

SPEECH DELIVERED BY THE HONORABLE
SHRI. C. D. DESHMUKH
— UNDER THE AUSPICES OF THE
MAHARASHTRA CHAMBER OF COMMERCE
ON 13 th NOV., 1951.

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SRI. C. D. DESHMUKH

under the auspices of

The Maharashtra Chamber of Commerce

at the Sunderabai Hall, Bombay,
on Tuesday, 13th November 1951.

Ladies & Gentlemen,

I hope you will excuse me if I address you sitting as I find it more convenient to do so, especially when I have to scan through these voluminous papers.

I am just back from what is perhaps rightly considered to be an election tour; and therefore there may be an inclination to suspect that everything that I am going to say today has

an election flavour. I am, therefore, particularly anxious that, that kind of suspicion should be eliminated from your minds.

Even when I had decided at first to stand as an independent candidate I had undertaken to go round Maharashtra in order to explain the Government of India's economic policy. That certainly was not for party reasons. In the speeches that I have made during the course of my tour, I have pointed out that I fully share the responsibility for what Government have done in respect of the policies that we have followed during the 18 months that I have been in charge of the finance portfolio. Of course, in the nature of things, in some of the policies I have had only a general part to play, that is no more specialised than that of any other Member of the Cabinet,



I have generally accepted the conclusions. Take for instance the foreign policy. I am perhaps a little more in tune with their relations with the neighbouring country, Pakistan, because there the political and the financial aspects are somewhat inextricably involved. So far as finance proper is concerned, I consider that the policy is every bit as much mine as that of the Cabinet. And that is bound to be the case in the case of any self-respecting Finance Minister, because if the Finance Minister's advice on matters of policy is not accepted, then he has no reason to remain in the Cabinet. Therefore, it is on this hypothesis that the Finance Minister who is still a Member of the Cabinet must be prepared to share the fullest responsibility for all the planning and all the policies that the Government have undertaken. So, in a sense what I am going to say this evening will sound like an *apologia pro vita sua*. But, I am afraid it cannot be helped. I would rather have it that way than permit my motives to be impugned—as there is perhaps a tendency in these days—some sort of over-zealous partisanship.

My connection with the economic affairs of India dates from the year 1939 when I was in the Reserve Bank of India. That time I was Secretary, and later became Deputy Governor, and had no great influence over the shaping of the policy of even the Reserve Bank of India, not to speak of the Government of India. I became Governor in 1943 and from that day I may say that I began to participate more intimately in the economic affairs of the country. At the same time I would like to make clear what exactly my field was, and what the field of the Finance Minister was.

So far as the Reserve Bank is concerned there is a misapprehension that while India was under foreign domination, the Reserve Bank was willing to be a tool in the hands of the Government of India. Now, in a way, of course in a crisis of war, every central Bank is bound to be subservient to the wishes of the Government of the day, no matter what

country it is, whether it is U. K. or U. S. A. It is all the same. Subject to this limitation, the Reserve Bank of India did a great deal of valuable work to which I drew pointed attention in my lecture on the Foundation Day of the Gokhale Memorial Institute at Poona. It is reprinted in the form of a small pamphlet and its title, I believe, is "Retrospect of the Reserve Bank of India for thirteen years" or something like that. I do not remember now what the exact title was. I pointed out there that the important thing about what the Reserve Bank or the Governor of the Reserve Bank did was that both worked in harmony and the two worked in the interest of the country. One great work that they did was to persuade the Government of the day to withdraw their proposal to use the gold of the country towards the war effort. I think that was a very valuable contribution to the protection of India's interests.

Then the Reserve Bank managed the control of foreign exchange in a way which, I think, has given satisfaction all these 12 years. I do not believe people have given very much thought to this matter, which is a good sign. When a public institution or Government institution never attracts notice it means there is nothing to complain of. Although the Reserve Bank's Exchange Control Department started to handle this matter right from the beginning of the war, even now, I believe, people do not hear anything about that Department. So, that, I think, is a feather in the cap of the Reserve Bank, a monument to their quiet and correct attitude.

Then, the Reserve Bank was responsible for the foundation work which led to the establishment of the Industrial Finance Corporation. I do not know if many here have read the very readable report that was issued recently by that Institution.

In 1945, the Governor of the Reserve Bank organised a department for monetary research and agricultural credit

which has gone on from strength to strength and which makes very valuable contributions in certain fields—contributions, the value of which is, I believe, readily recognised by students of the subject.

In 1946, the Governor of the Reserve Bank entered a caveat against the excessive cheapening of money rates. That, I believe, was the earliest warning ever given against unreasonable cheapening of money rates in a manner unsuitable to the monetary system of the country. That warning is contained in the Governor's speech in July or August 1946. That year 1946 was indeed a very critical year. The war had ended and experts in many parts of the world thought that with the cessation of expenditure on the war, depression was round the corner and preparations ought to be made for an anti-deflationary policy. And it was with this basis that the Finance Minister of the day framed his policies.

There were two or three aspects of these policies. One was the redemption of $3\frac{1}{2}$ per cent paper. This was opposed by the Reserve Bank for a very long time and the Bank was finally more or less over-persuaded to accept Delhi's decision. The result of accepting that decision was that one valuable season of withdrawing purchasing power was lost in the middle of 1946 because the market had to be so prepared as to ensure the success of this conversion plan which was carried into effect in September 1946. It would be recalled that that was the time when share values rocketed almost sky-high and the market took the bit into its mouth and many well-known speculative counters attained heights never known before and never likely to be attained in the future. The inevitable result that followed was that inflation became rampant and the values attained then both in shares and in Government securities could not be maintained and there began a landslide towards the end of 1946.

