

GOVERNMENT OF INDIA



THE PROBLEM OF
ECONOMIC DEVELOPMENT

PLANNING COMMISSION

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Explanatory Note

The expressions 'lakh' and 'crore', which are frequently used signify 100,000 and 10 million respectively.

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INTRODUCTION

With the object of assisting study and implementation, the First Five Year Plan is being made available in the following sections:

- I. The Problem of Economic Development.
- II. Administration and Public Co-operation.
- III. Agriculture and Community Development.
- IV. Village and Small-Scale Industries.
- V. Irrigation and Power.
- VI. Development of Mineral Resources.
- VII. Industry and Communications.
- VIII. Social Services.

The numbering of pages in the different sections is in accordance with the text of the Plan.

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PART ONE

THE PLAN

CHAPTER I

THE PROBLEM OF DEVELOPMENT

I. PLANNING : ECONOMIC AND SOCIAL ASPECTS

THE CENTRAL objective of planning in India at the present stage is to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life. The problem of development of an underdeveloped economy is one of utilising more effectively the potential resources available to the community, and it is this which involves economic planning. But the economic condition of a country at any given time is a product of the broader social environment, and economic planning has to be viewed as an integral part of a wider process aiming not merely at the development of resources in a narrow technical sense, but at the development of human faculties and the building up of an institutional framework adequate to the needs and aspirations of the people.

2. An underdeveloped economy is characterised by the co-existence, in greater or less degree, of unutilised or underutilised manpower on the one hand and of unexploited natural resources on the other. This state of affairs may be due to stagnancy of techniques or to certain inhibiting socio-economic factors which prevent the more dynamic forces in the economy from asserting themselves. Corresponding to each stage of development, there tends to grow a certain economic and social stratification which is conducive to the conservation of the gains from the use of known techniques. Such stratification has a part to play in social progress. But, beyond a point, it hampers innovation and change, and its very strength becomes a source of weakness. For development to proceed further, a re-adaptation of social institutions and social relationships thus becomes necessary. In planning for a better economic order, the close interrelation between the technical and social aspects of the process of development has to be continually kept in view. While there is need for concentrating effort on the more immediate problems, planning implies the readiness on the part of the community to view the social process as one whole and to take action designed to shape this process along desired lines over a defined period.

3. In spite of considerable advance in public thinking on the subject, the acceptance of such an approach to the problems of economic development and social change represents a relatively new phase in policy-making and in administration. Planning involves the acceptance of a clearly defined system of objectives in terms of which to frame over-all policies. It also involves the formulation of a strategy for promoting the realisation of the ends defined. Planning is essentially an attempt at working out a rational solution of problems, an attempt to co-ordinate means and ends ; it is thus different from the traditional hit-and-miss methods by

which 'reforms' and 'reconstruction' are often undertaken. A planned economy has inevitably in view a somewhat wider time-horizon, to which the day-to-day decisions have to be related. And yet, practical policy cannot operate in terms of mere set doctrines ; it must satisfy certain pragmatic tests. In spite of the considerable developments in economic and social sciences in the last few decades, our knowledge of human motivation and of social processes is but limited. We cannot always say for certain that a given set of causes will produce a particular, clearly definable, set of results and none other ; we do not always know at what rate the effects of a particular change in a part of the system will be transmitted to the other parts of the system. Responses of individuals or of groups of individuals and of classes cannot always be predicted in advance. Even if the conceptual relationships between different aspects of the phenomena under study are clearly understood, there is often the lack of precise statistical data on which to base an assessment of the requirements of a given situation. It follows that a considerable part of the planning authority's task is to assess the significance of some of these indeterminate or partially known factors at work in the life of the community and to recommend policies on the best judgment available. This is particularly so in India today.

4. The urge to economic and social change under present conditions comes from the fact of poverty and of inequalities in income, wealth and opportunity. The elimination of poverty cannot, obviously, be achieved merely by redistributing existing wealth. Nor can a programme aiming only at raising production remove existing inequalities. The two have to be considered together ; only a simultaneous advance along both these lines can create the conditions in which the community can put forth its best efforts for promoting development. The problem, therefore, is not one of merely re-channelling economic activity within the existing socio-economic framework ; that framework has itself to be remoulded so as to enable it to accommodate progressively those fundamental urges which express themselves in the demands for the right to work, the right to adequate income, the right to education and to a measure of insurance against old age, sickness and other disabilities. The Directive Principles of State Policy enunciated in Articles 36 to 51 of the Constitution make it clear that for the attainment of these ends, ownership and control of the material resources of the country should be so distributed as best to subserve the common good, and that the operation of the economic system should not result in the concentration of wealth and economic power in the hands of a few. It is in this larger perspective that the task of planning has to be envisaged.

5. A process of all-round and orderly development, such as is indicated above, must inevitably take time to come into full fruition. Large scale changes in modes of production, in commercial and industrial organisation and in the institutional framework of corporate life cannot be seen through within a brief period of four or five years. In the initial stages of development, divergence in the economic and social interests of different sections of the community may create special problems. While this fact has to be recognised, persistent effort must be made to give a new sense of direction and purpose to the community. It is important also to ensure that in the process of development, the forces of growth from within are not stifled by attempts abruptly to superimpose preconceived patterns of life and activity. The strengthening of these inner forces and the creation of new institutions must proceed side by

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side so as to facilitate rapid advance through a process of interaction. The modern world is changing so rapidly that it is not enough to think in terms of slow changes and marginal adjustments, a minor shake-up here and a little cementing elsewhere. An underdeveloped country which has suffered long from the effects of cramped development desires inevitably to progress rapidly and in many directions ; the aim of planning must be to make this possible. Political independence provides the needed opportunity. It is therefore natural that improvement in economic and social conditions through the acceptance of more progressive ideas and through suitable institutional changes is regarded as the practical test for judging the adequacy of the new political system.

6. The rapid advances in science and technology over the last few decades have opened out new possibilities in the direction of abolition of want and the restoration of man to a new sense of dignity, but they also carry potentialities of harm and danger. Our knowledge of the socio-economic changes which utilisation of these techniques calls for is neither complete nor certain. In the nature of the case, the problem does not admit of a generalised solution. Conditions vary as between countries, and each country has to evolve a solution in the light not only of contemporary conditions but also of its traditions and culture. In planning for a transformation along the right lines, there are many pitfalls to be avoided, and it is of the utmost importance to strike the appropriate balance between various considerations so as to secure the optimum pattern and rate of progress. Parallels from past history or from contemporary conditions in other countries are useful upto a point, but they cannot provide a complete answer. A nation, like an individual, has to work out its inner potentialities by a process of experimentation. All that can be said is that there is need, on the one hand, for clarity in regard to basic values and, on the other, for readiness to adapt practical solutions to the concrete problems arising in the process of transition to a different economic and social order.

7. We should like in this context to stress the essential political and administrative conditions essential to successful planning. Briefly these are :

- (a) a large measure of agreement in the community as to the ends of policy ;
- (b) effective power, based on the active co-operation of citizens, in the hands of the State ; and, earnest and determined exercise of that power in furtherance of these ends ; and
- (c) an efficient administrative set-up, with personnel of requisite capacity and quality.

(A national plan has to be an expression of a basic unity of purpose in the community. It is this unity which would constitute the ultimate sanction behind the plan, give it driving force and evoke the necessary sacrifice and effort on the part of members. (Joined to this unity of purpose must be effective power in the hands of the State to be exercised with the necessary persistence and determination in order to ensure the furtherance of accepted ends. Constructive use of this power calls for integrity, efficiency and responsiveness in administration.) The creation and maintenance of these basic pre-requisites of economic and

social growth have to be considered as matters deserving continuous and careful attention, and if we revert to this theme several times in this report, it is because we feel that the need for creating in the country an environment favourable to progress can hardly be overemphasised. The changes in administration appropriate in the context of the new role of the State are dealt with in detail in subsequent chapters.

8. The task of organising a democracy for rapid and co-ordinated advance along several lines is one of special difficulty. The party in power has not only to carry public opinion with it; it has to get the active co-operation of all sections. In a democratic country, every citizen is free to think and vote as he likes, and political parties have the right freely to canvass public support for their programmes and in the event of securing a majority in the legislature to form the government. Under these conditions, the greater the responsiveness of the party in power to trends of opinion outside, the greater will be its effectiveness for action. The smooth functioning of the party system rests on an underlying agreement as to objectives, though there may be differences as to approach or to the pace of change with reference to certain problems. These differences are a necessary concomitant of democracy; they ensure a continuous re-examination and re-adaptation of governmental policies. The rights of free expression of opinion and of freedom of organisation in here in the very concept of government by consent. Through these alone is a vigorous, creative political life possible. At the same time, it is evident that the problems of the modern world are too complex to be dealt with in terms of rival or opposing programmes of action. On various matters, different parties tend inevitably to come together and co-operate. For planning to proceed with the necessary momentum and continuity, it is essential that the country adopts a programme of action which reflects the unity of outlook and approach among the members of the party in power and draws forth at the same time the support and co-operation from shades of opinion outside the party. It is through enlargement of the area of agreement that conditions can be created for the most effective mobilisation of the community's resources towards the common objective of all-round economic development.

9. Democratic processes are complex, and they make large demands on the government as well as the governed. It cannot be assumed that the apparatus of democratic forms or procedures necessarily ensures the preservation of the basic values which a democratic way of life connotes. Real democracy means much more than adult suffrage and parliamentary government; it means a reordering of social relationships in terms of new values. It is not without significance that in several parts of the world the emergence of a new leadership determined to carry through far-reaching economic and social changes in keeping with the needs and urges of the people has been accompanied by a great upsurge of public enthusiasm and a release of the pent-up energies of the community. The relationship between political forms and the spirit underlying them is a vast and intricate subject in which no easy judgments are possible. But, it must be emphasized that for democratic planning to succeed, it will have to energise the entire community and to place before it a goal of endeavour which will call forth all its latent creative urges. Under pressure of crisis such as war, democracies have proved capable of effective action on a mass scale, and there is no doubt that once the community has

come to appreciate the vital significance of the tasks in hand, it will rise to similar heights for constructive purposes also. The crucial factor in organising the community for action is leadership, and, in a democracy, not merely leadership at the top but at all levels.

10. Under the Constitution, India is organised as a federation, in which the Central Government and the Governments of States have their assigned spheres of action. There are certain concurrent subjects in which the Centre as well as the States can undertake legislation. Economic and social planning is in the concurrent list, as this is a subject in which the Centre as well as the States are interested and have to work in unison. The Centre has certain emergency powers, but normally co-ordination of policies has to be effected through mutual consultation. This system of consultation and of formula-ion of policies on the basis of over-all national requirements will have to be strengthened in the interests of planning. Care will have to be taken to see that the plan is implemented throughout the country as a single co-ordinated whole. The National Development Council which has been set up recently and which comprises the Cabinet, Ministers of States and the members of the Planning Commission, with the Prime Minister as Chairman, is intended to secure this result. It is obvious that without complete co-ordination of policies and timely, concerted action, there is danger of waste and misdirection of effort, which may have consequences extending far beyond the area of responsibility of any single authority, and this, it must be recognised, places special responsibilities on the Centre.

11. A planned economy aiming at the realisation of larger social objectives entails a vast increase in governmental functions. For these to be discharged efficiently, appropriate local, regional and functional organisations have to be built up and strengthened. Each of these must have a defined sphere of action and responsibility, and must be able to function with a measure of autonomy. Arrangements for the necessary co-ordination between them must be made at various levels from the village upwards. The activities of all developmental institutions in the country, official and non-official, will have to be reorientated in terms of the requirements of the Plan, and in this process, due stress must be laid on the appropriate role of various local and functional organisations. The function of the Central Government is to evolve a national plan, to work out a co-ordinated policy for implementation of the same, to watch and assess the progress of major development schemes in the different parts of the country, and constantly to initiate and promote action in furtherance of the objectives and targets defined.

II. THE DETERMINANTS OF ECONOMIC DEVELOPMENT

12. While developmental planning, as stated above, is an all embracing process, which cannot be compartmentalised, the accent of endeavour under present conditions in India has to be on economic development. The latter may in a sense be regarded as a consequence of intellectual, social and cultural advance. It is true, nevertheless, that economic development of an underdeveloped country cannot proceed far unless the community learns how to get from its resources of men and materials a larger output of commodities and services.

13. In the last four or five decades, there has been considerable industrial development in India, accompanied by urbanisation and expansion of commerce. Large towns and cities have grown and transport and communications have developed extensively. The isolation of the village has been broken and the average citizen lives in an environment significantly different from the one in which he lived and worked fifty or sixty years ago. Indian enterprise has made considerable headway, and the country has now considerable experience in the fields of modern business, industry and finance. New economic and social relations have emerged, giving rise in turn to a general desire for more rapid change. But the development that has taken place is partial and limited when judged in terms of the country's needs and potentialities. Industrialism and the use of modern techniques have affected only limited segments of the economy. Agriculture is still the mainstay of life for about 70 per cent of the population, and productivity in this sector is exceedingly low. The size of agricultural holdings has progressively diminished; the old cottage and small-scale industries have been decaying, and the rural population which constitutes about 83 per cent of the total suffers from chronic underemployment and low incomes. Population has increased by more than fifty per cent in the last fifty years, but the growth of alternative occupations either in the rural areas or in the towns has not been on a scale which could absorb this growing population. In the limited spheres which have registered expansion, the level of productivity and the level of incomes have naturally been higher. But, for the community as a whole, the economic development of the last few decades has brought no significant improvement in standards of living and opportunities for employment, and has perhaps accentuated to some extent inequalities of income and wealth.

14. The pace of economic development depends on a variety of factors which constitute the psychological and sociological setting within which the economy operates. A major element in this setting is the community's will to progress and its readiness to develop and adopt new and more efficient methods and processes of production. Basically, development involves securing higher productivity all round and this is a function of the degree of technological advance the community is able to make. The problem is not one merely of adopting and applying the processes and techniques developed elsewhere, but of developing new techniques specially suited to local conditions. Modern technology is changing rapidly and no country can hope to maintain a steady pace of advance unless it keeps abreast of current developments. Techniques in turn affect and are affected by economic and social organisation. Certain forms of economic and social organisation are unsuited to or incapable of absorbing new techniques and utilising them to the best advantage. To some extent techniques must of course be adapted to economic and social organisation, but the latter has also to change in order to accommodate new techniques which need to be applied not merely in one or two isolated lines but in several lines of economic activity so that advance in one line could react on and stimulate advance in others.

15. These are aspects of the problem of economic development which have to be constantly kept in view. Given these basic conditions of rapid and sustained progress, institutional as well as others, the key to higher productivity and expanding levels of income and employment

lies really in stepping up the rate of capital formation. The level of production and the material well-being a community can attain depends, in the main, on the stock of capital at its disposal, *i.e.*, on the amount of land *per capita* and of productive equipment in the shape of machinery, buildings, tools and implements, factories, locomotives, engines, irrigation facilities, power installations and communications. The larger the stock of capital, the greater tends to be the productivity of labour and therefore the volume of commodities and services that can be turned out with the same effort. The productivity of the economy depends on other things also, as for instance the technical efficiency and attitude to work of the labour that handles the available capital equipment. But the stock of capital reflects in a concrete form the technological knowledge that underlies the organised processes of production, and while other factors are important and essential a rapid increase in productivity is conditional upon additions to and improvements in the technological framework implicit in a high rate of capital formation.

16. The conditions in which economic development was achieved in the course of the last century have naturally differed from country to country, but a common feature of almost all of them is the high rate of capital formation which characterised periods of expansion. In times when the whole capital structure of a country is being transformed, the normal replacement of existing equipment becomes itself to some extent a means for introducing improvements in the technological framework of production, so that, in assessing rates of capital formation achieved, the resources set apart for this purpose must be also regarded as a material factor in determining the tempo of development. For Britain statistics on national income and investment are not available for the first half of the nineteenth century, which was perhaps the most significant period in its economic development, but the available data for 1870-1913 show that net investment in this period was on an average more than 10 per cent of the national income and in prosperous years as much as 15 per cent. In the United States, the rate of capital formation was higher over the years 1869-1913; net investment represented 13 to 16 per cent of the national product while gross investment ranged between 21 and 24 per cent. In Japan, new capital formation in the decade 1900-1909 is estimated to have averaged about 12 per cent of the national income; this rate appears to have risen to 17 per cent in the following decade, though it declined again to 12 per cent in the period 1920-1929. More recently, the U.S.S.R. furnishes an instance of a high rate of investment being achieved as a matter of deliberate State policy and action. The First Five Year Plan of the Soviet Union had a target of net investment amounting to "between a quarter and a third of the national income"; the actual achievement was perhaps slightly lower. At any rate, though the Second Five Year Plan envisaged a somewhat lower ratio of capital formation to national income, it would appear on a fairly conservative estimate that the rate of net investment in the U.S.S.R. in the decade 1928-1938 was of the order of 20 per cent of the national income, if not more.

17. The data given above are not of a nature which would warrant any firm relationships being deduced between rates of investment and rates of development, nor can they be used for making comparisons as between countries or as between widely separated periods within the

same country. Even conceptually, these relationships are very complex. It is virtually impossible to evaluate in quantitative terms the psychological and social forces which have played a part in shaping the pace and pattern of development under different circumstances. Nevertheless, the available evidence, however scanty, may be used for judging broadly the scale of effort involved in relation to the results obtained. In the United Kingdom, a rate of net investment which fluctuated between 10 and 15 per cent of the national income went hand in hand with an increase of over 150 per cent in the national income between 1870 and 1913. In the United States, with a somewhat higher rate of investment, which was accompanied also by large scale immigration and settlement in virgin territory, national income increased nearly five-fold between 1869 and 1913; the increase in *per capita* income in this period is estimated at over 130 per cent. In Japan, with the population growing at an average annual rate of about $1\frac{1}{4}$ per cent, *per capita* income is estimated to have been doubled between 1878 and 1912; it was doubled again between 1913 and 1938. Varying estimates have been made of the achievements of the Soviet Union in terms of national income, but, taking again a conservative estimate, it would appear that with a rate of net investment of about one-fifth (or probably a little more) of the national income the increase in the national product in the period from 1928 to about 1940 was around 130 per cent.

18. These relationships are more suggestive than conclusive, but it is fairly obvious that a doubling of *per capita* incomes within a generation or so (that is in 25 to 30 years) required, in most of these countries, a rate of net investment of the order of 12-15 per cent of the national income. More rapid rates of development have required, apart from other things, still higher rates of investment as in the U.S.S.R. It would appear on the whole that, in underdeveloped countries with low standards of living and rapidly increasing population, a rate of growth commensurate with needs cannot be achieved until the rate of capital formation comes up to around 20 per cent of the national income.

19. Very little information is available on the rate of investment and on the trends in national income in India in the last few decades. Rough estimates based on scattered data suggest that, as in other underdeveloped countries, the resources devoted to net capital formation today probably amount to about 5 per cent of the national income. It is true that, where manpower is plentiful relatively to the land and other capital equipment available, development has to be based to a great extent, at least in the initial stages, on labour-intensive processes. Even so, without a big increase in the rate of investment and through it in productive capital, substantial and progressive improvement in the level of incomes and of living standards cannot be secured. India has considerable resources of water, minerals and power still to be harnessed or exploited. Large areas of the country remain undeveloped for lack of basic services like transport, communications, irrigation and power. The use of machinery is limited to narrow spheres of industry, and the bulk of the country's labour force works with tools and implements which add little to the productivity of labour and thus keep real incomes low. There is also shortage of buildings for residential purposes as well as for schools, hospitals, welfare centres, factories and the like. All these have therefore to be built up, side by side of course with the knowledge of how to use the capital equipment thus built up to the best advantage. It has

been estimated that for a population growing at the rate of $1\frac{1}{2}$ per cent per annum, the rate of investment needed for maintaining *per capita* incomes constant is generally between 4 and 5 per cent of the national income. Such a generalisation cannot obviously be interpreted literally, but the nature of the relationship suggested may explain broadly the failure of the Indian economy in the last few decades to respond adequately to the needs of a growing population and of higher standards of living and employment.

20. A somewhat low rate of capital formation might have been adequate for countries like the U.K. and the U.S.A., in which modern industrialism took root early. The underdeveloped countries which make a late start have to aim at comparable development within a briefer period. Japan and the U.S.S.R. are instances in point. Some of the countries in South Eastern Europe which are now planning for rapid development have also envisaged high rates of investment. In Hungary, 10 per cent of the national income was devoted to net investment in 1947, the first year of her planning, but this appears to have been stepped up to 18 per cent in 1949. In Poland, gross investment in the post-war period has ranged between 20 and 25 per cent. Outside this region and under more normal conditions, Norway is known to have attained a rate of net investment of 15 per cent and Finland a rate of 18 per cent even before the Second World War. The question therefore is not whether a high rate of investment could be aimed at or achieved by relatively underdeveloped countries, but rather under what conditions and in what stages it could be attained.

21. Investment implies applying productive resources to the building up of capital equipment. These resources could come either from utilisation of resources hitherto unutilised or by way of diversion from the production of consumer goods. An underdeveloped country has a certain advantage in that it has large resources of unutilised or underutilised manpower. By utilising these, capital formation can be stepped up without drawing away to any larger extent resources employed in the production of consumer goods. Idle manpower thus constitutes a large investment potential. But it must be recognised that, in the initial stages of development, the scope for directly utilising such manpower tends to be somewhat limited. For one thing, the unutilised labour available for productive work is often also unskilled labour, which would have to be trained before it could be recruited for the new works to be undertaken. Some of the problems involved in direct investment of under-employed manpower could be overcome by efficient organisation. Still, in practice, mobilisation of idle manpower on a large scale cannot but result in the generation of considerable money incomes in advance of a corresponding increase in output. This is likely to create inflationary pressures which might be felt strongly at particular points in the system, impinging more heavily on the real income of some sections of the population than on others. A measure of privation to start with and austerity for a fairly long period are thus unavoidable under conditions of rapid development even in countries with vast unutilised resources. The strain of development on the economy might be felt in a variety of ways : scarcities, high prices, disparate movements of incomes of different classes, bottlenecks in production, strain on transport, etc. To some extent, this strain can be moderated through appropriate measures of policy, but the fact of strain on the economy will remain. In determining the tempo of

development, which, as has been indicated above, would mean raising the rate of investment from about 5 per cent of the national income to a level of something like 20 per cent, a view has therefore to be taken as to the pace at which the required organisational and institutional changes can be made without engendering too much economic and social instability.

22. The level of saving is to a great extent dependent on the level of national income ; the higher the national income the higher normally should be the proportion saved. However, this is not always true. In the United States, considering the rate of increase in income *per capita* and the high level of this income even to begin with, the rate of net saving achieved in the period 1870 to 1913, *viz.*, 12 to 15 per cent, was relatively low. On the other hand, Japan with a lower level of incomes was able to attain a remarkably high rate of investment out of its own savings. The proportion of national income that is saved and made available for investment depends upon psychological and institutional factors. Social customs and habits, the distribution of incomes, the rates at which incomes of different classes go up and the efficacy of banking and other institutions for mobilising savings—all these—play a part in determining the rates of saving attained. The high rate reached in Japan has been explained by the fact that “the Japanese capitalists spend very little on personal consumption, that the rural population and urban working proprietors are exceptionally thrifty and, indeed, the wage earners themselves save a substantial proportion of their incomes”. There is also a further factor which may be noticed here. Between 1878 and 1940 the price level in Japan rose by about 400 per cent while, in the United States in the corresponding period, the increase was less than 100 per cent. Rising prices tend to enforce rates of savings which would not otherwise be possible. This factor has probably played a not insignificant part in the U.S.S.R. also where it is clear that prices of consumer goods went up sharply in the decade 1928-1938.

23. The programme of investment that can be undertaken at any particular time depends primarily on two factors : the rate of saving in the community, and the volume of unutilised human and material resources which can be used for direct investment. In the earlier stages of development, as already mentioned, though the unutilised resources would be considerable the scope for using them for stepping up the rate of capital formation might be restricted by either lack of technical skill or shortages of specific commodities and services. In this period, therefore, the reliance on savings has to be correspondingly greater. As capital formation gets under way and the basic framework of services like transport, communications, irrigation and power is built up, the scope for utilising underemployed resources will expand rapidly. The problem is to get the right start. Once this is secured and fresh capital formation started on a significant scale, it increases the ability to undertake further complementary investments, thus creating also new opportunities for employment. Further investments then get the benefit of ‘external economies’ which lower costs and increase the profitability of still further expansion. It is thus that the vicious circle of low output, low savings and low investment is broken and the economy started on an upward course.

24. In the initial stage—which is the critical period in development—there are clearly two alternatives open. One is to impose on the community a high rate of saving through taxation, loans, price inflation, or by any other means and to utilise the resources thus made available for

a sharp increase in the rate of capital formation. This has certainly its merits, as, in this way, not only would development be rapid but there would be immediately a large increase in employment. But, this increase in employment will not lead to a corresponding increase in spendable incomes ; the community as a whole will have every little more to consume than before and there would be set up severe inflationary pressures. This is the price for more rapid development later. The other alternative is to step up the rate of capital formation more gradually, but this would mean that progress would be correspondingly less rapid. Since the objective of planning is, in fact, to promote rapid development, the problem is one of stepping up the rate of investment by defined stages, so as to minimise the hardships in the initial period, but taking care at the same time that the community does put forth within a relatively brief period the big effort needed.

25. On this analysis, the question is in what manner and how quickly the rate of capital formation in India can be stepped up, consistently with other objectives, from about 5 per cent of the national income to, say, about 20 per cent. The answer depends upon the rate at which the national income increases as development proceeds and the proportions of this increase which can, so to say, be ploughed back into investment. The larger the proportion of the increments to national income that can thus be ploughed back into investment, the greater is the pace at which development can be accelerated. The principle is, in essence, simple. If, for instance, a community starting with a 5 per cent rate of saving increases its total output by, say 10 per cent, and if in the following period capital formation is stepped up by an amount equal to half the additional output, the rate of saving would almost get doubled in the process. If it is not desired to secure a high rate of capital formation right at the start at a cost of excessive privation which a reduction in the initial levels of consumption would entail, the goal of policy must be to ensure that a high proportion of the additional incomes that accrue as a result of development is saved and invested. This will, no doubt, mean that the rate at which the initial levels of consumption can be allowed to go up will rise only slowly, but the pressure on consumption standards will at least be no worse than before and it might well become possible to permit moderate improvements. In other words, such a programme for stepping up capital formation calls for sustained austerity rather than any excessive degree of privation and suffering.

26. It is necessary to visualise the problem of development over a period of twenty-five or thirty years and to view the immediate five year period in this broader context. In formulating a plan of development for a particular period, an estimate of what is feasible must, no doubt, carry more weight than abstract reasoning as to a desirable rate of growth. But, there is clearly need for looking beyond immediate possibilities and for taking a view of the problem even from the beginning in terms of continuing and over-all requirements, and for preparing the ground in advance. Precisely for the reason that the development of a country is a somewhat long-term process, the institutional and other factors which affect it can be changed to the desired extent and in the desired direction through conscious effort. Moreover, a programme of development even for the short period would fail to have direction and perspective unless it is in some way linked to certain long-term targets and objectives relating to the kind of economy and social framework which it is proposed to evolve. In other words, while it is

important to preserve throughout a pragmatic and non-doctrinaire approach, and also to bear in mind the limitations involved in any calculation of long-term development possibilities, it is of the essence of planning that it must have a wider time-horizon than immediate requirements and circumstances might seem to indicate.

27. In estimating possible rates of development in India, what they would involve in terms of effort required and what they would achieve, there are two or three major factors to be taken into account. We have already referred to the central role of capital accumulation in economic development, and how it can be stepped up by, so to say, ploughing back additions to national income. The proportion of the addition to the national income in each period which it is decided to plough back is thus one of the major determinants of the rate of development. But this proportion cannot itself be fixed in a given situation without reference to two other factors. These are : (a) the rate of growth of population, and (b) the increase in national output and income likely to follow a given increase in the capital stock.

28. If population is growing at a certain rate, the total national output has to be raised at the same rate merely to maintain existing standards of income and consumption ; this means that not only will so much less of further additions to national income be available for ploughing back into investment but a part of what is ploughed back will be taken up by capital equipment required for maintaining *per capita* incomes constant in the following period. It is true that a growing population increases the manpower potential of the country and also has the effect, in some ways, of stimulating investment. It is also true that the effect of an increase in population cannot be judged solely in terms of the effect on *per capita* incomes ; it affects the whole pattern of production and consumption. It is not possible to judge whether, on net, an increasing population is favourable or unfavourable to development. In the past, periods of rapid economic development have also been periods of rapidly increasing population, but whether there is any causal relationship between the two or how it works one cannot say with any certainty. In Britain, between the commencement of industrialisation and now—a period of about 180 years—population has increased roughly five-fold. Japan had by 1939 a population about twice as high as when it embarked on industrialisation. In periods of rapid development and changing techniques it is questionable whether the concept of an ‘optimum’ population can have any precise meaning. But in the short run—and we are concerned here primarily with the earlier critical stages of development—there is no doubt that, given a situation in which shortage of capital equipment rather than of labour is the main limiting factor in development, a rapidly growing population is apt to become more a source of embarrassment than of help to a programme for raising standards of living. In other words, the higher the rate of increase of population, the larger is likely to be the effort needed to raise *per capita* living standards.

