural or the industrial producer or to that of the ultimate consumer.

Regulation of imports and exports creates shortage of supply on the one hand, and special opportunities on the other. If these are not to be taken advantage of by anti-social forces, regulatory action by government is obviously necessary. It is necessary, at this stage, to emphasize an obvious point that is not always realized: In this case there is no choice; that is it cannot be argued that the situation requires no regulation. Once it is agreed that current planned development in India requires regulation of exports and imports, a situation, where demand and supply could not be adjusted as in the free market without harming producers and consumers, is automatically created. The Government then has to ensure that any harmful effects of restrictions of import and export are minimized through regulation of distribution of supplies and control of prices and that through this the planned ends are properly fulfilled; the only alternative is to allow intermediaries to exploit consumers and to obstruct productive processes and thus defeat ultimately the very purpose of export-import regulation. The same reasoning applies in other fields also, i.e. wherever forced economic development creates a situation which calls for intelligent regulation. The stepping-up of savings, in whatever way, must mean restraint on consumption. Direction of investment or of other economic activity in particular directions must mean regulation of supplies of a number of goods and services, and a regulatory system in relation to these has to be conceived of and built as operating over long stretches of time for serving planned needs. If such a regulatory system is not created, the plan cannot be fulfilled. An illustration of this may be found in the food-policy of the Government of India.

The figures given in the 1958-59 Economic Survey show that per capita availability of cereals during the three calendar years 1953, 1954 and 1955 was 12.8 oz. per day, on an average. During the three succeeding years 1956, 1957 and 1958, this could be maintained at an average level of 12.7 oz. per day only by importing during the latter three years on an average of 1.55 million tons annually more than the average of imports during the earlier three-year period. It is obvious that this larger import of cereals greatly increased the strain on the foreign-exchange position. Such dependence on imports, while no steps were taken internally either to economize or rationalize distribution or to step up substitution of

other foods from internal resources, can only indicate that government does not think that it can by better organization or management make supplies go further. In a war economy imports have to be counted out. In such a case all efforts are strained to make do with internal supplies. The analogy, in relation to our exchange resources, is very close to a war economy. While these heavy imports were taking place, government consistently refused to take any of the serious steps taken during the war or to adopt even the milder programme of the Asoka Mehta Committee.

We may also examine in this context the refusal of government to do anything in relation to the stabilization of agricultural prices. Stabilization of agricultural prices has been an accepted plank in government policy for almost a decade. Its need in underdeveloped economies has been widely accepted and adoption of measures of stabilization advocated by international organizations like the ECAFE and the FAO. The Ford Foundation Team of American agricultural specialists which submitted a report recently has also advocated it as being needed for increased internal production of food. In spite of all this, government has consistently opposed and avoided in practice the adoption of a policy of stabilization of agricultural prices. While there is a good deal of talk about what may be done to increase the production of food, the simple expedient of guaranteeing in advance for each season a minimum price for food crops has been carefully avoided. The other part of the same policy of stabilization is to put a ceiling to prices, but this, which is extremely important from the point of view of industrial and other costs, is also not undertaken.

It is difficult to interpret the policy of the Ministry of Agriculture in regard to prices of agricultural products and trading in them, since 1954. Curiously enough, the Ministry tried to establish before the Asoka Mehta Committee that the complete decontrol of 1955 was not to its liking and was not a result of its activity. It also implied that the Planning Commission was responsible for the decision. The Planning Commission authorities, at least informally, hotly contested the implication. At the same time it is clear that neither the Ministry of Agriculture nor the Planning Commission nor any other influential elements in government are keen on working out a long-term plan in relation to stabilization of agricultural prices. Every official pronouncement in regard to food-supply and prices usually refers to the situation a few weeks in the past or in the basis that stabilization of prices of agricultural products is maintained through the plan-period.

It is possible to interpret this amazing behaviour only on the basis that stabilization of prices of agricultural products is side-tracked because of certain consequences flowing from it which are not liked.

A programme of stabilization could be undertaken through either the entry of government, in a substantial way, in trading in agricultural products or a rapid co-operativization of the field combined with certain overall operations by government. Either of these courses will affect seriously the strong entrenched position of the money-lender-trader elements whose combination of the two occupations have given them a stranglehold on the Indian rural economy. Historically, the present capitalistic community in India has grown primarily on the rural moneylender-trader base. Any undermining of the position of this base would inevitably spell disaster to the trading superstructure in the urban areas and may damage even urban financial capitalism, i.e., affect vitally those interests which are today politically and economically the most powerful in the country. Recent government policy in the co-operative field also lends support to this hypothesis. All recent experiments which have been successful to any significant extent in transferring rural finance, marketing, and processing out of private hands to those of co-operative organizations are obviously suspected, and programme which has set this trend in motion and made its progress possible is being challenged and sabotaged.

An *ad hoc* operation also makes possible a proliferation of official agencies. It makes for unnecessary, obstructive, and costly bureaucratic operations which co-ordination would abolish. Thus, co-ordination which would force the emergence of a consistent policy-frame would not only lead to action opposed to general capitalistic interests and make much more difficult manipulation in individual instances, but would also reduce the numbers and powers of individual officers. Co-ordination, simplification, or decentralization of official agencies are not likely to receive support in high official circles which are again, of recent years, developing close connections with organized business.

The great importance of price-control and of state-trading is further emphasized by reference to the problem of raising internal resources. At least in the initial stages, indirect taxation must play the crucial role in this manner. It is notorious that with the operation of a quota-system the level of prices of imported goods have risen much higher than the level indicated by costs plus the import duty. Similarly, a fluctuating but very high margin is obtained by exporters which it has been found impossible to cut into through export-duties.

Internally the most important source of indirect taxation is the excise, or sales tax on goods of general consumption. It is no doubt possible to obtain some revenue through the operation of government enterprises. But this possibility is limited where the enterprise does not produce goods of general consumption. This is because the enterprises which the government conducts, such as of production of steel

or capital goods, and the services it may provide such as transport, supply of electricity, or of banking facilities, i.e., all kinds of socio-economic overheads, lie too close to basic pricing. Their prices enter widely and pervasively in all other prices. It is also not usually possible through them to exercise any discrimination in taxation incidence. Therefore, though it may be readily conceded that such profits as government can obtain without burdening the economy, in the conduct of these enterprises, especially through a properly discriminatory pricing or rate structure, will be obtained, the amounts so obtained are not likely to be large.

Determination of the appropriate level of taxation of consumer goods, however, presents considerable difficulties where there is no regulation of trade or prices. The continuous changes brought about in excise on cloth through political and other pressure exemplify one aspect of this difficulty. Recent developments in prices of sugar exemplify another. Today, government taxation represents almost a third of the total price paid by the consumer for sugar. Even so, it appears that the trader can, in particular situations, discover a large extra margin. It is useful to visualize in quantitative terms what this has meant. If the value of total sales of sugar in a year to consumers equals, say Rs. 200 crores, then a two-anna difference in price in the rupee represents a magnitude of Rs. 25 crores. Over many months past, an average increase in price at least of this order, has, in fact, obtained in the Indian sugar market; that is there has been an extra transfer of resources of this order from the consumer to the manufacturer and trader during this period.

It is thus indicated that the only efficient way of obtaining resources from indirect taxation would be for the State actually to enter into trading-activities at the strategic points, such as in important import- and export-commodities, and also to have under its control a sufficient number of widespread outlets of distribution of general consumer goods so as to regulate effectively the level of their prices. If these steps are taken, the State would not only be able to build up a proper system of regulating prices and distributing supplies, but will also obtain the full fiscal advantages of all special margins and of particular opportunities created in the process of planned development.

It is in the tradition of Indian economists to recognize that problems of national economy are in essence politico-economic problems. The proposition does not cease to be valid because there has been a transition from colonialism to independent rule. In any country the policies will be dictated mainly in the interest of the classes who actually hold power. Inferentially, it is valid to say that today in India real power rests with modern organized business and the trading community. All economic policies, whatever their intention, have

been so administered as to benefit these classes. It is important to note that actual power is held by a relatively small group, entry into which is becoming increasingly difficult; there is considerable concentration of influence even within its ranks, and effective control has been reduced to a few hands and a very narrow social base. It appears that Indian social history is entering into a new phase. There has been by now a considerable break-down of the monopoly of the priestly, intellectual, and martial classes. Instead, political and economic power is being concentrated in the hands of selected sections from among the traditional trading communities.

The existing situation is, however, essentially unstable. Exercise of power by big business cannot yet be open. There is need for *egalitarian* and socialistic slogans and some pressure for actual action in those directions. The apparently inexpert handling of measures such as state-trading in food-grains might thus be not due so much to incompetence as to the conscious or unconscious desire not to harm dominant interests, through effective operation of policies unwillingly accepted. The slogans have, so far, remained confined to the relatively innocuous area of land and agriculture; but it is uncertain that they can always be so contained. If the power of the right grows, a large plan without logical regulatory regime is likely to be adopted. In the event conditions since 1956 would be continued but, perhaps, more openly and systematically. It does not appear, however, that their continuance is feasible for a long time, politically or economically. In economic terms such a development programme has too narrow a base to be sustained and as there is no way of effectively dealing with inflationary pressure in it, it would soon prove self-defeating. The last few months show signs that a crisis on these lines is, in fact, developing in India.

It may, however, also happen that there is some shift to the left, in which case big business may find it necessary to agree to a regulatory regime which, while eliminating large trading, particularly, speculative profits, would yet leave a very large field open for private production enterprise, small and large. Such a development is most in the interest of the country. On this assumption the size of the next plan could be fairly large. The events of 1956-57 have shown that there is a considerable degree of elasticity in the economy; therefore, with intelligent management and the straining of all resources, considerably increased effort should prove practicable. It would, however, be difficult to estimate the scale of the effort at this stage. It depends on a number of variables. These are, mainly, the courage and intelligence of public leaders, the honesty and efficiency of administration, and the response of the public. Also, the extent of foreign aid is uncertain. It has, however, to be realized that the net resources in sight today are relatively small, and our

foreign-exchange resources are in a highly unsatisfactory condition. So that, unless internal effort is as disciplined and as intense as in a war economy, even well-planned effort of a large size may prove impossible.

IV

Turning to a consideration of the structure of the plan certain elements of its general strategy were outlined in the Second Five-Year Plan. The plan implied that the operation in relation to traditional industry was essentially a holding operation. New entrants would not be encouraged in these industries. Increased production from them would be expected through better technique and fuller employment. Also, in the long run, there would be a gradual diminution of employment in this field as the economy developed and as alternative employment opportunities became available. At the other end, beginning with the production of steel, it was the basic structure of industrialization and the preparation for the production of capital goods that was emphasized and undertaken. There is no reason to depart from these basic decisions. However, the stage has now arrived when a clearer picture of the intermediate field must be sketched. Over what period, and in what stages are the traditional industries supposed to become unimportant? On the other hand, when we are in a position to produce capital goods in sufficient variety and quantity, what are the types of the capital goods that will be produced? and what structure of consumption-goods industries does the programme of production of capital goods visualize?

The basic decisions in this regard relate to the extent and variety of consumer goods to be made available and the structure and location pattern of the consumer-goods industries which will produce them. (Though a plan has to restrict total consumption somewhat in the initial years, it must ultimately have reference to a programme sketching the manner in which and the rate at which the availability of consumer-goods in the future is to be improved so as to raise the standard of living. It is necessary to emphasize this because, possibly, both aspects of the problem have not been sufficiently attended to.) In discussions regarding such matters as targets of cloth consumption during the Second Five-Year Plan, it did not appear to be realized that forcing the pace of savings meant making cloth available for increased consumption at a rate which was smaller than that indicated by the expected rise in national income and the elasticity for the consumption of cloth. A smaller rate of increase in current consumption than that resulting from the expected rate of increase in national income is a logical concomitant of increased savings effort. However, this refers mainly to the

immediate future. In relation to the more distant future when the increase in national incomes is expected to be substantial enough to lead to the possibility of some general increase in standards of living, decisions regarding increases in availability of consumer goods, and the new types of consumer goods to be made available, will have to be made. These decisions will, to a large extent, determine the direction of future industrial growth.

In some directions it may not be so much new products as a more plentiful supply of established ones. This, for example, may happen in relation to clothing and foot-wear. Here the problem is chiefly in relation to allocation of production to various competing forms or of a common production programme. However, there are directions in which expansion of demand will raise more complicated problems. The village-potters' pots and pans, for example, do not seem to have an expanding market. This raises two allied problems: What are the types of pots, pans, and other utensils of which production should be planned for the future? and what, if any, are the types of products which the potter, even with an improved technique, could produce in the future? To visualize properly the future of this industry and the future pattern of industries ancillary or supplementary to it such as that of ceramics is obviously of the utmost importance.

In addition to the problem of the type of consumer-goods of the future, there is the problem of techniques adopted for their production. The decision, for example, to launch on the production of full sugar-manufacturing plants in India may be taken to indicate the decision to go ahead with the production of sugar only or chiefly in the most developed modern types of plants. But this may still leave the question open as to whether *gur* as a product can be raised from its present unstandardized status and made more standardized and better preserved, so that it would serve not only as an article of consumption, but also as a base for the sweets industry; and if this is possible, can efficient *gur*-manufacturing be established on the basis of a somewhat mechanized but yet a small-scale rural industry.

The crucial immediate decision in this regard appears to be the measure of decentralization that all efforts are to be made to achieve, in consumer-goods and intermediate products. This may be a matter of considerable initial experimentation and research. To illustrate from the building industry whether cement can be produced in small unit factories, whether lime which is available generally can be used by more efficient and standardized methods than those used at present, whether in brick, tile-manufacturing, or pre-fabrication of parts. possibility of use of local material can be actively canvassed and established, are matters to which much greater attention will have to be paid if one is not to be content with the present trends towards

universal and plentiful use of cement and steel and iron sheets.

Even where the most developed modern techniques have been fully accepted, it may be possible to think of future decisions being open in certain respects. Special reference may be made, in this context, to the engineering industry. This is an all-purposes and all-pervading industry in modern industrial life. It will produce intermediate goods both for production of producer goods as well as for incorporation in a number of lines of producer or durable consumer-goods. Will the engineering industry in India evolve basically in the direction of small workshops spread round certain central units or joined together themselves by assembling centres? or, will it in essence be a large-scale centralized industry?

Projections regarding future total demand for consumer goods might be obtained from the series of planned allocations for investment and consumption, combined with the plan of distribution of incomes. Interpretation of the total consumer demand in terms of details for specific commodities will, however, require, if some guiding of its developments is decided upon, reference to socio-economic policies and some imaginative planning. The pattern of our future industrial development in terms of technique and location is, however, hardly a matter for projection. It involves basic decisions which have to be immediately taken and which will govern the whole future set-up, political, economic, and social, of our society.

We are thus brought up to face the questions, at this stage, as to why it is necessary to think out afresh the problem of the Indian pattern of industrialization and why we cannot adopt the fully developed techniques in all directions. The basic reason for the need is obviously the relation between our population on the one hand, and natural resources and capital resources on the other. There are a number of underdeveloped countries in the world, which have such plentiful supplies of almost unexploited natural resources in relation to their numbers, that development can proceed with them with full initial emphasis on primary production. Gradual stages of accumulation of the surplus of such production and progressive industrialization with its help can be planned. With us, however intensive our efforts in relation to primary production, they could achieve no more than self-sufficiency in foodgrains, and some broadening of the base of industrial raw materials. With the numbers on land and the growth in them, large net surpluses are not likely to be available in this sector even with intense development. This means that, for the whole of the relevant future period, our plan of development, which means essentially plan of industrialization, must assume a relative shortage of natural and capital resources as compared with the work-force.

The circumstance can be looked at from two points of view. Firstly,

in relation to the existing problem of underemployment and unemployment, and its known worsening during the last decade, the plan of future development has to be thought of in terms of providing adequate employment opportunities. In view of the shortage of capital resources, additional employment can only be offered at work and technique which does not require much capital per person. If the shortage of capital were considered to be a temporary phase, one could think of a transitional programme of employment of the labour-intensive type, while the permanent base of industrialization was raised on highly developed techniques. But, as shortage of capital with us is and is going to be (at any realistic projections of national income, savings, and population) chronic, this way out is not permissible. Therefore, our efforts must be directed towards finding the most efficient techniques to adopt at our level of availability of capital. There is another aspect of this circumstance which needs to be emphasized. In our situation the adoption, for any purpose, of a technique more capital-intensive than that required for efficient production in any activity in the context of the total plan, is to take away a highly scarce factor from other activities, and is an action which is not only unsocial but also uneconomic. This character of the action is emphasized when the vesting of such extra capital resources is in private and not in public hands, but it is not excusable even in the public sector.

The brief statement supports the conclusion that our industrial development must be planned on a general small-scale-industry model with deliberate adoption of a large scale and of concentration of capital only where modern production technique overwhelmingly requires it; the corollary is obvious that all such deliberate exceptions must be only under strict social control and should preferably be allowed only in the public sector. A contrary view is tenable only on the suppositions that employment of all human resources is not an important national objective, that the human and economic costs of employment and underemployment are no concern of the national plan, and that high concentration of industrial production and capital in private hands in a poor and underdeveloped country does not constitute a grave national danger.

The data regarding unemployment indicate a steadily worsening situation, and it is evident that present policies are very inadequate to deal with it. Unemployment or underemployment in cities and villages is growing apace, and it is obvious that large organized industry, whatever its rate of development, can absorb only a very small proportion of the growing numbers. For increased numbers to have to be accommodated in agriculture is to accept defeat in terms of development and to make future progress more difficult than before. In present Indian conditions, one cannot expect the

'tertiary' sector to absorb further work-people. The development of this can only proceed on the basis of a broad, diversified 'secondary' structure. It is thus a very large measure of industrial development that is immediately needed. In view of all considerations, it is a decentralized, dispersed industrial sector that we have to build.

This has been a part of the political slogans of the last decade. But in spite of all talk, official policy has actually led to the growth of the largest organized businesses and the largest metropolitan centres. The bringing into existence of a dispersed, decentralized industry is not likely to be achieved rapidly. In the meanwhile, therefore, and as preparatory to such development, a widespread public works programme of conservation of resources and of building up of socio-economic overheads all over the country with the smaller towns at the centre of the picture instead of the metropolitan areas is an obvious step. Further, in order that the employment situation may not worsen because of the collapse of the older industries, a holding operation on behalf of those of such industries as employ large numbers is imperative. These appear to be the essential elements in the future pattern of the industrial development and employment programme.

A major factor controlling all recent developments and the net result of all effort is the continuous growth of population. As long as population keeps on growing, at the rate of 1.5 to 2.0 per cent per annum, the total effort made has to be very large indeed, in order to make any real impression on the situation. Therefore, one of the most urgent needs of the immediate future is an effective policy regarding population planning. Fortunately, the situation in this regard appears to have changed rapidly during the last eight years. It is not only possible now to talk of a positive population-policy on the part of the State, but also to contemplate the possibility of an effective large-scale programme being undertaken by State authorities. Recent experience has conclusively proved that large numbers of people in all parts of the country, both urban and rural, are now keenly aware of the need to limit the size of their families in order to maintain or better educational and economic status. There appears in the country no evidence of fundamental opposition to the adoption of a rational programme of family-planning. The adoption of surgical methods in this regard seems to be favoured and accepted to a wide extent. What is now required is for the State to undertake, as a part of its third and subsequent Five-Year Plans, the provision of ample facilities, spread suitably all over the country, for making provision for family-planning in directions in which the people desire it. In many parts of the country, it is not so much lack of propaganda as the non-existence of adequate facilities that is already proving the main handicap. The provision of family-

planning facilities, attached to a countrywide network of medical and public health services, should not mean large additional expenditure. If we look to the total effect of an early successful programme in this regard, even high additional expenditure on this item should prove amply remunerative in the long run.

V

Nothing in this survey indicates that the size and structure of the Second Five-Year Plan were basically ill-conceived. It highlights failures mainly in three directions: (1) neglect or misdirection of official policy resulting mainly in distorting developments so as to benefit large organized business and the trading community; (2) failure to do anything to better the condition of the most disadvantaged classes; (3) failure to implement programmes for increased agricultural production and to work out and implement programmes for establishment of decentralized dispersed industry. All these relate not to the programme of any political party but to policy objectives incorporated in the constitution such as preventing concentration of wealth and providing for the employment and welfare of the masses.

✓ In relation to the first what is required is not so much adoption of new policies as the effective co-ordination and implementation of those already avowed. Examination of recent events does, however, suggest an emphasis in relation to regulation of trading. The implementation of plans of development and the attainment of proper economic and social objectives does seem to require, in particular, effective control over prices and distribution of essential supplies. The various elements in this appear to be as follows: (1) A system of warehouses and a long-term policy of purchase or procurement of agricultural products. (2) Undertaking through a public agency exports of the more important commodities; (this could be managed by autonomous commodity export boards as in a large number of primary producing countries). (3) The import and distribution of all main supplies not imported directly by licensed consumers. (This could, perhaps, be best managed by a single independent authority). (4) The establishment of retail outlets to the extent of about a quarter to a third of the total, all over the country which are managed either by co-operatives or are under State control. (5) Control of internal wholesale trade—through co-operatives or directly—to the extent needed to operate the procurement, export, and retail outlet systems.

One of the most notable features of recent developments is the stagnant, if not deteriorating condition of the most disadvantaged classes, including almost the entire labouring population. During the

decade a 'socialistic' programme has been formally adopted by government. This 'socialism' has, however, been left vague and there has been a sharp reaction from every attempt to define it in any detail or in terms of a concrete programme. All specific proposals so far made, relating to dispersal of ownership of means of production, pertain only to ownership of land; and it is evidently felt desirable to soothe large organized business and its foreign collaborators, periodically, with promises of 'fair treatment' and concessions. In this context, it is unrealistic to propose any egalitarian distributive measures. It may, however, be in order to suggest that certain minimum steps, which even modern non-socialistic, non-planning governments would feel necessary, be immediately taken. ✓

The highest priorities appear to be food and employment. In relation to both these some specific responsibility must attach to all governments. The following extract from the report of the Famine Inquiry Commission (1945) frames the need for policy in relation to food.

"The State should recognize its ultimate responsibility to provide enough food for all. We enunciate this here as a broad principle, the implications of which emerge from the report as a whole. In India the problems of food supply and nutrition are fundamental and must at all times be one of the primary concerns of Central, Provincial and State Governments. It is abundantly clear that a policy of *laissez faire* in the matter of food supply and distribution can lead nowhere and would probably end in catastrophe. All the resources of Government must be brought to bear in order to achieve the end in view. In putting forward the principle of State responsibility for the feeding of the people we are in line with the United Nations Conference on Food and Agriculture, to whose report the Government of India is a signatory" (pp. 113-4).

The U.S. Employment Act of 1946 established the continuing responsibility of the government to "utilize all its plans, functions and resources for the purpose of creating and maintaining... conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work." In the light, particularly, of developments during recent years the case for establishing similar responsibility on governments in India appears to be overwhelming.

In relation to both these responsibilities it would be advisable to provide that periodic assessment, in the total context of the functioning of the economy, of the extent to which the responsibilities have been carried out is made by a statutory authority.

✓ The largest failure of the planning-effort, however, is in agricultural production and the starting of widespread industrial development. This failure has also the most widespread and the

most far-reaching consequences. Experience of the last 10 years emphasizes the locational limitation on development effort in India. It has been observed that even in highly integrated economies like that of the U.S.A. great locational divergencies in economic development can take place. A hypothesis advanced to explain these is formulated by Professor Schultz in the following propositions: (1) Economic development occurs in a specific locational matrix. (2) These locational matrices are primarily industrial—urban in composition. (3) The existing economic organization works best at or near the centre of a particular matrix.* It is not my intention to discuss the detailed application of this or any similar hypothesis to Indian conditions. I refer to it to draw the practical conclusion that in an essentially rural and only partially monetized and integrated economy like that of India, it is impossible to expect the development process, started at a small number of places and in particular sectors, to spread by itself all over the country. With us development will proceed successfully and at an even tempo only if it is started simultaneously at innumerable centres all over the country. I would also urge, and there is supporting experience for this statement, that emphasis on agricultural development by itself will also not be sufficient to start development. Development must be planned simultaneously in both the primary and secondary production sectors. This is not merely to reinforce the plea for wide-spread local agricultural and industrial effort. The hypothesis has been mentioned to emphasize the need for the 'starting' of the development process at a very large number of widely-spread centres; this is something radically different from trying to spread a centrally planned development effort all over the country.

With a proper appreciation of this shift in emphasis the present dismal failure may be adequately explained. At present planning in India is a highly centralized process in which all real initiative and direction resides only in a few persons at Delhi. With a formally federal constitution we have, in fact, great concentration of effective political power. That community development all over India is the charge of a central ministry is merely symbolic of current tropy-turvydom. The evil effects of extreme centralization are evident in the fields of education and co-operation. In education the U.G.C. and the Central Ministry put forward model schemes and as these are backed by scarce money, all universities and colleges have to accept them without thought. The result is wasteful expenditure on non-essentials, while even the basic needs of the poorer units remain unsatisfied. Or, take the current debate regarding co-operative policy. The most distressing feature of the present

* Schultz, *Economic Organization of Agriculture*, Chapter 9.

situation is not the dominance, if any, of one view over another, but that policy is being made not through open debate, which can bring out the varying views and the need for adaptation of policy to different circumstances, but through the whims and prejudices of a few at the centre of political power. It is a bare statement of facts to say that there has been, at least in this field, greater and more deliberate disregard for local, active worker opinion, than was ever met with under British rule.

In spite of all talk of planning from the bottom, no such thing is in evidence because of the simple fact that planning from the bottom undertaken as a result of central directives can never be real planning from the bottom. What is required is not a directive, but the power to initiate and act. The greatest need of the country today is thus the dispersal of power in relation to planning decisions.

That a shift in the balance of power, even without a change in formal arrangements, can bring about a change in planning policy may be illustrated by a recent experience in Bombay. While power rested completely in big business and its associates, the human costs of the continued growth of industry and population in Bombay city were callously disregarded; immediately following some reduction in the concentration of power it was possible to set up a study group to study existing conditions; but the balance would have to tilt much further before anything really effective is done about the situation. It is too much, therefore, to expect that, while power is concentrated in a few hands, in Delhi and the metropolitan areas, activities other than organized large industry, banking and transport, large schemes in the public sector, prestige expenditure, and impressive but empty model schemes will command real attention. Decentralized and dispersed industry has long been an accepted policy, but it continues to be a meaningless phrase. Even the Khadi Commission acts on the basis of model schemes which, it is surprised to find, do not work successfully.

It is necessary to put meaning and content into the empty slogans and phrases. This can be done only by an enormous amount of experimentation again carried out in a large variety of circumstances all over the country. However, such experimentation can take place only when the experiment is consciously framed as for a concrete situation and the possibility of variation and adjustment remains continuously open. The work of 'starting' development (not copying it) can be undertaken only under such conditions. Therefore, without the setting-up of, at least, regional planning authorities and vesting them with considerable power, the real process of local countrywide development cannot begin.

The plan can be a plan of local development in the real sense only if it is thought out locally. The matter does not rest merely

✓ with local adaptation and initiative. For its implementation a plan of dispersed decentralized action requires, above all, organization and workers. Only local planning can draw in local leadership. The valuable unused human resources that movements like the co-operative cotton ginning and pressing societies and the co-operative sugar factories in Bombay State were able to tap largely contributed to their success. There is also the possibility of bringing in additional resources and the ability to adjust scales of payment to local levels and needs which can prove valuable assets in implementation of local plans.

All this may be, no doubt, theoretically accepted, but is unlikely that without a real revolution in thinking it will be accepted in fact. The present mood is to talk about village democracy but to deny real power even to the states. Planning at the state-level means mere official compilation of schemes which may prove acceptable to the centre. Of course, non-official workers, experts, or productive enterprises are nowhere in the picture in their own region.

Vision of India
 The contrast with other planning countries is very large in this regard. Decentralization of planning has been established not only in such countries as Yugoslavia, which specially championed decentralization, or Poland in the post-1956 period, but also, with recent developments, in Russia. Russia has today more than 100 planning-regions. In India, planning is undertaken for the country as a whole. What is required is not only a planning-authority for each state but for each important geographical region within each state. In terms of geographic diversity, perhaps, a number of planning-regions greater even than 100 would be justifiable; but in terms of available personnel it might be necessary to limit oneself, in the first instance, to about 50 planning-regions in the country. If we have such planning-regions with effective authority, the reform will, for the first time, bring into the centre of planning the small towns, the rural areas and the small industries. It will act as some counterweight to the existing overwhelming politico-economic influence of large organized business and of the top bureaucracy. It is only with some such operation that the difficulty of starting local development, rousing local enthusiasm, tapping in a special way local resources, and adopting costs to local conditions will be overcome. With such dispersal of planning-control and power, one may expect, in course of time, even some diffusion of wealth and well-being.

PLANNING FOR AGRICULTURAL DEVELOPMENT IN INDIA *

I AM extremely grateful to the Council of the Indian Society of Agricultural Statistics for inviting me to deliver the technical address at this inaugural meeting of the Thirteenth Conference. While fully appreciative of the honour, I am free to confess that I also feel greatly embarrassed. This is because of grave misgivings as to the propriety of my undertaking this assignment and to my competence for carrying it out. A technical address delivered before an association of statisticians needs to be based on a knowledge of statistical techniques to which I can lay no claim. The only excuse I can offer for having accepted the assignment in spite of this inability is the persistence of the Hon. Secretary of your Society.

In thinking of this address I faced an initial difficulty. This was to find a subject in relation to which I could say something useful but which would also prove of interest to the members of the Society. On my turning to him for advice, your Hon. Secretary helped me out of the dilemma by suggesting that I should speak on planning for agricultural development. This suggestion, I have accepted. I shall, of course, deal with the subject from the point of view with which I am familiar, and in relation to the technique in which I have had training. I can only hope that the address will be found to contain some material which is of general, though not technical, interest to the agricultural statistician.

I shall begin with a brief review of the present position of agricultural planning in India. I hold that there is little of, what might properly be called, planning practised today in this country; and there is less of it in agriculture than in most other areas of economic activity. I also hold that in order to achieve any measure of success in planned, rapid economic development, an attempt must be made to plan the effort as much as possible, in the domain of agriculture also. My statement regarding the existing absence of planning in Indian agriculture is not intended to suggest that no efforts at development of agriculture, in a variety of directions, are being currently made or that a number of these efforts have not met with success, large or small. Only I feel it necessary to distinguish carefully between generalized developmental effort and specific planned action.

The concept of a programme for agriculture is old and dates, in some respects, from the time of the famines of the last quarter of the nineteenth century. In their present form most developmental pro-

* Technical address at the Thirteenth Annual Conference of the Indian Society of Agricultural Statistics held in Poona on January 8, 1960.

grammes emerged chiefly during the days of the dyarchy of the inter-war period. More specifically, one may refer to the monumental report of the Royal Commission on Agriculture as providing an important landmark in their evolution. The next stage was the Grow More Food campaign of the war and post-war period and it is, I believe, correct to state that both in the formulation of the constituent programmes and in the measurement of their results little change in the procedures evolved in the G.M.F. campaign has been made by the adoption of the First or the Second Five-Year Plan.

Two features of the approach evolved in the G.M.F. era and continued today are important from the point of view of planning.

The first is that the programme is conceived of as consisting of a series of independent developmental activities. The Planning Commission's Review of the First Five-Year Plan has the following :

"The targets for agricultural production for the First Five-Year Plan were worked out on the basis of the results anticipated from the completion of a number of development programmes. These included major irrigation programmes, minor irrigation schemes, supply of manure and fertilizers, production and distribution of improved seeds, land reclamation and improvement, plant protection, and other measures for intensive agriculture. For each programme yardsticks of increase in production potential resulting from its fulfilment over given areas were adopted."¹

The second feature logically followed from this approach of thinking in terms of the overall effects of nationwide programmes. It was that the targets are first obtained for the country or the State and then broken down notionally for smaller areas. The Report of the Agricultural Administration Committee (October 1958) contains the following: "The existing practice is to break districtwise the state targets of schemes of land development or for distribution schemes and then break up the district targets into Block and Tehsil targets. The village agricultural plans are attempted on this basis."²

Even for the country as a whole the targets produced through the putting together of the expected results of a number of programmes of development have little significance. For example, it had been expected that the result of the total effort in the First Five-Year Plan period would be evidenced in a large increase in the production of rice, a substantial increase in the production of wheat, and moderate increases in millets and other cereals. The actual result appeared very different. Whereas in wheat the general expectation had been

¹ *Review of the First Five-Year Plan*, Govt. of India Planning Commission, New Delhi, May 1957, p. 88.

² *Report of the Agricultural Administration Committee*, Ministry of Food and Agriculture, Govt. of India, New Delhi, Oct. 1958, p. 43.

siderably short of the expected increase in rice, and on the other hand, it had greatly exceeded expectations in case of millets and other cereals. It is important to note that no satisfactory explanation of this divergence of the overall result from expectation was available.

The Planning Commission, when putting forward the Second Five-Year Plan, evidently realized the limitations of this approach and decided to modify it. The intentions or aspirations of the Planning Commission are indicated by the following extract from the Second Five-Year Plan.

"Despite the uncertainties to which agriculture is necessarily subject, it is important that a more studied effort to introduce a planned approach to agricultural development should be made. The main elements in agricultural planning are :

- (1) planning of land use ;
- (2) determination of targets, both long-term and short-term ;
- (3) linking up of development programmes and Government assistance to production targets and the land use plan, including allocation of fertilizers, etc., according to plan ; and
- (4) an appropriate price-policy.

Each district and, in particular, each national extension and community development project area should have a carefully worked out agricultural plan. This should indicate for villages the targets to be aimed at, the broad distribution of land between different uses, and the programme of development. Within the framework of an overall price-policy such as has been outlined in an earlier chapter, such local plans will be valuable steps leading to more careful planning for States and regions and for the country as a whole."³

In fact, however, no effect was given to any of the above proposals contained in the Second Five-Year Plan, and the approach and the procedures established in the First Five-Year Plan period, and earlier, continue to be followed till this day. Reviews of progress of agricultural plans of the State carry the calculations regarding additional production potential attributed to individual schemes of development, and the main test of the achievement of plan remains the progress of expenditure. Many years ago the Bombay Grow More Food Policy Committee (1951) attempted to check through field surveys the official estimates of "additional production achieved" both in the total and as attributed to individual schemes and found considerable shortfalls. The Agricultural Administration Committee recorded in 1958 : "At present we have a spectacle of financial targets being fulfilled without the proportionate additional production being realized."⁴

³ *Second Five-Year Plan*, Govt. of India Planning Commission, New Delhi, 1956, p. 261.

⁴ *Report of the Agricultural Administration Committee*, Ministry of Food

✓ The approach to agricultural planning through framing national schemes of development suffers from two major defects. In the first instance, it fails to provide for full use of development potentials. Schemes formulated with reference to general or average situations must prove inapplicable or inappropriate, in varying measures in particular situations. Even more, in special circumstances, the scheme-approach may itself prove wrong, and something not even provided for in the general schemes may have to be attempted. The report of the Agricultural Administration Committee devotes a couple of pages to illustrating the wasteful and often ludicrous results of the present approach. The description opens thus: "Agricultural Departments have no effective say in framing policies which contribute to production. In some States, it was felt, that although Blocks were sometimes peculiarly different from each other, the pattern of work and allocation of funds were uniform and rigid." The description ends with the following instance and observation: "In a State over thirty-five lakhs of acres were said to be water-logged but no scheme had even been included in the State Plan to check effectively this menace and its adverse effects on production. If adequate emphasis was given to programme planning a serious omission of this kind would not have been possible."⁵

✓ The second equally important defect of this approach is that it leads to a very low degree of correspondence between expectation and achievement in agricultural planning. I have referred above to large divergence between anticipations and actuals even at the national level. The degree of non-correspondence naturally increases with the derived calculations on the basis of smaller and smaller areas.

✓ A plan which attempts a co-ordinated development of all sectors of the economy in all regions and locations must attain a high degree of specificity. It must not only attempt a full use of the potential, but it must also ensure that the planned development of specific resources in each sector is properly dovetailed with use or consumption in the developmental plans of other sectors. There is thus need for a large degree of correspondence between expectations and achievements in both production resource plans and area plans if the developmental process is to move with reasonable smoothness. But this can happen only if the present approach is reversed and the agricultural plan is derived, in the main, through the building up and the putting together of plans originally framed locally rather than through a break-down of programmes and estimates framed at the national level.

Curiously enough, there appears to be no serious disagreement and Agriculture, Govt. of India, New Delhi, Oct. 1958, p. 43.

⁵ *Ibid.*, pp. 40, 41.

regarding the need for this change of approach. I have already quoted the Planning Commission's view in this regard. The report of the Agricultural Production Team sponsored by the Ford Foundation writes: "Equally important, improvement programmes should be tailored to fit the condition faced by individual cultivators, village by village, block by block and area by area."⁶ The Agricultural Administration Committee puts the matter even more emphatically.

"The Agricultural Departments should evolve plans for increasing agricultural production in every village rather than for executing the targets of distribution of fertilizers and seeds and of executing the various land development schemes in the Second Five-Year Plan. If integrated plans for increasing the production in a village are prepared and executed, the targets prescribed for the Second Five-Year Plan will be taken care of automatically, and even if these targets are not achieved, it would not matter, so long as agricultural production in every village is pushed up."⁷

At the same time a national plan of economic development is much more than a summation of village plans, and no village plan would itself be possible without the general framework provided by a national plan. Planning has, therefore, been rightly called a two-way process. What is meant by this phrase is that whereas the overall objectives and policies, the degree of intensity of effort, and the manner of co-ordination of various activities would be determined for the country as a whole or for states, the extent to which, and the manner in which, an effort in any given direction in a region or location will go, has to be determined for each specific situation. Therefore, while the estimate of what should be attempted in each specific situation has to be made in relation to the overall objective and directives, the actual targets set for the total effort can be determined only in relation to the totality of the estimates of possibilities assessed for particular situations. It is only by proving for such a mutual influencing process that a national plan that is realistic, meaningful, and detailed can be framed.

The two-way process in planning is important in all sectors; however, its need is specially great in the peculiar circumstances of Indian agriculture. Where government directly controls any activity, planning by government is related, in the main, to the efficiency of government administrative machinery. Planning in the non-government areas is related to activity on the part of units not under

⁶ *Report on India's Food Crisis and Steps to Meet It*, by the Agricultural Production Team sponsored by the Ford Foundation, Ministry of Food and Agriculture, and Ministry of Community Development and Co-operation, Government of India, New Delhi, April, 1959, p. 18.

⁷ *Report of the Agricultural Administration Committee*, Ministry of Food and Agriculture, Govt. of India, New Delhi, Oct. 1958, pp. 42-43.

direct control of government. Such units can be acted upon in a variety of ways by government. They may be directed, they may be induced, they may be encouraged, or they may be coerced. To the extent that the units in any area of activity are few, so that the various ways of acting on them and their reactions are well established and known, appropriate arrangements can be made in government policies and plans and the fulfilment of targets, etc., is assured without difficulty. In the sphere of agriculture, however, not only are the production units almost all non-governmental, but also mostly small and extremely numerous. Moreover, they are inevitably dispersed over the whole of the area of the country. In Indian agriculture the unit of production, the independent unit of *entrepreneurship*, is, by and large, the family farm. Each family farmer conducts his business separately, and the ultimate results in terms of total agricultural production are the added results of the activities of millions of family farmers all over the country. It is their decisions and their actions that have to be influenced; and planning for agriculture necessarily means planning to induce or influence this innumerable body of individual small *entrepreneurs* to take the decisions and perform the actions that are expected to give the desired results.

Before going on to consider this central problem of agricultural planning in relation to the activities of individual agricultural producers, I shall refer briefly to certain aspects of the other side of planning for agriculture in India, namely the general framework of policies at the highest level. Clear formulation of appropriate policies and their co-ordination at both the Central and state levels is an essential requirement of planning in any sector. At present there is obvious lack of this necessary action on the part of the Central Government. I may illustrate the resulting situation by reference to a few salient issues. It has been generally agreed, since the beginning of planning in India, that an appropriate price-policy on the part of government is required for the implementation of a plan for agriculture. However, this price-policy has been entirely absent. To confine oneself to recent years, the period of the Second Five-Year Plan began with complete decontrol on the part of government. Subsequent to the decontrol of 1955, no policy in relation to regulation of prices of even food-grains has been evolved by government. In view of the rise in these prices in 1956-57, government appointed a committee which presented its report towards the end of 1957. No action was taken on the report and even the relatively mild recommendations relating to the socialization of trade in food-grains made by the committee were not accepted by government. Almost a year after the presentation of the report of the committee, government suddenly announced a decision regarding what was described

as state-trading in food-grains. The decision has been variously interpreted in the different states and has led to making the total disorder in food-policy merely greater than before. Recently, the Union Minister of Food resigned, presumably on an issue relating to policy about food-trading and prices, but the resignation has not led to or been interpreted as implying a definitive decision by government in regard to its food-policy in either direction.

Today the only operative part of this policy is the functioning of zones. The Food-grains Enquiry Committee, which reported in 1957, recognized that zones may play a useful role "especially during the transition period between free trade and physical controls." The Committee went on to note that: "The object of zones is to match deficit areas with surplus areas and thus to minimize the demand of Government supplies and also to eliminate cross-movement of food-grains. But if the zones are changed too often, that upsets the normal trade pattern and creates considerable difficulties all around. The possibility of obtaining modification of the system of zoning also encourages political pressure. Prior arrangements for adequate supplies for deficit areas outside the zones should invariably be made before any scheme for zoning is implemented. Once a zone is formed it should be maintained on a relatively long-term basis so that the trade patterns are not frequently disturbed."⁸

These observations indicate how difficult it is to interpret meaningfully even a measure of policy which in some form or another has continued over the years. The zones, instead of being treated as covering a period of transition, appear to be the only permanent feature of the present official price- and trade-policy regarding food-grains, and instead of being regarded as relatively fixed, they are so changed as to lead exactly to the evil effects apprehended by the Food-grains Enquiry Committee.

Not only is there no intelligible actual policy in operation, but also it is difficult to be clear as to the intentions and objectives of government. During the last few weeks, for example, government spokesmen have expressed satisfaction in relation to the current fall in the prices of food-grains. Before general adoption of trade- and price-control it was universal experience in all under-developed countries and it has been the experience in India, in particular since 1953, that prices of agricultural commodities, especially food-grains, tend to reach their lowest level immediately after harvest and their highest a few months before it and that there is a marked difference in the average levels of prices in the two six-monthly periods. In the circumstances, government would be entitled to express satisfaction at the fall of prices at harvest only if it intended to break into

⁸ Report of the Food-grains Enquiry Committee, Ministry of Food and Agriculture (Department of Food), Govt. of India, Nov. 1957, p. 99.

this cycle of price-changes and took effective action to stabilize prices at the low harvest-level. In the absence of announcement of any such government policy and of concrete measures taken by government to stabilize prices, the utterances of government spokesmen in recent weeks could only be interpreted as indicating satisfaction at the continued discomfiture of peasant and consumer and at the assured good fortune of traders. The almost deliberate refusal of the Union Ministry of Food and Agriculture to formulate and announce a definite price-policy, even after months of cogitation, has great significance in this connection. The situation relating to the prices of agricultural products and food-grains not only exemplifies the inability of the Government of India to make up its mind regarding basic issues in plan-policy, but also raises serious doubts regarding the real social objectives pursued by those in authority.