The other important matter in which the Reserve Bank declined to accept the suggestion of the Finance Minister of the day was in connection with the Bank rate. The third suggestion which was made was, however, accepted and that was demonetization of one thousand rupee notes, which was relatively a minor affair. This illustrates, I think, the relations that exist between the Reserve Bank and the Finance Minister. Generally, in matters of the money market, the Finance Member of the day was willing to be guided by the advice of the Governor of the Reserve Bank. In matters of taxation, on the other hand, the Governor of the Reserve Bank was not consulted in those days, but was consulted with regard to the possibilities of loans being raised in the coming budget year. Now, it was in accordance with this policy that much of the note expansion during the war years took place. Indeed, it was in 1942 when the word 'inflation' first came to be mentioned in Delhi. And, I think, it was the pamphlet on the falling rupee by a well-known economist of Bombay that first focussed attention on the problem. But this does not mean that the Reserve Bank was not drawing the attention of the Government of India to the inflationary nature of the Financial procedure by which the war expenditure was found. The result was that one valuable year was lost in taking the necessary corrective measures. I believe, the first corrective measures were taken in the budget year 1943, that is to say, they were included in the budget presented in February 1943. After that, on the whole, the measures framed became increasingly effective. It never became possible to discontinue war expenditure and the Reserve Bank Governor had no alternative, except that of resignation, which was a barren kind of alternative, but to acquiesce in the particular mode of financing war. Efforts were made to intensify the borrowing programme. I do not like to hazard the figure now relying on memory, but I believe that during the first three or four years of my Govern-

norship I must have raised about 600 crores of rupees by way of loans representing perhaps half the purchasing power that was put into circulation in order to finance the war. In accordance with this practice of not consulting the Governor of the Reserve Bank the budget of 1947 was also framed. Whereas the budget of 1946 was definitely an inflationary budget the budget of 1947 happened to contain the right remedies prompted by wrong motives (laughter). Whatever that may be, to the body economic of the country it did one great wrong and that was to destroy the confidence that had been engendered in the private sector by the immediate post-war years. You can take your memory back to 1945-46 and search the records of the share market of the time and you will find that a great many issues of shares and new companies took place at the time. I believe this process was altogether killed by that extra-ordinary budget of 1947.

There are two more things which I wish to mention in connection with the relationship between the Reserve Bank and the Ministry of Finance. One of them is the sterling balances. There I think there was complete accord between the Governor of the Reserve Bank and the Finance Minister of the day and they worked in harmony at Bretton Woods. In the Articles of Association or the Articles of Agreement of the International Monetary Fund some provision was attempted to make for a gradual liquidation of the sterling balances but the attempt failed. The Indian delegation extracted one valuable promise from the leader of the British Delegation, the late Lord Keynes who was persuaded to make an open declaration that the debts had been honourably incurred by the U. K. and would be honourably re-paid to India. Our experience is, looking back at it now after 7 years, that that promise has been carried out. Some contrary statement has appeared in some Party Manifestoes in this election. This particular mis-statement happens to be made in one of the

manifestoes and I consider it my duty to contradict it. There has been no scaling down of our sterling balances. We have got value for every farthing of the balances that has been liquidated so far. You may be interested to know the figures. They are not very exact, but they will give you an idea of the order of those figures. We had about Rs. 1,500 crores in these balances when we got independence. Out of it, we had to transfer Pakistan's share; then we purchased military stores, consolidated our pensionary liabilities and drew sums between Rs. 400 to 500 crores in the shape of goods which were largely machinery of various kinds. The balances left with us now, which has been improved by the devaluation of the rupee, are about 850 crores of rupees, out of which 440 crores have been transferred as our currency backing, with an understanding that this should be used only in an emergency, the rest being available for drawing over the next six years.

The other subject I wish to refer to is that of decontrol. The advice of the Reserve Bank was that control should not be taken off on essential goods but this advice was not followed. The result was that the general price index which was then somewhere round 300 went up to about 380. Then after five or six months we had to restore control, but we had lost valuable ground which we could not recover. Now this brings me up to the period when I took over the post of the Minister of Finance. Before proceeding further, I should like to place before you certain indices. Before the Korean war started, that is, in June 1950, the price index for food articles was 407; in mid-April 1951 it was 414 and in October 27, 1951, it was 404. As between mid-April and October 27, the last figure, there is a reduction of 2.3 per cent. The prices of industrial raw materials have gone down by 15.3 per cent; semi-manufactures by 3.2 per cent; manufactures by 2.9 per cent; miscellaneous by 7.4 per cent and other commodities by 5.5 per cent. That is to say, the index

figure just before the Korean war started was 397, after mid-April 1951 it was 462 and on October 27, 1951, it was 436. I shall next give the figures of the cost of living index, Bombay. In November 1947, that is to say, the cost of living index for Bombay, with 1939 figure as the base figure of 100, was 273; in July 1948, after the peak of decontrol, it was 297; from that period up to the pre-Korean war, it was 250—there was hardly any variation; from July 1950 it started going up to 304; in June 1951 it was 321, and in August 1951, it came down to 312. That is to say, as compared with the July 1948 number—I told you that we made a mistake in having decontrol the cost of living index number is higher by only 5 per cent. It should be remembered that this includes only the prices of controlled articles and, it does not necessarily reflect the cost of living of the middle class families in Bombay.

