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**PLANNING
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ECONOMIC
POLICY
IN INDIA**

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D. R. GADGIL

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D. R. GADGIL

FOREWORD

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

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

was likely that this had fallen in real terms since 1957 (pp. 135-6). It should have been possible to check this statement a year later. Unfortunately, the data in the latest issue of the *Indian Labour Journal* (October, 1960) do not make it possible to compare the all-India position even in 1958 with that of 1957. I had also expressed the hope that data with the Pay Commission might throw light on the position of the salariat during the Second Five-Year Plan period (p. 136). The report of the Commission (the Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees, 1957-1959) does not contain any information in this regard. Reference may, however, be made to an interesting study attempted by the Commission, which has relevance to problems of distribution. The Commission made a detailed study of information relating to salaries and other emoluments of persons employed in the private sector. The latest year for which data were available to the Commission for this detailed study was 1956-57. The main purpose of the Commission's study of the data was a comparison between earners of high salaries in the private sector and those in government employment. Incidentally, however, the Commission also instituted a comparison between the highest salaries and the lowest wages in the private sector; the results of this are set out in the report in the following terms :

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

Table IX

(Income per annum in Rs.)

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

The valid comparison is with wages in jute and not cotton textiles, and in fact even the jute textiles wages are not the lowest in organized industries. We have, however, made a comparison also with the wages of an unskilled worker in cotton textiles in Bombay because they are about the highest wages which an unskilled worker gets in the private sector. And we should invite attention to the fact that we are all through this chapter referring to incomes of purely salary earners in the private sector; earnings in other forms at the top levels of that sector are higher." (Report pp. 82-4).

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

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

and of the prices, procurement and distribution of food that were responsible for the relatively bad performance.

In this context, I confess that I do not feel satisfied with the analysis and discussion of price situations presented in the various notes and memoranda included in this publication. To a large extent, they are partial and superficial. At the same time, I feel that it is difficult with existing information and in the existing state of economics to achieve a much more satisfactory job. What I mean may be made clear by reference to a particular subject, e.g. analysis of prices of food-grains in India. The Indian market for cereal food-grains is not even notionally a single market. The markets for the main cereal food-grains of general consumption in various regions of the country viz. rice, millets and wheat have little direct connection with each other. As wheat is known to be not an acceptable substitute in the rice region there is not much point in taking the aggregate production of rice and wheat together and relating the total to another series. Wheat may, however, have some direct influence on the markets for millets. This is only a part of the complication. The behaviour of prices in the deficit areas and the surplus areas may vary greatly, and this may be peculiarly so where administrative regulations intervene. The fact that the bulk of supplies of cereals are grown within a small number of months and that on this account operations on part of producers and traders can vary greatly, from time to time, the available supplies in the market in an area or during a part of the year, further complicates the problem of price analysis. Bans on movements, in particular, may increase, in a considerable measure, the average levels of stocks of cereals in the hands of producers and traders and thus effectively withdraw a part of the supplies from the markets, especially when there is a rising trend of prices. Part of the supplies may also be moved not through regular channels but by smuggling along prohibited frontiers. All this emphasizes the need to pay close attention to possibilities of the technical relation between supply and demand at particular times and places being manipulated by certain classes and practice of such manipulations on a large scale having a cumulative and quasi-permanent effect on the situation. I am in these notes concerned with pointing out that there is a world of difference between an initial inflationary movement creating a situation where producers, speculators or traders could operate successfully to raise prices only in the absence of appropriate government action and continuous and heavy inflationary pressures creating a situation which even properly administered and intelligently

conceived government policy is unable to cope with. The usual models, abstractions or simplifications to which economists resort are far too simple for situations described above, and reasoning based on such simplifications cannot yield causal explanations and can have little significance for policy decisions in such contexts. The review of the analysis of rise in prices attempted by the Food-grains Enquiry Committee (Report, Chapter IV) which was specifically charged with this work exhibits how general, superficial and largely subjective such analysis tends to be. The defect is in both directions. The statistical data relating to production, stocks, surpluses, turnover at various markets, costs, charges in a variety of contexts are all very meagre for presenting a full narrative of total developments, and also it is not possible to undertake, with objective assurance, an adequate analysis of the variations in movements over years in such imperfect and disjointed markets subject to a variety of external interferences and with possibilities of cumulation of effects. In the event, one is forced to take an overall view, with the help of some essentially subjective valuations of the importance of various factors; the result is an analysis which is to a very large extent a matter of personal judgement. There is little doubt that what I say on questions of prices and inflation, among others, in these notes is, in this particular sense of the term, just personal judgement. All that I can plead is that all other attempted analysis is also in the same category and that because of somewhat extended experience in the matter and because also of natural personal vanity, I continue to place some faith in my own judgement.

Decentralization with emphasis on small-scale industries has been an accepted principle of planning in India all these ten years. In relation to production in traditional industries a committee of the Planning Commission formulated an approach in 1956 which was accepted in the Second Plan. However, during the last five years, little effort seems to have been made to operate according to that approach, and developments in various spheres have taken different directions. As a result, the idea of a common production plan has receded more and more into the background, and the reasonable aim of preventing technological unemployment, while at the same time improving techniques, has been lost sight of. In consequence, present policy in this field has neither a firm basis nor definite direction. The Khadi Board's most conspicuous success during the Second Five-Year Plan period appears to have been in preventing co-operative processing societies making headway in directions like rice milling, oil expelling and indirectly reserving this sphere for

private operators. The situation in administration and public sector management appears as unsatisfactory as before. The stranglehold of the single administrative service on all undertakings managed by departments and statutory bodies has not been loosened at all, and no imaginative policy either of recruiting or training managers for public industries has been evolved.

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

“Yet it would be an error, I think, to over-emphasize the planning machinery as an explanation of what happens from day to day, or even from year to year. If we assume the existence of an omnipotent and omnipresent plan, we cannot explain in economic terms the actual performance of the East-European economies. . . . Would it not be better to consider the plan as a periodic appraisal by the government in question of what it wants for its own use; and to consider the economic process as one in which the ‘planned sector’ comes into contact with an ‘unplanned sector?’. This contact is influenced by the plan itself, the structure of price controls, and the allocations imposed by the government, and by the desires of workers, consumers, and plant management. Such an approach would not break a continuous economic process into artificially-discrete planning intervals, and would not be so apt to create the illusion of order which emerges from the East-European literature on planning.”¹

In contrast with the East-European economies the planned sector in India is very small and the apparatus of controls, allocations, etc. very meagre and inefficient. In fact, the power of the State to regulate economic activity is less in India than in many West-European countries which are said to have unplanned economies. The proportion of national income collected through taxation and other measures by State in India is much less than that in these countries of West Europe. The area of economic activity directly under control of the State is also proportionately smaller in India than in many of these countries, and the extent to which the State attempts and achieves redistribution of income in favour of the poorer classes is,

¹ *Resources and Planning in Eastern Europe*, Edited by Norman J. G. Pounds and Nicolas Spulber, 1957, page 119.

in contrast to North and West Europe, almost nil in India. The deliberation and intelligence with which regulatory and directive systems are set up and operated, is much greater in most of these countries and so also is the conformity of the private sector to legal rules and its standards of public morality. Planning in India has therefore to be looked upon as an uncertain, though pretentious, enterprise in which the volume and the quality of effort by government are too inadequate to make any large and consistent impression on the total situation.

Perhaps, even more important than the extent of operations are the intelligence and single-mindedness with which efforts at planning are attempted and the responses they evoke. It is useful to contrast conditions in which planning is undertaken in communist countries with those obtaining in India. Where government enjoys very large coercive authority and also has wholehearted support of, large or small, strategically placed sections within the population, it can, in part, through education and propaganda and, in part, through force, bring about considerable changes in habits of living, patterns of work, standards of consumption, levels of savings, and directions of investment within a relatively short period. The absence of large powers of enforcement and of wholehearted support of particular sections of the population has to be compensated for by a larger degree of foresight, intelligence, and efficiency in planning and by greater understanding and willing support on the part of generality of the people. The largest difficulties of Indian planning today seem to arise from these needs of the situation. It is the doubtful quality of the leadership in planned effort and its failure to evoke adequate public response that appear to be at the centre of the existing problem.

Attention may be drawn to particular features of the existing situation. Firstly, there is the heterogeneity of the Indian social structure. The wide extent of the country, the diversity of linguistic and cultural groups, the rigid stratification and social isolation created, in particular, by the caste system, all make it difficult to establish a unified view of government policy and its operations. Inevitably, each region, group or class is bound to look at government activity and policy from the point of view of immediate effects on own interest. All this holds good not only in relation to the large inactive masses of people but also, and in particular, in relation to the classes and groups in authority. Whatever their professions these do not in effect appear to be guided in policy or action, by any broad social objectives or overall national tests. A great number of policy

decisions, and even more their absence, in relation to Indian planning, can only be explained reasonably in the light of interests of classes or groups in power. The deliberate shilly-shallying about food policy has no meaning except as arising out of the desire to protect the threatened interests of the rural moneylender-trader and the grain wholesaler who even today form an important part of the base of the Indian capitalist class. In the same way the foreign-exchange debacle of 1956-57, the continuance of *ad hoc* licensing policies for export and import quotas with the large speculative gains which they flagrantly make possible, the two-fold misdirection of the plan involved in the special licensing of imports of industrial capital goods and materials in the supposed interest of promotion of exports, all these appear related more closely to profits of private groups than to national development policy.

An interesting recent illustration is afforded by the decision to make a free port of Kandla. It has to be noted that the decision is outside the plan and it has never been made clear how it is related to plan-objectives and plan-targets. It will lead obviously to creation of another heavy concentration of industrial activity, while the plan objectives are presumably for lessening such concentration. The resources for industrial development in this new concentration could be obtained only by withdrawing them from elsewhere. Moreover, the concentration is sought to be created in a completely new centre situated in an extremely sparsely populated area. Obviously, if an experiment with a free port had to be made, it should have been made in an existing port area with heavy unemployment around it, such as Cochin and not in the desert at Kandla. The particular decision can be explained and understood only in the light of the present balance of politico-economic power in the country.

The heterogeneity of socio-economic structure and the concentration of politico-economic power heavily misdirect policy decisions and as a reaction of this a strong suspicion is created among the mass of the people about neglect or worse of their interests. A plan of development in a poor country like India involves above all some hardship and considerable self-restraint, at least in the initial stages. The willing acceptance of hardships and self-restraint can come about only if there is a feeling of common purpose, common interest and common sharing. Such a feeling appears totally absent in the country today. Most overt developments are against the possibility of creation of such a feeling. In relation to consumption standards of the rich not the least extent of physical controls or deprivation are attempted by government. The attempt to operate a plan

with most of large organized business in the private sector has led to adoption of a policy of incentives for savings by the rich, which leads inevitably to heavy concentration of economic power and can result in adequate savings only after the highest standards of living attainable by the rich have been reached. The results of present policies are reflected, in the biggest cities in India, by the increase, on the one hand, of the number of slum and pavement dwellers and, on the other, of amenities like air-conditioning and the mushrooming of places of feeding and entertainment on the most extravagant international standards.

The dilemma faced by the country and the attitudes of the ruling classes, including the top civil servants, may be illustrated by reference to the recent report of the Central Services Commission. Discussing the proposal that the highest salaries in government service may be scaled down, the Commission refers to the fact that, since 1948, the relative position of salary earners in the public and private sectors had changed radically and a very large increase had occurred in the number of salary earners with incomes exceeding Rs. 40,000 per annum in the private sector. The Commission remarks: "It is obvious that the higher salaries in the private sector are determined by wider economic factors, and the state of particular business or industry; and in some cases, it seems even circumstances outside the country influence those salaries. The concerns controlled by foreigners pay to their non-Indian employees salaries comparable to what those employees might get in their own country; and the rates so determined for non-Indian employees in turn influence the rates fixed for Indian employees." (Report p. 82). Because of this, the Commission recommends that the highest salaries paid by government could not and should not be reduced. This interesting exposition together with details of the levels of private salary scales given by the Commission brings into relief an extremely important aspect of the operation of Indian economy. The largest units in private industry and trade in India pay their highest employees salaries comparable to those paid in the most developed and the richest countries of the world. And these scales of salaries affect levels paid to top employees in other parts of private Indian business and the highest salaries in government. Influence in the same direction is exercised by salaries paid by International organizations which also recruit some members of this class in India. We have thus a situation in which the standard of living and consumption not only of private businessmen but also of the highest-salaried employees in the private sector in India are fixed in relation to or

at least oriented towards the levels obtaining in the richest countries of the world.

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

Many foreign experts who take a naturalistic view of stages of economic growth are apt to tell Indian critics of private Indian business that India is at present in the age of tycoons and that this will inevitably pass. Whatever that may be, it should be observed that in no country can tycoons possess the moral leadership required to evoke from the mass of the people willing self-restraint in national interest. The intelligentsia, including the professionals and the top salariat, who formerly commanded wide respect are also fast losing it because of their exorbitant claims on the national product and increasing association with private business. The rot has progressively spread to political leadership. The full situation in this respect is to a certain extent masked today by the fact that political power is overtly in the hands of certain national leaders with a historical background. The most prominent of these were leaders of national political struggle in which their capacity for sacrifice and for objective national leadership was tested and proved. This fact has been helping the Indian government to a large extent during the last ten years. However, it is obvious that neither this leadership nor the hangover from the previous epoch can last for ever. In the not-too-distant future, there is bound to be definite confrontation of the actual possessors of politico-economic power in the country, the large business interests, the top administrative and professional groups and the political parties supported by them with the mass of the common people, and such a confrontation would have very serious results for the plan and for stability and order in the country. Such a situation could be avoided only if political leadership becomes more intelligent and more perceptive. The present crisis is essentially a

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moral crisis. If those in power can regain moral authority, which they can do only by showing some convincing overt signs of their sincerity and sacrifice for planned development of India on democratic lines, the mixed economy may still prove practicable. If not, the last abortive strike of the central government employees may prove to have been only the first in a series of disturbances and conflicts that may shake the country.

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November 5, 1960.

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POLICY DECISIONS IN PLAN-MAKING*

This brief note is intended to raise issues chiefly of policy in relation both to the objectives and the general framework of the Second Five-Year Plan. I start with the assumption that it is intended to undertake a bold plan, a plan that will significantly affect in less than a decade the total national product, the living conditions of the poorest, and the existing socio-economic structure. I also assume, without setting down any quantitative calculations, that a bold plan will call for the greatest possible effort on the part of everybody. What are the possible factors which would determine or dictate the limits of such effort, especially, on the part of the State?

One may begin with the consideration of resources. An evaluation of resources available to the State in financial terms appears a necessary preliminary step. The usual resources available to governments as from tax revenues, small savings, and borrowings from the public have definite limitations. The possibility of expansion of receipts through taxation has been fully examined very recently by the Taxation Commission. It would not be helpful nor it is necessary to go over the ground again, and the limits indicated by the Taxation Commission may be taken as indicating the maximum effort that is immediately possible. The only issue here that may still be open is the reconciliation of the objective of maximizing tax revenues with that of offering adequate incentives for the working of the private-enterprise sector. Decisions of policy in relation to the Second Five-Year Plan may also affect the possibilities of small savings and public borrowings. The possible variations are, however, not likely to be significantly large. Anyway, it is not expected that State receipts through taxation and borrowings will, even when stretched to the utmost, enable us to undertake a bold plan. Receipts from other possible resources, such as sterling balances and foreign aid of all kinds, may also be assumed not to contribute materially towards undertaking a bold plan.

This appears to leave only two sources either or both of which may be drawn upon for financing a bold plan. These are : (1) extension of the sphere of the public sector, and (2) deficit financing. The extension of the public sector, if it is to help significantly to finance the Second Five-Year Plan, must be planned and undertaken

* Memorandum submitted, in February 1955, to the Panel of Economists, Government of India Planning Commission, and published in *Papers Relating to the Formulation of the Second Five-Year Plan*, Government of India Planning Commission, New Delhi, 1955, pp. 509-12.

at the beginning of the Plan period. Therefore, the possibilities of the extension must be examined as a matter of basic policy almost immediately. There may be a number of valid reasons for including in the public sector economic activities which are left entirely in the private sector today such as banking, insurance, foreign trade, internal trade in specific commodities, large-scale machine industry, etc. Whatever the other justifications, from the point of view of financing the Plan, the main justification has to be its making available larger capital resources for investment in the Plan period than if the activities were left in the private sector. Surpluses originating in these activities when in private hands may not be fully available for investment because of leakages through increased consumption, use in speculation, etc. Diffusion of the potential surpluses through commissions and many other types of payments to partners, relatives, etc. may also be reflected in increased consumption, or speculative activity, etc. Also such surpluses as become available may also not be amenable to directed investment. Further, control over production or distribution in specific fields may enable tax-like measures to be undertaken with ease, certainty, and with low cost which would not be possible if the activity is left in private hands. It is on these lines of reasoning that an extension of the public sector in specific directions can be held to lead to an increase of resources available for investment under the Plan. This question, therefore, merits close attention over the whole field at the earliest stage with decisions to be reached before the final Plan is formulated.