Reference to the problem of the supply of manure and fertilizers may next be made to illustrate the lack of overall thinking and of co-ordination of the activities of the various ministries. The Agricultural Administration Committee mentioned in its report that it was generally felt in the states that sufficient fertilizers are not being allotted to them by the Government of India. In view of the central position held by fertilizers in relation to a programme of increased agricultural production, it is difficult to under-estimate the importance of adequate supply. At the same time government has been encouraging the export of groundnut-cake. This policy is presumably based on the recommendations of the Export Promotion Committee which reasoned as follows: "We are already producing fertilizers on a large scale and importing that part of the requirements which cannot be met from internal production. Further, molasses could, we are told, be used increasingly as cattle feed."⁹ No agricultural expert is likely to agree with this complacent view of the committee regarding the supply of fertilizers but evidently government in one ministry accepts it.

The position regarding groundnut-cake provides an interesting study. In Bombay State, for example, the use of groundnut-cake as manure was not only advocated by government, but its knowledge and use were actively spread through a policy of acquisition of stocks of groundnut-cake from mills and of subsidizing the sale of groundnut-cake as manure. Within the last two decades, groundnut-cake has been established as the most important manure in general use in the State, especially in relation to crops like sugarcane. Evidently, government or its experts now take the view that the use of groundnut-cake as manure is wasteful, and that it would be more profitable to export it and earn foreign-exchange therefrom. Having granted

⁹ Report of the Export Promotion Committee, Ministry of Commerce and Industry, Govt. of India, Aug. 31, 1957, pp. 114, 115.

the validity of the changed view, there are at least two steps that government must take before changing its policy radically. In the first instance, through active propaganda and demonstrations, at least the more progressive cultivators should be induced to accept practices which either entirely dispense with use of groundnut-cake or reduce greatly its extent. Secondly, government must, at the same time, arrange for the supply, in adequate amounts, of substitute fertilizers or manures that its experts recommended in place of the groundnut-cake to be displaced. Having some knowledge of the matter, I can say with confidence that neither of these steps has been taken by government, at least in this State. Today, though the internal price of groundnut-cake has increased greatly, sugarcane farmers continue to use it in almost as large quantities as before and as a result the cost of production of sugarcane has gone up considerably.

This short account exemplifies another extremely important aspect of agricultural planning in India that there is relatively little connection between research and its application on the field. The Royal Commission on Agriculture had noticed this as a basic defect of the Indian situation; the 1958 Agricultural Administration Committee also records that though the experimental stations in the country have collected scientific information on manurial requirements of crops, this has not been translated into practical application. At the same time, in framing agricultural policies, government and its experts operate with the results of experiments which they have never bothered to translate into practical application. (The reference to molasses as feed in the quotation earlier is a good example.) It is necessary to emphasize that the responsibility of agencies of government to prove the results of research in the field and to propagate them is as great as the conduct of research itself. To take action on the results of research experiments without caring to see whether they have translated into practical application and have been generally adopted, is to jeopardize the success of planning; because this undermines the confidence of cultivators in research and in the basis of government policy as being reasonable. The position in relation to supply of fertilizers also emphasizes absence of co-ordinated thinking at the centre and absence of comprehensive estimation of needs of overall programmes. It also perhaps indicates a grave lack of co-ordination between the activities and thinking of such related ministries, as Ministry of Agriculture and Food, Ministry of Commerce and Industry, and Ministry of Finance.

I may end this discussion by reference to a problem in connection with which a positive programme of action by government is needed to make planning in the field successful. This is the problem of the alleged current non-full utilization of irrigation resources. It is

obvious that in case full utilization of water-resources provided by a work of irrigation is sought early, much more action must be planned and executed than the mere construction of the irrigation work. This planning in advance includes the supply of water to the ultimate user in the field, proposals for the pattern of future land-utilization with rotations of crops and appropriate tested varieties established for use in particular circumstances, the technical training of the cultivator in the adoption of the new programmes, and the supply to him of credit, materials, etc., required for them. It involves also the planning and construction, together with the new works of a system of transportation, of market centres, processing plants and other equipment which go with the new crops and production patterns. Of recent years, considerable interest is being shown by those in charge of irrigation works in assessment of economic benefits of the future or of economic performance of the past. In relation to this I would advocate that the approach be not confined to merely economic calculations. In relation to all future programmes, for example, it appears to me necessary to undertake full planning by joint expertise of engineers, agronomists, economists and others, of the region that is being commanded by new irrigation works. Such an effort at preparing an optimum plan for use of water and land resources in the region will bring to surface all the problems involved in the developmental process, and the resulting quicker and fuller utilization of new irrigation resources will amply repay the expenditure and effort put in.

Ultimately, the plan for increased agricultural production depends not so much on State action as on action of individual cultivators. State action, in the main, creates possibilities of wider, more intensive or better use of land and other natural resources; realizing these possibilities, in fact, is a matter mostly for action of individual cultivators in the particular areas. Therefore, the basic problem of agricultural planning is the problem of including and directing individual cultivators to act appropriately.

I have already referred to the notable agreement, which exists today in relation to the need for a changed approach in the planning of agriculture, the need to plan from the bottom upwards. I shall now turn to a consideration of the central question as to why it has not yet been found possible to give effect to this approach and what appears to be required to give the desire for change a practical shape. This planning from the bottom has to be a two-way process and has to take into account both the physical equipment, with its limitations, and the human resources, with their dispositions and motivations, of the individual cultivator.

I shall consider the requirements of effective planning from bottom in agriculture, for lack of which no progress has been made so far,

under two heads: organization, and knowledge. I may make clear that when I refer to organization I do not mean thereby organization for production in agriculture, i.e., for example how large or small the unit of production in agriculture should be, and whether it is the independent farmer or the co-operative farming society that is the exclusive or the dominant form. I refer at this place to organization of the units of production in agriculture whether individual farmers or co-operatives.

Effective planning presupposes organization of individual production units. The requirement flows from a number of desiderata, among which the more important are the following: It is highly desirable to eliminate erratic or conflicting patterns of behaviour among producers and to attain some uniformity in their actions and procedures, if goals of planning are to be attained without wastes and lags. Secondly, to the extent that an area of economic activity is occupied by numerous small, weak, and ill-equipped units, co-ordination of the efforts of all these is necessary to give them economic and technical strength. Finally, when activity in an entire economic field is sought to be guided, it is highly useful to have this done through a relatively small number of organizations of the units in the field. This not only facilitates the two-way process, but also makes for efficient operation through the cutting-out of considerable external administrative effort and leaving the plans flexible because of the possibility of internal adjustment. ✓

The need for an organization and the functions it performs are exhibited in the experience of both capitalistic and communistic countries during the last three decades. The New Deal found it necessary to depart, in radical measure, from the principles and prejudices of American State policy and to bring into existence organizations of manufacturers and labourers to carry out the new policy. A whole series of marketing boards was set up in the U.K. for bringing order and efficiency into the marketing of agricultural produce and economy in the operations of British farmers. All communist countries had to begin with organizing farmers into various types of well-knit organizations; the series of terms, "the co-operative, the collective and the state farm", or "the Production Brigade, the Co-operative and the Commune" indicate the higher and higher stages of organization required for purpose of communist planning. Non-communist under-developed countries have also widely resorted to state-sponsored systems of co-operation for general agricultural development or for particular measures of agricultural reform. This was done in Mexico and in South Italy, in Egypt and in Turkey. The remarkable performance of agriculture in post-war Japan is based on a complete system of agricultural co-operation. Yugoslavia, after her retreat from collectivization, operates her plan-

ning with the instrumentality of rural co-operatives.

As long as the agricultural producers in India remain as dispersed and unorganized as they are today, it is futile to talk about planning in relation to them. The first step in making agricultural planning possible in India is to get agricultural producers organized in such a way that they and their organization become interested in the objectives of planning, say, increased and efficient production and are induced to act appropriately. Also, the organization must be such that planning ends could be met without any great exercise of coercive or governmental authority.

I may illustrate possibilities by reference to the details of operations of a co-operative sugar factory. Here is an organization of a number of sugarcane farmers which by the nature of its business is vitally interested in securing an adequate supply of sugarcane of good quality from its members. Therefore, the organization attempts to do all it can to ensure a rational spread of sugarcane cultivation and its efficient operation. It becomes profitable for the organization to maintain a staff of agricultural officers, fieldmen, etc., to look after the farming of sugarcane by its members. The organization is interested in seeing that cane is planted at due season, the methods used in planting and subsequent operations are the most efficient, members obtain ample credit and administer adequate dosages of manure and fertilizers, etc., at appropriate times the water-supply with farmers is adequate and evenly maintained, protection is afforded against pests and diseases, the quality of planting sets is maintained and, if possible, improved and so forth. Over the years the interest of sugarcane co-operatives in all these matters has led them progressively to take steps, employ staff, and incur expenditure to achieve these objectives. However, the co-operative itself is not an authoritarian organization. Therefore, parallel to the organization of its agricultural officers and fieldmen, it sets up committees for small groups of contiguous villages where leading members consult with officers, fieldmen, and members of the board of directors, and express their views regarding the proper functioning of the organization. The assistance of the group committees is available in a variety of ways: for bringing difficulties of members to the notice of officers, for persuading members within the group to adopt innovations, for obtaining co-operation of members in proper alignment of roads, etc.

Organization is needed both to encourage the adoption of good methods and to discourage uneconomic or unsocial practices. One of the problems faced by some sugarcane co-operatives is, for example, the over-extension of irrigation on wells by members. In such case, the apparent short-run interests of members may be in conflict with what is desirable from the long-run point of view. Detailed

measurement of the capacity of each well, convincing the members of the undesirability of over-extension and, in the last analysis, even being prepared to sanction coercive measures where a minority appears recalcitrant, have all to be undertaken in such cases. But all this, which is no more than what is involved in the planning-effort, can be attempted only because a relevant organization which can evoke enthusiasm, has specific knowledge and resources, and can also exercise some sanctions, has previously been built up.

Therefore, the first need in agricultural planning is to organize agriculturist-producers in a co-ordinated and purposive system. The only such organizational device available to us is a many-sided and federal co-operative system. There are already many elements in the existing co-operative organizational structure, which have significance from the point of view of planning.

I may refer, for example, to the crop-loan system of co-operative credit. When credit is given for production of particular crops and is related to the acreage under different crops, the co-operative credit organization becomes vitally interested in the crop-pattern and the acreage under different crops. As credit is given chiefly for certain inputs, it is interested in seeing that inputs of adequate quantity and quality are in fact put in and as the credit is recovered from the sale of the crop, it is interested in a proper arrangement for sale. Already in the operation of the co-operative credit system, the principle of supplying materials in kind as far as possible and directing the cultivator who has taken credit for the growth of particular crops to sell his produce through named marketing or other co-operatives is well established. If supply of credit and of materials, including the supply of consumer goods, is with the co-operatives, and if marketing and processing of the produce is undertaken by them, the co-operative system as a whole can look after the operations of the cultivator, beginning with improved seeds and fertilizers and ending with the proper processing of the produce and economic sale of the processed goods. Development schemes, with related intermediate and long-term finance, can similarly be integrated with the total co-operative organization.

It is curious that little reference is made in our Five-Year Plans to the marketed surplus in agriculture or to measures of obtaining control over it. While, in relation to the agriculturist, planning should be concerned with increasing agricultural production as a whole, in relation to the non-agricultural sector, the plan is specially interested in the volume of the marketed surplus of food and of industrial raw materials. The planning of exports of agricultural produce, or the production of industrial goods through transformation of raw materials produced in the country, or planning of supplies of

potential, depends on the ability to estimate correctly the marketable surplus and to obtain control over its flow. From this point of view also planning requires that the marketing and processing of agricultural produce should be suitably organized co-operatively. Only through this could supplies and stocks of agricultural produce be kept continuously in sight. The importance attached to regulated markets in this connection is highly misleading. Experience has proved that regulated markets, however, carefully regulated in theory, are of little effective use except where strong co-operative organizations operate on them. It is not so much the regulation of marketing but the concentration of agricultural produce in the hands of co-operative marketing and processing organizations that is required for planning.

It is, to my mind, a condition precedent of undertaking agricultural planning in India that the scattered agricultural producers be organized into a total integrated co-operative system so that, at each stage of their operations, their extent, direction and efficiency are within the cognizance of one or another unit of the co-operative system. It is only when this happens that, in the first instance, it will be possible to obtain sufficient information relating to actual operations at various stages of the producers, and next, to influence them effectively. However, as long as any step in the chain is missing it will be impossible to plan effectively. Apart, therefore, from other reasons for spreading the net of co-operative organization in the country, I put in a plea for the immediate creation of a completely integrated state-sponsored co-operative organization throughout the country as the initial step for making effective planning of agriculture possible.

It is perhaps not necessary to argue in favour of the creation of a co-operative structure, because there appears to have been very general agreement arrived at in this matter in recent times. The Ford Foundation Team, which reported some few months ago, has emphasized the need for seed-supply and distribution of fertilizers to be placed with co-operatives, and for general transfer of responsibility of supply-lines to the co-operative department from the agricultural department; the last recommendation has been made independently by the Agricultural Administration Committee also. In relation to processing, the Ford Foundation Team states emphatically: "The greatest need today is for more co-operatively owned paddy-hulling and rice mills in major rice-producing areas,"¹⁰ and the Team has suggested that strength could be given to marketing and supply co-

¹⁰ *Report on India's Food Crisis and Steps to Meet It*, by the Agricultural Production Team sponsored by the Ford Foundation, Ministry of Food and Agriculture, and Ministry of Community Development and Co-operation. Government of India, April 1959, p. 29.

operatives by using them as agency for price stabilization. Moreover, recent reports indicate that the Ministry of Food and Agriculture has agreed, in principle, to a pilot programme to increase food-production based on the recommendations of the Ford Foundation Team. This programme appears to include adequate supply of farm credit based on production potential, adequate supply of fertilizers, pesticides, improved seeds, improved farm implements and other essential productive needs, all made accessible through strengthened co-operative societies. The programme also appears to contemplate price incentive to participating cultivators through guaranteed minimum prices announced two years in advance. The marketing arrangements and service, preferably co-operative, will enable cultivators to obtain the full market price for their marketed surplus. The organization and operation of co-operative processing will be facilitated wherever feasible.

This is a matter in which, however, mere agreement in principle is not enough. What is required is immediate countrywide action. If government is prepared to organize and assist cultivators of certain food-grains in seven districts in a particular manner, there is no reason why the same type of organization and assistance should not also be available to others. If planning is to yield significant results it must be undertaken simultaneously to cover all sectors and areas. From the point of view of agricultural planning I would emphasize two points in this context. In the first instance, the requisite organization of the small, scattered units could come about only with government initiative and assistance; this is universal experience. Secondly, though the ultimate aim should be a fully integrated co-operative system, considerable latitude for adjustments and improvisations should be left in the transitional stage. The creation of a fully integrated co-operative system will inevitably take time and cannot progress in all areas at the same pace. As the immediate aim is to organize cultivators for participating in planned activity, the substitution of *ad hoc* or looser forms of organization, e.g., farmers' clubs or borrowers' groups for the co-operative society may have to be made to fill the gap temporarily. No harm will ensue so long as no steps taken immediately militate against transformation into full-fledged co-operative activity in due course. At the higher levels, state-activity will assume greater importance. I would, for example, advocate an immediate incorporation into a state-cum-co-operative system of all mechanical power-driven processing plants operating in connection with all types of field crops. The plants in future should all be operated co-operatively, but for immediate acquisition they should first be taken into the public sector and transferred to the co-operative sector in due course. What is required is immediate, universal action, and seeing that the tiresome, unreal controversies

regarding co-operative forms do not hold up this urgent requirement.

The problem of organization for undertaking agricultural planning from the bottom has two aspects. The first is that of organizing cultivators so as to enable them to participate in planning. The second is the organization of the planning process itself at the lowest levels. I shall now turn briefly to the second aspect. The two important questions in regard to the lowest level are: (i) the area of coverage, and (ii) structure of the planning authority. In my opinion, it would be a mistake to have a village as the lowest planning unit. Even at the lowest level the planning process must be informed by a multi-sided view. In particular, considerations of supply and sale must have weight. Therefore, a unit smaller than what might be called a market area seems inadvisable. Ordinarily, in this lowest area unit, agricultural conditions may be taken to be relatively homogeneous.

✓ The more important question, perhaps, is the structure of planning-authority. I should emphasize one point in this connection. It is that the structure should not allow for the membership of elements which are not functionally related to the activities that are being planned. For, when this happens the door is left open for the entry of political and other considerations which deflect planning-activity away from its real purpose. It is common experience that when persons discuss and take decisions about activities in which they are all interested from a specific point of view, the influence of extraneous consideration is likely to be kept at a minimum.

The planning authority at the lowest level should be composed of three elements. Firstly, an element representing the local self-government organizations of the area. This is necessary because it is these organizations that will provide, in the main, local socio-economic overheads which are essential for all planning-effort. They will be responsible for the schools, the road system, local cesses and imposts, for organization of marketing facilities and, in due time, for the administration of town and country planning legislation, including rural housing. The second element should consist of representatives of the expert official technical personnel. The third and the main element should be the representation of co-operatives of all types and at all levels directly connected with the economic life of the particular area. I assume that at this level the interests represented will not only be agriculturists but all others such as artisans, transport agencies, and even labourers, to the extent that labouring interest was separate and had been organized co-operatively within the area.

I suppose that planning authority of the lowest unit will be concerned chiefly with the development of resources within its area and the increase in production of efficiency of all economic units within

that area. The data discussed will be the past performance, current operations, and future projections of activities of the varied organizations represented, and the main task will be to dovetail in a meaningful plan for the area the operations of the various economic agencies and units as well as the activities of officials and the local self-government authorities. The operation and plan for each village, or for each independent unit, or agent will be derived from this total plan.

I conceive the superstructure of planning as that of the district above the lowest unit, above the district the region which would mean a relatively homogeneous economic geographic area within the state, and the state itself. It is important to have a fully operative planning organization at each of these stages. The composition of the planning unit at each of the stages would be similar in principle to the composition indicated for the lowest unit. Only, a higher degree of governmental participation may be apparent at the higher stages, and other elements, as, for example, organized industry and private finance will come in importantly at the higher stages. Not only is it necessary that all elements in the planning authority should be functionally related to the activities being planned, but also that each planning authority must be endowed with real functions and with appropriate powers. Unless each superior organization allows for the organization below a due measure of devolution and liberty to adjust, it is useless to set up elaborate tiers of such organization. It is only if the federal principle is acted upon in reality that such an organization will have strength. To the extent that the authority for planning is real at the bottom enthusiasm and spontaneous activity will be generated, if not, a meaningless structure which merely clogs progress will emerge.

Before turning to another aspect I shall offer a few remarks on organization for agricultural planning at the centre. In the field of agriculture the centre has only a limited role to play. It has to establish appropriate trade and price-policies; it has to indicate broad objectives and general principles, but no more, in the context of land reform, co-operative organization, etc., and it has to maintain an adequate flow of especially imported supplies and regulate their distribution. This is apart from its universal role as general co-ordinator. It is obvious that the centre has failed in most of these respects. I have already commented on price-policy and fertilizer-supply. In relation to co-operative-policy the curious combination of high-handedness and vacillation exhibited by the centre has merely created confusion and held up progress. There is reason to believe that, in good part, these defects flow from the present organization of planning at the centre. Looked at from the point of agricultural planning there exists a good case for the abolition, at

least the suspension, of the activities of the Planning Commission and placing the work with a policy-committee of the Cabinet. The grounds for this are two-fold. As an agent of planning the Commission contributes not new knowledge but only old prejudices. But even more serious is the apparent effect of the existence of the Planning Commission on the working of the Central Cabinet. The individual minister and the Cabinet as a whole, evidently treat the operations of the Planning Commission as an excuse for not making explicit and consistent policy. We had clear proof of this in the evidence led by the Ministry of Agriculture before the Food-grains Enquiry Committee in relation to decontrol; and very recently the ex-Minister for Food has publicly blamed the Planning Commission and the N. D. C.—another policy-making body to which no responsibility is attached—for failures on his part. It is high time, the public demanded that economic policy will be made deliberately, consciously, and explicitly by the Central Cabinet as a whole, and that the pronouncements of individual ministers from time to time, and of all ministers over a period, will fall into a pattern and be consistent with announced Cabinet policy. I believe that the suspension of the activities of the Planning Commission will help in forcing the acceptance of this view on the Cabinet.

I have left for consideration to the last that requirement of the planning of agriculture which is of greatest interest to the members of this Society—knowledge, statistical and other. The nature of this knowledge has to be related to the process of planning from the bottom, sketched above. Obviously the data required are detailed local data, and data in the field. Inevitably, data from sources other than official will also have to be collected and used, though its processing and technical handling will mainly be the concern of official experts. The organization of the data will also have to be for units that have significance for the new approach in planning. It is well-known how thinking in policy and administrative practice shape the collection and collation of data. When, in this State, we had the continuous operation of the revenue survey and settlement organization, data for even parts of talukas were separately collated and analysed, and the revision survey reports contain considerable useful material for students both of economic geography and economic history. Similarly, the exigencies of administration in famines led to the compilation of special famine statistics and a Famine Atlas, even existence of which, I have found, is not known to officials and students today. For effective agricultural planning, it is, I believe, necessary to revert to this older approach of local economic geography. For this, appropriate agricultural statistics of course provide the main base. Where agencies for the collection of local data exist this involves mostly some reorganization and re-shaping; at the same time where these

do not exist it indicates the need for the proper organization and the setting-up of agencies for collecting local field data in relation, in particular, to extent of availability of natural resources and their use.

There are some requirements of agricultural planning which suggest, in my opinion, a new approach to collection of the relevant agricultural statistics. Today, it would appear that most calculations of requirements of inputs and of their effects are based on data of a small number of experimental farms, and perhaps even these, one suspects, have been congealed for some time in conventional yardsticks. Realistic planning requires that use be made rather of actual farm data. If in due course, for purposes of multiplication, demonstration, etc., a large number of progressive cultivators get connected with the activities of official experts, this should provide a useful source of data. But special efforts will have to be made in relation to their collection and record. Also, where a strong co-operative organization is built up, it would, in the course of its activities, collect considerable data which should prove useful both to the natural scientist and the economist. This would, of course, involve close co-operation between official and non-official agencies which is in existence elsewhere. In Japan, for example, grading of produce is effected chiefly through trained graders on the staff of the co-operatives.

In the field of economics also systematic collection and collation of data from a variety of sources will have to be attempted. There are a number of problems central to agricultural planning on which there is little relevant knowledge available today. For example, it is admitted that we know almost nothing about the relation between prices and agricultural production in Indian conditions. Similarly, it is not possible to estimate, even for the country as a whole, with any confidence, the marketed surplus of important crops. For planning you not only require knowledge about the actual surpluses, at least regionwise, but also about possible variations in them and their causation. There is again the pattern of land-use and of cropping. I must confess that I was more amused than impressed when I learnt of the setting-up of a group at the centre for a study of land-use in the country. For, I know, having often to deal with the data, how scanty they are for any useful study at that level. We have yet to make even a beginning with proper research relating to the restraints, limitations, and motivations that fashion the decisions regarding the crop-pattern of individual cultivators. A lot of this effort will be in the nature of case studies and you will no doubt have to handle and make do with data which the purists among you would shudder to touch. But, after all, improvisation is the very soul of planning in an under-developed country.

I have no competence in relation to the manner in which these

problems can be best handled. I am only a consumer and as such I have tried to place before you a few ideas on planning in agriculture and have tried briefly to frame the requirements in relation to statistics flowing out of them. However, on one point I feel sure: that the bane of economic policy in this country in the post-independence era has been centralization and that in the field of statistics the crying need continues to be the strengthening, co-ordinating, and in the new context, proper planning and initiating of the work of primary field agencies. This judgement is founded on a view which I have held for many years and which I put on record in the following words on the eve of the initiation of planning in this country: "For policy formation you require, not so much the National aggregates, but much more detailed information concerning specific regions and activities and a fairly clear idea of the actual operations of specific parts of the economic system. When you have gathered a fair amount of such specific information the National aggregates may help you to build an overall realistic framework which will give meaning to National Income and Accounts, but so long as the detailed information is not available, National aggregates by themselves would prove of little use for policy formation or for judging of its implications."¹¹

With this reiteration of the emphasis on local, decentralized effort and with renewed thanks for giving me this opportunity of expressing my views on this important subject, I close my address.

¹¹ *Report on the Poona Schedules of the National Sample Survey (1950-51)*, V. M. Dandekar, Gokhale Institute of Politics and Economics, Poona, 1953, p. 209.

THE BASIC REQUIREMENTS OF PLANNING IN MAHARASHTRA*

THIS NOTE is intended to raise certain basic issues in relation to the framing of plans of development for and in a state, and is written with special reference to the economic and social situation in Maharashtra. Discussion which is confined to formulation of a state plan necessarily takes for granted decisions which have to be taken on the national level. I shall, therefore, not advert in this paper to problems of policy, etc., in determination of which a state has little or no scope for independent action. I shall also not discuss questions relating to the overall size of national or state plans.

Within the limits so set, the most important question to be faced at the outset is that of determination of objectives of state plans. As at present, there is little independent thinking exercised in relation to this in the state. The result is to make planned action and its effects very much less useful and fruitful in the states than they need be. Indian plans are conceived of as essentially departmental or sectoral affairs, and within each department or sector they are put together as a series of schemes of expenditure. It is true that in the process of implementation most plans must be translated into a series of steps of concrete action. However, there is a vital difference between an approach which first defines objectives, indicates how certain means will be appropriate for attaining them and follows this with a set of schemes total effect of which is again assessed in relation to the objectives laid down, and an approach which operates entirely at the level of adopting a number of standard schemes evolved at the centre and sanctioned by it.

I begin with stressing the need for broad objectives of the state plan as a whole and also objectives in relation to all the more important activities being formulated after as wide a public discussion as possible in the state. Let us take an example of the planned development of transport within the state. The centre takes an overall national view in this regard, accepts certain national responsibilities and perhaps indicates certain broad standards of performance, etc. Each state must, however, go beyond this and, in the light of its peculiar circumstances and the state of development, define its own detailed objectives for the short- and the long-term. No doubt, in doing this, it will have to operate within the limits

* A note prepared for the Maharashtra Commercial and Industrial Conference held in Bombay on June 17, 1960, and printed in Souvenir published by the Conference.

framed by the central decisions, and it will find that in certain matters, as for example, construction of railways, it cannot act on its own. However, even within these limitations it is absolutely essential that objectives of state action be defined clearly. It is well known that the development not only of railway but also of road-transport during British times was very lopsided having been directed very largely to export-and-import trade. The concentration of economic activity at a few major ports, from which we suffer today, is a result of this historical feature. It is obviously necessary for us to take special action to counteract this, which will be done only if each state plan deliberately tackles the problem. The usual approach of state road-plans, that of adopting general standards as that of the Nagpur Conference Plan and mechanically making allotments, results not only in leaving the situation unremedied but also in accentuating it; because all development takes place along the lines of the present structure and confirms it.

A brief look at the map of Maharashtra will show how the entire road-and-railway network is directed towards Bombay, and how there is utterly inadequate development of inter-area communications. Though Marathwada is a rich agricultural region situated between Vidarbha and Western Maharashtra, important lines of communication between these two have not been established across Marathwada. It is obviously extremely important for the economic, social and political development of Maharashtra that, say, Kolhapur and Sholapur are connected by direct efficient means of transport with Nagpur and, say, Poona with Jalna and Akola. This is an obvious and a glaring gap. There is no doubt that once attention is thus given to overall objectives of a state plan of transport many other important points would be raised. Or take another sector, that of co-operative activity. It is well known that the extent of development as well as the lines of development of co-operative activity differ widely from state to state. Nothing is therefore to be gained but much is lost by compiling a co-operative plan for the state as a series of centrally sponsored schemes. The proper thing to do is to frame, in the light of knowledge of the special advantages and handicaps in the situation within the state, the salient objectives of state effort. The first point that I would therefore make is that a state plan must itself be conceived as an organic whole and that its objectives in general and in detail must be formulated in advance. I feel that, if this is done in a public way, the consensus thus evolved will prove of great help in spreading understanding about the effort and generating enthusiasm.

It may be useful, before proceeding further, to draw attention to the proper spheres of action of the centre and of the states in a federal polity as that of India. The distinction may be brought out

by examining salient statistics relating to the provision made in the Second Five-Year Plan (revised) for expenditure by the centre and by the states by main heads of development. The provision for the total expenditure by the centre and the states is Rs. 2,452 and 2,048 crores respectively. The two most important of the central allocations are Rs. 900 crores for railways, and Rs. 775 crores for large and medium industries and mineral development and scientific research. For the former, there is no provision in state plans, and for the latter, only a sum of Rs. 15 crores is provided. Rehabilitation (Rs. 90 crores) and Broadcasting and Communications (Rs. 61 crores) are two heads in which also there is only a central allocation. Again in relation to the head "other transport" which means chiefly ports and harbours and shipping, the provision in the central plan is Rs. 145 crores and in those of the states only Rs. 4 crores.

On the other hand, the concentration of the responsibilities of the states in brought out by the following table of comparative allocations :

	Centre (Rs. crores)	States (Rs. crores)
Agriculture and Community Development	54	456
Irrigation and Power	63	757
Village and Small Industries	55	105
Road	71	159
Education, Health and Housing	163	441

It is thus clear that the fields of action of the centre and of the states are, to a large extent, distinct. The centre builds up and maintains the overall instrumentalities of national economic life such as the credit and the monetary system, the railways and ports. It also acts in relation to the basic requirements of the long-term plan of industrialization, with emphasis on large industry and exploitation of mineral resources. The states are concerned, on the other hand, with acting on the total life of all the people in their charge and on all the diffused, dispersed small-scale units and activities. The centre is concerned with the most generalized features of the national frame and with highly concentrated action at a few strategic points; the states must affect all areas and localities, all the relevant fields and all units. The centre is concerned with the strategy of the long-term plan and with initiating the crucial movements; the states have to engage themselves in transmitting the forces impelling economic development to all areas and units, and with con-

cretizing for the individual units the fruits of development. The generalized objectives of a state plan are, therefore, making possible, initiating and encouraging economic development in all activities and sectors, and areas and localities, and protecting the standard of living and improving and ameliorating the situation, social and economic, of all individuals within their territories. The objectives and the constituents of plans of individual sectors and departments must conform to the requirements of these general objectives. In the light of the above, the locality and the individual are placed at the centre of the activities of states, and providing for the universal impact of the developmental process and for a diffusion of its effects becomes their primary aim.

Another related differentiation in the central and the state action is that certain public-sector activities, in particular, those relating to production, are mainly confined to the centre. The overall controlling and guiding instruments are directed by the centre, and the centre itself undertakes most of the strategic, productive and other economic activities which are essential for the long-term plan of development and for starting the main trends and movements required by it. The sphere of action of the state lies in the realm of conservation and better utilization of natural resources, and provision of public utilities and social service.

To the extent that location of any direct activity of the centre within the physical boundaries of a state is likely to prove important for other economic developments within the state, the authorities of the state have to attempt to influence details of the plan of the centre. Barring such action the main activity which would have an important initiating effect, and which falls within the sphere of state action, is that of the multi-purpose river-valley projects. This activity is directly related to the conservation and optimum utilization of regional natural resources. The progress of the major projects, is distinctly limited by the rationing of capital resources carried out as part of the total plan. Consequently, in this connection, the main responsibility of the state is to have in readiness carefully prepared technical plans for the possible major projects and to press for an early and ample allocation of funds for these in successive national plans.

The multi-purpose river-valley schemes represent effort which is likely to initiate large changes within a region and transform its economic life. Even these, however, act through making water and power available in such manner as to stimulate private primary and secondary activities. The proper and full utilization of the resources created by the original investment is thus dependent essentially on the activities of a large number of private producers within the region. The state acts, even in this respect, chiefly as an agency

which improves and augments the supply of certain basic resources and thus makes possible increased and more profitable private activity. In its other activities this aspect of state action is even more fully emphasized.

Having thus described the proper sphere and functions of the planned economic activity of a state, I shall proceed to consider the problems arising out of the concretization of these objectives and aims in relation to a few particular fields. It has been indicated above that large-scale industry and mines are almost entirely a concern of the centre. State action in the sphere of industry is confined largely to small-scale industry and its main objective has to be the spread of industrial activity to all regions. It needs to be emphasized at this stage that development of an economy is essentially related to a continuous shifting of the emphasis, universally, from primary to secondary production. In so far as *per capita* production in industrial activity is higher than that in agricultural activity, and the possibilities of increasing it constantly are much better than those in agriculture or other primary activity, economic development can only be realized by increasing the extent and complexity of industrial activity in each area. The relatively unstable base of the economy of an area, which is overwhelmingly dependent on agricultural activity, and its greater vulnerability to fluctuations in terms of trade are other strong reasons reinforcing this objective. Furthermore, it has been the experience of many regions in different parts of the world, during the last half century, that even highly intensive development of agricultural resources within a region leads ultimately to stagnation and even to retrogression unless it is accompanied at an early stage with a rapid increase in industrial activity. Therefore, a state must consider as fast a process of industrialization as possible of all areas within its boundaries as the major continuing aim of all its plans of development.

In considering how state action will be shaped by this aim we have to remember that the state would itself enter the field of industrial production only in exceptional cases. It has to act chiefly by way of stimulating private activity. The state may give special assistance and encouragement to co-operative activity as this is accepted in national policy as a preferred form of organization. However, even when the state assists or encourages co-operative activity, the co-operative units are essentially independent operators. Therefore, their spread and success are equally dependent on the conditions created by the policy and action of the state.

A proper appreciation of what has been said above will make clear how state policy has not only to set for itself aims which are not widely recognized as such today, but also to take steps so as to counteract the evil effects of policies followed previously. The pre-

sent spectacle of ample lip-sympathy to the concept of decentralization with policies which accentuate concentration is due to non-realization of the duties and functions of the state in this regard. The situation in Maharashtra is particularly distressing. There is lopsided development with a very high degree of concentration in the Bombay region. It must be emphasized that the high degree of concentration in the Bombay region and its continued attraction to industrial producers are themselves the result of conditions created by a highly disproportionate expenditure of public monies. The twist given in British times to transport developments and the concentration of effort in relation to power-supply, and all other public conveniences and social services are to a major extent responsible for the high degree of concentration in Bombay. The disproportionate diversion of public expenditure to this small area continues today and has the double effect of accentuating the problems within the region and stopping the development of other areas for lack of funds. It is to be hoped that as a result of the report of the recent study group the situation within Bombay city will soon be stabilized and it will be possible to progress towards more rational policies and allocations.

Widespread industrialization, which I consider to be the essence of any plan of regional economic development cannot, of course, be brought about directly or solely by state action. But state policy has to play a vital part in creating the conditions needed for such spread of industrial activity. It is the state that has to provide all the public goods, services and conveniences needed to make widespread industrialization possible. Other things being equal, places where industrial activity is concentrated will be found to enjoy superior advantages in respect of transport, power and water supply, credit and marketing facilities, availability of technical experts and of labour-supply, etc. Having granted that large centres of population will inevitably enjoy some relative advantage, public policy has to see that if it cannot countervail this, it does not at least worsen the situation. Today the dice are loaded entirely against the smaller localities and the more backward regions. They do not get even a proportionate share of the expenditure required for the building-up of the conveniences and the external economies. Transport systems are built chiefly for connecting important and populous distant centres and not for developing intermediate regions. Power transmission and the public utility rates structure are largely directed towards immediate revenue receipts. Therefore, the existing centres and customers get preference, and the disparities are intensified. Here, deliberate action for development of backward areas and disregard of immediate gains are obviously needed. The story is the same with allocations needed for local development of water-supply and housing. The availability of labour and the readiness of people

to accept employment in a locality are intimately connected with the amenities and especially with availability of the educational and the medical facilities.

In this regard the change of policy that is required must itself be built round a pattern or a model of development. A decision must be taken in relation to the number and the pattern of dispersion of centres of industrial activity creation of which is taken as the objective of state plans of expenditure. Obviously, objectives like village or district self-sufficiency are ruled out in relation to such plans, and there would clearly be grades of concentration and complexity among the centres projected. I should, on a total view of the subject, suggest that state-plans of Maharashtra should be worked round an objective of from three to five industrial centres for each district. I should also suggest that once such a target is accepted, plans of all the relevant activities should be worked for and round it. For example, it is useless to think independently of schemes of various types of industrial estates. The additional facilities provided through the concept of an industrial estate should be considered as only extras. Basically, all plans of transport, power, water and other development, and of the educational, health and housing expenditure should be put together so as to subserve the basic objective of wide-spread industrialization through creation of a number of possible industrial centres in each district.

Plans of expenditure regarding economic and social overheads are the most potent instruments available to a state for encouraging widespread industrialization. There are, however, a number of supplementary measures that it could undertake. I shall illustrate briefly by two different types of examples. Firstly, decentralization comes up against a number of difficulties arising out of a highly centralized administration. Consequently, decentralization of administration is a primary requirement. Decentralization also encounters difficulties of relations with local authorities in which tax powers assume great importance. In this regard, some arrangement of the state with local authorities appears necessary so that industries may not be perpetually faced with problems of uncertain treatment and varying levels of taxation. It might even be possible to think of collection by the state of a generalized tax, proceeds of which could be distributed to the relevant local authorities. The other illustration is in relation to permitting or encouraging concentration in the use of basic materials of industry. In relation to a number of activities, administrators are apt to encourage concentration through the convenience to them of diminished number of centres of activity. Such unconscious biases need to be deliberately got over. For example, all forest produce should be processed, to the greatest possible extent, near the forests, and on as small a scale as is found

technically and economically feasible. Our greatest lack is that of suitable base materials. The desired policy-orientation may be explained through the following example. It is expected that in the near future a number of plants for manufacture of power alcohol from molasses will be set up in this state. Power alcohol is an important base for a number of industrial activities. For some of these it would be necessary to collect all the alcohol production of the state at one site, and work on the whole of it; in the alternative, a number of small dispersed industrial units, near the units of production of alcohol, could be planned on this base. Our circumstances require that the second approach should be preferred to the first.

I do not propose to offer any observations on the question of techniques as I assume that most of the development contemplated above will proceed within the sphere of what is now generally called small-scale industry. There is a good case, in my opinion, for protecting traditional industry only to the extent needed to prevent considerable increase in technological unemployment. Theoretically, there is also a case for assisted technical improvement of traditional industry. However, plans of such improvement have proved highly disappointing during recent years. Such schemes as have to be continuously subsidized, for example, the Ambar Charkha, are related chiefly to unemployment relief or to production which is not oriented towards market economy. Thus, it appears that our main effort in relation to industrialization must be concentrated on industrial activity which is both small-scale and technically efficient.

Earlier discussion will have made clear that, in this crucial matter, the state is not so much an active agent as one which provides the essential framework and guides activity, as far as possible, in desirable directions. The bulk of the effort will necessarily be private or co-operative. In this context, it is necessary to draw attention to another fact of uneven distribution in our socio-economic life. The backward tracts are those in which the people as a whole are unacquainted with modern techniques whether in industry or in finance, or in commerce. It is necessary, therefore, to introduce actively elements with knowledge of such techniques in the backward areas. If in any region water-supply is greatly increased and made secure, its proper use is dependent on instructing the farmers in irrigated farming. This could be done, in part, by introducing small bodies of farmers trained in irrigated farming, but care has to be taken to see that these are regarded as friendly instructors and not as exploiting intruders. Industrialization of backward areas, in my opinion, presents a parallel problem. They require not only the provision of appropriate public utilities and conveniences, but also the introduction of elements with the needed technical and financial skills and resources. There is ample scope for persons from

the highly industrialized centres and areas. These, I feel, would be welcome everywhere if they take care to assume the role of teachers and of partners. Instructing local elements and seeking their partnership in innovating effort will quickly dispel the fears that are usually aroused in relation to intrusion of outside elements.

The highly stratified and sectionalized character of our society adds to the usual difficulties of spreading the benefits of developmental efforts. If members of those communities, who find themselves more fortunately placed in relation to modern economic and technical development, and in a position to pioneer and innovate, go out of their way to seek active co-operation of others who are not so fortunately placed, not only will the social strains be materially reduced, but also the process of development itself will become more rapid.

It is universally admitted that under-development appears glaringly through inadequate use of labour resources in an economy; and, per contra, that the possibility of better and fuller use of labour resources offers the most obvious and striking opportunity to the under-developed economies. Indian plans of development have given almost no concrete consideration to this problem. In contrast the major advantage gained by China appears to have been through tapping this resource. Some economists consider the under-employed as a source of no-cost labour and, therefore, lay great store by the possible utilization of the source. In India the supposition is not realistic, because if the labour is employed on any type of work it will necessarily demand to be fed somewhat better than what it was when unemployed. In a country which undertakes the full responsibility of feeding all its population at a basic minimum level, and which is in a position to divert the labour force to any location and employment, the unemployment could prove as an almost no-cost source of labour. Neither of the above conditions is at present fulfilled in India.

I consider it to be of the greatest importance for state plans to think out this problem of the profitable employment of under-employed labour. In the first instance, I should urge that independently of the unemployment aspect provision of a basic minimum of food for all be accepted as a national responsibility. No country can properly talk of planned economic development until this preliminary condition has been fulfilled. Once this is accepted, it is possible to connect the effort of providing minimum food for all with that of making use of unemployed labour. In this context, it may be taken for granted that all families of the able bodied who suffer from inadequacy of food, do so because of inadequate employment of the earners. Therefore, for the major part, the problem of providing minimum of food could be solved by providing appropriate

employment opportunities and by providing for the additional supplies of food-grains that are required as a result of this policy. For many decades past, it has been recognized that distress during even the severest Indian famines arises not out of lack of physical supplies of food but out of lack of resources with which to buy food, on the part of the bulk of agricultural labourers and large numbers of small farmers. The lack of resources is itself due to failure of the season, leading to failure of production and to lack of agricultural employment. The problem of chronic under-employment in our rural areas is thus essentially a small-scale version of the conditions which appear magnified in the event of a failure of seasons. Already in the famine of 1952-53 in Maharashtra, famine relief was combined to a considerable extent with works of capital formation such as contour bunding, construction of tanks, etc. It should be possible, therefore, to devise one programme of public works directed towards three ends, namely, the provision of minimum supplies of food, relief of rural unemployment and under-employment, and construction of capital works in connection with the provision of social and economic overheads in the country-side. Another favourable circumstance for the designing of such a programme is that the more backward areas which suffer to a great extent from rural under-employment are also those in which the provision of public utilities is usually much below the average.

This programme of public works will fall into two main parts, (i) seasonal, and (ii) continuous providing for the needs of two main types seeking employment. In most backward areas there is sufficient surplus man-power to provide a year-round complement of labour if suitable employment opportunities are provided, and there is also a large number of those with inadequate agricultural employment opportunities. The programme will have to be skilfully devised and tailored to suit the need of each region. The old *Gazetteer* describes the Bombay Deccan region as a treeless plateau. Of late years the denudation of its already scanty cover has reached alarming proportions and it is of the utmost importance to undertake extensive efforts towards systematic afforestation, especially in the heavy-rainfall areas and to raise and protect grass and shrubland over the rest of the areas. This is a multi-purpose need. Stopping erosion in every way, and conserving water-supply as far as possible, are two other universal needs. These are basic needs. At present conventional financial calculations are blocking the formulation of countrywide programmes in their regard. Little progress is likely to be achieved in rural Maharashtra unless the whole outlook in relation to this problem is changed as indicated above. Attention may be drawn to a relevant supplementary consideration. It is unlikely that the progress of industrialization and the even progress

agriculture. Therefore, from the beginning, the reorganized units of agriculture will have to be looked upon as mixed units engaging themselves not only in all kinds of uses of natural resources but also in all types of industrial and labour-employment activities.

