

**A PLAN  
OF  
ECONOMIC DEVELOPMENT  
FOR  
INDIA**

**PART II**

**(Distribution—Role of the State)**

*by*

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**A. D. SHROFF**

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**JOHN MATTHAI**

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*The authors regret that Sir Ardeshir Dalal, who was a signatory to Part I of the Plan, is unable to sign this Part, owing to his appointment as Member for Planning and Development in the Government of India. They wish to express their keen appreciation of his valued contribution towards the preparation of this memorandum before his assumption of office in August 1944.*

*December, 1944.*

## INTRODUCTORY

Our first memorandum dealt chiefly with the problem of production. Both logically and as a matter of practical necessity, the question of production must come before that of distribution in a plan of economic development. This is because in a country of comparatively low production such as India, no system of distribution, however meticulously framed, will help to raise the standard of living unless production is vastly increased. But it does not follow that increased production will necessarily remedy the problem of poverty if it is not based on a proper system of distribution. The present memorandum sets out our views regarding distribution and also the allied question of the part to be assigned to the State in a planned economy.

Preliminary

2. Our approach to these problems is two-fold. On the one hand, we recognize that the existing economic organization, based on private enterprise and ownership, has failed to bring about a satisfactory distribution of the national income. On the other hand, we feel that, in spite of its admitted shortcomings, it possesses certain features which have stood the test of time and have enduring achievements to their credit. While it would be unwise to blind ourselves to the obvious weaknesses of the present system, we think it would be equally a mistake to uproot an organization which has worked with a fair measure of success in several directions.

Line of approach

3. Briefly, we plan for change but we also plan for stability and orderly development. It is our firm belief that if the future economic structure of the country is to function effectively, it must be based on these twin foundations. It must provide for free enterprise but enterprise which is truly enterprising and not a mere cloak for sluggish acquisitiveness. It must ensure at the same time that the fruits of enterprise and labour are fairly apportioned among all who contribute to them and not unjustly withheld by a few from the many.

Twin foundations

## DISTRIBUTION OF THE NATIONAL INCOME

4. The primary object of the plan of economic development outlined in the previous memorandum is to improve the standard of living of the masses. In fact, increased production will be meaningless unless it is directed towards the eradication of poverty. An improvement in the general standard of living involves both increased production and equitable distribution and although we have dealt with them separately, they are closely interrelated and react on each other.

Production and distribution closely related

5. At present our production is very small and it is not equitably distributed. The average per capita income of Rs. 65 in 1931-32, to which we have referred in our first memorandum, is an arithmetical average which bears little relation to the income realized by the majority of the population, which must be considerably below this figure. The per capita average itself varies from Rs. 51 to Rs. 166 in rural and urban areas respectively. In 1931-32, one half of the total urban income was in the hands of less than 10 per cent of urban workers and "even among the comparatively well-to-do class, whose annual incomes exceed Rs. 2,000 a year, 38 per cent of their number could claim only 17 per cent of their total income, while a little more than 1 per cent were in possession of as much as 10 per cent of their total income". In rural areas, the income of the majority of the people must have been less than the average of 51 rupees. This is because farmers holding less than 2 acres of land form a large proportion of the cultivating class. Moreover, the agricultural labourer, whose wage is sometimes as low as 2 to 3 annas a day, and the cultivator are generally without any work for 3 to 6 months in the year. The increase in population since 1931 must have considerably increased the pressure on this class.

Disparities of income

6. In so far as the volume and nature of production are ultimately determined by the consumer demand, gross inequalities in income tend to retard the development of a country's economic resources.

Equitable  
distribution

They prevent the needs of the vast majority of the population from exercising any influence on the volume of production, which has naturally to be restricted, and lead to social cleavages and disharmony. Productive resources under these conditions tend to be devoted to satisfying the demands of the well-to-do classes while large numbers of people remain inadequately fed, clothed, housed, educated and medically cared for. The large increase in production which is postulated in the plan will be difficult to achieve if the present disparities in income are allowed to persist. To this extent, therefore, equitable distribution is necessarily implied in a plan for increased production. A policy which specifically aims at securing this object should have a double purpose: (i) to secure to every person a minimum income essential for a reasonable standard of living and (ii) to prevent gross inequalities in the incomes of different classes and individuals.

7. Concentration of the means of production in the hands of a small group of people has been considered one of the potent causes of the inequalities of income which prevail in the world at present, as it is also to some extent an

Ownership  
of means of  
production

incidental result of such inequalities. In the U. K. for example, it is estimated that 1 per cent of the persons above 25 derive from their property rights about 20 per cent of the total income of the country. "Unequal distribution of incomes from property makes for unequal distribution of incomes as a whole, not only directly through its existence, but also indirectly through its effect on other incomes". To secure an equitable distribution of income, it is therefore

necessary gradually to reduce the existing inequalities of wealth and property and to decentralize the ownership of the means of production. Imposition of death duties and other similar levies, if undertaken, in pursuance of well defined social objectives, by a government fully responsible to the people, would contribute towards achieving the first object. Reform of the system of land tenures which we suggest would further help progress in the same direction. In the sphere of industry, we have already indicated in our previous memorandum that the fullest possible scope should be provided for small scale and cottage industries, particularly in the production of consumption goods. The process of decentralization would be further advanced by encouraging the widespread distribution of shares in joint stock companies, by regional distribution of industries and through the development of cooperative enterprises. Control by the State, accompanied in appropriate cases by State ownership or management of public utilities, basic industries, etc, will also tend to diminish inequalities of income.