29. The relationship between additions to capital stock and increases in national income is also one which by its nature, would vary with circumstances. There is no unique capital output ratio applicable to all countries at all times. Much depends not only on the stage of economic development reached but also on the precise forms of further expansion. Japan provides the instance of a country where, in about a generation (*i.e.*, roughly between 1885 and

1915), labour productivity in agriculture was doubled with very little additions to capital equipment and mainly through the use of fertilisers, better seeds, improvements in water supply and pest control, etc. Though climatic and other differences might require larger investments to produce the same result under other conditions, the capital-output ratio is likely to prove favourable in most countries where agricultural yields are low and where they can be stepped up by relatively small improvements in technique and organization. Industrial development naturally requires more capital, but here too there are differences from country to country depending on the capital intensity of the industries concerned. Before the War, for instance, capital per occupied person in manufacturing industry was about three times as high in Canada as in Australia, while in the relatively more undeveloped countries of South Eastern Europe it was a quarter to a third less than even in Australia. As a rule, basic industries like iron and steel, heavy chemicals and power, and services like railways are more capital-intensive than others, and therefore, in the stages of industrial development where these are being built up, the capital-output ratio is likely to be less favourable than when more attention is being given to light consumer-goods industries. As development proceeds, external economies also become more evident, and this has the effect of reducing the amount of capital required per unit of output. The capital-output ratio also depends in a given period on the extent to which installed equipment in industry and transport is utilized ; if it is used more intensively, say by multiple shift working, the output as a proportion of the capital invested would naturally tend to be greater than otherwise. An outstanding case of a given capital stock yielding larger output was furnished by the United States when the exigencies of war required fuller employment and longer hours of work. Then, again, the likely increase in national income consequent on capital accumulation depends to a great extent on the share of residential buildings in the additions made to the capital stock. In the pre-war Five Year Plans of the Soviet Union, it would appear that the share of the new residential constructions in capital formation was relatively small ; this entailed austere standards in regard to housing, particularly in the urban areas, but it made possible a greater concentration of resources on industrial and agricultural development and, therefore, a more favourable capital-output ratio for the country as a whole. It must also be noted that the efficiency of investment depends upon a great many other factors besides the size of the investment.

30. It will be seen from the above that one can assume a capital-output ratio only in relation to the pattern of development visualized for a particular country, the capital stock already at its command, and the extent to which the available capital resources are being utilised. In some of the relatively more developed countries of the world, a unit increase in national income has apparently required, in the last few decades, something between 3 and $3\frac{1}{2}$ times as much in terms of additions to capital stock ; in limited periods and in particular instances the ratio has of course varied. These relationships are subject to the various qualifications mentioned, but they indicate the range within which the capital-output ratio may fluctuate. In making any assumption about India for the future, we have to take into account several diverse factors, *e.g.* the possibility of raising yields in agriculture with relatively small additions to capital equipment, the need for expanding basic industries and services like irrigation and power which

are highly capital-intensive, the lack of technical skill which is likely to be reflected in lower productivity of labour in the initial stages, the scope for intensive use of equipment in at least some industries through full utilisation of capacity, shortage of housing in urban areas needing early attention, the 'external' economies likely to follow development of transport, power, marketing and credit, etc.

III. INVESTMENT, INCOME AND ECONOMIC DEVELOPMENT IN INDIA : A BROAD OUTLINE

31. For the purposes of our calculations regarding possible rates of development in India in the next few decades, we have made by way of first approximation the following assumptions in regard to the three relationships mentioned :

- (i) population will continue to grow at the rate of about 1 1/4 per cent per annum (which is the rate recorded in the last decennial period) ;
- (ii) a unit increase in national output and income will require about three times as much by way of additions to capital stock, and the increased output will materialize in the third year from the date of investment ; and
- (iii) in regard to additional income in each period ploughed back into investment, there is scope for choosing the proportions according to the rate of development desired, the measure of austerity involved, and the organisational and institutional changes necessary.

On these assumptions, the alternatives in regard to investment targets can be set out in terms of the increases in national income that can be achieved and the repercussions that particular investment targets would have on consumption standards at each stage in the process of development.

32. The national income of India might be estimated as approximately Rs. 9,000 crores in 1950-51. Starting from this level, the calculations we have made indicate that national income can be raised by over 160 per cent in about twenty-two years, and *per capita* incomes doubled, if capital formation is stepped up from the beginning by as much as two-thirds of the additional income each year. Apart however from the organisational difficulties in stepping up investment at such a rapid rate, this rate of development would involve—particularly in the initial stages—considerable pressure on the resources available to the community for consumption and in fact necessitate a reduction in *per capita* consumption standards for a period of 10 to 15 years. If, on the other hand, capital formation is raised more gradually, say, by 25 per cent of the additional income in each period, no significant fall in present consumption standards would be necessary, but the rate of growth of national output will be very much slower—in twenty-two years it will have gone up by hardly 80 per cent and *per capita* incomes even less; the rate of improvement in consumption standards will also be correspondingly low. We have therefore to think in terms of stepping up capital formation by somewhat less than two-thirds but by more than a quarter of the additions to national output in each successive period.

33. In the present Five Year Plan, capital formation is estimated to rise by about 20 per cent of the additional income each year. The internal resources thus generated by the process of development would be supplemented to some extent by external resources. By 1955-56, national income, it is estimated, will have gone up to about Rs. 10,000 crores, that is, by about 11 to 12 per cent above the estimated level for 1950-51. Proceeding from the level of Rs. 10,000 crores reached at the end of this five-year period, the graph attached shows the rate of progress in regard to national income and consumption standards that could be attained if, from 1956-57 onwards, investment is stepped up each year by an amount equal to 50 per cent of the additional output. This means that the rate of saving as a proportion of total national income will have to go up from 5 per cent in the base year 1950-51 and 6 3/4 per cent in 1955-56 to about 11 per cent by 1960-61, and 20 per cent by 1967-68. After 1968-69, though the resources devoted to investment will continue to go up in absolute terms, capital formation as a proportion of national income, it is assumed, will not be raised beyond 20 per cent of the national income. On these assumptions, it will be seen, *per capita* incomes can be doubled by about 1977, *i.e.*, in about twenty-seven years, and consumption standards raised by a little over 70 per cent over the 1950-51 level.

34. These calculations, it must be emphasised, are illustrative and are intended to indicate only broadly the implications, in terms of effort and return, of alternative courses of action. The projections of national income, investment and consumption are to be interpreted with due caution. For instance, a fair proportion of the investment required could be drawn from the beginning from unutilised manpower and other resources, and to this extent the attainment of the investment targets would not require a corresponding decrease in the resources available to the community for current consumption. There are a variety of ways in which idle manpower and the spare hours of those partially employed can be canalised into a nationwide programme of developmental activity. In the digging of canals, repair and renovation of tanks, construction of roads, bridges, and bunds, in rural housing, in improvement of sanitation, in the imparting of elementary education and technical training, and in several other activities, there is scope for participation by all sections of the population. The problem is essentially one of organisation. We have stressed throughout this Report the need to mobilise resources for local works and have also made provision in the present Five Year Plan for assisting and initiating the process. As organisational deficiencies are made good, and supply of construction materials like cement, bricks and timber improve, the scope for direct utilisation of idle manpower for building up capital will undoubtedly widen. Thus, the targets of investment suggested might, in fact, prove less difficult to attain than would appear when stated in financial terms. Correspondingly, the pressure on consumption standards of a development effort of the order indicated might also turn out to be less than the estimates given above suggest.

35. Development effort, it must be emphasised here, is something more than investment defined in the technical sense of additions to capital equipment. When the levels of education and health are as low as they are in India today, measures designed to raise them—which might require only moderate amounts of capital equipment—would yield larger returns than many

forms of investment in the narrower sense of the term. The potentialities in this direction are immense. The scope for raising agricultural productivity in the country by relatively small outlays of money on agricultural extension services is an instance in point. Technical education and training, together with slight improvements in methods of production may have similarly the effect of increasing productivity substantially in small-scale industries. The doubling of national income in Japan between 1878 and 1912, referred to earlier, is perhaps explained more by factors of this nature than by high rates of investment as such. In other words, while it is important not to base our assessment of future possibilities on unduly optimistic assumptions, we should not ignore the scope for increasing productivity substantially in lines where they are now exceptionally low and thus achieve a more favourable capital output relation than 3 : 1 assumed in the calculations above.

36. It will be seen from the graph that the rate of increase of national income will tend to gather speed after the first 10 years or so by when capital formation per annum will have reached a level three to four times as high as in the base year 1950-51. If this order of increase in capital formation could be brought about earlier, either through direct utilisation, of idle manpower or by larger savings, the target of doubling *per capita* national income can be achieved earlier. In judging the feasibility of attaining high rates of investment and saving in India, it is also essential to bear in mind that only a little over 2 per cent of the national income is absorbed by defence expenditure. Considering the resources that some of the other countries had to divert to defence in periods of development—perhaps 10 per cent of the national income and often more—this must be regarded as a factor conducive to rapid development, provided conditions are favourable in the future for maintaining this relatively low proportion.

37. What has been said in qualification of investment estimates is also true by implication of the estimates regarding resources becoming available for consumption. As incomes increase, the whole pattern of consumption would change and so would individual and social valuations. In periods when the constituents of the national output are changing rapidly, the notion of a doubling of standards of living does not by itself convey any precise picture. Doubling *per capita* consumption does not, for instance, mean doubling of cereal consumption. A rising standard of life is likely, in fact, to result in reduced *per capita* consumption of cereals, and a substitution of other foods, such as fruits and vegetables, eggs, etc. Raising of nutritional standards has to be an important aspect of development in India, but improvement in these standards cannot be gauged solely with reference to any particular item or items within the food group. With extension of irrigation over large parts of the country, increasing use of fertilisers and better seeds, and the use of power for certain agricultural operations, a new pattern of intensive agriculture which provides a more complete and balanced diet may be expected to evolve. Rising standards of living will also be characterised by greater demand for the secondary essentials of life like education and health facilities, travel, entertainment, etc. A doubling of consumption standards is, therefore, more a question of planning for and meeting changes in the pattern of consumption and in social valuations than of doubling the production of its existing components.

38. In the calculations of investment and income given in the earlier paragraphs, it has been assumed, as a first approximation, that population will continue to grow over the next generation at the rate of $1\frac{1}{4}$ per cent per annum. This would mean that the population of the Indian Union at the end of 25 years from now would be of the order of 500 million. This assumption might or might not be legitimate. Trends in population growth cannot be altered quickly, and any reduction in birth rates may well be neutralised by a corresponding reduction in death rates. On the other hand, with family planning on a nation-wide scale, there is no reason why the rate of growth cannot be brought down to, say, about 1 per cent per annum or even lower. The pressure of population in India is already so high that a reduction in the rate of growth must be regarded as a major desideratum. To some extent, improvement in living standards and more wide-spread education, especially among women, will themselves tend to lower the rate. But positive measures are also necessary for inculcation of the need and techniques of family planning. Elsewhere in this Report we make recommendations in this regard.

39. In view of all these considerations, we regard the rate of development indicated in the graph as not only the minimum that the community will have to aim at over the next few quinquenniums but as something which must be exceeded. With planned conservation and utilisation of resources, it should be possible to double *per capita* incomes in 20 years or so. Doubling national income *per capita* in this period is by no means an overambitious target. Yet the scale of effort that it calls for will be obvious from the broad calculations set forth above. This scale of effort can be secured only through organisational and institutional changes affecting several aspects of economic and social life, and beginnings in this direction have to be made even during the period of the First Five Year Plan.

IV. EMPLOYMENT IN RELATION TO DEVELOPMENT

40. There are one or two problems of particular importance and interest in the earlier stages of development to which we would like to refer briefly at this stage. The first is the problem of employment. In a country with vast reserves of unutilised manpower, the problem of employment has two aspects in relation to development. There is, in the first place, the need to make the maximum use of idle labour for the purpose of development. Here it is not so much a question of providing employment at existing or higher real wages but rather one of effectively mobilising all the available resources at minimum social cost. The second aspect of the problem is that of increasing the productivity of labour so that larger employment can be provided at rising levels of real income. This is obviously linked to the whole question of capital accumulation and technical efficiency to which we have already referred. There may be, in the initial stages, an apparent conflict between the need for making the maximum use of idle manpower and the need for raising productivity, but it is essential to recognise that, over a period, progress in one is apt to be checked by insufficient progress in regard to the other. In the initial stages of development, newly mobilised labour will not be able to contribute significantly to total output and, therefore, larger money incomes will tend to exert pressure on available supplies and cause

sectional rises in prices. This process is apt to cause a redistribution of available supplies leading probably to a rise in the real incomes of those newly employed and a fall in the real incomes of those who were already employed. To some extent such redistribution may be necessary and desirable, but there are obviously limits to this, particularly as the pressure is likely to be felt on commodities like foodgrains. In promoting higher levels of employment, it is necessary, therefore, to see that the newly mobilised labour is able to raise total output. If productivity of labour cannot be increased in the short run, and particularly if the availability of basic essentials like foodgrains cannot be increased, a programme of full employment, designed primarily to put to work all idle labour, runs the risk of breaking down on account of excessive pressure of money incomes on available supplies. It is for this reason that we emphasise throughout this report the need for relying as far as possible on voluntary labour, and using money mainly as a means of attracting and organising such labour. In other words, the accent in these first few years of development has to be on mobilisation of idle manpower, with as little increase in money incomes as possible, rather than on full employment as such which, to have any meaning, should be able to provide higher money as well as real incomes all round.

41. A programme of full employment, with assurance of at least the current level of real wages to the newly employed and with no reduction in the real wages of those already employed, can get into swing only as capital formation in the community goes up. During the period of the present Five Year Plan, considerable progress will have been made in expanding irrigation, power, basic industries, transport and other services and these will provide, directly as well as indirectly, new avenues of employment. After the five year period, the pattern of priorities may to some extent change, but since aggregate investment will be continually stepped up, employment opportunities will expand rapidly. Through progressive increase in irrigation facilities, the scope for double-cropping will be enlarged and seasonal unemployment will diminish. Rural electrification will open up prospects for the establishment not only of large scale but also of cottage and small scale industries. As commodity production goes up, the scope for employment in services will also grow. There is at present a large measure of disguised unemployment in the spheres of services; the tendency at first will be to eliminate this element of unemployment, but gradually the proportion of the total working force engaged in services will also begin to rise. The elimination of unemployment in an under developed economy is by its nature a somewhat long-term problem which calls for steady and persistent effort. In fact, development is, in a sense, but another name for employment opportunities. The larger the increase in national output aimed at, the greater must be the demand for labour, especially if care is taken to adopt labour-intensive processes to the maximum extent possible. This means that expansion of employment opportunities at rising levels of real income will proceed side by side with the development of the economy and, like the process of development itself, will become cumulative as soon as there is a marked improvement in the technical equipment of the community.

42. In the interim period there are likely to be difficulties of adjustment. In some cases, there might appear a certain conflict between the need to reduce the social cost of maintaining unemployed labour and the need to raise the productivity of labour. To some extent,

mobilisation of idle manpower for the development programme will generate new money incomes, divert larger quantities of essential commodities like foodgrains into the hands of those with the additional purchasing power, and thus create problems for those whose incomes remain more or less fixed. In the nature of things there cannot be clear-cut solutions to these difficulties. Unemployment is not merely an economic problem, it is a social problem involving human values and has to be approached from a broader view-point. In framing employment policy in relation to development, the following criteria need to be kept in mind : (a) unemployed manpower should be drawn upon to the maximum for the development programme ; (b) money incomes in the initial stages should be expanded as little as possible ; (c) capital formation should be speeded up and technical efficiency improved so as to increase productivity of labour ; (d) the rate at which equipment in established indigenous industries, especially those which employ large numbers, is allowed to be competed out and discarded must be adjusted so as to safeguard against excessive unemployment in the process of technological change ; and, lastly, (e) the distribution of capital in new lines should be planned keeping in view the need to increase employment opportunities in the short run as well as the larger pattern of development necessary for an expanding economy.

43. A comprehensive development programme over a period of years along the lines outlined above will bring about a significant change in the occupational pattern of the country. At the rates of investment indicated it will become possible to divert, in stages, an increasing proportion of the annual increase in population to non-agricultural occupations. In a country in which even a moderate percentage increase in population means a large total to be found employment, the change in the over-all occupational pattern is likely to be slow at first. At the present rate of growth of population, the working force in the country goes up every year by about 1.8 million per annum. On an average, factory industries like cotton textiles, sugar and cement would seem to require per worker capital equipment costing (at current prices) anything between Rs. 3,000 and Rs. 8,000. Heavy industries like iron and steel, fertilisers and petroleum would probably involve capital investment of the order of Rs. 100,000 or more per employed person. Industries like ship-building, locomotive manufacturing, etc. are also highly capital-intensive. It will be seen from this that the possibilities of increasing employment in large-scale manufacturing industries directly are limited, especially when the emphasis has to be on expanding producer-goods industries. For absorbing all, or a large proportion, of the increase in working population each year in non-agricultural occupations, reliance will have to be placed mainly on small scale and cottage industries involving comparatively small capital investment. If these industries are to afford employment at reasonable rates of wages, their technical efficiency will have to be increased and every effort will have to be made to see that the producer's reward is not intercepted by middlemen. The scope for developing and expanding these industries will increase further with the development of power, communications and other ancillary facilities. Once the disguised unemployment in the tertiary sector (*i.e.*, in services) is eliminated, every increase in commodity production—particularly in manufacturing industries—will lead to the absorption of a considerable part of the additional working force in transport, trade and other services. But, again, the stage when expansion of services requiring less capital would absorb a growing population of the working force is likely

to come fairly late in the country's development. In the immediate future, therefore, attention has to be concentrated primarily on diverting the increases in working population to large and small-scale industries and the supporting services rather than on changing in any drastic way the over-all occupational pattern. The change in occupational pattern will no doubt follow—perhaps faster than can be foreseen now—but this is not an end itself and should be regarded more as a corollary of development rather than as a direct objective.

V. EXTERNAL RESOURCES FOR DEVELOPMENT

44. Another problem to which we would refer is the role of foreign investment in relation to development. How much of the resources needed to raise national output and incomes should come from domestic effort and how much should come from external sources cannot, of course, be determined in advance or on any *a priori* basis. Very much depends upon the circumstances in which a country is placed and upon the general conditions affecting the flow of capital from surplus countries. The United States, for instance, relied a great deal in the initial stages of its development on foreign capital. This is probably explained by the shortage of manpower and the consequent heavy capital investment required for opening up the continent ; partly also it was conditioned by the policy of protection followed in the United States and the free movement of capital between countries which characterised the nineteenth century. On the other hand, Japan depended very little on external resources ; the State played an active part in financing industrial development and introducing new forms of organisation needed for industrialisation. The Soviet Union provides another instance of a country which developed rapidly with its own resources ; in this case it meant even greater hardship and suffering than in Japan. That a plan of development today must, in the main, rely on domestic resources can hardly be over-emphasised. In the first place, the conditions governing international investment are no longer what they were when some of the highly industrialised countries of today like the United States, Australia and Canada began their career of development. Secondly, external assistance is acceptable only if it carries with it no conditions explicit or implicit, which might affect even remotely the country's ability to take an independent line in international affairs. There are also obvious risks in excessive reliance on foreign aid which depends on the domestic political situation in lending countries and which might be interrupted by any untoward international developments. And yet, external resources at strategic points and stages can be of so much assistance in a period of rapid development that it is desirable, consistently with other objectives, to create conditions favourable to their inflow.

45. Priority will no doubt go to such external investment as is available from institutions organised on an international basis. The resources of such institutions are however limited, and it would be short-sighted to exclude without good reason investment of funds from advanced countries, either on an inter-governmental basis or on the basis of negotiations between individuals or corporations in the countries concerned. The terms and conditions on which foreign investment may be received will of course have to be judged in the light of the basic objectives of national policy and also in the light of the contribution which the proposed investment will make to development along lines accorded a high priority in the country's development programme.

46. As will be seen from subsequent chapters, India has a programme of development larger than can be financed from the resources internally available. To a certain extent, the volume of domestic resources available for investment can be augmented through appropriate fiscal and economic policy, through compulsory savings, and through drawing on unutilised manpower. There will, however, still remain certain shortages which would tend to restrain the whole pace of development, and it is in meeting these that external resources can be of help. The precise role of external resources in relation to the first Five Year Plan is discussed in a later chapter.

CHAPTER II

OBJECTIVES, TECHNIQUES AND PRIORITIES IN PLANNING

IN DEFINING the objectives, priorities and techniques of planning in India, it is necessary to bear in mind the scale and dimensions of the problem as outlined in the preceding chapter as well as the basic values which must find expression in the economic and social pattern to be evolved. It is no longer possible to think of development as a process merely of increasing the available supplies of material goods ; it is necessary to ensure that simultaneously a steady advance is made towards the realisation of wider objectives such as full employment and the removal of economic inequalities. Maximum production, full employment, the attainment of economic equality and social justice which constitute the accepted objectives of planning under present-day conditions are not really so many different ideas but a series of related aims which the country must work for. None of these objectives can be pursued to the exclusion of others ; a plan of development must place balanced emphasis on all of these. For instance, even the limited objective of increased production cannot be attained unless the wider objectives of social policy are constantly kept in mind and steadily pursued. On the other hand, equality and social justice will have little content unless the production potential of the community is substantially raised. Development, thus conceived, is a process which calls for effort and sacrifice on the part of the entire body of citizens. For such effort and sacrifice to come forth psychological conditions have to be created which provide an incentive for all to give of their best.

INSTITUTIONAL AND STRUCTURAL FACTORS IN DEVELOPMENT

2. Reference has been made in the previous chapter to the limited and partial development which the Indian economy has registered during the last few decades. Judged in terms of per capita incomes and standards of well-being, the economy has, on the whole, remained more or less stagnant. This is primarily because the basic conditions under which an economy can continuously expand have been lacking. The impact of modern industrialism in the latter half of the 19th century was felt in this country initially through imports of machine-made goods from abroad which reacted adversely on the traditional patterns of economic life, but did not create the impulse for development along new lines. The transition that followed was characterised not by expansion of industry and a diversification of the economic structure but by a decay of India's traditional arts, crafts and industries, and by an increasing pressure of population on the land. This retrogression led to a decline in productivity per person engaged in agriculture, the adverse effects of which were perhaps softened to some extent by the shock-absorbing capacity of the old institution of the joint family. The result was a continuous increase in under-employment and the growth of an attitude of "pathetic contentment" on

the part of the people. In such an environment there could be little economic or social progress. Whatever surpluses might have been available in the system under these conditions were directed to the purchase of imports, partly of better finished products from abroad and partly of equipment for the new transportation system designed primarily in the interests of foreign commerce. The responsibility for promoting modern commerce and industry came to be concentrated in the hands of certain classes in the urban areas, and up to the end of the nineteenth century the only major large-scale industries which had taken root in the country were cotton and jute textiles. Little attention was paid to improvement of agriculture or to the needs of the rural areas. After the turn of the century and especially after World War I, it came to be recognised that without rapid industrialisation significant economic advance was not possible. The inter-war period witnessed the establishment and growth of several industries in the country. A more positive policy on the part of the Government and a change in the terms of trade in favour of the producers of manufactured goods and against the primary producer in the period of the depression materially assisted capital formation in the industrial sector. There was, however, little overall economic improvement as conditions in the agricultural sector deteriorated sharply.

3. The backwardness of the Indian economy is reflected in its unbalanced occupational structure. About 68 per cent of the working population is engaged in agriculture, about 14 per cent in industry (large and small scale), some 8 per cent in trade and transport and the remaining 10 per cent in professions and services including domestic service. Even with this large proportion of the population engaged in agriculture, the country is not self-sufficient in food and raw materials for industry. Productivity per worker in organised industry, commerce and transport is about three times that in agriculture, but this sector of the economy has not been expanding rapidly enough to absorb the surplus population on the land. The large-scale underemployment in the rural areas which these conditions have given rise to constitutes a big economic and social problem. A change in the occupational pattern in the direction of greater employment in the industrial sector and in services is clearly necessary if the associated phenomena of mass poverty and unemployment are to be tackled effectively.

4. It follows from all this that the problem is not merely one of making the existing economic institutions work more efficiently, or making small adjustments in them. What is needed is a transformation of the system so as to secure greater efficiency as well as equality and justice. The central objective of planning is to create conditions in which living standards are reasonably high and all citizens, men and women have full and equal opportunity for growth and service. We have not only to build up a big productive machine—though this is no doubt a necessary condition of development—we have at the same time to improve health, sanitation and education and create social conditions for vigorous cultural advance. Planning must mean co-ordinated development in all these fields.

5. In this task of securing simultaneous advance along several fronts, it would be unrealistic to hold out the hope that rapid and spectacular progress can be made in the initial period of planning. Within a limited period, there is always a measure of conflict between

one objective and another and, in the formulation of a Plan for a given period, it is necessary to proceed in terms of priorities as between these objectives themselves laying more stress on some and less on others. This problem of balancing competing objectives is implicit in all planning and the quality of a plan depends upon the soundness of its judgments regarding the relative emphasis on the various objectives. Only to the extent that the Plan succeeds in striking a right balance can consistent policies be formulated and pursued. There is, to begin with, the problem of choosing, on the one hand, between a moderate increase in the standard of life in the near future with relatively small additions to capital equipment and, on the other, a substantially higher standard of life perhaps for the next generation at the cost of continued austerity and privation to the present generation in the interests of rapid capital formation. The implications of this choice have already been discussed in the previous chapter.

6. Secondly, while a fuller utilisation of the idle manpower in the country must be a major objective, and every effort must be made to create opportunities for work in the rural areas through improvements in agriculture, development of cottage and small-scale industries and extensive programmes of public works, especially in the slack season, the lack of the necessary equipment and other materials needed for improving labour productivity limits the rate at which idle manpower can be absorbed. There is, under these conditions, the risk of creating or perpetuating pseudo-employment, which might result in a rise in money incomes without a corresponding increase in the supply of the goods needed for sustaining the newly employed. The problem, as has been shown earlier, cannot be solved satisfactorily without a substantial increase in the productive equipment of the community, which, in turn, means more investment. While planning for fuller employment, it is also necessary to keep in mind the distinction between a pattern of employment which can be sustained after the development process has gone some way and a pattern that has to serve for the transitional stage. Rigidity of the occupational pattern is incompatible with rapid economic development. Steps must, undoubtedly, be taken to ensure the fullest possible utilisation, in furtherance of development programmes, of labour power now running to waste, but the long-run objective must be to encourage rather than discourage the mobility of labour, geographical and occupational.

7. The problem of unemployment among the educated middle classes in the urban areas is an instance of a failure of co-ordination between the system of education and the needs of the economic system. As a proportion of the total population, the number of educated men and women in the country is very small, and there is dearth of trained personnel of the requisite quality in business and industry as well as in public administration. Unemployment among the educated classes is to some extent a consequence of the excessive bias in the present educational system towards general literary education to the neglect of specialised, technical and vocational training. To some extent, the difficulties experienced by educated young men in finding employment are traceable to a certain reluctance on their part to take on occupations which involve hard manual work or work in somewhat uncongenial surroundings either in cities or in rural areas. The problem has many facets. Unemployment amongst highly qualified and trained personnel may, to some extent, be frictional or transitional in character, but it may also be due to a lack of adjustment between demand and supply of such specialised

personnel. Employment exchanges, closer contacts between educational institutions and employers, private or government, and other devices to encourage a better adjustment between demand and supply can alleviate the problem of middle class unemployment up to a point. But a large and continued increase in the demand for educated men and women can come only from a quickened tempo of development in the economy. As planning proceeds, there will be demands for personnel with various types of qualifications and training and meanwhile it is necessary to take steps to diversify and reorientate the educational system in keeping with the needs of a developing economy.

8. The decisions that have to be taken in regard to the reduction of economic inequalities within a given period also involve a weighing of diverse considerations. While it would be wrong in this sphere to think in static terms and to condone the existence or accentuation of sectional privileges, it is no less important to ensure a continuity of development without which, in fact, whatever measures, fiscal or other, might be adopted for promoting economic equality might only end up in dislocating production and even jeopardizing the prospects of ordered growth.

9. There are risks in going too far or too fast in these matters, but the risks of not moving fast enough are no less serious. The decision as to the measure of risk to be undertaken must turn primarily on an appraisal of the capacity of the community to hold together under the stress of major structural changes and of its various sections to maintain a high standard of discipline and restraint while the necessary adjustments are taking place.

DEMOCRATIC PLANNING AND THE ROLE OF THE STATE

10. The question of the techniques to be adopted for planning is linked up with the basic approach that a community decides to adopt for the realisation of its objectives. It is possible to have a plan based on regimentation and on immediate measures for levelling down in the hope ultimately of being able to level up. It is possible to take the view that mass enthusiasm cannot be created except on the basis of reprisals against those classes which have come to be associated in the public mind with the inequities and deficiencies of the old order. But the basic premise of democratic planning is that society can develop as an integral whole and that the position which particular classes occupy at any given time—a product of various historical forces for which no individual or class as such can be held responsible—can be altered without reliance on class hatreds or the use of violence. The need is to secure that the change is effected quickly and it is the positive duty of the State to promote this through all the measures at its command. The success of such planning no doubt depends on the classes in positions of power and privilege respecting the democratic system and appreciating the rapid changes it calls for.