Only a few months ago I had the opportunity of expressing my views fully on the subject of planned development of agriculture. I shall not go over the same ground again but shall, before concluding this paper, reiterate the suggestions made there regarding the need for a thorough overhaul of planning procedures. The creation of appropriate and efficient organizations for the formulation as well as the implementation of plans of development is, at present, the most crying need in the states. In these organizations officials and non-officials must equally participate. Today, state-plans appear to be the concern of only the officials at the highest range. This must change and an approach must be evolved which will allow not only for general participation in the process of planning but also for the adaptation of detailed plans to local circumstance and locally felt need. This will require also the state's insisting on obtaining for itself greater measure of freedom and latitude in planning. Present rigidities in this regard and the stranglehold over all activities of the centre especially of the Planning Commission and its agencies and officials, make impossible any real progress. The state authorities must fight against this, so as to enable them to frame a real system of planning from the bottom.

I realize that I have been able to deal in this paper with only a small number of broad issues. This was inevitable. To my mind there is little planning as such in the state today. The first requirement is therefore to comprehend clearly what we mean by a state-plan, what could be the objectives of such a plan and the nature of organizations needed for its formulation and implementation. This paper is put forth as a contribution towards thinking about these basic problems.

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PRICE-POLICY*

I

THIS is a brief note on price-policy, which deals with only the salient aspects of immediate action necessary in this behalf. There has been ample discussion of the matter, and exhaustive noting on various aspects has already taken place. There also appears to be a great deal of agreement on main features of future policy. Moreover, in a number of directions partial action has been taken and certain important agencies, etc., have been established. All that is required is to bring together the various elements into a meaningful practical programme. A sketch of this is attempted in the following:

It is assumed that the price-policy is conceived as a long-term continuing policy and the practical administrative and other arrangements are to be planned for the implementation of such a long-term policy. It is also assumed that the immediate minimum programme in this connection will itself have two aspects: The first is the stabilization of prices of agricultural produce as both protection and incentive to the agriculturist producer. The second is the holding of the price level especially as it impinges on the less affluent classes of consumers. The two are closely inter-related. One may explain this by reference to the central area in the whole set of considerations, viz., food-grains and their prices. Stabilization or any effective operation on the prices of food-grains has to be considered in relation to at least three aspects: (a) Prices of substitute crops; (b) Prices affecting the agricultural-producer in his cash outlay in production effort; and (c) Prices affecting the agriculturist as consumer. In relation to (a) the position of the major cereal food-grain crops appears to be as follows: In the jute areas, jute is a substitute crop for rice; outside the jute areas there is no real competing crop for rice. In the wheat areas certain oilseed crops may be considered as the only important substitutes. For the millet areas, cotton and groundnut are the real effective substitutes. Pulses are grown largely as mixtures. Their supply and prices are closely connected with the supply and prices of cereals, and the prices of pulses are under pressure only when in any region the supplies of the main cereals run low. Therefore, if the supply and price position of cereals is effectively guarded, no separate attention need be paid to pulses. If we disregard jute for certain special reasons, the stabilization of

* Note submitted to the Deputy Chairman, Planning Commission, Govt. of India, in Aug. 1960, and circulated to the Panel of Economists of the Commission in Oct. 1960.

producers can be watched and controlled through a relatively small administrative mechanism, the large number of small-scale producers and their great dispersal over space make direct control of their operations very difficult, if not impossible. Therefore, purchase or procurement, through some sort of market mechanism, becomes unavoidable in this instance. The more difficult problems in relation to the stabilization of agricultural prices, are thus at the producers' end; in contrast, the real difficulties in the problems of control of prices of cloth and sugar, fertilizers or cement have to be faced at the retail distributive end. Therefore, the central problem that we face today is that of putting into the field an effective system through which purchases of agricultural produce are so made as to keep the variations in their prices, during any defined period, within a given margin. This problem may be split into two: the first is in relation to support of floor prices. This is relatively simple. Given administrative, purchase and storage arrangements scattered enough throughout the country to provide an effective alternative purchaser to every producer who has otherwise to sell to the local trader, floor prices can always be made effective. Whereas it is thus not difficult for the State to act effectively to check a downward movement of prices, the matter is different with an upward movement. If prices begin to increase steadily and the private trader looks forward to a continuous price-rise, it may well happen that, at a level of prices fixed by government, government may obtain no supply whatever. A government operating with a set of standard purchase-prices, will not obtain supplies so long as the price at retail is such, or expected to be such, as to leave a comfortable margin to the wholesaler at prices above the level of government standard-prices. Therefore, in the ultimate analysis, unless government is able to check, in some way or another, the upward movements of prices at the retail level, its operations will be ineffective. The only way, in the existing conditions, in which government can check prices at the retail level, is by offering, through a number of retail outlets, a sufficient supply at reasonable prices. With an adequate measure of operations at retail, retail prices can be kept at check. In this case the wholesaler will not be able to make an artificially increased bid to the producer; if then government fixes its purchase-prices at a fair level, it would obtain adequate supplies. In this context, special attention should be paid to the possibility of government making a uniform offer in terms of purchase-prices over considerable space and time. If the total operations of government are on a very large scale and continuous, it can, and for a number of administrative reasons usually does, find it advisable to standardize its offers over large areas and over large periods of time. When this happens government operations have an advantage: whereas in certain locations and at times when

costs of transport, of stocking and carrying over time are low, private traders may be able to outbid government, in other locations and at other times they would not be in a position to do so. Therefore, government would, at a given price, obtain continuous supplies of the crop, especially in those areas where, and at times when, the producers find themselves at a disadvantage. This would no doubt load government supplies with more than average carrying and transport costs; but this should not be significant if government operations are large-scale and efficient.

The possibility of government obtaining supplies at standard prices thus depends on government's ability to sell, side by side, sufficient quantities through spreadout distributive outlets at retail. However, government can undertake such an operation, only if it has initial supplies to operate with. As the above-mentioned elementary analysis has emphasized, without initial stocks, the prices at retail cannot be controlled, and, without such control, the acquisition through purchase at wholesale from the producer is rendered doubtful. This is why at a number of former discussions on the problem, when prices were on the upgrade, it was always emphasized that government would not be able to acquire supplies, at least in the first year, except through compulsory procurement. The acquisition of large stocks of wheat and some stocks of rice by government, through purchases in the U.S. and elsewhere, should now enable the government to break through this vicious circle.

The vital requirement of initial operative stocks may now be said to be definitely satisfied in relation to the entire wheat-consuming region. In this region, the sale of government wheat may set a limit to retail prices not only of wheat but also of millets, because wheat in this region is an accepted and even a preferred grain. This may not be so in the rice regions or in the predominantly millet regions. For all those parts of the rice region where wheat is not accepted, or is not part of the normal dietary, government must acquire ability to sell rice at retail at given prices. It is therefore extremely important for government to acquire as large a quantity of rice stocks immediately, in the very first year of purchases, as is physically possible; mere stocks of wheat will not help in this context. The position of the millet regions comes halfway through. In a predominantly millet region, wheat is not unknown but is not preferred. Therefore, operations through control over prices of wheat may be found to be not fully effective in this region, at least initially. However, the millet market is a strictly limited market; and with wheat plentiful at reasonable retail prices in all urban markets, the control of retail prices of millets, unless the first year of operation is especially a bad year, ought not to prove intractable. The crucial point, apart from the acquiring of adequate stocks of rice immediately, is

to have retail supplies spread out, especially in relation to strategic high-price markets, and to have arrangements in relation to these completed by the harvest season: the arrangements must be known to the traders to be so complete and continuous that they will not think it possible to create an artificial scarcity at any time later. It is only the possibility of increasing retail prices some months after the harvest, which can induce the wholesaler to attempt to outbid government.

By definition, the desire of government is to offer a standard price which is fair to the agriculturists. If such an offer is made with retail prices, present and future, effectively in check, there is no reason why, from the very first year, government purchases should not be very successful. It is, in fact, likely this year that, with a large influx of wheat supplies, the prices at retail of wheat may take a downward turn at the commencement of the harvest. The same may happen to prices of rice if adequate supplies are known to exist with government. At such a point government ought to continue to offer the standard prices. If this is done not only will the position of government supplies be assured, but also the farmer will acquire a much needed confidence in relation to government policy.

III

Price fixation is itself a somewhat intricate process and requires careful consideration. It requires the immediate determination, for each state and region, and for each food-grain, of a set of prices for purchase from farmers and for sale to consumers. In both cases, one is not operating on a clean slate. Determination of the purchase-price, for example, has to be made at the levels which will be considered currently fair and remunerative to agriculturists. However, other aspects also will have to be taken into account. There is, for example, the aspect of differentiation in regional producers' prices. Procurement prices of food-grains, during the war and after, were not uniform in all states. With the fairly rigid bans on movements during those times, maintenance of the differentiation proved possible. At present, because of the zonal arrangements, differences between wholesale prices from state to state are, in a number of cases, even larger than the difference in procurement prices under food control. Progressive integration of the national economy and the objective of doing away with unnecessary regulation require that, as a long-term aim, we must move towards a uniformity of producers' prices, and that the differences in these prices from region to region should not be higher than warranted by a reasonable calculation of transport and other costs.

A number of considerations impinge on the determination of

the retail sale prices of government supplies. The first is the policy relating to the level at which consumers' prices are sought to be stabilized. The second is the cost of imported grains to government, and the level at which government is able to sell at retail without heavy loss or substantial subsidies. The third is the procurement prices in the region and the prices at retail obtained by adding a given margin to them. Determination of the margin between procurement prices and the prices of sale at retail is a crucial factor in the whole process. The success and effectiveness of government operations will depend largely on how low the margin between the retail price and the standard official purchase-price will be kept. Discouragement of speculative, private trader operations depends on the maintenance of such a small margin.

The immediate initial problem for government is to settle purchase-prices and consumer prices at levels which do not too greatly upset present operations and expectations and yet do not deflect government policy from its proper long-term objectives sketched above. Even for the determination of these immediate prices, it would be useful to formulate in advance certain policy criteria. For example, it may be granted that for the current year's operation, producers in no region should be offered prices lower than those ruling at harvest last year. On the other hand, for consumers, a significant reduction of retail prices below existing levels should be attempted. Within these limits regional prices should be fixed in such a manner that the criterion of a low margin between purchase-price and retail price is satisfied, and as large a movement as practicable is made towards relative equality in all-India prices. The differentiation in the price levels of the various regions should make due allowance for costs imposed by distance, so that the consumer in the heavily-surplus areas gets some advantage of his nearness to areas of plentiful production and the producer in the deficit areas obtains an extra margin related to inadequate production in his region. The immediate result of the process should be that producers' prices are increased chiefly in regions in which they were relatively low, and consumer prices specially decreased where they were relatively high. The most pressing task of government today is to produce, on some such basis as indicated above, a set of prices of government purchases during the current crop-year and of the retail prices appropriate to the level at which government supplies of wheat and other grains will be made available to the fair-price shops and other distributive outlets. An immediate announcement in this regard is also necessary for indicating to the country the nature of firm long-term government policy. Otherwise, the fear is that, at harvest, producers' prices will be unduly lowered because of the existence of government supplies, and that retail prices will later become unduly high because of absence

of adequate and appropriate government action. It is not possible for me to work out in detail sets of standard government prices, short-term and long-term, on the basis of the above-mentioned considerations. However, the data relating to recent prices that I have examined make me believe that there exists considerable room for manoeuvring by government and that both the short-term and the long-term objective set out above are fully attainable. In this context, I would draw attention to some special features. These are the large differences between both wholesale and retail prices as between different regions and the wide difference in levels of retail and wholesale prices within the same region. To this may be added the important phenomenon of the considerable variation, since 1952, of retail prices of food-grains, in most regions, from one part of the year to another.

IV

It needs to be emphasized that while the immediate advantages accruing from the acquisition of the U.S. stocks are very large, these will prove temporary and illusory, unless a long-term government-policy with adequate instruments and agencies is not only formulated but made to operate immediately. The main features of this policy have been often discussed. I set down below brief observations on immediate and long-term action in relation to its more important aspects: (1) Purchase-price and its announcement; (2) Arrangements for purchase and storing; (3) Organization of producers; (4) Distributive system and organization of consumers; and (5) Movement and other controls.

The initial step is the announcement by government of its preparedness to purchase certain cereal food-grains at given standard prices, in defined areas, for stated periods. Problems of fixation of purchase-prices have already been discussed above. As regards the announcement, it appears necessary this year to announce purchase-prices of *kharif* food-grains at least by 1st October. These prices should rule till 1st May 1961. For future years also, it does not appear necessary to make announcement of purchase-prices for a period longer than a year. For all predominantly *kharif* food-grains, the announcement should be made before the beginning of May, and the announced prices of purchase should hold good for the following 12 months. For the predominantly *rabi* crops, the announcement may be made before the beginning of December. In addition to announcement of annual prices of purchase it may be desirable to make a long-term announcement, i.e., holding, say, for five years, of floor prices.

For giving effect to a government purchase-policy the administrative

action necessary is the spreading-out of purchase-points throughout the country and the provision of adequate storage and warehousing facilities. It is very important to see that there is an adequate number of purchase-points spread widely throughout each district. The important classes to benefit from government policy should be the small cultivators and the producers in areas distant from central markets. These cannot be given advantage of purchase operations unless government purchase-points are fully spread out.

Providing additional storage and warehousing facilities has been for long an important plank in government policy, but its progress has, so far, been slow. Warehousing and such other facilities can make rapid progress, if joined meaningfully, as in the Japanese post-war plans, with a system of co-operative marketing and processing. As indicated above, an important handicap on action relating to cultivator economy is the unorganized, small-scale and dispersed nature of the units. Organization of cultivators so as to obtain advantages of large-scale operations is thus an essential aspect of successful stabilization of agricultural prices.

The standard form of such organization is that of the marketing and processing co-operatives. Assemblage and grading of produce by co-operative marketing organizations is advantageous in every way to the cultivators and to the national economy. Proper grading helps improvement of quality of crops and ensures an adequate return to the cultivator. Such co-operatives will also enable government to deal directly with large groups of cultivators and to obtain supplies with relatively less cost to both sides.

Processing, where it is important, is even more a sure way of routing agricultural supplies through a small number of points. Where processing is a necessary condition precedent to effective marketing, all producers have to seek processing facilities. However, where co-operative processing does not exist, most of the small and even some big producers find it necessary to sell to the local trader. Co-operative processing will not only enable supplies to be concentrated at a few convenient points but also enable cultivators to obtain full advantages of the standard prices.

From the point of view of government policy, the importance of co-operative marketing and processing lies in the large decrease in leakages and evasion that will result from dealing with properly conducted, audited and supervised co-operative societies. Therefore, in the long-term, for operating government policy in relation to agricultural prices and other kindred matters, government must organize farmers in a country-wide net-work for co-operative marketing and processing of all agricultural produce.

The role of processing is so crucial in some fields, that its immediate transfer to the public or semi-public sector becomes urgent. I would

advocate immediate acquisition of the processing plants in these fields by state governments as a preliminary to handing them over to the co-operatives. This appears specially necessary for rice mills and oil expellers. The immediate placing in the public sector of rice mills will transform the whole character of rice trading and make it relatively easy to handle problems of rice movements and rice prices. Placing oil expellers in the public sector is similarly necessary for acquiring ability to control prices of oilseeds.

✓ On the side of distribution, government will have to extend the present system of fair-price shops, and, in the long-term, to think in terms of the establishment of a distributive co-operative agency. In the urban areas this should be represented, in the main, by the co-operative consumers' movement. It has been indicated above that government should have some control over distribution of cereals, sugar, salt and kerosene. If it also maintains this in relation to cloth and edible oil, it will command a nucleus of commodities with the help of which it should not be difficult to build up a number of consumers' co-operative societies in all urban areas. There is no need, at least immediately, to think in terms of these societies replacing existing fair-price shops. Without disturbing that system, government should actively encourage the establishment and growth of a strong co-operative consumers' movement and should look to it progressively as the agency through which government would be able to tackle problems of distribution.

— In relation to the rural areas, it does not appear that the time has arrived to think in terms of a separate consumers' movement. Here, for the distribution at retail of important consumer goods, the establishment of stores attached to primary multi-purpose societies is indicated. What should be attempted immediately is the opening of such stores attached to all the more centrally located market-town co-operatives.

Finally, it is necessary to make some observations in relation to existing zonal arrangements and movement control. Zonal arrangements are admittedly unsatisfactory devices appropriate only to a period of transition and indecision. This note is directed towards sketching a long-term national policy aiming at providing the needed conditions for integration of the national economy, and for its efficient operation. It therefore lays stress on permanent types of organizations and on certain partial operations by government. The main operations of government, apart from encouraging the building-up of co-operative organization of producers and consumers, are purchase of produce and holding of stocks. These operations will be conducted chiefly by governments of states: it is a necessary condition of their efficient operation that government policy should eliminate, as early as practicable, the large differentiations in producers' and

consumers' prices from state to state, created by the zonal arrangements. Therefore, with the adoption of a system of all-the-year-round purchase by states, zones should be abolished. However, for some years, government may maintain a ban over private movement of food-grains by rail and also control over motor transport in certain sections. Freedom of movements by road will eliminate the absurd and harmful differences in prices in neighbouring districts, created by the zones; the ban on movements by rail will prevent any large, unnecessary and speculative inter-state operations by private traders.

V

This note has been concerned mainly with the problem of purchase, pricing and distribution of food-grains. This is undoubtedly the central problem. Moreover, a system, whether of purchase, warehousing or distribution, which is built up to deal with this central problem, can equally be utilized for similar work in connection with other agricultural products and goods. It was indicated above that among field crops, it is necessary to cover cereals, oilseeds and cotton. As the oilseed-group is not now covered, some observations on control of prices of oilseeds appear to be necessary. I should emphasize, in this connection, the urgent need of formulating government policy of licensing of imports and exports, in close co-operation with government policy relating to price stabilization. Today, import and export licensing is, in the main, a disturbing and anti-stabilizing factor creating speculative opportunities. Its operation conflicts with the interests of both the producers and the consumers and benefits only intermediaries. The import and export policy must be re-defined in terms of long-term ends and must be joined together with the price-stabilization policy. In relation to oilseeds, the main disturbing element is the licensing of exports of oilseeds, oil-cakes and oil. It is well known that severe fluctuations in the market are significantly related to variations in export policy or expectations regarding the variations of quotas. There are two steps necessary for eliminating this: Firstly, the policy itself must be defined in long-term ends and should not be varied on account of each temporary change. Secondly, processes of determination of quotas and speculation prior to announcement, ought not to be allowed to disturb the market. This can be done only if operations for purchase for export are undertaken by a single agency on the basis of previously announced prices, preferably prices operating over periods like six months or a year. This is no more than what is at present actually done by Boards which control exports of important commodities in a large number of other countries of the world. It is necessary that these arrangements should obtain in the case of oilseeds as well as for oil and oil-cake.

With a view to gaining the greatest economic and administrative efficiency, whether the State Trading Corporation should undertake this or whether it should be entrusted to special bodies, completely public or semi-public, with participation of established traders in the particular commodities, is a matter for policy decision. If success is obtained in building up systems of co-operative processing as of oil expellers and cotton ginning and pressing and their operations are combined with the official or semi-official management of exports, a fairly effective stabilization of prices, without too much of government interference or action, appears to be fully practicable.

VI

Fortunately, government does not face today the dilemma of either having no controls or accepting a full system of compulsory procurement and rationing. Without large buffer stocks and at a time when prices of agricultural produce were on the upgrade, initial acquisition of stocks by government might have proved difficult, and compulsory procurement might have become inevitable. With compulsory procurement on any large scale, steps towards urban rationing might also have had to be taken. In existing conditions, however, the dilemma no longer exists. With large buffer stocks and the ability to control the situation very effectively, at least in the wheat zone, only some extra effort is needed by government to cover the millet and rice zones. For the rice zone, the two steps advocated are: special efforts at obtaining the utmost quantities of stocks of rice from the U.S immediately, or purchasing rice from other countries; and secondly, placing rice mills in the public sector as a step towards their co-operativization. With both the wheat and the rice zone under control and with plentiful supply of wheat available, the millet zone should not prove intractable. However, in order to profit from this change in the situation, it is absolutely essential that government undertakes immediately the establishment of a system of government purchase at standard prices throughout a given period. For *kharif* crops for the year 1960-61, an announcement should be shortly made, which will be for levels of prices at which government will purchase as from October 1960. The system would be operated essentially by the governments of states, and purchases in each state should cover only the more important food-grains produced in the state. The target for these purchases should be approximately 30 per cent of the marketed surplus of the food-grains in the state. Simultaneously, it is necessary for government to operate in a large way for augmenting supplies routed through existing controlled distributive channels such as fair-price shops, and undertaking a programme of increasing the net-work of agencies

of co-operative distribution, which should be co-operative consumer societies in urban areas and retail distribution stores attached to multi-purpose co-operative societies at least at market centres in the rural areas, immediately. Through these agencies, cereals, sugar and kerosene should be sought to be distributed and plans formulated to effect distribution at least of cloth and vegetable oil in addition. If the framework of such a system is raised within the next 12 months and it is built up fully by 1965, there is no reason why our food problem should not be completely under control by the end of the Third Five-Year Plan. It is only under such stabilized conditions and with an assured and announced government policy, that the production programme of government in the agricultural sector has any real chances of attaining success.

THE PROBLEM OF AGRICULTURAL LABOUR

I

THIS BRIEF note attempts to summarize the main issues raised by the second reference to the Committee* and indicates some directions in which reorganization of the existing schemes or the launching of the new ones can be examined. In the ultimate analysis the problem of surplus rural labour is supposed to be solved only by all-sided economic development. The main features of this would be : much greater efficiency of production in agriculture, and the availability of diversified non-agricultural, particularly industrial, employment in such volume as to absorb much larger proportions of the rural population than that absorbed at present in non-agricultural employment. All this has been generally widely accepted, but its full implications do not appear to have been realized in practice, in planning ; in Indian conditions this involves much more than general progress towards industrialization. The existing under-employment in the rural areas and the rate of growth of population in the country make it incumbent that early industrialization of the country-side be attempted to as large an extent as possible, and that all plans of industrialization be oriented towards this end. This is necessary to avoid the difficulties and costs of large-scale migrations and to ensure the employment of large numbers at increasing levels of *per capita* output. In so far as the deliberate adoption or continuance of backward techniques hinders the process of development itself, the only way to reconcile the adoption of advanced techniques with relatively large employment is to adopt the techniques to units of the smallest economic scale and to disperse them over the country. The increased costs involved in the small-scale are, in this instance, compensated by the dispersion which reduces costs in relation to movement of goods and the higher overheads involved in operation at large centres of population.

The foregoing has a number of immediate implications for state plans : Firstly, the planning of socio-economic overheads such as transport, power, water supply, credit and marketing facilities so as to make them very widely available. Secondly, undertaking large programmes of conservation and development of natural resources all over the country. This is necessary in order to give some base to the programme of industrialization. Thirdly, the urgent need to

* Agricultural Labour Committee of the Plan Consultative Committee of the Maharashtra State to which this note was submitted for discussion in Oct. 1960 ; published in *Artha Vijnana*, V 3, N 2, June 1961.

do nothing which will make impossible future developments in the direction of dispersed industrialization. One of the most important aspects of immediate action implied in this is that large-scale units of industry using resources which could become the basis of dispersed industrialization should not be allowed to be established. The keenness to establish immediately large industrial units in the State may, it is feared, jeopardize future decentralized industrialization. The immediate danger, in this connection, appears to be that of pre-empting existing supplies of molasses, bamboo, etc.

On turning to more direct aspects of the problems, it may be noticed that the agricultural labour class is constituted of diverse elements and in view of the enormity of the problem it would be desirable to deal with problems of each constituent element, if possible, separately. Members of aboriginal tribes and a number of rural artisan classes are important elements among agricultural labourers. Increased employment of these classes should, as far as possible, be brought about by special measures. The development of the areas of the aborigines, in relation to both agriculture and forest produce, may, to a large extent, look after the problems of aborigines. In a similar manner rural artisans as a class should be provided for through rehabilitation of their industries. There are in operation today a large number of schemes in relation to important rural industries. Unfortunately, they form part of work of particular Commissions and are never properly integrated into general local or state plans. Again, their inclusion in the work of Commissions like the Khadi Commission gives programmes in relation to them a turn inappropriate to a plan of general development and makes them largely ineffective. It is therefore necessary to consider all these as forming parts of one plan of industrial development. A few specially important problems may be indicated in this context. From a variety of points of view, the flaying of dead animals, and the tanning of their hides and skins constitute a difficult but urgent problem crying for an immediate constructive solution. Its neglect is currently causing loss of considerable national resources. A solution for the problem on a state-wide basis would prevent loss of these resources and would afford considerable immediate employment and also a broadened base for further industrial production. Two other special artisan problems which require attention in a similar manner are the problems of potters and the problems of communities engaged in rope- and basket-making. In all these directions, large-scale experiments and organization of co-operatives of artisans for new types of production with new methods, are necessary. An important lacuna in most schemes of rehabilitation of artisan industry at present is the lack of guaranteed purchase. This is extremely important for obtaining full production early.

All this would still leave unconsidered the bulk of agricultural labour, not associated with any other occupation than agriculture. Before proceeding to deal with this central problem, I may offer some observations on an important characteristic of the data placed before the Committee. This is the difference in proportions of agricultural labour as between West and East Maharashtra. I suggest that this difference is, in the main, due to the historical difference in systems of land tenure. Under the Rayatwari administration of old Bombay State, the land ownership and the cultivating possession of land were both relatively widely dispersed; under Malguzari form of tenure, on the other hand, there was a much greater concentration of ownership and cultivating possession. As a result, in West Maharashtra rural population was dispersed to a large extent on small holdings cultivated by the farmer-family itself. The much larger proportion of large holdings in East Maharashtra reduced the production of small family farms; it created, on the other hand, demand for permanent farm-servants on the larger holdings. This appears to be the main explanation of the higher proportions of both the agricultural labour and the attached labour in that area. This is relevant to the work of the Committee in so far as it indicates that, even after a measure of land reform, the present disparity in proportions of agricultural labour within the two regions will persist. A ceiling may take off some land from the top holders in the eastern areas; it could, however, not have any effect on the large majority of cultivating holdings and would not re-distribute them in the relatively graded manner in which they are at present distributed in West Maharashtra. Therefore, while the surplus land afforded by a ceiling may give partial employment in agriculture and as agriculturist to small additional numbers, it is not likely, in any significant manner, to reduce the existing number of agricultural labour families.

To return to the core of the problem of agricultural labour, it may be taken for granted that any increase in the intensity of land-exploitation will not solve what may be called the numerical aspect of this problem. Increased intensity is likely, for the major part, to afford large employment, in the first instance, to members of the farm family; in the second instance, to farm servants employed by it; and thirdly, to casual labour in that area. Considerable intensification of agriculture in any area will thus result, in the main, in reducing under-employment in that particular area, but will not create substantial employment for new people within it. This connects with another aspect of the problem of agricultural labour: basically the magnitude of the problem has to be measured essentially with reference to the levels of income and standards of living of rural labour in any particular area. All surveys and inquiries reveal that in the areas in which agriculture is intensively developed, agri-

cultural labour not only obtains employment more continuously throughout the year but obtains it at higher rates of wages than elsewhere. Therefore, in such areas and their immediate environment, the problem of agricultural labour is not as intense as elsewhere.

The Committee could, therefore, begin by paying special attention to the problem in particular areas. One may take for granted that efforts to intensify the development of agriculture will proceed according to plans and these will give some relief in the areas where increased intensity is possible. For the other areas the problem will have to be tackled in other ways. The main types of regions in Maharashtra, where a special study of the problem has to be made, appear to be as follows: There is, in the first instance, the area of the Konkan and the Maval parts of Desh, where problems are similar. This is a tract agricultural economy of which is based on a single crop of rice during the monsoon, where communications are difficult, and the food grown is hardly sufficient for six months of the year. In many parts of this region, the aboriginal population is in considerable numbers. The dry areas of portions of districts like Ahmednagar, Poona, Satara and Kolhapur and large parts of Sholapur with uncertain rainfall and an annual precipitation below 20 inches constitute the second region. This region again is of single-crop economy and specially subject to periodic failures. The other two regions are: Marathawada and Vidarbha. It may be noted that in the first two regions the proportion of landless labour is not large, but their total income and conditions of living are among the worst in the State. In Marathawada and Vidarbha, on the other hand, the proportions of labour are high, but their incomes especially in Vidarbha, are relatively good.

The solution for the different problems of each region or each type of region will have to be elaborated separately. However, the general approach may here be indicated. The approach has to be that of evolving a programme of continuous action, constituent elements of which mutually support each other, and which meets with both short- and long-term requirements. The immediate requirement is to afford, through additional employment, the much-needed additional income to agricultural labour families; but the immediate employment programme must be so framed as to subserve long-term needs. The ultimate need is to industrialize the country-side; however, this can be done only if a wide base of resources is built up for this purpose, in the rural areas. Therefore, the employment programme should be directed towards this objective of conserving and developing, as rapidly and intensively as possible, natural resources of each area and region. Everywhere the immediate step is to frame a diversified programme of public works capable of being sustained over a series of years, undertaken and executed annually somewhat

on the lines of a relief-work programme. This programme should comprehensively embrace all aspects of conservation and development of material resources and formation of social capital, in the countryside. Works in connection with reclamation of lands, contour bunding, afforestation and tree-planting, minor irrigation, road building, public and institutional buildings of all types, will obviously be included in the programme. Special attention may be drawn to the universal need in Maharashtra for taking urgent steps to conserve vegetation and cover and develop intensively fuel and fodder resources. We are at present caught in a vicious circle of too many animals which are partly fed on too little pasture, and too little cover giving inadequate resources of fuel and fodder with the result that not only valuable manure is burnt but there is also a progressive and rapid cutting-down of bush and trees. Large afforestation schemes in the hill areas, and fuel and fodder depot schemes combined with useful tree and bush planting for each locality in the country, are urgent needs. Though these can later become the responsibility, in the main, of local communities, a considerable amount of initial effort and expenditure has to be made by the state government, in particular, in experimenting with the best ways of dealing with this problem in different circumstances. This must be immediately undertaken and has very considerable employment potentialities. If this is systematically undertaken, not only will the normal forest wealth and fodder and fuel resources increase but additional wealth can also be created in terms of specially developed pastures, of fibre plants like agave of bamboo, copses, which will, in time, also yield a sound local base for related rural industry. But, so long as the initial effort is not made, the cumulative effects can never become evident.

All this is further connected with an important aspect of development—animal husbandry, including the dairy industry, live-stock rearing, sheep breeding and wool. The development of pastures, forests and other non-arable land has to be planned with this in view. In part, animal husbandry can be a whole-time occupation; however, its main function will be that of affording supplementary source of income and employment to agriculture.

There is another direction in which special effort, with considerable experimentation, is obviously indicated. It is well known that one of the areas in which considerable capital investment is absorbed in the process of development, is housing. In Maharashtra, the problems of proper village layouts and of rural housing reconstruction are extremely important. For the most part, our villages present a dilapidated and straggling appearance, and they are both inconvenient and insanitary. The evolution of model layouts and types of rural housing, appropriate to each region, must be systematically attempted; these have to be related both to local climatic conditions as well as to

the availability of local material. In this direction, there are a number of employment-giving occupations, such as brick-making, tile-making, and lime kilns, development of which can be encouraged. In this connection also, the practical implementation of what is often theoretically put forward, viz., the use of local woods for construction purposes, may be emphasized. Efforts in the past by the Forest Department, have been reported, but practical development in terms of choice of trees and tree-planting and actual use in construction, seems to be non-evident.

I have deliberately made this concise statement of my views on the problem, in broad and comprehensive terms, because, in my opinion, the prevailing approach of looking at the problem in a piecemeal and isolated manner, as exemplified by the latest circular of the Planning Commission, is very wrong. Agricultural under-employment and the low standards of living of agricultural labour are among the most important manifestations of under-development, and the plans of development must be judged by the ultimate test of how they affect these phenomena. Therefore, I should insist that it is the total orientation of planning-effort, as indicated above, that must be pressed for. If this is accepted, the immediate steps that I would suggest for concrete action are as follows:

1. Examination of the total State Plan to see in what respects it takes into account, and gives importance to, the objective of rapid industrialization of the rural areas, and what elements in the Plan are likely to hinder progress in this direction.

2. Examination of current plans of transport, power, water supply, credit, marketing, education, public health, etc., from the point of view of creating, in a widespread manner, conditions favourable for decentralized industrialization.

3. Examination of plans of conservation and development of natural resources, especially in relation to land surface not under arable agriculture, and of plans for re-organization of village industry, of animal husbandry, and of rural construction industries, from the point of view of widening the base of rural industrialization.

4. Examination of existing total public expenditure programme in particular areas with a view to judging how far they can be arranged in time and space so as to provide maximum employment of the relief type to agricultural labour in the areas.

5. Examination of the volume of existing public expenditure programmes in relation to each major geographical division of every district, and of the volume of potential employment created by them, for judging the gap that has to be filled by re-allocation and re-organization of plan expenditure, if adequate additional employment is to be given to agricultural labour.

PROBLEMS OF TRANSPORT CO-ORDINATION*

THE PROBLEMS raised by the Committee on transport policy and co-ordination have to be looked at, as the Committee itself emphasizes, basically from the point of view of the long-term plan of transport development. It is only when we have a fairly clear idea as to what the continuing pattern of the transport system of the future is likely to be that we could have a proper frame of reference for answering the various questions raised by the Committee. It is unfortunate that the Committee has not, in its report, discussed the essential features of this future pattern. It happens that there is no discussion of it even in the draft outline of the Third Five-Year Plan. Therefore, it becomes necessary, before attempting to answer the questions raised by the Committee, to project, on one's own, the outline of this future pattern. The questions are related, mainly, to co-ordination between rail and road. In relation to the respective position of roads and railways, in the future in India, the most significant feature appears to be that the road system will be the only universal system of transport and that this characteristic will not be shared by the railways. I derive this projection from the following considerations. In the first instance, the spread of railways in India is today limited and very uneven. There are large regions within the country where railway mileage either does not exist or is very inadequate. The inadequacy is, for example, obvious in most of the West coast of India, in large parts of the Deccan Plateau, in Rajasthan and Madhya Pradesh and in Orissa and Assam. It is only, perhaps, in the States of Bihar, U.P. and the Punjab that railway transport may, in a broad way, be said to be available for all important routes and locations. This is as regards the existing route mileage of railways. As regards the future, it is clear that for the next 15 to 20 years, we shall not be able to find resources for any large expansion of railway mileage. During the First and the Second Five-Year Plans, the objectives of the railway development programme were rehabilitation of fixed assets and rolling stock, the removal of bottlenecks, overtaking arrears of replacements and provision of additional facilities on existing routes to cater for increased traffic. The Third Five-Year Plan also emphasizes these objectives and has provision for construction of only 1,200 miles of new lines during the plan period. It appears reasonable to assume that the emphasis in later plans on construction of new lines would not be so great as to fill, in any significant measure, the present gaps in railway routes over large parts of the country. The

* Published in *Mahratta Annual*, 1961, Kesari-Mahratta Trust publication.

present system of railway must be considered for large parts of the country as providing only the main frame of the transport system ; and as the railways system cannot be generalised, the road system must be looked upon as the universal system, that is the system through which transport facilities are made available for all regions and locations. This picture of the future itself reinforces the need for spending specially large amounts on strengthening and augmenting the capacity of existing lines. For want of a variety of alternate routes, the existing lines must themselves function as the main arteries for certain essential countrywide traffic and continuously be built up and maintained to the point at which they can function in this manner. By contrast, it will be observed that the approach of the Nagpur plan and its later version, is essentially towards making the road system universal. Therefore, for the country as a whole, the system of transport is either a rail-cum-road system or a road system. One cannot, in these circumstances, project policy on the basis of rail services being available in all or even most areas.

There is another aspect of the rail-road problem which may in this connection be emphasized. The railways are run by the government of the Union and the plan of railway expansion is a matter entirely for decision of the Union authorities. The roads are a State subject. It has to be realized that in a large number of States, the State plans of transport development have objectives many of which may be considered unimportant by Union authorities or at least for attaining which the Union authorities would not be prepared to undertake new rail construction. The only instrument in the hands of the States, to attain transport objectives at the State level is expansion of the road system. This is extremely relevant in the formulation of road and rail policy of the future.

In the light of what has been said above, any attempt to determine the appropriateness of railways and road transport for different types of goods and passenger traffic appears misplaced. Where the railway is not widely available, all types of goods and passenger traffic must be carried by roads and in all States in which there is material inadequacy of railway transport, road policy must be framed so as not to hamper development of road transport over the entire State for all types of services.

I assume for all later discussion that long-term road plan will try and build up an integrated road system which is continuously more efficient and more all approaching than before and that the rail system will try and provide an ampler and more highly strengthened framework for the entire transport system. With this definition of the future pattern, answers to questions regarding the obligations of railways follow logically. It follows, for example, that it should not be obligatory on railways to maintain all the lines that they are

operating at present. As we do not treat railways as the universal system, they should be under no obligation to maintain what are proved as non-essential lines. On the other hand, their obligations to accept all traffic without discrimination and not to discriminate between customers in regard to the charges payable ought to be maintained. This is because we look upon railways as providing, in the main, the frame work of the total system. Their services should, therefore, be available universally and without discrimination.

I would emphasize an additional reason for maintaining the obligation not to discriminate on the railways. The railways are run as a department of government and are directly under charge of a minister. It would be a grave error to put railways in a position where prices or rates quoted by them could be connected with political pressures. It would be difficult to prevent such connection if discrimination was allowed in this matter.

There is another reason why such discrimination should not be allowed. The only objective basis for discrimination in rates could be varying costs of operation. The railway system is itself not a uniform system. It has within it, for example, a number of gauges. The average unit cost of operation on the broad-gauge system is distinctly lower than that on the meter-gauge. Once the principle of a uniform rate structure for all customers and for all lines is given up, it would be difficult not to discriminate as between different gauges; because obviously, the differences made to costs by this difference are much larger and more fundamental than any imaginable between any two sets of customers.

I shall now comment briefly on certain specific points raised in the last chapter of the report of the Committee.

THE STRUCTURE AND LEVEL OF RAILWAY RATES

I do not feel that there exists sufficient justification today for continued adherence to two features of the structure of railway rates. The first is the specially low rates, supposed to be given on grounds of national policy, to certain commodities like coal, and food-grains and the other is the principle of telescopic rates. It is well-known that low rates on bulky commodities have been a feature of the structure of railway rates not entirely because of considerations of national policy. When railways were anxious to obtain traffic, the low rates were needed to attract to railway transport the bulky but low value commodities. The low rates on long distance movements to and from ports had also a special purpose in India which might not be described as national.

The existing low rates are significant chiefly in relation to transport of food-grains, coal, manganese and other ores. The lower rates on

coal, ores, cement, etc., are all on intermediate goods and profit the industrialists and other users of these commodities. There appears no reason why in a regime of planned economic development, these specially low rates, which in effect represent a non-discriminating subsidy to all consumers of these commodities, should be kept up. The low rates may be said to have two types of effects—Firstly, they may lower to some extent prices of commodities into which the prices of the intermediate goods enter and secondly, they may influence location of economic activity because of availability of intermediate goods in certain areas at prices lower than if the full economic freight rate had been charged. Decisions regarding both pricing and location are supposed to be taken, in a planned economy, with reference to a number of considerations in a comprehensive way by the Planning authorities. If, therefore, in relation to price of a commodity charged to particular customers or to the location of any activity, the plan requires that some special concession or encouragement be given, this could be done as a part of appropriate plan policy. This means that instead of influencing, *ab initio*, the normal pricing or allocation of any service or commodity, specific areas of subsidization, etc., would be determined in relation to any objectives of national policy. Such a procedure would have two merits. In the first instance, it would set out clearly, for consideration by the planning authority the ordinary economic cost calculations and the extent of deviation required therefrom, in any case. Secondly, the act of subsidization would not only be deliberate, but would be strictly limited in extent, with the result that considerable savings, as compared with the present position of non-discriminating subsidy, would arise. The same considerations apply to telescopic rates. The influence of these would almost be entirely on location of activity. The complaint in the past has, as a matter of fact, been that railway development ignored nursing and care of local traffic and artificially encouraged long-distance transport. The doing away of existing discrimination in favour of long-distance transport would, therefore, be justifiable. Special considerations apply to food-grains. For the larger part, import of and trading in food-grains would, in future, be under State control and it would be highly desirable from the point of view of national policy to discourage unnecessary movements of food-grains. To the extent that food-grains move on Government account any adjustment in costs that are necessary to be made could be made directly by Government. To the extent that they move on private account, present conditions do not require or call for any subsidization of the costs of these.

The position may be summed up by saying that in the face of the present shortage of total transport facilities, continued indiscriminate subsidization of the movements of bulky commodities and of long-

distance transport is unnecessary and inadvisable. The proper economic prices should be charged on these and if national policy requires that in any particular instance or area of operation, subsidization should be effected, this can be deliberately and specifically made from general revenues.

The last consideration leads to emphasizing another aspect of this problem. The question has often been raised whether once there has been an investment in a highly capital intensive system like the railway, it is necessary to keep up current charges at levels which recoup full costs including interests, depreciation, etc., on capital. There are undoubtedly special circumstances in which it can be argued that increase of social welfare might be attained through keeping down the prices of public utility services as the level of their marginal operational costs. However, this cannot obviously be considered appropriate or advisable in situations like that of the transport system of India. Both road and rail systems are today under heavy pressure and such projections of demand as have been made show greatly increased traffic as likely to follow on development; on the other hand, the resources available to enlarge and strengthen the transport system do not appear likely to increase *pari passu* in the near future. This indicates that existing shortage may not prove temporary. In a chronic condition of excessive demand the price has to act particularly as a rationing mechanism unless direct physical rationing of transport is undertaken. As the latter alternative is not in view, rates have to be placed at levels, at which, through discouraging all less urgent traffic some kind of equilibrium between supply and demand may be attained.

This does not mean the advocacy of the abolition of the present structure of railway rates, but rather its rationalization in two directions—Firstly, revision of existing classification so as to take fully into account the influence of road competition and secondly, adjusting or rather narrowing the total spread between the rates. The lowest rates in which the element of subsidy is large have to be significantly pushed up and the highest which reflect the earlier monopolistic position of the railways, should be substantially lowered.

All this leads logically to adopting an entirely changed view in relation to railway earnings. A developing economy makes the position of existing systems of transport like the railways highly strategic. There is no reason why in such situations the railways should not take the fullest advantage and try to push up their volume of earnings. The Indian railways have to incur very high capital expenditure for development and have to contribute to the general revenues. Both these uses of surplus earnings are uses which increase the savings of the community and lead to fulfilling national investment plans. In view of the great importance of increasing as fully as

possible the volume of savings in the public sector, there appears no reason why the earnings of railways should be artificially kept down. All this is reinforced by what has been said above regarding rationing of transport facilities and the abolition of non-discriminating subsidy.