8. It is necessary, however, to make clear that although gross inequalities are undesirable, total abolition of inequalities, even if feasible, would not be in the interest of the country. Subject to the provision of a basic minimum, it is desirable to leave enough scope for variations in income according to ability and productivity. This will provide the necessary incentive for improvement in efficiency which is an important factor in the progress of a planned economy. Even in Soviet Russia, after the first flush of enthusiasm for the equalitarian ideal had passed, variations in industrial incomes have been allowed as an important motivating factor making for efficiency. The encouragement given to *Stakhanovism* is an indication of the change that is rapidly coming about. There is much force in what Lord Keynes says on the point:

Total abolition  
of inequalities  
undesirable

"I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money making and the environment of private wealth ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement".\*

9. Side by side with the decentralization of production, and control, ownership or management of public utilities and basic industries by the State, it is also necessary to adjust the rewards of the various factors of production so as to further the reduction of gross inequalities. As a general rule, these rewards, *viz.* wages, interest and profits, should continue to be determined on the basis of demand and efficiency as at present, subject to the overriding consideration that wages should not fall below a certain minimum and that interest rates should be controlled with a view to maintaining full employment. Profits should be kept within limits through fixation of prices, restriction of dividends, taxation, etc. But care should be taken to leave sufficient incentive for improvement in efficiency and expansion of production.

Rewards to  
factors of  
production

10. To secure a minimum standard of living we propose two classes of measures: (i) those that would raise the general level of income and (ii) those that would reduce the burden of individual expenditure on consumption goods and services *i. e.* the cost of living.

Measures for  
minimum  
standard

\* *The General Theory of Employment, Interest and Money*, p. 374



11. The measures which we have in view for increasing the general level of income and which we explain in more detail in the paragraphs that follow are:

- (i) provision of full employment,
- (ii) increase in efficiency,
- (iii) improvement in urban and rural wages,
- (iv) security of agricultural prices and development of multipurpose cooperative societies, and
- (v) reform of the land system.

12. Of all the measures that we suggest for raising the general level of income in India, provision of fuller scope for employment is the most important. Although no reliable information regarding the extent of unemployment or under-employment in this country is available, it is recognized that lack of employment is one of the major causes of the poverty of our people. Provision of full employment for the working part of the population would no doubt present formidable difficulties but without it the establishment of a decent standard of living would remain merely a pious hope. "If the giant Idleness can be destroyed, all the other aims of reconstruction come within reach. If not, they are out of reach in any serious sense and their formal achievement is futile".\* In general terms, provision of full employment means ensuring for every grown up person suitable opportunities for earning his or her livelihood, that is, a recognition of the individual's right to work, increased mobility of labour being an essential condition for achieving this object.

13. We expect that the industrial expansion which we have suggested in our previous memorandum will

\* Sir William Beveridge: *Pillars of Security*, p. 48

absorb a considerable part of the working population when the plan is completed. In order that the new industries which would be established in the country should provide the maximum volume of **Employment in industry** employment, we have suggested a comparatively low ratio of capital intensification *i. e.* a smaller proportion of capital per worker than is usually met with in industrialized countries, and the fullest possible development of small scale and cottage industries. In this respect India will do well to take a leaf from the experience of Japan, where, as in India, labour is comparatively plentiful and capital scarce. Statistical investigations show that about one half of the persons employed in the manufacturing industry of Japan in 1930 were in workplaces employing under 5 persons each and about 70 per cent were in workplaces employing under 50 persons. According to information compiled by the Ministry of Commerce and Industry, workplaces employing between 5 and 30 workers accounted for 29 per cent of the employment and 19 per cent of the output in manufacturing industry. The industrial cooperatives which have been recently developed in China might also prove a useful guide to India in this respect. Besides employment in industries, a large part of the population will be absorbed in trade and other services, which will necessarily increase in the wake of increased production and rising standards of living. And yet this will barely touch the problem of 'disguised unemployment' in agriculture which is the crux of the situation.

14. The agriculturist and the agricultural labourer are generally without work for periods extending from 3 to 6 months in the year at present. This unemployment occurs at intervals and is of a seasonal character. Provision of work during these **Seasonal unemployment in agriculture** periods of seasonal unemployment is of paramount

importance if a policy of full employment is to be successful. The steps which we contemplate for achieving this object are: (i) introduction of mixed farming *i. e.* cultivation accompanied by dairy farming, market gardening, etc, (ii) cultivation of more than one crop in a year with the help of better irrigation facilities and increased use of manures, and (iii) provision of subsidiary industries which the cultivator can take up when he has no work on the farm. Among such subsidiary industries may be mentioned the following : spinning and weaving, shoe making, paper making, tanning, gur making, soap making, oil crushing, fruit preserving, basket weaving, flour and starch making, etc.

15. The pattern of occupational distribution when the plan is completed would naturally be different from what it is to-day. Even where complete statistical data regarding existing occupational distribution and future demographic trends are available, it is difficult to forecast with reasonable accuracy the nature of the occupational pattern that might develop after a period of fifteen to twenty years. For India this is specially difficult because the occupational tables for the 1941 census are not yet published. Some indication, however, of the occupational pattern that will result when the plan is completed may be attempted on certain broad assumptions. We assume that the proportion of population engaged in different occupations when the plan begins to operate will be the same as in 1931 and that our population may continue to increase at the rate of five million per annum, which is the average rate of increase for the decade covered by the 1941 census. The volume of employment in industry, which the investment programme envisaged in the plan would provide, is calculated on the basis of a capital equipment of Rs. 1,500 per worker and is added to the number of persons employed in industry in 1947 when the plan might come into operation. This ratio of capital

Occupational  
distribution

equipment per worker seems reasonable if allowance is made for the fact that small scale industries would have an important scope in the economic development of the country and that adoption of shift working would be necessary with a view to economizing capital and providing as much employment as possible. According to the 1931 census, the number of persons employed in services such as public administration, trade, transport, professions, etc. was 80 per cent of that in industry. The development of social services like education and public health on the scale suggested in the plan and the needs of general administration and defence would, on the completion of the plan, absorb a much larger number of people in services than at present. The general economic development of the country would also lead to a substantial increase in trade and transport. However, since the development in services which we have postulated in our previous memorandum is proportionately much less than in industries, it is reasonable to assume that the total employment in services when the plan is completed would be about 60 per cent of that in industry. The rest of the population would be dependent on agriculture. On these assumptions, the distribution of working population according to the principal occupations in 1952, that is, in the year following the completion of the plan, would be somewhat as follows as compared with that in 1931.