11. It is clear that in the transformation of the economy that is called for the State will have to play the crucial role. Whether one thinks of the problem of capital formation or of the introduction of new techniques or of the extension of social services or of the over-all

re-alignment of the productive forces and class relationships within society, one comes inevitably to the conclusion that a rapid expansion of the economic and social responsibilities of the State will alone be capable of satisfying the legitimate expectations of the people. This need not involve complete nationalisation of the means of production or elimination of private agencies in agriculture or business and industry. It does mean, however, a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy.

RELATIVE SHARES OF THE PUBLIC AND PRIVATE SECTORS IN OWNERSHIP OF PRODUCTIVE CAPITAL

12. We should like to emphasise here that, as far as the ownership of productive capital assets (other than in agriculture, small-scale industry and transport, and in residential housing) is concerned, the share of the public sector is already large. The book value of gross fixed assets owned by the Central and State Governments, together with the working capital in the enterprises concerned, amounted to over Rs. 1,200 crores at the end of 1950-51 (as compared to about Rs. 875 crores at the end of 1947-48). The distribution of these was roughly as follows :—

	(Rs. crores)
Railways	837
Irrigation works (including multi-purpose river valley projects)	230
Communications and broadcasting	53
Electricity undertakings	40
Industries	44
Civil Aviation	10
Ports	8
Central Tractor Organisation	5
TOTAL	1236

The above estimate excludes the investment in motor transport. Strictly speaking, account should also be taken of the productive capital assets owned by port trusts, municipalities and other semi-public agencies which probably amounted to well over Rs. 100 crores.

13. The value of productive capital assets in the private sector (again excluding agriculture, small-scale industry and transport, and residential housing) in 1950 was not perhaps more than about Rs. 1500 crores. According to the Census of Manufactures for 1949 the net productive capital employed in twenty-nine groups of factory industries amounted to only about Rs. 510 crores ; for the factory industries not covered by the Census, as well as to allow for depreciation (so as to make the estimates comparable with those for the public sector which give the gross value), an additional provision of Rs. 600 crores might be made. The break down of the estimate of the value of total productive capital in the private sector, referred to above, would thus roughly be as follows :—

	(Rs. crores)
Factory establishments	1110
Plantations	100
Electricity undertakings	70
Mines	30
Shipping and Aviation	32
Motor transport	130
TOTAL	1472

14. These estimates are necessarily rough, and relate to historical and not replacement value, which will be considerably higher in both cases, but they show that in the building up and maintenance of basic services essential for organised industry, and to some extent in industrial development itself, the State has already been playing a not insignificant part. It also suggests that the productive capital in industry and in services essential to it is so small compared to the needs of the country that, in the further accumulation of it, the two sectors can well supplement each other and need not necessarily expand at the expense of the one or the other.

RELATIONS BETWEEN THE PUBLIC AND THE PRIVATE SECTOR

15. In the industrial sphere, the respective roles of the State and of private enterprise have been enunciated in the Industrial Policy Statement of 1948. In terms of this Resolution, the principle of Government ownership and control has been accepted in regard to a segment of the economy comprising arms and ammunition, atomic energy and railways. It has also been stated that in regard to certain key industries like coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph and wireless apparatus, etc., the State is to be responsible for further expansion except to the extent that it considers the cooperation of private enterprise necessary for the purpose. In the rest of the industrial field the initiative for development and the responsibility for management will rest on private enterprise. Government have, however, the right to acquire any undertaking in the public interest and to intervene in cases where the conduct of industry under private enterprise is not satisfactory.

16. The distinction between the public and the private sector is, it will be observed, one of relative emphasis ; private enterprise should have a public purpose and there is no such thing under present conditions as completely unregulated and free private enterprise. Private enterprise functions within the conditions created largely by the State. Apart from the general protection that the State gives by way of the maintenance of law and order and the preservation of the sanctity of contracts, there are various devices by which private enterprise derives support from the Government through general or special assistance by way of tariffs, fiscal concessions, and other direct assistance, the incidence of which is on the community at large. In fact, as the experience of recent years has shown, major extensions of private enterprise can rarely be undertaken except through the assistance of the State in one form or another. The concept of private enterprise, as, indeed, of private property, is undergoing rapid change, and the view that private enterprise can function only on the basis of unregulated profits is already an anachronism. The process of reorientation should and is certain to continue and gather speed, and the problem is to see that the transition is smooth and orderly. Already, in certain spheres of industry, units owned publicly and units under private enterprise are functioning side by side. The points of interaction between private and public enterprise are multiplying rapidly. In the maintenance of industrial peace and the promotion of a cooperative outlook between capital and labour, the State has necessarily to play a vital role. All these are indications that the private and the public sectors cannot be looked upon as anything like two separate entities ; they are and must function as parts of a single organism.

17. Agriculture is traditionally a sphere in which the organisation of economic activity centres around the individual, backed by the cooperation of the members of the family. In a static subsistence economy this form of organisation was probably adequate to the limited purposes then in view. Under modern conditions, it is proving more and more inadequate. Here, again, whether we regard agriculture—and associated industries—as falling within the private sector or the public sector is more a matter of nomenclature than of substance ; for it is almost impossible to secure the desired development in these fields without a great deal of initiative and active assistance on the part of the State. Not only must the State assume the responsibility for providing the basic services such as irrigation, power, roads and communications ; it must also undertake direct promotional work by providing finance, marketing, technical advice and other assistance to agriculture through appropriate agencies. If the State undertakes these responsibilities, this will mean certain obligations which the agriculturist will have to undertake.

18. For the State to be in a position to discharge efficiently the varied responsibilities that it undertakes, it is necessary that all producers, agricultural as well as non-agricultural, accept certain obligations. For instance, since the State has to guarantee a fair distribution of the limited supplies of food, the farming community has to make available to it on reasonable terms the necessary supplies for distribution to non-producers. For similar reasons controls might be necessary on essential consumer goods like cloth and basic producer goods like steel. In a planned economy, thus, the private producer has to work, in essence, as an agent for utilising economically and to the best advantage of the community the productive resources at his disposal.

ORGANISATIONAL ASPECTS OF ECONOMIC CHANGE

19. Our conception of the public and the private sectors and the direction in which they ought to move is closely related to the problem of competing objectives we referred to earlier. This problem arises in an acute form in the early stages of planning mainly on account of deficiencies in organisation. The necessity for making a choice between reducing inequalities of income and raising the level of capital formation would not, for instance, be so serious if there were available at hand alternative channels for efficient mobilisation of resources. The limitations to a policy of full employment are similarly to a great extent on account of deficiencies in organisation in regard, on the one hand, to the supply and distribution of essential commodities, and, on the other, to the possibilities of directly mobilising manpower. The institutional changes that are now initiated have to be framed with two aims in view : first, to progress as far as possible even within the period of the Plan towards the social objectives in view, and, second, to remove deficiencies in organisation which will make possible faster progress in the future.

20. In a country which is primarily agricultural and in which the pace of development in other sectors depends to a great extent on progress in agriculture, the system of ownership and management of land within which agricultural producers have to function is obviously of the highest significance. Large areas of the country have emerged only recently from forms

of feudal organisation. Though a fair measure of progress has been made in protecting the cultivator against intermediaries in land, money-lenders and traders, a great deal has still to be done in order to enable the cultivators to function as an efficient agent of production in command of a reasonable size of holding and with access to productive credit and other facilities such as supply of seeds and manures. The question of ownership of land has also a wider social aspect which makes the reorganisation of the agrarian system a matter of prime national importance. Our detailed recommendations in respect of land policy to be followed in the period of the Plan have been set forth later in this Report. The organisational changes necessary in this sector do not relate merely to land ownership but cover a wider field including agricultural marketing and rural credit. The problem here is one of making a simultaneous advance along several lines and this, as we have emphasised elsewhere, involves a strengthening of the co-operative form of organisation for purposes of marketing, credit and production.

21. In the development of countries like the United Kingdom, trade and banking played a great part in mobilising resources for development. Mercantile profits, in fact, were the main source of funds for industrial expansion, while the growth of commercial banks provided the necessary working capital. Apart from the fact that there were special historical circumstances which favoured the accumulation of large profits from commerce in the initial stages of economic development in many of these countries, these means of promoting capital formation are not consistent with our other objectives. The expansion of trade has, under our conditions, to be regarded as ancillary to agricultural and industrial development rather than as an initiating impulse in itself. In fact, in view of the urgent needs for investment in basic development, diversion of investment on any large scale to trade must be viewed as a misdirection of resources. Similarly, banking development and provision of credit facilities in an under-developed country raise special problems. To these we shall return presently.

22. The distributive system needs special attention under planning. In an economy subsisting on small commodity surpluses scattered widely, there is a tendency for capital to flow into trade in preference to production. Apart from the opportunities which a loosely-knit economic organisation gives for small trading establishments to spread themselves over extended lines of distribution, investment of capital in speculative trade gives better returns than in almost any other sector. The former may be regarded as another manifestation of under-employment but the latter is apt to become an obstacle to development. From the larger point of view of controlling relative prices and profitability as also for gaining control over the economy at strategic points, state trading at the wholesale level in respect of selected commodities could be used as a potent instrument of planning. In a system in which profits from production are closely linked to marketability of the product government operation of the distributive system at selected points is, *prima facie*, capable of producing even better results than direct control over production. The cost of living of the large majority of the people depends, for instance, on a relatively few commodities like foodgrains, cloth, sugar, kerosene and salt. Through state trading in these commodities, it would be possible to operate directly on the cost of living and to aim at a rate of development which would otherwise be difficult. Public enterprise in the field of distributive trades, is however, likely

to raise complex organisational problems. Our knowledge of the present distributive mechanism, its composition and structure and the way the various links in the system are related is at present inadequate, and it is therefore difficult to visualise fully the administrative problems involved. But the direction in which we have to move is clear, and a beginning has to be made during the period of the Plan. Before decisions can be taken, there is need for clearing up the factual position regarding the amount of capital involved, the profit margins, costs of operation, the number of people employed, and related aspects of the question. A Census of Distribution designed to throw light on these crucial aspects and covering a few selected commodities in the first instance would be of value in this context.

23. The limitations and deficiencies of organisational structure from the point of view of economic change can be made good, not necessarily by displacing private agencies but through supplementing them. Our conception of the private sector comprises not only individual and corporate but also co-operative forms of organisation with special emphasis on the last. It includes the vast fields of primary production, of cottage and small scale industries, of marketing of agricultural produce, of residential housing and of wholesale and retail trade in which there is scope for rapid expansion of cooperative enterprise. The extension of the cooperative form of organisation to these varied activities has hardly been initiated in this country, but it appears certain that such extension holds out promise of securing the best results by way of increased production, the reduction of rent and profit margins, and the building up of investible surpluses in the economy. If planning is to avoid excessive centralisation and bureaucratic control and is, at the same time, to hold in check the self-centered, acquisitive instincts of the individual producer or trader working for himself, the encouragement of cooperative enterprise must be given the highest priority. We should like to stress in particular the importance we attach to the progressive socialisation of agricultural marketing and of processing industries in the rural areas through the agency of co-operatives. The problems arising in this connection and the ways and means by which the State is to foster such development are referred to in appropriate contexts in the later chapters of this Report.

ALLOCATION OF RESOURCES AND PRICE POLICY

24. The *raison d'être* of a planned economy is the fullest mobilisation of available resources and their allocation so as to secure optimum results. The problem of how this has to be brought about when the economy functions partly through private enterprise motivated by profit expectations and partly through Government ownership and direction deserves careful consideration. For the private sector, the prevailing price relationships are the prime factor in determining resource allocations. In the public sector, the direction of investment need not always and necessarily be guided by the profit-and-loss calculus. Nevertheless, the relation between costs and returns even in the public sector has to be judged, at least as a first approximation, in terms of market prices. It follows that the maintenance of a structure of prices which brings about an allocation of resources in conformity with the targets defined in the Plan must be the consistent aim of economic policy.

25. Over a longer period, and particularly in a period of rapid development, the structure of prices is bound to change. Even the level of prices is likely to go up. But such changes must as far as possible keep in step with improvement in the level of incomes as well as with shifts in their distribution ; if they move in advance, they are likely to cause considerable hardships and lead to results which are the negation of our objectives.

26. Price policy, being partly a problem of allocation of resources and partly a question of ensuring reasonable equality of sacrifice among the different sections of the people, requires financial as well as physical controls. In the early stages, a development plan necessarily increases money incomes more rapidly than production. If these incomes are allowed to raise current consumption expenditures, they act immediately on prices, especially of articles like food which are in short supply. Such price inflation distorts the relationship between sectional price levels and encourages a diversion of productive resources to purposes which militate against the requirements of development. If continued for a long time, it generates economic instability and social unrest. To the extent that idle manpower and other resources can be used productively without any significant generation of additional money incomes the inflation potential of a development programme can be minimised at the very start. But, to the extent that money incomes rise, the problem of holding inflationary pressures in check has to be faced.

27. Monetary and credit policy is a powerful instrument for securing the desired result. During the war and in the years immediately following, credit policy as an instrument of overall economic control had fallen into the background, but in recent years there has been a general tendency to revive its use. That credit control can exercise a healthy restraining influence on speculation and can assist in bringing about a better balance between aggregate demand and aggregate supply has been demonstrated by the distinct improvement in the price situation in the country since the raising of the bank rate and the adoption of a tighter credit policy by the Reserve Bank in November, 1951. The downward trend in prices in India had started before the announcement of this new policy, and it is evident that international factors have also greatly influenced the course of domestic prices. Nevertheless the credit and financial policy of the Government have been a significant factor in the situation. About the middle of 1951, the index of wholesale prices was around 450 ; it went down to 367 in May, 1952, and has, of late, been around 390. The cost-of-living indices have not shown a comparable fall, and it cannot be said that the fall in wholesale prices warrants any relaxation of vigilance and caution in the matter of overall price policy. Effective credit control must therefore remain an essential instrument for regulation of investment and business activity.

WORKING CAPITAL REQUIREMENTS AND ORGANISATION OF THE CREDIT SYSTEM

28. Having emphasized the role of credit policy in keeping the economy on an even level we should like to refer also to another, somewhat different and more long-range, aspect of the matter in relation to developmental planning. A persistent upward trend in production and trade cannot be sustained without an expansion in the supply of money and credit. Over a

period, therefore, it will be found necessary to expand money supply in the country in response to the increased volume of transactions in the economy. This must come about through extension of credit institutions which will impart the necessary elasticity to money supply without generating inflationary pressures. The large credit needs of agriculture and of industry, especially of cottage and small scale industries, cannot be met except through a network of credit institutions which will mobilise savings in the rural areas and disburse credit on a large scale to productive enterprises, individual, co-operative or joint-stock. In this process of development, the encouragement of larger savings from current income and of a productive use of them in place of mere hoarding will have to play the major part. But, at the same time, judicious credit creation somewhat in anticipation of the increase in production and the availability of genuine savings has also a part to play, for it is conceivable that without this kind of an initial push, the upward process may not start at all or may fail to gather momentum. The overall credit policy to be followed by the central bank in an under developed country launching upon a process of development has, therefore, to be adapted to these requirements.

29. There is no doubt that the Reserve Bank of India, which is a nationalised institution, will play its appropriate part in furthering economic development along agreed lines. The Bank has succeeded in bringing the organised sector of the money market well under its control. It has recently initiated measures for the development of a bill market in India which will impart greater elasticity to the credit system. The Bank is also playing a more active role in the provision of rural finance and is devoting special attention to the problem of promoting banking development in parts of the country in which it has hitherto been lacking. These developments will strengthen the credit system materially. Under the Banking Companies Act, the Reserve Bank has wide powers for regulation and supervision of the credit policy of banks. More than these legal powers, it is, we feel, the moral prestige of the Reserve Bank and the close understanding between its management and the management of private banks that is of special importance in the alignment of the banking system to the needs of a planned economy.

30. The process of economic development, once started, will make new demands on the banking system, and this may necessitate changes in organisation and structure. Central banking in a planned economy can hardly be confined to the regulation of the overall supply of credit or to a somewhat negative regulation of the flow of bank credit. It would have to take on a direct and active role, firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country and, secondly, in ensuring that the finance available flows in the directions intended. For the successful fulfilment of the Plan it may become necessary to direct special credit facilities to certain lines of high priority. Banking development, through the normal incentives of private banking, is apt to be a slow process, particularly in a country in which deposit banking and the use of cheques is likely to take root only slowly among the masses of the people.* In this field, the profit motive may stand

*Since the profit earnings of banks are related to the ratio between their cash holdings and their loans and advances, there is an inherent bias in favour of sections of the population who are familiar with the use of cheques and will enable a reasonably high proportion of loans and advances to be maintained on the same cash base. On account of this, the motive-force behind extension of banking to less developed areas also tends to be in the first instance collection of deposits rather than distribution of credit for productive purposes. Where there is a fairly significant supply of pre-existing savings to be tapped, this process will soon lead to the normal cumulative growth of bank deposits and bank credit; in backward areas, however, the initial start may have to be given through a more active loans policy in respect of productive credit.

in the way of the extension of credit facilities to sections of the population which need them for rapid development. The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of the priorities for development indicated in the Plan and less and less in terms of returns on capital. The banking system—and in fact the whole mechanism of finance including insurance, the stock exchanges and other institutions concerned with investment—will thus have to be fitted increasingly into the scheme of development visualised for the economy as a whole ; for, it is only thus that the process of mobilising savings and of utilising them to the best advantage becomes socially purposive.

FISCAL POLICY AS AN INSTRUMENT OF PLANNING

31. Allied to the problem of credit policy is the question of fiscal policy in relation to planning. With the continuous expansion of Government functions and the increase in public expenditure this necessitates, fiscal policy may be said to be of even greater significance for influencing the volume and direction of economic activity. In the U. K., for instance, Government's total expenditure amounts to about 40 per cent of aggregate national expenditure ; in the U.S.A. and in Canada, it works out at about 25 per cent ; and, in Australia it is about 30 per cent. These high proportions are, of course, a reflection of the large transfers from the public to the private sector through social insurance schemes and servicing of public debt. In India, the corresponding figure is at present of the order of 7 or 8 per cent, and this will inevitably rise rapidly as development proceeds. The process of development has always inflationary possibilities, and it is necessary, if development is to be orderly and its incidence not unfair to those classes whose incomes are relatively fixed, that the accent of fiscal policy must throughout be on minimising inflationary pressures.

32. This vital consideration has been given due weight in determining the over-all target of development expenditure in the first Five Year Plan. At this level of expenditure, it has not been possible to provide finance for several projects which, on a longer view, must be taken up for execution. There is, of course, no way of expanding the size of the Plan except by increasing the resources available to the public sector. It is necessary also at the same time to see that the level of expenditure in the public sector and the devices used for finding the needed resources are not such as to react too adversely on the private sector, the development plans of which are of equal significance from the point of view of the community's interests. To mention this limitation on our present effort is, however, only to underline the need for a bolder policy in the future. The investment expenditure which, in the last analysis, a community can undertake depends, apart from whatever external resources may become available, upon the rate at which it can step up its savings ; for, the problem is not just one of diverting investment from the private to the public sector, but of increasing the total.

33. An increase in aggregate investment implies, as stated earlier, a postponement in increases in the standard of living to the maximum extent possible, and fiscal policy is a major device for bringing about this result. Fiscal policy has at the same time to aim at a reduction in inequalities of income and wealth. There is clearly far more scope for cutting down

consumption expenditure in the higher income groups than for tightening of the belt in the lower income ranges. The common man has, undoubtedly, to play his part in financing development, but, on grounds of economic as well as social policy, the more well-to-do classes have to contribute in proportion to their capacity to pay. The question is how this result is to be secured. Direct taxation of the rich is likely to impinge more on their savings than on their consumption. There is need for balancing the advantages of a greater equality of incomes and wealth against the disadvantage of a possible fall in private savings and capital formation. This consideration has special reference to the problem of the immediate future but granted the basic assumptions of a planned economy, it cannot, over a period, be allowed to come in the way either of a progressive reduction of inequalities of income and wealth or of rapid capital formation.

4. The reasoning that direct taxes are apt to reduce savings rather than consumption expenditure and hence detrimental to capital formation is also valid only upto a point. In a system in which public investment has to play an active role, it is of secondary importance whether resources are transferred to the State in the form of taxes (in which case it would add to the savings of the State available for investment) or in the form of loans out of private savings provided there is agreement on the priorities attached to the investment on public account. The real issue which affects both direct and indirect taxes equally is whether taxation is so high as to affect adversely the incentive to produce. Indirect taxation which increases costs of living could also be a disincentive. In this respect, an economy geared to rapid development calls for changes in the traditional attitude to reward for work. It is not without significance that forms of direct taxation which are today considered as the minimum essential in a modern society were in the initial stages regarded as inimical to progress. Similarly, though indirect taxation is generally regarded as regressive and somewhat unfair, the trend in countries which have moved rapidly towards greater equality of incomes has been for the share of indirect taxation to grow. In part, therefore, the problem is one of psychological adaptation to the changing needs of the times and in part a question of whether alternative institutional arrangements can be made quickly enough to compensate for loss of incentive in certain strata of society.

35. The link-up between inequalities of income and capital formation in the early stages of modern economic development in countries like Britain was due to a combination of circumstances in which the promotional and managerial abilities of a particular class had a direct part to play in initiating innovations, evolving new techniques of production and applying them on a commercial scale. The pioneers in the field of development had relatively few avenues open to them for luxurious living. A large proportion of the high incomes they received was thus ploughed back into industry thereby providing the basis for further expansion of the economy. Conspicuous consumption is a later phenomenon, and while it may have a place in rich countries where rapid expansion of consumption in all directions is in a way essential to the maintenance of a high level of economic activity, it is seriously detrimental in the conditions of an underdeveloped country. Though the resources which such consumption directly diverts away from capital formation may be small, it not only creates discontent in the community but also indirectly discourages saving in the economy as a whole by initiating a process of wasteful emulation. It is evident that in a planned economy in which the public sector takes over progressively the promotional and managerial functions necessary for develop

ment, neither large inequalities of income nor higher consumption standards for particular classes can be justified.

36. Death duties are an important equaliser of incomes and wealth. They are a levy on capital which does not have the same adverse psychological effects as other capital levies. They are capable, over a period, of reducing inequalities to an extent that only a violent upset of the system can achieve if the elimination of inequalities of income and wealth is made an immediate objective. Death duties are now an integral part of the system of taxation in advanced countries and they are levied in several underdeveloped countries as well. The rates of death duty in the U. K. are as high as 50 per cent and over on estates above £100,000 and they go up to 80 per cent on estates valued at over £1,000,000. The efficacy of death duties for correcting inequalities will depend, apart from the rates charged, the limit of exemption, the extent of evasion, etc., on the extent to which checks are placed on individuals earning large incomes and accumulating wealth between successive capital transfers. With a high rate of progression in income tax rates and a structure of controls to regulate relative prices and profits, death duties can make a significant contribution towards reduction of inequalities.

SOURCES OF SAVINGS IN THE ECONOMY

37. There are at present three main sources of savings: savings by private individuals (that is, personal savings), savings by corporations, and public savings (or surpluses in the public sector). In countries like the U.K. and U.S.A., the role of personal savings as a source of finance for development is no longer as important as it was in the early stages of development. Corporate savings provide in these countries a considerable part of the finance needed; in the U.K. public savings, *i.e.*, surpluses from taxation and from the receipts of commercial enterprises owned by Government, are an important source for financing investment. Corporate savings come ultimately from profits; they represent a ploughing back of the funds that would otherwise have gone into the hands of the shareholders. To a certain extent, this is a desirable line of development, and it is proper to encourage capital formation in the private sector through differential taxation of distributed and undistributed profits. The limitation of this approach, however, is that it leads in the long run to a concentration of economic power in the hands of these corporations, and, through them, in the hands of a few people who happen to have a controlling interest in them. In a country like the United States, a country of corporations par excellence, it has been found difficult in practice to curb the monopoly power of these corporations in spite of anti-trust laws. In the pattern of development we envisage for India, it will, therefore, be necessary to lay more stress on co-operative rather than corporate savings. The co-operative form of organisation is capable of yielding the advantages of corporate enterprise without some of its disadvantages. It is a form of organisation capable of attracting the small man, and members of co-operatives are likely to see easily the benefits that would accrue to them by devoting a substantial part of their current surpluses to investment. The encouragement of the co-operative form of enterprise in all fields of activity, in agriculture, in trade, in finance, in marketing and in industry must, therefore, become a prime objective of Government policy.

38. And, finally, the State must itself raise, to the extent possible, through taxation, through loans and through surpluses earned on State enterprises a considerable proportion of the savings needed. In other words, public savings, as distinguished from private savings,

personal or corporate, must be developed steadily. The financing of investment through public savings would help to ensure a pattern of development in consonance with accepted social criteria.

PRICES, PRODUCTION AND CONTROLS

39. Prices are a resultant of all the varied forces acting on the economy from within as well as from without, and there is almost no aspect of governmental policy which does not, in one way or another react on prices. Export-and-import policy, for instance, has a direct bearing on relative prices and profitability. Control and regulation of exports and imports, and in the case of certain select commodities state trading, are necessary not only from the point of view of utilising to the best advantage the limited foreign exchange resources available but also for securing an allocation of the productive resources of the country in line with the targets defined in the Plan.

40. Increase in output, through fuller utilisation of capacity, through improvement in technical and managerial efficiency or through harder and more sustained work all round is basically the answer to inflationary pressures, and this would be a far better way of bringing supply and demand into equilibrium than some of the other devices which, while doing good, have also a somewhat depressing effect on the economy. But since, in the short period, there are limits to the increase in output that can be secured, there is need for making appropriate use of the other devices also.

41. A major problem in this connection is the role of controls in a planned economy. This is a subject which has many aspects and it is possible in this field to fall into a doctrinaire approach which, however sound on abstract theoretical considerations, may prove unworkable in practice. On the other hand, an excessive elasticity of approach to this question may lead to a negation of planning itself. To some extent, over-all controls through fiscal, monetary and commercial policy can influence the allocation of resources, but physical controls are also necessary. Given the fact that, in the initial stages of development it is the excessive pressure on a few commodities which tend to limit the rate of progress, the extent to which physical controls are needed to supplement financial controls may even be regarded as a measure of the utilisation that is being made of surplus resources (like manpower) in the system. The targets of production defined in a plan cannot also be achieved unless a structure of relative prices favouring the desired allocation of resources is maintained. The working of controls during and since the war has demonstrated clearly that if production in a particular line, say, foodgrains, has to be increased, the necessary incentive for the producer cannot be created unless the prices of alternative crops are controlled. In an economy which starts from a low level of output, increases in several lines of production will be found necessary. A simultaneous increase in production in all lines is not possible by merely raising the money reward for work. In the case of certain key commodities, it may be necessary to keep down their prices in order to obviate the need for price rises in several industries which use these commodities. To make this policy effective, controls on production and on movement and physical allocations to consumers become inescapable.

42. Controls in a word are the means by which Government maintains a balance between various sectional interests. Under certain circumstances the accent may be on the maintenance of certain price ceilings, and through these of the real purchasing power of the incomes accruing to certain classes. Under other conditions, the enforcement of minimum prices might be a necessary corollary to a policy of ensuring a reasonable rate of return on effort in certain lines of economic activity. Viewed in the proper perspective, controls are but another aspect of the problem of incentives, for to the extent that controls limit the freedom of action on the part of certain classes, they provide correspondingly an incentive to certain others and the practical problem is always to balance the loss of satisfaction in one case against the gain in the other. For one to ask for fuller employment and more rapid development and at the same time to object to controls is obviously to support two contradictory objectives.

43. Most of the opposition to controls comes, however, from dissatisfaction with the working of particular controls. It must be recognised that controls ineffectively or inefficiently administered may do harm rather than good. It is also true that so long as the public regards controls as so many hindrances to be circumvented if possible, to be put up with otherwise, there will be resentment against controls. To a great extent this is a question of creating the right atmosphere by explaining to the public the relationship between controls and the rate of economic progress that the country can achieve. From this point of view it is an essential condition that the rationale of each control is made clear to the public and the rights and obligations of the parties affected defined in a manner which leaves little scope for doubt as to what is expected of the public and where redress can be had in case of any grievance. It is also vital to the success of controls to make the necessary adjustments in their working from time to time as the conditions governing the supply and demand of the commodities in question change. But, here again, whatever changes are made must accord with the objectives in view and should not throw in doubt the basis of the entire policy.

44. The difficulties of administering an extensive system of controls in an economy organised by and large in small units cannot be under-rated. Methods adopted successfully in other countries are not directly applicable to India. Effectiveness of controls under these conditions can be ensured only through control at strategic points and through encouraging producers' and consumers' organisations which will help to make the actual operation of controls smoother, less irksome and more efficient.