PASSENGER FARES

The lack of clear-headed policy in this regard is apparent even in passenger fares. The relative level of passenger fares is not only too low, but also the railway authorities appear to indulge in a number of meaningless concessions and other devices to attract new traffic which is evidently not of economic significance or importance. While on the one hand the railways are patently unable to handle passenger traffic, on a large number of lines where chronic congested conditions exist, they offer concessions to holiday travellers or hill station tourists and add to their difficulties. Here again a realization that the price must be used as a rationing instrument is ignored. If for any special classes such as students or labourers encouragement to mobility in given directions is desired, this is best done not by maintaining a low level of fares, but by specific subsidization.

REGULATION OF ROAD TRANSPORT

It is assumed that the present policy of passenger road transport being taken over by State Governments, will be pursued progressively further and further. On that assumption nothing need be said regarding the regulation of state passenger transport services. This will be a matter for each State Government and inter-state operations of passenger services will be matters for negotiations between the relevant State Transport Authorities.

In relation to freight traffic, it appears unnecessary for the State to enter this area. Within the sphere of transport itself there are other fields, for example, coastal passenger transport in which the resources and energies of the State could be more logically and more profitably be employed. Road goods transport is a field essentially of the small operator. It is, perhaps, the only field of transport in which the small operators may, with an element of voluntary co-operation, continue to survive for some time. It has proved an extremely valuable adjusting mechanism in a number of directions. In the ordinary way rates of road transport freight cannot be easily controlled and no attempt need be made to control them. However, the State should always have power to control rates; this might be used in relation to those areas, especially backward areas, where there is currently not sufficient competition, or it might be used later if combinations of road operators tend to assume monopolistic positions.

Within each State, the licensing policy should be such as keeps within State control the number of vehicles that will be operating over an area or region. However, there appears no reason, barring ordinary safety precautions, why detailed control should be exercised over the type of work in which road vehicles are engaged or rates charged by them. As within a State there appears no reason also to impose any particular prohibitions or restrictions on distances over which road transport runs or the total number of long-distance licences.

REGULATION OF INTER-STATE ROAD TRANSPORT

With traffic operating over two or more States, some detailed regulation would be necessary. The matter can be dealt with either through joint bodies of contiguous States or by All-India Inter-State Road Transport Organization. Here again, the regulation need not cover matters other than the number of vehicles which are given licences to operate over two or more States. No rate or commodity restrictions appear called for at this stage. It is not necessary for the railway to be actively associated with the All-India Inter-State Road Transport Authority, if any such is set up. It is only when there is any attempt at evolving a co-ordinated rate structure for road and railways that railway might be brought into this regulatory system. However, such an attempt would be highly premature today.

TOLLS

In relation to taxation, etc. the only point that appears important is the present relative non-use of the method of imposition of tolls for finance of special crucial works like bridges. In India, these are among the most important bottle-necks in the development of transport system and imposition of tolls appears a good way both of financing these as well as for rationing traffic along them.

CRITERIA FOR INVESTMENT AND RAIL AND ROAD PLAN

In a planned economy the criteria for investment are defined and priorities determined at the time of the preparation of plans. It is necessary to make these explicit and public, so that not only is there a better understanding of plan objectives, but also criticisms and suggestions for modification might be made precisely and intelligently. In relation to roads this approach has been generally accepted since the days of the Nagpur plan. The broad objectives of road development and the aims of the targets are widely known. It is unfortunate that nothing similar has been done in the matter of railways. This

is a grave omission. The essential purposes which railways are expected to serve in the future pattern have to be made clear and plans of expenditure on strengthening, etc., of old lines and the construction of new lines must be related to these. The exercise of pressure from all sides for construction of new lines cannot be eased and cannot be properly met, in the absence of a definition of the aims and outline of the long-term railway plan. The building up and strengthening of railways to function as the essential framework of the national transport system would be an essential objective. The priority accorded to the Khandwa-Hingoli link could, for example, be justified in relation to this objective. In this manner, a long-term programme of strengthening old lines, filling in gaps and undertaking of new routes, etc., must be made up as a co-ordinated whole. In doing this alternative proposals will come up for discussion and the main choices should be publicly explained. Publication of the outline of the long-term railway plan at an early date is necessary even from the point of view of a proper definition of the transport plans of individual States.

I confine these remarks to the basic plan programme because I do not think that we have at this stage the resources to do anything more than to build up as extensive a system of transportation as possible at a minimum level of efficiency and safety. The investment criteria should, therefore, serve a double purpose in this context; that of providing for essential as well as of discouraging non-essential expenditure. That a good deal of non-essential expenditure continues to be incurred is obvious even to the non-expert, particularly in the field of passenger transport.

A great deal of expenditure on passenger amenities and comforts appears non-essential. It is much more important to provide adequate and relatively clean and secure travelling and waiting space to all passengers than providing extra amenities, such as fans in some trains. It also appears that higher classes, in whose fare there is already an element of subsidy, are given undue attention in the increase of amenities and other aspects. Again the widely seen activity relating to such matters as widening of platforms, does not appear to serve an essential operational objective. The standards in most such matters of Japanese railways are in contrast to ours.

INTEGRATION

Finally, integration should be completely ruled out. Integration in existing Indian conditions can only mean a dangerous degree of centralization and the railways ruling the entire transport system. That this would be both unintelligent and reactionary need not be emphasized. In existing Indian conditions both the extremes of

complete *laissez faire* and complete integration are out of account. The only proper policy is to continue the present pragmatic approach, with, however, greater thought and care to attempt co-ordination through appropriate regulation. Co-ordination in passenger transport should be brought about through agreements between State and passenger authorities and the railways and not through acquisition of road lines by the railways themselves. Any high degree of regulation of regulatory co-ordination in road goods traffic does not appear necessary. A much more elastic and modern railway freight structure arrangement is the needed first step. As long as transport facilities remain scarce nothing much can or need be done except to increase substantially resources available to railways and to encourage them to be adaptive and innovating.

This does not, of course, mean that the time may not come when much greater and closer regulations may not prove essential. As a preparation for such an eventuality the first needed step is to collect more data. More data on volumes of flows of traffic, on the composition of these flows, on the methods of operation of various agencies and on the specific and average costs of carriage of unit-goods by the various agencies. These are necessary before any serious judgement could be made, when the time comes, regarding closer regulation and co-ordination. Only in the light of ample and accurate data of this kind could it then be shown that in any particular contexts or areas uneconomic or wasteful operations persist and that these could be removed with appropriate regulation.

AN APPROACH TO INDIAN PLANNING*

At the outset, I shall make clear the more salient assumptions made while drawing up the following note. I assume that modern science and technology are fully accepted by our society. This acceptance is involved in all vital operations of socio-economic life in India. For example, our entire system of transportation and communication, which is used by everybody and is not found to be dispensable by anybody, is based on modern technology and can be run and maintained only through use of an immense variety of products of a number of modern industries. The present state of our public health is vitally dependent on familiarity with and use of modern scientific knowledge and the organization of modern industrial production. One of the directives of policy incorporated in the Constitution asks the State in India to organize agriculture and animal husbandry on modern and scientific lines. Therefore, a valid objection to the use and adoption of advanced technical and scientific knowledge in any direction could be sustained only on grounds of lack of needed resources in terms of capital or personnel or through fear of undesirable socio-economic consequences of such adoption.

The second assumption made is that the plan for development of the entire community or society is under consideration and that the objectives, values and principles adopted for the plan must be applied uniformly in all aspects, and further that the plans for the agricultural and industrial sectors, the production and distributive systems, and for employment and investment must be framed in a mutually consistent manner. This need for uniformity and consistency is also equally felt both in the temporal and the spatial aspects of the plan. Thus while the main orientation of the plans, could be towards long-term development, it cannot disregard the short run. This is because many immediate developments may later prove irreversible, and may have a determining influence on long-term possibilities.

The concept of each village as an independent, autonomous unit and the concept of cities as excrescences on normal economic life also cease to be valid from this point of view. While for purposes of convenience, locational or regional divisions may be made in consideration of particular problems, the total plan must be fully correlated and co-ordinated. The notion of self-sufficiency at any

* Paper presented to the Seminar on "Paths of Planned Economy in India" held in Poona at the Gokhale Institute in April 1961; published in *The Economic Weekly*, Special Number, July 1961.

level thus no longer remains a value. In relation to any unit or area, self-sufficiency or self-containedness as an aim of social or economic policy must be derived from accepted goals and principles of national policy. The full acceptance of modern science and technology would also require that no bias be entertained against division of labour or complex economic organization. The ultimate goal of the attainment of a peaceful world society emphasizes this trend of thought.

I also assume that the State is not treated as a foreign, or alien body but is, in itself, a manifestation of social will and purpose, which can be given shape and function appropriate to current needs and values. In particular, in relation to poor and undeveloped societies, I take the State to be an important agent or instrument. It is necessary to emphasize, in this context, the great danger of translating to a society riddled with privilege and inequity, concepts appropriate to a basically *egalitarian* situation. The refusal to use the powers of the State in highly non-*egalitarian* societies under the name of liberty or *sarvodaya* is tantamount to encouraging, consciously or unconsciously, the growth of evil forces and perpetuating social injustice. I assume democratic process to mean the active participation of as large numbers as possible in the shaping and conduct of social, economic and political activity: federalism and decentralization are logically implicit in the democratic process.

I may, next, summarily recapitulate the directive principles of state policy in the Constitution. These, though not enforceable by any court of law, are, it is laid down in the Constitution, "nevertheless fundamental in the governance of the country." The most important general terms used in these directives are "welfare" and "social justice". There is reference in a number of places to the prevention of "exploitation". The basic concern shown is that with the problem of poverty, that is, with employment and the standard of living. This is emphasized by a number of distinct references, such as to: (i) right to an adequate means of livelihood; (ii) living-wage for all workers; (iii) raising the level of nutrition and standard of living; and (iv) securing, within limits of economic capacity and development, the right to work, to education and to public assistance in case of unemployment, old age, sickness and disablement and other cases of undeserved want.

Next to preventing exploitation and providing employment and raising the standard of living, the directives emphasize non-concentration of the ownership of and control over material resources, their distribution as best to subserve the common good, and securing that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. Attainment of compulsory education up to the age of 14 within the definite time limit of 10 years attached to it, underlines

the importance and urgency of the spread of educational facilities up to this level, and there are references at many places to public health. In relation to specific aspects of activity, there is the directive to promote cottage industries and to organize village panchayats to function as units of self-government.

All in all, the directives of the policy concentrate attention on employment and the standard of living and on non-concentration of economic power.

II

THE FIRST AND THE SECOND PLAN

Against this background of the value system and priorities exhibited in the directives, one may look at the Indian plans as they have operated in the past and as projected for the future. On doing this the defect that becomes most evident is the almost entire neglect of the employment and the standard of living aspect by the plans. The plans have neither been oriented towards tackling these problems nor has any progress, in relation to these objectives, been evident in the last ten years. It is enough for the purpose to cite two pieces of evidence. Firstly, the calculations made by the Planning Commission which show that even on the assumptions of the Commission, unemployment has been steadily increasing through the Second Five-Year Plan period.

That the plans have failed to make any impression on the general standard of living may be emphasized by reference to calculation of *per capita* availability of cereals and pulses, set out in a table in the Economic Survey for 1960-61, presented with the budget for 1961-62. The *per capita* net availability of cereals and pulses in oz. per day is shown in this table to be 15.4 in 1960, with a population put at 423 millions. In the same series the *per capita* availability has been put at 15.7 for 1954, 15.5 for 1957, and 16.4 for 1959. With the higher rate of growth of population, as now revealed by the census, the disparity between the 1960 calculations and the calculations for the earlier years should prove to be even larger than that exhibited in this series. It would thus not be wrong to conclude that in relation to the basic component of the standard living there is a condition of stagnancy.

The problem of employment has a number of facets. In the first instance, labour has to be looked upon as a valuable resource, and the continued under-utilization of this resource points to defective planning. Humans are also a social liability in a society whose conscience is sufficiently aroused. As it is clear that a poor country with a large volume of under-employment or unemployment has not the

resources to grant public assistance to the unemployed and to those in distress, the planning for employment of all becomes a doubly important objective. Therefore, employment-planning ought to have with us the first claim on resources of capital and organization.

It is important to spell out carefully the implications of this objective of employment orientation of the plan. The objective does not imply that employment, however given, at whatever cost, in whatever direction, is to be accepted as part of the plan. The plan is essentially a plan of economic development, and employment orientation emphasizes priorities without affecting end-objectives. The achievements claimed for such plans as the Chinese in the way of labour mobilization, are essentially achievements flowing out of the emphasis on employment orientation in planning. In a communistic country, presumably, the State accepts the responsibility of feeding everybody at a minimum level. Once this responsibility is accepted, then in societies as poor as China or India, there becomes, or with a little appropriate organization can be made, available a very large reservoir of labour which can be employed in a number of directions, according to needs and possibilities. The availability of such a labour force can be a source of great strength. The planning of its use presents a difficult problem to which little attention has yet been paid in India.

Employment of rural labour lies at the core of this problem. This is not only by far the largest class in terms of numbers and the class which has the lowest standards of living but also the class which receives the largest share of all additions that result from the growth of population or from technological unemployment because of development. Employment orientation of Indian planning must therefore essentially mean a determined attempt to tackle the problem of actual or potential surpluses of agricultural labour through a programme of employment, which is in itself a part of development planning, and which will increase the basis of resources and facilities on which future plans can be built. I had an occasion recently to write a note * on this problem in Maharashtra, and I shall not dilate on this matter further.

Employment orientation should give a marked turn to planning in India. People in India live, in the main, in rural areas and are scattered over a very large number of villages; and this rural population is growing apace. There is, currently, a relatively small movement away from rural areas or agriculture, chiefly because of the lack of alternative opportunities. If this pattern of dispersal of population and the costs of movement are taken into account, it will be seen that not only in the short run but also as a long-term

* See page 235.

objective, providing employment in rural areas through decentralized and dispersed economic development, is extremely important for India. The programme of conservation and development of natural resources and of the building-up of socio-economic overheads throughout the country-side which could provide employment to rural labour immediately, would also build up the needed structure—super and infra—for later dispersed industrial and other non-farm development.

In highly-developed and integrated economies it can be taken for granted that forces of development generated in one place will soon have a decisive impact on other areas and activities. This is especially evident in urban industrial economies. It is not so evident in the rural sectors even of some advanced industrial countries. The experience of the last decade in India has shown that there is very little of automatic transmission or spill-over of effects of development started in particular locations and activities. Therefore, if development is a national objective and government bears responsibility equally to all regions and communities, the plan must attempt to start or initiate development simultaneously in as large a number of locations and activities all over the country as possible. Undoubtedly this dispersal of effort will appear to yield immediately less dramatic results. But it will provide a sounder base for planning in the future and also avoid the accentuation of disparities, which is one of the most serious features of the existing situation.

III

PLAN FOR AGRICULTURE

If one puts in the forefront the problem of employment and of the standard of living particularly as relating to rural labour in India, attention in the second instance must be given to the agricultural sector. In this context, observations may be confined to highlighting only a small number of points. In the first instance, it appears to be urgently necessary to arrive, as early as possible, at some stabilized pattern of the organization of agricultural production. The concept of the ceiling has been generally accepted, and it is good that recent legislation has emphasized the aspect of ceiling as limiting ownership and control of material resources rather than as a ceiling to individual incomes. If the Ceiling and Tenancy laws together lead to the creation of a large body of small but viable farmers, there will still remain the problem of the vast and increasing numbers of uneconomic holders.

Co-operative farming appears to have been agreed upon as the solution of this problem. Vigorous experimentation and explicit formulation of policy are necessary to accelerate progress in this

direction. Equally, the total organization of agricultural production requires immediate attention being paid to consolidation. The appropriate utilization of land should be treated as a sub-problem of consolidation. The increasing pressure on land, resulting chiefly from increase in numbers of uneconomic holders, has led to an extension of the margin of arable cultivation to limits which are highly uneconomic, and which add significantly to the requirements of plough-cattle. Consolidation and creation of co-operative farms should result in putting such areas appropriately under scrub, forest, pastures, grass, etc.

By and large, the investment of capital resource, connected with spread of scientific practices in agriculture, does not lead to any technological unemployment. The problem is raised only when mechanization is attempted in certain directions. However, with a large employment-oriented plan, a certain amount of small-scale efficient mechanization in peak-period processes will become possible and advisable. There is thus large scope for investment and improvement in agriculture without fear of any deleterious consequences.

Here the main difficulty is that connected with organization. Our very large and dispersed numbers of farmers and farming units will have to be properly organized for the articulation, implementation and experimentation related to plans of development. If the co-operative organization is accepted as the universal type, large efforts must be made and initial organizational and capital resources invested to bring this to a minimum level of operational efficiency within a short time.

The most important problem of the agricultural sector is, however, that of stabilization of incomes. The experience of last ten years in India and in a large number of other under-developed countries shows that if a farming community is given stability and relatively favourable terms of trade, the problems of organization, of acceptance of scientific ideas, or of investment and capital formation become relatively tractable. The basic defect of Indian planning has been the lack of a price-policy and the large hazards to which the Indian farmer, the field-crop farmer specially of the dry areas, has been subject. Unless the terms of trade are secured at some minimum favourable level to the agricultural community, no general plan of development can be expected to succeed. It is equally necessary to insist that the full benefits of the terms of trade must accrue to the agricultural community itself. Processing and marketing play a crucial role in this context. So long as these are in other hands, the major benefits of any extra margin are unlikely to be derived by the agricultural community. This is especially so when the margin itself, because of lack of stability, is fluctuating. Stabilization of prices, which represents the main avenue to stabilization

of agricultural incomes in India, is thus the central problem in relation to the agricultural sector; for, with relative stabilization of prices, progress of co-operative processing and marketing should not prove difficult. However, processing is so crucial that it may become necessary in the initial stages of the stabilization effort to transfer it immediately to the public sector.

IV

PROBLEMS OF INDUSTRIALIZATION

A plan of economic development is essentially a plan for industrialization, and therefore, the approach to planning must define clearly the route and pattern of industrialization that is envisaged. The insistence on dealing as fully as possible, from the very initial stages, with the problem of employment of labour, especially rural labour, will lead to an emphasis on the conservation and development of natural resources all over the country and spreading widely the network of socio-economic overheads. The proper organization of the unit of agricultural production and the assurance of fair terms of trade to the agriculturists will result in better utilization of land, greater productivity, and broadening the base of agricultural production. This would still leave open the main problem of the stages through which industrialization is achieved.

The approach adopted at the beginning of the Second Five-Year Plan to this problem envisaged a differentiation of the field of industries into (1) production goods industries, and (2) consumption goods industries. Among the latter, consumption goods industries producing products similar to those of traditional consumption goods industries were looked upon in a special manner. It was envisaged that, in fields like production of cloth, the increased supply would become available through better and fuller use of existing capital and personnel in the traditional handloom weaving industry, and that no additional investment in the mechanized industry was required. The consumption goods industries products of which were non-competitive, or only partially competitive, with traditional industries were not put under such regulation. The path of industrialization, though never spelled out in detail, was thought to be that of beginning with economic overheads and basic industries and going on to production of capital goods and intermediate products of all sorts.

The theoretic framework of the pattern of industrialization has never been constructed. The details of its actual progress have been worked out *ad hoc* and from time to time, in part through the Development Wing, and in part through the licensing of imports. The

availability of foreign collaboration in given directions appears also to have shaped the pattern of industrialization to a considerable extent. The present situation is obviously unsatisfactory. It leads inevitably to a heavy investment in building-up particular production and consumption goods industries, without reference to any overall plan or perspective.

✓ The most salient characteristic of a poor under-developed economy is the great relative paucity of capital resources. At the same time, modern technological developments are associated with heavy use of capital resources, and the raising of an adequate base of a modern industrial society requires initial investment, on a very large scale, in economic overheads and the basic production goods industries.

In the past, this dilemma has been solved in some countries by beginning industrialization with the relatively less capital intensive consumption goods industries and continuing to depend, for a large period of development, on imports of products of capital goods industries of other countries. However, this imposes higher costs in the long run and makes assured planning of a programme of industrialization difficult. Therefore, in the more recent types of planned industrialization, heavy capital investment in economic overheads, e.g., the transport and power systems and basic production goods industries such as steel and heavy chemicals, is undertaken at the earliest stages. This is supposed to reduce costs, shorten the period of industrialization and make for greater self-containedness. Unless, however, the balance is maintained evenly, industrialization brought about in this manner may impose severe unnecessary hardships on the people and may, in the long run, not even prove more speedy or efficient.

The dangers and defects brought out by the history of the last decade of industrialization in India may be noted at this stage. As pointed out above, rural labour has been starved of complementary resources, and this has happened in considerable part with agriculture also. Not only is this mal-allocation a source of unnecessary distress but it is also bound to retard the development of natural primary resources. Immediately, even a more damaging result of this mal-allocation is that it increases concentration of control over material resources within the nation, and increases greatly the disparities in wealth and income between the capitalistic classes and others and between the town and the country.

The present plan of industrialization in and through private hands results in allocating an increasingly larger and larger share of scarce capital resources to a small class of capitalist businesses. It is in this class that modern finance, industry and trade have been, concentrated through historical development, and it is members of this class that are in a position to take advantage of the allocation of

capital resources to the modern industrial sector. The largest surpluses accrue to this class because of the heavy allocation of capital resources and their utilization of most modern techniques, and these surpluses are naturally retained within the class. This concentration of capital resources and surpluses leads to very serious distortions.

The distortions are the results of many types of influences. In the first instance, because of inadequate planning and regulation, capital resources are used for investment in directions which obviously do not or should not command high priority in the national plan of industrialization. The classic instance in this regard is that of the establishment and expansion of the rayon industry during the Second Five-Year Plan period. Such distortion does not mean merely an initial allocation of a volume of capital resources wrongly, but does also, through creating a block of investment and interest, preempt a continuous stream of future capital resources in the wrong direction.

The most serious distortion, however, comes through the distortion in income distribution to which the present allocation of capital resources in the plan of industrialization inevitably leads. The allocation of heavy capital resources to certain classes operating chiefly from the biggest cities leads to a concentration of surplus in their hands rapidly increasing their relative income and the incomes of those connected directly or indirectly with their activities. A progressively disproportionate share of the increase in the national income is thus inevitably concentrated in these hands.

This concentration of income increments strongly influences the nature of effective demand for consumption goods, which in turn affects the composition of productive industry. The phenomenon of a stagnant demand for coarse cloth, while the demand for rayon goods and air-conditioners and refrigerators and private cars is buoyant, is a reflection of the distortion of income distribution. This distortion naturally leads to distortion of the production system through making investment in production of air-conditioners or refrigerators or rayon goods specially profitable. The relative profitability in terms of market pricing of various investments may be a sound guide for capital allocations in a fairly egalitarian society. In a society in which inequality is great and is rising, the market prices as guide for long-term capital investment are obviously completely misleading. However, at present, industrialization in India appears to work chiefly through this guide; it cannot work otherwise because of a number of basic aspects of present economic policy.

The first important such aspect of present economic policy is dependence on the accrual of savings in the hands of the private capitalists, and the leaving of a number of important investment decisions with them. The decision to leave the accrual of savings

in private hands necessarily gives a turn to fiscal policy. This has a number of aspects such as levels of direct taxation of individuals and companies, tax concessions of various sorts, orientation of import licensing, etc., all of which ultimately have the same result. They increase to such a high extent the personal and corporate incomes controlled by the small group of high capitalists, that they and their associates, after indulging in the highest personal consumption expenditures by modern Anglo-American standards, yet have sufficient capital resources to invest in the private sector in modern business.

As if the distortion brought about by this basic policy was not enough, certain special accentuators have been added to it in recent years. These are: the twist to import licence policy in the supposed interest of export promotion and the role of foreign collaboration. Both the import and the export licensing have, throughout the plan-decade, been controlled *ad hoc*, and have never been explicitly connected with a path of industrialization and never been formulated in relation to long-term planning. The latest phase of import licences for export promotion leads to granting import licences in a special manner for a supposed increase in exports, overall results and long-term future of which are doubtful and have never been examined.

The only effective result of this policy is to expand, obviously disproportionately, capital allocation in given directions, and the initial step has continuing cumulative effect. The favoured industrialists not only obtain allocation of currently scarce foreign-exchange for importing capital goods and raw materials but also, in the process, expand the base of production industry in their control; this must in future progressively attract, according to present policies, higher and higher allocation of capital resources and foreign-exchanges. The policy seemingly directed towards immediate export-promotion thus is really meant for, or at least results in, even a more disproportionate allocation of capital resources to a small class than would happen otherwise.

The other accentuator is the special encouragement to private foreign business investment. This again inevitably leads to concentration of capital resources in the same class as before. Foreign collaboration means a billionaire talking to a billionaire; and to the quantum of resources that are brought in through collaboration of the foreign collaborators have to be added additional allocations of internal resources to the Indian partner for completing the transaction. The results as apparent today are not surprising. The relative success of the plan is supposed to be in modern private industry. This has the amplest allocation of capital resources and can, because of its control over surpluses, command the best qualified personnel and, through foreign collaboration, the latest know-how also. In spheres other than that of modern business, the organiza-

tional problems are of immense difficulty, because it is in this sphere that mere imitation will not do. The personnel here is the most untried, and capital resources very inadequate. But the relative success of modern industry is itself considered to be a strong reason for continuing the existing patently unequal allocation of resources.

V

ALTERNATIVE APPROACH

Before presenting the alternative approach it may be noted that some present trends in the economy threaten to limit the possibility of radical adjustments in the future. These trends are: concentration of capital resources and economic power in a small number of hands; concentration of industrial population in the largest urban centres; highly disparate rates of growth in sectors and locations; absence of programmes of social security; and continuing low standards of living. There is no hope that any of these trends will be reversed during the next ten years if present policies continue, and if they are not reversed during the next five years or so, then developments will have gone too far to be reversible.

The path of planned development that we have adopted, with its emphasis on forced growth of basic and capital goods industries, is largely modelled on the experience of the communist countries. However, the programme of development along these lines in communist countries is protected by a number of concurrent measures. In the main, these are: (i) basically egalitarian distribution of incomes and the destruction of economic power residing in private-interest groups; (ii) detailed control over the prices and distribution of consumption goods, and detailed planning of the types of consumption goods industries set up and of consumption goods produced. This is combined with the assumption, from the beginning, of basic responsibility by the State towards minimum provision of food and consumption goods, and for finding work for all.

None of these safeguards is available in the Indian plan. The alternative path in the capitalist countries has usually led to initial investment in the less capital heavy industries so that the distortions induced by industrialization are not, at least initially, too great. Further, the much greater responsibility thrown on the industrial classes to find their own capital resources and to shoulder risks imposes on them consumption restraints, as in Japan, which keep the inequality in distribution of incomes and consumption levels from becoming too great. The attempt in India to follow the communist route of planning combined with protection to high industries but little protection to farmer or consumer, has the result that we have the worst of both the worlds. }

The result of continued operation of present trends will be unrestrained growth of metropolitan centres, continued disintegration of rural communities and stagnancy in many agricultural areas, and buoyancy and rapid growth in industries producing luxury or semi-luxury goods. The whole process will also be wasteful of capital resources. It may be assumed that where the demand for consumption goods is not highly varied and can be satisfied with large production of a restricted number of standardized types, the investment of capital per unit of consumption goods will be lower than where the demand embraces a large number of luxury items, where there is little standardization, and where the demand for each type is relatively small. The latter type of development is not appropriate to poor countries and they cannot afford it. It is still the type to which present trends lead in this country.

✓ In framing the alternative approach, I accept the initial division of production goods industries and consumption goods industries contemplated in the Second Five-Year Plan. I should add a further three-fold division of the production goods industries, viz.: (1) the economic overheads, i.e., the transport, power and other systems; (2) the basic industries such as steel, coal and other minerals, heavy chemicals, etc.; and (3) industries producing the capital goods required by the consumption goods industries.

I start with the proposition that in the ultimate analysis the whole development is geared to a greater *per capita* availability of consumption goods and that the pattern of capital goods industries (class 3 above) has to be related to the composition and technique of consumption goods industries. This, in its turn, is dependent on the extent and nature of demand for consumption goods and decisions regarding the technique and location of consumption goods industries.

Basically, therefore, in a plan, which is drawn up by reference to a stage of development to be reached sometime in the future, the central requirement is to project a picture of consumption requirements at that time in the future. This projected picture of consumption requirements has two important aspects. It involves, firstly, a projection of the distribution of incomes in society. Obviously, the demand for consumption goods with a distribution as highly unequal as that of today in India will be very different from the demand for consumption goods if we attained the equality of distribution of incomes similar to that of even the U.K. or Japan. The second factor is the projected pattern of industrialization, especially in relation to location and technique.

✓ At this stage, some values and considerations which might be, in part, extra-economic have to be introduced. The main relevant value in this context, is that attached to the development of dispersed and decentralized industry. This value can be derived through the

importance attached to dispersal of population over space and the avoidance of conurbation, and to units of productive activity becoming relatively small. Alternatively or in addition, the value can be derived and the programme justified on the basis of the limiting conditions of development in a poor country with a large population. Our population is dispersed over rural areas mainly in units of less than 5,000 population: the population is growing fairly rapidly. The experience of the last decade shows that even with a significant increase in the production of modern industries, urbanization, as a whole, does not take place at a rapidly increasing rate. At the same time, the worst aspects of urbanization such as concentration in metropolitan areas, the mounting-up of economic and social costs such as strains on the transport systems, virtual non-existence of housing, and degrading conditions of living for large masses of urban population, are being accentuated in spite of the fact that the bulk of plan resources made available for housing and improvement of urban amenities are allotted to the largest metropolitan centres. The growing concentration in these centres with growth of misery and stagnation in the country-side can be avoided only by taking a radically different view of the future pattern of growth.

Unless industry is deliberately dispersed and decentralized, neither the problem of the great cities nor that of the villages can begin to be dealt with. If this is accepted and if relative equality in distribution of incomes can be achieved, the pattern of consumption goods industries of the future will become definitely oriented towards mass goods production in dispersed locations.

The chief problem here is to make this compatible with efficiency in production and with the process of development. Unfortunately, the case for this has become weak because of the almost complete failure of the Khadi Board and related organizations during the Second Five-Year Plan period. Instead of following proper developmental programmes, they wasted resources in what were not even effective relief measures. In the same manner, the common-production-programme approach was not kept in the re-organization of handloom industry so that there was neither efficient development of that industry nor any serious contribution by it towards additional supply of cloth for the masses.

The whole of this programme therefore needs to be re-examined from two points of view: The first is the strictly short-term point of view of avoiding technological unemployment. This problem is confined to a few widespread rural industries and cannot be effectively tackled by the older khadi-and-village-industries approach. The approach here has to be, on the one hand, to insist on a common production programme and, on the other, to move at a fast pace at improving the technique of traditional industries. In this sphere the

main hopeful development during the last five years seems to have been in the direction of some research related to mechanization of village industries, which involves the adoption of a much wider view of possibility of combination of techniques than before. This is best exemplified in the recent work of the Central Research Institute at Wardha (The implications and the directions of the work are set out in brief in an article by Dr. M. Sadashiva Rao on mechanization in village industries, in the February 1961 issue of Khadi-Gramodyog published by the Khadi and Village Industries Commission.)

The technical improvement and part mechanization of a village industry may enable it to produce mass consumption goods more efficiently and cheaply or it may, as in the case of handmade paper, be oriented towards the production of highly specialized costly goods. In the latter case technical transformation will add an efficient source of supply for certain types of goods required in the economy but will make no contribution towards production of mass consumption goods.

The second and the long run point of view, which transcends the problem of technological unemployment, presents a continuing problem for the whole period of development. This is that of increasing adoption of modern techniques and scientific advance in an efficiently decentralized industrial sector producing intermediate goods and goods for mass consumption. This is a matter in which the approach adopted in village industries research has to be greatly widened. There has, in the first instance, to be some broad division of total products or goods which, in the modern context, can be produced in small units and dispersed locations, and those others which can only be produced efficiently in large-scale units employing the most capital intensive technique. When comparing, in this context, the efficiency of smaller units with the larger, allowance will, of course, have to be made for compensating advantages of dispersed industrialization. In the main these are represented by the savings of costs and overheads such as of transport, housing and civic amenities, and may also be represented by somewhat smaller monetary wage-payments.

The general technical problem in this is that of the breaking-down of discontinuity. There is not at present sufficient research and experimentation regarding methods of efficient production at various levels of use of capital or scales of production. In continuously advancing industrial societies, with an already varied and large base for the economy, there is no inducement for such experimentation. It is, however, of the utmost importance in India to establish a path of continuing efficient production at various levels of combination of resources in varying sizes of establishments.

The approach thus sketched briefly accepts immediate and continuing investments in the transport and power systems and in the

basic industries. It would suspend the further extension of the machine industry which produced consumption goods, and would try to meet the increased demand for consumption goods through increased production by traditional industry using improved techniques, or by new, dispersed and decentralized industry. The evolution and planning of industry producing the capital goods required by consumption goods industry would then be related to the character and extent of the new dispersed industry. This approach assumes a number of measures. It would require: (i) elaboration and full implementation of the idea of common production plans; (ii) regulation of investment in consumption goods industry and industry producing capital goods for them; (iii) vigorous experimentation in establishment of efficient, decentralized industry; and, above all, (iv) prevention of a premature increase of the demand for luxury and semi-luxury goods.

In the absence of appropriate and careful planning in this manner, future developments must inevitably proceed along present lines and lead to development of industries producing capital goods such as those used in the mass consumption goods industries of the western industrialized countries. These will be increasingly associated with heavy capital investment in large individual establishments. With the low average income of our people, the number of such establishments possible will remain small. So that employment given by modern industry will remain small and concentrated in cities, and the agriculture and the rural population will greatly continue to lag behind.

VI

POLICY REQUIREMENTS

I may conclude this note by indicating briefly the policy requirements of the approach tentatively sketched above. Instruments of control and regulation at present possessed and used by government will not need to be amplified. Only their use will have to be differently oriented. In the first instance, government will have to frame a price-policy and implement it. The primary objectives of this policy will be: stabilized prices of agricultural products, and holding the price line for essential consumption goods. Government's price-policy will have to concern itself also with essential industrial raw materials, and intermediate and capital goods which are in short supply. For making price-policy effective, government will find it necessary to undertake directly or through co-operative or corporative channels a measure of distribution of essential consumption goods and of allocation of some goods and services required by industries.

The regulation of foreign trade will have to be related to a long-term policy, and the system of licensing which causes frequent disturbances to markets and provides for extra profits for speculators and favoured parties will have to be changed. In all these matters, no more than effective implementation, or certain adjustments, of existing policies is needed.

In some other respects a radical departure from them will be required. This is chiefly to achieve a more equal distribution of incomes and to route major savings through public agencies. We are not concerned in this context with the savings-investment effort at the level of the agriculturists below the ceiling or the small businessman. The problem relates to savings required for investment in large-scale modern business. Even today these are derived to a large extent through government-controlled institutions like the Industrial Finance Corporation of India or the Life Insurance Corporation. However, even the fractional dependence, in this matter, on savings formed in private hands weakens and warps the state policy. For, as pointed out, this makes adequate control over levels of consumption impossible and gives a wrong turn to fiscal policy.

Government policy must be oriented to seeing that incomes left with individuals after taxation do not exceed the maximum permissible levels of consumption expenditure, and that all major finance required for modern organized business is obtained through public-regulated institutions. It may be necessary even to see that investment of own savings of corporations is subject to regulation. It follows that either directly or through taxation there is fairly strict limitation of levels of individual incomes and of salaries both private and public. Without these measures it will be impossible to achieve a proper long-term plan for dispersed industrialization, or to prevent grave distortions of the productive system through upsurge of demand of luxury types of consumption goods. When these measures are adopted it will be easier to standardize and rationalize the production of consumption goods.

The policy will require, on the other hand, assumption of some responsibility on the part of government for the provision of employment opportunities and for guaranteed distribution of food. With an effective price-policy and a controlled purchase-and-distributive mechanism, plan targets can be framed chiefly in terms of real availability in physical quantities of food and essential consumption goods, and with these assured, problems of deficit financing will become tractable.

The new approach will also require a different attitude on the part of the governments and the people to a number of questions. In matters of public service, for example, adequate performance at levels appropriate to a poor country rather than prestige and show expen-

diture among general squalor would be the goal. Again, if real progress is to be made towards decentralized industry, the governments of states will have to give up their present scramble for location of giant industrial units, public or private, within their border. The establishment of such lone units solves no problems for the economy of the state as a whole. In most cases, the only result of the scramble is to hasten further the progress of large-scale industry and to secure for it not only extra allocations of capital resources but to reserve for its use valuable resources of raw materials. This latter phenomenon in particular, greatly undermines possibilities of the growth of small-scale industry.

The policy in relation to industry implied in this programme does not lead to wholesale nationalization or to abolition of private property in means of production. Agriculture, after the operation of a ceiling, and all kinds of small business will be almost unaffected by this approach, except that in each sector co-operative effort will be encouraged. The operation of the new policy will be directed only towards large organized modern business, especially the centres of concentration among them. (It may be noted parenthetically that the large concentrations in Indian business today are comparable to the Japanese *Zaibatsu* which were forcibly broken up by the American Occupation authorities.)

Two sets of measures appear to be needed in this context. Firstly, the adoption of a ceiling applied to the ownership, either directly or through partnership or shareholding, of means of production by individuals and families. In view of the large scarcity of material resources within the country and the adoption of the concept of the ceiling in relation to agricultural land, such a measure becomes necessary. In this context, however, the resources, ownership of which comes into government hands through operation of the ceiling, need not be redistributed. Obviously, in large modern organized business, ownership is divorced from control and operation, and the structure of the operational unit will not be disturbed through a further dispersal of ownership or through some assets vesting in government. The dispersal will be a measure chiefly helping more *egalitarian* distribution of wealth and income.

To affect the operational units of big business, the State will have to act in another manner—by taking seriously its responsibility as substantial financier of or shareholder in most of these. Through guaranteeing loans, and through the institutions it controls, the State is already in the position of a guarantor, substantial creditor or owner of large business and will become increasingly so. It is, however, not necessary for the State to control policies of the individual companies. All that is necessary is that their operations are conducted as befitting the concerns affected by public interest. This can

be done through imposition of uniform accounting systems, through appointment of independent auditors owing nothing to the Directors, and through other measures of surveillance by government directors, which will ensure that acts of evasion, avoidance, collusion, etc., intended to defeat legal regulation or State policy, are prevented.

If concentration of power or control in the hands of individuals or small groups can be avoided through operation of the ceiling and the public character and open conduct of business of large companies enforced through action of government directors, no steps towards nationalization need be taken. It will be observed that the measures suggested are no more than the minimal necessary to fulfil the directives of the State policy of the Constitution.

Another direction in which special policy measures are necessary is that of urbanization. In large metropolitan cities, historical forces have centred many activities and services which in turn attract streams of new activity. Most of these cities are now overgrown and the costs of adequately maintaining them are rising rapidly. However, in this instance, these increasing costs cannot be transferred, in a sufficient measure, to the operators within the city, and there is glaring divergence between individual and social benefits and costs. Even the measure of making some large new units provide for part housing of labour does not adequately compensate for the total effects of the establishment of a new additional unit in cities like Bombay.

Therefore, immediate policy must act in three directions: effective stoppage of any further expansion in the largest cities; increasing costs of establishment and operation in some large cities; and increasing the supply of services and reducing their costs for the towns and small industrial centres. All this has to be combined with a programme of re-organization of village layouts and of rural housing. Part of the latter will fall under the measures for providing employment to rural labour, but the total programme has to be meaningfully co-ordinated. If possible, special incentives may be afforded for industry to move out of certain areas and into certain other areas.

This note has been confined to indicating the most salient economic aspects of what, in my opinion, constitutes the right approach to planning in India. However, before concluding, brief reference may be made to some other aspects. Firstly, there is the re-organization of administration. The chief problem here appears to be that of the hierarchical and caste structure of the services and the problem of the dominance everywhere of the non-expert administrator. Without a radical change in the recruitment, organization and definition of mutual relations of the various services, this problem cannot be solved.

The second is the problem of decentralization. The decentralization of planning is at least as important as the decentralization of administration. The only observation I should make in this context is the great potential danger of focussing exclusive attention on the village and treating it as an independent autonomous unit. Whether in planning, in operation or in general administration, an integrated structure of a tier of area-authorities, organized on the federal principle, has to be aimed at. I welcome in this context the recommendation made by the recent Maharashtra Committee to experiment, in the first instance, with substantial devolution at the district level.

Beyond administrative arrangements there lies the problem of the centre, or centres, of power in society and the current use of that power. There is little doubt that our society, especially the portion that constitutes the urban middle classes and the political and economic ruling strata, is corrupt and callous and is becoming increasingly so. What I mean by being callous is exemplified by avowed Gandhians violently opposing measures for restraining the further growth of Bombay City, or the Food Minister congratulating himself on having solved the problem of food when all that had happened was that the level of *per capita* availability of food in the country had been barely maintained through increased imports from abroad.

The main source of existing corruption in society is the concentration of economic power and resources in the hands of a small group of capitalists. The corruption was laid bare, most explicitly, when the ruling political party provided by law for contributions from public companies. But it is all pervasive and operates equally powerfully whether in the case of high-placed administrators looking, in the future, to jobs for themselves or, in the present, for their sons and relatives in private business, or in that of the station master booking a wagon for consideration. A poor, overcrowded society, in which opportunities are scarce and rewards very uneven, can be easily corrupted by those who hold concentrated economic power. Therefore, no progress is possible unless the concentration is broken down. When this happens and we are able to take a total view of all elements and of both town and country, the approach of beginning with employment and rural labour commended here can receive attention.

THE FINANCE COMMISSION AND DEVELOPMENT PLANNING*

THE ESSENCE of a federal system is the concurrent existence of a general government for the country as a whole and several regional governments endowed with specific powers. Formerly, the general government and the regional governments were supposed to operate in clearly demarcated spheres and to finance their activities from independent sources of revenue. With the growth of activity of the modern state, strict separation in the exercise of governmental powers and in the sources of revenue has proved difficult to maintain. Federal governments have, as a rule, written constitutions, and the division of functions and financial powers in them become relatively rigid. At the inception of the State, a conscious attempt is usually made to match the functions of each authority with the resources required to fulfil them. However, with the passage of time there would be no guarantee that the expansion of responsibility due to a widening interpretation of functions would correspond closely with the elasticity of the allotted sources of revenue. Moreover, the modern trend towards greater political and economic integration requires acquisition of overall powers by the general government in many respects, including some aspects of fiscal operations. The result has been a perceptible change in federal theory and practice. Thus, while during the last two decades the federal form has proved popular among new states, rigidity in division of powers and finances is being increasingly avoided. Providing for concurrent exercise of powers in certain spheres by the general government and the regional governments has become common, and financial arrangements have been made adjustable through such devices as the sharing of revenues and the system of grants.