OCCUPATIONAL DISTRIBUTION IN 1931 & 1962

	1931		1962	
	millions	per cent	millions	per cent
Agriculture	106.3	72	129.7	58
Industry	22.1	15	57.9	26
Services*	19.2	13	34.7	16
Total working population	147.6	100	222.3	100
Total population	338.1	...	494.0	...

\*This category includes trade, transport, government administration, professions and domestic service. Persons living on their own income or engaged in unproductive occupations, whose number was 18 lacs in 1931, are also added to this category for the sake of convenience.

16. It should not be forgotten that a policy of full employment, even if successfully carried out, does not necessarily imply in practice that every person willing to work is always employed. In the first place, due to the inherent imperfections in the working of a social policy, which has to take into account a number of incalculable factors, a small percentage of population will always be without work. Secondly, certain trades like the building trade, being seasonal in character, give rise to seasonal unemployment. Finally, due to changes in the technique of production and to variations in demand, large numbers of employed workers are constantly being displaced. The number of persons who would be without work at any particular time owing to these causes could, however, be reduced to manageable dimensions if a well thought out policy of employment was in existence. When the plan is sufficiently advanced and economic conditions are to a certain extent stabilized, it ought to be possible to devise schemes of relief like unemployment insurance for workers subject to unexpected and prolonged periods of unemployment. The government's public works programme, in respect of both new construction and repairs, should be regulated with a view to reducing the volume of seasonal and temporary unemployment. For those who are unemployed because of technological changes, suitable courses of training to fit them for new jobs should be framed. We believe that during the progress of the plan the amount of construction work, which the investment programme would involve, would itself provide a very substantial increase in the scope for employment.

17. As a result of the spread of general and technical education among workers, better organization of industries, especially small scale and cottage industries, better organization of agriculture and trade, fuller

Gaps in  
employment  
policy

Increase in  
efficiency

use of cattle power, provision of cheap electricity, improved tools and appliances and fertilizers, etc, the general efficiency of production is bound to record a marked improvement at the end of the planning period. Under a system of decentralized production, the benefits of higher efficiency will be increasingly available to the smaller producer and the worker in the form of a corresponding increase in their incomes. Since a higher standard of living arises largely from increased productivity of labour, improvement in efficiency of production is a material factor in raising the general level of well being.

18. If every person is to be assured a minimum standard of living, it automatically follows that the general level of wages must increase and that the wage rates of industrial and agricultural labour must be gradually adjusted so that the present disparity between them is reduced. The process of improvement must necessarily begin with the wages of agricultural labourers whose number was 30 million in 1931. It must be borne in mind that industrial wages and with them the living standards of industrial workers cannot be advanced beyond a certain limit unless at the same time the standard of living of the rural population is also substantially improved. Generally speaking, the daily wages of agricultural labour under pre-war conditions may be said to range from 2 to 5 annas a day for men,  $1\frac{1}{2}$  to 4 annas for women and 1 to 2 annas for children. The average wage of unskilled agricultural labour in 1939 was 5 annas per day in the Bombay province and 2 annas 9 pies per day in the U. P. Even at these low rates the agricultural labourer hardly found employment all the year round. Obviously, a number of these workers exist below the subsistence level, always an easy prey to epidemics and famines. When the developments in agriculture which we have broadly indicated in our previous memorandum have

Urban &  
rural wages

taken place and the reforms in the land system which we suggest elsewhere in this memorandum have been carried out, it will be necessary to fix minimum rates of wages for agricultural labour on a regional or local basis. With the development of cooperative farming, the enforcement of minimum agricultural wages, which otherwise might present formidable obstacles, would become less difficult.

19. Although the establishment of a basic minimum wage for all occupations cannot be considered at this stage, a beginning may be made in certain well established industries like cotton textile, sugar, cement, engineering, jute, mining, etc. In the initial stages, the minimum below which wages should not be allowed to fall should be related to the normal wage level prevailing in each industry. The minimum should be revised from time to time till it corresponds with a reasonable standard of living. The fixation of a minimum wage and its subsequent revision should be entrusted to a standing committee constituted for each industry consisting of representatives of employers and workers and a few independent persons.

20. Large fluctuations in the prices of agricultural commodities have been among the most important factors which have prevented agriculturists from making more sustained efforts to improve the yield of the land. To check these fluctuations in future and to assure to the cultivator a measure of security in respect of the prices of his crop, we suggest that, for the principal agricultural crops, the government should adopt a policy of fixing fair prices. In fixing a fair price, account should be taken of the cost of living in the area concerned as well as the cost of production. It would be necessary for enforcing these prices to build up adequate commodity

reserves which could be utilized to check violent fluctuations. To prevent a depression in the prices of specific agricultural commodities as a result of foreign imports, the volume of imports should be regulated by means of tariffs or by fixing quotas. It is possible that a large variety of agricultural crops may in future be subject to international agreements. Such agreements, provided, in respect of them, India is accorded representation on an independent footing, may be expected to lead to a fair measure of stability at a reasonable level in the prices of some of our staple crops.