In relation to deficit financing the main problem is that of determining the extent of the maximum effort. It does not appear to be disputed that deficit financing may start an inflationary trend which, if unchecked, could be highly regressive in its effects and may ultimately prove self-defeating. Therefore, the possibilities of deficit financing are linked closely with the effectiveness of control measures. With a very large sector open to private enterprise deficit financing is bound to bring about a transfer of resources from the fixed-income, salary-earning, and wage-earning classes to *entrepreneurs*. This must increase concentration of wealth in society further and significantly affect the balance of socio-economic power. It is for consideration what steps can be taken by the State to counter this effect. Secondly, deficit financing is bound, to the extent that it affects prices, to cut into the consumption standards of the poorer classes. What steps are possible to see that consumption standards of these classes and others who are vulnerable are not affected? Finally, if uncontrolled, deficit financing may lead to changes in relative prices which may obstruct the working of the Plan. Also, with even a mild inflationary rise of prices a sellers' market may be

created and a general shortage of commodities may be experienced. This will make physical controls and specific allocation necessary for carrying out the Plan. All these and other types of movements, likely to be started by deficit financing, have to be thought of and provided against. At least a preliminary examination of the question does not suggest that deficit financing can be undertaken to any significant extent without a regulatory regime such as existed in the United Kingdom during the period 1940-46. The possibility of the State enforcing this is a question which must be brought up at the policy level at the earliest possible time.

Turning to the more concrete aspects of planning, the investment programme has to be planned carefully as between agriculture, industry, social and economic overheads, and within the industrial field as between light and heavy industry, consumers' goods, producers' goods industry, etc. There are, no doubt, some considerations which appear to emphasize investments with quick returns. A long-run point of view, however, would indicate preference for investment in heavy and basic industries, in economic overheads such as the power and transport systems, in major irrigation works, etc. Such preference could appear meaningful only in a plan oriented to a long period. A long-period plan appears also to be dictated by the need to phase technical progress in many industries and to minimize the unemployment effects of planned development. In all the larger consumption industries a common plan for producers with varying equipments and techniques has to be evolved. This also can be done meaningfully as only over a 20 to 25 years' period. The basic structure of the plan has therefore to be thought of in broad terms for a fairly long period ahead. The Second Five-Year Plan can then be drawn in as only the opening phase of this long-term plan. It is extremely important for the general framework to determine immediately whether the Second Five-Year Plan will be so considered or will be chiefly self-contained as the First Five-Year Plan.

The First Five-Year Plan put forward the idea of a common production plan for machine and hand industries. No common production plan has, however, yet been evolved in any sphere. A bold plan implies detailed targets of consumption goods availabilities. These have to be planned with a view to economic utilization of existing resources, with special emphasis on employment and progressive advance in techniques. For proper execution, this will involve detailed production programmes, leading perhaps to some standardization of consumers' goods and also control over allocation of resources and distribution of products. Considerable direct control over production programmes and distribution methods of machine industry and a better organization through co-operative or

similar channels of purchase, sale, and finance activities of handicrafts are prerequisites of the drawing up and operation of a common production plan. This will be further emphasized if the policy is adopted of fixing a related price-structure for consumer goods produced by agencies of various types.

In relation to agriculture, the response of the Central Ministries to recommendations of the Rural Credit Survey Committee indicates acceptance of a large programme for credit, marketing, warehousing, etc. Many of the concepts thus accepted could be applied also to the small-industry sector. However, in relation to agriculture, two questions which have been under discussion for some time have yet to be settled. These are agricultural prices support and crop planning. Even if it may be possible to defer consideration of the second, the first must be decided upon in principle at an early stage. If the operation of the Second Five-Year Plan is not to be held up by price fluctuations, some device must be evolved by which either too great a rise or too great a fall in the agricultural price level is not permitted. An agricultural price support policy can no doubt be linked to a network of warehousing and marketing organizations and could be made effective with certain minimum stocks held and carried over by the State. This would also ensure protection to the food position as against an unfavourable year. But decisions on these points have yet to be reached in principle, and this must be done before details of the Second Five-Year Plan can be worked out.

Control over consumption has two aspects. Firstly, it is related to the protection and, if possible, improvement of the standard of living of the poorest classes. Especially where a sellers' market develops, protection may become urgent and could perhaps only be given through controlled distribution, at least to a limited extent. Improvement of the standard of living of the most disadvantaged could also not be attempted through mere fiscal, monetary, or public expenditure policies. It would require specific measures, including those of offering employment and distributing goods to specific classes in specific locations. The other aspect of control over consumption is related to consumption by those of the comparatively well-to-do whose incomes increase. This will involve control over imports, over production of types of consumer goods, over activities such as private residential house-building, over facilities offered by public services such as airways, or over distribution of goods such as petrol. It is obvious that planned investment could not take place unless possible leakages in every direction are stopped as far as possible. All this, however, involves undertaking by government of active policy which may be difficult to enforce, and which may not

prove popular unless its full implications are very widely made known and recognized.

A talk of a socialistic pattern of society will raise more directly in the context of the Second Five-Year Plan problems of distributive justice. The wide acceptance of the concept of a ceiling on land-holdings will raise questions of a ceiling to maximum holdings of the means of production in other spheres, and of a ceiling to incomes. It is suspected that concentration of wealth and economic power has increased in the private-enterprise sector during the First Five-Year Plan. That the inequalities in India are today uncommonly large is patent; what policies to correct these are to be adopted in the Second Five-Year Plan must again in principle be discussed immediately before details of the plan are formulated.

Finally, a bold plan would require insulation of the domestic economy to a much larger extent than today. It may mean greater and more systematic control over foreign trade, and activities of foreign investors and foreign private companies. It would also require close attention to the problem of increasing greatly the efficiency of the public sector in economic activity, and to the problem of obtaining enthusiastic public participation in the processes of planning and executing the plan. The last is much more than a matter of propaganda, or publicity technique. It involves what perhaps is the most crucial decision of all : how and by what steps the socio-economic structure and the balance of power in it are to change and how this change is to be made visible and real to the people.

The purpose of this note has been to bring out the more obvious and the more important issues of policy on which government opinion or action is unclear today. A bold plan can only be visualized after basic decisions in connection with at least the issues raised in this note are faced and decided upon; or, rather only when these decisions are made could we proceed to say how bold the plan would be or whether it would at all be bold or not.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This inability is due to two reasons. Firstly, it is due to operation of a rational plan of development. As pointed out above, such a plan must, for reasons of economy and of convenience of direction and regulation, try to eliminate risks and operate through

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

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

modern business. Therefore, the position in relation to remuneration and standard of living among the upper strata of these has ceased to be as unique as that in modern business. As a fact, one could say that this movement among the two classes has taken a contrary direction during the last fifteen years. While the privilege and strength of the one class has sensibly diminished — though far from vanished — that of the other has greatly increased, and the trend in the latter case cannot be reversed because of the logic of a plan of development, and the policy regarding formation of capital.

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

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

The alternatives to the existing position are two. Firstly, the steady extension of the public sector so as to embrace more and more of modern business activity within it. Once no great importance is attached to the private capital market, the financial problem presented by such an extension of the public sector presents no great difficulty.

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

EXISTING DIFFERENTIALS IN SALARIES AND WAGES AND THEIR RELATION TO A SOCIALISTIC PATTERN*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

call forth the optimum production effort on the part of individuals.

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

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

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

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

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

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

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

There might be no opposition to a general theoretical acceptance of the ideas put forth above. It is highly doubtful whether they would be equally acceptable and enforceable if worked out in specific detail. The problem may be said to have two aspects. Firstly, with regard to scales of emoluments in the public and the semi-public service, and secondly, payments in private industry. The dispute relating to payments to employees of banks has recently drawn attention to the public importance of the highest scales of

salaries having some relation to levels of payments of the lower staff. However, barring some occasional action in relation to salaries of top executives in some nationalized institutions, little has so far been done in the matter. Even more important is the fact that there has been no systematic thinking on the subject, and no thought or action appears to have been contemplated or even deemed necessary.

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

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

The proposals of the University Grants Commission appear to be modelled on the recommendations of the Radhakrishnan Commission. The only argument put forward by this Commission in support of the scales recommended by it is that "there is no reason why they (universities salaries) should not compare favourably with

those of provincial services". The scale of salaries recommended by the Radhakrishnan Commission for professors is 900-50-1350, and it is interesting that the Commission itself notes the following facts: "In Indian money the average salary of professor in the U.S.A. is 1750 a month, the maximum salary (fixed only in Columbia) Rs. 4,000 a month, and that of professor in the premier universities of the United Kingdom about Rs. 1750 a month". The Commission, while noting the scales in the U.S.A. and the U.K., does not feel called upon to comment on the close approximation of the scales recommended by it to the salaries of professors in countries so very much richer than India. If the Commission had cared to note the scales in countries nearer our own level of poverty or wealth, it would have found them very illuminating. For example, it may be noted that the salaries of professors in Japan, whose per capita income is roughly three times that of India, do not usually exceed Rs. 700 per month. A comparison of the relative salaries of primary teachers, secondary teachers and university teachers in India with those in other countries would similarly emphasize that the so-called low levels of existing salaries in universities and colleges in India are, in fact, not low relatively to our national economic circumstances.

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

The moral of all this appears fairly clear. In any system, working like the present Indian system, there is little likelihood of any rationalization of the emoluments of the highest paid. There will always be shallow professions of moving towards equality and

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

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

incomes received out of the national pool are the concern of the government and the planning authority. And whether the payments are imposed, prescribed, permitted, or merely tolerated they must be taken as parts of the plan. Therefore, whether through appropriate tax policy or through direct regulation, all salaries as well as high *entrepreneurial* incomes must be set at appropriate levels.

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

From the point of view of immediate policy decisions the following points appear to emerge from what has been discussed in the preceding paragraphs: (1) One of the major aims of the Plan should be to raise the standard of living in the poorest areas and of the most disadvantaged classes through appropriate plans of development and employment. (2) The minimum-wage legislation should be enforced in the unorganized sector of industry and in the organized sector of agriculture over as large an area as possible. (3) In the organized sectors of industry collective bargaining and standardization of rates of remuneration be actively encouraged. (4) Continuous

and systematic attempts to be made to rationalize progressively scales of salaries and other types of remuneration paid to top executives, administrators, and intellectuals in all official and semi-official employment. One of the main objectives of the rationalizing process should be to see that, by the end of the plan-period, the range of differentials between the highest and the lowest scales of official payments should not be wider than that obtaining in the U.K. Attempt should be made to narrow the variations between payments by various official departments and agencies and payments by various strata of governmental authority—central, state, and local.

(5) Standards of remuneration and earnings at the higher levels in private modern business should be amenable to public regulation.

(6) The standards of convenience, amenities, etc. afforded by public services and agencies should not be set at levels current in the rich countries but should be evolved in appropriate relation to the size of our national product and the level of general well-being in our society.

NOTE PLACED BEFORE THE NATIONAL DEVELOPMENT COUNCIL*

It is necessary to emphasize, at this stage, certain structural features of the Second Five-Year Plan as contemplated in the Memorandum of the Panel of Economists and in the draft-plan-frame, to which it appears likely that sufficient attention might not now be paid. All these features are closely associated with one another and cannot be isolated. They are: (i) A wide extension of the public sector; (ii) Concentrating investment in basic and capital goods industry; (iii) Progress in equalization of distribution and in decentralization; and (iv) Construction of a system of socio-economic regulations which might be brought into operation in appropriate stages.

A progressive widening of the public sector is an essential pre-requisite of any progress towards a socialistic society, particularly in an undeveloped area undertaking rapid planned development. Without such an extension of the public sector large planned development will actually breed greater inequalities and bring about greater concentration of economic power than before. There is reason to believe that concentration of economic power has increased in India since independence. It is necessary in this context to distinguish clearly between the two different constituents of the private sector. The first is what may be called "private enterprise" proper. This consists of the vast majority of units in the private sector; all the units in village and small industry and retail trade in agriculture barring the plantations, and most of the field of transport are included in this division. The other division of the private sector might best be called "monopoly capitalism". This division is characterized by the limited number of units in each field of activity and the power of these units to control significantly the market for their product by acting together. Almost all modern machine-industry, modern banking and insurance, most of foreign trade, and some part of internal wholesale trade are embraced within this. Entry into most of this field is difficult and is ordinarily regulated by the State through licensing and other devices. In the field of foreign trade the entry is almost completely closed. Large parts of the division also owe their original establishment and continued existence at the present level of profits, etc. to protection of one sort or another given by the State. It is this division of the private sector in which the largest surpluses arise, and which profits most from

* Note placed before the National Development Council in January, 1956.

the process of investment for development. State regulation of economic activities for planning also increases the concentration in the division. This division is already the most influential in the country, and the high concentration within it increases its ability to exercise power.

The current phenomenon of a boom on the stock exchange, the impetus to machine-industry production and the prosperity of certain classes in the biggest cities side by side with increasing unemployment, depression in the village and small-scale industries, and a general stagnancy, if not decline, of the purchasing power of rural society as a whole throw vivid light on the possible course of investment for development unaccompanied by a proper social policy. Mere fiscal devices such as income, or inheritance taxes are unable to resolve the problem. This may be taken as sufficiently proved by the actual history of the progress of modern business during the last eight years. If the process of concentration continues further, its consequences, political and economic, will be so obvious that it would be difficult to persuade the rest of the society to bear sacrifices for development, and there would be no justification for making the attempt. The fact that in India only a limited number of comparatively closed groups shares the growing prosperity and power of the monopoly capitalists makes the situation even more difficult. Therefore, even apart from any requirements of the progress towards a socialistic society, an extension of the public sector in that division of the private sector which is occupied today by monopoly capitalists, it appears, is urgently required; with an avowed socialistic aim this becomes imperative. The only real solution to the problem in the long run is that the whole of the division at present occupied by monopoly capitalists should be transferred to the public sector. Immediately, the minimum programme must be to see that no further addition to units in the private sector is made in such fields as mineral production, generation and distribution of power, capital-goods industries and basic-material industries such as cement, heavy chemicals, etc. Negatively the same thing may be defined as involving that, excepting in certain consumption-goods industries, all new units in modern industry should be in the public sector. In foreign trade, through the establishment of marketing boards, etc. the exports and imports of all important and strategic goods should be brought into the public sector. Nationalization of insurance has to be actively explored; and the minimum need in the sphere of banking is to bring into existence an integrated State Bank, covering the whole country adequately. This has been already accepted as a matter of policy by government. In relation to internal trade, the

building up of the co-operative credit, and warehousing and marketing structure of products of agriculture and small industry is the primary necessary step.

It is symptomatic of the existing situation and its dangers that even the publicly announced policy-decision in relation to the creation of a State Bank, covering the whole country, is not being rapidly and fully implemented. What is more alarming is that: (i) Though the investment now proposed is even larger than that contemplated earlier, no policy-decisions are being taken regarding the immediate and future coverage of the public sector; (ii) Though the unpreparedness of government and of the administrative machinery to undertake large or larger responsibilities has been continuously put forward as the main reason for not immediately extending the public sector, almost no attention at all, and certainly neither adequate nor sufficient attention, is being given to the problem of gradually increasing the capacity of the State in this regard. When the economy begins to develop while the capacity of government to manage business does not increase, there will be an inevitable and growing transfer of activities to the private sector; and (iii) There is complete lack of definition of objectives in relation to public assistance given to the private sector. Public assistance with proper safeguards may be given to the private sector in order to enable it, for the time being, to do things which the public sector is unable to handle immediately. Public assistance which is given appropriately with this clear objective may not have any undesirable consequences. On the other hand, public assistance, as it is given at present, merely increases the present coverage of the private sector and the capacity of its members to obtain a greater than proportionate share of the national product than before. This applies, of course, not to the assistance given by the State to "private enterprise" proper but only to the "monopoly capitalists". The effects of the direct financial and personnel assistance given by the State to the largest businesses in the immediate past, and the future pattern of the operations of the National Industrial and Development Corporation require the closest scrutiny. In this connection, reference may be made to the Chinese systems of mixed public and private corporations. It would be desirable to vest all large corporations in receipt of public assistance with this mixed character.

The coverage—present and future—of the public sector appears to be the most important immediate problem. The definition of this coverage, and the size of the plan are intimately connected. An issue of almost equal importance is the plan-structure of industrial investment. Earlier in the year, the decision seemed to have been taken firmly to concentrate as large a proportion of resources as possible on a connected long-period programme for

building up the basic structure of industry. This decision involved, as one corollary, the decision to invest as little capital as possible in consumer-goods industries. It also meant that while investing in economic and social overheads no investment that is not, as per somewhat severe standards, absolutely necessary for the plan-period need be made, and that, in the investment in these overheads, the emphasis is on the increase in productive capacity and not on any unnecessary increase in consumption.

Another consideration relevant to the problem of the coverage of the private sector is the plan regarding capital formation. This plan bears upon fiscal policy and on policy regarding the distribution of income. No significant amount of capital formation in the hands of the rich could take place without allowing for fairly high levels of profits and consumption standards among the very rich who are the operators in the monopoly capitalist division. If, on the other hand, capital formation is supposed to take place chiefly in the public sector, no dilemma regarding implementation of social policy need arise. Already through such devices as the system of Industrial Finance Corporations, and through large-scale direct financing of certain large units by government, a substantial portion of the capital required by modern business is being supplied by the State. The proportion of capital supplied by the public sector to the private sector is on the increase; and changed fiscal and social policies can easily enable the public sector to make up any gap that becomes necessary in capital supply to the private sector because of the change. Therefore, at this stage, a decision not to have fiscal or other policies influenced by considerations of formation of capital in the hands of the rich appears to be called for. These observations have, of course, little to do with the ordinary "private-enterprise" division as capital formation to the extent that it is taking place in the smaller units is not likely to be affected by fiscal or distributional policies intended to promote the socialistic approach.