The main objective of a federal system is the maintenance of autonomy—relative independence of action within defined spheres for regional governments. The avoidance of rigidity in separation of powers and sources of revenue and closeness of constant co-operation between the general government and the regional governments cannot, and should not, mean changing the basic federal concept and reducing regional governments to the status of subordinate authorities. The problem of federal finance is thus that of maintaining, through changing circumstances, needed correspondence between functions and resources without the use of any coercive power. The satisfactory working of the financial system of a federation does not

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depend wholly, or even mainly, on the initial division of resources between the Union and the states but on the smoothness and propriety with which later adjustments are carried out. Fortunately, the framers of the Indian Constitution had realized fully the need for providing for such adjustments. The Constitution provided not only for a variety of combinations relating to levy, collections, assignment and the sharing of revenues between the Union and the states but also for a system of grants, recurring and non-recurring, fixed or variable, conditional or non-conditional, from the Union to the states, giving power to the government of the Union to vary the amounts or proportions of grants from state to state. Above all, the Constitution provided for an appointment by the President, every quinquennium, of a Finance Commission to make recommendations as to the financial arrangements between the Union and the States, including the sharing of taxes and the operation of the system of grants. The financial provisions of the Constitution have, in practice, proved fairly satisfactory. With their help, the Union and the states have passed, without any major difficulty, through many stages of re-organization. The quinquennial Finance Commissions have been so composed as to command general confidence and have done their work to general satisfaction. The Union Government has also established the convention of implicitly and promptly accepting their recommendations as a whole. The problems of federal finance that confront us are, in the event, problems arising out of developments that had not been foreseen by the framers of the Constitution, and for which consequently no provisions have been made in that document.

Even before the appointment of the first Finance Commission, the Planning Commission had been set up and the First Five-Year Plan launched. The finance of development planning has created not only a number of new problems but also a duality of authority within this sphere. Duality arises because while the plans cover both the revenue and the capital expenditure, the main function of the Finance Commission under the Constitution is to make recommendations regarding the devolution of revenue resources. The Finance Commission has to assess the needs of the states, and has, for this purpose, to make estimates of existing resources of the states their committed expenditure, the forecasts of expenditure, and the additional resources to be raised for meeting this. The Planning Commission, in drawing up the plan, has to undertake similar exercises, the results of which may or may not be deemed acceptable by the Finance Commission in particular directions. The Finance Commission of 1957, which first dealt with these problems, felt that some anomalies would inevitably arise where the functions of the two Commissions overlap, and recommended that, in order to co-ordinate the work of the two more effectively, the period covered by the

recommendations of the Finance Commission should, in future, coincide with that of a Five-Year Plan.

The difficulties arising out of the overlapping of work and differences of periods may be regarded as of minor importance. The change, which has created the most serious problem, is that planning has put a significant part of the financial arrangement between the Union and the states out of the purview of the Finance Commission. This has happened in two ways. Firstly, capital expenditure, which under planning has assumed increasing importance, is not covered by the activities of the Finance Commission. The Finance Commission of 1957 was asked, specially, to make recommendations regarding modifications, if any, in the rates of interest and the terms of repayment of the Union loans to states and made valuable suggestions for consolidating and rationalizing these. It did not, however, deal with the quanta of the loans or other forms of capital assistance. The Finance Commission of 1957 did not also cover fully even the revenue expenditure of the states on development account. A system of grants or assistance for specific activities by the centre to the states routed through the Planning Commission has been developed since the inception of the first plan. This had become very important in total finances of the states even by 1957. The following quotation from the report of the Finance Commission of 1957 throws interesting light on the resulting situation :

"Since our scheme of devolution involves substantial transfer of resources for implementing the revenue portion of the plan, which for most States is reflected in the grants-in-aid recommended for them, we considered whether we should make any part of the grants-in-aid conditional on such implementation. We would have liked to do so, if the assistance provided under our scheme had represented the major part of the expenditure. Under our scheme, the States will be receiving a little less than a third of the outlay and a little over a third will come by way of specific assistance from the Union under the plan ; for the balance they will have to raise their own resources. We have, therefore, decided not to impose any condition on the grants-in-aid recommended by us."

This paragraph raises an issue of extreme importance in the context of the working of a federal government. While the Finance Commission may not be competent to cover capital expenditure, there is nothing to suggest that it need or should take a partial view in relation to the coverage of revenue expenditure. However, confronted with a situation in which a variety of grants-in-aid were already being given by the Central Government and Ministries to the states, the Commission of 1957 took the continuance of these for granted. It

made estimates of total expenditure on development, which would have to be incurred by each state in the ensuing five years, made calculations about the portion of it that could be covered by a state from its current revenue and through additional taxation, etc., and further allowed for grants likely to be received from the Union during the five-year period under the existing schemes and arrived in this manner at the net assistance through grants required by a state for meeting its projected development-expenditure. Because the Commission took the existing grants-in-aid for granted, if felt that it could not impose conditions on the utilization of the grants that it recommended. The result appears to be doubly unfortunate. The Constitution of India lays down that it shall be the duty of the Finance Commission to make recommendations to the President as to the principles that should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India. The grants-in-aid, which the Finance Commission took for granted, are made definitely out of the Consolidated Fund of India. In not examining them and not making recommendations regarding principles that should govern them, the Commission appears to have failed in its duty. Because of this failure it did not also discuss in detail and make recommendations relating to the conditions that should be appropriately attached to grants for development expenditure.

This issue has far-reaching importance. Through the last decade the states have come to depend on the Centre for an increasing share of their revenue resources. Apart from the fact that the expanding sources are chiefly with the Centre, considerations of administrative convenience, etc., have led to an expansion of the scope of central excises and to some reduction in the coverage of sales taxes. Further, the ability of individual states to raise loans is limited and foreign aid, importance of which has grown apace, accrues wholly to the centre. On the other hand, in development planning the expenditure liability of the states increases, at least, as much as that of the centre. In consequence it becomes necessary to transfer, through some means, substantial sums from the centre to the states. During the last decade this has been, in the main, done through a large number of specific grants made under a large variety of terms and conditions. The characteristics of the system that has thus developed are brought out in the following quotation from a study by a high official (P. P. Agarwal: *The System of Grants-in-aid in India, 1959*):

“What is stated in the preceding pages will show that except in regard to the grants recommended by the Finance Commission, there is a lack of coherence and conformity to any broad principles in the system of grants-in-aid at present in force in India. It is difficult to make even a broad generalization regarding the pattern

of assistance at various levels. Since during the early period assistance was given to individual schemes as and when they came up, no general principles could be framed for the country as a whole. Thus till recently, the basis of grants under Grow-More-Food Schemes for Part A and Part B States differed from the basis governing grants to Part C States. Grants for elementary education even today vary from scheme to scheme, and sometimes from programme to programme. Thus, while 50 per cent is given for ordinary schools under the special schemes relating to education of girls, 60 per cent is given for basic schools under the same scheme.

"A significant fact is the comparatively heavy dependence of the State on Central resources. In the case of most of the grants considered in this study, the Centre's contribution is generally larger than that of the States. The Centre usually bears 50 to 75 per cent of the cost, though many of the schemes are primarily the concern of the States. Almost all grants by the Ministry of Education are in excess of 50 per cent of the cost of the schemes. The Ministries of Labour and Home Affairs meet about 60 per cent of the cost. In the case of the Ministry of Health, the general pattern is to give 75 per cent of the non-recurring and 50 per cent of the recurring costs."

The facts set out above present a *prima facie* case for a full examination by the Finance Commission of all the grants-in-aid given by the Union to the states, and determination by that Commission of the principles that should govern them and their amounts for the next quinquennium. As this proposal would appear radical to many, it is necessary to examine arguments that could be adduced against it. It may be argued that the burden imposed on the Finance Commission by the proposed requirement would be too heavy. It would have, firstly, to take an overall view of the resources and needs of each state and arrive at the size of the total expenditure, including development expenditure, which should be covered through revenue expenditure. Secondly, it would have to examine the operation of the immense number of separate schemes of grants and frame the general principles that should govern them.

The first of these tasks the Finance Commissions have, in the past, always attempted. In the context of development planning, the chief question is regarding the extent to which the Finance Commission should rely on the assessments and calculations of the Planning Commission and to what extent it should make an independent effort. The Finance Commission has a special responsibility regarding Union-state arrangements and has also to ensure fair treatment as between the states. Therefore, while it would undoubtedly be right for the Finance Commission to accept the judgement of the Planning

Commission regarding the total size of the national plan, the details of state needs, allocations, etc., should be examined by the Finance Commission itself. Today, there is no well-defined arrangement for settling such vital issues as the size of the plans of the states. The Planning Commission, in consultation with individual states, largely determines these and they are finally endorsed by the National Development Council. The N.D.C. is, however, hardly a deliberative body, and its sanction is largely a political act. The main responsibility remains with the Planning Commission, and the size of the plan of a state is the result mainly of bilateral negotiations of the government of States with the Planning Commission. This is hardly a satisfactory way of doing things, and it has not broken down chiefly because of the extra-constitutional factor of a single political party controlling all governments. It would, in the long run, be highly desirable to interest the Finance Commission in examining the relative sizes of the plans of the states through its responsibility of assessing quinquennially the revenue resources and needs of individual states.

The other task, that of examining the varied system of grants-in-aid, will no doubt prove highly complex and time-consuming in the first instance. However, it is on that account all the more necessary that somebody should examine, at an early date, this wild growth and systematize its structure: the body most competent to undertake this task is the Finance Commission. The present system of central grants suffer from most of the defects attributed to a bad system of grants. However, its most glaring defect is the manner in which it is insidiously undermining the autonomy of states. This happens, chiefly, in two ways. Firstly, most State governments are tempted by offers of grants, to undertake the activities to which grants are attached and in the form in which the centrally framed scheme is presented. This often leads to serious misdirection of effort in the context of particular circumstances of individual states. Secondly, the administration of grants, with the usual examinations as to admissibility of expenditure, etc., places very considerable power, often unfairly used, in the hands of inspecting officers of the Ministries and the Planning Commission. The total result is the undermining of the initiative of State authorities and the building-up of feelings of resentment. There is also the uncertainty, in some instances, regarding finance for continuance of activities already initiated. A number of these defects would be removed and the state governments would begin to operate more freely, if the basic principles governing the structure and operation of the entire system could be first laid down by the Finance Commission, the system rationalized in the light of these, and then subjected to periodic examination by successive Finance Commissions.

One need not pay much attention to the fears expressed that if the entire revenue expenditure for the quinquennium is provided for through the Finance Commission's recommendations, there would be no incentive to State governments to undertake maximum effort on their own account or that this would lead to misdirection of resources. The recommendations of the Finance Commission would themselves be based on calculations about the results of the efforts to be made by State governments. Consequently, the total resources required for the plan could not become available without appropriate and adequate effort on the part of the states. Secondly, when it is proposed that the Finance Commission should provide for all needed revenue resources, it is not suggested that they should be made available without any conditions being attached. The quotation given earlier, from the report of the 1957 Commission, indicates that that Commission was inclined to recommend conditional grants but refrained because it was providing only for partial finance. With a full provision, there need be no such hesitation on the part of the Commission.

I have raised in this article only one issue in relation to problems of federal finance in India. However, I believe that the issue so raised is both fundamental and timely, and that if the Finance Commission could be induced to adopt the point of view put forward, a very significant improvement in the present situation would follow.

SOCIO-ECONOMIC SITUATION IN INDIA

CONVOCATION ADDRESS *

I AM EXTREMELY grateful to the authorities of the Nagpur University for honouring me with the invitation to deliver this Convocation address. I experienced some difficulty in choosing the theme of this address. It had to be one on which I had something to say and which could also interest the audience, particularly young University graduates. After some thought I have decided to speak about the aspects of the socio-economic situation in India and the possibilities for the future that they indicate, which affect all citizens and require their attention.

I begin by calling attention to features of the present situation which are causing concern. There appears to be very general agreement among qualified observers that there has been, since independence, an increase in corruption, and that this is specially in evidence among the highest and most powerful strata in society. It is also widely reported that among large sections of our population and over wide areas a sense of frustration and a feeling of disillusionment prevail. The advent of independence and the responsibility for self-direction that it threw on the nation should have made us keenly conscious of social obligations. The changed circumstances should also enthuse and invigorate us in efforts at all-sided improvement and advance. That this has not happened, points to some fundamental defects in the existing situation.

An analysis of the nature and extent of changes that took place at Independence and an examination of new features that have since emerged may help in locating these defects. I shall attempt to do this briefly. For at least a century before the coming of independence, leaders of our society were deeply concerned with the low state to which we had fallen and the paths and prospects of our regeneration. It was agreed that a number of features of the internal structure of our society together with the conditions created by foreign rule were responsible for our depressed state, and that strenuous efforts were necessary in all spheres, social and educational, political and economic, to achieve progress. Leaders in these efforts, whether the effort was general or sectional and covered all aspects or only some, had to exhibit similar qualities. They had to be critical of the people and yet enthuse them and had, for the most part, to work against heavy odds or at least without adequate support. In a number of instances, they incurred the wrath of government and had to

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suffer a variety of hardships if they persisted in their chosen paths. Courage, integrity and, above all, a disregard of immediate self-interest were, in the circumstances, essential and were continuously exhibited in a varying degree by workers in movements of all kinds. Even businessmen incurred some risks when they pressed for the acceptance by government of economic policy in national interest. All this affected our scales of value and prestige and the moral tone of our society.

The advent of independence changed the situation in one important respect. The efforts and sacrifices undertaken to overthrow foreign rule were no longer necessary. The large social, economic, educational, and other problems facing the country could not be solved merely on the coming of independence. However, it was now the authorities of the State that could and did take the lead in planning and conducting effort in most directions for their solution.

India attained independence through a peaceful transfer of power. There was, consequently, relatively little change in the form and structure of administration. The most important change was among those who held the reins of political power. Those who had for long fought against the British, replaced the British and their associates. This was natural. There has been much adverse comment on the preference shown by the Indian National Congress to persons who had been sent to jail as political agitators by the British, in the formation of the early ministries before and after independence. I do not see anything to deride or disapprove in this. During British rule when future developments were unpredictable most of those who took a stand that might land them in jail risked a great deal. Jail-going was thus broadly a test of character; and there is everything to be said in favour of using such a test.

What was, however, surprising was that the change of rulers was not accompanied by any large change in the external arrangements connected with the manifestation of political authority. In a colonial regime the location and style of the residences of rulers, the display of pomp and the security measures taken at public appearance, were all connected with maintaining the sense of separateness—the distance between the ruler and the ruled—and the impression of power. These were or should be irrelevant after independence and yet the new regime has fully maintained the trappings of the old.

Also, the administrative structure remains almost entirely unchanged. The peculiar circumstances of British rule in India led to development of a structure of administrative services, which combined the rigid separation-characteristic of a caste society with the careful gradation-characteristic of a class society. The Civil Service with a rigid, one-track recruitment-pattern wielded power at the top. Other services and experts were placed in an inferior position and

deliberately excluded from the highest executive positions and from policy-making. The interests of the superior-service personnel and particularly of the civil services were important factors in policy and posting decisions. All of this, essential in a colonial regime run by a mainly alien service, remains unchanged today. There has been no change, no thought given to a change, in the structure of the services. Postings at the highest level in government and in the large public sector continue to show that the interests and even convenience of members of the superior administrative service are important determinants of public policy; and, as recent experience has brought home to us, government attaches much greater importance to maintaining the prestige of high officials than to taking the public into confidence.

A colonial regime is concerned chiefly with the maintenance of power, and welfare aspects of governmental activity cannot receive much attention from it. Consequently, all administrative arrangements, including the provision of public amenities, in such regime are made to centre round the convenience of officials and of the 'superior classes', and no particular attention is paid to the needs of the 'lower' classes and the poor. It would, I believe, not be unfair to say that even in this regard the shift since independence has not been large. For example, the accommodation provided and attention paid to the convenience of first-class passengers and third-class passengers continue to exhibit the same disparity as of old. The difficulties encountered by the poor and those without any backing in obtaining access to and attention from administrative personnel remain almost as great as before. The dominance of the V.I.P.s and the rich in all projects and programmes, continues to be a marked feature of the Indian situation. In spite of a very large extension of programmes with an educational and welfare intent the manner and pace of operation of administrative machinery remain substantially unchanged.

These represent important carry-overs from the past. The most important positive change in the total situation brought about after independence is the programme of planned economic development on which we have embarked. Rapid economic development has become the main national goal, and all pronouncements and proposals are judged by reference to this goal. Inevitably, the structure of the plans of development and the values implicit in them have begun to mould the current situation; forces set in motion by them should prove even more powerful in the future. The process and the plan of industrialization lie at the core of the Indian effort at economic development; most aspects of planned effort are oriented towards the long-term plan of the building-up of modern industrial production within the country. In other ways also attention has to

be focussed on the process of industrialization and on the modern industry sector. This sector makes the largest and the most intensive use of capital resources. It is the most dynamic sector, and it is in this sector that the largest surpluses emerge. Moreover, as the new and ever-growing urban and industrial sector represents, more than any other, a deliberately-created new socio-economic type, the policies adopted in its creation and the values explicitly and implicitly incorporated in its shape and structure must have a powerful impact on society. It may be added that as economic power within this sector is concentrated in a small number of hands the public importance and influence of those occupying the sector is extraordinarily large.

Excepting a limited field reserved for the public sector, industrialization is sought to be brought about through operations of private capitalists. The plan is supposed to determine the objectives and priorities in relation to industrialization, and government policy is directed towards eliminating risks from the appropriate fields and towards enabling private capitalists to procure the needed resources, material and financial. Licensing of industrial establishments selects the limited number of concerns that are allowed to occupy a particular field. Control over foreign trade appropriately shuts off foreign competition; import licensing enables the favoured to obtain initial supplies of capital goods and recurrent supplies of spares and of raw materials. Materials under control are allotted; State financial institutions give finance in a large measure; and where needed, the government itself stands guarantee. Agreements with foreign collaborators are encouraged and approved and these provide a further, many-sided source of strength to Indian capitalists. Wherever government controls prices, the latter are fixed so as to provide liberal margins to the industrialists, and financial and fiscal policies are shaped to the same end. Direct taxation, we are officially assured, cannot be increased further.

I should like to draw attention to two features of the policy governing industrialization. All growth of modern industry in India since the early twenties has been brought about under a protective regime, major cost of which has been borne by the Indian consumer. In planned industrialization, protection is continued in a variety of ways, and the plan is articulated through selecting particular capitalists for particular fields and enabling them to acquire highly scarce resources of every type. Whatever the financial skill of the capitalist, his success and progress are mainly due to conditions created by state policy and maintained at public cost. Even so, no attempt is made by government to acquire control, to introduce an element of public ownership, or even to do anything to facilitate such a process in the future. Cumulation of gains and the rapid increase of

economic resources and power in particular private hands can thus be described as a deliberate objective of official policy. This view is sustained by other aspects of policy. Almost all government operation is based on the offer of incentives to private capitalists. To give an example, if government desires that a part of the production of an industry which it has helped to build up and which it shelters, should be exported, the only way it can think of achieving this end is to afford special incentives for the purpose to producers in the industry. Incentives always mean, in this context, further opportunities, direct or indirect, of adding to the resources under their control.

The second notable feature of existing policy is its declared reliance on capital formation in the private sector. This apparently simple decision becomes a loaded weapon in the present Indian situation. As indicated above, the pace and direction of industrialization and the level of activity are all more or less directly regulated by government. Therefore, relying on savings of corporations and capitalists means no more than fixing the level of prices and protection at such a level that industrialists are enabled to obtain a large savings margin. Thus not only are the selected capitalists enabled by government policy to establish themselves in particular sheltered fields but also are their conditions of operation so regulated that they command, over and above a normal profit margin, a large savings potential. The result is that the existing group of capitalists is assured of a monopoly of large expansion-opportunities in the future and a continued and an increasingly concentrated hold on the industrial economy. There is little wonder that, since these policies became stabilized some three years ago, the stock-exchanges of the country are in an almost permanent state of buoyancy.

It might be useful at this stage to examine the usual explanation of the above-mentioned policy embodied in the phrase "Production before Distribution". That you can distribute only what you have produced is not truer than that the hen lays the egg. However, equally as the hen itself comes out of the egg, so production cannot be maintained or increased without adequate maintenance in health and well-being of human labour and of natural resources and capital equipment, which is the aim of a proper system of distribution. "Production before Distribution" is therefore no more than a plausible cliché used as a cloak for a policy which its protagonists find it difficult to avow openly. What it conveys, in fact, is that immediate attention should be concentrated on policy which speeds up production, and all other objectives, especially that of distributive justice, should be laid aside. To put it bluntly, it is a plea for allowing concentration of the ownership of means of production and turning a blind eye to the need for improvement of standards of living, with perhaps the added implication that such a policy will be transitional

and can, in due time, be reversed. The plea is based on two assumptions. The first is that it is necessary to ignore considerations relating to distribution in order to speed up production, and the second is that after you have speeded up production in this manner up to a given level, you can turn back and set about to repair the damage in the distributive process. Both these assumptions may be challenged. That increasing inequality or the heavy and continued concentration of the ownership of the means of production in the hands of a few private capitalists is the only way in which you can speed up production, is far from being universal experience in recent times. It is also very doubtful whether you can continue to concentrate economic and other power in society in the hands of small groups and yet later expect that they will quietly allow you to take it away or even that a state apparatus dominated by such interests will want to reverse current policy.

There are, however, many indications that those who determine policy are apt to disregard social costs in the supposed interests of rapid industrialization. One of the sorriest of these relates to growth of our metropolitan centres. The Government of Maharashtra has officially represented to the Finance Commission that a large gap exists between the resources available to the state and the minimum outlay required for the existing population of Bombay City. It is also agreed that the condition and the number of pavement dwellers in the city are among the darkest blots on our society. Yet the Government of Maharashtra not only refuses to take steps to stop further growth but at times even allows new obviously undesirable developments by large capitalists.

The dominance of this resurgent group of large capitalists is the most important and significant change in India since independence. The nature and the extent of this dominance are emphasized when we examine the relations of this class with other important groups. During the British regime the relations of the members of the services with Indian businessmen were moulded by the attitude of the British members of the services. The British civilians traditionally stood aloof from businessmen in general and Indian businessmen in particular. The two classes had little to do with each other, and except in the metropolitan centres, the relations between them were not close; they could not be said to form part of one stratum anywhere. Also, at that time, members of the superior services, were among the recipients of highest incomes in India. There was a small number of Indian businessmen with very large fortunes, but, in most parts of the country, business incomes were not high.

This has changed completely during the last two decades. Since the withdrawal of the British, the Indian public officials do not appear to have evolved for themselves any common scale of values or code

of conduct. Also, in the meanwhile, the relative levels of income of the highest officials and of Indian businessmen have completely altered. The salaries of civilians in money terms have remained almost unchanged, but their value in real terms has fallen greatly. At the same time the economic strength and the political influence of Indian businessmen have increased enormously. Most important of all, the range and field of activity of Indian businesses are now so large that they constitute today overwhelmingly the most important group of employers of personnel commanding high salaries. As the recent Pay Commission pointed out, the relative position of Government and Business, in this regard, had been greatly changed within the short span of eight years between 1948 and 1956. The direction of effort of those who want to get into the top salariat has consequently changed. Their goal is no longer to get into the highest official ranks but into the highest ranks of managers and technicians employed by large Indian and foreign businesses in India. This applies, among others, to sons and relatives of the highest officials as well as of prominent politicians. The pattern of behaviour of officials on retirement has changed simultaneously. Formerly, they usually sought no employment, almost never with Indian business. Today the most highly placed officials very readily find highly rewarding positions within business. From the great consideration with which government treats ex-official employees or associates of business, it would appear that government also approves of these mutually beneficial arrangements. We have thus arrived at the curious position that most officials who exercise large discretionary powers in relation to regulation of business might yet look on businessmen as potential employers or patrons of their sons and relatives and even of themselves.

A similar change has come over the position of Indian businessmen vis-a-vis the politicians. An increasingly large proportion of Indian businessmen after 1920 supplied a part of needed resources to political workers especially to the Indian National Congress. In doing this they ran risks, especially during the earlier periods, and there was hardly ever any element of a quid pro quo in the assistance. The relation changed after these politicians acquired power. But it is the change in the circumstances of the businessmen sketched above that made the real difference. The politician out of office and the sons and relatives of politicians look up to businessmen. Above all, the ruling party has deliberately put itself in the position of being a client of businessmen and business corporations by special permissive legislation passed in this behalf. A democracy in which there is an unequal division of incomes is always faced with a difficult problem in relation to acquisition of funds by political parties, and political thinkers, even in the U.S.A., have advocated the

need for ever greater diffusion of the sources of these funds. The situation in this regard in India is, of course, extremely unsatisfactory. The inequality of distribution of incomes is among the largest in the world, and the level of national income is among the lowest. The recent concentration of surpluses in the hands of capitalists and in the corporations they command, gives them an overwhelming dominance as potential source of political funds. In such a situation the refusal of the ruling party to pass what might have amounted to a self-denying ordinance, has certainly worsened the situation politically and ethically.

Businessmen and officials and politicians are today the most influential in, at least, urban society. Of the traditional leaders of society, princes, landlords and the priestly class may be said to have lost overall influence. Some urban professionals like lawyers, who held a specially important position some decades ago, no longer count for much. Moreover, the lawyers, the doctors, the engineers and other urban professionals depend more and more on the patronage of businessmen, and a large majority of the growing class of technicians and applied scientists trained in India or abroad, have necessarily to look forward, in the main, to employment in modern business.

In former times there existed in some regions a discernible difference between political workers and workers in educational, social, and other similar fields and the latter constituted an important social force. Since independence these appear to be subject to a process of disintegration. A variety of forces work towards this end. Political parties, in the effort to extend their base of operations, have begun to invade these fields. A considerable amount of educational, social and other work is now undertaken directly by the state, or is heavily subsidized by it. During British times, there was considerable urge to undertake constructive work in fields neglected by government, or of types which government would not or could not appreciate. After independence this differentiation has largely disappeared and there is consequently a steady movement towards routinizing motivations and conditions of work in all these fields and assimilating them to those of state or quasi-state employment.

In view of the great importance that now attaches to the business class, it is necessary to note some important aspects of the structure of business in India and of the operations of businessmen. In terms of the degree of concentration of economic power, Indian business houses can be compared with large corporations in advanced industrial countries. However, the Indian businessman represents an earlier socio-economic type. His roots are still in finance and commerce rather than in industry, and his organization is powerfully influenced by family and community ties. As a result the public

image of him is more that of a speculator and a piratical builder of financial empires than that of a modern innovating producer. Also, the largest agencies and alliances present pictures of family and community combines for whom nepotism appears as a natural phenomenon and the industrialization of the country as intended chiefly to benefit certain castes and communities.

The Indian businessman happens, at present, to be at a particularly unattractive stage of his development. He was never noted for any highly puritanic or moral qualities such as those exhibited by, say, Calvinists or Quakers. He has also not been imbued with that high sense of social and national responsibility which characterized the Japanese businessman in the Meiji era. However, some generations ago he was, at least, frugal and ostentatious. Recently, he has shed these characteristics and is now rapidly adopting the consumption standards of European and American businessmen. As a result, on the large surplus margins that state policy places in their hands, the high consumption standards of owners and managers of modern business constitute a first charge; and expense accounts, airconditioned restaurants and hotels and night clubs figure as essential lubricants in the progress of Indian industrialization.

If what I have presented is not an untrue account of the leading groups within the urban and industrial life of our country, there should be no surprise at the increase of corruption within the community. The high success of operations of businessmen is guaranteed by government policy, and the guarantees are provided through a large number of regulations and practices framed by politicians and administered by officials. There is an enormous field for discretionary administrative decisions. In such a context it is but natural for agents of administration to desire to share in the gains of business assured through their use of discretion. Where the whole framing of policy so flagrantly benefits a small class at national cost it is idle to talk in moral terms at particular participants in the process. The difficulty is not so much in finding the cause of corruption as in defining clearly what constitutes corruption. There could be such finely graded shades of give-and-take relationships between the various strata and categories—the political party, the politician, the official hierarchy, the businessman and his agents—and such narrowly differentiated types of indirect or direct transactions among them that it would be difficult to isolate and bring home a corruption charge, except in the case of the specially inept. It thus becomes clear why Shri Chintamanrao Deshmukh was unable to proceed far with his crusade against corruption on high.

One important effect of this total situation on other classes in society may be noted. All classes and groups have been encouraged and impelled to make the largest possible demands on the national

product. As the State acknowledges the vital need to afford the high incentives to the richest and there is nobody to set an example of self-restraint, no blame can attach to any particular group. In the resulting scramble, those in the strongest positions-get away with the largest shares and the weakest suffer the most. One of the consequences of war-time inflation was the narrowing of various differentials; an opposite trend seems to have set in during the last decade. Whether within various strata in industry, or as between organized and unorganized industry, or between the rural and urban sectors, the differentials are increasing. There is also similar unequal distribution of employment opportunities. All this must lead to a deepening of the sense of frustration over large sections of the disadvantaged and in the regions and economies that remain backward.

It has been claimed that traditionally we have been a contented even though a relatively poor society. This, to the extent that it does not connote mere acquiescence or resignation, is related to the fact that no stigma attached to poverty amongst us. In countries where frontiers are open and opportunities unbounded, it is possible to equate a poor man with a lazy man. In our ancient and crowded land, poverty flowing either from choice or from compelling, cramping circumstance was held honourable or at least inevitable. Today, with an apparent change in our scale of values, the emergent problem is that of co-existence of the poor with the rich. If affluence is the hall-mark of merit, how can the poor co-exist with the rich with self-respect? And if they cannot do this in our basically poor country, the vast majority of us are condemned to a perpetual feeling of frustration. But frustration breeds division and discord. Of what use is the glib talk about national integration if, while the display of wealth and luxury in metropolitan centres increases, the plan produces no visible impact on poverty-stricken regions, on backward classes and in relation to the unemployed and the houseless? Basic poverty and unequal progress are at the root of most regional and class antagonisms about which we hear so much today.

All that I have said so far raises a highly controversial issue. It has been said that to hold that in a planned Indian society social justice and economic growth could move forward together step by step, is to dream, and that, in fact, rapid economic development in poor countries will remain peculiarly ugly to look at. Acceptance of this contention would, to my mind, be tantamount to acknowledging the inevitability of the ultimate victory of Communism. A sensitive American visitor has expressed himself as follows in regard to conditions in India: "So every man in India loses his mind within the first three weeks, or manages not to see all the poverty and trouble any more." If I were convinced that under the existing set-up there was no alternative to the perpetuation of conditions thus

described, I would have no hesitation in advocating its destruction by all means. I do not, however, believe in the invariable association of given attitudes, structures and operations. For example, among the special features noted about Communist China by most observers are the plain living of her leaders, the absence of wasteful consumption, the focus of administrative arrangements on helping the poor and the backward, and the emphasis on utilizing idle man-power and on the dispersal of industry. I attach importance to all these. It is true that little effective attention is paid to any of them in the Indian Plan ; but I do not believe that they can be achieved only in a communist regime or only by the communist way.

The main ground for my continued optimism is the belief that the situation I have described has come about not through deliberate or willing acceptance by our people of a changed scale of values but through a somewhat special combination of circumstances which may not last. It happens that the values avowed by all political parties are exactly the opposite of those displayed in the developing industrial sector. However, there is another phenomenon to which I attach real weight. In the rural sector actual economic policies are based on a fundamentally different approach. Tenancy legislation has not been oversensitive regarding property rights, and the widely adopted legislative measures regarding ceilings on land imply a philosophy of distribution and incentives which might well be termed radical. The pattern of policy, even in the rural sphere, is not uniform. For example, our flair, to put it mildly, for impropriety, is exhibited by the excessive price-support granted to producers of sugarcane while the prices of food-grains are either allowed to fluctuate widely or are deliberately depressed. However, the land reforms of the last decade have definitely established an ideology in the large rural sector, which it should prove impossible to confine to that sector.

Even the most optimistic forecasts regarding possibilities of Indian economic development indicate that at the end of 25 years we shall continue to be poor by the world standards of today. In these circumstances we can look forward to peaceful progress only if we attain a measure of social justice and relatively *egalitarian* society at an early date. In circumstances like those of our country, high inequality is explosive not creative. Severe restraint on wasteful consumption through an overall ceiling on incomes, channelling all savings in the modern sector through public agencies, overhauling the structure of administrative services, and the operation of administrative machinery are among the many reforms that have to be undertaken to achieve rapid and peaceful progress.

These are details. What is fundamental is to recapture the sense of struggle, to realize the magnitude of the task ahead and of the need for discipline and great self-restraint on the part of everybody.

Above all emphasis has to be placed on co-operative endeavour, on the feeling of sharing by all ; and this can be done only if the more fortunately placed and those who aspire to lead set an example. There has been much talk recently of perspective planning. I plead for a beginning to be made with a definition of the moral perspective in the light of which all persons on the threshold of life could be assured of being given opportunities to tackle meaningful tasks directed towards worthwhile ends.

THE STABILIZATION OF AGRICULTURAL INCOMES*

I

THE PROBLEM of stabilization of agricultural incomes has always been considered extremely important in India and it has always been recognized that the liability to fluctuations of the income of agriculturists was one of the main causes of the distresses and difficulties of agricultural classes in India. In ancient times the fluctuations were essentially connected with the character of the seasons; the famine was an extreme manifestation of the evil. The monetization and commercialization of agriculture added the new factor of variation in prices from year to year. The development of markets for agricultural produce and the remarkable improvement in transportation facilities which accompanied monetization and commercialization relieved, to a large extent, the extreme evil effects of local failure of seasons. The famine instead of being a period when supply of food for man and cattle was grossly inadequate became one in which employment of all resources was interrupted and the real income of the village population fell to a very low level.

Today fluctuations of agricultural incomes result both from variations in the physical output of agriculture from year to year and from variations in the prices obtained for quantities of agricultural produce sold. It is not possible to make any definite statement regarding mutual relations between the volume of physical production in agriculture, the marketed surplus of agriculturists, and the prices received for agricultural products. Also, we have little data showing the combined effects of all these variations on any set or groups of families from year to year. Apart from the older *annevari*, the data in relation to variations of physical output are usually available as a result of estimates or enquiries for particular crops in large regions or in single villages. Even here, except where enquiries have been conducted into the same set of farmers for successive years, the data do not indicate the effect of the variations in relation to individual families. Moreover, crop-cutting, and such other data referring to variations in yield of crops can be made the basis of the measurement of variations in the fortunes of the agriculturists of a region, only in the case of single-crop regions. Where more than one crop is grown by most farmers, difficulty is experienced in reasoning out from the data relating to crop-yields. No doubt, if crop-yield data or estimates are available for the major crops of

* Submitted to the Seminar on Economic Planning held in Delhi in April 1962.

a region, some combined index of average variations in physical yield might be based on these.

For the data in relation to price fluctuations, the chief source is the officially collected prices of agricultural products. The most relevant price-series is that of wholesale prices. However, these prices do not necessarily represent prices received by farmers, and the efforts to obtain reliable information relating to harvest prices or the prices received by farmers have not proved very successful. Quotations of wholesale prices in particular months from year to year may be considered to give a fairly good indication of the variation in the range of farm-prices received on the average by farmers. No doubt, decisions of farmers relating to sale of given quantities in particular months may be influenced by ruling levels of prices and by expectations in relation to them. However, the practice or possibility of taking such decisions deliberately might be predicated in relation only to a small proportion of farmers ; for the vast majority a fairly rigid pattern of sales-behaviour may be assumed. Almost no data are available regarding variations in the proportions of the total crop marketed by individual farmers or groups of farmers from year to year. This variable would, however, appear to be important chiefly in the case of food-grains. In the group of fibres or oilseeds and other commercial crops like tobacco, *gur*, etc., the farmer is known to sell the vast bulk of his crop. Fluctuations, if any, in this regard would relate rather to the timing of sales than to the proportion of output sold.

The combined effect of all these fluctuations on the incomes of agriculturists is difficult to estimate on the basis of the separate sets of data. The only source of information on fluctuations of agricultural income of families could thus be the enquiries into farm management or farm business. It is particularly difficult to generalize on the basis of price and production series because the proportion of produce sold is known to vary as between farmers with varying sizes of business, and the incidence of effects of variations in production or prices from year to year on different-sized farmers would be far from being the same. Direct surveys of farm business could be used to estimate fluctuations in agricultural incomes over the years only when comparable results of enquiries are available for successive years. This is so only in a few, dispersed instances.

In the absence of adequate data one has to reason partly in the abstract and partly by reference to general experience. Indian experience in the past as well as in recent times has emphasized the role of fluctuations in the economic situation of the agriculturist. What might be called the state of underdevelopment equilibrium is the result of severe fluctuations in agricultural incomes operating in conjunction with a highly exploitative moneylender-trader system.

The small surpluses emerging in Indian agriculture, have been insufficient in the past because of the cost imposed by fluctuations. The system has attained a sort of equilibrium with the moneylender-trader system making up the deficiency of resources during the adverse years and mopping up all the surpluses during good years, thus leaving the cultivator in a permanent state of poverty and dependence. It was only the long period of favourable terms of trade during the war and post-war years and the contemporary inflationary rises in prices which increased the money receipts of cultivators and lowered the real burden of past debts, that radically and quasi-permanently improved the position of agriculturists in India. Even so, the improvement came about only in restricted regions and only for certain types of cultivators or certain strata of them. The general transformation of the forties provided the background against which new programmes of co-operative credit and other developmental efforts could succeed. But the unevenness of the incidence of success of these programmes itself underlines the continued difficulties in the other parts of the economy. So that, even today, the state of underdevelopment equilibrium persists in all the more backward regions and the more subsistent types of economies or for uneconomic holders in the commercialized regions. The problem of the last category, where solved, has been solved not owing to any improvement in agricultural incomes but owing to increase in non-farm receipts. All this amounts to saying that current fluctuations in incomes of agriculturists in India are so large that deficiencies in adverse years have to be made up by borrowing, and for many classes of agriculturists this borrowing is high and its costs very heavy.

II

It is not necessary, in this context, to discuss elaborately the general problem of stabilization of agricultural incomes. The various measures and programmes advocated and adopted towards this end in many countries of the world have received full examination in recent years. A recent (1960) publication of the F.A.O., containing reports by two expert international groups, on problems of agricultural price stabilization and support policies, gives an excellent account of these and a balanced evaluation. All that need be attempted here is to group together suitably the various measures suggested and to pass them under rapid review.

One group of such measures is concerned with agricultural production. It seeks to make production more secure or to increase it. Important measures in this group are: projects for increasing or assuring water supply; long-term schemes of land improvement, and of improvement in the supply of crucial production requisites such

as fertilizers ; establishment of improved methods through education, technical assistance, etc. ; and improved organization of fields such as through consolidation, and of farms as through co-operative farming. All of these are undertaken as independent parts of plans of development ; and while they help to stabilize agricultural incomes, no special orientation is or needs to be given to them because of this effect. The following points need, however, to be noted in relation to this group of measures under present conditions in India. Firstly, the emphasis on production has led to almost exclusive attention being given to irrigated and intensive agriculture. It has to be realized that, over extensive areas within the country, secure water-supply may be unobtainable, at least for many years. The problem of stabilization of agricultural production in such areas requires urgent attention. This can be done only by intensive research in methods of dry farming, by appropriate plans of land utilization, and by evolving other similar measures for these regions. In relation to the area under insecure dry-farming this effort does not, today, appear to receive adequate attention. Another point which deserves notice is the close connection of the programme of distribution of supplies, especially fertilizers, with the structure of relative prices. For such a programme to succeed in relation to particular crops, it must be operated in conjunction with an appropriate price-policy and not against the established price-relations. The price factor also plays an important part in the popularity and success of all improvements, on private account, which require substantial investment of resources. The improvements will be undertaken only if the receipts from increased yields, etc., justify the investment and the risk.

A second group of measures may be said to aim at improvement of the business organization of the farmer. These measures include programmes of credit reorganization, improvement of marketing-facilities or -organizations, provision of crop and live-stock insurance, etc. Though they might involve state initiative and some element of subsidy in the early stages, they have to be treated essentially as self-sustaining business-propositions. Because of this characteristic, they have a close connection with price stability. Unstable prices provide an ideal setting for the operation of speculators ; stability of prices, on the other hand, makes easy the establishment and operation of such institutional arrangements as farmers' co-operative marketing societies. This is also true in many ways in relation to co-operative credit.

Organization of co-operative credit has played an important part in recent Indian plans of agricultural development. To the extent this effort has succeeded, it has prevented the resurgence and dominance of the moneylender-trader system in the post-war period. However, success in this matter has not been uniform. There are,

in particular, two large areas which require urgent attention. Over extensive regions in many states, co-operative organization has yet failed to strike root. This raises an acute, immediate problem. Can anything be done to supply effectively the credit needs of expanding-production in these regions during the period, which will necessarily be taken for building up an efficient and viable co-operative structure? Empty debates over theory and forms of co-operative organization have unfortunately diverted attention from this real problem.

The second important class not covered by existing co-operative effort is that of low-income farmers in all regions. Their problem has received much attention in recent years and the usual remedy suggested is that of giving guarantees and making extra funds available to co-operative credit societies to enable them to assist members of this class. For example, the Third Five-Year Plan suggests outright contributions to the funds of co-operative societies to enable them to provide "adequate credit on the basis of their production requirement and repaying capacity" to "marginal and submarginal cultivators, landless tenants, etc." (p. 203). The formulation in the Plan and similar formulations elsewhere in this context fail to take notice of a crucial fact that whatever their production requirements—a concept difficult to concretize—the "repaying capacity" of the classes under reference is low and that its actuarial value over the years is made very low because of the wide range of fluctuations to which it is exposed. If they are not to be continuously subsidized, the only way to make them creditworthy is to reorganize the base of their production structure and to eliminate fluctuations. If they are helped in this way, the co-operative credit structure can take care of them even without any extra funds or guarantees; in the absence of reorganization and stabilization, even ample guarantee and funds are not going to help. In the whole range of measures available, in this context, stabilization of prices is a measure that could be made effective within the shortest time and would have a larger impact on the situation than any other measure would have.

Even with some stabilization of prices of agricultural products, fluctuations in incomes of agriculturists induced by variations in physical output would continue to be large in all insecure tracts. In view of the small margin at the command of the majority of farmers, the deficit created by a significant fall in physical output could be bridged only by increased borrowings. That is, the role of balancing the economy, played by the moneylender-trader agency in the past, will have to be continued by some other agency—at less cost and more purposefully and constructively—in the future. This problem does not appear to have attracted attention earlier because in the analysis of the operation of moneylender-traders it had not

to be and was not separately demarcated or treated. At the same time, the extent of financing by institutional agencies such as government or the co-operatives was, for the most part, very low and these agencies did not, and could not, play the balancing role over any long period of time. In the circumstances, the problem did not figure in the discussion on co-operative policy. It is only in recent years with experiments in the direction of fully adequate short-term credit being undertaken, such as in the crop-loan system, that the magnitude and importance of the problem are being realized. The problem is referred to, for example, in the report of the Crop Loan Evaluation Committee of the Bombay State Co-operative Bank (1958, Part I, p. 83).

However, the problem requires much fuller study and a much greater elaboration of institutional practice for adequate treatment. The main problem is that of dealing with overdues of short-term and other credit caused by a large or small failure of the seasons. This involves providing for the spread of the year's repayments over subsequent years, and at the same time, continuing supply of the minimum needed credit for efficient operation of the next year's business. This is a delicate balancing operation, and the dangers of overadjustment either way are obvious. On the one hand, an illiberal view could mean either severe curtailment of production or driving the farmer to other credit agencies, or both. On the other hand, an over-generous policy could create reluctance to repay even when able, and lead to accumulation of loans and overdues so large that extensive writing-off and ultimate liquidation might have to be faced. This dilemma, created by the liability to fluctuation in physical production in the less secure tracts, further emphasizes the urgency of removing the other important source of fluctuations through stabilization of prices.