21. Another factor which prevents the cultivator from improving his output and consequently his income is that, because of the handicaps which he suffers in respect of the marketing of his crop, his realizations fall considerably short of the prices which he might otherwise secure. There are several reasons for the large differences observed in respect of most of our agricultural crops between the price paid by the consumer or exporter and the price realized by the cultivator. As the holding power of the cultivator is generally small, he has to part with his crop almost immediately it is harvested and it is well known that prices during harvest time are at their lowest, except, of course, in times of abnormal demand. Very often, the purchaser is the money lender himself to whom the crop is sold under a tacit understanding, previously entered into, at what is generally an uneconomic rate for the cultivator. Only a small proportion of the cultivators take their produce to the marketing centres for sale. In most cases, for lack of adequate facilities for storage and finance, it is sold in the village itself, which prevents the cultivator from securing a better price. If multipurpose cooperative societies are established, the difficulties which the cultivator is experiencing at present in marketing his crop, particularly in the matter of adequate finance and storage facilities, would be removed and

Cooperative  
societies



his share in the price paid by the final consumer increased. Special attention should therefore be devoted to this type of society which so far appears to have found little encouragement in the Indian cooperative movement. Development of communications, standardization of weights and measures, regulation of markets, spread of commercial intelligence, etc. would further help the primary producer to realize his due share of the price.

22. Along with the development of cooperative farming and irrigation, prevention of soil erosion and of water logging, afforestation, etc, a fundamental reform which is necessary if the target for agricultural production which we have laid down is to be reached and if the income of the cultivator is to be raised is the reform of the land system. Ownership of the land and its taxation, that is, land tenure and land revenue, are the two principal problems which require to be tackled in this connection. As regards ownership, the systems of land tenure which prevail in India to-day can be roughly classified under three categories *vis.* (i) the *ryotwari* system under which land is held directly under the government by individual cultivators who are responsible for the payment of land revenue, (ii) the *mahalwari* or joint village system under which village estates are held by co-sharing bodies, the members of which are treated as jointly and severally liable for the land revenue and (iii) the *samin-dari* system under which one person or a few joint owners hold the land and are responsible for the payment of land revenue on the whole estate. The last two categories are essentially similar in character. According to whether the revenue is fixed permanently or is amenable to periodic revisions, the land tenure system is also classified as permanent and temporary, but that is not relevant from our point of

view. The area under the ryotwari and the zamindari and mahalwari systems in British India is shown below :

	Thousand acres	Per cent
Ryotwari	188,084	86
Zamindari & mahalwari	826,998	64
Total	510,082	100

Farming in India is predominantly tenancy farming. Most of the cultivators are tenant farmers who acquire land on lease from the zamindars or bigger ryots on payment of rent. In this connection it is necessary to realize that all the land held under the zamindari system is not, as is sometimes contended, let out for cultivation to tenant farmers, nor is all the land held under the ryotwari system cultivated by peasant proprietors. In the United Provinces for instance, which is a zamindari province, as much as one fifth of the total cultivated area of 35 million acres is cultivated by the landowners themselves. On the other hand, in the Punjab, which is mainly a land of peasant proprietors, the western part of the province is the stronghold of the landlord and the landlord is too often an absentee. Contrary to the common belief, the actual cultivator under the zamindari system, who in the large majority of cases is the occupancy tenant, is for all practical purposes the proprietor of the land he cultivates. His rent is fixed save to the very limited extent to which enhancement is possible under certain conditions: his holding is both heritable and transferable. The various tenancy acts have in effect deprived the zamindar of a considerable part of his proprietary right over the soil and rendered him to that extent a mere collector of rent. Similarly, the incidence of rent under the zamindari system often compares favourably with rents prevailing in the ryotwari areas.

23. As a general proposition it is nevertheless true that under the zamindari system the landlord has largely become a mere rentier and that the system as such has ceased to serve any national interest.

Ryotwari  
system

Nowhere in India has the system created, as was expected of it, a class of landlords willing to supply capital for the improvement of the land and the extension of cultivation. Although the ryotwari system is not altogether free from the evils commonly associated with the zamindari system, it has the great advantage of bringing the actual cultivator directly in contact with the State. This gives to the cultivator a better status and awakens the State to its responsibilities in the matter of cooperative farming, irrigation, prevention of soil erosion, etc, without which even under a ryotwari system no agricultural improvement would be possible. The Floud Commission which recently reported on the land revenue system of Bengal has after a thorough examination of the question recommended the introduction of the ryotwari system in the place of the existing zamindari tenures. We suggest the gradual application of this recommendation to the zamindari areas in the whole of India, where the landlord is not directly interested in the cultivation of the land he owns. As a first step, "the State should take over the landlord's functions and pay the landlord a fair rent for the land, deducting therefrom the expenses incidental to the discharge of these duties. Later on, when the State is in a better position, this may be commuted into a lump sum payment and the landlord's claim thus finally extinguished. For the immediate present, the link between the landlord and the tenant should be broken".\* Side by side, it would also be necessary to check the transfer of land from cultivators to non-cultivators and to control rents with a view to reducing the attractiveness of land to speculative investors.