Decentralization is another avowed objective of policy which is likely to be lost sight of today. Industrialization on a decentralized pattern has neither come about in any country nor has been deliberately attempted by any so far. The general trend in technological development, and the operation of the ordinary market forces in modern economics, both lead to continuous centralization of production and of location of population. Unless an attempt is made to evolve a decentralized pattern in the plan of industrialization and in the planning of social and economic overheads such as transport, power generation and distribution, and education and health facilities, the operating trends will prevail. In particular, the funds set apart for developing industrial estates and other facilities for industrial development must be used for bringing about a decentralized

pattern and not for enforcing or allowing to enforce the existing movement towards centralization. Such an effort, however, is likely to be considered as against their interest by urban and industrial classes which take a short-term view. A proposal to disperse some economic activities from Bombay city into the hinterland to relieve congestion in the city and to make conditions of living somewhat more tolerable than at present in Bombay city has been interpreted by a large number of people, who avow complete faith in the Gandhian philosophy as against the interests of Bombay city. Even in the implementation of the programme in the small-scale-industry sector, it is necessary to remember the objective of decentralization, because small-scale production does not necessarily involve decentralization of production in terms of location or of regional distribution.

At this stage of planning for economic development in India, it is extremely important to remember that the improvements that are desired, in distribution of incomes and in the standards of living of the poorest classes in India, can best be brought about by an appropriate distribution of constructive activities and orientation of the production organization, especially as a social security programme with a wide coverage cannot today be considered practicable in India. The only way of bettering the condition of the most disadvantaged classes is to give them opportunities of obtaining an adequate income, as far as possible, in their own occupations, and if this cannot be done, to give them alternative employment, as far as possible, near their own houses. In distributing expenditure in the five-year plan, particularly in relation to programmes of construction-activity, special attention must be paid to doing something immediately for regions that are backward or have precarious economies and for the most disadvantaged communities.

Present thinking on the plan is largely concerned with the size of investment and targets of production, employment, etc. very little thought seems to have yet been given to the institutional and regulatory measures required to implement the plan and to attain its objectives. To the extent that the plan is a plan of operation in the public sector, its implementation rests largely with government. However, almost the whole of agriculture and small industry, and most of modern business activity will be in the private sector. For agriculture and for small-scale industry a vast co-operative system covering credit, marketing, storing, and processing activities has to be brought into being. For securing that the level of relative prices in various sectors does not vary beyond limits, and for seeing that prices of individual commodities do not either fall below a certain level or rise above a certain level, an integrated price policy must be elaborated. Through the co-operative system referred to

above and through appropriate supplementary measures, government must put itself in a position to maintain the integrated price structure. For regulating modern business, both for attaining the production targets and for restraining possible monopolistic practices, existent regulatory measures have to be intelligently co-ordinated and the necessary supplementary measures formulated. The saving and distribution plan will require for its fulfilment a large number of restraints on consumption. The production plan might also require detailed allocation of strategic resources. None of the details of the appropriate all-purposes regulatory system appears to have been thought out. No study appears to have been made regarding the extent to which even existing regulation exercised by government could be fully co-ordinated and made effective so as to subserve the objectives of the plan. The possible results of the present state of unpreparedness in this connection are that while the taxation and public-sector-investment parts of the plan will go through, the necessary efforts for building up the co-operative system and for regulating the activities, in particular, of modern business will not be made. As a consequence, plan targets will be unevenly fulfilled; an even more dangerous likely result is that the social objectives will totally miscarry, and the efficiency of the present plan and the country's ability to plan for the future will be greatly impaired.

To sum up, it is imperative that before determining the outline of the plan clear decisions regarding the following are arrived at: (1) The manner in which and the stages through which the coverage of the public sector will continuously expand in the Second Five-Year Plan and subsequent plans; (2) Equipping government and the administrative machinery to deal more comprehensively and more efficiently with economic activity in an expanding public sector. (For this purpose, a programme of reorganization of the administrative machinery and of recruitment and training of personnel, in particular, for fulfilling the new requirements must be immediately evolved); (3) Vesting immediately with public interest all private corporations to which public assistance is given and their progressive incorporation in the public sector; (4) Ensuring that the proportions of investments approved earlier are adhered to as far as possible, and that no unnecessary diversion of funds to overheads such as transport are made; (5) Building up the programme of industrialization, the programme of development of transport, of generation and distribution of power, of education and health services, and the schemes of industrial estates and housing, etc. so as to lead to the evolution of a decentralized pattern of economic activity; and (6) Determining fully the operative structure of the socio-economic, institutional and regulatory system, and the planning techniques used for implementing and enforcing the plan.

AIDE-MEMOIRE*

Introduction

1. This is an aide-memoire. In the main, it summarizes and classifies the points discussed on Sunday, January 8, 1956, with the Finance Minister, Shri. C. D. Deshmukh.
2. It would appear from the remarks made by Dr. Jivraj Mehta at the meeting of the Standing Committee of the National Development Council (N.D.C.) that the views expressed by the members of the Panel of Economists in the latest meeting of the Panel are not generally known. It is therefore necessary to circulate the official press-release, regarding the discussions held at the Panel meeting, to all the members of the N.D.C.
3. The main purpose of the proposed revision of the draft-outline is to emphasize the objective of an approach towards the socialistic pattern of society. For this purpose, it is necessary to have in the draft-report an introductory chapter clearly outlining the goal of a socialistic pattern of society and indicating that the proposals outlined in the Second Five-Year Plan are but steps in that direction and have to be judged in that light. It is necessary therefore, as indicated by the Prime Minister, to ensure that the proper trend is established during the forthcoming plan-period.

I

1. An essential aspect of establishing the proper trend is to ensure that the public sector expands progressively, both in absolute and relative terms. A pre-condition of achieving this is a reconsideration and reformulation of the Industrial Policy Resolution of 1948, for defining clearly and in detail the scope of the public sector in a planned socialistic economy.
2. While the reformulation of the Industrial Policy Resolution of 1948 will help to place before the country a more concrete picture of the socialistic pattern in the industrial field, practical considerations in the immediate future may make it difficult to ensure that even all the new units that have to be started in the re-defined field of the public sector are immediately established by government. However, all assistance given by the State to any private units that are allowed to be established in this field should be given only in the

* Note presented jointly by Dr. V. K. R. V. Rao and Prof. D. R. Gadgil to the Finance Minister, Shri. C. D. Deshmukh, in January 1956.

form of equity-capital, and the terms of assistance should ensure participation of government in the management of the units. The details of the programme of the National Industrial Development Corporation, and the form and terms of its agreements with assisted private concerns should be examined in the light of what is stated above and decisions taken accordingly.

3. A programme must be immediately evolved to increase progressively and rapidly the ability of government and administration to manage an expanding public sector. The main aspects of this programme are: (i) Examination of the existing organization and methods of working of business-units in the public sector to ensure both expeditious and efficient operation; (ii) Overhauling of the existing monolithic structure of the superior public service to provide for the accession to it of the new elements required for business-units in the public sector as also for bringing some freshness of outlook, and for giving adequate opportunities to these elements; and (iii) Providing for the continuous recruitment in sufficient numbers, and for the proper training, including appropriate orientation, of managers and technicians required by business-units in the public sector.

4. An immediate beginning should be made by bringing into the public sector at least some part of foreign trade. Inclusion in the public sector of all strategic imports and exports is required both for augmenting the resources of the public sector and for implementing the detailed objectives of the Plan.

5. The following suggestions are made regarding some details of the plan for industry and minerals:—(a) Heavy forgings, foundries, and structural fabrication should be entirely in the public sector, and the allocation made for the item should be increased. (b) All the larger units in the item 'miscellaneous industrial machinery' should be in the public sector. (c) Basic drugs and the associated basic chemicals should be in the public sector. (d) A long-period programme for putting ultimately all production of aluminium, coal, ferro-manganese, and mineral oils in the public sector should be worked out, and preliminary action taken now to ensure its eventual implementation. (e) The problem of production of power alcohol from molasses and its utilization should be fully explored, and if practicable, the allocation to power alcohol should be increased. In view of the proposed setting up of a large number of sugar co-operatives, the production of power alcohol may also be placed in the co-operative sector. (f) The proposed allocation to the following consumer-goods industries be re-examined and should, if practicable, be drastically reduced: rayon; vegetable oil and vanaspati; and soap (large-scale industry). This is particularly necessary for keeping

open the possibility of releasing extra quantities of oilseeds for exports. Oil seeds are more suitable for this purpose than cereals.

(g) The increased production of bicycles and sewing machines should be reserved, as far as possible, for the small-scale-industry-sector.

(h) Immediate steps should be taken to determine the extent to which insurance could be brought within the public sector.

6. The generation and also the distribution of electric power should definitely be put into the public sector, and all steps taken to ensure that this is implemented as early as possible. In no case should any extension be permitted in the private sector of either generation or distribution of electric power for sale to the public either for domestic, or for industrial consumption.

II

1. The whole plan should be fully re-examined from the point of view of: (a) proper regional allocation, and (b) the aim of the decentralized pattern of production.

2. The desired additions of allocations to backward or depressed regions particularly for added employment-opportunities could probably be best made with additions under "construction". The possibilities of these allocations will depend, for the most part, on readjustments of central assistance, grants, etc. as between the different states.

3. Bringing into existence the decentralized pattern of production may require re-examination of the plan for road transport and communication development. It will necessitate reconsideration of the allocations for industrial estates and industrial housing. Consideration will have to be given to the problem of total layouts of large villages and small towns, to provision of economic overheads in them, and to schemes such as the workshop-cum-housing scheme for weavers of the Handloom Board.

4. Attention must be given to formulating a uniform structure of rates for each electric grid, and to making the rate-structure appropriate to the objective of securing a decentralized industrial pattern.

III

1. In view of the emphasis on increased production, and on restraints on consumption, all programmes in the public sector will have to be examined for possibilities of effecting savings through increased efficient use of resources, or through the deferring of increase in amenities and conveniences, or even through the lowering of the existing standards of these in some directions.

2. The construction-programme in the public sector should be examined for a possible postponement or reduction of some items, especially conspicuous expenditure on public buildings, particularly for the saving of scarce materials like steel and cement.
3. In relation to private spending, a beginning for restraints on consumption may be made with restriction on size and style of new residential houses, on the availability of new cars either through imports, or through domestic production, etc.
4. Re-examination may be made of foreign-exchange-availability for travel abroad.
5. The total balance-sheet of encouraging tourist traffic, including the effect on domestic standards of consumption and expense accounts of special amenities provided for the tourists, may be drawn up before undertaking additional investment for the purpose.
6. Both increase in production and some restraint on consumption could be achieved through regulation of production by effecting standardization and considerable reduction in the number of the varieties of cloth.

IV

1. The draft-outline of the Plan should include a chapter on planning techniques giving some idea of the regulatory measures, newly-devised or expanded institutions and other instruments of policy to be used for implementing the Plan and for achieving the savings, investment, production, employment etc. targets in the Plan especially those in the private sector, including agriculture, and village and small-scale industry.
2. In particular, attention may be paid to the formulation and maintenance of a structure of relative prices.
3. A scheme for the co-ordination at various levels of all the available instruments for implementation should be devised. The co-ordinating scheme should take cognisance of all the aspects such as the credit, marketing, and warehousing structure; the regulation of industries and capital issues; the allocation of transport and materials; the fixation of import and export quotas; and the control or fixation of individual prices; it will have also to see that, in achieving the specific immediate objective of a particular measure or step, the total objectives of the Plan are furthered and not hindered.

V

In view of the time needed to revise the draft-plan in the light of these suggestions as also to ensure a better orientation of the allocations towards the objective of a socialistic pattern, it is necessary

that (a) the target date for publishing the draft-plan for public information by the end of January should be postponed by a few weeks and (b) some flexibility should be secured in the formulation of allocation figures so as to permit a possible, though obviously not substantial, revision in the second or third year of the Plan.

A NOTE ON MOVEMENTS OF PRICES *

This is a brief note on a complex problem. It is brief because it has had to be written within a short time, and because all the data necessary for an evaluation are not readily available to me.

The note is concerned with the recent movement of prices in India. Prices of some important commodities, especially food-grains, have sharply risen during recent months, and there has been an increase also in the index number of the urban cost of living. This has caused real apprehension regarding the future in some circles; it has also given an opportunity to those who are opposed to the size and approach of the Second Five-Year Plan to start a movement for its revision.

The upward movement of prices has not been uniform; whereas prices during the last year have increased in the sectors of "food articles", "industrial raw materials", and "semi-manufactured articles", they have not risen at all or risen only a little in the sectors "manufacture", and "miscellaneous". The position is substantially similar if prices today are compared with those at the end of the first quarter in 1952, when the price-break made itself felt.

The upward movement may be due to general factors affecting the entire economy, or to particular factors influencing individual commodities or classes of commodities.

Among factors affecting particular groups of commodities may be mentioned the international price-level. Indian prices are to some extent insulated from international prices as a result of operation of import or export restrictions and other regulatory measures. Therefore, the international level of prices does not equally influence all prices in India. Prices of commodities supply of which is obtained, in the main, through imports, e.g., machinery, transport, equipment, etc., are obviously determined chiefly by the international price-level. Prices of commodities supplementary supplies of which have to be drawn from foreign sources will be increasingly governed by the international price-level when domestic demand goes up sharply, as might be the case with steel and cement. Influence of the international price-level on domestic prices appears to depend, in a number of cases, on the operation of import and export controls. This is particularly the case with domestic production exports of which are regulated by periodic quotas. Oilseeds are a good example of this class. In these cases the fluctuations in prices

* Note submitted in July 1956 to Shri. A. C. Guha, Deputy Finance Minister, Government of India, circulated later to the Standing Committee of the Panel of Economists, Planning Commission.

appear to be related, in measure and in timing, to the variation in periodic quotas.

International prices might thus influence Indian prices to a varying extent, and when this happens, the rise and fall in particular Indian prices might not be due to any feature of the Indian economic situation. Where, however, the increasing influence of international prices is itself a result of a change in the Indian situation, e.g., an increase in domestic demand as in the case of steel and cement, the internal change must be considered an important factor in price-variations.

In certain spheres the internal market might be so completely isolated from the international that variations in prices could be considered as autonomous. Even in this situation, however, the variation in prices could be attributed either to change in the demand-supply situation within the particular group of commodities or to a movement in the general price-level. Food-grains in India appear to fall in this category. Any export of these may be neglected; their imports are all on government account, and the manner in which prices of imports influence domestic prices is governed entirely by government policy relating to the pricing and sale of imported food-grains. Therefore, Indian prices of food-grains could be considered as apart from the total international situation.

In retrospect it appears clear that two successive good harvests combined with a break in the international price-level induced too great a complacency about the food-grain supply situation in the country. A sharp downward fall in agricultural prices—largely the result of an international movement—accompanied by a good harvest resulted in a considerable easing of the supply situation. The supply was adequate because of the good harvest; and because of the downward trend in prices speculative movement or holding for a rise was discouraged. The market thus remained steady in spite of decontrol. A repetition of similar conditions during the next year gave the appearance of the problem of food supply and distribution having been finally solved. Comparatively less good harvests in subsequent years, and pressures on the international and internal price-levels have changed the favourable situation and emphasized the underlying permanent difficulties. The situation has been aggravated in particular regions and at particular times by inappropriate government action. The action proved inappropriate because it was usually directed to short-term ends and was not governed by a long-term plan.

The chronic difficult features of the Indian food situation are :
(1) steadily growing population; (2) level of internal production which is barely sufficient for internal needs; (3) liability to large annual fluctuations in production which can convert bare adequacy

to internal deficit in particular years, and which can, with a succession of bad harvests, create a grave problem; and (4) ability of traders and producers to convert, in the absence of restraining forces, even local or temporary deficits into wide gaps by holding supplies off the market and making the resulting price-increase both large and sustained.

The rise and fluctuations in food-grain-prices appear largely to be a matter of the relation between demand and supply. Is there any evidence to believe that this has been accentuated by an increase in the normal level of demand? This leads to a consideration of the question of high-level development expenditure leading to incipient inflation.

The evidence on this matter is not clear. Certain features of the situation emphasize the non-existence of any general boom conditions. The strongest contra-indication is the state of the employment market. Neither the employment exchange statistics nor any recent surveys point to any significant diminution in the level of unemployment. There is no evidence of a general increase in the tempo of economic activity in towns and cities all over the country. Reports from many parts of the countryside also indicate existence of distress and unemployment. Estimates of production of many artisan industries do not reveal that they are showing the upward movement noticed in industrial production in factories. The comparatively small movement in prices of manufactured goods emphasizes this. On the contrary, the sustained prices of sugar, in spite of a large increase in supply, would indicate a buoyancy of consumer demand. Somewhat similar, though not equally clear indicators are reported regarding the availability and prices of cloth. On the side of the supply and prices of producers' goods, the position regarding steel and cement referred to earlier indicates, perhaps, a rapidly increasing level of development expenditure. The same may be at the root of the recently reported developments in the balance of payments position.