Another set of measures attempts to stabilize incomes through direct payments or subsidies. These measures take a variety of forms, such as tax concessions, subsidies, direct or through lowered prices of materials or services, or direct cash payments such as those called "deficiency income payments". Some of these measures may be connected with other objectives such as that of encouraging particular improvements. However, to the extent that they are intended to stabilize incomes significantly, direct payments or subsidies are likely to prove extremely onerous in cost.

Finally, there is the group of measures which aim at influencing prices. Among these measures we may distinguish between those which operate through regulation of supply and those which operate directly on prices. Ordinarily, planned development is incompatible with measures which restrict outputs or supplies. However, measures adopted with other ends in view may have such restrictive effects.

The severe regulation of imports to save foreign-exchange resources results in restricting imports of certain agricultural products and creating a sheltered internal market for them. It is necessary to see that this does not result in the diversion of land to inferior uses. Control over exports is said to be connected with conserving internal supplies and regulating the internal price-level. They appear to have had some peculiar results. There is obvious need of a better articulation of policy in this regard and of bringing it in proper relation with a policy of stabilization of internal prices.

One aspect of export policy, which is very important from the point of view of overall stabilization of agricultural incomes, is diversification of agricultural exports in order to stabilize the terms of trade and obtain, if possible, progressively more favourable terms. Unfortunately, almost no attention has been paid to this subject. Analysis of trends of the post-war period reveals substantial differences in movements of terms of trade in relation to different groups of agricultural products entering into international trade. Broadly, food-grains and the main types of older exports such as cotton, sugar, and oilseeds have fared worse than the majority of products of plantation and horticulture. In India the bulk of the acreage under newly irrigated lands continues to be placed under sugarcane, cotton, and oilseeds. In view of our geographical situation in relation to the Asian and some African markets, a planned attempt to encourage the production and export of a variety of garden crops is obviously indicated. General considerations also point to continuing advantage, in the future, of a diversified garden crop economy over staple field-crops. No doubt, any significant transition would require conscious, planned and assisted effort for both production and export, in the early stages. There is every reason to believe that such effort is necessary and that it will pay in the long run.

This rapid survey of the other types of measures indicates the central place of measures which directly attempt stabilization of prices of agricultural products in any programme of stabilization of agricultural incomes in India. Stabilization is itself important for a variety of other programmes such as that of building up a co-operative structure, or implementation of many aspects of the programme in relation to agricultural production. Stabilization of prices of agricultural products must thus be accepted as the main plank in plans of development of agriculture and the welfare of rural society.

The foregoing might be supplemented by a few observations on some features of the overall conditions under which a policy of stabilization of agricultural prices has to be framed and operated in India. Firstly, Indian plans of development are at a stage in which great importance attaches to an increase in the efficiency of methods

of production and to a rapid increase in the volume of total agricultural production within the country. Secondly, agricultural production provides, in the main, food for the population, and an important base for industrialization. In both contexts, especially the former, the market is highly price-sensitive. Therefore, it is of the utmost importance to see that prices charged to consumers of agricultural products do not soar high. The market, even for food-grains within the country, is not likely to reach a point of saturation early; but this fact itself emphasizes the importance of the price factor. The reduction of the margin between producers' and consumers' prices through eliminating instability and other devices, therefore, becomes an essential aspect of policy. Next, there are limitations imposed by the relation to the level of international prices. In respect of imports this has an important bearing on food-grain production and policy. High prices of imported food-grains make it desirable to undertake special investment and expenditure in order to be free from the need to import food-grains. In relation to prices of exportable agricultural products, policy considerations that appear to be important are as follows: There is no justification for artificially making the terms of trade unfavourable to agriculturists through a restriction of exports so as to make available internal supplies to the trader and the industrialist at low prices. There might be a justification for regulating exports to adjust them to international market-conditions for exported products. In this case, however, the regulatory mechanism must be, as in other conditions, an Export Board which would be able to pool gains over the years and to route all of them back directly or indirectly for the benefit of the agriculturist. The maintenance of an internal stabilized structure of relative prices would also involve insulation of the internal market, and exercise of some control over exports and the prices received by producers for them. This does not, however, justify arrangements which route extra gains to the trader and the industrialist.

A few observations on prices of sugar and sugarcane may underline some issues involved. The guarantee of a stable and highly favourable price to an important section of producers of sugarcane has helped to keep up prices of both sugar and *gur* and brought about a rapid increase in the production of sugarcane. The guaranteed price of sugarcane has, however, been fixed at a level which puts it out of proper relation with internal prices of other agricultural products, and international prices of sugar and sugarcane. The result has been an extra and undesirable diversion of areas to sugarcane, windfall gains to sugar manufacturers, an internal price which unduly checks consumption of sugar, the need to export which can be fulfilled only at the cost of the general tax-payer and a worsening

internal situation in relation to supply and costs of sugar and sugarcane for which no automatic correction is available.

Finally, it is vital that the measures adopted for implementing any policy of stabilization of agricultural prices in India must be self-financing, i.e., they must not involve, in the long run, any net burden on government finances.

All this means that while the stabilization of prices of agricultural products is of utmost importance and urgency, the limits within which the policy has to be framed are fairly rigid and narrow. Essentially it must be a policy of stabilization, not of support. The stabilization must be strictly an operation over the year with room for adjustment in absolute and relative prices from year to year. The stabilization operations, internal and external, must be managed by public authorities. The present system of taking policy decisions separately in respect of a small number of individual commodities and of implementing policy through manipulation of export quotas, or operations of associations of traders or industrialists, is unsatisfactory in every way.

III

The purpose of this note was chiefly to bring out the crucial role of the measures for stabilization of prices, and the limits within which they have to operate. It is not intended here to discuss details of that policy. A committee of representative public men made detailed and specific recommendations on important aspects of it, in the early phase of the second-plan period (Report of the Foodgrains Enquiry Committee, 1957, Chapters VI and VII). An influential team of American Experts made categorical and detailed recommendations regarding it towards the end of the second-plan period. (Ford Foundation Team Report 1959, Chapter I). I wrote a note on some practical aspects of the problem which was circulated to the Economists Panel in October 1960.* It is not the details that cause anxiety but the rooted inability of government to take a decision in this matter.

Government inaction in the matter is particularly inexplicable, after the formulations in the Third Five-Year Plan. The stabilization of agricultural incomes finds no mention in it. However, price policy is discussed in a number of places in the Plan. "An agricultural price policy which is both fair to the urban consumer and fully safeguards the farmer's interest" is mentioned in connection with the problem of the widening gap between rural and non-rural incomes. (p. 17). The Plan has an entire chapter (Chap. VII) on

* Note on "Price Policy", see page 247 of this book.

price-policy. The consideration of policy for the Third Plan in this chapter starts with the following observation :

"It must be stressed that price-policy has to be viewed as one aspect of overall economic policy ; the question is not merely what can or ought to be done in respect of particular prices." (p. 125)

The chapter concludes as follows :

"The plan provides for adequate increases in the output of essential commodities to permit reasonable increase in essential consumption. The primary task is to achieve these targets. Deficiencies in this respect can be overcome only with difficulty. Fiscal and monetary policies have continually to be orientated towards restraint in consumption and maximization of savings. The role of direct regulation and controls is essentially to correct imbalance in selected sectors and, for this purpose, buffer stocks and market operations are vital. These operations have to be directed towards keeping price fluctuations in respect of food-grains and other basic essentials within defined maximum and minimum limits. Price rigidity is incompatible with development and some prices cannot but rise. The object must be to regulate within defined limits the prices of basic essentials. Price regulation involves action at various points. The necessary incentives to larger production have to be preserved. It is, therefore, envisaged that Government would set up and promote the necessary co-operative and State agencies for purchase and sale of food-grains at appropriate stages so as to strengthen its power to influence the course of prices and to prevent anti-social activities like hoarding and profiteering from getting the upper hand." (Chapter VII, para 31, pp. 131-32).

This refers chiefly to prices of food-grains. In the chapter on agricultural production (Chapter XIX), there is a much wider and more specific definition of policy in relation to prices of agricultural products :

"For achieving the high targets of agricultural production set for the Third Plan, it is important that growers should have full confidence that the additional effort and investment which are called for will yield adequate return. Changes in the prices and production of fibres during the last few years show that wide fluctuations in prices affect the growers' capacity to make sustained efforts for increasing production. The fall in prices of jute in 1958 affected production in subsequent years. The assurance of minimum remunerative prices for important cereals and cash crops like cotton, oilseeds and jute over the period of the Plan will provide the necessary incentives for increasing production, thus adding to the effectiveness of the various development programmes provided for

in the Third Plan. With this object in view, decisions regarding the prices at which Government should buy and sell, should be taken sufficiently in advance of the sowing season. Where floor and ceiling prices are fixed, they should be related to the requirements of production, and the range between the minimum and maximum prices should not be too wide." (Chapter XIX, para 49, p. 323).

It will be realized that all these policy formulations taken together imply a large country-wide network of co-operative and state agencies, which will handle appropriately the purchase and sale of food-grains and of all the more important cash-crops. They also involve fixation for various crops of levels of minimum and maximum prices which can operate meaningfully in relation to each individual crop and are also mutually related appropriately. This amounts to socialization of trade in agricultural products and the maintenance of a relative structure of prices. It is these features of policy which the reports of previous committees and other discussions have emphasized. At the same time, this is very different from the actual sporadic, piecemeal, and hesitant action which has characterized and continues to characterize official policy all these years.

The main problem today is, therefore, that of inducing government, as a whole, to activate and implement policies to which prominent members of it have subscribed through the document called the "Third Five-Year Plan". It is difficult for an outsider to indicate reasons for the long and persistent government inaction in this matter. I should venture, however, to point to two possible sets of considerations. Firstly, the reluctance of all governments to undertake any commitments in relation to prices and distribution of agricultural products, especially, food-grains, may be connected with the experience of the war and post-war period and the risk of incurring unpopularity involved in such measures. Secondly, the inability of government to act may be connected with the basic requirement of all such policy, viz., the socialization of the trade in agricultural products. Such socialization would endanger the entrenched position of the rural moneylender-trader class which is not only the most numerous class of private *entrepreneurs* in the country, but also the class from which Indian capitalism basically derives and on which, perhaps, it heavily depends even today. I am not in a position to suggest how government can be steered past these two obstacles.

THE PUBLIC INTEREST AND UNSCRUPULOUS BIG BUSINESS *

THE REPORT of the Bose Commission on the Dalmia-Jain concerns raises extremely important issues of policy. These may be considered initially in relation to provisions of law already in being or legal principles generally accepted. The two important regulatory instruments in India are the Company Law and the Regulation of Industries Act. It is important to observe the limitations of the general approach of the Company Law. These were made clear in the report of the Company Law Committee of 1952. The Committee took the view that the Company Law was "essentially a formal systematization of the structure and mode of operation of a particular type of economic institution and the complicated nexus of relationships, which it has built up between the promoters, investors, and the management, is a by-product of the operation of private enterprise, in what is usually called a "free society".¹ Because of this general approach the Committee considered that the specific problems of economic policy as such were outside their purview. They considered that it was not the purpose of Company Law to anticipate what the economic policy should be, and endorsed the observations of the Cohen Committee that "questions of economic policy should be dealt with by legislation directed to that subject, and kept distinct from the general law governing companies."² Interpretation by courts of individual sections of the Company Law have followed this approach. It has been held, for example, that in matters of amalgamation and reconstruction while courts will subject schemes of arrangement to careful scrutiny in accordance with the standards indicated justifying judicial interference, the law does not require that a transaction should be in the interest of the public. Therefore, the law being directed mainly towards regulating relationships between investors, promoters and management, does not contain provisions that are directly, or by analogy, capable of dealing with a situation such as that disclosed by the report of the Bose Commission.

The Industries (Developmental and Regulation) Act is also limited in its scope. Basically, the Regulation of Industries Act is framed so as to promote the development of industries and to maintain continuity and efficiency of production and to conserve resources. Most sections of the Act emphasise these primary objectives. Only one

* Published in *Opinion* Special Number, 1963.

¹ Report, p. 12.

² *Ibid.*, p. 13.

sub-section 15 (b), which was added in 1953, has wider reference. It provides that the Central Government may make an investigation, when any industrial undertaking is being managed in a manner highly detrimental to the scheduled industry concerned or to public interest.³ This, however, is the sole reference in the Act to public interest and the main provisions of the Act have not been modified to any substantial extent by the introduction of this concept. Powers under Section 18 of the Act in relation to direct management or control of industrial undertakings by Central Government are highly circumscribed. They allow cancellation or variation of contracts in bad faith and bar right to compensation for termination of office or control when the management is taken over under Section 18B; but legal property rights continue unabated and there is no provision for a permanent transfer of ownership or management. It may be noted, however, that under this Act, the Central Government can revoke registration of an industrial undertaking if it has been obtained by misrepresentation as to an essential fact (Section 10A).

Turning to provisions in the legislation of other countries, there appear two broad areas on which attention has been concentrated. The first is that of flotation of companies and related matters of taking over bids, mergers and unit trusts. In connection with these, the (U.K.) Jenkins Committee has recommended the integration of the Prevention of Fraud (Investment) Act with the Company Law. In relation to the qualifications of managers and trustees of unit trusts, the Jenkins Committee recommended that "the Act might set out specific grounds upon which the Board of Trade might decide that managers or trustees were unsuitable, e.g., because their directors or other officers were persons who had been convicted in an offence involving fraud or dishonesty, but the Board should also have a general power so to decide on any other grounds."⁴ The approach of the last clause is unusual and is evidently deliberately made general and broad. Ordinarily, however, such legislation in other countries seeks usually to prevent misleading or inadequate information being disseminated and to protect actual shareholders by making false statements punishable with imprisonment, as well as provide to the persons who suffer damage, as a result of untrue statements, with a civil remedy.

The other area which has been much developed during the last decade, is that of legislation for prevention of restrictive business practices. Here the approach is that of identifying practices that are considered restrictive and undesirable and preventing them by prohibitions and penalties. It is common to create special authority

³ Italics mine.

⁴ Report, p. 119.

for enforcement of the law. This legislation is concerned mainly with agreements, practices and sometimes with price regulation. The older U.S.A. anti-trust legislation and the Japanese Law which was framed on that model provide also for forcible breaking up of combinations, mergers holding companies, etc. The original Japanese Law was substantially modified in later years.

Under general criminal law principles, certain types of abuse of rights of property have been recognised as inviting corrective action or penalty.

Inevitably none of this normal legislation contains any provisions capable of being applied directly to the situation disclosed by the Bose Commission. The problem posed by the findings of the Commission may be described as follows. It has been found that a group of businessmen has acted together in the past, in all kinds, of devious, patently unfair or even illegal ways and has, as a result, not only made large gains for its members, but has also enabled them to attain to such dominant economic position that a part of the old groups, as such, and most of its members individually, are today among the most powerful and prosperous of business concerns and businessmen in India. The problem is whether the State on the facts disclosed, will plead inability to do anything in the matter and allow these individuals to continue to affect powerfully the economic affairs of the country through command of positions and resources whose base at least was built up by resort to devious, illegal and unfair means. Demonstration that the State is unable to do anything effective in such a contingency would be highly demoralising not only to the general public but also to the business community.

It must be realised that there is at least a minority among businessmen who are as anxious as anybody else to high standards of conduct. There have been discussions of Codes of Conduct for businessmen and some businessmen have openly advocated the need for businessmen to observe, for example, the provisions of Company Law, not only in the letter, but also in the spirit. It is, in the circumstances, highly necessary to demonstrate that deliberate and proved flouting and misuse of legal provisions and open disregard of public interest should be visited with dire consequences. No doubt, such action cannot be taken under any present law. This is because, as pointed out above, most laws necessarily take a restricted view and their provisions are limited to attainment of particular objectives. What is required in the present case is action which is based on a wide concept of the responsibilities of the state. It may be noted, in this context, that after the last world war, the West German Republic consolidated the concepts and offences in relation to economic transactions in a comprehensive manner. Among the concepts of classes of offences was one which grouped together action which

violates the interest of the state in the conservation and integrity of the economic order as a whole or in individual branches."⁵ Moreover, in relation to this new classification of economic offence the attitude adopted towards measurement of gravity of offence was also distinctive. "The yardstick is both the gravity of the interest that has been injured and the *mens rea* of the offender."⁶ Only such a comprehensive approach will prove adequate in this case. The view has to be taken that the whole set of transactions revealed by the Bose Commission and the persons involved in the Dalmia-Jain manipulation must be dealt with from the point of view of maintaining the integrity of the economic order. That the offenders deliberately used loopholes in law and perpetrated frauds in order to acquire wealth and power is patent. Therefore, the only way of establishing confidence in the beneficent operation of economic society is to see that these persons do not continue to profit from their misdeeds, that they are divested of their wealth and power and that in future they hold no position of trust and responsibility in any major economic concern or activity.

Action in this matter can be suggested and supported by establishing analogies in a number of directions. Firstly, there is the analogy in the breaking up of mergers and combines under anti-trust; it is obviously harmful to public interest that the large groups of concerns under managing agencies formed and operated in the manner disclosed should continue within the power of this group. The forcible break-up of the managing agency control over public companies in the group is an obvious first step. The second is expropriation without compensation so that they are penalised for the previous chain of frauds, etc., and do not continue to profit from it. Thirdly, taking over of concerns managed by such persons under government management. For these types of action analogy can be established with powers under the Regulation of Industries Act. Lastly, it has to be ensured that in future all these persons do not hold office such as that of directorship in any private or public limited company. The total action programme is thus to break up managing agency groups formed by these persons, expropriate their interest in the concerns controlled, take over under public management undertakings at present run by them, and prevent them from holding offices in future. Most of this action appears justifiable by analogy and is required by circumstances. The one point that would have to be carefully considered is the concerns or groups of managing agencies that can be taken to be affected by the results of the enquiry. If the enquiry is supposed to affect merely the concerns which were

⁵ "Law in a Changing Society," W. Friedman, 1959, p. 189.

⁶ *Ibid.*

the subject of inquiry, the total effect of action may be small. If, however, the action required is interpreted as being against persons whom the enquiry has given findings, the coverage of action will be the totality of economic activity under control of these persons.

It is obvious that action in this regard is not a matter for the lawyer at all. In the present state of law, nothing effective is likely to be proposed or done against these persons. A wide "public interest" view must be taken and the approach defined as that relating to the integrity of the total economy. Then special legislation promoted on lines suggested above may make some impression on a steadily worsening situation.

SUCCESSIVE STEPS IN PLANNED AGRICULTURE DEVELOPMENT*

LATER INDIVIDUAL sessions of the Conference will be devoted to intensive discussion of particular aspects of the complex process of planned agricultural development of developing countries. In this brief introductory address, I have thought it advisable to indicate the various successive steps that comprehensive planning in agriculture in developing countries demands, and the manner in which they are linked together. In a logical exposition of successive steps, beginning has to be made with noting the characteristics of the situation before development begins. There is great variation in conditions among different developing countries. But they all share one characteristic and this is that certain features of their organization and operation inhibit or retard economic development. In relation to agriculture it is the power of the landholding classes and the resulting socio-economic position of the actual cultivators that are considered to be important factors. Either the land-holders act as mere rent-receivers and the total burden of their claims maintains the peasants in a chronically depressed state or they operate intensively a small portion of the land surface, in large estates, while the rest is divided in very small holdings among innumerable cultivators who are burdened with duties and exactions. In either situation it is the structure of landholding and legal arrangements connected with it that might be held responsible for the stagnant state of the rural economy. And this is so whether the economy is in the main a subsistence economy or agriculture is commercialized to a large degree. In the latter case landlords dominate the financial and marketing structure or a money-lender-trader system operates under them or alongside of them.

However, a stagnant situation or a state of what might be properly termed an underdevelopment equilibrium may exist even where no landlord class dominates the scene. At the end of the British land settlement operations in the middle of the 19th century in India, no landlords remained in a number of regions and cultivation was carried on by a body of owner-cultivators who paid revenue directly to government. The most remarkable feature of Indian economic history for the last century is, perhaps, the fact that while commercialization of agriculture and monetization of the economy were continuously progressing, there was no general initiation of the process of development. This can be explained chiefly in terms of the emer-

* Opening Address at the Rehovoth Conference on Comprehensive Planning of Agriculture in Developing Countries, Rehovoth, Israel, Aug. 1963.

gence and interposition of the moneylender-trader system. Though agriculture was commercialized, the size of operation of individual cultivators was small and seasonal variations and the possibility of occasional failure of crops were important factors. Farming was also subject to the risk of fluctuations in levels of prices. The cultivator's own monetary resources were small, financial institutions undeveloped and costs of transport and trading high. In the circumstances advances made by the moneylender-trader system, to finance the farm family for ordinary production and consumption expenditure, short-term and long-term, and to finance it through varying fortunes, resulting from seasonal changes and price fluctuations, left not only little or no surplus for investment but led also in most tracts to a low or very low level of living for the average cultivator. The perceptive descriptions of Darling of the operation of the moneylender-trader system in the Punjab economy are particularly relevant in this context. Even in the case of the specially prosperous Punjab canal colonies, at the end of World War I, the hold of the moneylender-trader was not completely loosened and with a less favourable situation the dominance of the class was complete.

An analysis of the reasons why in the earlier situation an under-development equilibrium has been maintained is essential to planning for the future. The nature of the vicious circle which has to be broken through must first be appreciated. The programme of action required to create conditions favourable for development has two aspects: one destructive and the other constructive. The former is related to the destruction of the older structures in so far as they obstruct development. This aspect is most in evidence in relation to what is usually termed land reforms. The older legal and conventional arrangements have to be substituted by arrangements in which the producer i.e. the actual cultivator, will have sufficient inducement to adopt changes of attitudes, methods, practices, etc. The reform of land-holding structure is a matter mainly of legislative action and is capable of being carried out largely through such action. This is not so with the important services of finance, sale and supply and processing performed in a combined manner by landlords, moneylenders and traders. Indian experience spread over many decades shows that it is not enough, in this case, to attempt to regulate or prohibit as through moneylending or alienation legislation; it is incumbent to raise alternative systems. This alone gives sanction even to regulation.

The services rendered to the agriculturists by the older systems are mostly in the direction of financing, sale and supply and processing. The older systems did not usually provide for dissemination of technical knowledge. The knowledge and the technique used were traditional and assumed to be locally available and to be dispersed

and transmitted in traditional ways. A plan of agricultural development which is based on the adoption of improved techniques, methods and practices must, however, provide for dissemination of technical knowledge in a variety of ways. Such a plan must also provide for functions performed by the older systems and this has usually to be done by organizing new systems to operate in place of the older ones. The older systems have to be replaced because, in them, there was no identity of interest between the producers, on the one hand, and the members of the landlord-moneylender-trader systems, on the other. This resulted in high costs and other features making for stagnancy. Moreover, plans of agricultural development call for not only a low cost service but also a discriminating one. The moneylender is interested essentially in security of repayment and therefore need not discriminate between the purposes of borrowing as long as repayment is guaranteed. A plan of agricultural development cannot, however, be initiated or maintained without bringing about a change in the cultivator's attitude towards his business and monetary operations. Planned development requires a credit system, for example, which not only grants credit on reasonable terms but also induces or encourages discriminating use of credit.

It is generally agreed that in view of the objectives that have to be fulfilled the pattern of the new systems of rural finance, sale and supply and processing should be co-operative. The building up of co-operative organizations in rural communities which are stagnant and whose individual members are weak and unorganized is bound to be a difficult and uncertain process if left to chance. Consequently, as in many other aspects of development planning, this also requires external guidance and assistance. And one comes up against the apparent paradox of state sponsored or assisted creation of systems of co-operation.

The step that logically follows the destruction of the old order and the creation of new systems is that of the preparation of the plan of improvement and development. It can be said that development of agriculture in underdeveloped countries is, in the main, a matter of application of knowledge and techniques established elsewhere to conditions of particular countries. In a sense, this makes planning development easier, as one has not to wait for advancement of knowledge or to undertake protracted research. However, in relation to agriculture, the application of scientific knowledge and technique established elsewhere, presents problems of its own. A plan of agricultural development is, in its coverage, a countrywide plan; at the same time it is, in its detail, a highly localized one. The highly localized aspects of the plan of agricultural development stem from the great variability of conditions in agriculture. Agricultural production is intimately related to climate, soil, water resources, drainage,

etc. and these local conditions determine, in a significant manner, the mode of application of advanced techniques to local agricultural practice. An effective plan of agricultural development must, therefore, take due account of all the large variations in conditions of agricultural operation from region to region, from area to area, from village to village and from field to field.

This aspect of intensive local formulation of the plans of agricultural development appears to be largely neglected in many countries. This neglect has two sources. Firstly, as the advanced technique is based, very largely on results of experimentation and of experience obtained elsewhere, it is available in what might be called a generalized form. To make it specifically applicable requires necessarily considerable proving on the ground and much local adaptation in the process. This effort requires considerable time and money and the temptation is great to prepare plans of improvement in a highly generalized term supposed to be applicable over wide areas. The tendency is reinforced by the prevailing lack of information regarding details of local conditions. The resulting ignorance of local variations makes it appear natural to adopt generalized schemes of apparently wide applicability. The requirement of applicability to local conditions which is referred to above is distinct from individual farm plans. A farm plan is concerned with resources available to the individual farmer and prescribes measures of activities which will give a high or optimum return. Such a plan, however, assumes that knowledge in relation to solutions of local agricultural problems is already available. Usually this is an unwarranted assumption. Therefore, local surveys and local experimentation must have an important place in agricultural planning.

In a centralized plan the plan makers prepare blue prints which have wide applications and the plans are implemented according to these blue prints by local agents of the centralized authority. The method of uniform regional blue prints is inappropriate to agricultural development planning and has been responsible for much failure in this field. Therefore, it is necessary to think of organizations which could prepare plans taking into account local peculiarities and problems. The measure of decentralization required for the purpose can be brought about in either of two ways viz.: the decentralization of authority or the devolution of administrative power. Even a centralized bureaucratic system may operate with considerable devolution of power in favour of local administrative agents. The decentralization of authority on the other hand would require the creation of a tier of local governmental organizations vested with a modicum of planning powers. The structure of these authorities would be democratic and linked to regional and local society. The process of planning is, in the event, radically changed and becomes much more complex.

Initial choice between the two approaches depends, to a large extent, on historical circumstances and on the characteristics and development of local society. This may be observed by reference to the large variety of types of organization and efforts embraced under the term community development throughout the world. For example, community development in India was initiated, it was authoritatively said, as "a new experiment in rural planning under which the task of seeking a better life and of constructing and rehabilitating the village was to be undertaken by the villagers themselves." Characteristically, however, the movement originated with a foreign expert and was sponsored and worked through top-level bureaucrats; essentially, it differed little from the experiments and approaches of British executive officers in previous decades and the Indian community development became not only state sponsored, but also operated almost entirely through official machinery. It was no matter of surprise, therefore, that an official investigating committee found that "admittedly one of the least successful aspects of Community Development work was its attempt to evoke popular initiative." The report of the official committee led to the adoption of the policy of democratic decentralization; but even this, in practice, continues to encounter difficulties due to the prestige and position of officialdom.

A centralized plan, drawn up for the country as a whole, has necessarily to be broken up for implementation. In a bureaucratic system, the breaking up of individual programmes for implementation usually takes the form of division by function between departments and division by schemes within each department. The responsibility for parts of a scheme also gets divided, in due course, between particular sections, officers and locations. The manner of implementation is further strongly influenced by the usual practice of setting up targets of expected performance for particular time periods and judging of implementation chiefly in relation to these. The target of performance for each officer, section, locality, etc. is naturally expressed in terms of particular tasks assigned to each such administrative unit in the total scheme or programme. The result is that all energies are concentrated on the achievement of the specific targets and implementation is apt to proceed without reference to other aspects of programmes and schemes, within or without the particular department, in relation to which alone the total effort acquires significance and meaning. It can thus happen that a lot of targets are fulfilled and yet no real results are forthcoming. The proper synchronization of effort necessary for yielding fruitful results, however, postulates a local co-ordinating authority, with powers of regulating agencies and the pace of effort in various directions and for matching one with the other.

In this context it is necessary to recognize the problem of duality

or even plurality that all developing countries have to take account of an existing stagnant situation and certain pre-existing structures and attitudes. The thinking out and initiation of planned development is the work of the state and the concern, chiefly, of classes and interests which run the governmental apparatus. To a considerable extent the implementation is the work of the machinery of government. However, planned development implies, ultimately, the transformation of the whole society and must involve within itself all strata and activities. Therefore, it calls for, sooner or later, to a large or small extent, participation of all people. This duality, government and the people, the elite and the masses, the interests and classes having power and those who are sought to be guided or regulated assumes great importance especially in the initial stages of development planning. In some aspects of the plan such as, for example, large public sector enterprises, the duality is of little consequence, in others such as modern business in the private sector the non-governmental element is relatively close to government and there is usually good mutual understanding. In respect of rural activity and, above all, in agricultural production, the dual or multiple aspect of the process is most acutely experienced. This creates two types of problems. The first is related to the influence on the plan and its implementation of the interests of those who wield power. The best known instance of this is the blocking of land-reforms programmes, currently, in a large number of developing countries or the reluctance to adopt measures which will affect moneylender-trader interests. The other types of problems arise out of the inadequacy of ordinary governmental machinery to prepare agricultural plans and to implement them. This is due chiefly to the great variability of agricultural conditions and to the dispersed location and small scale of agricultural operators. Success in this field thus requires operating on and through rural society and its very numerous constituents.

This brings out the great importance, in agricultural development, of properly organizing the body of agriculturist producers and influencing their attitudes. In communist countries there is usually available, for the purpose, an agency—the party cadres—in addition to official bureaucratic machinery. Efforts made in non-communist countries to find a counterpart to these party cadres have not usually succeeded. The communists also attempt to diminish the extent and complexity of the problem of organization by replacing the family farm by the state farm, the co-operative farm or the commune. However, this is one of the areas in which attempted communist solutions have admittedly met with least success and there is reportedly a marked trend towards more emphasis on smaller units and on offering price incentives in communist countries.

The local organizations required for agricultural planning are

chiefly of two types. Firstly business organizations of agriculturist producers and secondly organizations which look after activities of common interest to the whole community such as conservation of resources, provision of socio-economic overheads, amenities, etc. The organizational type suited to the first requirement is obviously the co-operative and that for the second the local self-government authority. The main problem facing the under-developed countries is not that of the search for the right solutions of such problems but that of the ability to make any solution work. Ultimately the measure of success depends, apart from the basic physico-geographical situation, on the quality of the various constituents involved, such as the planning authority and the classes who wield power, the governmental machinery and the local society. In the context of agricultural development great importance attaches to the variability of the last viz., local society. In India programmes based on operation through co-operative organization, notably the one recommended by the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India, have shown great variations in results, from almost complete success in some contexts to almost complete failure in others. It is perhaps not an accident that the successes have been associated chiefly with the previous non-landlord areas. These variations point to the need of some flexibility in approach and to greater reliance having to be placed on external non-local machinery in some situations. However, this can only be as a transitional measure for, in the ultimate analysis success of a comprehensive plan of agricultural development in an economy based on the small family farm is almost entirely dependent on an active, co-operatively organized rural community.

The building up of an infrastructure is often, rightly, emphasized as an essential requirement of planned development. The two main constituents of such infrastructure are local governmental machinery and the local community organizations. The nature of the problem presented, in this regard, by each society is determined by its history and traditions, structure and values and is, therefore, highly individual. Also, its successful solution requires not so much highly developed methods of propaganda or skill in manipulation as sympathy, sincerity and a sense of identification.

Programmes of agricultural development rest on the assumption that with given changes in methods or adoption of techniques, with certain adjustments in organization and additions of resources, existing units of agricultural production can greatly better their performance. This betterment of performance is expected to be such that not only will the standard of living of farm family improve somewhat but also that surpluses will emerge which could be reinvested in farm business. A continuous process of development requires that reinvestment of the emergent surpluses is possible within the agriculturist's business.

and that successful adjustments, developments in organization, and improvements of technique etc. will continue the process of betterment of results, of the improvement of standards of living and the emergence of higher margins for a fairly long time. These assumptions depend on a number of circumstances, apart from the agricultural situation itself; to these attention may be briefly drawn.

Successful and comprehensive agricultural planning requires appropriate supporting national policies. Two aspects of these are particularly important. The first is that of investment by the community in the provision of socio-economic overheads in rural communities within which continuous progress in agriculture would not be possible. Developed agriculture means highly commercialized agricultural and usually intensive agriculture. Without the fullest exploitation, of irrigation resources or the undertaking of large public works in particular contexts such as conservation, drainage, etc., the efficient operation of individual farmers is not possible. Most of these works have to be undertaken on a scale which is much beyond the means and scope of authority of individual farmer or local community. Further commercialized agriculture means a transport and communications system which is efficient and whose benefits are widespread. Equally important though not equally obvious is the provision of educational, public health facilities, etc. needed by a progressive farming community.

The other aspect of national policy which is perhaps even more important is that related to the pricing of the products of agriculture. In the ultimate analysis, the emergence of a surplus in agriculture depends on the relation between costs and prices. Therefore, the pricing of agricultural products assumes crucial importance in all economies which eschew direct physical crop or other planning. The moneylender-trader system profits and lives by large seasonal variations in the prices of produce. In a properly planned economy such seasonal variations have little meaning. Their elimination and attainment of a stable level which allows a fair margin to the agriculturist producer must be the basic objectives of any planning. Moreover, where inducement to increase or decrease particular types of agricultural production or activity are given by variations in profitability of such production a relative structure of prices is the only operative mechanism. Obviously, supporting national policies of this type are almost as important for the success of agricultural planning as any portion of the agricultural plan itself.

Lastly attention may briefly be drawn to the integral relation that agricultural planning bears to other aspects of development planning. Assumption of the profitability of agricultural production rests not only on given knowledge and resources being available to the farmer, but also on the farmer operating on a certain minimum scale. With-

out a minimum scale of operation the results of production effort will tend to leave no margin or surpluses. In a society in which the number of farming units below an economic level of operation are numerous, agricultural planning is faced with the additional problems of the organization for production of these uneconomic units and the related question of rural employment. Moreover, if such an economy has no resources of unexploited land and experiences a rapid growth of population, the problem of taking away future growth and preventing a worsening of the position of existing production units becomes urgent. Hence, not only is agricultural development related to the plan of rural employment but also to possible avenues of future non-farm employment, in particular industrial employment, assumes utmost importance.

Rural industry is, however, not important only in the case of countries where the ratio of numbers on land to area is unfavourable. Even with somewhat a favourable position in this regard progress of agricultural communities is linked to the progress of rural employment particularly in industry. Continuous capital investment in land and the adoption of improved techniques decreases the demand for labour, this being the chief way in which the per unit product of labour in agriculture is increased. Such a reduction in the absorption of labour in agriculture is, however, possible only if alternative employment for labour is available, and this is most securely provided by a broadened base of rural economy which means rural industrialization. Growth of rural industry is the stabilizing factor for rural society in all developing countries. In this manner the plan of agriculture becomes integrally connected with the total plan of development and, in particular, with the plan of industrialization of the country.

NOTES ON RURAL INDUSTRIALIZATION*

1. *Rural Industrialization*

THIS BRIEF NOTE pleads for the adoption of an entirely changed approach to the problem of Rural Industrialization. The current approach is the result of historical developments. Various Boards such as the Khadi, the Handicrafts, the Handloom, etc., and other authorities have operated in this field for some years. The Rural Industrialization Committee was established chiefly to co-ordinate and unify the work of these various authorities. Therefore, the work of the Committee has been taken to be coterminous with that of these authorities, and the approach of the Committee and its methods of work have also been appropriately determined. I consider this to be unsatisfactory.

I conceive rural industrialization to be one of the major economic and social objectives of the plan of economic development. Therefore, it can be achieved only if the entire development plan, in particular, the entire plan of industrialization, is framed so as to attain this objective. No substantial results can be achieved, in the short run, with the present approach and area of the efforts at rural industrialization; and, in the long run, present trends in policy relating to large industry will inevitably lead to a highly urbanized and capital intensive modern industry and a poor, non-industrial countryside. I assume that the objective of rural industrialization implies industrialization of the country as widely dispersed, on as small a scale, with as high an employment potential as is compatible with an efficient technique and the requirements of the process of development. Existing knowledge in regard to planning techniques indicates no easy or quick solutions of this problem. It has, therefore, to be approached tentatively and bit by bit.

Every decision made in relation to the allocation of resources to large industry and to the licensing of industrial establishments shapes, in part, the future pattern of industrialization of the country. The work of the Development Wing is an important factor in determining future arrangements, and recently, policies regarding foreign collaboration and regarding export incentives have also assumed importance in this context. At present it does not appear that any of the above are concerned with the overall objective of rural industrialization. In the circumstances, their activities result in the creation of establishments comparable in size of operations and intensity of capital investment to those of highly industrialized countries. With present availability of external economies, the location pattern of these esta-

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ishments favours metropolitan areas and large cities. Inevitably, the future pattern of growth of these activities and activities subsidiary and complementary to them will also be shaped similarly as regards technique, scale and location.

Apart from the effects of existing arrangements and practices in the long run they have important immediate consequences also. The most notable of these is in relation to availability of materials. Perhaps the most important base for 'rural industrialization' immediately is raw material available in rural areas. If this is used up in modern large-scale urban industry, 'rural industrialization' will become well-nigh impossible. This is happening at present, and, to my knowledge, no attention is being paid to ultimate effects of the steps that are being taken. For example, the molasses and bagasse produced by the sugar industry are planned to be absorbed by modern large-scale industry. I have heard of a proposal of a very large plant for onion dehydration put up with foreign collaboration. In the absence of a clear formulation of overall policy, it is not surprising that this should happen. The obvious step that a technologist would think of is the setting of a unit with the most advanced technique and on the largest possible scale. He will consider alternatives only if policy directives ask him to do so.

There is, I believe, only one case in which an overall policy decision has significantly affected industrial development. This is that of the mill cloth industry, though even here certain loopholes have been created in the name of export incentives. In the cloth industry, the action has been largely negative. This is because the idea of the Common Production Programme accepted since the First Plan has never been seriously followed up. The approach of the Common Production plan has, however, only limited applicability. It applies only to industries where there already exist side by side establishments with traditional and modern techniques. Looking to the future the larger area to be covered will be that of non-traditional products. Hence arrangements must be made which will lead to the establishment of a modern industry with appropriate scale and location in new lines of production also. These arrangements will have to be incorporated in the planning of the total plan of industrialization.

Other requirements of 'rural industrialization' may also be noticed. The plan for the spread of facilities is among the most important of these. The attraction of metropolitan centres and large cities is a universal economic phenomenon. Every scheme of dispersed regional development has to take account of this and provide, as liberally as possible for dispersed transport, water, power, and such other facilities. At present, in India the older bias in favour of concentrating expenditure on the major routes and centres persists. The plans in this regard have to be recast. But doing this inevitably raises a knotty problem. It is obvious that our scanty resources will permit only of a limited degree of dispersal of facilities. Hence an interpretation or definition of rural industrialization must be attempted in this context. Rural industrialization must be planned round a series of centres in the country-

side. How large or small, how close or dispersed these centres should be, will have to be thought out in relation to ultimate objectives and immediate practicability. This may mean a phased programme which begins with fewer and larger centres but in which provision is made for gradual spreading out.

One of the most vital needs of a plan of rural industrialization is the planning of research activity, especially technological, which could assist the process. The orientation of technological research in advanced industrial countries is necessarily based on the existing situation in them as regards relative availability of capital and labour. Even so in many of these countries developments such as automation are creating serious transitional employment difficulties. For us to accept, as we are doing, their technical framework without discrimination or adaptation is to invite very serious trouble. This is not a problem of any particular industry or technique but affects all. The requirement could be met only by reorienting all research activity and all development policy in relation to industrialization.

There is one aspect of research activity to which special attention may be drawn in connection with rural industrialization. It is of developing the scrub, the waste and forest lands for production of a variety of materials which could become the base of rural industry. Rural industrialization has to be based to a large extent on local available raw material, and the present neglected and fast deteriorating non-arable areas appear capable of significantly increasing the supply of such material.

In view of the total Indian situation it is not only desirable but also highly necessary that strenuous attempts be made to build up a dispersed, relatively small-scale but efficient industrial structure in India. This objective, which I take to be rural industrialization, cannot, however, be easily attained. For its attainment requires leaving the path of the line of least resistance—which is currently popular and adopted in India—and making a strenuous effort to guide industrial and economic development. In many aspects of this effort we shall find little guidance elsewhere and must therefore be ready to experiment and make tentative approaches on our own. Success in this effort may be attained only if it is comprehensive and earnest. The immediate requirement is, therefore, to recast the whole thinking regarding industrialization,* foreign collaboration, transport and other economic overheads, development, research activity, etc., in the light of the requirement of the objective of rural industrialization.

The definition of rural industrialization has to be appropriately widened, and the immediate programme of the rural industrialization committee must cover many more activities than at present. Some idea of the widened field may be given by enumerating the main directions in which immediate activity should be planned. They appear to be :

(1) The traditional village and urban artisan and handicraft industries.

* Some aspects of the reorientation on the industrial plan required for this purpose have been discussed in a note on 'An approach to Indian Planning.' See p. 275.

Rehabilitation and protection of these can be attempted only on a new, technically and economically sound base together with an operative programme of continuous technical and economic progress in future.

(2) Processing and transformation of agricultural produce, of materials that can be grown on scrub, waste, forest lands, etc., and of other primary production. The attempt here should be to embrace, within an efficient co-operative organization, all existing activity, and, even more importantly, to extend the scope of activity and products by continuous research in techniques and in markets.

(3) The rural building and construction activity. This ought to provide an extremely important field for rural industrialization. The larger employment works programmes that are contemplated should provide an important market for a variety of instruments, implements and other intermediate goods. This market can be catered for by small-scale, dispersed rural industry. Similarly, in this context, attention ought to be paid to improved village layouts and housing, and this again should create an important essential local market.

(4) New consumer goods are continuously being introduced in rural areas; there are also many directions in which attempts at standardization of products, particularly in the food industries, could be made. This is a field specially appropriate for rural industrialization.

(5) There is considerable current competition between states and among districts within a state in relation to location of units of large industry. The location of a large industrial unit in a particular place can benefit the neighbourhood significantly, only if certain measures are taken. These measures are those required for encouraging the establishment of small-scale units producing parts and catering for ancillary and subsidiary requirements of the large unit. Such measures can be taken only if, the licensing of enterprises and in the planning of their future operations, the objective of rural industrialization is constantly paid attention to.

2. *Plans for Rural Industrialization*

The progress of the work of the Rural Industrialization Committee raises a number of points to which I desire to draw attention in this note. The work of the surveys is over. The reports of the surveys have been prepared and plans of action on the basis of the survey material have either just been completed or are in the process of completion. It is not necessary to say anything regarding the surveys except that they appear to have lacked a definite objective. The result is that the reports of the surveys are like the usual official compilations of data collected chiefly from official sources and embodying a great deal of programme and target material together with expenditure achievements but containing nothing that can be considered helpful in evaluation. Because of the lack of definitive objectives, no effort to collect material on any aspect that might have particular interest in the future plans has been made. The reports of the surveys, therefore, are not very

promising material from which to start the future plans of industrialization.