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\*Sir Manilal B. Nanavati & J. J. Anjaria: *The Indian Rural Problem*, p. 849

24. Along with the establishment of a class of peasant proprietors, an urgent reform of the system of land revenue is also called for. At present the assessment of land revenue is not based on a uniform Land revenue system. In certain areas the basis of assessment is rent while in others it is the net produce. There is also no provision for introducing variations in assessment according to price changes, while at the same time the settlement officers who assess the revenue have the discretion to modify the basic principles by introducing a number of miscellaneous considerations. As a result, the incidence of land revenue shows marked variations in different areas. It is also fairly heavy. The reform of the present system would therefore lie mainly in the direction of making the basis of assessment uniform all over the country, so as to secure equality in the incidence of revenue, while retaining a certain measure of elasticity by a provision to vary the assessment from time to time in accordance with the trend of prices. The pitch of assessment should also be lowered. The general trend in other countries is to treat agricultural incomes in the same fashion as other incomes and to apply to them the principles of income tax—an exemption limit and a graduated scale of taxation. It is hardly possible at the present stage to determine how far it would be practicable, in the exigencies of public finance, to fix an exemption limit for agricultural income. But we consider that agricultural income above a certain level must be subject to income tax like other incomes. This has already been done in Bihar and Bengal.

25. As a result of the measures indicated above, the lower incomes would record a steady improvement and consequently the income structure of the country would be more broad-based. For individual earners this improvement would arise from increased output as well as better prices. The cumulative

Income  
distribution  
in 1962

effect of the measures proposed on the incomes of the different occupational classes is roughly indicated in the table given below. The table is based on the occupational pattern given in paragraph 15 and on the estimated income from agriculture, industry and services at the end of the plan. It is assumed that persons following agriculture as their principal occupation would also secure, through subsidiary occupations, 5 per cent of the income from industry and services.

AVERAGE INCOME PER OCCUPIED PERSON

	1931	1962	Increase per cent
	Rs.	Rs.	
Agriculture	114	220	93
Industry	161	368	129
Services	264	397	50

26. The suggestions made so far are calculated to increase the incomes of those who are at present below the subsistence level. The measures which we propose for reducing the cost of living fall into two categories :

Cost of living

- (i) provision of free social services *e. g.* primary and middle school education, adult education and medical treatment ; and
- (ii) provision of essential utility services *e. g.* electricity and transport at low costs.

27. In our previous memorandum we have proposed a comprehensive scheme of education and medical relief. In order that every person, whatever his means, should be able to secure the benefits of education and medical relief, we have suggested that primary, middle school and adult education and medical treatment, both in rural dispensaries and in hospitals, should be provided free of charge. This would mean a considerable relief in the cost of living.

Free social  
services

28. At present essential utility services such as electricity, gas, transport, etc, are supplied on a comparatively limited scale and for the majority of people at a cost which they cannot afford. We have proposed a large increase in the supply of these services and it is an essential part of our plan that their cost to the consumer, both for domestic use and for cottage and rural industries, should be as low as possible and within the means of the bulk of the population. In order to achieve this object, we propose that these services should be subsidized by the State to such extent as may be necessary and that the margin of profit in such services should be subjected to control.

Utility  
services

29. It is possible that in spite of these measures, due to unforeseen causes such as a failure of the monsoon or any other natural calamity, conditions of living for large sections of the population may suffer a serious setback. To meet such emergencies, we suggest the creation of a *national relief fund* on the lines of the present famine relief fund, but larger in resources and in scope, to be utilized as and when the need arises. A part of this fund should be held in the form of consumption goods which could be mobilized for instantaneous relief in times of emergency.

National  
relief fund

30. We are aware that our proposals do not constitute a complete scheme for providing security of income or freedom from want, which must be the ultimate objective of economic planning. There are several contingencies such as sickness, old age, technological unemployment, etc, which are not specifically covered by these proposals. These contingencies cannot be met except by a comprehensive scheme of social insurance. Although the need for such a scheme is urgently felt in India, we do not

Social security

think that it will be possible to introduce it until (i) a policy of full employment has had time to work itself out and some approximation is made to a position of stable employment for the greater part of the population *i. e.* until the risks insurable are reduced to manageable proportions, and until (ii) the average individual income has risen sufficiently to meet the contributions necessary under a scheme of insurance. We, however, suggest that as in the case of fixing a minimum wage, a beginning in the direction of social insurance may be made by introducing sickness insurance and holidays with pay for workers in organized industries. The scope of the existing legislation in respect of maternity benefits should also be widened by making it applicable to all industrial establishments coming under the Factories' Act in the whole of India.

31. The policy we have outlined so far is mainly intended to secure the first objective of an equitable distribution of national income *vis.* to assure to every person a minimum standard of living. To a considerable extent it will also help to reduce gross inequalities of income, which is the second objective. The most important method, however, of preventing gross inequalities is direct taxation, which in effect transfers income from the comparatively richer classes of society to the poorer. A steeply graduated income tax, which would keep personal incomes within limits, would obviously be the most important weapon for this purpose in the fiscal armoury of the country. But in any such scheme of taxation, consistently with the development programme envisaged in the plan, it is necessary to emphasize that adequate remission should be granted in respect of the depreciation of the assets employed in production and that incomes ploughed back for increasing industrial or agricultural production should also be granted similar remission. Further, in the taxation of personal incomes, distinction should be made between earned and

Taxation of  
incomes

unearned income, so as to make the latter taxable at a higher rate. As a means of correcting the existing inequalities of wealth, the device of death duties, which has been successfully utilized in other countries, might also be adopted. The advisability of taxing inherited estates more severely at the second and later transfers than at the first would be a further step in the same direction. It is obvious that India's fiscal system will have to place more and more reliance on direct taxation in future if the increase in the cost of administration which planning will involve is to be met and if provision is to be made for free social services like education, medical treatment, etc. and subsidies for essential utility services.