All the data can be reconciled only by holding that whereas there are no clear signs of a general incipient inflationary situation, there are vital points of the economy which are under pressure because of technical demand-supply considerations, or rising development expenditure. It is necessary to take action about these pressures immediately, and to have a long-term plan for dealing with the types of situations that appear likely to develop in the future. The problem presented may be compared to that of a shallow surface which is considerably cut up and uneven, so that some parts may become overful while others are still dry.

If the above-mentioned analysis is accepted as broadly correct, the following policy and action programme follows. In the

first instance, it then becomes clear that a simple overall regulatory mechanism will not meet the needs of the case. There must be readiness to direct and regulate at diverse points and from different directions. Assuming that detailed and direct physical controls are to be avoided as far as possible, the structure of related price-levels must be considered as the main field of operation. Individual prices, price-movements, price-levels, and price-relatives are then important both as indicators and as points through control of which the economy is to be regulated.

This involves, in the first instance, the framing of a full picture of the desired levels, relatives etc. of prices, the mechanisms through which they are maintained, the margins of tolerance to be permitted, etc. This is a matter which must immediately be dealt with by the Planning Commission at a high level of expertise.

This will yield floor and ceiling levels to be maintained in most important directions, and the concrete measures for their maintenance must in each case be devised. For food-grain supply and prices there is already a programme of warehouses and buffer stocks. But what is required is that not only should these materialize as soon as possible, but also that a programme of action be evolved which will utilize government stocks together with some buying and selling points to keep the price-level in check.

Suitable regulatory mechanisms will have similarly to be devised relating to price-levels in all important sectors. Programmes of production and distribution, allocation controls, fiscal measures, credit supplies and restrictions, and monetary devices are already parts of the plan. It remains to integrate the working of each of these mechanisms so as to contribute to an even tempo of activity and development in all spheres instead of leading to partial and contradictory movements. It needs to be specially emphasized that all controls over foreign trade and exchange must also be integrated into the above-mentioned overall programme. In this matter, as in all others, the short-term requirements of the partial situation must be reconciled with the abiding requirements of the total long-term plan. The objectives and the programme also involve proper selective and detailed action all the time rather than being content with general directives, or rates.

Immediately, the existing situation may be said to emphasize the need for : (a) the evolution of a much more elaborate, concrete, and integrated scheme of planning-techniques than seems to have been yet thought about; and (b) continuous watchfulness and readiness to adapt once such a scheme is in operation.

If the above steps are not taken at an early stage, there might later be left no alternative to reduction of the size of the plan and a change in the basic approach.

PROSPECTS FOR THE SECOND FIVE-YEAR PLAN PERIOD *

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

Unplanned Achievements

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

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

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

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

SHIFTS IN GOVERNMENT POLICY

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

Unsatisfactory Data

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

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

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

Data relating to registrations at the employment exchange have, in recent years, come to be looked upon as indicative of the economic situation. The figures of these registrations have mounted

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

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

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

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

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

FORMULATION OF THE SECOND PLAN

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

of data for the economy as a whole appears to have two main objectives in the planning-process. Firstly, it may be intended to demonstrate the feasibility of the targets of investment, production, etc. Secondly, it would be used to demonstrate that the various parts of the plan were mutually consistent. There is little evidence that either of these objectives had been attained to a greater extent in the Second than in the First Plan.

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

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

are outside the bounds of plausibility. The controversies that centred round the allocation for transport, the bottle-necks that prematurely developed in products like cement and steel, and the amazing range over which basic estimates of agricultural production fluctuated on the eve of the finalization of the Plan and even after, all emphasize the extremely tentative character of the statistics and the framework.

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

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

If this is the correct view regarding the evolution of the Plan and the manner in which it was put together, how does one proceed to judge of the prospects? The Indian situation is essentially fluid. This constitutes, perhaps, a danger; it is in reality, to my mind, its great merit. What is remarkable of the last 10 years is that the situation in terms of policy has never been stabilized at any point. There have been many periods during which it appeared that the forces of the right had gained definite ascendancy and established a line beyond which progress would not be made for many years; but something has continuously happened to falsify such forecasts of stabilization. The steps taken during the last two years in the direction of the taking over of the State Bank by government, the

nationalization of insurance, and the rapid, at least formal, implementation of the bulk of the recommendations of the Rural Credit Survey are signs of a dynamism which, in the light of performance in other directions, was surprising. None of these measures were, of course, included in the operative Plan. The setting up of the state trading corporations which was not foreshadowed during discussions on the Second Plan but emerged definitively only in the final stages, is another development which, in terms of the future, has very great potentiality. And yet curiously all these steps do not appear to have been the result of a carefully thought out and consistent policy. Therefore, one has to be cautious when talking of prospects; it would obviously be wrong to think solely in terms of possible fulfilment or non-fulfilment of the Plan in taking a view of the next five years.

HANDICAPS OF THE PLAN

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

Inadequacies of the Plan

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

to the governmental directives, no independent techniques need be elaborated. However, in the very large field of agriculture and private industry, attention must be paid to the manner in which it will be ensured that adequate amounts of various types of agricultural products or of consumer and producer goods would be continuously available, and in an economy with very large numbers of small agricultural producers, crop-planning by directive would be impossible. The experience of the Growth of Food Crops Act during the war in Bombay State indicates both the limitations and the possibilities of legislative measures in this regard. Therefore, the chief instrument in this field has to be the relative structure of prices. In building this up, two sets of problems are involved. Firstly, the principles on which the relative price-structure would be initially determined and variations made in it subsequently. Secondly, the means by which the price-structure could appropriately and adequately influence the actions of the cultivator. The first has important theoretical aspects to which little attention has yet been paid. The second is related to detailed knowledge regarding the extent to which and the manner in which the cultivator's crop-plans are in fact influenced by relative prices and the variations in them.

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

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

would still be left problems relating to alternative uses of production capacity in particular industries and assuring production in the direction and to the extent required by the Plan.

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

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

Inadequate Instruments

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

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

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

members of the other services, because of the knowledge that whatever their record, an inexperienced person from the caste service would gain precedence merely by virtue of membership of the privileged class.

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

Another specific deficiency relates to the supply and training of experts and managers for economic activity in the public sector. Programmes of such training were not undertaken on a sufficiently large scale in the previous period. They are still very inadequate. The progress of the public sector depends in a large measure on the availability of such personnel, and on establishing an appropriate technique of running a public enterprise. The whole of this important question is connected intimately with the structure of the service and methods of recruitment to it.

Inappropriate Attitudes

The third class of deficiencies pertains to attitudes and approaches. The major factor in this is an insufficient appreciation and knowledge of conditions in the field on the part of those in ultimate authority. The extent of this may be best illustrated by the fact that it is possible for highly-placed persons in Delhi to talk about a social revolution brought about in India by community projects. There are no signs of even an impending large change anywhere in the country. The most that may be said to have happened during the last 15 years is that in selected areas in the country the class of substantial peasants has made headway through the better returns obtained by the more secure and profitable production systems in agriculture; there has further been in evidence in this class some consciousness of new political power. There has also taken place some shift in the balance of power amongst urban classes, i.e. as between the professional and intellectual classes on the one hand, and the trading and financing communities on the other. The considerable importance of the former in the past has been notably reduced, and in general the influence of the latter has very greatly increased. However, the aborigines, the Scheduled Classes and Castes, the landless labourer, and the class of small holders of land have, at the most, all become somewhat more conscious of their own more depressed position than before; but in no large area are there any clear signs of improvement in their position, social or economic.

While the extent of change that has come about in the country is often grossly overestimated, the extent of real poverty, unemployment, and under-employment is not adequately realized. Over the last eight years considerable data have been gathered about the conditions in the country and there is no excuse for ignoring the facts. Yet even today responsible people talk as if unemployment was essentially an educated-middle-class phenomenon, and as if grinding poverty and chronic under-employment were not normal features for large proportions of the population in a large number of regions in India. There is not only an inadequate appreciation of the economic situation, but also a facile belief that announcement of large plans

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

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

Another inappropriate approach that appears general is the tendency to concentrate attention on the volume of total expenditure incurred rather than on the directions in which or the care with which it is incurred. Possibly this is one of the by-products of the mechanistic beliefs flowing from the concentration on mathematical relations and statistical ratios. Economic management of investment, and the technical efficiency of processes seem to have diminished in importance. An attitude threatens to develop which may be similar to that of revenue officers distributing *tagai* in a hurry before the end of the financial year. However, the Plan does not

succeed merely by its being large; its success depends on the intelligence and the economy with which resources are used; and the great sacrifices that have to be made in India in making available these resources for investment emphasize the need for extreme care in their use.

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

teacher-pupil ratio in Indian educational institutions is even more striking than the level of the salaries of any groups of Indian university teachers. When, as it happens, the beneficiaries of this are among the better-paid among the teachers the almost overt class bias of the procedure becomes highly pronounced.

AN ASSESSMENT OF PROSPECTS

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

Pressure of circumstances as well as the compulsion of their own publicized beliefs and programmes has pushed the government, and the country, into a large plan with a specific structure. I personally hold that the country needs to undertake today as large an effort as it can possibly execute. The structure of the Plan I also consider appropriate and logical. Development in a country like India depends chiefly on larger investment and better technique. We have today a serious problem of urban unemployment; we are very short of capital resources, and large numbers of the working population are working with obsolete equipment and methods; also, ours has to be a plan for long-term development. Therefore, the new capital has to be so utilized as to add to the basic resources and

systems required for development without rapidly throwing out of work the existing equipment and personnel. The construction of our development plan is essentially a problem in phasing the adoption of technique in various directions by appropriately rationing the capital investment. The emphasis on agricultural production methods, irrigation and power projects, the transport system and social overheads, the establishment of heavy industry, and the insistence on going very slow with further mechanization of fields occupied by traditional industry, all logically hold together. The prominence attained by co-operation and decentralization is also partly related to these. The building up of a large co-operative organization, especially in activities in which large-scale operations are necessary, follows upon the rejection, on the one hand, of high capitalism and, on the other, of state socialism. It is also the appropriate form of organization for a decentralized pattern of society. Decentralization, apart from its socio-political merits, is urgently needed to start the development process all over the country. Such development as took place during British rule was very lopsided, and today there are striking disparities in levels of living and stages of economic development within the country. It is an almost universal experience that economic development is concentrated largely round nuclei of modern trade and industrial activity. Even development throughout the country can take place only when such nuclei or centres are widely spread in large numbers. The demand from all regions for establishment of large industries within them by the State stems from the realization of this. However, the number of such possible industrial units is extremely limited and would affect, in the total, only very limited areas. Therefore, the economic structure has itself to be decentralized for making an adequate number of growth-centres possible. Secondly, a poor country with no prospects of a general security system can give relief only by providing work, and this can be done in a planned way only in a highly decentralized system.

The prospects are best described in terms of the parts of this structure which are likely to be adequately built up during the next five-year period. Private, modern large business may be expected to fulfil in fair measure its allotted share; the performance of government in the fields in which government agency is accustomed to work, — a field such as construction works — may also be adequate. In respect of the big industry programme, both public and private, and of the economic and social overheads to be provided through public expenditure, the Plan may be expected to be reasonably fulfilled. It is chiefly in respect of those parts of the Plan in which a new departure is involved, or where it is necessary to work against the grain that all the inadequacies recounted above will be acutely

felt. These will then be felt in building up the co-operative organization and even more in bringing about effective decentralization; and it will affect the programme for cottage and small-scale industry and for the poorer agriculturist and the agriculturist producers in the backward areas — which is in effect to say that where an activity has been already established and something is happening its extension may not prove difficult, but great poverty and backwardness in technique and organization are obstacles which in the existing situation may not be easily surmounted. Also, where the effort has to be at centres in a few places the administrative machinery may deal with it successfully, but not at all as well when it is dispersed all over the country. Thus it is highly likely that within the Second Five-Year Plan period the trend set in motion during the last three years will continue. Certain urban centres and classes, and particular agricultural regions will continue to develop while the disadvantaged will fall, relatively, farther behind. Cottage industry, the unemployed, and the agricultural poor, i.e. the classes in whose favour pressures for the large Plan developed, are precisely those who are least likely to profit from it immediately.

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

THE NOTE ON PLAN DEVELOPMENTS *

I consider it highly necessary for the Economists' Panel to give attention to developments since 1955 and to analyse the existing situation in broad terms as a basis of advice on policy and action. It is very commonly taken for granted that the existing situation is the result of deficit financing undertaken to finance a large development plan; and the most generally discussed remedy for the situation is to cut down the size of the plan, or, which comes to the same thing, to spread it over a larger number of years. I do not know what evidence there is for this generally-held belief. The two most serious features of the existing situation are: the sharp rise in the price of cereals; and the difficulties over foreign exchange with which may be connected current monetary stringency. Both these could undoubtedly be parts of a general inflationary movement. However, there are many difficulties in the way of such an interpretation of the total situation. The events since the note written last year, (see pp. 39-42) in regard to the prevailing food situation and food prices, do not require, to my mind, any substantial modification of the position taken up therein. It appears to me that neither the general price-situation nor the employment-situation points to the existence of a general inflationary movement. If there was general inflationary pressure on prices, it would have been apparent over a wide range of them. Amongst consumer goods, next to cereals and pulses, sugar and cotton manufactures represent the most important group of commodities. The contrast in movements of these prices is very striking. If one examines price movements during the last, say, five years, one finds that the lowest point reached by the index of sugar prices was 254 in November 1955, the highest was 305 in September 1954, and that, for the larger part of the period, prices of sugar have ranged between 260 and 290. The latest available quotation, i.e. for March 1957, is 265. The index for the prices of cotton manufactures reveals even a lower range in variation. The lowest reached was 397 in December 1953, and the highest 431 in August 1956; it stood at 414 in March 1957. It is no doubt possible to say that while prices of sugar and cotton manufactures have not risen, there has been an increase in the total supply taken up at constant prices. However, even this will leave unexplained the relative timing of the various movements.

The prices of cereals, which had been low since 1952, reached

* Note submitted to the Standing Committee of the Panel of Economists, Government of India Planning Commission in June 1957.

their lowest level in the first half of 1955 with the wheat and rice indexes round about 400, *jowar* almost 100, and *bajra* 200. Within the last year and a half there has been a sharp movement upwards. In March 1957, both rice and wheat stood above 600, *bajra* well above 300, and *jowar* nearing 300. All these appear to be all-time highest levels. The *jowar* and *bajra* price-indexes appear to me to under-rate seriously the upward movement in prices so far as the consumer is concerned. The position relating to cereal prices today is very much worse than ever before. The movement in this regard is relatively so high that a special explanation has to be sought. This has been done in my last year's note. The movement in the prices of cereals does not appear to support the contention that our economy is operating under powerful inflationary pressures.

Similarly the balance-of-payments position and the difficulties in foreign exchange also do not appear to be directly connected with either inflationary pressures or with deficit financing. It is not even clear how far the foreign-exchange difficulties are due to the size of the Second Five-Year Plan. Little information is available regarding the administration of import and export quotas, and the extent to which this administration is related to the general plan of development and is influenced by it. I have been raising this issue for some time past, and in 1955 a secretariat note had been expected to be prepared in relation to it. In the absence of concrete information it is difficult to make definitive statements. However, one might raise questions and express doubts. The foreign-exchange difficulties may be said to emerge from the implementation of the Plan, if, in fact, together with the Plan a detailed foreign-exchange budget had been prepared. Before connecting foreign-exchange difficulties with the size or structure of the Plan, it would be necessary to know whether all licensing of imports, which has been responsible for the exchange difficulties, was necessary to fulfil the Plan, and, what is even more important, whether phasing in time of the grant of import-licences was in accordance with the phased programme and budget of the Plan. In case these conditions are not satisfied, foreign-exchange difficulties cannot be attributed to the Plan. They must be held to arise either owing to independent, unwanted action on the part of import-licensing authorities or, what perhaps is more probable, just lack of co-ordination. Reports seem to indicate that the import-licences granted were not confined to activities the expansion of which had been indicated in the Plan, and also that the volume of total import-licensing was much beyond the requirements, at this stage of the Plan.

A related phenomenon to which attention has been currently drawn and which might be interpreted as, also the result of general inflationary pressures is the stringency during the last few months

in the money market. In the first instance, it is necessary to note the measure of the reported stringency. The stringency may be measured in a variety of ways. It can be measured by reference to the extent of the movement upward of the rates of interest. It might be measured by the extent to which the ratio of bank advances to their total resources or to their deposits has moved up. It may be measured by evidence, if such is available, that production enterprises are hampered by non-availability of credit. It may be measured by the extent to which commercial banks have borrowed from the central bank for making advances. None of these indicators may be held definitive by itself; but the total effect of all, when considered together, seems to indicate that the stringency this year in the money market has not been too great. The rates of accommodation did move up, but the reported total movement is comparatively small; it still leaves the level of rates of interest in India definitely below the level in a large number of other countries. The ratio of advances to liabilities of scheduled banks in India moved up to over 72 during the busy season 1956-57, when peaks in the previous seasons had not been above 65. During the busy season of 1957-58, in spite of an increase in total advances of over 20 per cent., the ratio did not touch 77; it could have moved even a little higher without any serious embarrassment to commercial banks. It is reported that the ratio moved up very high in the case of the foreign-exchange banks, while in many of the bigger Indian commercial banks it was lower than 70. This was notably so in the case of the State Bank of India. The extent to which commercial banks borrowed from the central bank also left considerable unused margins of possible borrowings. All of which means that though the last season was one of monetary stringency, the situation was such that it did not fully exhaust the ordinary resources at the disposal of the banking system and that the net effect of it was no more than to push the central bank rate from three-and-half to four per cent.