THE PATTERN OF PRIORITIES

45. It will be seen from the above that the priorities in planning and the relative emphasis as between objectives are conditioned to a great extent by the techniques that can be used within a given period for attaining the objectives, and the techniques to be chosen are, in turn, influenced by the objectives in view. Once the decisions in regard to these are taken, the question arises as to priorities as between the different lines of expenditure to be undertaken. Given, in other words, the investment outlay to be undertaken on a consideration of the relative

weights to be attached to the various competing objectives and of the techniques to be employed, the task before the planning authority is to determine the pattern of investment for the period in view. The demands of the economy for development are so large and so pressing that great care has to be taken in allocating the limited resources available. When one views development as a process over a period of years, there is no sector of the economy in which a large increase in investment would not be justified, in fact, it would be inescapable. Within a limited time horizon, however, the problem assumes a different aspect ; first things have to come first. It follows that the conception of priorities over a period has to be a dynamic one, the emphasis as between different sectors shifting as development in those taken up initially prepares the ground for development in others.

46. For the immediate five year period, agriculture, including irrigation and power, must in our view have the topmost priority. For one thing, this emphasis is indicated by the need to complete projects in hand. But, further, we are convinced that without a substantial increase in the production of food and of raw materials needed for industry, it would be impossible to sustain a higher tempo of industrial development. In an underdeveloped economy with low yields in agriculture, there is of course no real conflict between agricultural and industrial development. One cannot go far without the other ; the two are complementary. It is necessary, however, on economic as well as on other grounds, first of all to strengthen the economy at the base and to create conditions of sufficiency and even plenitude in respect of food and raw materials. These are the wherewithals for further development. Japan, for instance, increased its agricultural production by 80 per cent in a generation and still required large scale imports of food and raw materials. Britain, which in the earlier stages of development was in a strong position because of the earlier revolution that had taken place in farming practices and techniques, also emerged at the end of the process an importer of food and raw materials. Countries which start the process of development at this stage must as far as possible look for sources of supply of the necessary food and raw materials within their own borders. In India, with its varied resources, conditions are favourable for securing a balanced pattern of development. The creation of a sizeable surplus in the agricultural sector and mobilization of the same for sustaining increased employment in other sectors is fundamental to development as the experience of the U.S.S.R. in the twenties and thirties shows.

47. The high priority given in the investment programme of the public sector to the improvement of agriculture limits inevitably the investment which the State can itself undertake in industries, especially large scale industries. Progress in this field would, therefore, at this stage depend to a great extent on effort in the private sector. The State in this initial period has to concentrate on the provision of basic services like power and transportation. The State has also special responsibility for developing key industries like iron and steel, heavy chemicals, manufacture of electrical equipment and the like, without which in the modern world continued development is impossible. In these fields it is necessary to anticipate to some extent the nature of the demands that will be made on them over a fairly long period ; in fact, in these cases supply must come first for demand itself to develop at the required rate. The initial investment necessary for the development of such enterprises is large and the period of construction fairly long. A beginning in these directions has therefore to be made from the very start.

48. To the extent that the accent of the plan is on increasing production, the limitation of resources available would restrict the scope for expanding social services. And yet, it is obvious that no plan can succeed unless it "invests" in the improvement of the human material. Even from the point of view of increasing production, social services like education, technical training and health bring in significant returns. Considerable advance in these directions can be made if the necessary urge to improvement is created among the people. The problem is partly psychological. There is also large scope in this field for direct community effort. The spread of literacy among the rural people, for example, can be secured by the literates in the community volunteering their services for carrying through a mass campaign for liquidation of illiteracy. The improvement of public health is often a matter of imparting elementary knowledge regarding sanitation and hygiene. Technical training is vital not only for the process of development itself but also for correcting the present bias in education which is responsible for unemployment in certain sections. In this respect, adequate provision for the finance needed must be made in the plan. At the same time, means must be found for stimulating among the people widespread interest in the application of modern technology to the many small problems familiar to them in ordinary life.

49. In view of the large unutilised and under-utilized resources in the system, schemes for mobilising local effort for local development have to receive high priority. It is schemes of this type spread all over the country, more than major development projects, which are likely to activate these resources. Their contribution to the improvement of living conditions, small though it might appear at first, would in the aggregate and in terms of their cumulative psychological effects be more than proportionate to the initial investment involved. Programmes of community development based on this principle and aiming at an intensive all-round development of selected areas are of special value from this point of view.

CHAPTER III

ASSESSMENT OF RESOURCES

THE FIVE Year Plan outlined in the next chapter relates directly to the public sector but has in view a programme of development for the entire economy. In the public sector are included the development programmes of the Central and State Governments and also of the commercial enterprises owned by them*. The private sector covers the rest of the economy including corporate and co-operative institutions as well as small enterprises throughout the country in agriculture, industry, transport and finance. While the initiative for development in defined fields as well as the responsibility for co-ordinating the development programmes in the entire economy will lie with the State, private initiative and effort have also a significant part to play in the process of development. The development expenditure in the Plan referred to as such in this Report has to be related to the resources available to the public sector, but these have also to be linked up with the needs and resources of the private sector. There is, in other words, a single pool of investible resources on which the private and the public sectors have to draw. The problem is not merely to find resources for the public sector but to enlarge progressively the size of the common pool and to see that the total thus available is allocated between the two sectors in terms of agreed priorities.

2. The Five Year Plan as it is now being presented, involves an outlay of about Rs. 2069 crores by the Central and State Governments over the period 1951-56. On present calculations the normal revenue and capital receipts of public authorities, including loans and grants received upto now from abroad, are expected to finance about Rs. 1414 crores of this expenditure. Deficit financing in the public sector—of which more will be said later—cannot at this stage be visualised in excess of about Rs. 290 crores. There is thus still left a gap of Rs. 365 crores which can be met only from external sources or, in the absence of it, by additional measures of internal taxation and borrowing or by further deficit financing.

3. It is clear that external resources are necessary in the early stages of development and that they could be a significant factor in eliminating bottlenecks and in helping to avoid dislocations which may have far-reaching consequences. In the conditions in which the country is placed today, however, a programme with relatively modest targets cannot be made inflexibly conditional on the availability of external resources. Development is a process in which once certain main lines of work have been commenced, supplementary investments have also to be undertaken. Thus there develops in stages a rate of expansion which cannot be slowed down without serious repercussions.

*Strictly speaking, public sector should cover also municipal corporations and other local authorities ; it has not been possible, however, to include their development programmes in the present Five Year Plan.

4. The outlay on development by the Central and State Governments in 1950-51, the base year for our calculations, was about Rs. 232 crores. The development expenditure in 1951-52 has been tentatively estimated at Rs. 285 crores. The budgeted outlay for the second year of the Plan is Rs. 346 crores. In 1953-54, by when the expenditure on many of the projects in hand will have reached their peak levels, the total will exceed Rs. 400 crores. If external assistance is not forthcoming to the extent necessary there will undoubtedly be scope for marginal adjustments, but a planned outlay of the order of Rs. 2069 crores over the five-year period is necessary for maintaining the rate of growth of development expenditure visualised by us. The need for attaining a rate of investment in this period which could form the basis of more rapid advances in the following years and lay the foundation for balanced regional development in the next planning period has been an important consideration in determining the development programme in this Plan.

5. The problem of resources is basic to the whole question of planning. It is, therefore, necessary to be clear not only as to the basis on which the Plan is built, but also about the implications of the different methods and techniques which are visualised for meeting the requirements of development in this period. The various aspects of this problem are discussed in some detail under the following heads :—

- I. Taxation and public savings as a source of development finance ;
- II. Budgetary resources of the Central and State Governments ;
- III. Deficit financing ;
- IV. External resources and the problem of foreign exchange ; and
- V. The problem of mobilising financial and physical resources.

I. TAXATION AND PUBLIC SAVINGS AS A SOURCE OF DEVELOPMENT FINANCE

Magnitude of savings in the economy

6. Though the outlay in the Plan itself relates directly to developmental expenditure by public authorities, the problem of resources for meeting this outlay has to be viewed, as already mentioned, in a wider setting. For the country as a whole, the resources that can be applied to development depend on the level of aggregate output that can be attained and on the consumption requirements of the community. The larger the output and the lower the consumption requirements, the greater would be the productive resources available for building up the human and material resources of the country for the future. The precise division of responsibility for development, between the public and the private sectors is mainly a question of internal arrangement depending on the objectives in view and what seems to the community the most effective and acceptable means of achieving them ; once this is agreed upon for the period of the Plan, appropriate measures could and have to be devised for the necessary division of resources. But an assessment of the total resources available to the country as a whole for development is necessary for analysing the full implications of the arrangements proposed for financing the Plan in the public sector.

THE FIRST FIVE YEAR PLAN

7. The data available in India for an analysis of output and consumption requirements by different sectors are altogether inadequate. There is only scattered information which might be pieced together for forming an idea of the nature of the problem and of the orders of magnitude involved. Some rough estimates have been attempted for this purpose in the Appendix on 'National Budgeting and the Plan'. These estimates place India's national income in 1950-51 at around Rs. 9000 crores. Of this, the savings available for net investment were probably not much more than Rs. 450 crores. The Five Year Plan is roughly estimated to raise the national product by about Rs. 1000 crores by the end of the five years. Over one half of this increase will be absorbed by the needs of the increase in the population in the meanwhile. It is clear, therefore, that if capital formation from out of domestic resources is raised by 50 per cent in the course of this period *i.e.*, from about Rs. 450 crores in 1950-51 to Rs. 675 crores by 1955-56, it would in effect be taking away about half of what is left over from the increase in the national product for raising standards of living. But raising capital formation from domestic resources by 50 per cent is not an excessively high target in view of the considerations we have set out in Chapter I. As a proportion of the total increase in national output by 1955-56 the increase in resources devoted to investment would be only about 20 per cent. It should be emphasised that this proportion of reinvestment from the additional output, which is involved in reaching the target, will be necessary to sustain the rate of development we visualise in this five year period.

8. In comparing the total domestic resources that might thus be available—say about Rs. 2700 to 2800 crores over the five year period—with the development expenditure in the public sector proposed in the Plan, it must be borne in mind that net investment is a restricted concept which covers, in the main, only net additions to capital equipment and building construction. The outlay of Rs. 2069 crores by public authorities in the five year period will include not only such additions but also expenditures of a recurring nature on agricultural extension services, health, education, community projects, etc., which may amount to about Rs. 400 crores over the period of the Plan. The net investment in the programme, comparable to the estimate of savings referred to above, will therefore be of the order of Rs. 1600—1700 crores, which means that the Plan would require channelling through the public sector about 60 per cent of the savings of the community in this period.

9. The releases from India's sterling balances together with other external resources that may become available in this period, will reduce the share of savings to be channelled through the public sector to about 50 per cent. Normally, even half of the investible resources of a country being diverted in this way would be considered a high proportion. But this we regard as inevitable in India at this stage considering the urgent need for investment in spheres like irrigation, power and transport which do not normally attract private agencies but which are pre-requisites to the further expansion of the economy. Moreover, the State is not as it were drawing from a given capital fund ; it is in a position, through fiscal and other measures, to regulate consumption standards within limits and thus release for investment resources which might not otherwise have been forthcoming. As mentioned in an earlier chapter, enlargement of public savings through taxation and through the earnings of public enterprises is one of the major means open in the present state of our organisation to raise significantly the level of net savings in the country.

Narrow coverage of tax revenues

10. India's total tax revenue in 1950-51 (including the tax revenues of both the Central and the State Governments) amounted to a little over Rs. 625 crores, nearly Rs. 50 crores of which was on account of export duties. As a proportion of national income *i.e.*, about 7 per cent, this level of revenue represents one of the lowest in the world. Taking the revenues of the central governments alone (that is, excluding revenues of local authorities in all cases and of State governments in the case of federations), the proportion of tax revenue to national income is as high as 35 per cent in the United Kingdom, 22 per cent in Australia, 23 per cent in the United States and in Japan, 27 per cent in New Zealand, 19 per cent in Canada, and 20 per cent even in Ceylon. Too much should not be read into this comparison as yields from taxation depend not only on the facilities for collection afforded by particular structural factors (as when corporate incomes are a large proportion of the national income or foreign trade accounts for a considerable part of the transactions) but also on the absolute levels of *per capita* income. Much also depends on the importance of monetary transactions in the economy; when a large part of the production is raised by the labour of peasant families and directly consumed by them, the scope for organising taxation would be obviously smaller than if the operations were being conducted through markets and result in monetary transactions. Yet the comparison has its significance, for if the proportion of the national income covered by taxation is as small as it is in India today the public sector cannot, in the immediate future, increase its savings to any significant extent and thus either raise the level of investment in the economy as a whole or provide social services on an adequate scale.

11. A striking feature of the present structure of taxation in India is the relatively narrow range of population affected by it to any appreciable extent. About 28 per cent of the total tax revenue comes from direct taxation* which directly affects only about half of 1 per cent of the working force in the country estimated at 133 million in 1948-49. Another 17 per cent is accounted for by import duties, a considerable part of which is derived from taxation of commodities like motor vehicles, motor spirit and oils, high-quality tobacco, silk and silk manufactures, liquors and wines, etc., which affect but a relatively small section of the population. A large proportion of the excise duties on tobacco and cloth, which yield about 8 per cent of the total tax revenue, is also probably paid by the limited number of consumers who use the better varieties. Given the structure of incomes in the country it is of course inevitable that the coverage of direct taxation should be narrow; it is also right that an element of progression should be introduced through higher taxes on commodities which, relatively to the general pattern of consumption of the community, may be regarded as luxuries. In fact, ways and means for raising the revenue from these sources must be constantly explored. But if as much as one-third or more of total tax revenue is derived from certain limited strata of society it implies that the burden of taxation spread over the rest of the community is correspondingly lighter and that relatively small increases in the rates of taxation on the latter will help to add significantly to total tax revenue.

*Whether land revenue is a direct or an indirect tax is a somewhat controversial point. For the purpose of the calculation here it has been treated as an indirect tax.

12. In this connection it may be recalled that, in countries which are largely agricultural, and in which transactions involving money are a smaller proportion than in more industrialised systems, land has been traditionally an important basis for taxation. In Japan, when its programme of industrialisation was being initiated in the 1870's, taxation of land yielded as much as 13 per cent of the value of gross agricultural produce ; even thirty years later, when other forms of taxation had developed, land tax accounted for nearly half of the total tax revenue of the government. Thus, in a sense, it was taxation of land which in Japan provided the initial resources required for development. In India also land taxation was high before the last War and, in the depression years, it weighed heavily on the farmer. In the last decade prices have moved in favour of primary commodities and, since in most parts of the country land revenue has not been raised upwards, the burden of this tax has been considerably lightened. It is reflected partly in the fact that land revenue contributes at present only about 8 per cent of the total tax revenue as compared to about 25 per cent in 1939. The rise in agricultural prices has however benefited significantly only producers with sufficiently large marketable surpluses ; it is also true that costs of production have gone up in many cases. The improvement in prices cannot therefore by itself be made the basis for a substantial upward revision of the tax on land. But within the context of a development programme designed as much to raise agricultural prosperity as to promote all-round economic development, a programme towards which all sections of the community have to contribute to the maximum extent possible, there is a case for moderate upward revision of land revenue. At the moment the capacity of the agricultural sector to bear further additions is limited, but this will no doubt improve as the programme of development gets into swing and, with additional irrigation and other facilities, agricultural productivity is stepped up. Betterment levies designed to draw into the public exchequer a proportion of the capital gains that accrue to private parties as a result of development are a recognised device for strengthening public savings. It is the essence of rapid development that, consistently with the need to raise the standards of living of the poorer sections of the community, as much of the additional incomes generated should be ploughed back into the system by way of investment for still more rapid increases in output.

13. Apart from the question of legal coverage, there is the question of actual coverage which is a function of the administrative arrangements for securing that those liable to tax do in fact pay. In India it would appear that there are considerable leakages on this account. The following table shows estimates of income assessed to income and super taxes as well as the amounts paid by way of these taxes in the various income ranges in 1950-51.

Income range (rupees)	No. of Assesseees (thousands)	Total income assessed to tax* (Rs. crores)	Yield of income and super taxes (Rs. crores)
0—5,000	236·8	81·0	2·3
5,000—10,000	134·4	93·2	5·1
10,000—40,000	86·9	152·9	24·9
40,000—100,000	10·1	59·9	23·3
100,000 and over	4·2	187·7	99·4
	472·4†	574·7	155·0

*Income assessed to tax is after allowing for depreciation allowances of business enterprises, earned income relief, etc.
 †The number of assesseees on the register at present is about 850,000. Part of this increase is accounted for by the inclusion of assesseees in Part B States, but there has also been considerable improvement in the reporting of assessable incomes in the lower ranges.

It will be seen from this that, though there is undoubtedly a strong case on grounds of equity for making the higher income groups bear a larger share of the burden of development, fairly large proportions of the incomes in the higher ranges, in so far as they are covered by the administrative machinery, are absorbed by direct taxation even at existing rates. Over a wide range, there is, however, evasion of taxation. The reports of the Income Tax Investigation Commission show that such evasion takes place in the middle as well as higher income ranges. The fact that the corporate form of organisation is confined to a limited sector of business renders the problem of checking evasion difficult, particularly in regard to trading operations. Even where the corporate form exists, the close inter-locking of managerial and other controlling interests in industry, trade and finance offers to the unscrupulous opportunities for evasion. If such evasions could be stopped, it might make a considerable addition to the receipts under direct taxation.

14. Where the scope for direct taxation is limited, the incomes of the greater part of the population can be reached only through taxation of commodities. As mentioned earlier, an element of progression can be introduced through higher taxes on commodities which, relatively to the general pattern of consumption in the community, may be regarded as luxuries. In the United Kingdom direct taxes on incomes cover a large sector and the need to rely on indirect taxation is correspondingly less; import and excise duties, however, are still heavy enough to account for a sixth of the total personal consumption expenditure in the country.* In India, apart from these two sources, it is clear that increasing reliance will have to be placed on sales taxes. Through sales taxes can be reached commodities not covered by either import or excise duties; they have also the advantage that they can be adjusted to particular regional conditions. The problem here is again one of administration; it has to be ensured that those liable to tax do in fact pay so that progressively the legal coverage of sales taxes could also be extended to cover a larger range of trading activity.

15. The narrow coverage of taxation is responsible to a great extent for the relatively small proportion of the national income absorbed by the government in the form of tax revenues. It also accounts partly for the existing level of taxation appearing to be heavy. Both ways it restricts the extent of public savings. The narrow coverage of existing taxation has the further indirect effect of increasing the dangers of deficit financing. For the smaller the proportion of the additional incomes mopped up by taxation, the greater would tend to be the pressure of demand on output arising from a given measure of deficit financing.

Scope for higher taxation

16. These are matters which cannot be overlooked in framing a programme of development, especially when it is clear that with net savings of about 5 per cent of the national income the rate of progress that can be attained will be extremely limited. In the initial stages of planning, however, the size of the programme as well as the sources of finance will have to be fixed keeping in view what can be achieved through existing institutions and the available administrative and

*Much the greater part of this revenue comes from tobacco and alcohol.

fiscal machinery. Taxation has also its limitations within a given political and economic structure. Turnover taxes on the scale in evidence, for instance, in the Soviet Union involve a degree of organisational control over production and internal trade which again cannot be realised in India in the near future. While, therefore, taxation policy in India must be designed to raise the level of tax revenues to meet the needs of development, it will have to be adjusted also to the economic and social framework within which development has to start.

17. According to present estimates, by the end of the Five Year Plan, the tax revenues of the Central and State Governments are likely to be about Rs. 70—80 crores higher than in 1950-51 ; if there are unexpected receipts on account of items like export duties the increase may be of the order of Rs. 100 crores. This estimate covers the normal increases that might be expected at the existing rates of taxation as well as the estimated yields from a variety of measures like increases in the taxes on land, higher irrigation rates, death duties, betterment levies, better administration and wider coverage of sales tax, higher taxes on luxuries, etc. Some of these, it will be noticed, are taxes on capital transfers and capital gains and not strictly taxes on current income. But assuming normal conditions, the increased rates of taxation, together with these levies on capital transfers and capital gains, will only enable the level of tax revenues to be maintained at about 7 per cent of the national income even at the end of the Plan. If conditions abroad are favourable for raising larger revenue from export duties than has been assumed in our estimates, and if it is also found possible to raise direct taxation, total tax revenues could be raised by about Rs. 30 crores per annum, but the difference it would make to the above percentage would be small. Apart from this, we should emphasize that unless fiscal policy and the machinery of taxation are re-orientated so as to obtain a significantly wider coverage the tendency will be not only for tax revenues to fall as a proportion of further additions to national income but to make the sharing of the burden of development increasingly iniquitous.

II. BUDGETARY RESOURCES OF THE CENTRAL AND STATE GOVERNMENTS

Classification of sources

18. The financial resources available to a government for development can be broadly distinguished as of two kinds : (a) the savings it can make from current revenues and from the earnings of State enterprises after meeting its non-developmental expenditures, and (b) the private savings it can draw upon through loans, small-savings, deposits and funds, and other miscellaneous channels. A grouping of the resources of the Central and State Governments, which follows strictly the distinction between these two categories of savings and also adheres to a definition of 'net savings' corresponding to that of net investment referred to earlier, would require considerable reclassification of budgetary accounts. From the operational point of view also, such a rigid analysis has its limitations. For the purposes of our analysis here, a some-what looser grouping has therefore to be attempted.

19. The Five Year Plan treats as development expenditure not only additions to fixed capital equipment and building constructions figuring in the revenue and capital accounts of the Central and State Governments but also initial recurring expenditures on social services,

agricultural extension services, etc., which are almost invariably financed from current revenues. On the other hand, capital expenditure on items like defence is non-developmental from the point of view of the Plan. The savings of the public sector, corresponding to this definition of development, are therefore the surpluses of revenue over such consumption expenditures of the government as have been treated as non-developmental in the Plan*. As for estimates of private savings which the Government might draw upon, the net receipts from loans, small savings and other unfunded debt, deposits and funds, etc., would obviously come under this category. But there are a number of transfers within the Government budgets, from the revenue to capital accounts as well as between the capital accounts of the various federal units, some of which may represent additions to public saving and should really be included under that head. These items cannot be traced without detailed scrutiny. They are therefore apt to come under our estimate of private savings channelled into the public sector through 'deposits, funds, and other miscellaneous sources'.

Growth of public savings and capital receipts

20. Classifying in this way the budgetary resources likely to be available to the Central and State Governments over the period 1951—56, public savings, it is estimated, will finance about Rs. 738 crores of the expenditure visualised in the Five Year Plan. Capital receipts are expected to contribute another Rs. 520 crores. The two sources will together meet about Rs. 1,258 crores of the planned outlay of Rs. 2,069 crores.

21. What these estimates imply can be seen with advantage in the light of the actuals for a past year. If we take 1950-51 as the base, public savings estimated on a comparable basis work out to about Rs. 145 crores. The estimate for public savings for the five-year period thus only about maintains on an average the level reached in the base year. The fact that no significant increases over this level are visualised in the estimates in spite of the anticipated increase in tax revenues over the period of the Plan is explained mainly by two factors. In the first place, windfall revenues from export duties and from arrears of income tax had helped the Central Government to develop a substantial revenue surplus in 1950-51. In 1951-52 there was an even larger surplus, but the subsequent recession abroad makes the recurrence of such surpluses problematic. The maintenance of the level of public savings on an average at the level reached in 1950-51 therefore itself presumes additional revenues from other sources. Secondly, the outlay on defence has risen substantially since the base year, the budgeted provision for 1952-53 being about Rs. 215 crores as compared to the expenditure of Rs. 168 crores in 1950-51. The growth in defence expenditure is accounted for by the needs of the infant

*While expenditure on defence and administration, whether on revenue or capital account, would thus be deducted from current revenues, development expenditures in the Plan met from revenue would be excluded. In other words public savings would be equal to total current revenues minus expenditure of a non-developmental nature on revenue account and also minus any non-developmental expenditures on capital account other than capital transfers which as explained below, are deducted appropriately in calculating the net capital receipts of the government from the private sector.

†Net receipts under these heads are calculated after deducting capital transfers from the Government to the private sector on account of refunds of excess profits tax and income-tax deposits, loans by Government of a non-developmental nature, etc. Receipts under these heads by way of withdrawals from reserves are also deducted.

services (i.e., the Navy and the Air Force) and by the large scale replacement of equipment throughout the defence services which has been found necessary. Under these heads it is at this stage difficult to visualise any substantial economies in the Plan period. There is also urgent need for establishing defence industries of key importance, though the sums that can be provided for these are at present only a small proportion of the investment needed.

22. The main improvement expected in the resources position of the Central and State Governments from the point of view of development is in respect of capital receipts. In 1950-51, the net yield from loans, small savings, deposits and funds, and other miscellaneous sources amounted to about Rs. 77 crores; of this Rs. 16 crores was however in the nature of extraordinary receipts under state trading. Over the period of the plan the same sources are estimated to yield Rs. 520 crores, showing an improvement on an average of the order of Rs. 43 crores per annum. In 1950-51 the Central Government had no net receipts from deposits, funds, and other miscellaneous sources mainly because of large refunds of excess profits tax and income tax deposits and certain extraordinary items of payment which fell due. The revised estimates for 1951-52 and the budget estimates for 1952-53 show that the net receipts of the Centre under the same heads would amount to about Rs. 31 crores in these two years. The estimate for the Plan period also takes credit for receipts of the order of Rs. 11 crores from certain capital accretions on account of the Plan*. In addition to the above the subscriptions to government loans are expected to register substantial increases. Investment in Government securities from out of the proceeds of the newly constituted provident fund for industrial workers is estimated to yield Rs. 36 crores. As will be explained later, the absorption of securities by the market was exceptionally low in 1950-51 for much the same reasons that account for the high level of public savings in that year.

23. The financial programme as outlined here does not presume any radical changes in the machinery of taxation or in the techniques of borrowing. There is no doubt that there is considerable scope for improvement in both. Techniques of borrowing, in particular, have to be adapted so as to convey to the people the larger purposes for which the loans are being raised and to facilitate their participation in the development programme on the largest possible scale. Ways and means of checking the growth of non-developmental expenditures have also to be continuously and unremittingly pursued. To these we shall come back at a later stage.

Responsibility for raising resources : division between Centre and States†

24. The above assessment of resources available for the Plan, in so far as it concerns the Central Government, has been made in the light of the revised estimates for 1951-52 and the budget estimates for 1952-53. In the case of the States we have retained for the present the estimates made over a year ago and have also provisionally assumed that, corresponding to certain increases in net outlay proposed by some of the State Governments, the additional

*These receipts are from land reclamation and from the development of the Andamans.

†In this chapter, Part C States have been included under the Centre, and 'States' refer only to Parts A and B States and Kashmir.

resource necessary would also be found by them from current revenues. Some part of these increases is of an accounting nature since they arise from inclusion of development schemes which were being implemented out of the resources of the States but had not been previously treated as such. It is clear however that a reappraisal of State finances will be necessary in the near future, particularly in the light of the recommendations of the Finance Commission. The following table, which gives the breakdown of the estimates, for 1950-51 as well as for the Plan period, shows the division of responsibility between the Centre and the States for raising resources as it is now visualised.

	Base year 1950-51			Plan Period 1951-56		
	Centre (including Part C States)	Parts A and B States and Kashmir	Total	Centre (including Part C States)	Parts A and B States and Kashmir	Total
Public Saving from						
(a) current revenues	71	51	122	160	408*	568
(b) railways	23	..	23	170	..	170
Private savings absorbed through						
(a) loans from the public	—11	8	—3	36†	79	115
(b) small savings and other unfunded debt	42	..	42	270	..	270
(c) deposits, funds and other miscellaneous sources (net)	..	38	38‡	90	45	135
TOTAL	125	97	222	726	532	1258

25. According to the financial programme drawn up last year in support of the State Plans, the State Governments were in all to raise about Rs. 213 crores of additional revenue over the five years. This would now have to go up to Rs. 232 crores on account of the further addition

*Includes Rs. 3 crores estimated as available from the current revenues of Kashmir for financing the State Plan.

†Represents estimated investment in government securities from out of the provident funds of industrial workers; taking this into account provision is made in the Plan for loans and grants for industrial housing of the order of Rs. 38.5 crores.

‡Of this Rs. 16 crores was on account of state trading through reduction in stocks. Some of the accumulations in the States is also perhaps due to delays in transfer of amounts due to the Centre.

of Rs. 19 crores by some of the States to the outlay in their Plans. Measures to be adopted in respect of about three-fourths of this amount were settled in consultation with the State Governments concerned ; the nature of the measures contemplated will be evident from the following table :

	(Rs. crores)
Revenue from taxation on land (covering land revenue and agricultural income tax)	34.0
Revenue from irrigation (covering irrigation rates and betterment levies)	29.5
Revenue from other commercial ventures of the State (<i>i.e.</i> , forests, electricity and minerals)	4.8
Revenue from capital transfers (<i>i.e.</i> , from Estate Duties)	21.3
Revenue from taxation of general commercial activity (<i>i.e.</i> , Sales Tax)	25.5
Revenue from other miscellaneous sources (including taxes on luxuries)	37.5
Revenue from economies in non-development expenditure	12.4
	165.0*

26. The estimate of the total additional resources to be raised by State Governments for the implementation of the development programme was based on preliminary estimates made early in 1951 which indicated an overall deficit in the State budgets of the order of over Rs. 30 crores in the base year 1950-51. The final accounts for the year show that the budgetary deficits of State Governments were in fact much smaller. Compared to the revenues realised in 1950-51, therefore, the States would not have to raise additional resources of the order estimated earlier if expenditure not covered by the Plan under administrative as well as developmental heads like education, health, etc., were not allowed to exceed the original estimates. In practice, as will be mentioned later, the revenues of State Governments have continued to rise even above the 1950-51 level—without the measures contemplated for raising additional resources being taken on any significant scale—but non-Plan expenditures have been rising even faster with the result that the original target in regard to additional resources has to be still more or less maintained.