What I want to say in this note refers mainly to plans for future action which are in the process of being made. In this regard I would set down a set of propositions : (1) In the first instance, all plans for the future ought to take fully into account the experience in the recent past of related schemes and programmes operating in the area for which future plans are being prepared. To ignore this experience is to court failure. The Khadi Board, the Industries Department, the Co-operative Department, the Small Industries Centres, the Handloom Board have all had a variety of schemes in operation for many years past in most districts of the country. If the new plan of rural industrialization is to do no more than to extend the same types of schemes, perhaps more intensively, this hardly justifies bringing into existence an elaborate organization for the purpose. What I say above applies to schemes for the establishment of new industries as well as to those regarding training, the provision of common facilities, etc. (2) Secondly, a plan for any area prepared by the Rural Industrialization Committee must embody within itself a concept of a strategy of industrialization. I use the term 'strategy' to cover a number of aspects : What things are taken up first and why; how in a programme of action not only the chronological sequence but also the possible spatial spread of activities is determined or expected to come about, which parts and elements of these are crucial and to be externally established, and which are considered as necessary consequences or by-products; how are finance, technical know-how, organization and entrepreneurship linked together in any sphere of activity, and in what manner and for what reasons the relations between these would differ from activity to activity; these are the crucial initial problems and they must be thought through to a minimum extent at the very start. These sorts of queries raised and resolved in relation to various aspects of programmes of industrialization will determine a possible route of the future process; and the strategy of industrialization consists in acting at important crucial points along the route so that the whole process unfolds itself in due course. The strategy may, in the initial stage, be very crude, highly hypothetical and speculative. The important point is that no plan of action in an area like this can be logically prepared or can hope to succeed unless there has been some initial thinking on strategy in the above sense.

(3) A third important point is this. It appears to me that the whole set of plans of rural industrialization takes an extremely short-term view of the problem. One of the most fundamental considerations in rural decentralization is that it cannot be effectively achieved without very considerable decentralization of socio-economic overheads. The plans of rural industrialization made at present give no attention whatsoever to whether, in the particular area, the general transport, power, water supply, education and other facilities are adequate or inadequate, are well spaced or illspaced, etc. The result is that the plan of industrialization will help to perpetuate the present usually unsatisfactory arrangements. For example, if there are

a number of potential important centres which are without proper inter-communication facilities or power and water resources, the plan will bypass them and suggest something at other centres rather than make the initial provision of the proper spread of socio-economic overheads. I do not know whether this comes because of the circumscribed sphere of action and powers of the Rural Industrialization Committee, or a narrow view taken of their functions by those who prepare the plans. Any way, this feature makes the entire planning-process highly defective.

(4) Fourthly, there is an amazing lack of integration and co-ordination within the plan. This appears largely to be due to the planners' having to operate with schemes of various Boards and authorities in the form in which they are at present put. No adjustment or reorientation, etc. for the purpose of making a particular coherent plan appears to be possible. This is as if one is asked to produce a good out of standard parts which have been fashioned for somewhat different purposes. It appears that even the current Third Five-Year Plan schemes and programmes in the area are treated as unchangeable. The result is that the plan of Rural Industrialization becomes usually no more than putting in some fresh schemes and programmes in addition to the old ones in any given area. It stands to reason that if a new experimental approach is to be given chance of success, the whole field of operation in the area must be open to the planner. He must have not only the authority to pick and to choose and to modify, but also to cut out or to scrap, and he must be in a position to co-ordinate all effort over the entire field.

What I have said so far may appear, chiefly, as critical and negative. I would, therefore, add some points by way of constructing an alternative approach. I began with the concept of strategy. Each area-plan should have a strategy which may, and ordinarily should, differ from area to area. Secondly, for building up the main component parts, the total field should be analysed in a significant manner. I consider the following components as the most significant units in relation to which to build :

- (1) Traditional handicrafts and artisan industries of the area.
- (2) Agricultural processing activity.
- (3) Activity connected with animal husbandry and forest produce.
- (4) Industries related to building and construction activity—present and potential.
- (5) Any core of mechanical industry around which a complex of engineering industries could be thought of.
- (6) Consumer goods industries in particular clothing, footwear and food industries of all kinds.

These components would have some representatives in all areas. In particular areas, other specialized components may be added. I think it would be a distinct advantage to try and put together the programme on the basis of a group of activities derived from some such classification as suggested above rather than to think in terms of individual industries and programmes.

There must be a lot of straight thinking done in relation to the very large group of industries included in the first class above. To repeat in these cases programmes of training, assistance and establishment which have repeatedly failed before is deliberately to misuse national resources. The village potter and the village tanner are the most notorious instances of failure. In relation to any particular area, the future programme must be based on a correct evaluation of past performances and realistic prospects of future developments.

The building and construction industries, I should like to link up specifically to two aspects of development. The first is the works programme which has been at least notionally established, and the second is the concept of the reconstruction of the villages and of village layouts and rural housing. There is also a need for proper recognition of the large potential that lies in this direction.

In relation to agricultural processing, I would insist that unless specifically proved to the contrary, it should be assumed that all this would be undertaken by the co-operatives. It is surprising to find that programmes of processing in even the Maharashtra area have been unnecessarily left to private enterprises. For the Maharashtra State, I would make a suggestion in this connection. All programmes in the agriculture, animal husbandry and forest produce sectors in all areas in Maharashtra, which the Committee thinks feasible, should be immediately turned over to the Industries Commission of the Maharashtra State Co-operative Bank. I shall see to it that the Commission takes action through its own promotional agencies to begin with the work of organization in all cases.

It is perhaps a matter falling within 'strategy' to consider the mutual relations of training, technical assistance, provision of common facilities and the establishment of industry. The relation may also be likened to the hen and egg conundrum. However, in each particular situation an appropriate view must be taken of the relation for determining programmes of action. The large failures of previous efforts at training must be taken note of in this context. It does not appear to be advisable to open large centres for training in advance of the establishment of a significant number of units. There is sufficient dispersal of training-facilities now to ensure that the minimum complement required to start initial units could be trained elsewhere and partly also recruited from elsewhere. It is only when a certain stage is reached in development that training-facilities on the spot should be contemplated. The provision may be elastic enough to enable advancement in case of specially rapid development. Secondly, it is important to remember that a decision taken to locate a large common-facilities centre involves pre-determining a locational pattern and perhaps in retrospect giving it a twist. Unless, therefore, there is something in the centrality of location, availability of resources, etc., to suggest overwhelming choice in favour of a particular place, any substantial investment in such things as a common-facilities centre should follow the establishment of some units as

a result of other programmes rather than precede them. It may be unkind to suggest this, but one often wonders whether the priority given to large programmes of training or of common facilities in advance of the establishment of industries is not due to the ease with which expenditure can be incurred on these and expenditure targets easily reached in early years. This remark is introduced in order to emphasize the final point that this programme will fail as dismally as its precursors unless it is able, from the beginning, to rise above the mania of target-making and of expenditure performance.

3. *Intermediate Technology*

It is good that the Planning Commission is holding a seminar of technicians connected with intermediate technology. The seminar will presumably consider problems of planning systematic research and co-ordination in this field. It appears to me that before this can be done successfully, it is necessary to be clear as to what is meant by intermediate technology and what place it occupies in the total development plan, especially in relation to the plan of industrialization. The term "intermediate" denotes a stage somewhere between the "advanced" and the "backward". In India the "backward" may be identified with the technology of traditional Indian industry—urban and rural—and the "advanced" with the technology of the industrially developed countries of the West. The "intermediate" presumably lies somewhere between the two. A more concrete concept of the intermediate may be obtained if we attempt to understand why adoption of intermediate technology is considered important in India and how such a technology is expected to evolve or develop.

The need to think in terms of intermediate technology appears to arise primarily from the redundancy of human labour in the country and the inability of the economy to use its labour resources in anything like a full or adequate measure. Important related factors are a very high proportion of those living in rural areas and engaged in agriculture and other primary occupations, a high rate of increase of population, the generally unfavourable land-man ratio and the desirability, for better organization of agricultural production, of reducing numbers currently employed in agriculture. All these circumstances call for the creation, on a very large scale, of new non-farm employment opportunities. This can be done on a long-term stable basis only through the establishment of an industrial base of minimum size and strength. Further, in view of the present distribution of the population and the paucity of capital resources, the industrial complex to be built up has to consist of very large numbers of dispersed establishments capable of creating numerous employment opportunities in relation to capital investment. A subsidiary, but not un-important, consideration is the fate of the large numbers engaged, even today, in traditional small-scale industries—rural and urban. The total situation makes it urgent that the route of development be so planned that significant numbers of these are not rendered unemployed before alternative avenues of employment are opened for them

and that as far as possible the investment in skills and capital equipment in the traditional industry are utilized in plans of development of industry in the future.

Recent experience gives further support to the analysis of requirements set out above. In the first instance, it has been increasingly emphasized that in underdeveloped economies the transmission of economic forces is very slow and partial. As a result the creation of a small number of centres of advanced industry in a country fails to have any significant impact on the bulk of the rural masses and areas in the rest of the country and does not initiate a process of transformation which embraces within any reasonable time-span the whole of the economy. In addition, it appears that implanting a relatively small element of highly advanced modern business, including industry, within an economy often leads to the development of a phenomenon often described as a dual economy. This implies the semi-permanent existence of two parallel sectors within the same economy, one characterized by richness of resources, advanced techniques and economic progress, the other by poverty, backwardness and stagnation. Exchange relations between these two spheres would then take on the exploitative character which marked the exchange between industrialized metropolitan countries and their predominantly agricultural dependencies in the colonial era. It may thus happen that the two diverge and become antagonized instead of merging and progressing together.

Everything thus points to the desirability, nay urgency, of initiating widespread industrial development in all regions of the country which will prevent accentuation of dualistic features within the economy and make for concerted and uniform economic progress. This I take to be the justification and purpose of any programme of "rural industrialization". It is necessary to set this out because the scientists and the technicians must be made fully aware of what is expected out of the adoption of "intermediate technology". Their efforts must be directed towards the selection and development of those procedures and techniques which can serve the given aims.

Does the definition of aims and purposes make possible any generalizations as to characteristics of intermediate technology? The broadest generalization one can make is about scale. The smallest scale compatible with efficient production is an obvious desideratum, and a significant step in this direction is expected of all intermediate technology. Negatively, intermediate technology would also be expected to keep down investment in fixed capital as low as possible; this would be balanced by there being no special emphasis on economy in inputs of labour, especially of those types which are not scarce in underdeveloped economies. These conditions arise out of relative paucity of capital, the tendency for fixed capital cost per unit of product to rise with diminution of scale and the redundancy of labour and its low cost. It is in this context that the problem of use of power may also become important.

Because of undeveloped communications and relatively high transport costs, most situations in which intermediate technology is adopted are characterized by cut-up and limited markets. Production units within these would be protected to some extent from outside competition by the transport costs and by any preferences for local products that they are able to establish. The permissible margin in costs per unit of product between advanced and intermediate technology would thus be indicated chiefly by the saving on transport, marketing, etc. costs, any diminution in quality such as finishing, packing tolerated by customer in favour of the local product and by lower labour costs.

Economic development may be defined as the effort to increase the national product, absolute and *per capita*, by continuously adding to national resources and by making more efficient use of them. An advanced technology is by definition one that makes a more efficient use of resources than a backward one. Therefore, economic development is, in a sense, identified with adoption of more and more advanced technology. However, as indicated above, it may neither be possible nor desirable to adopt the most advanced technology available in many areas of the economy, and effort has to be made to discover the technology appropriate to a particular field in the context of both the general and the specific economic situation. Where this process of adaptation has to be very widespread and appears likely to persist for a long period of time, it is possible to talk in terms of evolution or development of intermediate technology or research and experimentation in that behalf.

From the point of view of a non-technician the following approaches to the development of intermediate technology appear to be possible. One approach may be to start with existing techniques in traditional industry and to utilize knowledge of advanced techniques to transform them suitably. Transformation implies retaining some elements in existing equipment, skills and procedures. If there existed possibilities of a continuous process of transformation so that starting from the traditional technique one could, through continuous change, reach the most advanced technology, the problem would be relatively easy. It would reduce itself to that of choosing, for any industry, for a time and place, a particular position on the continuum as the most suitable. In fact, however, such a situation exists in almost no field, and each important advance in technology renders previous plant and equipment, for the most part, obsolescent. There may, however, exist limited possibilities of improving traditional technologies so as to keep their operations, at least in part, viable. This process of improvement of traditional technology is extremely important, particularly for that part of the transition in which a holding operation for preventing added technological unemployment appears to be necessary. It is doubtful, however, whether such modification of traditional techniques would be accepted as resulting in intermediate technology.

Another approach would be to start from the end of the most advanced technology and to adapt and adjust so as to meet the requirements of

the intermediate. The chief requirements of this, as defined above, are (i) small scale and (ii) change in the proportions of capital and labour inputs; *a priori* the process appears to have two prominent components. First is the analysis of the different units and processes in the total plant, equipment and operations. The analysis would initially aim at determining the extent to which the task of adaptation and adjustment of technique could be undertaken relatively independently for separate parts or units. Next, on the basis of a given structure of wage rates and availability of various types of labour, the relative advantages of full or partial adoption of advanced technology for the various separate parts could be calculated. It is this analysis that would uncover possibilities of maximizing inputs of low-cost labour and of saving on capital. The second component of the process would be the adjustment of the technique and equipment, to the extent it is to be adopted, to a smaller or the smallest scale compatible with efficient and economic production. In some cases, the process would also involve adjustment to special local circumstances such as type of fuel or power available.

A third possible approach may be to conduct experimentation and research in a direct effort to establish intermediate technology. However, for this to be fruitfully undertaken it would be necessary to define, for the scientist and the technician, the limiting economic circumstances. These are chiefly the scale of operations aimed at and the relative costs of capital and labour and the scale of their inputs—possible or desirable. Such direct effort at establishing intermediate technology would undoubtedly be conducted against the background of knowledge of advanced technology in the field. However, it could cover a much wider range of possibilities than the effort through the adjustment and adaptation approach.

It should be clear that the establishment of what is called intermediate technology is not a once-for-all process. It is related, on the one hand, to current advance in technology and, on the other, to changing economic circumstances, particularly the widening of markets and change in the relative costs and availabilities of labour and capital. Therefore, the evolution and adoption of any type or scale of intermediate technology has to be considered as essentially a transitional stage, though in the existing situation in India this transitional stage promises to be fairly long drawn out. The continuous changes in the situation to be visualized, in the future, are mainly (i) the adoption in some areas of fully advanced technology and (ii) the readjustments in intermediate technology itself rendered necessary by the total change in the situation, technological and economic.

It follows that any consideration of intermediate technology cannot be conducted in *vacuo* or by itself; it must be constantly and meaningfully related to the total situation. It must be related to technology, both traditional and advanced, to the general economic situation, the plans of development, and to special economic conditions within the particular field of application. If one takes the view that today the most important and urgent technological problem confronting India is that of the adaptation of advanced

technology to Indian economic circumstances, it is obvious that the bulk of talent and finance in the technological field must be directed towards this effort. The setting-up or getting-together of a small number of inadequately staffed and financed units for this purpose is altogether insufficient. The main attention of the personnel on the applied side of National Laboratories, technical institutes and the large university departments must be concentrated on this work. The advancement of advanced technology in every field is being adequately pursued in the developed countries; the special adaptation and adjustments required in India are not, and are not likely to be, given attention in any other country. They must, therefore, obtain the highest priority in our plans. Intermediate technology should become a national concern and not as at present, a neglected field assigned to a small number of specialists, set apart.

Intermediate technology is closely connected not only with all technological work in the country but also, perhaps even more closely, with all planning effort. No plan of industrialization which does not pay the fullest attention to it can be meaningful. In fact, as pointed out above, the changing circumstances against whose background intermediate technology has to be evolved are shaped by the plans. Per contra, realistic planning regarding the route and pace of industrialization must be powerfully influenced by the possibilities and achievements in the direction of intermediate technology. There will be a group of activities, e.g., certain basic industries, capital goods industries, public utilities, etc., in relation to which the adoption of intermediate technology may not be considered. For the rest the effort must be organized in relation to particular aspects and phases of the plan and the best way of doing this is to organize it not as a distinct separate activity but as part of a plan covering an entire field or aspect. The concept of the Common Production already holds the field. This has not only to be elaborated but also to be made operational. Intermediate technology will obviously find an appropriate place in dynamic common production plans. I would suggest the evolution of a parallel concept of a "common utilization plan". By this I mean, taking stock of the total supply of industrial primary and other materials within the country and planning their allocation to various processes of transformation and industrial use. The planning will include both the processing of primary products and their later utilization. In relation to intermediate technology, the planning of the total utilization of primary products of agriculture, animal husbandry, forest, etc., whose supplies are available dispersed in rural areas, is specially important. In some of these cases, common utilization plans would be partial counterparts of common production plans, but not in others. The introduction of the concept of common utilization plan is specially important in the case of commodities not touched by common production plans, as for example, bamboo and agave fibre, bagasse and molasses, hides and bones.

The evolution of intermediate technology and a proper definition of its position and function would also be facilitated by planning in relation to a

whole group of activities such as building and construction trades. The extent to which the utilization of local materials and local labour can be maximized while maintaining efficient and economic production through selective adaptation of technological advance, must be established in detail in typical local situations. However, certain broad common approaches could also be evolved if intensive attention is given by teams of technicians to this widespread and universally important field of economic activity.

As described above the process of evolving and adopting intermediate technology is a dynamic process which should be the centre of interest of the plan of industrialization of the country. It should claim the attention, in an important way, of the ablest scientists and technicians in the country, and planning in relation to it should be undertaken through integrated planning of whole aspects and fields of industrial development. The effort to-day is both highly inadequate and narrow. The division of jurisdiction in a number of separate Boards each having different ideas and approaches has been disastrous. Programmes of action embodied in rigid schemes miss the essential dynamics of the situation. The input of scientific and technical talent has been meagre and sectionalized. While, therefore, the move to call together technicians engaged in related effort is welcome, it will bear fruit only if it is the first step in a much more comprehensive and large-scale plan of action.

MONOPOLY AND CONCENTRATION*

ANTI-MONOPOLY thinking as it originated in the U.S. in the latter half of the nineteenth century had reference to an assumed operation of a competitive free market economy. The fair and beneficial operation of such an economy was supposed to be distorted by monopolistic elements when they arose in society. The logical result of the view was that the State tried to prevent the distortion by breaking monopoly and restoring effective competition. The approach was appropriate where an essentially negative view was taken of the functions of the State and there was faith in the efficacy and fair operation of the market mechanism. Where, however, the State was expected to have, and did have, a positive economic policy, especially in relation to building-up or strengthening of modern industry, the anti-monopoly approach became inappropriate. It is notable that in the two countries in which national governments had adopted, before 1914, positive economic policies connected with industrialization, namely in Germany and in Japan, there was no anti-monopoly sentiment or legislation. Japan's operations were usually informal and paternalistic. Therefore, State policies were not always made explicit through legislative measures. However, it is quite clear that the formation of the Zaibatsu groups was not a matter of accident or the natural effect of *laissez-faire* policies, but was the result of the combined efforts of the State and the public and private sectors. All these were purposively directed towards building up strong organizations, capable of directing both internal developments and external relations. The cartel legislation in Germany more explicitly indicated the need of a positive policy of government direction of economy.

During the inter-war years, because of the stress first of post-war reconstruction and then of the depression of the 30's the regulation of monopoly did not attain special importance. The depression, in fact, led, in most countries, to efforts at syndicalization and cartelization, or at formation of close associations of producers. This was exemplified in the U. K. in the agricultural boards and pool. In the U. S. A. under the New Deal two apparently contradictory phenomena emerged. On the one hand, in relation to price administration there was encouragement of associations of producers to maintain prices or to prevent their being undercut. On the other hand there was emergence of another wave of anti-trust feeling as exemplified in the T.N.E.C. enquiries.

In the post-Second-World-War period, the general concern initially felt regarding the possibility of increased unemployment, and later, the wide acceptance of the aim of attaining a high rate of growth, led to universal adoption of measures to regulate the operation of the economy on the part

*Memorandum submitted to the Monopolies Enquiry Commission. Published in *Opinion*, 1, 8, 15, 22 March, 1966.

of governments. These, in their turn, in a large number of cases, have been transformed into systems of economic planning. As a result the emphasis has shifted from ideology to operation. The British Monopoly Commission is, for example, interested not in establishing the fact of monopoly or concentration and countering it, but in watching and preventing, what it calls, discriminating practices which monopolistic positions or oligopolistic collusion may make possible. Thus concentration or monopoly *per se* is not to be prevented so long as no unfair advantage is taken of it and no unsocial practices indulged in. The implication of this in relation to assumed operation of the economy is clear. In almost no country outside the United States is there an implicit or explicit belief that market mechanism operates freely or that it always operates beneficially. A varying degree of pragmatism is exhibited in the light of which results are considered important and the extent of free market pricing and regulation or direction are related to actual circumstances and expected results of policy moves.

It is now widely recognized that planning is being practised, to a smaller or larger extent, in contemporary, advanced, capitalistic countries also. However, in comparing their situation with that of India, special attention needs to be paid to the context in which planning was introduced in the post-Second-World-War period and in which it has grown. The most important characteristic of this situation is that in relation to the overall broad operation of the economy, especially in relation to class distribution of incomes, it is socially determined national policy rather than forces of the market that define the main conditions and regulate the trends. In most of the countries of West Europe certain common features in this regard are to be found. In the first instance, agricultural prices are determined basically through arrangements which are akin to agreements between the farming community on the one hand, and the national government representing consumers on the other. The farming community enjoys, in consequence, the advantage not only of stable and secure prices, but also of as favourable terms of trade as the national economy will permit. The second, even more important universal feature, is the comprehensive social security system. This results in all the less well-off classes being guaranteed against the effects of the incidence of unemployment, sickness, etc. The third important feature of the situation is the acceptance of prevention of unemployment as the major goal of the economic policy of the State. Monetary, fiscal and other policies of the State are deliberately directed towards confining the level of unemployment within a low tolerable margin. This puts the wage-earning classes, as a whole, in a position of bargaining advantage so that the peculiar phenomenon of the cost-push inflation becomes possible. To all this have to be added certain other trends in socio-economic policies, which are also common. All of these trends are directed towards making distribution of incomes more egalitarian through a variety of measures, of increasing opportunities of betterment or development and reducing the range of variations in incomes. They go from programmes of rapid expansion of varied educational oppor-

tunities to deliberately planned regional development so as to reduce the disparities in incomes and pace of development as between the various regions.

It is true that most European countries have moved away from direct regulations adopted during stress of war and rely today chiefly on monetary and fiscal measures to regulate the economy. However, this is related to convenience of operation, and direct regulation of prices or supplies is not eschewed. In this context, of the maintenance of an overall frame for the economy and of purposive direction of the course and pace of economic activity, the older approach to monopoly becomes anachronistic. Nationalization of important activities is another differentiating factor. Monopoly presents, in the circumstances, no special separate problem. Its manifestations are tackled by the usual regulatory mechanisms when they are seen to be inimical to accepted socio-economic objectives.

In countries of West Europe the State shapes the determination, to a large extent, of distribution of income as between classes in society and also regulates or guides the pace and direction of economic activity. While, therefore, some aspects of the process of emergence of monopoly, e.g., take over-bids, may be directly regulated, it is mainly the effects of operations of monopolists that are watched. In such a context it is even conceded that some aspects of these operations may be beneficial and these are, therefore, permitted or encouraged.

The position in India is different in many respects. In the first instance, all those features which provide a meaningful frame to the system of distribution of incomes between classes and occupations in West European societies are entirely absent in India. In relation to prices of agricultural commodities there is a deliberate refusal to accept any programme of stabilization, and consciously or unconsciously the dominance of the moneylender-trader economy in the countryside is bolstered up by State policy. There is, for all practical purposes, an absence of social security measures in the sense of measures that can have any impact on the condition of the really depressed and disadvantaged classes. The problem of unemployment is deliberately dodged as being too large to be tackled in the near future. The minimum wage prescriptions and collective bargaining, which played such a large part in giving a floor to labouring class incomes in Europe, do not affect the most disadvantaged in India. In this country, these are concerned chiefly with the relatively better organized and relatively better paid employees in modern industry. The casual labour in cities or the rural agricultural labour is entirely outside any of the protective devices. Land reform has powerfully influenced the market for land; and the ceiling legislation has, to a large extent, limited the possibilities of economic betterment of individual operators in agriculture.

At the other end, in relation to modern business and the capitalist entrepreneurs, the implementation of plans of development have led to a number of specially favourable steps in their favour. There is a large-scale preferred allocation of capital resources in favour of particular concerns or activities.

There are special quotas and licences for imports and special incentives given for exports. The rate of exchange together with the import quotas makes for special subsidization of or special transfer of incomes to the preferred class of capitalists. The foreign collaboration arrangements which again specially benefit a selected few are encouraged and favourably treated. The rates of interest charges on capital and resources placed in the hands of the preferred capitalists are relatively low. The administration of import and export quotas leads to a concentration of business and leaves the resulting surpluses from it in the hands of a selected relatively small number of firms. No attempt is made to control effectively the price advantages derived out of them by those in whose favour special allocations are made.

The industrial plan and its implementation lead to certain locational decisions and to high rate of growth of metropolitan areas, which rate of growth in its turn attracts or necessitates a high rate of investment on socio-economic overheads, for these areas. As the rest of the country is starved of resources needed for its development, a continuous increase in disparities is thereby brought out. The savings and taxation policy further increases the surplus retained by those in whose favour special allocations of capital and other benefits have been made. The control of individual prices where it exists is in no way related to either efficiency of operation or to exploitation of monopoly advantage.

The action of the planners in relation to the employment market is also peculiar. At one extreme, because of no concern with employment, the labour surplus in the unskilled general market continues unabated, and continuously depresses the level of wages in it; at the other extreme, great demand is created by planned activity, in both private and public sectors, for services of the highly educated and trained, yet no action is taken to regulate or rationalize the resulting situation, and the private sector is progressively enabled, in a large number of cases through explicit sanctions given by official agencies, to pay higher and higher salaries until they reach international scales.

As a corollary, the production structure is distorted, because effective demand can stem only from the relatively small number earning higher incomes and the production structure is geared progressively to satisfying their needs. This distortion takes place in every sphere such as that of socio-economic overheads, exemplified by government encouragement to invest in luxury hotels, producer goods and consumer goods. All this leads inevitably to the problems connected with the operation of economic organizations or the running of administration, which have been highlighted in the Vivian Bose Commission on the Dalmia-Jain group and the Das Commission on Sardar Kairon.

The overall situation in India is thus one in which society gets the worst of both the worlds. There is considerable intervention and considerable action. Almost all the special action is in favour of a small number of persons and has the result of putting into their hands disproportionate quantities of scarce

resources which earn for them large surpluses. There is no corrective to this system of special measures; imposition of an overall regulatory frame as through general price regulation is deliberately avoided. No regulations either guarantee efficiency or the non-emergence or the non-exploitation of monopolistic positions, or provide for the basic structure for a proper distribution of incomes between classes or between communities.

It may be said that the recent appointment of the Monopolies Enquiry Commission reflects the growing concern of Government with problems of monopoly and of concentration of economic power. The thinking behind the appointment of the Commission and its terms of reference is evidently that this concentration is related to decline of competition and emergence of monopolistic positions and may be suitably dealt with by action in this regard. The analysis of the Indian situation given above would indicate that this thinking is not correct. Monopolistic positions may be related to restriction of entry to an occupation or activity, or they may result from concentration of ownership of particular types of scarce resources in the hands of a few or the confinement of an activity to a small number of persons or establishments. It is clear that currently in India it is the implementation of plans of development, particularly in the modern business sector, that is continuously creating, on a very large scale, situations described above as monopolistic. Monopolistic positions created by private action appear to be few as compared with those created as the result of official and plan policy. For the larger part the monopoly gains, with unsocial results, accruing in the Indian economy are the result not of collusion and other practices indulged in by businessmen but of the licensing and other allocative decisions taken by the administration in their favour.

The questionnaire of the Monopolies Enquiry Commission refers to the two phenomena of monopoly and concentration of economic power. There is a fundamental difference between the two. Monopoly refers to a situation in a particular field of economic activity. The term concentration of economic power is usually used in relation to the situation within the economic system as a whole. Concentration of economic power may be reflected in the holding of monopolistic positions in a number of economic activities. However, it is not necessary that concentration of economic power is associated with any number of monopolistic positions or even a single monopolistic position. An undue extent of command or control over economic resources or activities within an economy is what is indicated by the phrase concentration of economic power. The concept is obviously vaguer than that of a monopolistic position, and measuring it or making clear its operational effect is even more difficult. When concentration of economic power is allied to the holding of monopolistic positions, the gains in monopoly are themselves concentrated, and this would highlight the degree of concentration in the economy as a whole. Where concentration of economic power is not associated with the holding of any monopolistic positions, it is the size or volume of total resources, gains or incomes in a sector, the allocation of resources or income opportu-

nities and privileges. In the ultimate analysis, apprehension felt regarding concentration of economic power must be related to possible results of this concentration on the operations—economic, political or social—in society. If concentration of economic power was not expected to lead to distortion or warping of operations in any of these contexts, concentration would not be thought of as potentially harmful. Therefore, in discussing concentration, apprehensions felt in relation to it must be concretized.

In relation to the working of the economy, it may be feared that with a given degree of concentration of economic power, the person or a group in whose hands such power is concentrated, may obtain continuously increased control over more resources; that is, the rate of cumulation of resources in the group or individual may be higher than the rate of cumulation elsewhere leading constantly to heightening the degree of concentration. Secondly, where in a part of the operation of a sector, the allocation of resources or income opportunities and privileges is a matter of decision by official planners or other authority, concentration may invite or attract or lead to undue proportion of allocatory decisions in favour of such groups. Either way, because of the influence of concentration itself on the working of the economy or on the working of the apparatus that takes crucial decisions in relation to it, concentration may result in further and cumulative concentration in relation to resources and gains.

The possible political results of concentration apprehended may be in relation to influences exercised over political authorities and decisions of those authorities. This in itself may, and is usually held to, lead to economic consequences; so that the extent to which political authorities exercise judgement or indicate preference, these may be exercised so as to increase disproportionately the gains and resources in the hands in which they are already concentrated. The political consequences of concentration of economic power may, however, be even apart from the exercise of economic judgement. Considerable influence vested in groups in whose hands economic power is concentrated may lead, even if it does not result in economic gains in favour of the groups, to giving particular direction to State policy which may not be in consonance with either national will or national interest. It may result, in the ultimate analysis, in political instability. Socially, it might be apprehended that the results of concentration of economic power may upset balance in society. If those in whose hands economic power is concentrated belong to particular groups within a non-homogeneous society, concentration of economic power may result in increasing the social preponderance of particular groups, and if concentration happens to be in numerically small groups, the disequilibrium may become particularly pronounced and dangerous.

It has been indicated above that the problems relating to monopolistic positions in India are not in fact related to the ordinary working of market forces in Indian economy or any distortion of the operations of these forces by monopolistic groups. The Indian economy, especially in the modern business sector, is full of monopolistic positions, and these have been created

by decisions taken under the plan. In this contest, the problem of the concentration of economic power assumes much greater importance than the problem of monopoly. The centre of attention has to be shifted from the emergence of monopoly in a particular activity and its effects on market operations to the formulation of state policy and its administrative interpretation. Where creation of monopolistic positions is related to administrative decisions, the operations of the decision-making system are endowed with much greater importance than the operations of market forces.

Concentration of economic power in India does result in ability to exercise considerable influence on political authorities and through them on those making administrative decisions. For the most part, this is related to financial support given to the party in power. In India command over large economic resources also makes it possible to influence administrative decisions through direct corruption of politicians and administrators at all levels. Concentration of economic power may even have large effects on decisions made through following the normal criteria in our system. High concentration of economic resources is usually associated with strong established positions in many spheres of economic activity and considerable contacts and influence in the economic world. Therefore, where economic policy works, as in India, through a number of decisions related to the ability to invest resources or to find foreign collaborators, the decisions are always likely to be taken in favour of those in whose hands power is already concentrated. In the same way, decisions such as those relating to import-licensing for established consumers or importers would always operate in favour of groups in whose hands economic power is already concentrated. Moreover, the making of administrative decisions is itself a process which has to be facilitated and lubricated. The larger the resources that a unit commands, the more elaborate its apparatus of representatives and contact men, and the more the sources of intelligence it has, the more it is able to take advantage of any concessions or loopholes that may be given or may appear in the administrative system. Whenever, in a system, decisions are personal, discriminatory and discretionary, its operation necessarily favours the large as against the small.

The First Five-Year Plan was small in size, and the international economic situation was favourable during its currency. There was a large reserve of foreign exchange, and internal harvests were favourable. As a result, no special problems arose during implementation of the Plan. Advantage was taken of the greatly eased situation after 1952 to dismantle a great deal of the control mechanism that had been built up during the war, especially in relation to the procuring of food-grains and their distribution. Therefore, instead of a transition from a war economy to a planned economy, there was in India a drift into something akin to *laissez-faire*, at least in the context of overall prices and of food distribution. This was in spite of the fact that the First Five-Year Plan laid down a policy of trying to achieve allocation of resources according to plan through an appropriate relative structure of controlled prices. The Second Five-Year Plan was much larger than the

first; through an amazingly inept and unplanned use of foreign exchange resources our reserves of these were suddenly depleted, and as this coincided with bad harvests the Indian economy ran into unprecedented difficulties. However, this did not lead to either vigorous action or the emergence of a comprehensive frame of policy. Instead we have gone on to lean progressively more heavily on foreign loans, on P.L. 480 imports and on foreign collaboration; and instead of a comprehensive policy we have improvisations and *ad hoc* measures. As pointed out above, all this has resulted only in making the working of the economy even more unfair than it would otherwise have been.

Theoretically, the processes of the free market are supposed to lead through appropriate pricing, not merely to the maintenance of the short-term equilibrium between demand and supply in particular markets but also to (1) rational and appropriate allocations of investment resources in different directions in the long-term, (2) fair determination of distribution of shares and factor prices in society, (3) a proper balance between current consumption and investment, and (4) proper time distribution of investment decisions. Which of these are still left to market forces in our partially planned mixed economy? It has been pointed out above that to a very large extent levels of wages and incomes, and minimum standards of living are determined by action of governments and by collective bargaining in West European economies; and that in India these are largely left to market forces. In relation to long-term investment decisions governments in West European economies influence these chiefly through monetary, credit and fiscal policy. There are also certain aspects and instances of direct government intervention. Most of these economies contain a nationalized sector. Most activity arising directly out of the large defence expenditures in them is also moulded by decisions of government, and this is largely also the case with the large volume of government expenditure in relation to socio-economic overheads and expenditure. As pointed out above there is in them a small or large degree of control over prices through such policy objectives as preventing unsocial use of monopoly power. The increasing concern with an income policy exhibited by these economies also leads them to official intervention intended to control changes in the volume of savings and of consumption expenditure.

In India there is little that can be said to correspond to an incomes policy. Our economy is non-integrated and fiscal, and monetary policy is not likely to bring about significant adjustments in current levels of savings and investment. Control over levels of consumption expenditure could also be exercised in India only through rationing or similar detailed regulation of distribution of essential commodities. Prices and price relationships may determine, to a large extent, private investment decisions in the field of agriculture and small industry, in which official policy operates chiefly through such measures as subsidies or grant of special credit facilities. On the urban and the modern large business sector the direct impact of government investment expenditure is very considerable. Government, through various legis-

lative and other measures, also influences, to a large extent, private investment decisions in this field. The result is that prices in this field are seen essentially to be not competitive but administered either by government or by industrialists and traders.

It is instructive to compare the present situation with that prevailing under protection granted through protective import duties levied after an enquiry by a Tariff Board. In the latter case the protection obtained by an industry was for a limited period and this was no longer than was necessary to eliminate the competitive advantage enjoyed by foreign producers. Moreover, it was granted on the understanding that indigenous producers would steadily progress in the direction of ultimately not requiring protection, and the continuance of protection was subject to periodic re-examination of the local situation. In the circumstances, apart from errors in the calculations of the Tariff Board, there was little possibility of enjoying unnecessary advantages by the protected industry at the cost of the community, or of its not being required to make continuous efforts at economy and improvement. The situation today is entirely different. The quota system through which protected markets are created for specialized manufacturers is operated in an essentially private manner. There are no public enquiries or investigations of any type in connection with it. To the extent that these things are planned the considerations taken into account are chiefly technical. No economic enquiries or cost projections appear to be involved. Also, the estimation of the burden on the community possible in a protective duty regime is not present when operating through restrictions on quantities of imports. Experience shows that the price advantage obtained by producers through the operation of the import-quota system is usually very large. Also, its continuance appears indefinite. The chief possibility of its reduction lies in the growth of internal production and resulting competition. If this fails to materialize or is effectively curbed, the extra burden on the community becomes permanent.

The effect of all that has been said up to now is to bring out the wide dissimilarity between conditions in India on the one hand, and on the other, North America and West Europe in which recent policies of control of monopoly have been evolved. In North America the concept of 'workable competition' still rules the field. In West Europe, within an overall frame of socio-economic structure and policy, market forces operate to a substantial extent, and the control of 'practices' has become the policy objective. In India, though we lack the overall frame-work and policy, the total situation in the field in which the problems under consideration arise, namely the modern large business sector, is such that the concept of the free competitive market has no operational significance. It is also not possible to think of moving in the direction of unhampered operation of a competitive market. This is because, in the first instance, the accepted goal of directed and forced economic development is incompatible with it, and secondly, because in an economy in which high inequalities prevail, competitive

market forces are not likely to increase general welfare. It is relevant to note in the context of the second consideration, that the recent movement in the Yugoslav economy towards taking greater advantage of market forces followed an initial levelling operation, and that it is made while maintaining a comprehensive regulatory regime, especially in relation to strategic prices. We have thus to think in terms of an indefinite continuance of an economy in which actions and policies of public authorities influence significantly investment priorities, prices, and gains of particular sectors and classes. In the situation, the various concepts evolved with reference to West European economies also cease to have much relevance.

With high concentration of resources in the hands of a small number of groups and the operation of a system of managing agency, control over mergers cannot be considered of much practical importance. In the light of the total situation regarding administrative decisions affecting business investments and operations, the concept of restrictive trade practices necessarily recedes in the background. In a predominantly sellers' market, practices like that of resale price maintenance have no significance. In the Indian situation, resale price maintenance may have to be adopted to prevent overcharging rather than to stop undercutting.

The Indian situation and its requirements may be defined as follows. The relative backwardness of the modern business sector combined with the need to economize capital and exchange resources and to plan a strategy of investment must lead to the creation of sheltered, oligopolistic, quasi-monopolistic situations in a large number of strategic production activities. Restriction of imports and the need to increase export availability would require control of consumption and controlled distribution of supplies at various levels. A programme of import substitution and of gradual improvement of techniques would require detailed control over output, allocations and man-power in particular activities. To maintain general standards of living and to improve those of the most disadvantaged, in circumstances of a chronic shortage of consumer goods, would require fairly elaborate arrangements for distribution of supplies of essential commodities. If both the economic and social objectives of planning are to succeed, the special protection or privileges given deliberately for a period to particular sets of traders and producers must not be abused. This means that it must be ensured that the levels of margins and of efficiency in the sheltered markets are the same as those in a competitive market. This is the crux of the matter in relation to the enquiry of the Monopoly Commission. This situation and its requirements bear, it will be observed, very close similarity to those of a war-time economy. The problems of pricing, of allocation, of distribution of consumer goods, are about the same.

It is interesting in this context to look at the post-war experience of Japan. It began with the dissolution of the Zaibatsu by SCAP. However, there has been gradual erosion of the regulations against concentration, and very large concerns and combines have emerged, though in a form essentially different

from that of the old Zaibatsu. The main ground on which this change of policy has been justified is that Japan which has to live by exporting in an intensively competitive international market must maintain a high level of productive efficiency and that this can be secured with only the largest-scale operations. Thus rapid planned development in Japan has led to re-creation of oligopoly. However, the close dependence of Japanese economy on international markets has prevented oligopoly from leading either to inefficiency or to high domestic prices. There is no such corrective in the Indian situation.

The basic problem that we face is thus that of our ability to regulate the process of planned development. The evil effects of monopoly and concentration are themselves evidence of our failure in relation to the essential requirement of a proper regulation of the economy. None of the usual suggestions are capable of compensating for failure to deal with the basic problem. Experience with the administration of a highly elaborate Companies Act and knowledge of the extent of tax evasion indicate that such measures as legislation to ward off concentration or attempt to tax monopoly gains are not likely to be useful. Induction of government or co-operatively operated units represents a more hopeful approach. As both these forms of organization are fairly fully amenable to public control, a regulatory system would be relatively easy to set up and operate in connection with them. However, both these forms have their limitation, and unless there is a revolutionary change in government, administration and economic policy, it is impossible to contemplate large reduction in the private enterprise coverage of the modern business sector. Of the suggestions put forward in the questionnaire, "statutory price fixing" represents a promising approach. However, price fixing could be only a central piece. As with the war-time Office of Price Administration of the U. S. A., the coverage of the operations will have to be wide and elaborate, and further, a large number of allied regulatory devices will have to be instituted.

It is not necessary to dilate further on the requirements of the regulatory system. The obvious essentials are definition of a comprehensive and co-ordinated economic policy, ability to articulate it and enforce it, and a minimum of efficiency and honesty in administration. Attention may, however, be drawn briefly to two specially relevant aspects of the situation. Firstly, the relation of high concentration of economic power with political corruption, in all senses of the term. So long as the present connection between finance of political parties, especially the ruling party, and moneyed interests remains, there is little hope of proper formulation of policy in public interest and its honest administration. Secondly, the existing approach in relation to incentives that have to be offered to the private sector and the expectation of savings to be formed in that sector must change radically. Essentially all investment finance should be made available through public financial institutions. It should, at the same time, be noted that increased foreign collaboration makes for difficulties in the adoption of a changed approach in relation to incentives offered to the private sector and the concentration of investment funds in the public sector.

DEVALUATION*

IN CONSIDERING devaluation the first step is to understand clearly why it becomes necessary. The value of the unit of any currency such as the rupee in terms of units of other currencies, say, the dollar or sterling, is usually determined with reference to what the different units can buy internally, i.e. their internal purchasing power; so that when prices rise in a country as compared with other countries and thus the value of the unit of the particular currency diminishes relatively, this should be reflected in a decline of its international value. Owing to the existence of international arrangements to maintain stability of rates of exchange, the values of currencies in terms of each other are not allowed to fluctuate freely from time to time; and the decline of the internal purchasing power of any currency in terms of others is not immediately or automatically reflected in a change in its rates of exchange. However, if the decline continues beyond a point, the country is faced with difficulties in conducting trade with foreign countries. Because its internal prices are now relatively high, the commodities it exports do not find a ready market abroad; on the other hand, because the exchange rate is at an older parity, imported goods are priced relatively cheaply in the country's internal market and imports are stimulated. The total effect is to make it difficult for the country to meet its external obligations. This forces the country, in turn, to seek assistance from international organizations; such assistance is usually available on condition that the country adopts proper policies to control the situation and to stabilize the internal price level. If the country fails in this and the situation continues to worsen, it becomes necessary internationally to recognize the decline in the value of the particular currency and for it to adopt new rates of exchange. This is devaluation.