Before holding that even this state of monetary stringency was due to inflationary pressures, two important factors have to be taken into account. Firstly, the reported change-over in the practice of foreign-exchange banks regarding the resources with which they operate in India. It is said that in former years it was possible for them to utilize, to a material extent, resources from abroad for doing business in India. The situation has changed during the last two years. During this period, central bank rates of interest, particularly in the U.K., have moved sharply upwards. As no corresponding movements took place in India, the rates at which funds could be obtained, and at which they could be lent, became very much higher abroad than in India with the result that the exchange banks

now operate almost exclusively with funds obtained by them in India.

Another factor to which attention might be drawn as being extremely important for this year has been the continuous deficit on foreign-exchange account. Action taken by the central banking authority for putting the banks and the market in funds during the busy season has on this account proved much less effective than it would otherwise have been. Also, the sudden increase in imports and capital goods which came about during the last year, as a result of the import-licensing policy, was itself largely responsible for aggravating monetary stringency. It not only created demands for immediate finance by importers, but also created a much larger demand on the part of those who had bought the machinery, plants, steel, etc., and were engaged in establishing, or extending production units. It is likely that this demand for funds was of the intermediate, or long-term type of loans, but that it was met to a large extent by the banking system; the process was really a stopgap arrangement till intermediate and long-term funds were obtained by the producers. This may be considered as a very important factor in creating monetary stringency this year.

If the above analysis is correct it would point to a close connection between the foreign-exchange difficulties and the existing monetary stringency. Therefore, if either through greater availability of foreign-exchange resources or through a drastic curtailment of imports the balance in this sphere is restored, monetary stringency would not be as severe next year as during this. At least it would appear that the stringency was the result more of special circumstances of this year than of continuous inflationary pressures that had been generated.

What has been said by me above and in the previous note has been with a view to suggesting that the situation today need not necessarily be considered to be the result of high deficit financing, arising out of the progress of a large plan. Miscalculations regarding progress of food availability and unco-ordinated and over-optimistic licensing of imports would by themselves be sufficient to explain the situation for the larger part. No doubt, the large imports, especially of capital goods, would lead to increased activity in some fields of both private and public sectors; and the effort to sustain this increased level of activity might put the economy under some strain. Logically, this strain would be relieved if foreign-exchange difficulties lead to a drastic curtailment of imports; and if the imports are connected with the Plan, the size and structure of the Plan itself would be altered by action in relation to imports.

THE NOTE ON PLAN DEVELOPMENTS *

I consider it highly necessary for the Economists' Panel to give attention to developments since 1955 and to analyse the existing situation in broad terms as a basis of advice on policy and action. It is very commonly taken for granted that the existing situation is the result of deficit financing undertaken to finance a large development plan; and the most generally discussed remedy for the situation is to cut down the size of the plan, or, which comes to the same thing, to spread it over a larger number of years. I do not know what evidence there is for this generally-held belief. The two most serious features of the existing situation are : the sharp rise in the price of cereals; and the difficulties over foreign exchange with which may be connected current monetary stringency. Both these could undoubtedly be parts of a general inflationary movement. However, there are many difficulties in the way of such an interpretation of the total situation. The events since the note written last year, (see pp. 39-42) in regard to the prevailing food situation and food prices, do not require, to my mind, any substantial modification of the position taken up therein. It appears to me that neither the general price-situation nor the employment-situation points to the existence of a general inflationary movement. If there was general inflationary pressure on prices, it would have been apparent over a wide range of them. Amongst consumer goods, next to cereals and pulses, sugar and cotton manufactures represent the most important group of commodities. The contrast in movements of these prices is very striking. If one examines price movements during the last, say, five years, one finds that the lowest point reached by the index of sugar prices was 254 in November 1955, the highest was 305 in September 1954, and that, for the larger part of the period, prices of sugar have ranged between 260 and 290. The latest available quotation, i.e. for March 1957, is 265. The index for the prices of cotton manufactures reveals even a lower range in variation. The lowest reached was 397 in December 1953, and the highest 431 in August 1956; it stood at 414 in March 1957. It is no doubt possible to say that while prices of sugar and cotton manufactures have not risen, there has been an increase in the total supply taken up at constant prices. However, even this will leave unexplained the relative timing of the various movements.

The prices of cereals, which had been low since 1952, reached

* Note submitted to the Standing Committee of the Panel of Economists, Government of India Planning Commission in June 1957.

their lowest level in the first half of 1955 with the wheat and rice indexes round about 400, *jowar* almost 100, and *bajra* 200. Within the last year and a half there has been a sharp movement upwards. In March 1957, both rice and wheat stood above 600, *bajra* well above 300, and *jowar* nearing 300. All these appear to be all-time highest levels. The *jowar* and *bajra* price-indexes appear to me to under-rate seriously the upward movement in prices so far as the consumer is concerned. The position relating to cereal prices today is very much worse than ever before. The movement in this regard is relatively so high that a special explanation has to be sought. This has been done in my last year's note. The movement in the prices of cereals does not appear to support the contention that our economy is operating under powerful inflationary pressures.

Similarly the balance-of-payments position and the difficulties in foreign exchange also do not appear to be directly connected with either inflationary pressures or with deficit financing. It is not even clear how far the foreign-exchange difficulties are due to the size of the Second Five-Year Plan. Little information is available regarding the administration of import and export quotas, and the extent to which this administration is related to the general plan of development and is influenced by it. I have been raising this issue for some time past, and in 1955 a secretariat note had been expected to be prepared in relation to it. In the absence of concrete information it is difficult to make definitive statements. However, one might raise questions and express doubts. The foreign-exchange difficulties may be said to emerge from the implementation of the Plan, if, in fact, together with the Plan a detailed foreign-exchange budget had been prepared. Before connecting foreign-exchange difficulties with the size or structure of the Plan, it would be necessary to know whether all licensing of imports, which has been responsible for the exchange difficulties, was necessary to fulfil the Plan, and, what is even more important, whether phasing in time of the grant of import-licences was in accordance with the phased programme and budget of the Plan. In case these conditions are not satisfied, foreign-exchange difficulties cannot be attributed to the Plan. They must be held to arise either owing to independent, unwanted action on the part of import-licensing authorities or, what perhaps is more probable, just lack of co-ordination. Reports seem to indicate that the import-licences granted were not confined to activities the expansion of which had been indicated in the Plan, and also that the volume of total import-licensing was much beyond the requirements, at this stage of the Plan.

A related phenomenon to which attention has been currently drawn and which might be interpreted as, also the result of general inflationary pressures is the stringency during the last few months

Inevitably, this raises another question regarding import policy. It has been suggested above that earlier import-licensing does not appear to have arisen out of the immediate requirements and budgets of the Plan, but out of independent action on the part of licensing authorities. The difficulties today are due not to the Plan but to this "unplanned" action. As these difficulties are met with by tightening of import-licensing, that action might be equally unplanned. The tightening of import-licences would no doubt be according to some policy; but is that policy closely related to the requirements of the Plan? When, for example, a statement is made that no revision of the Plan is under contemplation, does it mean that restrictions on imports will leave unaffected all the programmes in the Plan, dependent on imports, in the private and the public sector which are yet unfulfilled? Reports regarding effects of action already taken do not lend support to an affirmative answer to this.

All this leads to a fundamental question. Have we at all a Plan in operation? I have always maintained that the First Five-Year Plan amounted to no more than a programme of public works and of some development expenditure. Because of the much larger effort contemplated in the Second Five-Year Plan, it was expected that planning would be inevitable and would therefore be attempted. By planning would be meant, on the one side, a properly co-ordinated and synchronized programme of public expenditure and action, and, on the other side, effective direction and regulation of private activity. The rapid running-out of foreign-exchange resources, and the failure to maintain cereal prices stable are glaring examples of absence of the required planned action on both sides. If this state of affairs is not corrected, the insistence on going on with the Plan as it is will mean no more than further lopsided developments and aggravation of inequalities. For, in existing circumstances, as no positive attempt is being made to keep up the pace of development in all spheres and to synchronize it, the more favoured sections will get ahead, leaving others still further behind.

A highly fluctuating level of price of agricultural products also has the effect of leaving the bulk of profits in the hands of speculators and traders and not in those of the agriculturist-producers. A recent prominent example of how this can happen may be seen in the post-budget rise in the price of *gur*. The last season has been one of depressed prices for the agriculturist-producers of *gur*; but the post-budget rise has been very sharp. It means, in the main, large profits only to those who bought *gur* at very low prices some-time ago and happen to be holding it now. Market fluctuations as well as the State action has in recent years put an unfairly large part of the national dividend in the hands of the trading community.

All these things taken together seem to me to emphasize the points made in paragraph thirteen, and subsequent paragraphs in the last year's note. I should like to reiterate that no large plan is likely to succeed in face of constant fluctuations in prices of agricultural produce. The problem of maintaining as far as possible, in the climatic conditions of India, a steady level of agricultural production can be met by no other measures than a steady and fair price-level effectively secured for the agricultural producer. Previous experience conclusively shows that other measures such as legislation against hoarding, or fair-price-shops, have very limited utility and effect. On the side of positive action it is necessary to emphasize that the detailed initiation and support required by such spheres as small business and local works are at least as important and vital parts of the Plan as the more easily attempted and more constantly marked effort in relation to large industry and works.

ON REPHASING THE SECOND FIVE-YEAR PLAN*

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

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

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

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

¹ Report, p. 41.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The question becomes urgent in the changed context and it becomes necessary to try and attain self-containedness, perhaps on a narrower basis, much earlier than contemplated previously. This changed emphasis should affect considerably future industrial plans and even possibly the current definition of the "core". It would also lead to our taking a stricter view regarding special treatment of imports on deferred-payment terms.

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

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

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

Export planning, properly viewed, can only be based on a rationalization of internal consumption. In a country which has to plan a large development programme, producers' goods and input

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

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

Another aspect of the rephasing-problem is related to the uneven progress of the Plan in different sectors. There appears, for

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

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

The trend towards increase of concentration in India is not unexpected. It has been often pointed out in the past that in an economy which is being rapidly developed special differential advantages will accrue to those who hold strongly entrenched position in

it unless special steps are taken to counter this tendency. The chief of such steps possible are a rapid extension of the public sector and deliberate operation of all government finance and guarantee corporations in favour of small dispersed business as distinct from large concentrated business. However, nothing notable in the latter direction seems to have been undertaken during the last two-and-half years, and it seems to have been tacitly agreed that there would not be even a talk of extension of the public sector.

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

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

In addition to the special advance made by the large organized private business sector, there has been perhaps a relatively better fulfilment of the plans of the Union Government than those of state governments, and, perhaps, as a whole the larger works have done better than the smaller. However, in case of the large public-sector projects, the foreign-exchange difficulty is likely to prove a grave

handicap. Large projects in the large private business-sector are individually much smaller than the largest units in the public sector, and they are planned to be completed within a comparatively short time. If, as seems likely, the completion of many large public works is prolonged, this will accentuate difficulties in the future.

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

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

Unfortunately, we possess very little statistical data to enable us to judge the progress of sectors of our economy other than government, and the urban organized large business sector. However, such reports as are available do not indicate that other parts of

the economy have shown much internal buoyancy during the last two years. If, for example, it is true that in the cloth market the quantitatively important coarse and medium cloth markets are dull, and the fine and superfine active in comparison, this also would indicate that the results of the development of the last two years have been favourable only for somewhat limited classes especially in towns, and that the bulk of the rural population and the poorer urban classes have not been affected by it. When now, as appears likely, the concentrated urban activity also slows down, the economy instead of developing may begin to run down unless suitable counter-vailing action is taken early.

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

It is obvious that the attitude to rephasing suggested above is based on the conviction that our economy is today not operating under general high inflationary pressures, that deficit financing of a moderate measure is still permissible, and that unless State plans and plans in agriculture and small business are strengthened the pace of our development may seriously slacken. If this is granted, additional reasons can also be shown for the suggested emphasis. It would appear that in the recent past we have made little progress in the direction of the avowed socialistic objectives; if anything, there might have been some retrogression. This would follow naturally on the finding that the main developments in the last two

or three years have been within the large organized private business-sector and in the metropolitan and large city areas, and the fact that the period has, on the whole, not been favourable for agricultural production. Even maintenance of the *status quo* would then point to a changed emphasis in plan performance during the remaining period. It will be remembered that decentralization in all its aspects occupied a central place in all discussions relating to the Second Five-Year Plan. This was because the problems of initiating change over most of the country, of dispersing widely the benefits of development, of preventing concentration and lopsided distribution of economic and political power, of keeping down the authoritarian element in planning, of preventing strains and costs of heavy urbanization, etc. could all be resolved only through co-operative effort and economic and administrative decentralization. Unfortunately, almost nothing has been achieved in the direction of decentralization during the progress of the plans. The obvious resulting strains in the country can best be eased through vigorously pushing State plans and plans in the sphere of agriculture, and small industry and other small business.

The emphasis on State plans will chiefly help in bringing about progress which will recover some of the ground lost in recent years. Of positive steps for initiating some improvement in the condition of the poorest and the most neglected only two appear feasible. These are special programme directed towards the creation of employment opportunities, and a programme for the rapid extension of educational facilities. Creation of really widespread and continuous employment opportunities will be possible only through an appropriately-structured public-works-programme. In a sense, this could be compared with the famine relief works programmes of the past. It would have partly a similar purpose of affording relief through employment wherever this was necessary, and its approach would be similar in that its emphasis would be on the employment of unskilled labourers, and widely distributing the employment opportunities. However, the programme would have to be thought of as more continuous, though allowing for a possible seasonal slack, and it would have to be fully integrated with plans of development. Effort in the direction of conservation of our natural resources such as soil and water is required all over the country, and there is the need for wide development of the road system. One may specially draw attention to the serious depletion of our forest resources during the last fifteen years and their continued neglect. A national programme of conservation of forest resources and of afforestation would eminently fit the needs sketched above and specially offer employment in areas where some of the most neglected classes live. Such a directly conceived employment

programme would serve the needs not only of relief of development but also of maintaining the tempo of economic activity through stabilization of incomes of the poorest. I should make a special plea for building a series of development works programme round this concept, in the process of rephasing.

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

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

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

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

2. The difficulties of the existing situation could be explained adequately by reference (i) to the changes in the relations between demand and supply of food-grains in particular areas during 1955-56, initiating a rise in prices which was aggravated by trader-speculator activity and which had repercussions on other prices; and (ii) to the heavy pressure to which the banking system, and the building construction and related industries were subject, as a result of an unprecedented and unexpected volume of imports of capital goods during 1956 and the first half of 1957.

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

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

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

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

7. In relation to the food front, in particular, the basic principles of food policy as defined in the chapter on the subject in the First Five-year Plan need to be reaffirmed and adopted. These have to be supplemented by the recommendations relating to the socialization of the wholesale trade in food-grains, the stabilization of agricultural prices, and the definition of a broader related price structure made by the Foodgrains Enquiry Committee. It is also necessary for government to think out in advance the more comprehensive measures that the Foodgrains Enquiry Committee points out might be required in an emergency and be prepared for adopting them.

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

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

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

11. Export promotion in the light of a long-term structure is again essentially a problem of economizing and rationalizing

internal consumption. The exports to be encouraged are those of consumers' goods or raw materials, which at any point of time cannot be fully used within internal production economy. Needs of internal development, agricultural and industrial, obviously indicate discouragement of export of materials and of producers' goods that can with advantage be utilized internally. Export promotion has thus to be integrated with the total plan and has to be based essentially on rationalization and canalization of internal consumption.

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

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

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

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

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

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

large private business-sector and the large projects in the public sector.

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

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

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

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

THE ROLE OF THE PLANNING COMMISSION IN INDIAN PLANNING*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“The Commission has been established as a multi-member body and not as a usual single-administrative department. The very composition of the Commission ensures effective liaison with Government. Though the Commission is a staff agency to advise Government in matters of planning and development,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thus, it is apparent that the Planning Commission as an active thinking and planning organization operated only before the preparation of the plan. Once the plan had been prepared and published, it seemed to go into quiescence, and became a general

co-ordinating or supervisory authority in relation to states and ministries.

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

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

expressed in a co-ordinated manner. That his role was chiefly that of a co-ordinating link is emphasized by his ineffectiveness in later years as a *de facto* member of the Planning Commission.

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

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

In view of the complexity and volume of the total work involved, it was perhaps inevitable that the overall national figures and allocations presented initially should be somewhat notional. This implies, at the same time, that immediately after the general picture of the size and structure had been accepted, there would follow a careful examination and the building-up from below of the various financial allocations and physical targets. The real failure of the Planning Commission may be said to have begun from this essential step.