Then I shall give you some figures of production in the form of indices of industrial production, the base being 1946 equal to 100.—1949, the average is 106.3; 1950, 105.2; 1951, for the first eight months, 115.1. This I think will show clearly that there has been an appreciable improvement as between 1949 and 1951 in the case of industrial production. Then the next figures refer to the number of man days lost. From January to August 1950 we lost 51 man days, whereas from January to August 1951 we lost 26.9 man days. So there again it is an obverse of the increase in production. I do not think it very necessary to give figures with regard to the increase in the prices of stocks and share, securities, etc. although I think it has been the general experience that for the last year and a half stock exchanges have generally been in a fairly healthy state with only moderate ups and downs.

Then, you may be interested to know the figures of notes in circulation. The figures of notes in circulation for a slack season from May 11, 1951 to October 26, 1951

show a decline of 174 crores, whereas in the busy season from September 20, 1950 to May 11, 1951 the notes in circulation had gone up by 206 crores, which means that the bulk of the money has come back. A study of the total figures of money supplied, not only of notes in circulation but also the demand liabilities of scheduled Banks, shows that there has been an increase of only 2 per cent. in the total money supplied over the last three years. This accords with our figures which I have given in my lectures, that is, the figures of decline in the balances of the Government of India with the Reserve Bank. They were 275 crores in 1947 when we got independence and the figures at the end of October was 192 crores, that is to say, we have worked down our balances by only 82 crores which was not too bad a performance.

I have given you these figures in order to give you some sort of idea of our performances in the field of financial policy. It will be seen that so far as prices are concerned, the performance had not been too bad considering that the issue had been affected by causes — some causes at least — which were beyond their control. With regard to prices there is one important factor that we have to notice and that is that the grain that we import is more expensive than the grain that we grow; and in order to keep prices at the same level in the rationed population, this year we have had to give subsidy amounting to nearly 45 crores of rupees. Now, that, of course, is expenditure and must be reflected in the state of the balances of the country. So far as the Finance Minister is concerned, there are only two or three expedients open for remedying the price situation from a monetary angle. He can increase taxes as the Finance Minister did during the last budget or he can reduce expenditure as he was not significantly able to do during the last budget. Now, so far as taxes are concerned, his main occupation is to see that they are not recovered from those who can ill-

afford to pay and, I believe, the policy that has been followed has been in accordance with this principle.

Government is blamed sometimes for collecting an excessive proportion of taxes. I have analysed the figures and I find that if we take into account the indirect taxes by way of export duties, then the proportion of direct taxes that we recover is about the same as indirect taxes, the aim in all countries being that direct taxes should be at least equal to or greater than the indirect taxes. It is a kind of index of the taxing policy followed in the countries. It is true that previously, that is to say, previous three years, some concessions were given in income-tax. But they were given not out of any evil desire to make the rich richer, but in the hope that they would give some incentive to the growth of capital. As far as figures are available, it would seem that this has succeeded to some extent and it will be seen that as compared to the 8 crores of rupees that were raised by the debentures in the previous year, in the year that ended about 15 crores were raised for the same purpose. This is a small indication and may be taken as showing which way the wind is blowing. Since then, there has been a small addition to the amount of income-tax as a result of the budget.

Now as regards expenditure it has been pointed out that the bulk of the large expenditure is somewhat of an inevitable nature, like the Defence Services, for example, or the expenditure on rehabilitation. These are not problems in which economies can play the fullest part. But I did conduct an economic campaign — if it can be called a campaign — or economic skirmishes, with the Ministries in connection with other expenditure and I cannot say that I came out with flying colours. I did effect small economies here and there, but as I pointed out to my colleagues then, real economy could only be achieved by a sort of continuous pressure exerted in these departments. In regard to the

Defence expenditure because of the dimensions of the expenditure, unless strict supervision is exercised money is likely to slip through our fingers and they require a very steady financial control.

The other subject involving big expenditure is the River Valley Schemes. Please do not misunderstand me. These schemes are very necessary but even 4 per cent or 5 per cent of inefficiency in handling these schemes will mean a great deal of unnecessary cost. They involve a possibility of wastefulness unless constant vigilance was exercised. The Bhakra Scheme is estimated to cost 130 crores; Damodar Valley Project, as per revised estimates, is to cost 90 crores and the Hirakud scheme will cost—I have not received the figure, but I take it that it will be about 75 crores. Now, you just calculate a possible saving on the basis of 5 per cent. These schemes require close scrutiny and we are revising them. Economy in expenditure cannot be achieved by waving a magician's wand.

I should like to give you a few examples of the care that the Finance Minister takes in these matters. There has been a criticism to the effect that money spent on the Hirakud scheme is spent at a higher rate than necessary and that many works had been started without proper detailed estimates. Well, we at once took up the matter and appointed a Committee. The Committee has a very tough accounts officer who was the Chairman of the Central Board of Revenue. He is one of the members and the other member is the Chief Engineer from Orissa. Both are interested in Orissa and both may be trusted to go deeply into this matter and tell us where things go wrong. Of course, we must await their findings.

Then there is the Damodar Valley Project. We have arrived at a satisfactory settlement with the Government of Bengal which would ensure that the rates charged for the irrigation water would be such as to enable the Government

of Bengal to repay over a long period the loan that they will take from the Central Government for this scheme. In other words, after a good deal of argumentation we have ensured that the project is, what is regarded by engineers, as a productive one. Now, these facts are not known to the public and at the very first emergence of some report or the other against such schemes, they start using the word 'muddle'. I am sorry to say that even in the introductory speech that was delivered today, the word 'muddle' is used. These are errors, it is true; and errors which must be corrected. But these are not errors the existence of which shows that attention is not at all given to these matters. The fact remains that the conclusion is wrong. Well, then, this is what the Finance Minister can and cannot do in regard to expenditure.