32. Throughout our investigations we have assumed that a programme of economic development of the kind we envisage should include the whole of India—the States as well as British India—in its scope. A territorially unbalanced economy will result in an imperfect utilization of the country's resources and also prevent its purchasing power from developing *pari passu* with the estimated increase in production. Not merely in the matter of industrialization but in almost every other line of development covered by our plan, the States, with certain notable exceptions, have tended to lag behind most parts of British India. We consider it a matter of the greatest importance for the future of India that economic progress should be so planned that, as far as circumstances permit, the targets as well as the pace fixed for the plan should have uniform application to British India and to the States. The objectives we have outlined are of equal importance to both and, further, the development of each is to a large extent conditioned by that of the other. It follows therefore that if a plan of economic development for India is to achieve its aim to any tangible extent, it should proceed

Regional  
development



on the principle that, in the results it seeks to achieve and consequently in the sacrifices it demands, British India and the States should share alike. Although the States represent two-fifths of the territory and one-fourth of the population of India, it must be recognized that industrial investment in the States, as also in backward areas in British India, remains disproportionately low. It is clear therefore that there is much lee-way to be made up. Unless this disparity is remedied, a proper regional distribution of economic development will be difficult to secure. Meanwhile, any unequal distribution of financial burdens between manufacturing concerns in British India and the States will operate to prevent a healthy all-round industrial development, since natural advantages under such circumstances will be swamped by the adventitious benefits resulting from differences in local measures of taxation.

33. Taxation on the scale we have proposed will place a very heavy burden on the country and will be justified only if its utilization for the purposes for which it is intended is fully guaranteed by a national government responsible to the people of the country. It is necessary to emphasize this fact because, as experience has often shown in the past, it is a dangerous thing to vest large powers of taxation in a foreign government bred in traditions of imperialistic exploitation. Both our plan of development and our proposals for meeting its cost imply the existence of a responsible national government as an essential condition. Unless this condition is satisfied, there can be no assurance that planning will be directed either along right lines or towards right ends, nor that the resources released for the purpose will be wisely and fruitfully expended.

Conditions for  
heavy taxation

## THE STATE AND ECONOMIC ORGANIZATION

34. The nature and scope of the measures necessary to secure an equitable distribution of the national income depend to a large extent on the lines on which production is organized. This in its turn is influenced by the principles on which the economic system of the country as a whole is based. It is, therefore, necessary to indicate the type of economic organization which, having regard to the circumstances of India, would be appropriate to the plan we have outlined. This is a subject on which it is possible to hold widely different opinions and which in the past has lent itself to acute controversy. In considering it, we should therefore eschew preconceived notions and approach the question from a detached point of view. Since planning is primarily a matter of organizing the human and material resources of a country, our aim should be to devise a system which would help to utilize them to the maximum advantage. The plan must fit in with the general outlook and traditions of our people and the cost of efficiency in terms of human suffering and loss of individual freedom must not be unduly heavy.

Choice of  
economic  
organization

35. It is a rather widely held assumption that a planned economy can only function within the political framework of a totalitarian government. This assumption is natural since in the two countries which have witnessed the most impressive experiments in economic planning undertaken in recent years, namely Soviet Russia and Germany, the State has exerted over the activities of its citizens in every sphere of life a degree of authority which provides little scope for the exercise of individual freedom. It is inevitable that in executing a comprehensive plan of economic development, especially in a country where the beginnings of such development have yet to be laid, the State should exercise in the interests of the community a

State  
intervention  
inherent in  
planning

considerable measure of intervention and control. That this would be an indispensable feature of planning was recognized by us in our first memorandum. We have, for instance, indicated in that memorandum that no economic development of the kind proposed by us would be feasible except on the basis of a central directing authority and further that, in the initial stages of the plan, rigorous measures of State control would be required to prevent an inequitable distribution of the financial burdens involved in it. An enlargement of the positive as well as preventive functions of the State is essential to any large scale economic planning. This is inherent in the idea of planning and its implications must be fully admitted.

36. This, however, is not to concede that no society can undertake a comprehensive and integrated plan of economic development except by discarding the fundamental postulates of democratic government.

Planning and  
democracy

There is no warrant in logic or history for such an assumption. If democracies can successfully plan and organize their resources for waging wars, it stands to reason that they can do so equally for fighting social evils such as poverty, disease and ignorance. Democracy rests on the belief that the freedom of the individual to give full expression to his personality is one of the supreme values of life and among its basic needs; the State cannot demand a surrender of that freedom except for well defined ends and except with the assent of the community freely expressed through constitutional channels and with opportunities for the free functioning of parties holding divergent views. If a planned economy involves, as it necessarily must, the restriction of individual freedom in varying degrees, such restriction under a democratic government will be of limited duration and confined to specific purposes. Whereas in a totalitarian society the individual is merged in the

State and belongs to it, having no rights except those which the State chooses to confer, in a democracy the State belongs to the people and is but a means of securing the fulfilment of the individual's rights and therefore any restriction which it imposes on his freedom must be justified by that test. We believe that planning is not inconsistent with a democratic organization of society. On the contrary, we consider that its objects will be served more effectively if the controls inherent in it are voluntarily accepted by the community and only enforced with its consent.

37. In discussing different types of economic organization from the point of view of planning, it is perhaps worth while pointing out that the distinction which is generally drawn between capitalism and Basic principles socialism is somewhat overdone. The principle of *laissez faire*, which is regarded as the dominant note of capitalism, has during the last hundred years been so largely modified in the direction of State intervention in various spheres of economic activity that in many of its characteristic aspects capitalism has been transformed almost beyond recognition. Similarly, countries which in recent years set out to organize their economic life on orthodox socialist lines have found it necessary in several important respects to accept capitalistic ideas in their effort to evolve a workable form of society. As a result of these developments, the distinction between capitalism and socialism has lost much of its significance from a practical standpoint. In many respects there is now a large ground common to both and the gulf between the two is being steadily narrowed further as each shows signs of modifying itself in the direction of the other. In our view, no economic organization can function effectively or possess lasting qualities unless it accepts as its basis a judicious combination of the principles associated with each school of thought. These