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

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

The Plan-frame was no more than a quickly constructed overall frame, capable essentially of only exhibiting the main types of items involved, and indicating their possible relationships. Whether, in fact, any particular figure was appropriate or not could be determined only on rigorous technical examination in a variety of directions. The general impression at the time of the preparation of

the Plan was that for the preparation of the Plan-frame, very little technical examination had been undertaken. This is exhibited in the following quotation from the memorandum from the Panel of Economists presented to the Planning Commission in April, 1955 :

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

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

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

Another similar failure on the part of the Planning Commission requires to be drawn attention to. This is in relation to the

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

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

One might refer to aspects of co-ordination and examination which are even more elementary than that of physical examination or a guaranteed consistency of the Plan. One of the most important problems met with in the effort at planned development is that of availability of technical personnel and its salaries. A primary co-ordinating effort required at this stage is to see that the demands made for technical personnel by all organizations will be kept as low as possible, and that the terms and conditions offered for the employment of the technical personnel by various authorities will be rationalized. That is, they will not be such that to the basic shortage of supply of personnel will be added the complication of an unnecessarily large turnover in personnel through organizations constantly luring away one another's employees by offering tempting salaries and conditions of service. It is clear that the Planning Commission has not exercised overall control even in such elementary matters, which, though apparently of minor significance, play a crucial role in the smooth operation of planned development.

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

The most important evidence is of what happened to our foreign-exchange resources during 1956 and 1957. That the foreign-exchange position and import requirements were one of the weak spots of a large plan with emphasis on heavy industry had always been fully recognized. That careful conservation of foreign-exchange resources through avoidance or regulation of imports and through encouragement of exports was necessary had always been accepted

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

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

In dealing with the activities of the Planning Commission regarding formulation and execution of policy, a difficulty arises. This is due to the impossibility of discovering what specific advice

has been tendered by the Planning Commission in any particular context, apart from what is contained in the two plan reports. The difficulty arises not only because there is no published record of the later communications of the Planning Commission, but also because the Planning Commission, as indicated by the extracts quoted from Shri Aggarwal's article, is active in this sphere to the extent of even advising individual ministries about matters to be placed before the Cabinet; and it continually participates through meetings in the Commission and joint meetings with the Cabinet in final discussions of important economic issues and problems. In the circumstances, there is hardly likely to be any separate record as such of advice regarding particular problems of policy given specifically from the point of view of the plan by the Planning Commission. The activities of the Planning Commission in this context appear indistinguishable from those of the ministries and of the Cabinet. In the circumstances, the failure on the economic-policy front is a failure of the Planning Commission equally with that of government.

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

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

I have said above that it is usually impossible to distinguish the role of individual ministries and the Cabinet from that of the

Planning Commission in the designing or adoption of particular policies. Purely incidentally, the recent report of the Foodgrains Enquiry Committee throws an oblique light on the part played by the Commission in one important decision in 1955. As the evidence given in this single instance has much to convey, I quote fully relevant extracts from the Report of the Foodgrains Enquiry Committee.

The Report says:

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

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

"With the intention of getting fuller examination from the Planning Commission about the reasons that had led to the rejection of the proposals of the Food Ministry, we sought an opportunity to meet the Deputy Chairman. We were,

however, informed by him that it was not the practice of the Commission to give evidence before Committees and that any discussion informally held with him could not be quoted. Consequently we did not pursue the enquiry with him. We, however, met the Minister for Food and Agriculture who gave us information on his policy on the point".

(Paragraph 4.38)

It is clear from this that the members of the Food-grains Enquiry Committee held that the serious turn that the food situation took after the middle of 1955 could, at least to some extent, have been avoided if the policy pursued earlier by the Ministry and pressed for at the time had been accepted by Government. It would also appear that, for some reason or other, the Committee felt that the Deputy Chairman of the Planning Commission could throw light on the problem of why the Ministry's policy had not been accepted by Government. It is further clear that this Committee, a public committee charged by government with study of important problems of policy, was unable to obtain from the Planning Commission or from its Deputy Chairman a satisfactory response. The whole episode, though yet obscure, makes at least some conclusions inevitable: that the Planning Commission should not be mixed with taking important policy decisions, and that its intervention or participation in such decisions makes the situation unnecessarily confused and makes it difficult if not impossible to fix responsibility for policy decisions on the proper ministry, or on the Cabinet.

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

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

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

The main functions set down in the 1950-resolution, establishing the Planning Commission, were to assess resources, formulate the plan, define its stages, appraise progress, and make related recommendations on policy and administration.

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

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

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

It was, perhaps, the composition of the Planning Commission which made it inevitable that this should happen. It contained from the beginning as members some ministers of the Cabinet. The other members also were either experienced administrators or public men of standing almost none of whom brought to his task experience,

knowledge or expertise, which were also not available among the public men from whom ministers are drawn, or among the senior administrative personnel which was chiefly responsible for co-ordination of policies and their implementation. In the circumstances, it was natural that members other than Cabinet Ministers should seek fields of action for themselves which were suited to their ability and to their inclinations. This naturally resulted in turning the Planning Commission from its proper functions to activities which were largely the same as those of ministries and state governments. In the result, even the expert staff of the Planning Commission lost its special character. The experts at the Planning Commission were merely experts for the time being with the Planning Commission. The ease with which not only the senior officials of the Commission but also experts changed from government department to the Planning Commission and *vice versa*, or combined duties in both the organizations, emphasized the basic similarity in the activities of the ministries and the Planning Commission.

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

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

The situation can be remedied only by going back to the functions of the Planning Commission as originally laid down and making the Planning Commission fulfil them. It is not my purpose to suggest that the Indian Planning Commission be entirely changed in character and reduced to the level of, say, a section in the Ministry of Finance. The Planning Commission as an organization, not under any particular ministry and with powers in the appropriate context to deal directly with central ministries and governments of states, should retain its present status. What is important is that it should no longer have any executive functions and should not be mixed up with the essentially political process of final policy-making. Final decisions regarding economic policy should fully rest with the

special committee of the Cabinet and appropriate committees of secretaries, and in the final resort with the Cabinet itself. It is true that there are said to exist, even today, such bodies in the Cabinet and the Secretariat, but they are apparently ineffective and the intrusion of the Planning Commission in this sphere has affected the efficiency of government itself. The shedding by the Planning Commission of its role of direct participation in policy-making may appear to reduce its importance; in fact, this is likely to increase greatly its usefulness in the first instance, and its prestige ultimately. The cutting out of executive functions will mainly affect only the Commission's special connection with national extension, etc., and with the programme evaluation organization.

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

There are two other aspects of the Commission's existing organization relating to which a few words may be said. The first is that of panels and other advisory organizations. The Planning Commission appears to have no fixed policy regarding their use and has been active in setting them up and consulting them only at the times of the preparation of new plans. These organizations should be used more consistently for knowing what non-official expert opinion is concerned with, for giving attention to the broad problems of planning in each particular field, and for activating group-thinking in relation to the next plan stage in particular, and future plans in general. Secondly, there is the direction to which efforts of the staff of experts and administrators is oriented. The administrative staff of the Commission ought to be kept down to the minimum; its main function should be to obtain for the Planning Commission such

direct knowledge of current conditions as will enable it to make a proper appraisal of the progress of a plan. The staff of experts of the Commission will, however, have to be varied in its composition. There is need for this staff to acquire, over the years, a special point of view, and a particular attitude of mind. These derive from the grounds which justify a Planning Commission retaining a nuclear expert staff of its own rather than depending on a ministry or other government experts. There are two main grounds. Firstly, the ordinary ministry or other expert inevitably takes a narrow point of view; in respect both of the placing of each problem against the background of an operative national plan, and of being comparatively hospitable to novel suggestions the experts of the Planning Commission should appear differentiated. Secondly, official experts such as those of individual ministries are heavily burdened with day-to-day and routine work. There is no point, as happens today, in the Planning Commission experts being kept at a similar grind. If they have to be forward looking they must have leisure enough to think ahead. I may translate this in terms of what the Planning Commission economists would do. Firstly, I expect them to be engaged in producing periodical overall critical surveys of the operation of the economy such as the Council of Economic Advisers to the President of the U.S.A. produces every six months, and secondly they would plan out a number of long-term studies such, for example, as those of the problems and the costs of the operation of the mixed economy or relative effectiveness of various types of planning techniques.

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

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

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

DEFICIT FINANCING AND INFLATION*

Friends,

In India, today, inflationary pressures have been set up, it is said, by deficit financing of plans of economic development; I propose to discuss this problem within the next quarter hour.

Deficit financing can be described simply as an attempt on the part of government to spend more than its total receipts in all forms. It should be noted that it is only governments that can deficit finance, that is, spend more than they receive. A private individual or institution must have the resources or obtain them by begging, borrowing, or stealing before proceeding to spend them. Only governments can spend resources they do not command.

Governments are in an exceptional position only because they can directly or through the central banks create money. As money is universally acceptable in exchange of all kinds of goods and services, governments can obtain for themselves real resources in exchange of created money. However, creating new money does not add to existing real resources in terms of goods and services. This is the crux of the problem created by deficit financing.

Before proceeding further, it is necessary to say something about money. Money facilitates exchanges and enters into all of them. It has no value of its own; but is valuable because it fetches services and can be exchanged for goods, and is valuable to the extent that it does these things. Governments which control the monetary and credit systems attempt to keep the supply of money so related to the volume of production and trade in a country as to achieve stability of prices. When transactions are brisk as in the busy season after harvest in India arrangements are made to increase the supply of money, and to withdraw it in the slack season. If, however, money supply increases without a corresponding increase in production and trade, there will be a redundancy of money units. This will mean that all those people who have additional amounts of money with them will try to obtain additional supplies of goods and services. In doing so, however, they will merely cut into the supply normally obtained by others. In the circumstances, there will be pressure on the supply and prices will tend to be put up by dealers.

This simplified account will help in understanding what happens with deficit financing. As long as government expenditure is confined to resources which it has obtained from others, there is no upsetting of the balance between money and goods. But when

* A talk given on the AIR, Poona, on September 7, 1958.

government uses its power, to create additional money, not required by current developments in production and trade, the balance is upset. By spending the newly-created money government obtains some supply normally obtained by members of the public; moreover, this additional governmental expenditure increases the money incomes of some persons in society and these in their turn try to use the extra money to obtain additional supplies. Thus, deficit financing must, ordinarily, lead to an upward inflationary pressure on prices.

Why should governments resort to deficit financing in spite of this obvious and close connection between it and inflation. In periods of war governments are hardly ever in a position to estimate carefully the resources they can raise, or to control the expenditure that they must incur. During wars it is in most cases impossible for governments to keep expenditure within their total receipts. Inflationary or deficit finance thus becomes unavoidable. Deficit financing on which India has embarked is, however, for purposes of economic development, not for war. Why should it have been necessary to resort to deficit financing in Indian plans of economic development? Economic development in a poor country requires large resources of capital, and one of the main aspects of a programme of economic development is the stepping-up of the rate of capital formation and seeing that additional capital goods of the required type are produced. The magnitude of this effort, needed by us in India, may be indicated by reference to some broad figures. The rate of national savings in the richer advanced countries has been put at between 15 and 20 per cent. of the gross national product. In India it was estimated that at the beginning of the First Five-Year Plan this rate was perhaps not even as high as seven per cent. The Second Five-Year Plan has been built up round the assumption that it would be possible to increase the rate of annual savings to about 11 per cent of the gross Indian national product by 1960.

How can a development plan increase the rate of saving or capital formation? and how is the process related to deficit financing? Additional capital could be formed by diverting resources from the production of consumption goods to capital goods. However, in a poor country, the availability of even essential consumption goods like food and clothing is limited. Therefore, little can be expected out of a mere diversion effort. What is required in such a country is to increase the national production of consumption goods adequately to cover essential needs of the nation, and at the same time, to increase progressively the production of capital goods. Our plans of development follow this double approach.

Capital is formed in a variety of ways. An agriculturist who clears, levels, bunds land is directly forming capital. Other producers collect savings to buy new or improved implements, machines

or plants. However, in a backward economy a large part of the essential effort is beyond the scope of even the biggest private capitalists. There are many public utilities that have to be provided before rapid economic development can take place. The whole of the transport system, as also, in modern times, the network of electric power, and water supply for industrial purposes and domestic consumption have to be so provided. Such things as a universal system of primary education, adequate provision for scientific research, improvement of public health, all these are equally needed for rapid economic progress. The huge irrigation and power river-valley projects could be planned and executed only by governments. A forward-looking programme requires that many production activities be established and developed which may not prove immediately profitable; yet establishment of such activities is required for rapid economic progress. Steel plants and machine-goods factories are illustrative of this. All in all, a programme aiming at rapid economic development of a backward economy implies very large diversified effort on the part of the State in addition to that of private individuals and institutions.

A large effort is specially required in the initial stages. A minimum volume of pressure must be exerted to get development started; also, a country with a growing population must achieve quickly a rate of development which outdistances population growth. In the circumstances, the strategy of a development plan has to be to attempt the largest initial effort that the country's economy can stand. Undertaking this is not compatible with orthodox financial and budgetary procedures. In this sense, a development effort is like waging a war; there is a compulsion about certain efforts and certain expenditure being undertaken within certain periods. This explains why planned development involves expenditure larger than the resources in sight and is financed initially by the creation of money. At the same time, expenditure undertaken in development planning is not destructive, as in war, and the investment of earlier stages bears fruit, soon or late, in terms of consumption goods. However, as indicated earlier, creation of money does not add to real resources, and we have to consider the problem as to who contributes these resources, or alternatively, how are they extracted.

In this context, we may consider three possibilities. In the first instance, development expenditure will increase incomes of many people and it might happen that part of this is returned to the State through the working of the tax system. But this is not likely to happen on any large scale. Secondly, when incomes of certain persons or classes increase they may save a small or large part of the increased income, because savings and investment are encouraged, and also because they find that State action limits their ability

to obtain an ample supply of consumption goods in many directions. In this event, government will obtain additional resources directly through purchases of government securities by the people or indirectly through the banking system. Finally, if there is little or no additional saving, deficit financing will lead through increased incomes to a higher level of general expenditure. This will inevitably lead to a rise of prices in general. Many classes and very large numbers of people do not share in increased incomes arising out of increased government expenditure. These will find that their incomes at the old level are now worth less in goods and services. Therefore, when government allows prices to rise following deficit financing, it is in fact taking away real resources chiefly from classes with fixed money incomes, and those who do not profit from increased government expenditure. However, this cannot happen for a long period. Continuous rise in prices will upset calculations of state expenditure itself, so that the extent of deficit financing required for carrying out a programme is step by step increased, giving in turn larger pushes upward to prices, and so on till what is called a run-away inflation occurs. To attempt deficit financing without controlling prices is thus a self-defeating process.

I have attempted so far to explain what is deficit financing, why the Indian plan had to resort to it, and how it unavoidably leads to an upward pressure on prices. The discussion has also indicated what are the policy objectives if deficit financing is to succeed. In the first instance, it is imperative that prices are kept well in check. This is necessary to enable producers to plan their future activities with confidence. Stable prices are even more necessary to protect the already low standard of living of the poor. Secondly, incentives to savings and investment must be maintained; this consideration also emphasizes the need for a stable and a fair price-level for all producers. Finally, there must be effective curbs on spending. It is not producers' expenditure but expenditure on consumption goods that must be curbed. To produce more is the high aim of development effort; but during the process of development there is bound to be a shortage of consumer goods. To restrain total consumption without affecting the standard of living of the poor is the essential requirement.

In case these objectives can be attained through action of government and co-operation of people, deficit financing should prove highly useful; if not, it has to be avoided. The moral, in short, is : attempt deficit financing only if you are sure of successfully checking inflation.

HOUSING AND SLUMS IN POONA

This note deals with the problem of housing in Poona, in particular with the problem of clearance of slums. It presents factual data which are available for a period covering nearly 20 years. The Gokhale Institute conducted a socio-economic survey of Poona in 1936-37, and a re-survey in 1954. It helped the Poona Municipal Corporation authorities to conduct a housing-survey in 17 wards of the city in 1956. The information available from these surveys is condensed in four tables which accompany this note. Table No. 1 gives numbers in each type of tenement classified by the number of rooms occupied by families surveyed, the number of occupants in the various types of tenements, and the number of persons per room in each type of tenement.