The third alternative is, of course, borrowing from the markets. Our experience for the last three years has been that we have not been able to borrow quite as much as we budgeted for, although recently our estimates have been more realistic and I think this year's experience in the matter of borrowing has been quite hopeful. Our record in the matter of small savings is distinctly good, and I have every expectation that the higher estimate that I have taken for budget purposes, that is to say, 43 crores as against 31, will be fully realised. So, that is another factor perhaps to be taken account of in favour of the Finance Ministry.

So, so far as practical action goes, I do not think it would be possible or it would have been possible for any Government to take any more effective action in the matter of policy. For what has not been done there is so much discontent and so much criticism. The causes are many, but some are perhaps real. The administrative machinery is not functioning as well as it should. It should be remembered, however, that 50 per cent of the key posts fell vacant all of a sudden, more or less overnight, when we got independence,

because of the withdrawal of the British personnel, and it is the key men who give tone to an administration. As I have said, men everywhere, and certainly also in this country, are not all good or bad. About 10 or 15 per cent are very good and they would not be corrupted by anything; 15 per cent are very, very naughty and would not be reformed by anything. In between are about 70 per cent who are plastic material and who will take the shape that is given to them. It is these men we have to take care of. So it is the lack of this first category of 15 per cent in sufficient numbers that I think accounts for our administrative weakness. I do not wish to deny that the emergence of our political life has brought in its own complications, and I believe that Ministries will soon realise what a nuisance it is when politics interfere with administration and I can quote instances where on their own initiative they have issued instructions to put a stop to this particular kind of interference, which perhaps comes in the way of an officer speaking or acting without fear or favour. I may mention in this connection that it was at my instance that Mr. Gorwala was appointed to report on the administrative machinery of Government, and I have no doubt that the Planning Commission as well as the Government of India will take very serious notice of the recommendations that he has made. With regard to controls in particular, I think there has been an almost repeated administrative failure, and one does not wish to urge excuses. Sometimes I think the mistake was such as could have been avoided; but as time goes on I think it becomes clearer and clearer that there is a greater determination to exercise these powers in regard to controls without undue respect for personalities or any special interest. While on this matter I would like to mention that the names of Chairman and Members for the Commodities Prices Board, which once came into existence and then came to an untimely end, due not to any fault of theirs, were recommended by me. It was on my advice that

the two eminent gentlemen who adorned the Committee were appointed and it will always be a matter of profound regret to me that the Commodities Prices Board should have come to an end in the way it did. We have tried to atone for this and now the Planning Commission, as advised by me, has suggested some sort of body or organisation for an integrated system of price control.

Now, that is as far as the Finance Minister's actual actions are concerned. The third complaint is of a political nature in which I cannot enter, and that is the allegation that sometimes people, unworthy people are shielded and no proper action is taken against them. Now here again I think that experience shows a progressively increasing degree of rectitude, and I think it has been frankly recognised that it would sap the foundations of democracy if those who behave in an anti-social way are protected by those who should protect society. I have no doubt that the people who are the head of Government realise this very vividly, and I am sure that whatever reasons there might have been for finding fault in the past they will not be repeated in the future, and it is because of this that I persuaded myself to continue to be associated with the Government in the capacity in which I am today.

This is as regards the performance, both individual, that is as Finance Minister as well as of the machinery that is behind me, namely, the Central Government and the State Governments. But the main quarrel seems to be over policy. In this quarrel the main protagonists are the Planning Commission on the one hand and the city intelligentsia on the other. Now this quarrel has a little psychological foundation and it is I believe the state to which the middle class has been reduced by inflation. They think they have lost all along the line. They were used to a much better status in society at one time, especially during the period of depression when their incomes were less but things cost little. So they feel this contrast, although I believe

avenues of employment have multiplied. It is they who suffer from a sense of confusion and irritation and defeatism, and it is they who seem to be impatient to change the present order for they know not what. Some kind of ism from abroad seems to them to be the remedy indicated. This is a mood of desperation and I think it is most dangerous. The principle argument advanced on their behalf is that private enterprise has failed in this country, that private enterprise will never deliver the goods and that in a backward country to encourage private enterprise is to make the rich richer and the poor poorer, and that that is not the way in which the inequalities of wealth between man and man, class and class in India will be eliminated. Well, it all sounds very attractive. I do not profess to be an expert economist. I just happen to have some knowledge of economics, but I do profess to be an experienced administrator. By long experience and association with men and affairs I have an instinctive feeling of what is practicable and what is not practicable in the circumstances of the country. On the other hand, those who advance these theories are, I concede, very fine economists, very expert economists. Some of them at least have, I have no doubt, some experience of administration but it is not enough to warrant any predictions on their part as to the possibility of success of any new world-shaping schemes and that is where the difference lies. My colleagues on the Planning Commission and I are satisfied that in India in the existing circumstances, constitutional as well as social, psychological, and sociological, soon we can advance best along the lines of what for want of a better name we label mixed economy. Now this does not mean a sort of mixture of oil and water which would not mix. When we say mixed economy it does not mean that in one compartment we have private enterprise and in another public enterprise. It means that both are controlled for a common purpose. And it is this that is portrayed in the various legal enactments that

they have been passed recently. I would only mention one, and that is the Industries Development and Control Act. That Act as well as the small amendment of the Indian Companies Act give power to Government to interfere in management of industry where it feels that industry is not being conducted in the interests of the public. Another charge against Government is that proper action has not been taken against tax evasion, (?) That criticism is falsified by the action that we have taken in regard to the recovery of incomtax both by force as well as by persuasion. So in these matters too I do not think it is right to ascribe any motive to Government. Then the third objection taken is that Government are now resiling from their decision to nationalise industries rapidly. There Government has shown some wisdom because in a country where capital is shy or where capital is insufficient, whatever money one has, should be devoted to new industries rather than for acquiring old ones. There is also the question of man power, the difficulties in regard to which are I think well known. So the policy that Government have advised to the Planning Commission is a policy of encouraging all the good elements in the different sections of society for furthering the common good.