The borrowing programme

27. The borrowing programme of the Centre and the States involves in all raising an amount of Rs. 385 crores over five years. This includes loans, as well as small savings and other unfunded debt, but excludes possible net receipts from treasury bills and other floating debt. In 1950-51 loans, small savings and other unfunded debt yielded a net sum of only about Rs. 39 crores ; in respect of loans there was in fact a net outflow. Over the period of the Plan, investment in government securities from out of the provident funds of industrial workers is

*The need for raising the remaining Rs. 67 crores has arisen mainly out of the proposals made by some of the State Governments, subsequent to the consultations with the Commission, for raising the size of their State Plans. The upward revision in the targets of expenditure have been accepted provisionally on the condition that the resources corresponding to these would be raised by the governments concerned.

expected to yield about Rs. 36 crores. The scope for government borrowing has also to be judged in the light of several other factors. During the war, when money was plentiful and the general level of liquidity high, the market was naturally more receptive to long and medium term loans. But to the extent that the holdings of long and medium terms securities at the end of the war were higher than what the community would normally have held, they were (along with the large holdings of money) part of the latent inflationary potential in the country left by the war. Since the end of the war there has been a marked shift in favour of more liquid assets. The large scale liquidation of securities in the post-war period may therefore be regarded in a sense as part of the adjustments involved in the return to a more normal pattern of asset holdings. It is difficult to say to what extent this process has been completed or in which direction the preferences of the community might move in future, but it would appear that at least the market for short term and medium term loans is more favourable than it has been for some time.

28. In 1950-51 there were exceptional factors, following the outbreak of the Korean War, which encouraged sections of the community to move away from holdings of money to holdings of commodities. The large scale liquidation of government securities by the commercial banking system, which was a major factor in depressing the market for these securities, was a feature resulting from this movement. In that year the Central and State Governments also sold fairly large amounts from their own holdings of securities. The net absorptive capacity of the market in regard to Government loans cannot therefore be assessed with reference to 1950-51, though it is noteworthy that, even in that year, the non-banking sector of the economy did probably absorb a considerable part of the securities thrown on the market.*

29. In estimating the resources of the Central and State Governments, it may be emphasised, we have not taken credit for the possible receipts from sale of government securities held in the Cash Balance Investment Accounts. It follows that the entire savings of the community likely to go into Government securities could be taken credit for as available for fresh issues. The new links that are being established between the Reserve Bank and the commercial banking system will also furnish the latter with the means of preserving liquidity in times of heavy demand without having to unload securities on a large scale. Two factors which affected adversely the absorptive capacity of the market in regard to fresh issues in 1950-51 are thus likely to be less prominent in the future.

*The following statement shows the changes in holdings of Central Government rupee loans (excluding Treasury Bills and Treasury Deposit Receipts as well as Ways and Means Advances) between June 1950 and June 1951 :

	(Rs. crores)	
	June 1950	June 1951
Total current rupee loans :	1,447	1,447
Of which held by :		
(1) Reserve Bank of India :—		
(a) on its own account	247	330
(b) on account of others	217	203
(2) Commercial and Cooperative Banks	358	299
(3) Insurance Companies	113	113
(4) Part A and B States	209	148
(5) Non-residents	61	60
(6) Others	242	294

30. The outlook in regard to small savings is also distinctly better over the Plan period than it was in 1950-51. From Rs. 33.5 crores in that year the budgeted figure for 1952-53 has gone up already to Rs. 44.5 crores. Together with other unfunded debt the average annual rate of Rs. 54 crores visualised as part of the financial programme should be therefore relatively easy of achievement. The objective must in fact be to surpass this target. It has been agreed recently that proceeds from small savings collected by the States in excess of the present level of Rs. 445 crores will be retained by the States responsible for raising them, the amounts thus retained being treated as loans from the Centre. This arrangement is designed to promote the small savings campaign more effectively by helping the State Governments to link up small saving with schemes of local development in which the people are directly interested.

Sharing of resources between the Centre and the States

31. Over the period of the Plan, there will be a flow of assistance from the Centre to the States under a variety of heads. Apart from grants-in-aid of a statutory nature, the States will receive assistance in the form of loans for river valley schemes, minor irrigation, rehabilitation of displaced persons, community projects, cottage and small scale industries, and other schemes of development included in the Plan as well as grants from the Central Road Fund for construction of roads, grants for relief of displaced persons, grants for raising food production, etc. For operational reasons, many of the schemes of development for which the assistance mentioned above will be given are included in the Plan as part of the development schemes of the Central Government, and so the estimated assistance for the State Plans as such works out to only about Rs. 193 crores.* But this, we must emphasise, is only a matter of presentation and the share of the States in the development programme of the public sector, as well as the magnitude of the transfers which will be necessary from the Centre to the States, are both very much larger than would appear at first sight.

32. In the "Central assistance" as estimated for operational purposes, referred to above, has been included assistance only under the following heads : bonuses on food procurement (now discontinued), grants and loans for the Grow More Food Campaign, special grants to Part B States for development, and loans for 'miscellaneous development'†. The contribution which these would make to the financing of the State Plans will be evident from the following statement which compares the position in 1950-51 with the estimates in the Plan :

	(Rs. in crores)	
	1950-51	1951-56
Resources of Part A and B States and Kashmir	97	532
"Central Assistance"	31	193‡
		<i>plus 4</i>
Total Resources available for Development Expenditure	128	729
Development Expenditure as in the State Plans	118	796
Surplus (+) or Deficit (—)	+10	—67

*Of this Rs. 10 crores will be for Kashmir.

†Loans for 'miscellaneous development' is a budgetary head which includes loans for irrigation and power projects, industries, etc.

‡Includes assistance of Rs. 10 crores for the Kashmir State Plan ; in addition Rs. 4 crores is to be given by way of statutory grants for scheduled tribes which will be available for part of the development expenditure on scheduled tribes in the Assam State Plan.

33. From a preliminary review of the working of the State Plans in 1951-52 and the budgets of the State Governments for 1952-53, it would appear that the task of organising finances to the pattern outlined in the above paragraphs has by and large yet to begin. In 1951-52 the developmental expenditure of the States was about Rs. 135 crores, which is about Rs. 24 crores lower than the average annual rate contemplated over the period of the Plan; the "Central Assistance" in 1951-52 amounted to a little over Rs. 34 crores, and the States were also able to raise nearly Rs. 11 crores by way of loans from the public. The short-fall in resources was still as high as Rs. 68 crores, and this had to be met by drawing down reserves. The reserves of the State Governments are limited and this process cannot go on for long. There were of course special factors in 1951-52 to account for the pressure on State finances, like famine and floods in several States and a marked accumulation of food stocks. It is also true that larger deficits were anticipated in the State budgets in the initial years of the Plan than in the later years. The magnitude of the short-fall in resources in 1951-52 is however still too large to be explained by these considerations alone.

34. As mentioned earlier, the revenues of State Governments have been rising over the last two years, but expenditures outside the State Plans have been more than absorbing these increases. The increase in expenditures is not only under administrative but also under other heads like agriculture, education, health, etc., where any major expansions should be normally on items included in the State Plans. It would appear that there has been a tendency for schemes outside the Plan to be taken up in addition to those already in it. To the extent that this is done and a close check is not kept on non-developmental expenditures of all kinds, the implementation of the State Plans is bound to suffer. It is probable, that, in the case of certain States, the need to bring up the level of administration, as well as the increased demands that are being made on the administrative machinery even for preparing the foundation for development planning, will require some expansion in 'non-developmental' expenditure. These considerations, as well as the relative merits of the schemes which are now being added on as compared to the schemes which were originally in the State Plans, are matters which deserve close examination. But we must emphasise that the capacity of the Centre to give additional assistance is limited. As will have been evident from the earlier paragraphs, there is a short fall in resources even for the commitments which it would have to undertake under the Plan as now visualised. The whole scheme of Central assistance, as now worked out, may have also to be readjusted in the light of the recommendations of the Finance Commission. All these would have to form part of the re-assessment of State finances referred to already in paragraph 24 of this chapter. It seems inescapable in any case that the measures contemplated for raising additional resources at the initiative of the States must be regarded as an integral part of the programme of development set out by us.

III. DEFICIT FINANCING

35. The above assessment of the resources of the Central and State Governments brings us to the question of the scope for deficit financing for development. The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue or on capital account. The essence of such a

policy lies therefore in Government spending in excess of the revenue it receives in the shape of taxes, earnings of State enterprises, loans from the public, deposits and funds and other miscellaneous sources. The Government may cover the deficit either by running down its accumulated balances or by borrowing from the banking system (mainly from the Central bank of the country and thus "creating" money)*.

36. In 1950-51, the base year, budgetary deficits were of a relatively small order as will be seen from the estimates below :

		(Rs. in crores)	
<i>Centre</i>		<i>States</i>	
Resources available for development and for assistance to States.	125	Resources available for development.†	97
Development expenditure at the Centre on schemes included in the Plan and on schemes comparable to them completed in the year.	114	"Central Assistance"	31
"Central assistance" to States	31	Development expenditure	118
DEFICIT (—)	20	SURPLUS (+)	+10
<i>Covered by—</i>		<i>Reflected in—</i>	
(a) withdrawals from cash and security reserves.	11	(a) increase in reserves	5
(b) short-term borrowing (i.e., by increase in floating debt).	9	(b) reduction of short term indebtedness.	5

But the country as a whole had a surplus in its external account on account of the extraordinary international conditions which developed during the year. This meant that, instead of having domestic resources supplemented by external resources, India was, in effect, investing part of its current savings abroad. In 1951-52, the first year of the Plan, this trend was reversed and there was a substantial deficit in India's balance of payments financed from the sterling releases carried over from the earlier years as well as from the fresh releases for the year. The development expenditure in the public sector was larger—and so also the budgetary deficits—but the supplementing of domestic by external resources made it possible to meet these increases without excessive strain on the economy. Imports of food in 1951-52 were also the highest for any post-war year, which carried with it the assurance that inflationary pressures could be checked at the most vital points. It is in the light of these special factors in 1951-52 that the disinflationary forces which began to develop in the economy towards the later part of the year have to be assessed.

*No credit has been taken in our estimate of revenues for possible net increases in the governments' floating debt ; the scope for using these as a source of finance by sale of treasury bills to agencies other than the central bank have to be explored from time to time for reducing budgetary deficits.

†Include resources which became available from State trading through reduction of food stocks.

37. The experience of 1951-52, contrasted with that of 1950-51 indicates the importance of external resources in relation to the financing of development. The greater the availability of external resources the less will be the strain on the internal economy. The precise role which external resources could play in relation to the Plan is dealt with in some detail in subsequent paragraphs.

38. At the present stage, the external resources that can be firmly counted upon for the Plan—apart from loans and grants from abroad already received which we take credit for elsewhere in our estimate of resources—are the releases from India's sterling balances,* estimated at Rs. 290 crores over the five-year period. This, so far as it is possible to visualise now, may be regarded as the safe upper limit to deficit financing. The position will of course have to be reviewed from time to time in the light of prevailing conditions.

39. It is true that stability of prices cannot be an end in itself, particularly if this can be attained only by restricting the incomes of the large mass of the people. It is also true that some increases in purchasing power at chosen points may be necessary and even desirable for the smooth functioning of the economy. The point we would however like to emphasise is that deficit financing can be countenanced only if and to the extent that there is assurance of steady supplies of the essential commodities of consumption. Deficit financing should not also be expected to provide the elasticity in money supply which must really come through the credit system. The scope for deficit financing at any particular time must be judged not so much in terms of movements in wholesale prices or in money supply but rather in the light of the trends in the cost of living indices. When costs of living are high, increased purchasing power injected into the system is apt to lead to increased demand for the basic commodities of consumption and push up costs of living still further.

40. From this point of view it is important to stress that the scope for deficit financing is intimately bound up with the policy regarding physical controls. If the supply and distribution of foodgrains, and other essential commodities such as cloth and gur or sugar, could be so organised as to meet the minimum requirements of the population, the dangers of deficit financing would to that extent be minimised. The impact of larger money incomes would then fall on other commodities and services which matter less from the point of view of the cost of living of the large majority of the people. Without a firm and clear policy regarding controls, and without also assurance of continuity in that policy over a period of time, not only does the scope for deficit financing become limited but there is a perpetual danger of even relatively small budgetary deficits generating inflationary pressures. In this sense, therefore, it is not finance as such which limits the scale of investment effort but rather the limitations of policy and administration regarding the supply and distribution of foodgrains and other essential commodities.

*The sterling balances do not form part of the reserves of the Central Government; they are the counterpart of savings forced on the community at large during the last war, and are held by the Reserve Bank as the country's foreign exchange reserve and backing to the currency.

IV. EXTERNAL RESOURCES AND THE PROBLEM OF FOREIGN EXCHANGE

The gap in internal resources

41. The low levels of consumption prevailing in the country and the shortages of essential commodities even at these low levels—which are ultimately the factors that limit the scope for deficit financing—raise in a concrete form the problem of external assistance in relation to development. It was indicated earlier in this chapter that a development programme of the order of Rs. 2,069 crores would absorb over 60 per cent of the savings of the community in this period. Part of the pressure this throws on the economy will be met by resources which withdrawals from the sterling balances will make available. There would still be need, however, for further external resources.

42. To date, the loans and grants received by India from abroad in the planning period, which could be used for its development programme, amounts to Rs. 156 crores. The breakdown of this is as follows :

	(Rs. crores)
United States Food Loan	90
Commonwealth Assistance under the Colombo Plan	12
Assistance under the Technical Co-operation Agreement, 1952	25
Assistance under the First Supplement to the Technical Co-operation Agreement, 1952.	18
Proceeds of Loans from International Bank 1950	9
Other aid]	2
	156

The budgetary resources of the Central and State Governments, together with external assistance already received, thus add up to Rs. 1414 crores. If deficit financing is to be avoided altogether, and the additional imports which can be financed from the sterling balances are to be allowed to increase the availabilities in the private sector, the further resources necessary may be placed at Rs. 655 crores. If resources of this order are forthcoming, this, together with the sterling balances and the current domestic savings which are estimated to go up meanwhile by nearly 50 per cent will ensure the implementation of a total investment programme of the order of about Rs. 3500—3600 crores (of which about a half will be the net investment visualised in the public sector) without excessive strain on the community. Whatever austerity the country is capable of has to be exercised in any case, but to the extent that the availability of external resources falls short of the target the strain imposed on the community will have to be correspondingly larger.

Foreign exchange requirements and foreign exchange savings

43. The internal pressures to which we have been referring are apt to manifest themselves to a great extent in balance of payments difficulties and shortages of foreign exchange. External assistance, if available, would thus serve two functions simultaneously ; it would

make available adequate supplies of foreign exchange and also supplement the investible resources in the country. In the schemes included in the Five Year Plan itself, the direct foreign exchange expenditure involved is comparatively small, being only about Rs. 400 crores over the five year period. But this does not represent the real foreign exchange requirements of the development programme for the economy taken as a whole. The relatively small proportion of direct foreign exchange expenditure in the Plan is attributable to the pattern of development proposed to be initiated by the public sector in this period. If industrialisation were more prominent in the public development programme the proportion of direct foreign exchange expenditure would have been considerably higher. The emphasis on agriculture, together with the general bias in favour of labour intensive methods in order to utilise the manpower in the country to the maximum, accounts for the greater reliance on domestically available resources as far as the Plan itself is concerned. But the fact that most of the expenditure is internal and would expand domestic incomes which would, in turn, generate additional demand for raw materials and basic commodities of consumption, makes it essential to make available these commodities by importation from abroad in so far as additional supplies are not forthcoming domestically. To the extent that the prices of imported commodities are higher than the prices at which the cost of the Plan is estimated, the external resources necessary for meeting the deficit in the Plan will of course be correspondingly larger.

44. Balance of payments difficulties and shortage of foreign exchange resources are normal features in periods of development. In the Plan, a high priority is accorded to lines of production which will help to reduce import requirements and increase the country's exportable surpluses. There is thus an attempt to anticipate and meet to some extent the kind of problem that is likely to come up in the future. The fact remains, however, that development cannot be completed in a short period, and it will therefore be necessary to visualise a programme of rising capital goods imports for many years to come.

45. For assessing the effect of the Plan on the balance of payments of the country, we have assumed the maintenance of strict import and export controls throughout the period of the Plan, and tried to estimate the export surpluses and import requirements by 1955-56 on the basis of the production and consumption targets in the Plan. An important variable, however, which would affect export surpluses and import requirements is the level of investment itself in the country ; for the purpose of making a first assessment, we have assumed a rate of outlay corresponding to a development expenditure on public account of the order of Rs. 1700 crores (*i.e.*, an expenditure which could be more or less met from the budgetary resources of the Central and State Governments, deficit-financing to the extent of about Rs. 290 crores, and the external assistance already received). A higher rate of outlay, corresponding to the target of Rs. 2069 crores in the Plan is not likely to make a proportional contribution to production within this period, as the additional expenditure would be mainly on schemes started in the second half of the Plan period which would not be completed in this period ; but it would increase to some extent the direct foreign exchange requirements of the development programme and, even more significantly, the level

of consumption demand in the country. With more purchasing power injected into the system the demand for food, for instance, may be higher. It is difficult, however, to forecast with any certainty the likely pressures that may be set up in this manner, and we have therefore left over for the present—but to be taken account of at a later stage—the effect on import requirements and export surpluses of a rate of a development expenditure corresponding to the target of Rs. 2069 crores in the Plan. Statement 'A' attached at the end of this chapter shows our estimates of the exports and imports, by the end of the Plan of some of the major commodities entering India's foreign trade. These estimates are based on the production and consumption targets in the Plan, but assume the maintenance of strict export and import controls in order to maintain the foreign exchange deficit within the resources that would be available from the sterling balances. It will be seen that, at the prices prevailing in 1950-51 and in respect of the group of commodities shown, the increase in foreign exchange earnings by the end of the Plan due to higher exports and reduced imports would amount to nearly Rs. 133 crores. This would however be offset to the extent of nearly Rs. 108 crores through decreases in the volume of exports and increases in the volume of imports required in order to attain the higher targets of internal production and consumption visualised in the Plan. The net improvement in foreign exchange earnings thus works out to roughly Rs. 25 crores. This estimate does not cover the foreign exchange savings from the opening of the projected oil refineries and from the expansion of certain newly-developing lines of exports to countries in South East Asia ; on the other hand, it does not also include foreign exchange required for additional imports of machinery, equipment and certain metals needed to maintain the high levels of investment visualised towards the closing stages of the Plan. On balance, taking all items into account, there might not be any significant net improvement in the foreign exchange position as compared to 1950-51.

Likely movements in terms of trade and their effects

46. Considering that there was a surplus in balance of payments in 1950-51, this order of improvement on that base would suggest a fairly comfortable foreign exchange position by the end of the Plan. There are however a number of imponderables here, and the most important of them is the likely movement in the terms of trade. In the last few decades there have been considerable changes in India's terms of trade. Between 1938-39 and 1948-49, there was a movement in India's favour to the extent of about 15 per cent, which appears to have cancelled out roughly the deterioration which took place in the previous decade. Between 1948-49 and 1950-51, on account of external factors, there was a sharp improvement in India's terms of trade to the extent of about 22 per cent. The large surplus in balance of payments in 1950-51 was thus fortuitous. After July 1951 there was an equally sharp deterioration ; by April 1952 the terms of trade had returned to the 1948-49 level, and since then they have tended to worsen further. Although one cannot generalise on the basis of short period trends, it would appear that, on a long view, any improvement in terms of trade over the 1948-49 level is likely at best to be of a temporary character, and that in fact the terms of trade might become more unfavourable to India to the extent of about 10 per cent.

47. At the 1948-49 terms of trade, India is likely to have a deficit in its balance of payments at the end of the Plan despite the net improvement referred to earlier. There would meanwhile have been, however, considerable increases in the availabilities of certain commodities in conformity with the targets in the Plan, and in the event of difficulties in balance of payments it will be possible, in an emergency, to draw on them for balancing the country's external accounts.

Foreign exchange deficits and balance of payments policy during the Plan

48. The calculations made above rest on the assumption of strict import and export controls and a public development programme of the order of Rs. 1700 crores. If, as is intended, the target level of Rs. 2069 crores is to be reached without pressure on consumption standards and on economic activity in the private sector, imports of some commodities will have to be increased and exports of some reduced. We shall have to provide not only for more food and raw materials to meet the additional demands generated by the expenditure but also for additional machinery, equipment and other producer goods. The precise effect this will have on the foreign exchange position of the country cannot be forecast at this stage, but a deficit of about Rs. 180-200 crores per annum in balance of payments seems likely and even necessary in the remaining years of the Plan. About Rs. 50 crores of the balance of payments deficits in this period could be financed each year from the sterling releases, but the ability to meet deficits in excess of this will depend to a great extent on the availability of additional external assistance. In the last analysis, the role of external assistance in relation to the Plan will be to supplement the real resources of the country with commodities for which additional demands will be generated in the process of development but the domestic supplies of which are limited. External assistance would help to avoid dislocations and to maintain a certain measure of stability in the economy. It follows that, for a balance of payments policy which is integrated with the overall requirements of planned development, it is necessary that external assistance is received in a form which allows flexibility in the use of the foreign exchange resources provided by it.

49. We should perhaps emphasise here that balance of payments difficulties are an inevitable aspect of development at this stage. Since the development of an economy like that of India requires initially imports on a large scale of machinery, capital equipment and other producer goods as well as of consumer goods like foodgrains, foreign exchange is bound to be a bottleneck for some time to come. In fact the degree of the pressure on foreign exchange under these conditions may be even regarded as an index of the extent to which the internal productive resources are being utilised. What has to be ensured is, on the one hand, that the development programme is so framed as to increase the potential exportable surpluses and decrease the import requirements of the country and, on the other, that the pressure on foreign exchange is kept within manageable limits. Apart from external factors, the actual deficits in balance of payments will depend to a great extent not only on the investment levels which are sought to be reached but also on the rate at which consumption in the country is allowed to rise from year to year.

V. THE PROBLEM OF MOBILISING FINANCIAL AND PHYSICAL RESOURCES

50. The above assessment of resources, it will be seen, has been done largely in financial terms. This has been to some extent inevitable in that the Plan is a programme of development to be implemented by the Central and State Governments out of the budgetary resources likely to be available to them. But an attempt has also been made to estimate the total investment on private and public accounts that is likely to take place in this period and to assess the capacity of the country to divert resources of this order into capital formation. In view of the limited statistical data available, and also in view of the various complexities involved in forecasting the likely effects of particular rates of investment, the assessment has had to be, by necessity, a rough and ready one. The scope for increasing investment expenditure has been considered broadly with reference to the supply and demand conditions of certain commodities which either figure largely in the pattern of consumption and investment of the community or enter the country's foreign trade and might conceivably lead to bottlenecks. As we have stressed earlier, it is not finance as such which limits the rate of investment. For instance, the scope for deficit financing is intimately bound up with efficient organisation of the supply and distribution of essential commodities ; if the supply and distribution of these improve, either through improvements in organisation or for reasons that we are not able to foresee now, to that extent it might become possible to step up the rate of development expenditure in the future. In other words, though the assessment of resources has been presented in financial terms, the approach is basically in terms of physical resources. It is important that a programme which aims at using the resources of the country to the maximum extent possible should be conceived of and translated back at every stage in terms of the various types of physical resources needed for its implementation.

51. Among the unutilised resources of the country, manpower is undoubtedly one of the most important. In Chapter I we have referred at some length to the problem of utilising under-employed manpower for the development programme. It was pointed out there that unless productivity of labour could be raised quickly and the availability of basic essentials like foodgrains increased, a programme of full employment, designed to put to work all idle labour, would run the risk of breaking down on account of excessive pressure of money incomes on available supplies. Two conclusions were drawn from this : first, that in promoting higher levels of employment it was important to ensure that the newly mobilised labour would be able to raise total output with the shortest possible time lag; and second, that in the initial stages of development reliance will have to be placed as far as possible on voluntary labour, money being used mainly as a means of attracting and organising such labour. Both these have been kept in view in framing the programme of development for this five year period. In the programme for agriculture, there is considerable emphasis on quickly maturing forms of investment ; the consequent increase in food supplies is designed to remove one of the major bottlenecks to embarking on a programme of fuller mobilisation of manpower resources. The Plan also visualises using finance, wherever possible, as a means of attracting and organising under-utilised manpower and other

resources. The community development programme is an instance in point. There is also provision in the Plan for assistance to local authorities in respect of schemes for which local effort is forthcoming. Famine relief works, it is visualised, will be so arranged in future as to fit in with the larger needs of development. Minor irrigation projects are another field in which mobilisation of local manpower could contribute considerably to the lowering of costs. For reducing the monetary outlay on development, the possibilities of paying part of the wages and salaries in the form of savings certificates could be explored with advantage.

52. While it is necessary to progress in these ways towards fuller utilisation of the large unutilised manpower resources in the country, it is also necessary to strengthen the financial mechanism behind planning. Finance is not only a means of accounting ; it is also a potent instrument for directing resources along desired lines. A necessary condition of the public sector playing an increasingly important part in development is that there should be such organisational changes in the financial system as will enable the public authorities to have command over the necessary resources. In the earlier sections of this chapter, we have referred at various points to the potentialities of increasing the budgetary resources of the Central and State Governments. These potentialities have to be explored to the full. The increase in budgetary resources would have to come to a considerable degree from additional tax revenues ; to emphasise that these should as far as possible be through widening the coverage of taxation is not to deny that, in the mass effort which is needed for development, considerations of equality in sacrifice would require to some extent further additions to the direct taxation of higher incomes. In regard to borrowing, there is particularly scope for improvement in techniques. As we have mentioned earlier, it is important that, with the country embarking on a long term programme of development, techniques of borrowing are so adapted as to bring home to the people the larger purposes for which the loans are required and also to give the greatest possible scope for their direct participation in the financing and implementation of the various development programmes.

53. The progress of the small savings movement in recent years suggests that, with suitable adaptation to the preferences of different sections of the community and with a system of collection which will reach the farthest parts of the country, the savings of the lower income groups could become a growing source of finance for development. On an experimental basis, certain improvements in the facilities provided by the Post Office Savings Bank are to be shortly introduced in the Bombay State. These include :

- (a) introducing the cheque system both for withdrawals and deposits ;
- (b) affording greater facilities to the depositors by organising the working of the Bank on the lines of commercial banks ; and
- (c) opening branches in a larger number of rural post offices.

The extension of these facilities to other States on the basis of the results of this experiment is likely to attract substantially more savings to the public sector in the next few years. Meanwhile, other methods of increasing small savings will also have to be explored.

54. Insurance has been in all countries a stimulus to, as well as an important channel for, private savings; it has therefore to be organised in India to fulfil its legitimate function in development. The precise steps to be taken in enlarging State participation in this sphere is a matter for closer examination. Apart from other measures which might be considered, the Government has in the Post Office Insurance Fund a medium even now for entering the field in a more active way than hitherto. Institution of provident funds is another method open for encouraging and mobilising savings on a large scale. The extension of this system recently to cover workers in six major industries indicates a direction in which more progress must be made.

55. Organisational changes along these lines will not only act as a powerful lever in the initial stages of development but will contribute to greater self-reliance in the further stages of this process. Parallel changes will be necessary also in other spheres to increase the supply of technical, managerial, and administrative resources in the country. The problems arising in this connection have been referred to elsewhere in this Report.

Statement 'A'—Production, Imports and Exports of Certain Major Commodities Entering India's Foreign Trade (referred to in para. 45)

Name of Commodity	PRODUCTION		IMPORTS*				EXPORTS*			
	Quantity		Value (Rs. crores)		Quantity		Value (Rs. crores)			
	1950-51	1955-56	1950-51	1955-56	1950-51	1955-56	1950-51	1955-56		
I	2	3	4	5	6	7	8	9	10	11
Raw Cotton (Lakh bales)	29.7	42.2	12.3	12.0	100.8	98.3	0.8	1.3	7.1	11.5
Raw Jute (Lakh bales)	33.0	53.9†	18.8	8.1	27.6	11.9	...	...	...	...
Oil Seeds (Lakh tons)	51.0	55.0	0.4	...	2.1	...	2.0	0.5†	17.0	4.2
Sugar (Lakh tons)	11.2	15.0	0.6	...	5.3	...	0.3	0.1	0.1	0.5
Food grains (Million tons)	54.0‡	61.6	2.1	3.0¶	80.6	115.0	...	...	...	...
Cotton Manufactures :										
Yarn (Million lbs.)	1179.0	1640.0	0.5	...	0.3	...	74.5	10.0	17.1	2.3
Mill Cloth (Million yards)	3718.0	4700.0	5.7	1.0	1.3	0.2	1283.0	1000.0	117.9	91.9
Hand loom (Million yards)	810.0	1700.0								
Jute Manufactures (Lakh tons)	8.9	12.0	6.5	10.0	137.8	212.0

ASSESSMENT OF RESOURCES

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Name of Commodity	PRODUCTION		IMPORTS*				EXPORTS*			
			Quantity		Value (Rs. crores)		Quantity		Value (Rs. crores)	
	1950-51	1955-56	1950-51	1955-56	1950-51	1955-56	1950-51	1955-56	1950-51	1955-56
I	2	3	4	5	6	7	8	9	10	11
Coal (Million tons)	32.0	38.0	...	...	...	...	1.0	3.0	3.4	10.2
Pig iron (Lakh tons)†	3.5	6.6	...	...	...	...	...	...	...	...
Steel (Lakh tons)	10.0	13.7	2.8	5.0	21.7	38.4	...	...	...	...
Fertilisers :										
Ammonium Sulphate (Lakh tons)	0.5	4.5	3.7	1.5	11.4	4.6	...	...	...	...
Other (Lakh tons)	0.6	1.8	0.7	0.2	0.9	0.3	...	...	...	...
Oils (Lakh tons)	11.2**	13.0	0.2	0.4	3.3	6.6	1.2	1.7	23.0	32.5
Cement (Lakh tons)	26.9	48.0	0.1	...	0.2	...	0.3	3.0	0.3	3.6

*Value of imports and exports in 1955-56 is estimated at 1950-51 prices. Value of exports includes export duty.