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

The data in table No. 1 indicate that an overwhelming proportion of the total population lived in one- and two-room tenements, and that there was high density per room. There appears to have been some improvement in relation to the percentage of one-room tenements in the total number of tenements as between 1937 and 1954. This might have been due to, perhaps, the enforcement of certain municipal regulations; but the improvement is not marked if the one- and two-room tenements are taken together, and there is definite deterioration of the situation between 1937 and 1954, if the numbers of persons per room either in the group of one-room or of two-room tenements are compared. In relation to the density of

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

TABLE NO. 1 : *No. of rooms and persons in tenements in 1937, 1954, and 1956*

	<i>Tenements</i>		<i>Occupants</i>		
	<i>No.</i>	<i>Per cent.</i>	<i>No.</i>	<i>Per cent.</i>	<i>No. of persons</i>
1937					
One room	2,555	56	8,232	46	3.22
Two rooms	1,135	25	4,815	27	2.12
Three rooms	405	9	2,107	12	1.73
Four rooms	185	4	1,078	6	1.46
Five rooms or more	249	6	1,663	9	1.34
1954					
One room	2,281	52.5	8,451	42.9	3.74
Two rooms	1,191	27.4	6,072	30.8	2.59
Three rooms	443	10.2	2,599	13.2	1.95
Four rooms	200	4.6	1,259	6.3	1.57
Five rooms or more	232	5.3	1,349	6.8	1.16
1956					
One room	1,093	37.3	4,330	49.6	3.96
Two rooms	485	16.6	2,419	27.7	2.49
Three rooms	161	5.5	964	11.0	2.00
Four rooms	75	2.6	513	5.9	1.71
Five rooms or more	64	2.2	498	5.8	1.31
Not stated	1,050	35.8	—	—	—

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

Table No. 2 refers to the rents paid by tenants for their tenements. Because of the operation of the rent-control legislation, these data have been tabulated in relation to the time since which the tenant had been occupying his tenement at the time of the survey. Presumably, the older occupant is protected by rent control. However, those who seek tenements of recent construction are not protected in the same manner. This is indicated in the table by the steady increase in median rents paid as the duration of the occupancy of the tenement shortens. There are two points in relation

TABLE NO. 2 : *Median Rent per 50 sq. ft. paid by sample families classified by duration of stay in the tenement*

	1956	1953	Since 1952	1951	1945-50	1939-44	1938
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1954-survey	—	4.39	4.37	4.19	4.00	2.19	2.00
1956-survey	4.40	4.22	3.54	3.53	2.81	1.97	1.74

to this table to which special attention may be drawn. Firstly, the level of median rents per 50 square feet area for recent occupancy is over rupees four. This means that, at this level, the minimum tenement of 200 square feet per family would cost well above Rs. 15/-. The second point to be noted is that, in the median rents paid, the difference in occupancy from 1951 to 1956 makes a difference of about 25 per cent. This may be taken as a measure of the rate of increase in the average rentals charged during recent years.

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

Table No. 4 shows income-distribution of the surveyed families in 1954 and 1956. The position as revealed by these data is that of the very large proportion of families which have total incomes below Rs. 1,000 per annum. Even making some allowance for a degree of understatement in incomes reported, it is clear that the bulk of the housing problem in a city like Poona is provision of housing for families whose income falls below Rs. 100 per month and who could therefore not afford to pay rentals of the level of Rs. 15 to Rs. 20 p.m. which appears to be the prevailing level for minimum accommodation of recent construction, and which is the level of even subsidized rentals in government housing.

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

TABLE NO. 3 : *Availability of water taps and latrine to surveyed families*

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

	1937	1954	1956
	<i>Per cent.</i>		
1. Proportion of families which did not have a latrine	18	10	11
2. Proportion of families having one or more latrines	7	11	8
3. Proportion of families sharing a latrine with another family	11	6	7
4. Proportion of families sharing a latrine with two other families	12	9	6
5. Proportion of families sharing a latrine with three or more other families	52	64	68
	100%	100%	100%

TABLE NO. 4 : *Distribution of sample families according to total family income*

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

relevant nor significant. These conditions are far below any level which could be described even as barely tolerable. This is so in all respects as regards the extent of the area, the height of the dwelling, the quality of the material used in providing the shelter, and the surroundings in which it is placed. It is, therefore, difficult to give statements relating to conditions in slums in the form given above. However, even in this regard, we are fortunate in possessing more data than are usually available. At the time of the conduct of the socio-economic survey by the Institute in 1937, a detailed spot-count of all the slum-like localities was carried out and a detailed family survey was made of a sample of these slum localities. On the basis of these data, it may be confidently stated that the number of families living in what might be described as slums in 1937, was less than 1,000 and more probably about 800. The Corporation also conducted in 1951 a survey of slum areas. This survey revealed that 6,304 families were living in these areas. A recent survey, of slums in Poona by a private agency is said to have indicated that nearly 9,000 families are at present living in slums. It must be pointed out that because the agencies conducting these surveys were not the same, and no rigorous definitions were framed, the three results are not necessarily comparable; but they seem to indicate the broad trends correctly. Between the two surveys conducted by the Institute, i.e. in 1937 and 1954, the number of families in Poona appears to have increased from the level of about sixty to sixty-five thousand to a level of about a lakh to a lakh and five thousand, that is, a net increase of about forty thousand. That this increase should add 5,000 families as slum-dwellers is not an unexpected result.

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

A priori consideration indicates the basic factors which are responsible for the steady worsening of the situation. It is generally agreed that the rate of growth of urban population in India is currently much larger than the rate of growth of the rural population. The average rate of growth of the Indian population is estimated to be between 1.5 and 2 per cent. per annum. The average rate of urban growth may, therefore, be put safely at between 2.5 and three per cent. If we assume that in Poona there were, in 1951, about one lakh families, then an annual addition of about 2,500 families would be a modest estimate. The picture as revealed in the 1954 and the 1956 data is that the private and public building-activities

are not commensurate with the additional demand created by the increase of population. An important feature to be noted in relation to private building-efforts is that it is concentrated largely in the middle and the richer class sector. There is high likelihood that whereas currently private and co-operative activity is meeting comparatively adequately the needs of the middle and richer classes, it is leaving unsatisfied to a greater and greater extent the requirements of the poorer and lower middle classes. The recent level of median rents taken together with the increasing number of persons per room in our tables would support this contention.

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

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

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

The present programme is inadequate largely because it is too costly and it is too costly entirely because it sets itself standard of durability and quality of construction and amplitude of amenities which, as the above picture shows, the large majority of our city-dwellers do not possess. The immediate need therefore is to clear the slums first, which are like plague-spots in our midst, and, at the

same time, to provide the slum-dwellers immediately, with dwellings with minimum space and with pooled amenities, but which are clean and are adequately looked after by public authorities. It is when such a programme aiming at a cost of less than Rs. 1,000 per family is conceived that clearance of slums and housing-supply may be thought of in realistic terms and may appear as a problem which may be dealt with adequately in a not too distant future.

EMPLOYMENT AND SOCIAL POLICY*

I

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

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

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

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

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

Illustrative table

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

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

There is no information regarding variations in total employment in rural non-farm occupations. However, barring the creation of special employment through the undertaking of particular schemes in the public sector, there is little evidence of any marked improvement, general or local, in the availability of rural non-farm employment. Rural artisan industry is not reported to have done specially well in recent years.

II

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

It has been suggested that, with a total increase in the tempo of economic activity, trade and transport may afford employment to significantly higher number. There are some important features that have, however, to be borne in mind in this connection. Firstly,

in relation to transport, technological transformation is still proceeding. Mechanical transport has not yet fully displaced bullock transport. In fact, because of the present conditions of roads in certain areas, modern industrial development gives rise to new demand for bullock transport for relatively short hauls. This, however, appears to be distinctly a transitional stage. As the programme for improvement of roads makes progress, bullock transport is bound to decline continuously in importance. The displacement by mechanical transport of bullock transport, however, makes for a reduction in the number of persons employed per unit of transport service. Therefore, even a considerably increased transport activity in the near future may not lead to any substantial increase in employment in the transport sector.

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

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

These observations are intended to highlight the characteristics of the employment situation which will be faced at the beginning of the third five-year plan. The situation is worsening and the fact that migration to towns and cities is increasing, in spite of a more-than-proportionate increase in the rate of unemployment in them, shows the heavy pressures of the basic situation. The continued demand for educational opportunities, in spite of the growing

size of the problem of employing the educated, is evidence of the same heavy pressures. The migration to towns or the problems of the educated unemployed do not constitute separate problems but are merely two symptoms of the general malaise. That this will continue to grow as long as population grows may also be taken for granted, unless very special and effective steps are taken early.

III

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

Another feature of the existing situation reinforces this conclusion. Attention has already been drawn to the intensive migration to towns in spite of the fact that employment opportunities in towns are not adequate. This has resulted in a specially acute problem of urban housing, especially in the larger cities and the metropolitan areas which are growing at a specially rapid rate. Apart from the operation of factors such as rent control, controls or shortages of housing materials, the fact that very large proportions of new migrants to towns are unemployed or underemployed aggravates greatly at present in India the universal problem of housing of urban labour. It is of the utmost importance to prevent, as far as possible, the present movements to large cities and metropolitan areas with all their accompanying heavy economic social costs. A comparison of the data for the Poona city pre-war and post-war conditions gives some idea of the dimensions of this

problem.* The recent report of the Study Group on Greater Bombay describes as follows the situation in that area : "The housing situation in Bombay was more or less critical even ten years ago. During the last decade conditions have much worsened and the situation has become more or less desperate." (Report p. 16)

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

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

The employment aspect thus dictates that there should be a sufficient volume of both kinds of public works in the existing stage of planning. At the present level of availability of socio-economic overheads in the country, such a programme of relatively high priority items should not be difficult to be thought of. This programme will contribute in two ways to the desired ends. Firstly, it will raise the level of incomes among classes who are today the most disadvantaged. By raising their standard of living, at least to the minimum subsistence, it will have achieved an employment end and a social

* See pp. 116-122.

security end as well as provided basic and expanding demand for products of industries. The need for this is emphasized by the relatively stagnant cloth demand during recent years. The total programme will also have the result of preventing, to a certain extent, migration of people to large cities.

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

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

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

IV

The other set of problems referred to the Group relate to social welfare and security. One aspect viz. housing has been touched in brief above. Neglect of housing-needs has been one of

the gravest blemishes of the earlier plans. What is suggested is that it should be sought to be corrected as early as possible, and further that future planning of industrial development should proceed on lines which do not lead to an accentuation of the existing desperate housing problem. In relation to the housing problem faced at present in the metropolitan areas, and large cities also, some comments may be offered. Firstly, that the setting-up of unrealistic standards of housing in new housing programmes can merely result in permanently condemning very large numbers of the urban population to continuance of extremely unsatisfactory conditions. Secondly, that in relation to the worst areas a solution on the lines of temporary housing, as for displaced persons, may be found to be a necessary transitory stage. Also where possible the situation may be eased by stimulated dispersals.

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

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

We need not go into the details of this aspect. From the social security and welfare point of view we may, however, urge that

emphasis in all action should be laid on the needs of the next generation. Two particular aspects may be indicated by way of illustration. Partial and limited programmes of feeding of school children have in recent years been adopted in some states. Undertaking of these on a wider scale and in a more effective way appears to be an essential direction of extension of welfare activities. Secondly, arrangements to take care of destitute children, as have been done in some states, also need emphasis. We would make our point clear if we state that, in our opinion, looking after destitute children as a socio-economic investment for the present and future should have much higher priority than, say, taking care of adult beggars.

THE APPROACH TO THE THIRD FIVE-YEAR PLAN*

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

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

In the circumstances, I consider it inappropriate to begin consideration of planning in India with targets such as the rate of

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

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

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

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

The most remarkable feature is, perhaps, the apparent contradiction between the behaviour of important economic indicators. Some of these point to no improvement in the basic situation. The

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

Another feature to which attention might be drawn is the uneven tempo of the operation of the economy during the last decade, and the indication that at no time during this period was it working at the pace at which it operated during the closing years of the war. All recent spurts in the economy have been sustained only for a year or two at a time. There was some activization as a result, for example, of the Korean War, which was checked by the general fall in prices in 1952. There was another spurt forward, as a result of good harvests and the outlay in the beginning of the first-five-year-plan period, but by 1955, a slackening was noticeable both in the tempo of industrial production and in the measure of employment. 1956-57 was the year of notably rapid industrial activity brought about chiefly by a liberal import-policy, but this could not be kept up and for the last 18 months the economy has definitely slowed down. The indications from the money and banking field of brisk activity in the 1958-59 season were misleading; this briskness was

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

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

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

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

Almost no data are available for making any observations about the condition of other classes of labourers. Perhaps a fair statement would be that it falls somewhere between the position of agricultural labourers and that of factory labour. During a period of dull economic activity, labour employed in small and unorganized industries, and casual labour of all kinds, suffer much more than labour employed in organized industry and the gap between the two tends to widen. Therefore, it is likely that today, that is since 1957, all labour has

suffered a set back. Some of it might have improved its position between 1951 and 1955, but for the major part such improvement was not likely to have been kept up later. The same is perhaps true of the members of the salariat. Some improvement in money salaries during the first-five-year-plan period together with a constant lowering of the cost of living and fair employment might have made for improved conditions. During the Second Five-Year Plan period, especially after 1957, the ground must have been seriously lost. The data before the Pay Commission might throw some light on this.

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

This general picture is reinforced by indications that the disparities between urban and rural areas have widened during the last decade. There is greater concentration of wealth and income in the cities, and greater display and concentration in the public sector and more prestige expenditure also in them. While in the rural areas, there is little sign of improvement in the standard of living or of

effects of public expenditure. This difference between the Indian cities and villages in economic well-being is one of the most frequent ones noticed by foreign observers. The accentuation of differences is evidently a tendency noticed even in industrial areas. For example a recent survey of the industrial wage structure in India * finds that between 1950 and 1955 the average wage-rates rose at a faster rate where they were already high, and that the regional disparity in workers' average rate of wages tended to grow over the period.

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

II

The relatively mild effect of deficit financing on the economy is a notable feature of recent developments. Reference may be made first, in this connection, to the monetary and credit policy pursued by the Reserve Bank of India. This policy has been fairly cautious and consistent over the last decade. During this period, the Reserve Bank has taken a number of steps such as the Usance Bill Scheme, and the adoption of an integrated policy regarding rural credit, which have helped stable progress. Its policy of inspection of banks has prevented unhealthy developments in this sphere. All this has, however, little to do directly with control of inflationary developments. The one important instrument forged by the Reserve Bank in this context has been selective credit control. This takes the form of issuing directives to banks that they shall not lend, beyond certain limits, on the security of particular commodities. This

* *Economic Review*, July 6, 1959.

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

Apart from official policy, one aspect of recent banking development appears important in this connection. This is the net holding of government securities. The normal pattern has been for the banks to make additions to these investments in the busy season, and to disinvest to some extent during the slack season. In 1953-54, 1954-55, and 1955-56 the disinvestment was less than the additional investment, and the banks ended each year with added net investment of about Rs. 20 crores per annum. During 1956-57, the disinvestment was so heavy that there was net disinvestment for the whole year of about Rs. 10 crores. In 1957-58 on the other hand, there was continued net investment in government securities even during the busy season. In 1958-59, there was a record of added investment of Rs. 175 crores during the slack season, offset only by insignificant disinvestment of Rs. 3 crores during the busy season. The latest development may be attributed chiefly to the acquisition by the American Embassy of large amounts as a result of sale of PL 480 wheat to the Indian government and the impounding of this

money by deposits by the embassy with the State Bank of India. It is understood that the deposits on this account held by the State Bank of India amount to nearly Rs. 200 crores, and that a substantial part of this money is, as a matter of policy, invested by the State Bank of India in government securities. It was said that, in 1956-57, the running-down of our sterling balance acted as some check on inflationary pressures. The impounding and neutralization of PL 480 funds may be acting at present also in the same direction. It is interesting, however, to observe that even the commercial banks, other than the State Bank of India, as a group increased their holding of government securities by about Rs. 40 crores from June 1958 to June 1959.

A phenomenon connected with the relatively mild effects of deficit financing during 1956-57 was a somewhat peculiar movement of prices. In my previous notes, I attempted to analyse the varying behaviour of different types of prices and to seek its special explanations. I had drawn attention in this analysis to the relative stability of cloth prices and of stagnancy of cloth demand. In reply, it has been stated that the explanation of the behaviour of cloth demand is to be found in the draft made on consumer resources through the higher prices of food-grains. However, this explanation would be adequate only if it was not an inflationary situation that was sought to be explained. Obviously, in an inflationary situation, if the resources of net buyers of food are curtailed through higher prices of food-grains and this leads to stagnancy or diminution of cloth demand, the economy must contain to an equal extent net sellers of food whose resources would pro tanto be specially increased, and who should, therefore, make a counter impact on the cloth market. This explanation based on the higher prices of food not allowing inflationary forces to affect cloth demand or prices could be held adequate only if it was linked with the statement that net purchasers of food either had a highly inelastic demand for cloth or hoarded their incomes, or utilized it in such ways that it did not materially raise the level of other consumer incomes. If agriculturists as a class are supposed to be net sellers of food, their demand for cloth is not inelastic. Also, they could not be considered to be hoarders of cash on any large scale. Only one explanation appears to cover this as well as other phenomena relating to the pressure on prices of consumer goods being lower than that expected by the size of the deficit financing and the increase of money-supply with the public : The increase in productivity and national income has, in fact, not increased the general level of consumer incomes; the bulk of this increase has been canalized into the hands of a relatively small class of traders and industrial producers; and this class has, to a significant extent, used the increase in the level of incomes, in part,

in hoarding money, and in part, in expansion of such activities which affect, to a material extent, the demand for intermediate products without significantly increasing immediately labour consumer incomes. All features of recent behaviour of our economy appear to be consistent only with some such hypothesis.