That brings me to the Plan itself. From the criticism in the papers I sometimes see that many have not read that excellent summary at all. I call that a summary because it has only 300 pages. But inspite of its size I think it is a very valuable document. Especially the first part, approach to planning, makes a very great contribution to the consideration of the fundamental factors.

I would like to draw attention to the pages from 3 to 30 of the First Five Year Plan. They are eminently readable and deal with important matters such as the concept of planning, political and administrative conditions, the economic and social pattern, the economic situation, long-term economic trends, population pressure : its bearing on development, the

perspective of planning, the problem of competing objectives, technique of planning, price policy for the Plan, controls and the approach to Planning.

Now, the Bird's eye view of all that is contained here would indicate that in the opinion of the Planning Commission the present economic policy of Government would form a suitable foundation to the Five Year Plan. That is the gist of the matter.

As regards criticism of the Plan itself, not much criticism of the financial aspect has been voiced, although I see that the Maharashtra Chamber of Commerce wonders where all this money is to come from. I can understand your anxiety in regard to deficit financing. That deficit finance to the extent of 300 crores has been provided for in the event of assistance from outside not materialising not as a first choice but as a sort of second best. But, we have every hope that foreign assistance will be forthcoming. It has been received this year to the extent of over 100 crores of rupees and may be if we conduct our foreign relations with the skill with which we have been conducting it so far, the assistance of a similar order may be forthcoming. But even if it does not, the risk that has been taken is a sort of calculated risk. It is required for the execution of schemes which are already in hand and which, although originally long-term, could be regarded as short-term productive schemes. So, we hope that although all invested expenditure is inflationary it will not be long before our ship comes home. In the meanwhile, we can induce the public to exercise a certain amount of self restraint and bring home to them the lesson that in every country in which planing has been undertaken no matter under what kind of 'ism' or 'cracy'—the public has had to tighten its belt. In some instances it has been done voluntarily. In other instances it has been forced on them. But nevertheless there has been and there must be some tightening of belts till the results of investigation of

expenditure are available. So, from that point of view I myself have entertained no great anxiety in regard to the financial aspect of the plan.

An objection is raised that this is not a plan at all. Some say it is a statement of policy. Some say it is just a list of projects. Well, in a sense this is not a plan that could be expected in the form a table of 50 columns verticle and 50 columes horizontal. That would be a wonderful plan, and I believe in some of the Scandinavian countries where the capacity of the people for internal discipline is very high and the problems are small or where some foreign assistance has already been given, this sort of counsel of perfection is feasible. But, here we have only made a beginning with statistics. Therefore, it is not possible to have that kind of plan. We are taking all steps that we can for collecting information. We have appointed National Income Committee. We are getting advice by experts from abroad. We have organised a national sample survey which will go on from year to year ; we have also got some special surveys and so on and when we frame the next five year plan we shall plan in this particular sense, that is to say in the sense of taking into account the integrated and coordinated information for all these years.

Now, in connection with this Plan an objection is taken that in the agricultural part we do not show from year to year how many villages will have co-operative societies ; how many members each co-operative society will have ; how much educated the secretary of this co-operative society will be and what will be his qualifications. Now, in a democratic state of affairs at least I cannot see any way of calculating these things. These are matters which must be attained by a process of trial and error ; but I am satisfied and, I believe, the general public is satisfied that short of changing our Constitution the general principles laid down in the Plan are right.

Of the many criticisms that have been levelled on this Plan, the most important is one that is brought out by very eminent economists and I think if that criticism is to be replied to, then the whole nature of the plan will have to be changed. They have got some differences of opinion on this plan. And some differences are fundamental differences in outlook. And if you have a new system of Government of a different kind of Government not provided for in our Constitution, well then we should have a different kind of plan. Now, the main points of their objections are these.

The first is with regard to irrigation and power. The objection is that the irrigation and power schemes have not been selected with reference to any defined criterion, that is to say whether it should be a famine area or whether it should be an area of intensive development. Well, the answer that is provided for in the Plan says that we should complete schemes which are already in hand even if they do not always conform to the pattern of expenditure we have in view. That is on page 35 of the Plan.

Another objection that is raised is that not all the projects included in the Plan were subjected for detailed technical investigation and careful assessment of the economic aspect. The Commission has recognised clearly the need for planning power utilisation in advance. "The pattern of power utilisation" it is stated in the Report, "has to be laid down in advance, and development of generating capacity coordinated with the development of load so that there is as little lag as possible between power generation and its utilisation". (P. 124) The large multi-purpose projects have been phased with more emphasis on early completion of irrigation work and power generation is taken up by stages in view of potential demand. So it is not as if the Commission has ignored this aspect.