principles may be summed up as follows: first, that there should be sufficient scope for the play of individual initiative and enterprise; secondly, that the interests of the community should be safeguarded by the institution of adequate sanctions against the abuse of individual freedom; and thirdly, that the State should play a positive rôle in the direction of economic policy and the development of economic resources. It is from this angle that we approach the problem of determining the place of the State in a planned economy in India. We believe that capitalism, in so far as it affords scope for individual enterprise and the exercise of individual initiative, has a very important contribution to make to the economic development of India. We believe at the same time that unless the community is endowed with powers for restraining the activities of individuals seeking their own aggrandizement regardless of public welfare and for promoting the main objectives of economic progress, no plan of economic development will succeed in raising the general standard of living or promoting the common good. "The problem of this century is to find the most fruitful method of combining planning—the right kind and degree of planning—with freedom. Competition and central direction may, indeed, be so applied that they spend all their energies merely in frustrating each other. But if...they are sorted out and each applied by itself to the problems for which it is appropriate, there is no inherent reason to doubt that an economy based on both planning and free enterprise would be superior to either of the extremes".\*

38. In dealing with the relation of the State to economic activity, it is necessary to make a distinction between the rôle which the State may generally be expected to play in future, when a planned economy has

Rôle of  
State

\* *The Economist*, May 18, 1944, p. 689.

come into normal operation, and its part during the interim period when the plan is in process of being carried out. As the rôle to be assigned to the State in normal times is of more fundamental importance, we deal with it first.

39. Coordination of general economic activity, management of currency and public finance, collection of statistical and other information, and adoption of legislation to safeguard the interests of economically weak classes are some of the more important functions which have now been universally recognized as legitimate duties of the State in the economic sphere. We have, however, to deal here with another and a more specific set of functions which are being advocated by important sections of enlightened opinion both in this country and outside. These functions centre round (i) ownership, (ii) control and (iii) management of economic enterprises. A widening of the economic functions of the State in these directions is advocated on the ground that unrestricted private enterprise, under the capitalistic system of production, has not served the interests of consumers and of the community generally as satisfactorily as it should have. We have, therefore, to determine the nature and scope of State activity in terms of these three factors in the economy which we visualize.

Methods of  
intervention.

40. Of the three factors mentioned above, from the point of view of maximum social welfare, State control appears to be more important than ownership or management. Mobilization of all the available means of production and their direction towards socially desirable ends is essential for achieving the maximum amount of social welfare. Over a wide field it is not necessary for the State to secure

Control more  
important.

ownership or management of economic activity for this purpose. Well directed and effective State control should be fully adequate. State control of this character is, however, bound to put important limitations on the freedom of private enterprise as it is understood at present. Legal ownership would lose some of the essential attributes which are attached to it at present, especially in respect of the use and disposal of economic resources. Monopolies, for example, would not be allowed to limit their output with a view to increasing their profits by raising prices. Scarce natural resources would not be allowed to be exploited without consideration for the future requirements of the country. The rights attaching to private property would naturally be greatly circumscribed. In the light of these considerations, we indicate below in general terms the sectors of economic activity which should be owned, controlled and managed by the State.

41. State ownership is necessarily involved in all cases where the State finances an enterprise which is important to public welfare or security. State ownership will also arise where in the public interest it is necessary for the State to control an industry but the circumstances of the industry are such that control is ineffective unless it is based on State ownership. As regards the former class, industries falling within this category may be either entirely new industries or industries new to particular areas, and in both cases may require financial assistance from the State in the initial stages. If later on private finance is prepared to take over these industries, State ownership may be replaced by private ownership, but it is essential in the public interest that the State should retain effective control over them. In the other group of industries in which State ownership exists because it is a necessary means of enforcing State control, ownership by the State will be a more

State  
ownership

or less permanent feature. In these cases where ordinary methods of State control have to be supplemented by State ownership, it will be necessary as a rule to place management also in the hands of the State. The manufacture of materials exclusively required for war purposes and the organization of vital communications such as posts and telegraphs are illustrations of this class of industries.

42. Enterprises owned wholly or partially by the State, public utilities, basic industries, monopolies, industries using or producing scarce natural resources and industries receiving State aid should normally State control be subject to State control. The nature of the control to be exercised will vary from industry to industry and from unit to unit in the same industry according to the specific requirements of each case. The institution of adequate controls which would achieve the object in view, without unduly hampering the initiative of the management, and the proper enforcement of such controls will present difficult problems. The following are illustrations of the form which control may assume: fixation of prices, limitation of dividends, prescription of conditions of work and wages for labour, nomination of government directors on the board of management, licensing and 'efficiency auditing'—a development of cost accounting which will be the watchdog of public interest rather than of financial interests in the limited sense.

43. Where an enterprise is owned by the State, there is a *prima facie* case for its management by the State. But it does not invariably follow that all enterprises owned by the State should also be managed by State management it. There are three alternative methods of management open in such cases: by the State, by private enterprise and by *ad hoc* public corporations. To some extent the



deciding factor which determines which of these alternative methods should be adopted in any particular case is how far the necessary personnel will be forthcoming under each method. But since State ownership generally arises because the industries concerned are of public importance, considerations of efficient management alone cannot be allowed to settle the question. It is necessary to take into account also the wider and more fundamental question of the extent to which public welfare and security will be safeguarded and promoted under each system. It is not possible to lay down a general rule as regards this aspect of the question and each case must be decided on its merits. In the ultimate decision, the governing issue will be whether State control is not sufficient to safeguard the public interest but in addition to it State management should also be provided.