During the post-war period, inflationary forces, that is forces making for a persistent increase in internal prices, have, for a variety of reasons, been in operation, in most countries of the world. Their presence in India is connected with the nationally accepted objective of rapid economic development of the country. A plan of forcing the pace of development has two important consequences. As the plan aims at rapid industrialization, it requires, in its early stages, importation, specially of capital goods, on a scale much larger than can be sustained by the normal foreign trade of the country. Secondly, the plan embarks on the development of natural resources, of basic industries, of transport system, of education and research and other activities needed as preliminary to or accompaniments of all-sided economic progress. These activities stimulate employment and increase incomes, but do not increase equally the production of consumer goods. This creates a situation in which consumer goods appear to be in chronic short supply. Moreover, when the plans are not efficiently carried out and

* A talk on the All India Radio, July 1966.

governments do not observe needed financial discipline, the basic difficult situation is worsened, and inflationary trends become powerful and persistent. If these are left unchecked, planned progress itself becomes impossible. A given measure of internal stability is a pre-condition of peaceful development and its most important aspect is holding the internal price level in check.

Devaluation became necessary because the price level in India did not remain stable. And the instability was due not to wars and droughts which might have aggravated the situation, but to the absence of a coherent, long-term policy directed towards keeping inflationary forces in check. Devaluation cannot make up for this basic defect. It will immediately ease the situation in relation to external trade. It will satisfy international organizations and foreign governments and aid will begin to flow again. However, external aid is at best a transitional measure. Both foreign aid and foreign collaboration have heavy costs, and their costs to the Indian economy have been increased substantially because of devaluation. We are near the danger point where the servicing and repayment of foreign aid and investments necessitate further external aid.

Devaluation should help to discourage imports by making them dearer. However, with us imports were kept down by quantitative restrictions, and higher prices by themselves will not limit imports adequately in a number of directions. We cannot risk continued imbalance, and severe regulation of imports will have to continue. However, many of the bizarre devices recently adopted in the sphere of export incentives and import licensing can now disappear and import regulation can conform to a uniform, consistent, rational pattern. The new import policy will have to be linked to two concrete objectives. First, the immediate objective of achieving full utilization of internal installed capacity. Second that of shaping the plan of development, particularly of industrialization, in such a way that we attain, at an early stage, capacity for self-sustained growth and are not again caught out as at this juncture. Meaningful canalization of all available foreign aid towards attaining this end of self-reliance is an imperative.

Devaluation is supposed to encourage exports through making prices of our goods more competitive on the international market. This might immediately benefit some of our new export lines. However, for the large bulk of our exports, especially those of agricultural products, the advantage will not materialize easily. For many of them making adequate quantities available for exports is as important as obtaining remunerative prices. Therefore, whether in imports or in exports devaluation will not solve problems automatically. Careful, intelligent management will still be essential. Devaluation will only make such management more feasible and effective.

In relation to the biggest of all problems that of the internal price level devaluation helps even less. We are still in the initial stages of economic development described earlier, and inflationary forces will continue to be in evidence for many years. Therefore, the biggest task before government today is to formulate that long-term policy for maintaining internal economic

stability for lack of which we were forced to devalue. Foreigners may, for a while, meet our requirements of imports; we must maintain internal stability ourselves. The two main elements in this matter are steady incomes and stable prices. In a predominantly agricultural country the most important aspect of an incomes policy is the stabilization of agricultural prices. The other aspect is to keep in check the rising incomes of producers, specially of traders, in the modern business sector, or due to the quasi-monopolistic conditions created by planning. Where incomes are linked to the price level, as in the case of industrial labour, stabilizing the price level also steadies incomes.

A relatively stable price level is thus at the heart of the matter, and efforts must be concentrated on evolving a comprehensive, long-term policy for attaining it. The most important aspect of this is the price level of essential consumer goods. The ability to control this price level is dependent on the ability to distribute goods to needy people all over the country. It is only a widespread network of retail shops under social control that can be an effective instrument in this regard. The early and universal establishment of such a network on a permanent basis is an obvious first step. A net work of retail shops can function only if adequate supplies are continuously available. It follows that policy must be directed towards procurement of required supplies. Food-grains are the most important of these supplies, and it is hoped that the long-term national policy of procurement and distribution of food-grains will soon be formulated. Many measures included in such a policy could be adapted to other agricultural products also. A co-ordinated programme of planned purchase of agricultural products through socialized agencies can be so framed as to attain the three objectives of national policy, namely, stabilizing agricultural prices, providing adequate supply to the public retail system at reasonable prices, and making sufficient quantities available for export so as to profit from opportunities presented by devaluation. Owing to a number of developments, government's sugar policy is today close to an arrangement through which stable remunerative prices are obtained by producers of sugar-cane, sugar is available in fair measure through fair-price shops at fixed prices, and government can, at will, increase exports of sugar significantly. This could provide a model in policy-framing.

Procurement of supplies from manufacturers should prove relatively easy. Here the chief action needed is orientation of effort to production of mass consumption goods at cheapest costs. This requires a many-sided programme, including the severe limitation and standardization of varieties and sorts.

It is unnecessary to elaborate further. Other countries, as at war, have solved even more difficult problems of maintaining internal stability while shouldering large unprecedented burdens. There is no reason why we should fail. However, the first step in success is to realize that it requires firm and intelligent government action and an understanding, disciplined and responsive public, and that the second is as important as the first.

PLANNING WITHOUT A POLICY FRAME*

THIS NOTE is intended to present a point of view regarding the present working of the Indian economy and the possibility of giving it a definitive direction. It is necessary, for the purpose, to present a comprehensive and an integrated picture; limits of space and time make it impossible to do this in full detail. Also, it is not possible to argue each point. Inevitably the note will appear to be full of summary jottings and *obiter dicta*. An advance apology is tendered for this defect.

The Indian economy of today is a very mixed economy. There exists within it a great variety of forms of organization and of techniques; also, it presents an amazing medley of restrictions and regulations and of un-directed and uncontrolled economic activity. The economy is not open as almost all aspects of its financial and commercial dealings with the rest of the world are closely regulated. Levels of internal costs and prices have, therefore, no necessarily predictable relation with those in other countries. Internally also, a great variety of prohibitions, directions and regulations exists. These are most pervasive in the field of establishment of modern industry, but operate to some extent in every sphere. However, to an amazing extent the formulation and operation of the regulations and controls are unconnected with each other. Each is framed with a limited specific objective and operated as such. A number of prices of agricultural products are more or less continuously under control, such as those of sugar-cane, cotton, cereal food-grains. The controlled levels of the different crops have never been related to each other. And it is obvious that without the definition of a frame even the setting-up of the Agricultural Prices Commission cannot remedy this defect. Even within each field the short-term view dominates. How and to what extent this happens is made clear by the description of the full sway of 'ad-hocism' in sugar policy during the last decade in the report of the Sen Commission.

The most outstanding feature of the 'planned' Indian economy is thus the total absence of a policy frame. It would not be unfair to say that Indian planners are deliberately avoiding the construction of such a frame and that from plan to plan, there is definite regression in this respect. As illustrations one may refer to the full chapter on food policy in the first plan and its continuous emaciation to the very sketchy, indefinite statement in the draft outline of the Fourth Five-Year Plan; even more remarkable, perhaps, is the complete disregard of the concept of the stabilization of agricultural prices, accepted in all the previous plans, in the latest outline. The result is that in the aggregate the economy operates as almost a *laissez-faire* economy, in part, modified by the operation of particular controls. It also means that where the particular measure is in line with trends set in motion by *laissez-*

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faire operation the trend is accentuated; on the other hand, where it seeks to counter such trend it is usually powerless. Thus the stabilization at a favourable level of sugar-cane prices was highly effective because of the operative trend in favour of intensive irrigated crops. On the other hand, measures such as distribution of fertilizers for food-grain production proved fruitless in face of an inappropriate price policy, and programmes of rural industrialization are ineffective because of the absence of an overall integrated policy support.

It is in this context that the successes and failures of Indian planning have to be interpreted. The successes have been in the field of public investment in irrigation, power, transport, etc. and in basic industries and to some extent in the extension and diversification of educational and health services. These required no policy support and depended on the availability of resources and the appropriate administrative and technical skills. Therefore, even though planning might have been defective and costs high in particular cases, substantial progress has been registered. The other notable success has been in the creation of a diversified industrial complement in the private sector. Here, supporting state policy played an important part. In a few instances it was specific, relating to the finance, etc. of particular projects. Generally, it was the restrictive import policy which resulted in creating a general sellers' market for products of many industries and the large number of other concessions that private industrialists as a class were able to obtain that brought this about. In recent years distinct encouragement given to foreign collaboration arrangements also helped. However, though there was some regulation through licensing of establishments and of imports, little control was exercised over the detailed composition of the industrial complement or over its costs to the operation of the economy in terms of prices charged for products or import requirements created in the process. The draft outline of the Fourth Five-Year Plan notes that the direction and regulation of the private sector in industry is one of the weakest areas in Indian Planning.

Two areas where the performance has been partially successful also exhibit the basic characteristic of Indian planning. There has been some success in raising the level of taxation and in gathering resources in public hands. The centre has fairly insistently followed a policy of attempting to raise resources, in significant part, through taxation, and some governments of states have also done this. However, fiscal measures have failed as instruments of economic policy. They are supposed to be specially useful in two directions: as means of restraining consumption and of promoting equality. A very large part of new and increased taxation has been in the form of excises and such other indirect taxes. However, tax proposals have rarely been framed with reference to objectives such as restraint of consumption and where so intended have not proved successful. Markets for most consumer goods, durable and others, bearing high excise duties continue to exhibit pressure of demand. The case of sugar is very instructive in this regard

The restraint on internal consumption which can be and is made effective in sugar would be the result of not the very high excise duty already imposed but of the exercise of powers of controlling issue and sale retained by Government.

The possibility of using taxation as an egalitarian measure depends on the effectiveness of direct taxation. The failure in this field in India has been very marked. Known evasion of income-tax is so large that the tax statistics are worthless even for estimating distribution of incomes, specially in the higher ranges. The expenditure-tax was a patent failure and was given up. The wealth, gift and estate duties together have proved disappointing even as sources of revenue and cannot obviously produce any impression on inequality.

The other field of partial success has been that of agricultural production. The overall increase in production over the years has been substantial and in some crops highly significant. However, the attempt to guide the direction of production has proved infructuous and the failure has been large in the crucial area of the increased, needed production of food-grains. The reasons are the same as elsewhere. Government finds it possible to raise resources and make them available for use for capital investment or current inputs but is totally unable either to ensure that these resources will reach particular categories or will be distributed in a given equitable manner, or to direct and regulate the use of the resources when in other hands. Two notable results follow : Firstly, the resources get distributed in relation to the strength of the individual units in the field and the position of vantage they command, and secondly, they are used not in the planned or desired directions but in those which the private parties find most profitable in relation to ruling market conditions.

In short where government in India directly undertakes large programmes of public expenditure it succeeds best. It fails to the extent that the planned use of resources lies in other hands, especially where it is a matter of detailed multi-directional operations or whether a consistent long-term policy is needed to obtain results. It is not surprising, therefore, that the most notable and fatal failure has been the failure to maintain stability. The most obvious aspect of this failure was the unchecked increase in prices, resulting in the need to devalue.

The draft outline of the Fourth Five-Year Plan appears to be based on the supposition that the tendency of prices to rise in a developing economy will be put down if you desist from deficit financing, and that financial discipline and appropriate monetary and credit policy are all the supplementary measures that are needed. Many considerations would indicate that such optimism is unwarranted. For example, if one looks at the history of credit policy during the last decade some lessons stand out. Firstly, selective controls by themselves are useless; about the only effective measure is regulation of total bank credit, but even this has to be carried out mostly directly and not through the bank rate. Equally clearly such regulation of the volume of bank credit raises in an acute form a dilemma which it is almost impossible

to resolve. The continually expanding economic activity in a developing economy requires continuous increase in production credit. However, without, a very much greater control over production, trading, speculation and banking than obtains at present, there is no way of ensuring that the general credit restraint will affect not production but only other activities. This is apart from the liberal supply of black market money in the money market which feeds by preference not production but chiefly speculative trading-activities. Nothing in the draft outline or in the recent pronouncements of Government or Reserve Bank officials indicates that any policy solution to this basic dilemma is available. In the absence of such a solution, credit policy by itself cannot deal with the pressure on prices unless it brings about deflation and stagnancy.

It should be noted that governments of states, in particular, face a similar dilemma. They cannot suddenly check expenditure without far-reaching effects, not only political but also economic. Moreover, their action programmes in all fields are inevitably formulated to expand year after year, and present activities and expectations are based on such continuous expansion. Many states again are exposed to risks, especially of natural calamities which increase the volume of expenditure suddenly and unavoidably. It is important to impress on governments of states the need to observe strict financial discipline. At the same time, once the sights and targets are fixed at the beginning of the plan period, it is highly unrealistic to expect that states will be able to revise them downwards or to prevent the expected annual increases during the currency of the plan. If they are forced to do this, adverse effects on plan performance and implementation cannot be avoided.

This is apart from the basic disparity between the demand for and supply of consumer goods, created by the very process of forcing the pace of development. The large needed investment and activity in relation to development of natural resources, setting-up of basic industry and the provision of socio-economic overheads stimulate employment and increase incomes, but do not equally increase the supply of consumer goods. The resulting chronic short supply of consumer goods creates a pressure on consumer goods prices, in the first instance, and this is transmitted in due course to other prices. And when, as happens in the case of food-grains, in India, the supply is maldistributed over time and space, activity of traders and speculators is able to increase greatly the effects of even a small initial shortage. An upward movement of prices in food-grains could thus start without the previous existence of an inflationary trend and could itself lead to a higher resulting level of prices in general and money supply. These considerations indicate that a plan of development must be accompanied by policy measures, other than fiscal and monetary measure, for holding prices in check. No such integrated policy has been evolved, even after devaluation, or included in the Draft Fourth Five-Year Plan.

It is natural to think of the balance of payments in connection with stabilization of internal prices. Devaluation was forced on us, because the con-

tinuous increase in internal costs and prices made it impossible to conduct foreign trade and meet foreign obligations. Even after devaluation we are far from the stage at which a regime of revenue and protective duties will keep down the value of imports adequately. We shall have to continue for many years with a regime of prohibitions and quantitative restrictions of imports. Recent experience has highlighted certain lessons in this regard. Firstly, that the licensing of imports under existing conditions creates, perhaps, the largest area in the economy of corruption and illicit gains and that this is directly connected with the very high possibilities of gain associated with the obtaining of an import licence. Secondly, import policy is closely related to the total plan especially of industrialization. Industrialization in the private sector has, during the last ten years, added greatly to the compulsive need of imports for maintaining the units set up; also, under the pretext of gaining or increasing export markets, capital and raw material imports have been allowed which have involved heavy net expenditure of foreign exchange. The third aspect is the continued imports of food-grains and raw cotton. A development plan associated with continued administration of quantitative restrictions of imports thus requires (1) an early cessation of food-grains and cotton imports through an appropriate production policy and through measures of control and rationalization of demand; it requires (2) both an integrated and detailed scrutiny of the programme of industrialization in the public and private sectors and in extreme cases even of units already set up so that present and future imports fully and only serve the needs of the long-term development plan. It also requires (3) that effective steps are taken to eliminate the extra gains obtained by private parties as a result of quantitative restriction of imports. These steps are all the more urgent as the prospect of increasing exports rapidly are very doubtful and we have to concentrate attention on limiting imports.

Two points deserve special consideration in connection with assessing our capacity to export. In the composition of our exports, jute manufactures, tea, cotton manufactures, oil and oilcake, tobacco, and other agricultural products are still dominant. The main exports which have come into prominence during the last fifteen years are sugar and coffee, which are related to agriculture, iron ore, art silk fabrics, and machinery. However, these recent developments do not change the basic pattern of heavy dependence on jute and cotton manufactures and tea plantation and agricultural products for export earnings. For obvious reasons the possibilities of any large increase in the international demand for these exports are slight. On the other hand, it begins to appear that the available supply for export of a number of the traditional export commodities might shrink in the future instead of expanding, if the rising domestic demand is not checked. Recent conditions in the vegetable oil market in the country have highlighted this trend. It is also clear that advantage could not have been taken of the high international prices of sugar if distribution of sugar within the country had not been fully under the control of government. Restraining domestic consumption

thus becomes an essential aspect of export policy and this might be true of new exports like machinery manufactures also.

Restraints can be placed on domestic consumption in two ways : (i) levying excises and raising prices high, and (ii) by directly controlling the physical quantities available for exports and for domestic consumption while keeping the internal price-level moderate. The latter might require some control over internal distribution also. The second alternative will have to be accepted wherever the prices affected are of essential consumer goods of mass consumption or of intermediate or capital goods in crucial sectors. Sugar is already in this category, and any attempt to increase largely the exports of vegetable oils or their products or of, say, coffee would involve similar action in their regard. For a much larger number of goods heavy excises may become necessary. In this case the total effect of their imposition on the stability of the price level will have to be given consideration. Thus apart from the inelasticity of the demand for our important and traditional exports, the inelasticity of the supply of our agricultural products coupled with rising internal demand poses very difficult problems of pricing and regulation if exports of these are to be maintained at a high level and, even more, if an attempt is made to expand them.

Attention may be paid to two other categories of exports. One is represented by mill-made cotton manufactures and art silk fabrics. Recent studies of these show that the policy which allowed imports of capital goods and raw material in order to stimulate the exports in this class had a negative result. They may, therefore, be written off as sources of expanding profitable exports in the near future. The other is represented by engineering goods and machinery manufactures. At the outset it may be noticed that in an economy operating with a heavy control of imports, costs of all products in which import elements enter are likely to be relatively high. Primary product or products, in costs of which these dominate, do not suffer from this disadvantage. In relation to others, internal prices are expected to be high because of higher costs and also because the sealing off of imports creates a sellers' market internally. In the absence of a detailed allocation and pricing control of imported raw materials and components and of the finished products, goods in this category are unlikely to be exported in significant quantities. That this fully applies to India was shown by the need felt to devise a system of export incentives for this category very soon after devaluation. Even after a substantial measure of devaluation the internal costs and prices of these manufactures could not be brought into line with international costs and prices. Except for individual small classes of special products, this must be accepted as the general continuing situation. Therefore, little can be expected by way of contribution to export-earnings required for development plans from this category. (Even the optimistic estimates emerging from the Planning Commission did not place the total estimated value of this type of exports in 1970-71 as more than 10 per cent of the total estimated exports). Also, unless the undesirable regime of export incentives is to be permanently

maintained, sustenance and encouragement of these exports would be possible only with appropriate pricing and allocation controls.

The failure to maintain stability while attempting development has been the largest and most spectacular in relation to the internal price-level and the external balance of payments. However, there are other aspects where continuing imbalance may have important, long-term effects not only for economic but also for political and social stability. Most of those might be described as related to growing inequality. Inequality in distribution of incomes, inequality in the pace of development of activity in different sectors, inequality in distribution of activity over space, etc. Something has already been said regarding the partial success in agricultural production and the relative failure in food-grains production. The agricultural production programme has proved lopsided not only as between crops but also as between categories of producers. This was the result of the so-called production orientation of the programmes. This orientation, in both agriculture and industry, results in concentrating attention on those categories of existing producers who are already in the most favourable position to produce. This approach which might have some justification in the short term in an emergency, persists after 15 years of planning. Most production programmes have only partially succeeded, but whatever their benefits these have accrued chiefly to substantial and middle farmers mostly in the intensive, irrigated areas. Inevitably, the distance between the insecure, dry areas and the irrigated, and between the small and the large in all areas has been greatly widened in the process. That the Government and Planning Commission have nothing to offer to the small holder is heavily underscored by the reference made in the draft outline of the latest plan to a half-baked experiment, directed to small holders' problems, in the Maharashtra which has hardly started. It is often emphasized that the middle and substantial peasants, even after land reforms, cultivate more than 80 per cent of the land, but the obverse of the statement that those who hold the remaining 15 to 20 per cent form the majority of the cultivating families should have an equal significance for the planner. If the small holder who is in possession of some land gets little benefit from the process of planned development, the landless labourer and the rural artisan is even more badly off. I am, of course, referring not to the intentions of the planners or to the writing in the reports of the Planning Commission but to actual developments.

In the entire conception and operation of Indian planning very little attention is paid to the transmission of forces and effects within the economy. Properly speaking, this should be a primary concern of the planner. Except in a highly centralized and fully articulated development plan, action cannot be taken in every area and in every respect. Direct action has to be confined to a few strategic points, and it has to be assumed that helped by incentives and such like indirect measures its effect will spread throughout. Therefore, appropriate visualization of transmission of force and spill over effects should shape every plan. There are two main aspects of this visualization. Firstly,

the distribution of beneficial effects over all constituents of a sector, of action taken in relation to one constituent. Secondly, the manner in which and the extent to which development initiated at any location or in any activity spreads to other areas or activities.

The slogan 'production before distribution' is meaningful or would be at least innocuous in case the beneficial results of special action in favour of, say, large producers were seen to spread over fairly easily and quickly to all the participants in productive activity. However, if, in fact, this does not either happen at all or the benefits are first all concentrated into the hands of large producers and only very partially, slowly and with struggle obtained by others. Such policy is seen to have not only distributive but also ultimate production arrangement and direction effects. The same applies to consideration of transmission of effects from a large urban area to other urban areas and surrounding rural areas and to transmission from, say, industry to agriculture. The concentration of power and wealth, which has been an obvious result of Indian Planning, has to be likened to the process of unearned increments accruing to holders of land in central areas when public action begins development of an urban complex. As in this case, unless vigorous and prompt action is taken to nullify the results, there is inevitable transfer of wealth from others to the holders of privileged positions. Therefore, either the strategy of development must be such as to affect directly and simultaneously the big and the small, or corrective measures must be planned side by side. In fact, both approaches have to be adopted. The first in relation to producers and productive activity, and the second in relation to the large body of non-producers.

The exposition above may be illustrated by reference to the failure in respect of rural industrialization and the failure in preventing dangerous concentration of activity in metropolitan areas. Rural industrialization has been a constant aim, but the comprehensive measures required to achieve it have never even been worked out. There are a number of aspects to this problem. An important one relates to using the skills and equipment existing in traditional industry to increase the availability of common consumer goods. This was to be achieved by affording some protection to those industries and at the same time continuously transforming their technique. A common production plan for goods produced with all kinds of techniques in an industry had to be devised for the purpose. To some extent this was done in cotton cloth production; in others no common production plan was prepared, and the Khadi Board failed to move in the direction of transformation of techniques.

Other aspects of the problem relate to processing industries and the establishment of new, small-scale production in consumer or intermediate goods industries. The programme of action in this respect is related to the development of the concept of 'intermediate technology' and to arranging for the supply of components and parts to big units from a series of small, ancillary establishments. The articulation of such a programme requires an elaborate

policy-frame worked out consistently from the stage of licensing of imports and industrial establishments to development of communications, power supply, etc., in rural areas. No action has been taken in this respect. The pilot rural industries projects, not backed by appropriate policy, have failed, they were expected to, and yet are to be continued in the Fourth Five-Year Plan in which the big policy issues are shelved. It cannot be too often or too much emphasized that while modern, large-scale industry receives favourable treatment from the State and has the advantage of resources and techniques, the establishment of dispersed, small-scale industry can only be achieved by well-directed and vigorous action over a number of years. To indulge in fine writing while having no plans or intention of acting is wicked in this case. Such wickedness is bound to have its reactions. They are exhibited through the emergence in the economy of a curious kind of dualism. It is this dualism that is breeding instability. Concentration of economic activity in metropolitan areas is another aspect of the same phenomenon. This concentration has now gone so far that to maintain a maximum of satisfactory conditions in the metropolitan areas requires such large resources as to make it almost impossible to initiate all-sided development of the rest of the country. Gradually, within these areas, conditions are worsening so that they will all soon become law-and-order problems. Nothing except a vigorous policy to reverse ruling trends can really contain this element of social instability.

Related to both these phenomena is the problem of employment. It has been always recognized that this is not a separate problem but an important aspect of the problem of development itself. It is because of the importance of employment in the context of making full use of available labour resources, distributing incomes and providing social security, that insistence is laid on wide dispersal of industrial activity and on paying attention to requirements of small holders or landless labourers in the plan. The gradual solution of the problem of providing full employment is thus to be found through the proper formulation and implementation of the development plan. There is failure to appreciate this basic truth. This is evidenced not only in the so-called 'production orientation' and metropolitan concentration but also in the pathetic belief in the capacity of an additional rural works programme to provide a solution to the rural unemployment and underemployment problem. Obviously any rural work to be worth while has to be a part of a plan of conservation of resources or of provision of socio-economic overheads, which is integrated into the local plan. The concept of the rural works programme thus exhibits lack of faith in two directions: firstly, in proper local planning. Secondly, it can be based only on the belief that expenditure on any local work that gives employment will not be wasteful but will somehow help the development plan. This belief is obviously inconsistent with the present elaborate arrangements for preparing a national plan and underlines their great wastefulness. It should be noticed that with the rural industrialization project and many other items, the rural works programme is proposed to be continued in the Fourth Five-Year Plan in spite of its clear

failure in the Third.

The extent of the failure of planning and of the growth of instability might have become very clear if we had data regarding changes in the distribution of income in society during the last 15 years. The aggregative national income statistics exhibit increase in per capita incomes. Has this increase been fairly evenly distributed? The committee appointed to investigate this problem has failed to produce a comprehensive report. The somewhat negative conclusions in the interim report of the committee are also based mostly on data relating to wages or earnings of workers in organized industry or of government servants. Data are lacking for the really vulnerable classes, the aborigines, the scheduled castes, the landless labourers and rural artisans, the very small holders; or in urban areas for the large mass of casual labourers or labourers in unorganized industries and occupations, between whose earnings and the protected earnings of labour in organized industry there is known to be a large and possibly widening gulf. If we examine the aggregative data relating to the three basic needs, viz., food, clothing and shelter, the results are not very reassuring. It is widely recognized that there has been steady deterioration in the housing situation; all urban and rural data point in that direction. The position in regard to overall cloth availability appears to be stable, but there is reported a shift in demand to better varieties. It is not clear how to interpret this. In regard to food-grains, the position in recent years with increased imports is more or less stable. But all evidence points to growing inequality in distribution as between state and state and as between strata and strata. The most alarming new feature is reports regarding prices and availability in rural areas in deficit states which show that these are worse off than the partially protected urban centres.

All this appears to indicate a situation which is no better than before and which might in distributive terms be worse. What, however, is definitely alarming is the declared policy of government and the Planning Commission. The draft outline of the Fourth Five-Year Plan contains extracts from a policy statement by Government about wages and salaries of its employees. In this, government is explicit about the inability—almost undesirability—of giving full compensation for a rise in the cost of living. This can only mean that the financing of the plans requires a cut in the earnings, and therefore in the standard of living, of even low-paid government servants. This has far-reaching implications. The distributive effects of a rise in prices are well known; they accentuate inequality. The rise in prices in India after 1963 has been inadequately compensated for in relation even to the lowest paid government employees; it may be safely presumed that in relation to all classes indicated above as vulnerable, it has a highly adverse effect. It might be possible, in the present context, for government to say that a sharp unexpected price rise could not be controlled by it and that, therefore, immediate compensation in a full measure was not practicable. This is very different from deliberately stating a permanent policy of not fully compensating for rise in prices. This is to make clear that the expected

working of its plans is such as to require almost a continuing diminution in the standards of living of the poor. For, it is obvious that where government servants suffer, the large proportions of the less favourably placed suffer even more.

This analysis of the working of the Indian economy over the last 15 years should help to indicate the necessary corrective approach. The primary objectives of this approach would be first to maintain stability and not allow inequality to increase while implementing development plans; it should then be progressively possible to increase the welfare and egalitarian aspects and thus make progress towards satisfying the directives of the constitution. Before recounting in brief the main constituents of this approach, some remarks on the size and structure of plans would be in order. It should be obvious that discussion regarding size is meaningless without full statement regarding accompanying economic policy. It is necessary to emphasize this elementary fact because it is continuously ignored by Indian planners. There is no doubt that the present shape and direction of economic policy in India are largely the result of influence of vested interests. At the same time, the pushing on with a large plan regardless of appropriate policy is also in part due to the influence of physical or perspective planners who appear to believe that once a given capital investment is achieved the economy will automatically function satisfactorily and that what is feasible just happens. While insisting on a certain rate of growth, they appear to be oblivious of the fact that instability that follows on the lack of direction and regulation will itself make growth difficult whatever be the apparent capital investment. The modified *laissez-faire* bias of the capitalist and the bias towards automatism of the technocrat are the twin progenitors of the existing situation. Therefore, while acknowledging that the highest possible rate of growth is what we should aim at, it must be recognized that what is possible can be realistically estimated only in the context of a particular regulatory and policy frame.

The structure of a plan also depends on accepted objectives. For example, the strategy and route of industrialization will be moulded in a particular way if the policy of dispersal of industry is fully accepted, in another if it is accepted only notionally. Moreover, the sectoral allocations will depend greatly on how local plans are worked out. If the planning is done by working groups at Delhi, the allocation may have little relation to real need. It is only when the strategy of local or area development has been evolved in relation to known resources and accepted long-term objectives that the mutual relation of sectoral allocations becomes clear and meaningful. Otherwise, they represent no more than the summation of separate schemes of independent departments.

Regarding structure, the only worth-while comment at this stage could be in relation to the basic industrial plan. The comment is based on the assumption that it is possible to plan for varying measures of size and complexity of the industrial base depending on whether your sights are set high or low and that self-reliance is attainable in relation to each measure, though the

extent of wealth and welfare aimed at will be different. If this is accepted, the industrial plan becomes a function of available resources, of desired results and of the time at the end of which self-reliance has to be attained. The latest draft outline appears to treat all those components as fixed and unalterable. The result is that the volume of external aid required and the period over which it must become available become non-variable. This is very dangerous. For, it mortgages our future to the giver of aid; and as recent experience has painfully underlined it gives outsiders enormous influence in shaping our economic policy. In view of the known bias of the outsiders this is self-defeating; because, if the required aid does become available there is every likelihood that it will be under conditions which will deflect us even further from our avowed objectives.

Therefore, the plan which defines our strategy and route of industrialization must not be put in a single, rigid frame. It must provide for a series of possible situations. It must aim at reaching self-reliance early or late with large or no external assistance and must define a correspondingly narrow or wide basis. Immediately it must have an alternative ready for the most pessimistic forecast; also, to the extent that it accepts foreign aid and collaboration it must provide for their utilization only in specific, fully defined directions. In general terms, all use of foreign aid and collaboration must only be for furthering our progress towards self-reliance, and no use should be in directions in which, either immediately or with a little effort, indigenous efforts can substitute it. Also, broadly, none should be used for production of consumer goods.

Reference has been made above to a corrective approach. This is the approach that must be adopted if planned development has to be achieved with stability, and some progress has to be made towards attaining the directives of policy embodied in the constitution or towards a "socialistic society". The two main objectives of stability and development are not widely separated—if stability is successfully maintained, it will be possible to undertake larger development effort; on the other hand, the development plan must follow the route indicated by conditions of stability. It will, at the same time, be useful if the measures needed for the two are, at first, discussed separately. Before doing this, emphasis has to be placed on the paramount need of an integrated policy and of an overall regulatory frame. It is the lack of these that is responsible for most of our troubles. Even the economies of industrialized western countries of Europe operate today under a general regulatory frame imposed by governments, and in them the levels of incomes and their distribution are major concerns of State policy. Also, even though for the major part, fiscal and monetary measures suffice at present, in these economies, resort is apt to be had to direct price controls and physical allocations the moment signs of an inflation or a recession or of a war become evident. In comparison with these economies, the need for a full and effective regulatory frame is vastly more urgent in India; the analogy of a war economy is, in fact, more appropriate for us.

Policy for stability may be divided into two major parts: a price policy and an incomes policy both of which are, of course, highly interconnected. Three sets of prices are immediately seen to be of the greatest importance: prices of essential goods of mass consumption; prices of agricultural product, and prices of those intermediate and capital goods which are essential for planned development and which are in chronic short supply. In the last category, imported goods and their substitutes and those goods in relation to which imports play an important part, figure prominently. The maintenance of a stable cost-of-living index depends on successfully stabilizing prices of essential consumer goods. This can be done only by arranging for a regular minimum supply of these at stable prices to needy people all over the country. The first requirement, in this regard, is a widespread net work of retail outlets under public control. The second is availability of adequate supplies of the goods to enable the public system of fair-price shops to function throughout the year. The supplies required are of both agricultural and non-agricultural products, e.g. food-grains, vegetable oil and sugar and cloth and kerosene. Because agricultural production is scattered throughout the country and is by very large numbers of small producers, the procurement of supplies of these products presents many difficulties. However, considerable experience, particularly in relation to food-grains, has been obtained in India during the last 25 years. The appointment, last year, of the Agricultural Prices Commission should have enabled full coverage of this field. This did not, however, occur, and the Commission did not go beyond the stage of support prices for food-grains. A Committee has recently assessed the food position in the country and has suggested a series of measures regarding procurement, buffer stocks, prices and distribution of food-grains. If the recommendations of this Committee are adopted, a frame-work in which to fit the entire policy of stabilization of agricultural prices would be available.

While the procurement of supplies of food-grains, oil-seeds and sugar may suffice for stabilizing the cost-of-living index, prices of other agricultural products must also be stabilized for other related purposes. Stabilization of prices of food-grains and oil-seeds cannot be successful without similar operation in relation to other competing crops such as cotton, jute and sugar-cane. Moreover, any plan of increased agricultural production in specific directions cannot succeed without the maintenance of a relative stable structure of prices of different crops. The failure of our food policy, in the recent past, was due, in part, to allowing prices of some food-grains to reach unduly low levels. Also, as suggested above, in view of the technically weak position of the agricultural producer *vis-a-vis* the trader and processor, stabilization of prices of agricultural products is a necessary measure for the stabilization of income of the agriculturists. Therefore, it is necessary to devise a system of purchase and/or procurement, storage, and sale and/or distribution of all the major agricultural products of the country through which adequate supplies of these products required for national policy purposes would be acquired and the prices of the products stabilized. The acquisition of supplies

would be for purposes of internal distribution as well as for export.

At this stage, it would be useful to note that in a matter like this the intensity or coverage of operation would differ from crop to crop. Also, for the same crop operations could be more or less full in particular years. What is important is to establish a comprehensive system of socialized purchase, storage and sale of agricultural products and to hold the situation under full control. Once such overall control is established it would be possible to relax, in a large measure, if the situation is favourable and so long as it remains so. The so-called decontrol measures of the Sen Commission, in relation to sugar, were practicable because they proposed first to establish a position of lasting command in the market. On the other hand, the experience with cement decontrol was not happy, because it was brought about in the absence of such command.

Procurement from manufacturers for maintaining supplies to the public retail system should prove relatively easy. Stabilization of prices of agricultural products, as for example of cotton, should help in stabilizing prices of essential manufactured goods. In respect of industrial consumer goods, the main effort will have to be in the direction of producing through all techniques an adequate supply of consumer goods, as in a common production plan, and orienting effort to production of mass consumption goods at cheapest cost. For the latter, it would be necessary to insist on such measures as severe limitations on varieties of products and on standardization of sorts to increase production with the same equipment; it would also be necessary to make manufacturers cost-conscious.

The problem of controlling prices of intermediate and capital goods in chronic short supply is a difficult but an essential task. The existing situation is the result chiefly of the policy of limiting imports to save exchange and of encouraging indigenous production through a quantitative restriction of imports.

The justification for a policy of quota restrictions is that it enables you to discriminate in a more detailed manner than would be possible through protective tariff duties and, even more, that it avoids raising the price level of imported supplies in a manner that a regime of high protective duties would. The latter consideration is of special importance in the context of a developing economy. Unfortunately, however, because no follow up action has taken place, quota restrictions in India have failed to establish this advantage. A general sellers' market for industrial products, especially those in which imports play some part, has been created, and the large or small margin available in any product is fully realized and shared by producers and traders in the product in varying proportions. The internal prices of these goods rule at levels corresponding to those of high protective tariffs. Consequently, the State loses the income it would have obtained through excise duties, the consumers are mulcted and above all, the economy is deprived of those developmental effects which would have followed a regime of relatively lower prices.

The existing situation is serious because it halts development and moreover breeds corruption. It is of the utmost importance to eliminate the extra gains available in this field of intermediate and capital goods production. The draft outline of the fourth five-year plan lays great stress on the indigenous manufacture of components, at present imported, in order to achieve early self-reliance. However, rapid and economic progress in this direction would be possible only if prices of these components and the raw materials, etc. required for these are kept under control.

This discussion of the requirements of three main elements of a stable price level would indicate how comprehensive and full the effort in this direction must be. Moreover, its success requires that the various measures of control and the various sectoral and individual prices are meaningfully related to each other. It is thus clear that future developmental policy requires the establishment of comprehensive price control authorities like those of war economies of the West. The O. P. A. of the U.S.A. and the corresponding system in the U. K. provide a model. As stated above, the important point is the initial establishment of an integrated and comprehensive frame-work.

An income policy is more difficult to articulate. For agricultural producers, as a class, stabilization of incomes has to be achieved largely through stabilization of prices. Efforts have also to be made to add an insurance element to cover risks of variations of physical production. However, there is yet little firm experience of this. The majority of self-employed in non-agricultural occupations such as rural and other artisans face problems not only of prices but also of markets and of techniques of production. Their problems can be resolved only through integrating the solution in an appropriate plan of industrial development. Such a plan should aim at avoiding technological unemployment and to utilize existing skills and equipment to the utmost while continuously transforming them. Among the large number of pure wage earners in our economy policy today looks after only the very small proportion engaged in organized industry and other aspects of modern business. The rural landless labourers, and the mass of urban casual labour and labourer in unorganized occupations have no protection. The main action that can be taken in regard to the incomes of these is to make the plan employment oriented. It is necessary to spell out the implications of this last phrase. It does not mean just creating employment; that is wasteful. But it does mean taking a long-term view of the problem, and planning the investment of resources for development in such a manner that available labour supplies are utilized to the greatest possible extent. And this is based on the view that the present production orientation, which means a concentration of resources in favour of the privileged, though apparently giving an immediate larger return, is ultimately uneconomic, because it leads to lopsided development. Moreover, such orientation of the plan is politically feasible only so long as the large masses, whom development by this method does not touch, are ignorant and acquiesce.

In the present context, there is a reverse side also to the Indian incomes

policy. This is to keep in check the rising incomes of producers and traders in the advancing sectors. The justification for such a policy is that, firstly, it would augment public resources if this is achieved by fiscal measures, and secondly, it would prevent the warping of the production structure. In a poor country with unequal distribution of incomes, production of goods of mass consumption is apt to be depressed, while industries and trades in relatively luxury consumption goods are booming. In the rural sector, the most obvious and important measure for checking very high incomes is that of incorporating agricultural incomes fully in the assessment and levy of the general income-tax. A progressive personal income-tax is already levied on urban incomes. However, it is highly ineffective because of the current view regarding incentives for savings needed in the private sector. So long as the richest are expected to save largely out of their personal incomes, the levels of direct taxation must make allowance for these over and above their high standards of consumption. And there is no guarantee that these supposed savings will fructify. If, instead, it is decided that personal income-tax will be pitched so high that at the highest no room need be kept for savings, the whole approach towards personal income taxation will effectively change. This may have some effect on the capital market; but any gap on this account in capital supply can be made good through additional capital funds being made available through government financial institutions.

It might also be useful to lay down as part of an incomes policy, that governments and organized business should have the obligation to compensate at least all employees whose earnings are below the national per capita average fully for every rise in the cost-of-living index. This would, in part, act as a stabilization of incomes measure; its utility would, however, lie specially in making governments aware of their basic responsibility for stabilizing the price level.

The main purpose of the price policy is to keep inflationary forces in check and price levels stable and that of incomes policy to stabilize incomes in general, to augment, to the extent possible, the incomes of the disadvantaged and to curb those of the rich. Stabilization of prices should help in administering monetary policy. Credit need not be unduly restricted so long as price inflation is not apprehended.

The main instrument of monetary policy will continue to be overall limitation of the volume of bank credit. Variations in the rate of interest are not effective because of the limited extent of the organized money market; also high bank rates are likely to have undesirable repercussions on the more needy. Moreover, in a developing economy, policy is geared to steady maintenance of stable conditions and not to dealing with constant ups and downs.

The problem of discriminating between uses of credit will still remain and has to be dealt with in a direct manner. Success in stabilizing prices will make the operation of forward markets in commodities redundant and they can, as in war time, be suspended. This should put a considerable curb on speculative activity, and hoarding will be discouraged by government ope-

rations of procurement, storage and sale. The suggestion made above regarding doing away with incentives for personal savings in the system of personal income-taxation may reduce the importance of the private capital market. This needs to be further reduced by other measures. During the last decade, the private capital market has been the bugbear of successive finance ministers. Radical action has been vetoed or abandoned for fear of reactions on this market. On the other hand, its real contribution has steadily diminished. The main sources of capital are now public and private company and other institutional savings and resources of public financial institutions. Contributions of personal private savings are negligible and yet the supposed reactions in relation to these have been allowed to dominate financial and fiscal policy. The capital market is now supported to a large extent by the L.I.C. and the continued use of public funds, in this direction, is highly undesirable. In fact, through the L.I.C. a group of private capitalists have obtained control over the investment of very large public funds. Once the undesirability of the bolstering of the private capital market is accepted, a much more rational use of the L.I.C. funds, orienting them to specific national policy ends, will become possible.

In this connexion, the general problem of regulating and directing the private sector in large industry needs attention. The suggestion made above regarding diminution of importance of the private capital market and the concentration of savings in public hands will make regulation easy. It will enable checking of the initial investment of capital funds. To make this more effective some regulation of the investment of own reserves by companies may be necessary; also, Reserve Bank control should extend over the intermediate-term and long-term lendings by commercial banks. Nationalization of banks does not appear to be necessary to keep continuous watch on the operation of industry, and it is likely to have undesirable consequences. Instead, two steps might be suggested. First is the appointment and active functioning of government directors not only where capital loans are given by official institutions but also where the L.I.C. holds a sufficient number of shares in any company. Through this, general supervision should be possible on the operations of all important public companies. Even more effective may be the nationalization of the profession of chartered accountants. Bringing all large companies, in this manner, within the purview of a public audit system should prove highly useful.

Finally, reference may be made to the problem of increasing cost-consciousness. During the interwar period, when Tariff Board gave limited protection for brief periods, protected industry had to be cost-conscious. Today, protection is universal, unconditional and permanent. The overall price control authority suggested above must, therefore, be helped by a body which continuously studies the dynamics of the process of development both in the private and public sectors through cost enquiries and through investigations into or projections of changes in structures, techniques, etc. The two together should be able not only to prevent any oligopolistic tendencies but also

to indicate desirable financial, technical, and such other developments. Cost consciousness has a special place in relation to foreign collaboration. Present conditions do not induce this, especially in relation to capital outlay, in either the Indian or the foreign collaborator.

Not much need be added regarding the requirements of policy in relation to the shaping and structure of the plan. A number of points have been indicated in the discussion earlier. In agricultural production, emphasis has to shift to detailed local and area planning and planning for needs of different categories of producers in addition to planning for individual crops. Programmes like consolidation and co-operative farming have to be given very high priority. In co-operation two sets of problems deserve special attention. Firstly, programmes in relation to areas in which co-operation has not yet taken root, and programmes for the rehabilitation of the weaker sections in states where it is well established. A number of objectives have to be integrated in the plan of industrialization. In the main, these are employment and dispersal. Deliberate dispersal from the worst metropolitan concentrations and the spread of socio-economic overheads in all backward areas are most urgent; but basically the industrial plan itself must be reoriented. Further, as indicated above, self-reliance has to become an immediate and continuous concern.

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