Now, while referring to these projects, I might give some information about the Koyna Project. At one time it

was a much larger project. At the same time two other Governments also framed projects which were aimed at utilizing fully or liberally the water of the Krishna and the Koyna. When these three plans were put together by the Planning Commission they found that the total amount of water required for these schemes was three times more on paper than the water that is actually contained in the Krishna system itself. I think that is an excellent argument why a Planning Commission is necessary. I need not give any other argument. Well, the representatives of these three Governments were sent for by the Planning Commission and the discussion took place—they were all reasonable men representing reasonable Governments—they accepted the fact that each scheme should be tailored according to the cloth and thus a new Koyna scheme has emerged; and I have every hope that so far as this State is concerned, the scheme for Koyna will find a place in Part II of the Plan. However, I cannot give exact information because I have been away for three weeks on less productive work. (Laughter).

Another objection that is taken is that the plan for development of electric power is not integrated with the plan for development of industries with special reference to their location. Now the need for this has been recognized. The Report itself says :

“ The pattern of power utilization has to be laid down in advance and development of generating capacity co-ordinated with the development of load so that there is as little lag as possible between power generation and its utilization.”

Now, in some of the works and projects like the Damodar Valley project, there is no question of difficulty in utilization of power. Nor is there any such difficulty, I believe, with regard to the project like the Koyna project. Then you require some water for irrigation. But that is a separate problem which will be considered on its merits.

The objection relates to the proper and early utilization of water and electricity for the planning of certain subsidiary and ancillary works. This aspect of the problem has not been attended to by the Commission.

I think there is some substance in this criticism. There are instances to show that mere provision for irrigation does not produce results quickly and a certain amount of development is necessary and people have to be educated and equipped to make the best of the new facility. But this problem must arise at a later stage and in some cases the development is likely to take ten years. Although the Planning Commission took time I do not think they can take as long as that to lay down a complete scheme of development before evolving a plan. One does not wish to look at it in its proper perspective.

Then there are some doubts raised in regard to industrial development. The objection is that the discussion in the Plan of priorities in industrial planning concentrates on certain short period considerations. Industrial development has been related to the development of agricultural, irrigation and electricity, and the objection goes on to state that this has led to inadequate emphasis on the expansion of basic industries like iron, cement and fertilisers. Additional industrial capacity proposed is, according to the objector, very limited.

The reply to this is, in general the productivity of industry is higher than agricultural and from the point of view of securing a large increase in net production, there is certainly a great deal to be said for promotion and expansion of industries. Nevertheless certain basic facts have to be stressed. The Five Year Plan is primarily intended to rectify the disequilibrium in the economy as a result of war and partition and an early solution has to be found to remove the shortages of food and raw materials. In fact, without raw materials industrial development would itself be handicapped.

Therefore, I do not think the Commission had any choice, especially when one remembers that our resources, our over all resources, are limited. It is not possible for us to have larger investments in one field without sacrificing some investment in another field. In the sphere of social services, for instance, the scale of developmental expenditure is by no means ambitious. But the question is, if we want to increase it, whether investment in agriculture and rural development can be reduced, and the same question arises if we want to make funds available for industrial development. So although some marginal adjustments may be possible, I think that, on the whole proper emphasis has been laid on the various main features of the Plan. An instance of this intended marginal adjustment is that the Commission is anxious to provide for more iron and steel and it may be that, after a review of the agricultural schemes included in the Plan, some resources would be diverted from agriculture to industry. Talking of industry I would like to mention here some of the main targets of production proposed in the Plan for industries. Production of cement is to go up from the present level of 2.6 million tons to 4.6 million tons, that is, an increase of 76 per cent. Now, this is expected to meet domestic requirements and very likely yield a surplus. The question that has been raised is whether some of this additional cement could not be exported. But the price factor is likely to come in the way of any substantial export. Therefore, any fear that sufficient investment in cement has not been provided for is groundless. As regards fertilisers, the production of super phosphates is to increase from the present level of 52,000 tons to 179,000 tons. Ammonium sulphate from 47,000 tons to 100,000 tons and this is exclusive of the production of the Government Fertiliser Factory at Sindri with an estimated annual output of fertilisers under the Plan is estimated as 433,000 tons, as against the estimated optimistic demand of 6,00,000 tons a year. There is plenty of time to popul-

arise fertilisers before we aim at this higher target. Steel production is to go up by 31 per cent ; diesel engines by 905 per cent ; pumps by 156 per cent ; power alcohol by 322 per cent, aluminium by 455 per cent. and so on.

Then the next objection is that small scale and cottage industries have not received sufficient attention.

Here it must be confessed that the principles and methods have been laid down in the Plan. The Plan has assigned an important role to small scale and cottage industries and in view of the relative abundance of labour as compared to capital, labour intensive methods of production have to be preferred wherever possible to capital intensive methods. Although cottage and small scale industries suffer from certain handicaps, there is scope for their development, if they are properly organised and rightly assisted by the State. The Plan does not, however, claim that full employment is possible through cottage and small-scale industries. This objective has to be realised over a period of time and the main plank in the programme has to be large-scale investment by the State for basic development. For an under-developed country, the major problem is to build up the economy through the adoption of more efficient technical processes. Rapid economic development is, as the U. N. Experts' report on Measures for the Economic Development of Under-developed countries points out, the only fundamental remedy for disguised unemployment. The problem, therefore, is to reorganise cottage and small-scale industries so as to enable them to hold their own against the competition of large-scale industries. The Planning Commission has made various recommendations to this end. To a large extent, the success of these industries will be conditioned by local initiative and local response. The provision of Rs. 16 crores in the Five Year Plan is not meant to indicate the limit of investment in these industries. It is a measure of assistance from the public sector. To some

extent, the necessary investment will have to come from the private setor. The need for technical and economic reorganisation has been stressed in the Report and facilities for technical training are also recommended. It is not possible to have more details about them in a Draft Outline Report. One must wait for the fuller edition before one finds out what effect these will have. I do happen to know that the Member in charge, Shri Patil, has been devoting a very great deal of attention to working out the details.