†Exclusive of the production of mesta.

‡The fall in the exports of oilseeds will be to a large extent compensated for by the increase in the exports of oil.

§Production in 1950-51 was 52.7 million tons; the targeted increase in the period of the Plan is over the 1949-50 level when the production was 54.0 million tons.

¶It is difficult to forecast the precise requirements by way of food imports by the end of the Plan as they will have to be adjusted from time to time to the level of investment outlay in the country and the pressures it tends to generate. Provisionally it has been assumed that about 3 million tons foodgrains would have to be imported every year in the period of the Plan.

||Refers to the quantity of pig iron available for the foundries *i.e.*, the quantity available over and above what has been consumed in the manufacture of steel.

**Production in 1950-51 has been assumed to be the same as in 1949-50.

CHAPTER IV

THE FIVE YEAR PLAN IN OUTLINE

THE FIVE Year Plan involves an outlay on development by public authorities of Rs. 2069 crores over the period of 1951—56. In determining this target of expenditure, the main considerations that have been taken into account are : (1) the need for initiating a process of development that will form the basis of the much larger effort needed in the future ; (2) the total resources likely to be available to the country for the purpose of development ; (3) the close relationship between the rates of development and the requirements of resources in the public and in the private sectors ; (4) the necessity of completing the schemes of development initiated by the Central and State Governments prior to the commencement of the Plan ; and (5) the need to correct the maladjustments in the economy caused by the war and the partition.

2. Our approach to planning and the long-term targets of investment and income to be aimed at have been set forth in the earlier chapters. The vast and complex problems of structural and institutional re-organisation that an effort of the required magnitude will raise have also been touched upon. Viewed against this background, the Five Year Plan is essentially a plan of preparation for laying the foundation for more rapid development in the future. The targets of investment which the Plan sets, as well as the increases in production which are expected to be achieved thereby, are modest when compared to what has to be achieved within the next twenty years or so but, it must be emphasised, both are high compared to last trends.

PRIORITIES AND THE PATTERN OF OUTLAY

3. The distribution of expenditure in the development programme of the public sector is summarised in the following table :

	Rs. crores	Per cent of total
Agriculture and Community Development	361	17·5
Irrigation	168	8·1
Multi-purpose Irrigation and Power Projects	266	12·9
Power	127	6·1
Transport and Communications	497	24·0
Industry	173	8·4
Social Services	340	16·4
Rehabilitation	85	4·1
Others	52	2·5
	2069	100·0

This distribution reflects the priorities discussed in Chapter II. In the present Plan period, agricultural development receives the highest precedence, which necessitates an extensive programme of irrigation covering minor as well as major projects. Generation of

electric power, which is linked in most cases with the major irrigation projects, has also a high priority in its own right. Production and extensive distribution of electrical energy on a large scale is essential not only for the growth of small scale enterprises and for rural development in the larger sense of the term but for industrial expansion. In regard to transport, public authorities have a special responsibility. The railways are a nationalised enterprise which has to respond to the needs of development in both agriculture and industry. The State has further to take the initiative in linking up the whole country through a system of roads reaching down to the village, and in promoting development in new lines like shipping and aviation.

4. The high priority given to agriculture (which as mentioned above, involves large scale investment in irrigation) as well as to basic services like power and transportation limits inevitably the investment which the public sector can itself undertake in industries. Industrial expansion in this five year period will rest largely on private initiative and resources, but they will be supplemented at certain points by the resources of the public sector as well as by foreign investment; programmes of the public and the private sectors together will not therefore be inconsiderable. In the sphere of social services, the needs are so large that what can be achieved through financial investment by public authorities is limited. In the present Plan, the rehabilitation of displaced persons absorbs a considerable proportion of the additional resources available for expansion of social services. The financial investment in social services has to be supplemented by direct community effort on a large scale for the liquidation of illiteracy, improvement of sanitation and hygiene, development of civic services, imparting of elementary technical training, etc. The lump-sum provisions in the Plan for the community development programme and for local works are designed, among other things, to evoke such community effort.

5. The significance of the outlay of Rs. 2,069 crores from the point of view of the additions it will make to productive equipment in the public and private sectors, and to the production potential of the community in the larger sense of the term, will perhaps be clearer from the following rough classification :

	(Rs. crores)
(1) Outlay which will add to the stock of productive capital owned by Central and State Governments	1,199
(2) Outlay which will contribute to building up productive capital in the private sector—	
(i) Expenditure on agriculture and rural development (excluding community projects and provision for scarcity affected areas)	244
(ii) Loans for transport and industry	47
(iii) Provision for stimulating local development (community projects and local works)	105
(3) Outlay on social capital	425
(4) Outlay unclassified above (including provision for scarcity affected areas),	49
TOTAL	2,069

It will be seen that nearly 60 per cent. of the planned outlay will result directly in the creation of productive capital in the ownership of the Central and State Governments ; this will be mainly under irrigation and power, transport and communications, and industry. The remaining 40 per cent will partly add to productive equipment in the private sector, partly provide assistance in the form of working capital or of advisory and administrative services, partly help to maintain and expand social services, and partly act as an incentive for community effort in development.

DISTRIBUTION AND PHASING OF EXPENDITURE

6. A break-up of the development expenditure of the Central and State Governments by major categories is given in the statements attached at the end of this Chapter. The distribution of the total outlay as between the Central and the State Governments is summarised below :

	(Rs. crores)
Central Government (including railways)	1,241
States : Part A	610
Part B	173
Part C	32
Jammu and Kashmir	13
TOTAL	2,069

7. According to the above classification, the outlay of the Central Government (including the railways) works out to almost 60 per cent. of the total. It must be emphasised that this distribution of outlay is not an indication of the schemes which fall within the respective spheres of the Centre and the States. The 'central' multi-purpose river valley schemes (*i.e.*, the Damodar Valley, Bhakra-Nangal, Hirakud, and Harike projects) are really the schemes of the State Governments, but in view of the fact that the territorial coverage of these projects extends in some cases over two or three States, the exact distribution of the financial liability as between them cannot be foreseen at this stage. The responsibility of finding the necessary finance for these schemes in the form of loans to State Governments also rests initially on the Centre. In regard to certain other schemes, the sharing of the financial responsibility has yet to be finally determined. For these and similar reasons the provisions in the Plan for community projects, minor irrigation and other local works, the five new major irrigation and power projects, scarcity-affected areas, rehabilitation of displaced persons, basic and social education, industrial housing, etc., are shown as part of the Central Government's development programme, though they belong primarily to the States.

THE FIVE YEAR PLAN IN OUTLINE

8. It is in the light of these observations that the distribution of the total planned outlay as between the Centre and the States, and the allocation of this outlay as between the major developmental heads, has to be seen. The following table summarises the outlay of the Centre and of the States (excluding Jammu and Kashmir) under various heads :

	(Rs. crores)			
	Centre	Part A	Part B	Part C
Agriculture and Community Development	186·3	127·3	37·6	8·7
Irrigation and Power	265·9	206·1	81·5	3·5
Transport and Communications	409·5	56·5	17·4	8·8
Industry	146·7	17·9	7·1	0·5
Social Services including Rehabilitation	191·4	192·3	28·9	10·4
Miscellaneous	40·7	10·0	0·7	...
TOTAL	1240·5	610·1	173·2	31·9

9. The outlay proposed in the development programmes of States other than Jammu and Kashmir is shown below :

<i>State Plans</i>			(Rs. crores)		
PART A STATES		PART B STATES		PART C STATES	
Assam	17·49	Hyderabad	41·55	Ajmer	1·57
Bihar	57·29	Madhya Bharat	22·42	Bhopal	3·90
Bombay	146·44	Mysore	36·60	Bilaspur	0·57
Madhya Pradesh	43·08	Pepsu	8·14	Coorg	0·73
Madras	140·84	Rajasthan	16·82	Delhi	7·48
Orissa	17·84	Saurashtra	20·41	Himachal Pradesh	4·55
Punjab	20·21	Travancore-Cochin	27·32	Kutch	3·05
Uttar Pradesh	97·83			Manipur	1·55
W. Bengal	69·10			Tripura	2·07
				Vindhya Pradesh	6·39
TOTAL	610·12	TOTAL	173·26	TOTAL	31·86

These State Plans were drawn up initially over a year ago in consultation with the State Governments concerned and on the basis of forecasts supplied by them regarding their likely revenues and expenditures in the period of the Plan. In cases where the State Governments made proposals subsequently to raise the size of their State Plans, the upward revisions have been accepted provisionally subject to the resources corresponding to them being raised by the governments concerned.

10. The financial basis of the Plan has been discussed in detail in Chapter III. A rough picture of the estimates in relation to the development programmes can be had from the following summary table :

	(Rs. crores)		
	Central Government	States (including Jammu and Kashmir)	Total
Planned Outlay on Development	1,241	828	2,069
Budgetary Resources—			
(i) Savings from current revenues	330	408	738
(ii) Capital receipts (excluding withdrawals from reserves)	396	124	520
(iii) Internal inter-governmental transfers in connection with the Plan (i.e., “Central assistance”)	(—) 229*	229*	...
	497	761	1,258
External Resources already received	156	...	156
TOTAL	653	761	1,414

As brought out in the assessment of financial resources for the Plan, the balance of Rs. 655 crores necessary for the public development programme will have to be found from further external resources that may be forthcoming or from internal taxation and borrowing as far as possible and by deficit-financing.

11. In the phasing of development expenditures originally proposed by many of the States there was on the whole a somewhat excessive concentration of outlay in the first two years of the Plan. This was in some cases inevitable in that it only reflected the rising tempo of expenditures towards the culminating stages of certain schemes already under implementation. The actual progress of expenditure (as indicated by the revised budgets for 1951-52 and the budget estimates for 1952-53) shows that the concentration of expenditures in the first two years originally proposed has already been corrected to a great extent. It is, however, clear that in 1953-54 expenditures on a number of schemes under implementation will reach their peak levels and that there would be in consequence a heavy pressure on resources both at the Centre and at the States. New schemes which can be postponed without detriment should not therefore be taken up in this year. In so far as can be foreseen at this stage, there will be scope for starting work on new schemes, which involve large expenditures once they are undertaken, only towards 1954-55 and in 1955-56.

* Includes rupees four crores by way of statutory grants for scheduled tribes which will be available for part of the development expenditure on scheduled tribes in the Assam State Plan.

APPRAISAL OF THE PROGRAMME IN THE PLAN

12. In appraising the results of the Plan, the development programme in the public sector cannot be taken by itself. This programme, as mentioned earlier, is based on an appraisal of the needs of the economy as a whole and is related to an assessment of the effort that is likely to be forthcoming from the private sector. In the case of agriculture, where the problem is primarily one of providing irrigation, fertilisers and manures, better seeds, as well as extension services which will carry to the farmer the know-how of technical improvements, the supplemental investment required would to a great extent be in the form of direct contributions of labour by the farmers themselves. In the sphere of industrial development, we have taken into account the working plans of 40 large and medium scale industries which cover about two-thirds of the total output of factory enterprises in the country. Approximate estimates regarding the likely requirements of manufacturing industries and of the likely sources of finance are shown elsewhere in this Report. The results of the Plan can thus be viewed within a wider setting as far as agriculture and manufacturing industry are concerned. In other spheres of development, particularly in respect of professions and services and small-scale enterprises in transport and industry, only broad judgements can be made at this stage. The contribution that community effort may make to extension of education, sanitation, communications, etc. cannot also be assessed in advance in precise terms. In the paragraphs that follow are outlined the salient features of the development programmes in the public and private sectors ; their results in terms of certain select targets and indices are shown in the statement below :

	1950-51	1955-56
I. Agriculture		
Foodgrains* (million tons)	52.7	61.6
Cotton (lakh bales)	29.7	42.2
Jute (lakh bales)	33.0	53.9
Sugarcane (million tons)	5.6	6.3
Oilseeds (million tons)	5.1	5.5
II. Irrigation and Power		
Major irrigation (million acres) }	50.0	69.7
Minor irrigation (million acres) }		
Electrical energy (installed capacity in million kws)	2.3	3.5
III. Industry		
Iron and Steel (lakh tons)		
Pig iron available for foundries.	3.5	6.6
Finished Steel	9.8	13.7
Cement (lakh tons)	26.9	48.0
Aluminium (thousand tons)	3.7	12.0

* Including gram and pulses. Output in 1949-50 (used as the base for fixing the target for 1955-56) was 54.0 million tons.

	1950-51	1955-56
Fertilisers (thousand tons)		
Ammonium sulphate	46.3	450.0
Superphosphate	55.1	180.0
Locomotives (Nos.) . . . . .	...	150.0
Machine tools (Nos. in thousands)	1.1	4.6
Petroleum refining		
Liquid petroleum (million gallons)	N. A.	403.0
Bitumen (thousand tons)	N. A.	37.5
Cotton manufactures		
Yarn (million lbs.)	1179	1640
Mill cloth (million yards).	3718	4700
Handloom (million yards).	810	1700
Jute manufactures (thousand tons)	892	1200
Agricultural machinery		
(a) Pumps, powerdriven (thousands)	34.3	85.0
(b) Diesel engines (thousands)	5.5	50.0
Bicycles (thousands)	101.0	530.0
Power alcohol (million gallons)	4.7	18.0
IV. Transport		
Shipping (tonnage)		
Coastal (GRT thousands)	211.0	315.0
Overseas (GRT thousands)	173.5	283.0
Roads		
National Highways (thousand miles)	11.9	12.5
State Roads (thousand miles)	17.6	20.6
V. Education*		
Pupils in :		
Primary schools (lakhs)	151.1	187.9
Junior Basic schools (lakhs)	29.0	52.8
Secondary schools (lakhs)	43.9	57.8
Industrial schools (thousands)	14.8	21.8
Other technical and vocational training schools (thousands)	26.7	43.6
VI. Health		
Hospitals (beds in thousands)	106.5	117.2
Dispensaries (number)		
Urban	1358	1615
Rural	5229	5840

*These estimates do not cover (except in respect of industrial schools), Hyderabad, Rajasthan, Ajmer and Vindhya Pradesh. In some cases, data for a few States (e. g., Uttar Pradesh in respect of primary schools, and Madhya Pradesh in the case of junior basic, and secondary schools) are also not covered in these estimates.

VII. <i>Developmental Institutions</i>	1950-51	1955-56
Panchayats (thousands)	55.1	69.1
Co-operative societies*		
Credit (thousands)	87.8	112.5
Sale and marketing (thousands)	14.7	20.7
Multi-purpose (thousands)	31.5	40.5
Lift irrigation (Nos.)	192.0	514.0
Co-operative farming (Nos.)	352.0	975.0
Others (thousands)	27.3	35.8
Total (thousands)	161.9	211.1

AGRICULTURE AND COMMUNITY DEVELOPMENT

13. Agriculture and community development is a comprehensive description for several items of reconstruction which include, besides agricultural production, livestock improvement and dairying, forests and soil conservation, co-operation and village panchayats. The Plan makes a total provision of about Rs. 361 crores of which Rs. 184 crores is for agriculture, a little over Rs. 100 crores for community projects and rural development, Rs. 22 crores for animal husbandry and dairying, Rs. 15 crores for stimulating local development through the agency of local authorities, another Rs. 15 crores for development programmes in scarcity-affected areas, and Rs. 12 crores for forests and soil conservation. The role of the Central Government is to co-ordinate the programmes of the States and also to assist them in certain important respects. The Central Government's plan provides for the establishment of a national extension organisation, completion of the present programmes of the Central Tractor Organisation, schemes for the improvement of livestock, measures for soil conservation as well as for co-operative training, for experiments in co-operative farming and other aspects of co-operative organisation. The Technical Co-operation Programme initiated this year has strengthened considerably the programmes for tubewell development, marine fisheries, locust control and the training of extension workers.

14. The programme for increasing agricultural production covers foodgrains as well as cotton, jute, sugarcane, and oilseeds. In foodgrains, the target for 1955-56 represents an increase of about 14 per cent over the level in 1949-50.† In the case of cotton and jute, production is expected to go up by over 42 per cent and 63 per cent respectively above the level in 1950-51, while the increases in sugarcane and oilseeds are estimated at about 13 per cent and 8 per cent respectively. It might be mentioned here that, in 1951-52, the production of cotton was 33 lakh bales as compared to 29.7 lakh bales in 1950-51 and the target of 42.3 lakh bales by 1955-56. Jute production in 1951-52 was 47 lakh bales—an increase of 14 lakh bales over 1950-51; the additional production now to be secured in terms of the target works out therefore at only seven lakh bales. Foodgrains production for 1951-52, as shown by official

*The estimates here exclude data for Punjab, Orissa, Hyderabad, Pepsu and most of the Part C States.

†Compared to 1950-51, when production was 1.3 tons lower, the percentage increase would be somewhat larger.

figures was about the same as in the previous year and it is here that special effort is now called for. The detailed programmes for achieving the food targets, formulated initially in 1950-51 in consultation with the State Governments, were reappraised in early 1952. Following this reappraisal the original target of 7·2 million tons in the State Plans had to be lowered to 6·0 million tons. The programmes have therefore been strengthened by an additional lump-sum provision of Rs. 30 crores for minor irrigation.

15. The community development projects, which are conceived primarily as a programme of intensive development of selected areas, would also contribute to raising the level of agricultural production. A beginning has been made this year with 55 projects. The central object of the community development programme is to mobilise local manpower for a concerted and co-ordinated effort at raising the whole level of rural life. The emphasis is inevitably on improving the level of agricultural productivity. This is reflected in the fact that the bulk of the projected expenditure is devoted to the provision of irrigation, land development and extension services. The community development projects represent in content a synthesis of ideas gathered from rural development work in various parts of the country. As further experience is gathered, changes in structure and emphasis may be necessary, but the intention is to cover the entire country with schemes designed to promote intensive development through increased agricultural productivity. The Five Year Plan makes a lump-sum provision of Rs. 90 crores for such development. There is, in addition about Rs. 10 crores in the State Plans for other programmes of rural development, including schemes designed to promote and strengthen village panchayats.

16. Elsewhere in this Report is also a scheme for a national extension service for agricultural development; there is provision of rupees three crores for this in the Plan. This organisation, together with community development projects and the additional minor irrigation visualised, will help to step up the production of foodgrains in the country by 7·6 million tons compared to the level in 1949-50.

17. In the period of this Plan, some parts of the country may not stand to benefit directly from the various development schemes taken up. In order that the Plan creates interest on the part of as wide a section of the community as possible, and in order to draw forth local initiative and resources, a lump-sum provision of Rs. 15 crores is being made in the Plan for local development works. It is hoped that schemes will be forthcoming from municipalities, district and taluka boards and other local bodies for which financial assistance can be given out of this lump-sum provision to attract and organise local resources on a multiplied scale. There is also a special provision of Rs. 15 crores in the Plan for organising relief activities in scarcity-affected areas on developmental lines.

IRRIGATION AND POWER PROGRAMMES

18. The programme for irrigation and power is based primarily on projects initiated in the period prior to the Plan. The total cost on the projects thus taken over into the Plan has been estimated at Rs. 765 crores, of which an expenditure of Rs. 153 crores had already been

incurred up to the end of 1950-51. The provision for these projects in the period of the Plan is Rs. 518 crores, leaving only a little under Rs. 100 crores to be spent in the subsequent years. The progress made on these projects will help, within the period of the Plan, to bring an additional area of 8.5 million acres under irrigation and to generate 1.1 million kws of additional power. On the completion and full development of these projects, the total addition to the area irrigated will be 16.9 million acres and to power 1.4 million kws.

19. In view of the high priority given to agriculture, the construction of the projects in hand has been so adjusted as to facilitate the maximum extension of irrigation in this period. The generation of power has been related to the demand that already exists or is likely to grow in the near future. Provision is however being made in the design of dams and other works for installing additional units as and when additional demands rise.

20. Of the provision of Rs. 518 crores in the Plan on projects in progress, well over half will fall in the first three years of the Plan. During this period the pressure on financial as well as technical resources will prevent work being started on new projects. There will be scope for such additions only as from 1954-55. The five new irrigation and power projects which are proposed to be taken up towards the later stages of the Plan are the following: Kosi (Stage I), Koyna (Stage I), Krishna (the scope of which is not yet defined), Chambal (Stage I) and Rihand. The total cost of these projects will be well over Rs. 200 crores, out of which it is expected that it might be possible to spend Rs. 40 crores during the period of the Plan.

21. The programme for irrigation and power in the Plan,* taking projects in progress as well as the new projects proposed, has to be viewed as part of a more long-term programme intended to add, within the next two decades, 40-45 million acres to the area now under irrigation and seven million kws to the existing power generating capacity.

22. The irrigation and power benefits from the major projects in the period of the Plan will be supplemented by the results of the minor irrigation programme and by the extension schemes of private electricity undertakings. The minor irrigation programme in the Plan, involving an expenditure of Rs. 77 crores, is as follows:—

	Area benefited (million acres)
Dams and channels	4.4
New wells	1.1
Repairs and derelict wells	0.5
Tubewells (other than those included in the major irrigation programme)	0.7
Tanks	0.8
Pumping installations	0.7
Schemes in respect of the additional provision for minor irrigation	3.0
	11.2

*The Plan includes, in addition to the items mentioned, a provision of rupees two crores for carrying out investigations into development possibilities in irrigation and power.

As regards power, the extension projects of private electricity undertakings will add 176,000 kws of installed capacity in the period of the Plan.

23. There are parts of the country in which scope exists for large irrigation projects and there are others in which only smaller projects are possible. Each area has to be served by the kind of schemes for which it offers the best facilities. Large and small projects are thus complementary and not competitive. The Plan includes eight irrigation projects (including) multi-purpose projects but excluding new major irrigation projects mentioned in para 20 costing above rupees five crores each, sixteen costing between rupees one crore and rupees five crores, twenty-one costing between Rs. 50 lakhs and rupees one crore, and twenty-seven schemes costing between Rs. 10 lakhs and Rs. 50 lakhs.

24. Rural electrification has so far made little progress in the country, only one in about 200 villages being served with electricity. The Plan makes a provision of Rs. 27 crores for extending rural electrification. This programme is mainly confined to the Southern States of Madras, Mysore and Travancore-Cochin, but the scope for rural electrification will undoubtedly grow as more power becomes available in other areas of the country. Electricity will be useful not only for agricultural operations like pumping, but also for the processing of agricultural produce and for other cottage and small-scale industries in the villages. There is also a special advantage in the encouragement of agricultural load since utilization of power in agriculture is estimated to require only about one-third the investment required in industry. Moreover, most of the equipment required for utilization of power in agriculture can be produced in the country and its operation does not require technical skill of a high order.

INDUSTRIAL DEVELOPMENT

25. The expenditure on Industry, as shown in the development programmes of the public sector, is Rs. 173 crores ; this covers Rs. 140 crores to be spent on large-scale industries and ancillary transport expansion, Rs. 27 crores on cottage and small-scale industries, and about rupees six crores on mineral development and scientific and industrial research. Some of the industrial schemes in the public sector are, however, shown under other heads. For instance, the Chittaranjan locomotive factory and the all-steel coach factory are part of the development plan for railways. The net investment in manufacturing industries figuring in the public development programme taken as a whole, but excluding a lump-sum provision of Rs. 50 crores for basic industries and transport (about which more will be said below), is Rs. 94 crores over the five years. Investment in the private sector on expansion of industries and on modernisation and replacement is likely to be of the order of Rs. 383 crores. The total investment on industrial development in this period can thus be placed at Rs. 477 crores.

26. The development programme in the public sector provides for a new iron and steel project estimated to cost Rs. 80 crores over a period of six years from the date of commencement ; the expenditure in the period of the Plan, estimated at Rs. 30 crores, is to be financed partly by Government and partly by private enterprise. Most of the industrial projects in

hand in the public sector will be completed by 1953-54. The Sindri fertiliser factory has commenced production and it is expected that it will shortly reach a monthly rate of output of 1,000 tons of ammonium sulphate. With the estimated production of 120 locomotives a year in the Chittaranjan locomotive factory by 1957 (production in 1955-56 will be 100 locomotives) and the estimated output of 50 locomotives at the Tata Locomotive and Engineering Company, the railways will be able to secure their normal annual replacement requirements of locomotives almost entirely from domestic production. The production of high precision machine-tools, telephone equipment, dry core cables, and newsprint envisaged in the Plan will also strengthen the industrial structure.

27. The rate of investment, and therefore of development in this sector as a whole, will depend however primarily on the implementation of the working plans of private industries outlined in this Report.* These plans, drawn up in consultation with the representatives of the industries concerned, aim at expanding the installed capacity of several capital and producer goods industries and, in the case of consumer goods industries, primarily at utilising more fully the existing capacity. Over the five-year period, the production of heavy chemicals is expected to go up by 156,000 tons, of fertilisers by 528,600 tons, of pig iron by 310,000 tons, of steel by 394,000 tons, and of cement by 2.1 million tons. The output of consumer goods industries is also estimated to increase considerably; the production of cloth is scheduled to go up by 1,872 million yards, of sugar by 384,000 tons, of salt by 429,000 tons and of vegetable oils by 182,000 tons. The output of a number of light engineering industries is also expected to register substantial improvement. It will be the objective of Government policy to assist the private sector to the extent possible in the creation and maintenance of conditions favourable to the attainment of the targets proposed.

28. As the development programme gets into swing and the emphasis is shifted increasingly towards industrialisation, it will become necessary to expand basic industries like iron and steel, heavy chemicals, manufacture of electrical equipment and the like. In these fields, as emphasised in Chapter II, it is necessary to anticipate to some extent the nature of the demands that will develop and make a beginning from the very start. The Plan therefore has a lump-sum provision of Rs. 50 crores for the development of basic industries and ancillary transport. This includes a provision for organising mineral exports. Part of the lump-sum provision of Rs. 50 crores, it is expected, will be available for initiating the construction of a unit for the manufacture of electrical equipment to meet the needs of power development in the country.

29. An extensive programme for village industries prepared primarily with the object of increasing rural employment has been included in the Plan. The programme includes, amongst others, the following industries: khadi, coir, village oil, matches, leather, hand-made paper, gur and khandsari, palm gur, woollen blankets and bee-keeping. The khadi programme is to be financed by means of a small cess on mill-made cloth. A small cess has also been proposed on mill oil for the benefit of the village oil industry. Common production programmes have been proposed for a number of cottage and small-scale industries along with the

*These working plans are being published in a separate volume.

related large scale industries. For instance, as part of the programme for the textile industry the output of the handloom industry is expected to be doubled. The establishment of a Khadi and Village Industries Development Board by the Central Government is being recommended. The Board which will have large executive functions, is to be responsible for initiating village industry programmes in cooperation with State Governments and other organisations engaged in the field of village industries. The total provision in the Plan for cottage and small scale industries is Rs. 27 crores.

TRANSPORT AND COMMUNICATIONS

30. In the programme for Transport and Communications, a little more than half of the total outlay is on railways. This outlay is designed to meet the arrears in replacement accumulated over a long period (particularly during the War) and to equip the railways with the minimum equipment and installations necessary to carry the additional load which will be placed on it as a result of development in other sectors of the economy. At the beginning of 1951-52, about 12 per cent of the locomotives, 28 per cent of the coaches and over 10 per cent of the wagons in use were due for renewal ; to meet the existing level of traffic these had to be retained in service. Considerable lengths of the track were also in need of repair and restoration. The Plan provides for an expenditure of Rs. 50 crores per annum on railways in addition to Rs. 30 crores per annum estimated as required for meeting the current depreciation of railway installations and equipment. This will enable a few of the more urgent extensions to be undertaken, but the total provision for new lines over the five years is only about Rs. 20 crores and so the programme for railways must be regarded primarily as one of rehabilitation.

31. The total provision for road development in the Centre and the States together amounts to over Rs. 100 crores. Of this, about a quarter will be on the development of national highways, and the rest mainly on State roads. The provision for road development includes also, a sum of rupees two crores for the construction of the Ganga Bridge which will provide a needed link between North and South Bihar. Road development is a sphere which offers considerable scope for mobilisation of local manpower and local materials. In certain States, village roads are already being developed with the active cooperation of villagers who contribute a portion of the cost of construction by way of free labour, free gift of land or money, with the balance being contributed by State Governments or District Boards. With the projects for local and intensive development visualised in the Plan, it is estimated that approximately 16,000 to 17,000 miles of village roads could be constructed through community effort within this period. This mode of development has to be extended as rapidly as possible to cover the entire country.