44. We have set out some of the leading considerations by which the question whether an industry should be left to private enterprise or should be owned and managed by the State is to be determined. The application of these considerations in particular cases is bound to present difficulties and there will necessarily be a wide field in which decision will involve a nice balancing of various factors. It will probably be found in these cases that the arrangement which will best meet the situation is a compromise between the two principles so that while some units of the industry are owned and managed by the State, others are left to private enterprise. Where considerations of efficiency on the one hand or public welfare on the other would not permit of a clear cut decision, it is in the direction of a compromise on these lines between State and private enterprise that a practical solution may be sought. Public utilities of a monopolistic character and industries for the products of which the government are the principal customer would among

Compromise  
formula

others be the main industries which would fall within this category. Experience of working the same industry partly by State and partly by private enterprise will incidentally afford valuable guidance in shaping public policy in the matter. Moreover, the simultaneous operation of both systems in the same industry will provide a useful incentive and corrective to each system, resulting in all probability in a maximum contribution to the well being of the community by the industry as a whole. "There is no need to socialise at once all the forms of production it may prove desirable to socialise some time: nor is there any reason why a form of production, socialised at first, should not be handed back, under proper safeguards, to private enterprise if socialisation does not yield good results. Within a single branch of production there may be some parts which it is desirable to socialise, and others which are best left under private ownership and control. The less rigidly the line is drawn, the more room will there be both for diverse experiment and for suiting different types of men and women with jobs in which they have a decent chance of being happy".\*

45. The general propositions regarding State activity in the economic sphere which we have enunciated above will hold good even during the planning period. But during this period, in addition to the controls embodied in these propositions, the State will have to adopt a number of other controls of a temporary character. Without them a planned economic development will be hardly possible. To a large extent the controls to be instituted during the planning period will be similar to those which are in force at present under war conditions and to which the country has become more or less accustomed; but they will be better co-ordinated and more systematically administered.

Control  
during  
planning  
period

46. These controls will operate mainly in the following spheres :

- (i) production,
- (ii) distribution,
- (iii) consumption,
- (iv) investment,
- (v) foreign trade & exchange, and
- (vi) wages and working conditions.

Control of production will aim at a proper allocation of resources so as to secure better regional distribution of

economic enterprises and to reach the targets set for the different branches of industry.

The control will operate chiefly through a system of licences for establishing new units and for extending existing ones. Distribution will be controlled primarily with the object of determining priorities for the release of raw materials, semi-finished materials and capital goods. In the early stages of planning, control will also include rationing and distribution of consumers' goods. The objectives to be kept in view in controlling consumption will be to enforce fair selling prices for essential goods and for goods manufactured by industries receiving State assistance and also to prevent inflation. As regards investment, control will imply that new capital issues should be approved by the State so as to secure a proper distribution of available resources, to prevent inflation, to provide for the orderly development of new enterprises and generally to maintain and promote the interests of Indian nationals. Trade and exchange will be subjected to control to such extent as may be required for conserving foreign exchange and for protecting Indian industries. The control of wages and working conditions will aim at ensuring, not merely fair conditions for labour, but also efficiency of management, particularly in public utility concerns and protected industries.

47. The wide powers of direction and control, with which the State would be invested for the successful execution of the plan, would be exercised through a national government responsible to the people. "The strength of State Authority, not in the physical sense, but in the moral sense of a genuine submission on the part of the great majority of the population, is an important factor in the success of planning".\* To achieve this moral strength and to ensure harmonious and uninterrupted working during the planning period, the personnel of government should be adequately representative of every considerable body of political thought and sentiment in the country. It is also necessary that while sufficient powers of coordination are vested in the central government, the administration of economic policy should be delegated to provincial and local governments on a basis of wide decentralization. The various controls, both permanent and temporary, which have been indicated will not be effective unless the State has at its disposal a specialized agency possessing the necessary knowledge and experience for handling economic matters. For this purpose a new service—an *economic civil service*—should be established in the country composed of persons with the special education, training and experience appropriate to the economic functions of the State.

National  
government

48. The general shape of the economic organization which will emerge if our proposals are carried out is not unlike the type of society which Professor Pigou foreshadows in his book, *Socialism versus Capitalism*. We quote the following passage from it which, *mutatis mutandis*, is applicable to the society we have in view and the rôle which the State will play in it: "If, then, it were in the writer's power to direct his country's destiny, he would accept, for the time being, the

Future  
economic  
organization

\* F. Zweig: *The Planning of Free Societies* p. 255

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general structure of capitalism; but he would modify it gradually. He would use the weapon of graduated death duties and graduated income tax, not merely as instruments of revenue, but with the deliberate purpose of diminishing the glaring inequalities of fortune and opportunity which deface our present civilisation. He would take a leaf from the book of Soviet Russia and remember that the most important investment of all is investment in the health, intelligence and character of the people. To advocate 'economy' in this field would, under his government, be a criminal offence. All industries affected with a public interest, or capable of wielding monopoly power, he would subject at least to public supervision and control. Some of them, certainly the manufacture of armaments, probably the coal industry, possibly the railways, he would nationalise, not, of course, on the pattern of the Post Office, but through public boards or commissions. The Bank of England he would make in name—what it is already in effect—a public institution; with instructions to use its power to mitigate, so far as may be, violent fluctuations in industry and employment. If all went well, further steps towards nationalisation of important industries would be taken by degrees. In controlling and developing these nationalised industries, the central government would inevitably need to 'plan' an appropriate allocation for a large part of the country's annual investment in new capital. When these things had been accomplished, the writer would consider his period of office at an end, and would surrender the reins of government. In his political testament he would recommend his successor also to follow the path of gradualness—to mould and transform, not violently to uproot; but he would add, in large capitals, a final sentence, that gradualness implies action, and is not a polite name for standing still."

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