Now, there is another objection, namely that for realisation of the targets proposed it is necessary to have a coordinated price structure which could provide the right measure of incentive for expansion of production at various levels to the required extent, and the view is put forward that the maintenance of a given parity between prices and the objective of holding and in due course reducing the price level may not at times be mutually compatible wherever regional and other factors have to be taken into account, so that price policy alone however well chosen, cannot ensure the fulfilment of targets unless a special provision is made to ensure their fulfilment.

One must admit that this is quite true and it will be noticed that Government as well the Planning Commission have felt the need of integrated price control since the failure of decontrol in 1948. A price policy is necessary but it is not sufficient to ensure the results desired. It may be necessary in some cases to allocate supplies. It may be necessary that fertilisers may be provided only for individual food production. Every assistance by the State may also have to be given with the stipulation that it is availed of for certain defined purposes only and in the last resort it may be necessary to prevent by law resources being devoted to production of the goods to which the Plan has assigned a low priority.

All this is stated particularly in the Plan. But legal compulsion has to be resorted to only in the last resort.

Targets in the Plan for private sector are intended to be taken only as approximation. They provide a guiding line only. A Plan which contemplates the association of a large private sector side by side with the public sector has necessarily to provide for a measure of elasticity. It is also true that the maintenance of a structure of relative prices would be necessary and consequently price levels in line may militate against the larger objective of bringing about an ordered fall in prices. This also has been recognised and there would not be much difficulty if certain prices are brought down to a level of parity with procurement prices of foodgrains. But the difficulty is that this is not always practicable. But if certain prices cannot be brought down, it may be necessary to have a moderate price increase for urgently desired products of high priorities. In other words, maintaining a lower average price level and a price differential for attaining a target may even clash. The Report does not rely exclusively on that but it does recognise the need for evolving a structure of prices so that the basic attainments of the Plan are not upset by an uncoordinated price changes. How precisely new adjustments of prices are to be made is a matter for detailed examination and as I have already mentioned the Commission has recommended the creation of a Price Advisory Council to assist Government in formulating its policy from time to time.

These are some of the principal objections. It would take a very long time if I were to go through all of them. I can only say that we could answer most of them.

In conclusion I will say that the main points that need, in our opinion, to be attended to in the final Report, in view of this valuable criticism, are the following :

(1) Provision for careful examination of the economics of irrigation and power projects and project of public enterprise ;

(2) Measures necessary for ensuring wider diffusion of benefits of public investments for the agricultural sector.

(3) A definite plan for pig-iron and steel, if possible in the first five year plan. We have accepted that.

(4) Relatively greater emphasis on industrial rather than agricultural investments in the second part of the plan. God willing, if some finances are available of the order of 300 crores of rupees.

(5) Elaboration of the concept of intensive development areas for agricultural development, especially from the point of view of crop planning and procurement and selection of specific areas for this purpose.

(6) Examination of the scope for extension of marketing of agricultural products and the setting up of processing industries.

(7) Formulation, if possible, of one or two concrete proposals for state trading as a step in the direction of nationalization of trade.

This is an important provision which holds out some hope that if finance is lacking and if there is not sufficient social conduct on the part of those now operating in the field, the State would take charge of some of the trades.

(8) Desirability of imposing certain obligations on private enterprises which have been assisted from the public sector.

This is a valuable point to which attention has been drawn and it would have to be examined by the Planning Commission in consultation with the Commerce and Industry and the Finance Ministries.

And lastly,

(9) There should be some provision for the setting up of machinery for the assessment of the results of the Plan from time to time. The machinery should provide a basis for periodical revision and to ensure more and more effective implementation at each stage.

To sum up, planning by democratic means has necessarily to face many difficulties. This has been called a curious

species of planning. But, on behalf of the Planning Commission all that I can say is that this is not our final answer to the many problems of the day. We would like the Five Year Plan to be taken as a beginning in the direction of planning and if there are reasons for dissatisfaction with the operation of the private sector, there are also difficulties in the way of rapid extension of the public sector. If what is planned cannot be implemented, then it is no use making a plan at all. So, what the Planning Commission aims at is to show continuity of development and smooth transition from the present unplanned economy to a planned economy.

One last word and I shall have finished this longish lecture. The point is made by the Maharashtra Chamber of Commerce that the cost of implementing the Plan would be lowered substantially if the public concerned were to give freely all their labour. I have seen instances of this during the course of my recent tour—instances which are calculated to inspire any impartial observer. I have seen school buildings constructed in a short space of time; new approach roads made; bunds constructed and tanks deepened; all with the help of private local labour and local finance assisted by some Government labour. I think this is a field which offers the finest chance for all the divergent elements in the country to work together for the regeneration of their motherland. I think it is in this field that the middle class can quench its discontent. It can give its leadership to the rural areas and if the middle class makes an attempt in this direction it will find that the rural population does not share its defeatism. The rural population is most anxious to go forward and to receive the necessary guidance from the middle class. Thank you.

(After the conclusion of Shri Deshmukh's lecture, questions by the audience were answered by him. The following are the questions and the answers given by Shri Deshmukh.)