32. As in the case of railways, ports are in need of attention to meet the immediate needs of expansion in other sectors of the economy. Apart from the fact that there is at present no reserve capacity in the five major ports of the country for handling normal increases in sea-borne trade, port development is necessary to meet the following needs : (a) for rectifying the

consequences of Partition and for providing a natural outlet for the traffic previously catered for by Karachi ; (b) for the renovation and modernisation of equipment in the existing ports, and (c) for providing facilities for the petroleum refineries which are proposed to be set up. The Plan provides for Rs. 12 crores for the construction of a new port at Kandla, rupees eight crores for the creation of port facilities for oil refineries, and another Rs. 12 crores as loans to port authorities for carrying out a programme of rehabilitation and modernisation.

33. The Plan also visualises development in certain relatively new lines of transport, of which shipping is the most important. The programme for the development of shipping is designed primarily to enable the coastal trade of the country to be reserved for Indian vessels and to ensure their fuller participation in overseas trade. With these in view, the Plan makes provision for construction of additional berths in the Visakhapatnam shipyard, which will not only make available about 100,000 G.R.T. for coastal shipping during this period, but also help to reduce the costs of construction. In addition, there is provision in the Plan for loans to shipping companies for acquiring additional tonnage for overseas trade.

34. Civil aviation is another new line of development. It has been found that under the present conditions of traffic loads and intensity of operations, the existing air transport companies cannot work on an economic basis, and that to ensure such working they should merge into a single unit owned and operated by the Central Government. Integration of existing airlines along these lines has been decided upon and a State Corporation is to be set up for the purpose. It is proposed to give the shareholders of existing companies stock with guaranteed interest in return for their present holdings. The necessary legislation will be undertaken shortly. The Plan provides for a sum of Rs. 9.5 crores for purchase of new aircraft and for payment of compensation to existing air companies.

35. In the field of broadcasting, the new installations which are proposed to be taken up under the Plan would increase the area covered by medium wave broadcasts from 117,000 to 370,000 sq. miles. This would double the population covered by the broadcasting services, the population expected to be served by 1955-56 being of the order of 170 million people. Further, the development programme would also augment to a considerable extent the national and international services on shortwaves.

SOCIAL SERVICES AND REHABILITATION

36. The Plan provides for a total expenditure of Rs. 340 crores on social services of which Rs. 152 crores are for education, about Rs. 100 crores for medical and public health services, Rs. 49 crores for housing, Rs. 29 crores for backward classes (including scheduled castes and tribes), and nearly rupees seven crores for labour and labour welfare. There is a further provision of rupees four crores for assistance to voluntary social welfare organisations so that their work can be expanded and dovetailed into the national development programme. In the States, the Plan contemplates only a limited measure of expansion in social services. At the Centre there is a provision of Rs. 20 crores for further development in the field of pre-university

education. The average annual expenditure proposed under education represents an increase of nearly 55 per cent over the development expenditure in 1950-51. This would lead to a certain amount of expansion of educational facilities in the States' sector. The number of pupils attending primary, junior basic, secondary and technical and vocational (other than industrial) schools is expected to increase by 25, 81, 32 and 63 per cent respectively as compared to 1950-51. In the sphere of health, the Centre has a programme for malaria control which will be coordinated with the programmes of the States ; the programme is intended to protect about 200 million people in rural areas through insecticidal spraying measures. The Plan provides also for the construction of two D. D. T. plants in order to ensure sufficient supply of D. D. T. at reduced costs to meet the needs of the country. The State Plans provide for an expenditure on public health of Rs. 39 crores ; this expenditure, which will be mainly on provision of water supply and drainage, will involve almost a trebling of the existing rate of expenditure under this head. With the introduction of the scheme of provident funds for industrial workers in six industries, it has been possible to frame a programme for the construction of about 150,000 houses for industrial workers at a cost of about Rs. 38.5 crores. In addition, some States have their own housing schemes for low income groups ; the total cost of the housing programme is about Rs. 49 crores. The Plan has also a programme of amelioration for backward classes. In addition to the provision of Rs. 29 crores shown in the Plan, the Central Government is estimated to provide in the form of statutory grants a further sum of about rupees nine crores for the development of scheduled tribes. The programme for the rehabilitation of displaced persons, for which a provision of Rs. 85 crores has been made in the Plan, covers a period of three years ending 1953-54. The position regarding migrants across the eastern border is still somewhat fluid. For some time to come the problem of relief of those who have newly arrived may therefore continue to be a major concern of the Government.

ASSESSMENT OF THE PLAN IN TERMS OF INCOME AND EMPLOYMENT

37. A programme of development will, in the last analysis, be judged in terms of the improvement it is able to make to the welfare of the community. The usual indices of welfare are income, consumption and employment. With the available data only a broad assessment of the Plan in these terms is possible. There are large gaps in the information available even on the existing position. National income statistics are still in their infancy. Little is known about the distribution of income and wealth in the country. Apart from a general picture derived from the Census returns, the data available on the occupational pattern are meagre. We do not also have sufficient knowledge of the relationships between the different sectors of the economy and how they interact on each other. In a period of development, the changes in all these are likely to be of great significance.

38. The national income of India in 1950-51 has been roughly estimated at Rs. 9,000 crores. As a result of the increases in production expected to materialise by the end of the Plan, the national income (at constant prices) is expected to go up to Rs. 10,000 crores, that is, by 11 per cent. The benefits of the investment outlays undertaken during the

period of the Plan will not be fully realised in this period. For instance, a considerable part of the additional irrigation and power facilities on account of schemes included in the Plan will appear only in the following quinquennium, though the greater part of the investment necessary will have taken place in the present Plan period.

39. To the extent that the community development projects, and the other schemes in the Plan designed to stimulate local initiative and resources, succeed in evoking community effort on a large scale, the increase in national income can be expected to be larger. In specific areas, direct application of manpower and other resources and concentrated efforts for increasing productivity could raise incomes by 25 per cent or more. The scale on which such effort can be organised will determine to a considerable degree, particularly in the countryside, the rate of development that will be achieved and the contribution it makes to the welfare of the community at large.

40. Out of the annual rate of increase of about two per cent in national income, about one-fifth will have to be, so to say, ploughed back into investment year after year in order to sustain the development programme at the rate visualised in the Plan. The aggregate consumption expenditure will therefore rise at a somewhat lower rate than the national income. Although the Plan will meet in this period only the most urgent needs of the people, for instance in the matter of food and clothing, it will have made a substantial addition to the production potential of the country.

41. In judging the likely effects of the Plan on employment, it is necessary to bear in mind that the problem in India is more one of underemployment rather than of unemployment as such. Underemployment is another facet of low productivity, which in turn is due to shortage of capital equipment and technical skill. The problem of removing underemployment and of opening up employment opportunities for all at rising levels of real income is, therefore, in a sense, synonymous with the problem of development itself. The contribution that the Plan will make to the solution of the problem will be two-fold : firstly, in the process of stepping up the rate of investment it will create more employment for those engaged on construction activity, and, secondly, by building up capital at key points in the system, it will, at the next stage, enable a growing number of people to be absorbed into the productive system.

42. The Plan involves doubling the development expenditure of public authorities, from Rs. 232 crores in 1950-51 to nearly Rs. 500 crores by 1955-56 ; on a broad estimate about a half of this increase might be expected to be paid as so much additional wages and salaries. In the private sector, the largest investment activity is in residential construction. There are no data available on the volume of building activity in the country, but certain rough estimates, based on the allocations of materials like cement and steel and the cost of building covered by them, suggest that net private investment on constructions using these materials was probably of the order of Rs. 100 crores in 1950-51. Over the period of the Plan, the output of cement and steel is expected to go up by about 80 per cent and 40 per

cent respectively. No doubt, some of these increases will be absorbed by the development outlay of public authorities, but the additions to construction activity in the private sector which the larger output of cement and steel can sustain may still be considerable.

43. The secondary effects of investment on employment would take more time to show, but they are likely to be more impressive. This is particularly true in the earlier stages of industrialisation. In large-scale industry, the emphasis in the Plan is on producer goods industries as far as expansion of installed capacity is concerned. Producer goods industries are highly capital-intensive, and the additional direct employment which the programme of industrialisation offers in this period would be correspondingly small. In agriculture, according to the Plan, benefits of irrigation will accrue to about 20 million acres of cultivable land in this period. Where perennial irrigation is provided, opportunities will develop for double cropping and this will help to reduce seasonal unemployment. In the rest of the agricultural sector, the provision of irrigation facilities, manures and seeds will raise productivity and increase incomes. The immediate employment effect of the higher incomes is not likely to be very pronounced, but as the trend of rising incomes establishes itself, effective demand will grow in the rural sector and widen employment opportunities in small-scale industries as well as in services ancillary to commodity production. As mentioned in an earlier paragraph, the Plan incorporates several measures for the protection and expansion of small-scale industries. These industries at present suffer from a variety of handicaps : inefficient techniques, lack of finance, difficulties in getting the necessary raw materials, inadequate marketing organisation, insufficient coordination with expansion in other sectors of industry, etc. Recommendations for improving these have been made in the relevant chapters in this Report. The principle of giving direct assistance to cottage and small-scale industries and, in suitable cases, of assuring them a field of operation sheltered from excessive competition in the period of transition has also been accepted.

44. The problem of increasing income and employment in an underdeveloped country is, in the last analysis, tied up with the larger problem of capital accumulation. The present Plan aims at raising domestic investible surpluses from the estimated level of Rs. 450 crores in 1950-51 to about Rs. 675 crores by 1955-56. It is the same factors which prevent the rate of capital accumulation from being stepped up further that also stand in the way of more rapid increases in income and employment. Basically, the solution lies in tapping the large investment potential which lies in the unutilised manpower and other resources in the country; this is a question of organisation. Changes in the institutional framework and the organisational measures recommended in this Report have from this point of view a vital significance.

STATEMENTS

Statement I. Development Expenditure

Head	Total	Central Government	Part 'A' States	Part 'B' States	Jammu and Kashmir	Part 'C' States
I	2	3	4	5	6	7
<i>I. Agriculture and Community Development—</i>						
Agriculture	18422.2	5922.2	9108.2	2771.0	22.1	598.7
Veterinary and Animal Husbandry including Dairying	2228.5	412.0	1524.6	197.9	15.0	79.0
Forests	1169.5	200.0	599.8	224.7	10.0	135.0
Cooperation	711.2	50.0	491.7	125.2	..	44.3
Fisheries	464.1	50.5	332.5	72.9	..	8.2
Rural Development	1047.1	..	674.4	372.2	..	0.5
Community Projects	9000.0	9000.0	..	..	..	..
Local Works	1500.0	1500.0	..	..	..	..
Programme for Scarcity affected Areas	1500.0	1500.0	..	..	..	..
TOTAL	36042.6	18634.7	12731.2	3763.9	47.1	865.7
<i>II. Irrigation and Power—</i>						
Multipurpose Projects	26590.0	26590.0	..	..	..	..
Irrigation Projects	16796.5	..	11234.3	5013.2	366.7	182.3
Power Projects	12754.0	..	9374.7	3135.5	74.9	168.9
TOTAL	56140.5	26590.0	20609.0	8148.7	441.6	351.2
<i>III. Transport and Communications—</i>						
Railways *	25000.0	25000.0	..	..	..	..
Roads	10887.8	3124.0	5059.2	1582.8	494.4	627.4
Road Transport	896.9	..	562.4	96.0	..	238.5
Shipping	1805.8	1805.8	..	..	..	..
Civil Aviation	2287.0	2287.0	..	..	..	..
Ports and Harbours	3308.8	3206.4	26.0	63.0	..	13.4
Inland Water Transport	10.0	10.0	..	..	..	..
Posts and telegraphs	5000.0	5000.0	..	..	..	..
Broadcasting	352.0	352.0	..	..	..	..
Overseas Communications	* 100.0	100.0	..	..	..	..
Meteorological Department	62.0	62.0	..	..	..	..
TOTAL	49710.3	40947.2	5647.6	1741.8	494.4	879.3

* The outlay of Rs. 250 crores is additional to the estimated expenditure of Rs. 150 crores to cover the current depreciation of assets in the period of the Plan.

Under the Plan, Centre and States

(Rs. lakhs)

Head	Total	Central Government	Part 'A' States	Part 'B' States	Jammu and Kashmir	Part 'C' States
I	2	3	4	5	6	7
<i>IV. Industry—</i>						
Large-scale Industries	14033·2	12604·3*	1025·8	352·5	50·6	..
Cottage and Small-scale Industries.	2704·1	1500·0	764·9	356·9	31·2	51·1
Scientific and Industrial Research	461·0	461·0	..	..	..	..
Mineral Development	106·1	106·1	..	..	..	..
TOTAL	17304·4	14671·4	1790·7	709·4	81·8	51·1
<i>V. Social Services—</i>						
Education	15566·1	3901·6	9881·0	1227·4	46·0	510·1
Health	9954·6	1787·4	6350·3	1238·1	128·2	450·6
Housing	4881·6	3850·0	877·1	87·5	12·0	55·0
Labour and Labour Welfare	691·7	397·3	273·1	20·3	..	1·0
Amelioration of Backward Classes and Scheduled Castes and Tribes	2887·2†	700·0	1848·1	316·6	..	22·5
TOTAL	33981·2	10636·3	19229·6	2889·9	186·2	1039·2
<i>VI. Rehabilitation</i>	8500·0	8500·0	..	..	..	..
<i>VII. Works and buildings</i>	1102·3	1102·3	..	..	..	..
<i>VIII. Finance Ministry schemes</i>	439·6	439·6	..	..	..	..
<i>IX. North-east Frontier agency</i>	300·0	300·0	..	..	..	..
<i>X. Andamans</i>	382·8	382·8	..	..	..	..
<i>XI. Loans to Corporations</i>		1200·0	..	..	..	..
<i>XII. Miscellaneous</i>	1774·4	650·0	1003·5	72·0	48·9	..
GRAND TOTAL	206878·1	124054·3	61011·6	17325·7	1300·0	3186·5

*Includes lumpsum provision of Rs. 50 crores for basic industries and transport and programme for mineral exports.

†This includes Central grants amounting to Rs. 3 crores; in addition, about Rs. 9 crores are likely to be available by way of grants from the Central Government under Article 275 (1) of the Constitution.

Statement II. Development Expenditure

Head	Assam	Bihar	Bombay	Madhya Pradesh	Madras
I	2	3	4	5	6
Agriculture	276.1	1284.3	1748.4	1005.5	1593.7
Veterinary and Animal Husbandry	12.5	92.5	166.9	98.8	100.0
Dairying and Milk Supply . . . . .	..	1.5	602.1	36.9	50.0
Forests	36.3	125.0	83.8	40.8	38.8
Cooperation	29.3	39.0	123.2	28.8	100.0
Fisheries	6.0	10.6	16.0	5.8	100.0
Rural Development	39.3	124.7	131.5	165.9	200.0
<i>I. Agricultural and Rural Development.</i>	399.5	1677.6	2871.9	1382.5	2182.5
Multipurpose Projects . . . . .	..	..	..	..	..
Irrigation Projects	200.0	973.3	2269.0	308.0	3408.0
Power Projects	83.0	708.7	1043.0	600.0	5024.0
<i>II. Major Irrigation and Power Projects.</i>	283.0	1682.0	3312.0	908.0	8432.0
Cottage Industries	250.0	59.2	103.1	9.2	116.9
Other Industries . . . . .	..	60.0	250.6	226.2	85.1
<i>III. Industry</i>	25.0	119.2	353.7	235.4	202.0
Roads	213.0	800.0	1163.6	200.0	500.0
Road Transport	31.9	..	200.0	..	..
Ports and Harbours . . . . .	..	..	25.0	..	..
<i>IV. Transport</i>	244.9	800.0	1388.6	200.0	500.0
Education	89.9	570.4	4611.1	1079.3	800.0
Medical	173.5	403.9	536.4	267.9	300.0
Public Health	17.8	196.0	1116.7	78.2	900.0
Housing . . . . .	..	100.0	77.2	20.0	300.0
Labour and Labour Welfare	6.0	20.0	162.3	0.5	..
Amelioration of Backward Classes	509.6	160.0	213.6	136.4	467.6
<i>V. Social Services</i>	796.8	1450.3	6717.3	1582.3	2767.6
<i>VI Miscellaneous</i>	..	..	..	..	..
GRAND TOTAL	1749.2	5729.1	14643.5	4308.2	14084.1

Under the Plan : Part 'A' States

(Rs. lakhs)

Head	Orissa	Punjab	Uttar Pradesh	West Bengal	Total
I	7	8	9	10	11
Agriculture	205.5	210.7	2095.9	688.1	9108.2
Veterinary and Animal Husbandry	52.8	22.0	134.1	74.7	754.3
Dairying and Milk Supply	9.2	..	20.6	50.0	770.3
Forests	13.1	18.0	165.2	78.8	599.8
Cooperation	28.9	11.8	130.7	..	491.7
Fisheries	33.4	..	6.2	154.5	332.5
Rural Development	10.0	..	..	3.0	674.4
<i>I. Agriculture and Rural Development</i>	352.9	262.5	2552.7	1049.1	12731.2
Multipurpose Projects . . . . .	..	..	..	..	..
Irrigation Projects	300.0	326.2	1912.0	1537.8	11234.3
Power Projects	391.0	38.2	1411.0	75.8	9374.7
<i>II. Major Irrigation and Power Projects</i>	691.0	364.4	3323.0	1613.6	20609.0
Cottage Industries	27.6	48.1	301.5	74.3	764.9
Other Industries	65.3	15.5	280.7	42.4	1025.8
<i>III. Industry</i>	92.9	63.6	582.2	116.7	1790.7
Roads	200.0	75.1	522.4	1385.1	5059.2
Road Transport	20.0	..	120.0	190.5	562.4
Ports and Harbours	1.0	..	..	..	26.0
<i>IV. Transport</i>	221.0	75.1	642.4	1575.6	5647.6
Education	179.5	118.0	1603.8	808.1	9860.1
Medical	78.7	73.9	349.8	1210.2	3394.3
Public Health	46.4	50.1	246.1	304.7	2956.0
Housing . . . . .	..	11.3	145.2	223.4	877.1
Labour and Labour Welfare	1.9	1.8	101.5	..	294.1
Amelioration of Backward Classes	116.4	..	236.2	8.3	1848.1
<i>V. Social Services</i>	422.9	255.1	2682.6	2554.7	19229.6
<i>VI. Miscellaneous</i>	3.5	100.0	..	..	1003.5
GRAND TOTAL	1784.2	2020.7	9782.9	6909.7	61111.6

Statement III. Development Expenditure

Head	Hyderabad	Madhya Bharat	Mysore	Pepsu
I	2	3	4	5
Agriculture	346.4	750.0	443.0	364.9
Animal Husbandry	49.6	50.0	53.8	10.0
Dairying and Milk Supply	1.7	..	..	..
Forests.	21.4	50.0	8.3	43.6
Cooperation	35.3	25.0	7.1	15.0
Fisheries	8.6	10.0	2.2	2.4
Rural Development . . . . .	..	60.0	81.1	..
<i>I. Agriculture and Rural Development</i>	463.0	945.0	595.5	435.9
Multipurpose Projects . . . . .	..	..	..	..
Irrigation Projects	2479.0	328.0	716.0	34.0
Power Projects	320.6	228.0	1268.0	30.6
<i>II. Major Irrigation and Power Projects</i>	2799.6	556.0	1984.0	64.6
Cottage Industries	25.7	50.0	135.4	4.4
Other Industries	268.7	5.0	34.8	27.3
<i>III. Industry</i>	294.4	55.0	170.2	31.7
Roads	128.6	189.0	320.1	95.1
Road Transport . . . . .	..	..	..	..
Ports and Harbours . . . . .	..	..	..	..
<i>IV. Transport</i>	128.6	189.0	320.1	95.1
Education	263.5	200.0	225.6	89.9
Medical	117.7	77.0	56.5	56.0
Public Health	88.2	121.2	158.3	29.0
Housing . . . . .	..	14.4	50.0	2.0
Labour and Labour Welfare . . . . .	..	4.4	..	..
Amelloration of Backward Classes . . . . .	..	80.0	100.0	10.0
<i>V. Social Services</i>	469.4	497.0	590.4	186.9
<i>VI. Miscellaneous</i> . . . . .	..	..	..	..
GRAND TOTAL	4155.0	2242.0	3660.2	814.2

Under the Plan: Part 'B' States and Jammu and Kashmir

(Rs. lakhs)

Head	Rajasthan	Saurashtra	Travancore- Cochin	Jammu and Kashmir	Total
I	6	7	8	9	10
Agriculture	109.2	212.4	545.1	22.1	2771.0
Veterinary and Animal Hus- bandry	18.3	10.4	2.5	15.0	194.6
Dairying and Milk Supply . . . . .	..	1.6	..	..	3.3
Forests	21.8	19.6	60.0	10.0	224.7
Cooperation	3.0	31.8	8.0	..	125.2
Fisheries . . . . .	..	34.7	15.0	..	72.9
Rural Development	15.0	216.1	..	..	372.2
<i>I. Agriculture and Rural De- velopment</i>	<i>167.3</i>	<i>526.6</i>	<i>630.6</i>	<i>47.1</i>	<i>3763.39</i>
Multipurpose Projects . . . . .	..	..	..	..	..
Irrigation Projects	503.6	474.6	478.0	366.7	5013.2
Power Projects	40.8	212.5	1035.0	74.9	3135.5
<i>II. Major Irrigation and Power Projects</i>	<i>544.4</i>	<i>687.1</i>	<i>1513.0</i>	<i>441.6</i>	<i>8148.7</i>
Cottage Industries	38.5	13.9	89.0	31.2	356.9
Other Industries . . . . .	..	0.9	15.8	50.6	352.5
<i>III. Industry</i>	<i>38.5</i>	<i>14.8</i>	<i>104.8</i>	<i>81.8</i>	<i>709.4</i>
Roads	400.0	300.0	150.0	494.4	1582.8
Road Transport	1.0	53.0	42.0	..	96.0
Ports and Harbours . . . . .	..	33.0	30.0	..	63.0
<i>IV. Transport</i>	<i>401.0</i>	<i>386.0</i>	<i>222.0</i>	<i>494.4</i>	<i>1741.8</i>
Education	263.5	164.9	20.0	46.0	1227.4
Medical	82.0	71.5	120.0	46.0	580.7
Public Health	135.5	73.7	51.5	82.2	657.4
Housing	2.0	9.1	10.0	12.0	87.5
Labour and [Labour Welfare	5.0	10.9	..	..	20.3
Amelioration of Backward Classes	42.2	24.4	60.0	..	316.6
<i>V. Social Services</i>	<i>530.2</i>	<i>354.5</i>	<i>261.5</i>	<i>186.2</i>	<i>2889.9</i>
<i>VI. Miscellaneous</i>	<i>..</i>	<i>72.0</i>	<i>..</i>	<i>48.9</i>	<i>72.0</i>
GRAND TOTAL	1681.4	2041.0	2731.9	1300.0	17325.7

Statement IV. Development Expenditure

Head	Ajmer	Bhopal	Bilaspur	Coorg	Delhi	Himachal Pradesh
I	2	3	4	5	6	7
Agriculture . . .	48.4	173.0	7.0	..	63.6	28.0
Veterinary and Animal Husbandry . . .	9.6	7.0	1.1	..	9.4	22.4
Dairying and Milk Supply . . .	..	..	..	1.0	4.9	..
Forests . . .	10.6	20.0	5.0	..	2.2	59.0
Cooperation . . .	8.4	5.0	..	2.0	6.3	15.0
Fisheries . . .	..	2.0	..	..	2.6	1.0
Rural Development . . .	..	..	0.5	..	..	—
<i>I. Agricultural and rural Development . . .</i>	<i>77.0</i>	<i>207.0</i>	<i>13.6</i>	<i>3.0</i>	<i>89.0</i>	<i>125.4</i>
Irrigation Projects . . .	11.3	..	..	..	..	80.0
Power Projects . . .	..	27.9	..	35.0	..	13.5
<i>II. Major Irrigation and Power Projects . . .</i>	<i>11.3</i>	<i>27.9</i>	<i>..</i>	<i>35.0</i>	<i>..</i>	<i>93.5</i>
Cottage Industries . . .	..	5.0	0.5	..	7.3	23.0
Other Industries . . .	..	..	..	..	—	..
<i>III. Industry . . .</i>	<i>..</i>	<i>5.0</i>	<i>0.5</i>	<i>..</i>	<i>7.3</i>	<i>23.0</i>
Roads . . .	15.9	40.0	23.0	20.0	25.0	110.0
Road Transport . . .	..	..	2.0	..	216.0	10.0
Ports and Harbours . . .	..	..	..	..	—	—
<i>IV. Transport . . .</i>	<i>15.9</i>	<i>40.0</i>	<i>25.0</i>	<i>20.0</i>	<i>241.0</i>	<i>120.0</i>
Education . . .	15.0	30.0	10.0	10.0	259.8	36.8
Medical . . .	31.9	25.0	4.0	5.0	58.9	18.1
Public Health . . .	6.1	50.0	4.0	..	36.0	37.9
Housing . . .	..	..	..	..	55.0	..
Labour and Labour Welfare . . .	..	..	..	..	1.0	..
Amelioration of Backward Classes . . .	..	5.0	..	..	—	—
<i>V. Social Services . . .</i>	<i>53.0</i>	<i>110.0</i>	<i>18.0</i>	<i>15.0</i>	<i>410.7</i>	<i>92.8</i>
GRAND TOTAL	157.2	389.9	57.1	73.0	748.0	454.7

Under the Plan : Part 'C' States

(Rs. lakhs)

Head	Kutch	Manipur	Tripura	Vindhya Pradesh	Total
I	8	9	10	11	12
Agriculture	60.6	0.8	12.6	204.7	598.7
Animal Husbandry	3.9	2.5	2.8	12.9	71.6
Dairying and Milk Supply . . . . .	..	..	..	1.5	7.4
Forests	1.4	3.0	11.3	22.5	135.0
Cooperation	3.5	..	1.1	3.0	44.3
Fisheries	1.4	..	..	1.2	8.2
Rural Development . . . . .	..	..	..	..	0.5
<i>I. Agriculture and Rural Development</i>	70.8	6.3	27.8	245.8	865.7
Irrigation Projects	91.0	..	..	..	182.3
Power Projects	23.0	12.0	7.0	50.5	168.9
<i>II. Major Irrigation and Power Projects</i>	114.0	12.0	7.0	50.5	351.2
Cottage Industries	3.5	..	5.8	6.0	51.1
Other Industries . . . . .	..	..	..	..	..
<i>III. Industry</i>	3.5	..	5.8	6.0	51.1
Roads	58.3	81.3	128.0	125.9	627.4
Road Transport . . . . .	..	10.5	..	..	238.5
Ports and Harbours	13.4	..	..	..	13.4
<i>IV. Transport</i>	71.7	91.8	128.0	125.9	879.3
Education	6.8	17.7	24.0	100.0	510.1
Medical	26.0	6.0	11.7	36.0	222.6
Public Health	10.0	21.0	3.0	60.0	228.0
Housing . . . . .	..	..	..	..	55.0
Labour and Labour Welfare . . . . .	..	..	..	..	1.0
Amelioration of Backward Classes	2.5	..	..	15.0	22.5
<i>V. Social Services</i>	45.3	44.7	38.7	211.0	1039.2
GRAND TOTAL	305.3	154.8	207.3	639.2	3186.5

Statement V.—Progress of Development

Head	Expenditure in 1950-51	Progress of expenditure]		Five Years' Total (Plan) 1951-56
		1951-52 Revised	1952-53 Budget	
I	2	3	4	5
<i>I. Agriculture and Community Development :</i>				
Agriculture	244.3	256.2	303.2	5922.2*
Animal Husbandry including Dairying. . . . .	..	..	30.3	412.0
Forests. . . . .	..	..	..	200.0
Cooperation . . . . .	..	..	..	50.0
Fisheries. . . . .	..	..	..	50.5
Community Projects . . . . .	..	..	†	9000.0
Local Works . . . . .	..	..	..	1500.0
Programmes for scarcity-affected areas . . . . .	..	..	..	1500.0
TOTAL	244.3	256.2	333.5	18634.7
<i>II. Major Irrigation and Power Projects</i>				
.. . . .	2210.0	3666.0	4033.0	26590.0‡
<i>III. Industry 1</i>				
Large-scale industries	635.3	991.9	1272.9	12604.3§
Small-scale and Cottage indus- tries	14.5	17.0	20.0	1500.0
Scientific and Industrial Research	96.0	75.2°	107.5	461.0
Mineral Development . . . . .	..	4.2	18.8	106.1
TOTAL	745.8	1088.3	1419.2	14671.4

*Includes additional provision for the period 1953-56 for minor irrigation—Rs. 30 crores; medium and long term loans to agriculturists—Rs. 10 crores; national extension organization—Rs. 3 crores; forests and soil conservation—Rs. 2 crores; Resettlement of landless agricultural workers—Rs. 2 crores.

†Details of expenditure incurred are not available.

‡Includes Rs. 40 crores for new irrigation and power projects for the period 1953-56.

§Includes lump-sum provision of Rs. 40 crores for basic industries and transport for the period 1953-56.

Expenditure : Central Government

Head	Expenditure in 1950-51	Progress of expenditure		(Rs. lakhs)
		1951-52 Revised	1952-53 Budget	Five Years' Total (Plan) 1951-56
I	2	3	4	5
<i>IV. Transport :</i>				
Roads	296.1	365.0	600.0	3124.0
Inland Water Transport . . . . .	..	2.0	2.0	10.0
Ports and Harbours	78.8	85.7	240.0	3206.4
Shipping	155.1	158.7	418.6	1805.8
Railways	3331.0	4689.0	4910.0	25000.0
Civil Aviation	178.2	185.0	217.0	2287.0
Posts and Telegraphs	753.9	487.0	579.0	5000.0
Overseas Communications	8.0	20.0	20.0	100.0
Meteorological Department . . . . .	..	15.0	15.0	62.0
Broadcasting	16.4	35.0	43.3	352.0
TOTAL	4817.5	6042.4	7044.9	40947.2
<i>V. Social Services :</i>				
Education	124.6	149.4	423.0	3901.6*
Health	7.5	10.3	45.5	1787.4
Housing	100.0	168.0	900.0	3850.0
Labour and Labour Welfare	55.9	48.5	55.3	397.3
Amelioration of Backward Classes, Scheduled Castes and Tribes . . . . .	..	174.7	180.0	700.0†
TOTAL	288.0	550.9	1603.8	10636.3
<i>VI. Rehabilitation</i>	<i>2032.7</i>	<i>2854.4</i>	<i>2657.5</i>	<i>8500.0</i>
<i>VII. Works and Buildings</i>	<i>23.4</i>	<i>57.4</i>	<i>207.8</i>	<i>1102.3</i>
<i>VIII. Finance Ministry Schemes</i>	<i>92.0</i>	<i>100.5</i>	<i>108.9</i>	<i>439.6</i>
<i>IX. North East Frontier Agency</i>	<i>10.6</i>	<i>30.0</i>	<i>20.9</i>	<i>300.0</i>
<i>X. Andamans</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>382.8</i>
<i>XI. Loans to Corporations</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>1200.0</i>
<i>XII. Miscellaneous</i>	<i>..</i>	<i>..</i>	<i>..</i>	<i>650.0</i>
GRAND TOTAL	10464.3	14646.1	17429.5	124054.3

*Includes Rs. 4 crores for voluntary welfare organisations for the period 1953-56.

†In addition, about Rs. 9 crores are likely to be available by way of Central grants under Article 273 (1) of the Constitution.

Statement VI. Progress of Development Expenditure in States by Heads of Development

(Rs. lakhs)

Head	Development Expenditure in 1950-51	Progress of expenditure		Five Years' Total (Plan) 1951-56
		1951-52 (Revised)	1952-53 (Budget)	
I	2	3	4	5
Agriculture	2709.2	2274.6	2525.8	12500.0
Veterinary and Animal Husbandry	96.9	123.9	174.8	1035.5
Dairying and Milk Supply	122.7	138.9	95.7	781.0
Forests	75.1	87.0	166.7	969.5
Co-operation	82.6	99.9	116.7	661.2
Fisheries	53.3	57.1	65.8	413.6
Rural Development	85.2	136.8	195.2	1047.1
TOTAL	3225.0	2918.2	3240.7	17407.9
Irrigation Projects	2035.5	2894.6	3506.2	16796.5
Power Projects	1777.3	2224.3	2844.1	12754.0
TOTAL	3812.8	5118.9	6350.3	29550.5
Cottage Industries	102.3	126.2	185.9	1204.1
Other Industries	445.5	344.3	460.6	1428.9
TOTAL	547.8	470.5	646.5	2633.0
Roads	954.5	1226.3	1795.6	7763.8
Road Transport	144.4	137.0	200.4	896.9
Ports and Harbours	0.1	7.0	12.8	102.4
TOTAL	1099.0	1370.3	2008.8	8763.1
Education	1833.3	2005.6	2253.6	11664.5
Medical	552.6	763.0	873.1	4243.6
Public Health	366.0	516.5	611.5	3923.6
Housing	142.5	215.8	299.7	1031.6
Labour and Labour Welfare	32.3	32.8	38.8	294.4
Amelioration of Backward Classes	259.6	338.6	409.7	2187.2
TOTAL	3186.3	3872.3	4486.4	23344.9
Miscellaneous	72.6	108.9	303.4	1124.4
GRAND TOTAL	11943.5	13859.1	17136.1	82823.8

Statement VII. Progress of Development Expenditure by States

(Rs. lakhs)

States	Expenditure in- 1950-51	Progress of expenditure		Five Years' Total (Plan) 1951-56
		1951-52 (Revised)	1952-53 (Budget)	
I	2	3	4	5
Assam	103·0	141·8	247·7	1749·2
Bihar	793·9	1348·6	1531·8	5729·1
Bombay	2011·0	2312·2	2922·7	14643·5
Madhya Pradesh	797·5	782·4	954·3	4308·2
Madras	3064·2	2770·5	3008·2	14084·1
Orissa	320·3	278·9	366·6	1784·2
Punjab	281·2	377·3	591·0	2020·7
Uttar Pradesh	1378·3	1722·6	2294·1	9782·9
West Bengal	1012·2	1308·1	1376·1	6909·7
TOTAL 'A' STATES	9761·6	11042·4	13292·5	61011·6
Hyderabad	602·9	714·8	792·6	4155·0
Madhya Bharat	213·1	251·0	438·8	2242·0
Mysore	524·3	542·8	627·9	3660·2
PEPSU	47·5	52·5	119·2	814·2
Rajasthan	189·8	217·7	216·1	1681·4
Saurashtra	158·0	212·8	357·6	2041·0
Travancore-Cochin	270·5	504·4	598·1	2731·9
TOTAL 'B' STATES	2006·1	2496·0	3150·3	17325·7
Jammu and Kashmir	27·3	134·1	136·9	1300·0
Ajmer	12·6	14·5	20·3	157·2
Bhopal	41·2	40·5	83·4	389·9
Bilaspur	1·3	3·0	11·4	57·1
Coorg	2·4	6·4	7·5	73·0
Delhi	51·4	59·5	120·6	748·0
Himachal Pradesh	6·4	17·7	94·7	454·7
Kutch	4·1	18·2	74·7	305·3
Manipur	0·4	..	21·5	154·8
Tripura	2·3	4·8	25·9	207·3
Vindhya Pradesh	26·4	22·0	96·4	639·2
TOTAL 'C' STATES	148·5	186·6	556·4	3186·5
GRAND TOTAL	11943·5	13859·1	17136·1	82823·8

APPENDIX

NATIONAL BUDGETING AND THE PLAN

NATIONAL BUDGETING is a technique of economic planning which has been used in recent years in countries like the United Kingdom, Netherlands, Norway and Sweden to ensure a certain balance between the demand for resources and the supply of resources from year to year. A national budget is different from other familiar forms of budgets (as those of governments and local authorities) in that it attempts to cover the economy as a whole and not just a part of the transactions within it. It takes into account not only the fiscal budget but also aggregate consumer income and expenditure, accounts of corporate and unincorporated enterprises, budgets of local authorities, etc. For ensuring a balance between the demand for particular goods and services and their supply (in addition to a balance between aggregate demand and aggregate supply), investment budgets as well as commodity, foreign exchange and manpower budgets are also constructed for the purpose of national budgeting.

2. The usefulness of an approach which encompasses the whole system and, in consequence, helps to formulate economic policies based on an analysis of their likely repercussions on all important aspects of its operation and growth cannot be over-estimated. It might be even regarded as a pre-requisite of systematic planning. There are, however, several difficulties in practice. The most striking of these is often the dearth of statistical material in the required detail. Before a national budget can be constructed there should be, at the very minimum, a set of national accounts for a series of years which could be used as the basis of forecasting. Though progress in regard to national income statistics has been considerable in the last decade, the lacunae from the point of view of national budgeting are still many. Data in regard to savings are very imperfect in most countries, since they are often derived as a residual and are not always directly computed. Even where a fairly reliable series of data exist, savings cannot always be related to the forms in which they are held or the financial intermediaries through which they flow, so that it is not possible to infer from them the asset-preferences of the community. On the side of investment, information on changes in the holdings of stocks is in almost all cases of a scattered nature and includes the effects of price changes. The relationships between these magnitudes are vital factors in economic forecasting, particularly when there is a large sector in the economy which is only partially planned and controlled.

3. Apart from the statistical limitations, there are the usual problems involved in forecasting when a number of variables are involved and when the precise nature of the relationships between them is not clear. These relationships are often complicated by behaviouristic, institutional and technical factors like changes in tastes, shifts in the distribution-pattern of incomes, possibilities of substitution between one factor and another, innovations, rate of growth of education and technical skills, etc. In a growing, dynamic system these factors could make a considerable difference to the demand and supply of resources even in the short period.

4. The above considerations apply with special force at the present time in India. National income statistics are still in their infancy. There are large gaps in the information available about certain sectors of the economy, which probably introduce a high margin of error even into the estimates of aggregate national income. No estimates of aggregate consumption expenditure have been made on a basis comparable to the estimates of aggregate national income. Little is known of the processes of capital formation in the rural sector or of its magnitude. Estimates of the contribution of services (including trade) to the national product are by and large notional. At the same time there are evidently significant changes taking place in the distribution of incomes, not only as between the urban and rural sectors but as between various classes within these sectors. These are proceeding side by side with changes in the community's pattern of consumption and they have the effect, to some extent, of diversifying employment opportunities and absorbing part of the unutilised and under-utilised resources. The rapid and growing rate of migration from rural to urban areas is another factor which affects consumption and employment patterns. Of all these only the barest details are known, insufficient even to reconstruct a picture of what precisely have been their effects on the demand and supply of resources in the last few years, not to mention their complete inadequacy for purposes of forecasting future trends.

5. Any attempt to bring out statistically the implications of planning in India in terms of concepts and relationships used in national budgeting elsewhere can, at this stage, serve only an illustrative purpose. The statistical basis of the estimates would be admittedly weak. In a country in which additions to investment are likely to take place to a great extent through the direct application of hitherto unutilised manpower, leading in turn in a variety of ways to improvements in income and consumption standards, the estimates may not even adequately reflect the nature of the changes that will come about as a result of development. They could, however, serve one purpose. Provided it is understood that the estimates represent only certain notional magnitudes, which have to be tested as more reliable statistics become available, they could provide a basis for making a provisional appraisal of the Plan and for checking in a general way its internal consistency.

ESTIMATES OF NET OUTPUT BY INDUSTRIAL ORIGIN

6. An estimate of national income by industrial origin is available for 1948-49 in the First Report of the National Income Committee. In the Five Year Plan there are targets of production for the more important industries and commodity groups. On the basis of these two sets of data an attempt can be made to estimate the 'likely dimensions of the national income by the end of the plan period. It is inevitable that the forecasts would be firmer for some sectors than for others. In agriculture, for instance, the commodities for which there are specific targets in the Plan cover about 60 per cent of the total output. The coverage of the Plan in respect of industries organized on a factory basis is also fairly large. But in other spheres, particularly in regard to small enterprises in industry and trade and the tertiary sector in general, the basis for forecasting is less firm.

7. The estimates of net output in 1955-56, prepared on the basis indicated above, are shown in the following table according to industrial origin and in a form comparable to those published for 1948-49 by the National Income Committee :

	(Value expressed at 1948-49 prices in Rs. hundred crores)	
	1948-49*	1955-56
<i>Agriculture—</i>		
1. Agriculture, animal husbandry and ancillary activities	40.7	47.9
2. Forestry	0.6	0.6
3. Fishery	0.2	0.3
	41.5	48.8
<i>Mining, Manufacturing and Hand-trades—</i>		
4. Mining	0.6	0.8
5. Factory establishments	5.0	6.8
6. Small enterprises	9.4	10.6
	15.0	18.2
<i>Commerce, Transport and Communications—</i>		
7. Communications (posts, telegraph and telephone)	0.3	0.4
8. Railways	1.8	2.3
9. Organised banking and insurance	0.5	0.6
10. Other commerce and transport	14.4	15.4
	17.0	18.7
<i>Other Services—</i>		
11. Professions and liberal arts	3.2	3.4
12. Government services (administration)	4.6	5.1
13. Domestic service	1.5	1.5
14. House property	4.5	4.8
	13.8	14.7
NET DOMESTIC PRODUCT AT FACTOR COST	87.3	100.4
Net earned income from abroad	—0.2	—0.4
NATIONAL INCOME	87.1	100.0

* The estimates for 1948-49 are from the First Report of the National Income Committee. An amount of Rs. 0.8 hundred crores has however been transferred from 'Factory Establishments' to 'Small Enterprises', and Rs. 0.2 hundred crores from 'Railways' to 'Other Commerce and Transport'.

8. It will be seen that the largest addition to national output is expected to come from the agricultural sector though, in terms of percentage increases, the greatest improvement is likely to be shown in industries organised on a factory basis. A more detailed breakdown of the estimates in respect of agriculture (excluding forestry and fishery) is given below:—

	(Value expressed at 1948-49 prices in Rs. hundred crores)	
	1948-49	1955-56
Foodgrains (including pulses and gram but excl. fodder crops)	23.4	27.4
Commercial crops	7.7	11.0
Vegetables, fruits, condiments and spices	5.8	6.3
Miscellaneous crops and livestock	12.0	12.8
Adjustments required in respect of above items	-8.2	-9.6
	40.7	47.9

As for factory establishments, the estimates are based mainly on net values added by manufacture in 1949 (for which data are available from the Census of Manufactures) and on the production targets for 1955-56 in the working plans for industries prepared by the Commission. In the case of a few industries not covered by the Census of Manufactures, rough estimates have been attempted on the basis of available data on the gross value of output and the raw materials consumed. The industries which are covered individually in these ways account for about 2/3 of the net value added by factory establishments in 1948-49; in respect of these industries it is estimated that there would be an increase in net output of the order of 40 per cent by 1955-56. In the remaining industries (*i.e.*, those accounting for 1/3 of the net value added by factory establishments in 1948-49) it is assumed that there would be an improvement of about 25 per cent in the same period.

9. The industries for which individual estimates have been attempted could be broadly divided into consumer goods and producer goods industries. The net output of the former, which covers industries like cotton and woollen textiles, sugar, soap, paper, electric fans, vegetable oils etc., is expected to go up by about 24 per cent as compared to 1948-49. The increases are likely to be more striking in producer goods industries where the improvement is expected to be of the order of 70 per cent. A breakdown of the estimates of the net output of factory establishments, reclassified roughly according to the nature of the product, is given below:

	(Rs. crores)	
	1948-49	1955-56
I. Industries covered individually in the estimates :		
Consumer goods industries :		
(i) Primary essentials (including cotton and woollen textiles, vegetable oils, soap, paper, glass and glassware, etc.)	202	241
(ii) Secondary essentials (including bicycles, sewing machines, electric lamps and fans, silk and artificial silk, etc	4	12

	(Rs. crores)	
	1948-49	1955-56
Producer goods industries :		
(i) Chemicals and metals	32	57
(ii) Fuel oil and power (i.e., petroleum and electricity)	17	38
(iii) Engineering (including machine tools, diesel engines, batteries and dry cells, electric motors, power transformers, locomotives and wagons , textile machinery, etc.)	31	64
(iv) Other intermediate products (including jute textiles, cement, paints and varnishes, etc.)	47	56
II. Other industries not covered by individual estimates	167	209
	500	677

10. Small enterprises cover village industries and crafts as well as urban industries not covered by the Indian Factories Act. The inadequacy of data in regard to these and the tentative nature of the estimate for even 1948-49 (the base year used in our calculations) has been emphasized in the First Report of the National Income Committee. The Five Year Plan sets down certain targets for village industries like handloom, oil ghanis, khadi, gur and *khandsari*, leather etc.; the net value added by these industries, after allowing for subsidies that might be required by way of cesses on the factory industries, is likely to be about Rs. 40 to 50 crores higher by the end of the Plan than in 1948-49. For the rest, an increase in output of 1 per cent per annum over the period covered has been assumed.

11. The net value added by railways covers mainly the gross earnings adjusted for cost of raw materials; since the wages and salaries paid out in the capital expenditure of the railways do not come into the estimates elsewhere, some allowance has also to be made for these. The estimates for 1955-56 are based on an assumed increase of 15 per cent in the volume of passenger traffic and of 40 per cent in the volume of goods traffic as compared to 1948-49; about 50 per cent of the expenditure on the capital programme in 1955-56 is also assumed to be on wages and salaries and is taken credit for.

12. The estimate in regard to 'Other commerce and transport' assumes that the contribution of these to the national product will go up by roughly 10 per cent of the increase in commodity production which is taken roughly as the output under agriculture, mining, manufacturing and hand-trades. The estimates for 'Other Services' are notional.

13. The use of 1948-49 as the base year in the above calculations prevents a direct estimate being derived of the increase in national income in the period of the Plan. It may, however, be safe to assume that the level of per capita income was perhaps only maintained constant between 1948-49 and 1950-51. If this assumption is made, the national income in 1950-51 (at 1948-49 prices) would work out to about Rs. 8900-9000 crores, and the increase in the

national income by the end of the Plan at 11 to 12 per cent of the 1950-51 level. It must be emphasized however that this estimate of the increase in national income in the Plan period does not take fully into account the possible increases in income from some of the schemes like the community development programme which figure in the Plan. Direct application of unutilised resources and concentrated efforts for increasing productivity may in specific areas raise incomes by 25 per cent or more, but in what manner this will come about or how widespread such increases will be cannot be precisely foreseen at this stage.

SAVING AND INVESTMENT IN THE ECONOMY

14. The information available on saving and investment in the economy is naturally even more fragmentary than the data for estimating national income. We should therefore stress once again that the estimates presented here are only intended to be illustrative and to serve as a basis for fixing certain magnitudes which, however notional, are useful for planning.

15. On the side of investment, the most reliable estimate that can be made is for investment in the public sector. An analysis of government expenditures shows that the net investment on public account in 1950-51 was of the order of Rs. 185 crores.*

This was roughly distributed as follows :—

	(Rs. crores)
Irrigation, navigation, drainage, etc. (including multi-purpose river valley schemes)	47
Agriculture	7
Electricity	23
Industries	12
Railways and communications	38
Roads and buildings	42
Other miscellaneous heads (including expenditure not fully covered by above)	16
	185

In regard to investment in the private sector the data available are more suggestive than conclusive. For instance, in 1950-51, imports of 'Machinery and Mill Work' amounted to about Rs. 80 crores; together with 'Instruments, Apparatus and Appliances' and 'Vehicles' (excluding motor cars and cycles but including locomotives, wagons and spare parts), the total imports of capital goods in this year amounted to about Rs. 121 crores. Approximately Rs. 40 crores of the imports were probably for investment in the public sector, and another Rs. 10 crores or so were likely to have been in the nature of durable goods used directly by consumers.

*In conformity with the definition of net investment used here, which relates mainly to investment in fixed capital (i.e. machinery and capital equipment, tools and implements, communications, buildings, etc.) net of depreciation, an amount of about Rs. 47 crores has been deducted from 'development expenditure in the public sector' to allow for recurring expenditures in the development programme.

The remaining Rs. 70 crores could be considered as having been imported for private investment in industry and transport. For a more accurate measure of the net investment in the private sector on capital equipment, it would appear that the following adjustments would also have to be made :

- (i) addition of 25 per cent of imported value of equipment to cover customs duty, distribution charges and installation costs;
- (ii) addition of about Rs. 60 crores for the output of equipment by the domestic engineering industry organised on a factory basis; and
- (iii) a deduction of about Rs. 30 crores to allow for equipment required to meet depreciation.

Thus we arrive at a figure of about Rs. 105-110 crores as the likely order of net investment in capital equipment in industries and transport, large as well as small-scale, in 1950-51. There is apt to be some double-counting here since imported material may to some extent be figuring also in the output of the domestic engineering industry. But, on the other hand, this estimate does not cover the output of durable capital goods by small enterprises in the country (e.g. bullock carts and hackney carriages, tools and implements, iron castings, etc.).

16. The other important item of capital formation on private account is construction of buildings. In regard to this again, the information available is inconclusive. The allocations for construction of buildings of certain materials like cement and steel provide the only basis on which estimates can be attempted at this stage. The available data on these allocations, applied to certain rough estimates as to the cost of building covered by materials like cement and steel, suggest that net private investment in constructions using these materials was probably of the order of Rs. 100 crores in 1950-51. The differences in construction materials used in different areas and in different types of buildings are however so great that this estimate can be regarded as only a first approximation. It will be noticed also that it does not cover constructions which do not use cement and steel (mainly in the rural areas).

17. The gap in our information is greatest in respect of investment in agriculture, small-scale and cottage industries and residential construction in rural areas. Such investment draws mainly upon local materials and direct contributions of labour. Transfers of savings for the purpose are probably small relative to the magnitude of investment, and they are in any case difficult to trace. We might surmise that the greater part of the direct investment in rural areas is for covering depreciation of existing capital stock, but it cannot be assumed that the volume of net investment is insignificant. It is also important to bear in mind that, in a programme of development, the largest potentialities lie in the direct application of manpower and local materials to investment.

18. On the side of savings, the savings of the public sector corresponding to the definition of net investment used here can be computed roughly from the accounts of the Central and State Governments. Income tax statistics show the incomes of corporate enterprises (exclusive of depreciation provisions) as well as taxes and dividends paid by them, from which a

rough estimate can be made¹ of corporate savings. As for personal savings and savings of unincorporated enterprises, they are of two kinds: (a) those directly invested in agriculture, small scale and cottage industries, and residential housing; and (b) those invested in financial assets and which, therefore, lead to corresponding increase in financial liabilities in the system. Any estimate of savings directly invested in agriculture, small scale and cottage industries, and residential housing would naturally have to correspond to the estimate of such investment; as already mentioned, there is little information available on these, and so the margins of error are likely to be substantial. As for savings invested in financial assets, which find their way into real investment through the government and other institutional agencies, fairly reliable data are available on some of the assets into which private savings flow. But there is again some chance of double-counting here, and moreover, with the available information the net cannot be cast wide enough to cover the entire range of private savings invested in financial assets.

19. Subject to all the limitations and deficiencies detailed above, an attempt can be made to construct an illustrative model of the pattern of saving and investment in the economy. The following statement shows rough estimates for the major categories of saving and investment in 1950-51:—

	(Rs. crores)
INVESTMENT*	
Domestic investment on public account	185
Domestic investment on private account—	
(i) Large and small scale industries	80
(ii) Transport other than railways	25
(iii) Construction of buildings (including residential housing and business construction)	100
(iv) Agriculture, and cottage and small scale industries in rural areas	20
Investment abroad (net)†	60
	470
SAVING	
Savings of the public sector (including railways)	98‡
Savings of the private sector—	
(a) corporate enterprises	40
(b) unincorporated enterprises and personal savings (residual)	332
of which	
Private savings as reflected in—	
(i) Insurance policies	40§ ..
(ii) Co-operative banks (deposits and share capital)	25§ ..

*Excludes investment in inventories.

†Represents the increase in net external assets on account of the surplus in balance of payments in this year.

‡Since about Rs. 47 crores have been deducted from the development programme in the 'public sector' to allow for recurring expenditures not coming within the definition of 'net investment' used here, a similar amount is deducted from 'public savings' as shown in Chapter III of this Report.

§Estimates are based on data for 1949-50.

THE FIRST FIVE YEAR PLAN

(iii) Small savings	30*	...
(iv) Provident funds	15	...
(v) Currency and scheduled bank deposits	100†	...
Private savings directly invested in agriculture, cottage and small-scale industries, transport and construction of buildings.	150	...
Net adjustment for omissions and double-counting in above	12	...
	372	470

The estimate of Rs. 470 crores for net investment excludes changes in inventories; there is evidence that the stocks of raw materials held by manufacturers went down substantially in 1950-51, but it is probable that this was more than counterbalanced by increased stocks held by traders and primary producers on account of the prevailing inflationary conditions. Allowing, however, for the fact that the above estimates are in terms of 1950-51 prices and the estimates of national income for 1950-51 estimated earlier is expressed at 1948-49 prices, the proportion of savings may be placed roughly at 5 per cent of the national income.

20. The assumption in the Plan is that, through appropriate measures, domestic savings will be raised to about 150 per cent of the level in 1950-51; that is, if savings in 1950-51 are estimated at about Rs. 450 crores in terms of 1948-49 prices, they will go up to about Rs. 675 crores by 1955-56. The sectors in which the additional saving will be done and the manner in which they will be channelled into investment cannot be forecast in precise terms, but the broad features of the process can be foreseen. Savings in the public sector are likely to be larger, and so also, with higher production, will be the undistributed profits of corporate and unincorporated enterprises. Agricultural extension services, together with other schemes in the Plan for mobilising under-utilised local resources, will also in effect raise the level of savings in the community. The unsatisfied and growing demand for cement, steel and other materials for residential constructions also indicates that when the supplies of these are increased the resources necessary for undertaking such investment will be forthcoming.

21. If domestic savings go up as assumed, gradually in the first two years and more rapidly in the later years, the resources available internally for investment over the five-year period would probably amount to about Rs. 2700-2800 crores. These are expected to be supplemented by (a) withdrawal from sterling balances, and (b) other external resources; the two together are estimated at about Rs. 800 crores. Internal and external resources would thus make possible an aggregate investment programme in the public and private sectors of the order of Rs. 3500-3600 crores.

MANPOWER, COMMODITY AND FOREIGN EXCHANGE BUDGETS

22. Within the framework of an economy in which there are vast resources of manpower, and in which the problem is one of under-employment and low productivities, manpower budgets of the kind drawn up in advanced industrial systems can have but little significance.

*The net change in the holdings of government securities has not been listed here, as it is difficult to estimate the net change in the holdings of the public excluding those of official and banking institutions here and abroad; part of the investment in government securities would also be covered by premia paid to insurance companies.

†Represents largely money savings as a result of rise in prices in this year.

In the latter, forecasts of manpower movements follow from the investment budgets whose shape and pattern are themselves determined mainly with reference to factors other than manpower. This way of planning manpower movements so as to follow and support investment programmes is appropriate in countries in which the problem is shortage of manpower. But the approach will have to be different in a country which has large surpluses of manpower and where the limiting factor is the capital necessary to employ them*. The surpluses themselves cannot be determined statistically except in a general way with reference to techniques of production and movements in productivity. Given these, the investment programme will have to be so framed as to (a) make the maximum utilisation of underemployed manpower, and (b) improve techniques of production and thus raise productivity per head. As explained in the earlier chapters of the Report, the importance attached to each of these will have to depend on a variety of considerations. Measures to utilise underemployed manpower should not, except in special cases and in the transitional stage, be such as to reduce productivity in any line. On the other hand, the techniques of production envisaged should not, except in the case of basic industries and services necessary for the rapid expansion of the whole economy, be such as would absorb large amounts of capital leaving little for the employment of surplus manpower.

23. With the data available at the present time on production and disposal of manpower in different lines of activity, only broad judgments can be made on these aspects of the problem, and the investment programme cannot be related in precise statistical terms to productivity in each line and to "surpluses" of manpower calculated on the basis of the changes planned in techniques of production. Broadly we might say that the number dependent on agriculture and ancillary activities will be about 5 per cent higher in 1955-56 than in 1950-51 and, since meanwhile agricultural output is estimated to increase by over 15 per cent, productivity in agriculture is likely to go up by about 10 per cent in this period. In industries organised on a factory basis, production is expected to go up by 40 per cent; probably as much as two-thirds of this increase will come about through higher productivity and the rest from higher employment. In small-scale enterprises no increase in productivity has been assumed, but the information available on output and manpower employed in the different industries in this sector is so meagre that any generalisation is apt to be misleading. In the government sector, the National Income Committee has estimated wages and salaries paid in the capital programme in 1948-49 at about roughly 60 per cent of the expenditure. Since the development outlay on public account is to be more than doubled by 1955-56, a corresponding increase in payments of wages and salaries and in employment may be assumed.

24. With the available information on the pattern of income and consumption in the country, estimates of demand for the purpose of constructing commodity budgets can also be only in the nature of very broad approximations. In the case of the basic commodities of consumption like foodgrains and cloth, supplies are the limiting factor today and one might

*The special problem arising on account of shortages of technical and administrative personnel is dealt with elsewhere in the Report.

assume that if prices are maintained at a fairly stable level increased output will be readily absorbed by domestic demand. In regard to the less essential commodities, the level of prices will be a more important determining factor, and demand may not increase unless the general level of incomes in the community rises or the prices of the commodities concerned are lowered; lack of effective demand would in turn affect production unless the cost structure of the industries is sufficiently elastic to enable them to lower prices. All these depend on a variety of elasticities concerning consumption and production. Even in countries with more advanced statistical information, estimates in regard to demand and supply are therefore difficult to make. In India the problem of estimation is still more complex. In the various chapters of this Report estimates have been put forward regarding the likely production and consumption levels of specific commodities by the end of the Plan. These, it must be emphasised, are based on a variety of assumptions. Estimates of export and import volumes are also based on such rough assessments of factors affecting demand and supply. These estimates are shown in Chapters III and XXX of the Report. The commodity budgets which figure in this Report must therefore be regarded as operational balance sheets rather than as forecasts.