Question : Will you please be good enough to give us the history of devaluation which led to the destruction and carnage of Hindus in Bengal in 1943 ?

Shri C. D. Deshmukh : I do not think there was any connection between devaluation and carnage. Devaluation and destruction may have an alphabetical connection. But I will give you the history of devaluation. When we devalued and thirty other nations devalued, the fact that we could not maintain the rate for the rupee had become clear from the shape of our balance of payment, that is to say, the net result of our foreign trade. At that time Pakistan had not become a member of the International Monetary Fund and was not subjected to that kind of discipline to which we were subjected. For reasons of their own, they intended to adhere to their old original value, although the expectation was that they would lose steadily their foreign balances. This took place according to the expectations and at their higher rate many of their principal exports became unimportant. We refused to buy their jute except at our prices. In March it was realised by Pakistan that they would have to agree to sell jute—their surplus jute—at the price which we had laid down. Well, once we got jute at our price, we did not care at what level the Pakistan Government maintained their rupee. What we were concerned with was the price for which we get their goods expressed in Indian rupees. At that time neither Government made any direct mention of the rate of exchange. All that was agreed was: "You sell so much jute at such and such price and we will sell Indian stuff at such and such price." Then all students of

the subject thought that the time will soon come when Pakistan would have to devalue. But then came the change in price level caused by the conflict in Korea. The nature of that conflict was quite clear in September 1950 when the world was shrieking for raw materials for stock-piling purposes. Now at the same time, our own plans for raising jute inside our border miscarried. By December 1950 to January 1951 it became quite clear that Pakistan would sell their goods to anybody in the world at whatever rate of exchange they preferred to maintain. Actually, against 25 lakhs bales of raw jute which they used to export in previous years, they exported about 45 and on the other hand our own mills which had already reduced their working hours found that their production was steadily going down for want of raw material. As regards the unofficial rates, the rates to which the questioner has referred are rates recorded for border transactions. Such transactions sometimes include remittances and sometimes small border trade. But that does not give you a measure of the relative value of Pakistan rupee and our rupee. In any case in the last analysis, we buy at the rate which suits us and if anybody is hurt by the rate of exchange it is not we, but the other countries. That is the reason why in February 1950 for the sake of our jute we agreed to have a trade pact with Pakistan.

To give an idea of the progress of our efforts to grow more jute, this year I think we grew 45 lakhs bales as against 30 last year. It has been possible for our jute mills to agree to work 48 hours instead of 42 hours. So, we shall now produce larger quantities of jute goods and we shall improve our foreign exchange situation without in any way affecting internal supplies.

Question : It is regretted that you have not offered a word of comment on State Trading and State-managed industries. Will you kindly do so ?

Shri. C. D. Deshmukh : I think I have said something about state trading. So, possibly the questioner was not attentive.

As regards state-managed industries, I admit I forgot to mention it, but Mr. Gorwala has again at our instance submitted a report in that connection and we are considering now whether we should accept his recommendations **in toto** or with some modifications. The Central Government is already managing some industries, and I admit it is most important that we should now decide quite clearly the lines on which we are going to manage state enterprises, because on our success or failure will depend the pace of our progress in the direction which seems to be favoured in many quarters in the country.

Question : Will you please enlighten us with your views on handling of the Sindri Fertiliser Factory and the* Prefabricated Houses Project ?

Answer : I would refer him to the record of the debates in Parliament. These two matters have been discussed at a very great length and there is nothing new that I could say on the subject.

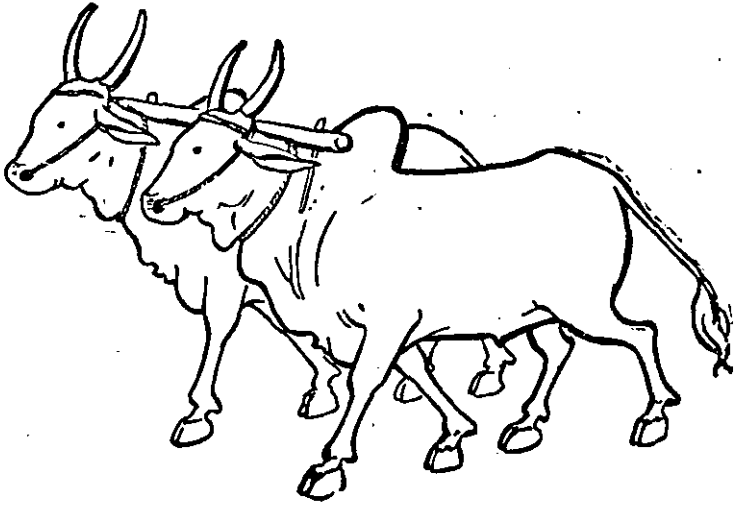
The second part of the question says : How the sugar partial decontrol has reflected on other prices and whether a dual price policy should be followed in the case of foodgrains.

I think the example of a dual price policy as in the case of sugar should not be followed in regard to other basic and essential materials like food. In the case of sugar it succeeds because sugar is the middle class vice. It also has gur as its competitor and these conditions do not exist in regard to, say, food and if we were to follow the dual price policy with regard to food, then I am afraid it would interfere with the procurement plans of State Governments.

Question : What have you to say in regard to the short-sighted policy customs policy ?

This is a question with implications. Administration of the import and export policies and customs duties are governed by immediate exigencies of the times.

Answer : This is a somewhat comprehensive and circumlocutory question. It does not contain any point of difficulty and I hope I shall be excused from answering it.



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