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

III

The main features of a mixed economy, where economic development is being planned by the State, should be relative elimination of risks from private enterprise through stable prices, buoyant demand for most products, and special aid and protection afforded to private enterprise in particular direction; this would be balanced by restrictions regarding fields of operation, and the existence of a regulatory regime. The total objective may be taken to be to afford private enterprise the needed security and assistance without which

it cannot develop rapidly, and to guarantee on the other hand that such assistance does not result in an increasingly favourable distribution of the national product in favour of the private *entrepreneur*. It would be the purpose, presumably, of the regulatory regime to see that profits and gains are not high in relation to risks and costs, and the regulatory regime may also be supposed to fulfill such other constitutional objectives as to prevent concentration of economic wealth and power. It does not appear that in India these expectations have been fulfilled. There are a number of complaints, on the one hand, that the regulatory regime is unnecessarily detailed and that it obstructs legitimate development. On the other hand, it is equally clear that government has not succeeded in preventing undue gains from accruing to the private sector.

That in India the most important prices in relation to products and services of modern, large, organized business are administered may be taken to be an established fact. Government exercises little or no control in the determination of these administered prices, or in the fixation of their levels. In the area of consumer goods, in an important category like sugar, government's inability to control extra-ordinary profits by traders and manufacturers has proved notorious. Equally important is it to observe that, where government gives special assistance or privilege, the benefits accruing therefrom are compounded into assets of the party assisted by government without any social claim or public interest being created within it. So that as against the possibility of government's stepping into the field in the future, current public assistance results in making acquisition of interest in the field by the State more difficult than before. That is, there is no *quid pro quo*, present or future, for liberal assistance given by government. This is particularly harmful to national interests at that level where organized business has highly concentrated control and can and does operate as a quasi-monopolist. While thus government takes no action to restrain the power or activities of private business, it is compelled, because of the situation of the developing economy, to give support to all units in difficulties or distress. There are two considerations which impel the government to this action. The first is the consideration of keeping units in production. A developing economy is naturally concerned with full utilization of all plant and equipment. Secondly, there is the social aspect of unemployment which, particularly in relation to organized industrial labour, can be productive of considerable political pressure. Therefore, the more crucial the production of a concern and the larger the numbers it employs the more surely it can count on obtaining government assistance in relation to any financial or other difficulties through which it passes. In view of the particular motives influencing government to take action

in this regard it happens that government does not discriminate or finds it possible to do so. It helps or has to help not only if the difficulties are accidental or external, but also even if they are due to internal mismanagement or fraud.

There is no corrective, as government policy operates today, to this one-sided operation of the mixed economy in relation especially to large organized business. Attempts must be made to ensure that the operation is more fair to society as a whole. Firstly, a somewhat generalized system of price control and of distribution of crucial supplies has to be adopted to act as a restraining force. Secondly, it must be provided that assistance by the State leads to the creation of an appropriate measure of public interest in the unit assisted. Thirdly, suitable conditions must be created in each sphere for government to take over certain units, if this becomes necessary to keep up production and employment. As long as government is determined and announces in advance that it will not intervene or take over operation of individual units in any sphere, the mixed economy must work under this handicap and lead to grave social and national loss.

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

the difficulties would then justify corresponding immediate liberalization of imports. Such considerations, however, appear irrelevant in the operation of a long-term plan. The total requirements of imports of necessities, of materials for productive activity, and of capital goods for development, must be closely related to the particular phases of the plan and fairly accurately dictated by them. In such conditions any adventitious gains of foreign exchange must not be dissipated by immediate *ad hoc* liberalization, but must be added to the reserve for emergency. On the other hand, any minor worsening of the situation should not lead to changes of policy, but to drawing temporarily on reserves. Instead of a basic long-term policy which changes only in relation to changes in the plan or the total situation, Indian policy is determined almost entirely in the short-term. This appears from the composition as well as the size of the import-quotas which are liable to such large variations from period to period that the uncertainty of quota is in itself a major factor in the market situation.

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

Attention may also be drawn to the peculiar practice of extending special privileges to particular producers in order to stimulate exports. This is a notorious example of the purely *ad hoc* approach in our policy-making. To cite one instance, it is said that the import of automatic looms is permitted to certain persons on their agreeing to export the products so as to earn more foreign

exchange. Obviously, a very large number of assumptions have to be made to justify this policy. There are in this case deviations from the foreign-exchange-use plan, the industrial-structure plan and the labour-employment plan. Above all, it involves the creation of a monopolistic opportunity in favour of a private party through special expenditure of highly scarce resources for what is obviously a short-term, and in view of the total international situation, necessarily an uncertain aim.

It is obvious that all this changing and chopping is thought to be justified and useful only because there is no consistent durable frame in which the total plan of economic development is related to a long-term export- and import-policy. It is notable that the policies redound chiefly to the benefit of the trader and the intermediary. Absence of long-term policy, fluctuations in prices and uncertainty in supplies that follow from it are not to the advantage of either the agricultural or the industrial producer or to that of the ultimate consumer.

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

The figures given in the 1958-59 Economic Survey show that

per capita availability of cereals during the three calendar years 1953, 1954, and 1955 was 12.8 oz. per day, on an average. During the three succeeding years 1956, 1957, and 1958, this could be maintained at an average level of 12.7 oz. per day only by importing during the latter three years on an average of 1.55 million tons annually more than the average of imports during the earlier three-year period. It is obvious that this larger import of cereals greatly increased the strain on the foreign-exchange position. Such dependence on imports, while no steps were taken internally either to economize or rationalize distribution or to step up substitution of other foods from internal resources, can only indicate that government does not think that it can by better organization or management make supplies go further. In a war economy imports have to be counted out. In such a case all efforts are strained to make do with internal supplies. The analogy, in relation to our exchange resources is very close to a war economy. While these heavy imports were taking place, government consistently refused to take any of the serious steps taken during the war or to adopt even the milder programme of the Asoka Mehta Committee.

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

It is difficult to interpret the policy of the Ministry of Agriculture in regard to prices of agricultural products and trading in them, since 1954. Curiously enough, the Ministry tried to establish before the Asoka Mehta Committee that the complete decontrol of 1955 was not to its liking and was not a result of its activity. It also implied that the Planning Commission was responsible for the decision. The Planning Commission authorities, at least informally, hotly contested the implication. At the same time it is clear that

neither the Ministry of Agriculture nor the Planning Commission nor any other influential elements in government are keen on working out a long-term plan in relation to stabilization of agricultural prices. Every official pronouncement in regard to food-supply and prices usually refers to the situation a few weeks in the past or in the basis that stabilization of prices of agricultural products is maintained through the plan-period.

It is possible to interpret this amazing behaviour only on the basis that stabilization of prices of agricultural products is side-tracked because of certain consequences flowing from it which are not liked. A programme of stabilization could be undertaken through either the entry of government, in a substantial way, in trading in agricultural products or a rapid co-operativization of the field combined with certain overall operations by government. Either of these courses will affect seriously the strong entrenched position of the moneylender-trader elements whose combination of the two occupations have given them a stranglehold on the Indian rural economy. Historically, the present capitalistic community in India has grown primarily on the rural moneylender-trader base. Any undermining of the position of this base would inevitably spell disaster to the trading superstructure in the urban areas and may damage even urban financial capitalism, i.e. affect vitally those interests which are today politically and economically the most powerful in the country. Recent government policy in the co-operative field also lends support to this hypothesis. All recent experiments which have been successful to any significant extent in transferring rural finance, marketing, and processing out of private hands to those of co-operative organizations are obviously suspected, and a programme which has set this trend in motion and made its progress possible is being challenged and sabotaged.

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

The great importance of price-control and of state-trading is further emphasized by reference to the problem of raising internal resources. At least in the initial stages, indirect taxation must play

the crucial role in this matter. It is notorious that with the operation of a quota-system the level of prices of imported goods have risen much higher than the level indicated by costs plus the import duty. Similarly, a fluctuating but very high margin is obtained by exporters which it has been found impossible to cut into through export-duties.

Internally the most important source of indirect taxation is the excise, or sales tax on goods of general consumption. It is no doubt possible to obtain some revenue through the operation of government enterprises. But this possibility is limited where the enterprise does not produce goods of general consumption. This is because the enterprises which the government conducts, such as of production of steel or capital goods, and the services it may provide such as transport, supply of electricity, or of banking facilities, i.e. all kinds of socio-economic overheads, lie too close to basic pricing. Their prices enter widely and pervasively in all other prices. It is also not usually possible through them to exercise any discrimination in taxation incidence. Therefore, though it may be readily conceded that such profits as government can obtain without burdening the economy, in the conduct of these enterprises, especially through a properly discriminatory pricing or rate structure, will be obtained, the amounts so obtained are not likely to be large.

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

It is thus indicated that the only efficient way of obtaining resources from indirect taxation would be for the State actually to enter into trading-activities at the strategic points, such as in important import- and export-commodities, and also to have under its control a sufficient number of widespread outlets of distribution of general consumer goods so as to regulate effectively the level of

their prices. If these steps are taken, the State would not only be able to build up a proper system of regulating prices and distributing supplies, but will also obtain the full fiscal advantages of all special margins and of particular opportunities created in the process of planned development.

It is in the tradition of Indian economists to recognize that problems of national economy are in essence politico-economic problems. The proposition does not cease to be valid because there has been a transition from colonialism to independent rule. In any country the policies will be dictated mainly in the interest of the classes who actually hold power. Inferentially, it is valid to say that today in India real power rests with modern organized business and the trading community. All economic policies, whatever their intention, have been so administered as to benefit these classes. It is important to note that actual power is held by a relatively small group, entry into which is becoming increasingly difficult; there is considerable concentration of influence even within its ranks, and effective control has been reduced to a few hands and a very narrow social base. It appears that Indian social history is entering into a new phase. There has been by now a considerable break-down of the monopoly of the priestly, intellectual, and martial classes. Instead, political and economic power is being concentrated in the hands of selected sections from among the traditional trading communities.

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

It may, however, also happen that there is some shift to the left, in which case big business may find it necessary to agree to a

regulatory regime which, while eliminating large trading, particularly, speculative profits, would yet leave a very large field open for private production enterprise, small and large. Such a development is most in the interest of the country. On this assumption the size of the next plan could be fairly large. The events of 1956-57 have shown that there is a considerable degree of elasticity in the economy; therefore, with intelligent management and the straining of all resources, considerably increased effort should prove practicable. It would, however, be difficult to estimate the scale of the effort at this stage. It depends on a number of variables. These are, mainly, the courage and intelligence of public leaders, the honesty and efficiency of administration, and the response of the public. Also, the extent of foreign aid is uncertain. It has, however, to be realized that the net resources in sight today are relatively small, and our foreign-exchange resources are in a highly unsatisfactory condition. So that, unless internal effort is as disciplined and as intense as in a war economy, even well-planned effort of a large size may prove impossible.

IV

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

The basic decisions in this regard relate to the extent and variety of consumer goods to be made available and the structure and location pattern of the consumer-goods industries which will

produce them. Though a plan has to restrict total consumption somewhat in the initial years, it must ultimately have reference to a programme sketching the manner in which and the rate at which the availability of consumer goods in the future is to be improved so as to raise the standard of living. It is necessary to emphasize this because, possibly, both aspects of the problem have not been sufficiently attended to. In discussions regarding such matters as targets of cloth consumption during the Second Five-Year Plan, it did not appear to be realized that forcing the pace of savings meant making cloth available for increased consumption at a rate which was smaller than that indicated by the expected rise in national income and the elasticity for the consumption of cloth. A smaller rate of increase in current consumption than that resulting from the expected rate of increase in national income is a logical concomitant of increased savings effort. However, this refers mainly to the immediate future. In relation to the more distant future when the increase in national incomes is expected to be substantial enough to lead to the possibility of some general increase in standards of living, decisions regarding increases in availability of consumer goods, and the new types of consumer goods to be made available, will have to be made. These decisions will, to a large extent, determine the direction of future industrial growth.

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

In addition to the problem of the type of consumer goods of the future, there is the problem of techniques adopted for their production. The decision, for example, to launch on the production of full sugar-manufacturing plants in India may be taken to indicate the decision to go ahead with the production of sugar only or chiefly in the most developed modern types of plants. But this may still leave the question open as to whether *gur* as a product can be raised from its present unstandardized status and made more standardized

and better preserved, so that it would serve not only as an article of consumption, but also as a base for the sweets industry; and if this is possible, can efficient *gur*-manufacturing be established on the basis of a somewhat mechanized but yet a small-scale rural industry.

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

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

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

We are thus brought up to face the questions, at this stage, as to why it is necessary to think out afresh the problem of the Indian pattern of industrialization and why we cannot adopt the fully developed techniques in all directions. The basic reason for the need is obviously the relation between our population on the one hand, and natural resources and capital resources on the other. There

are a number of under-developed countries in the world, which have such plentiful supplies of almost unexploited natural resources in relation to their numbers, that development can proceed with them with full initial emphasis on primary production. Gradual stages of accumulation of the surplus of such production and progressive industrialization with its help can be planned. With us, however intensive our efforts in relation to primary production, they could achieve no more than self-sufficiency in food-grains, and some broadening of the base of industrial raw materials. With the numbers on land and the growth in them, large net surpluses are not likely to be available in this sector even with intense development. This means that, for the whole of the relevant future period, our plan of development, which means essentially plan of industrialization, must assume a relative shortage of natural and capital resources as compared with the work-force.

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

This brief statement supports the conclusion that our industrial development must be planned on a general small-scale-industry model with deliberate adoption of a large scale and of concentration of capital only where modern production technique overwhelmingly requires it; the corollary is obvious that all such deliberate exceptions must be only under strict social control and should preferably

be allowed only in the public sector. A contrary view is tenable only on the suppositions that employment of all human resources is not an important national objective, that the human and economic costs of employment and under-employment are no concern of the national plan, and that high concentration of industrial production and capital in private hands in a poor and under-developed country does not constitute a grave national danger.

The data regarding unemployment indicate a steadily worsening situation, and it is evident that present policies are very inadequate to deal with it. Unemployment or underemployment in cities and villages is growing apace, and it is obvious that large organized industry, whatever its rate of development, can absorb only a very small proportion of the growing numbers. For increased numbers to have to be accommodated in agriculture is to accept defeat in terms of development and to make future progress more difficult than before. In present Indian conditions, one cannot expect the 'tertiary' sector to absorb further work-people. The development of this can only proceed on the basis of a broad, diversified 'secondary' structure. It is thus a very large measure of industrial development that is immediately needed. In view of all considerations, it is a decentralized, dispersed industrial sector that we have to build.

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

A major factor controlling all recent developments and the net result of all effort is the continuous growth of population. As long as population keeps on growing, at the rate of 1.5 to 2.0 per cent. per annum, the total effort made has to be very large indeed, in order to make any real impression on the situation. Therefore, one of the most urgent needs of the immediate future is an effective policy regarding population planning. Fortunately, the situation in this regard appears to have changed rapidly during the last eight years.

It is not only possible now to talk of a positive population-policy on the part of the State, but also to contemplate the possibility of an effective large-scale programme being undertaken by State authorities. Recent experience has conclusively proved that large numbers of people in all parts of the country, both urban and rural, are now keenly aware of the need to limit the size of their families in order to maintain or better educational and economic status. There appears in the country no evidence of fundamental opposition to the adoption of a rational programme of family-planning. The adoption of surgical methods in this regard seems to be favoured and accepted to a wide extent. What is now required is for the State to undertake, as a part of its third and subsequent five-year plans, the provision of ample facilities, spread suitably all over the country, for making provision for family-planning in directions in which the people desire it. In many parts of the country, it is not so much lack of propaganda as the non-existence of adequate facilities that is already proving the main handicap. The provision of family-planning facilities, attached to a countrywide net work of medical and public health services, should not mean large additional expenditure. If we look to the total effect of an early successful programme in this regard, even high additional expenditure on this item should prove amply remunerative in the long run.

V

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

In relation to the first what is required is not so much adoption of new policies as the effective co-ordination and implementation of those already avowed. Examination of recent events does, however, suggest an emphasis in relation to regulation of trading. The implementation of plans of development and the attainment of proper economic and social objectives does seem to require, in particular, effective control over prices and distribution of essential

supplies. The various elements in this appear to be as follows: (1) A system of warehouses and a long-term policy of purchase or procurement of agricultural products. (2) Undertaking through a public agency exports of the more important commodities; (this could be managed by autonomous commodity export boards as in a large number of primary producing countries). (3) The import and distribution of all main supplies not imported directly by licensed consumers. (This could, perhaps, be best managed by a single independent authority.) (4) The establishment of retail outlets to the extent of about a quarter to a third of the total, all over the country which are managed either by co-operatives or are under State control. (5) Control of internal wholesale trade—through co-operatives or directly—to the extent needed to operate the procurement, export, and retail outlet systems.

One of the most notable features of recent developments is the stagnant, if not deteriorating condition of the most disadvantaged classes, including almost the entire labouring population. During the decade a 'socialistic' programme has been formally adopted by government. This 'socialism' has, however, been left vague and there has been a sharp reaction from every attempt to define it in any detail or in terms of a concrete programme. All specific proposals so far made, relating to dispersal of ownership of means of production, pertain only to ownership of land; and it is evidently felt desirable to soothe large organized business and its foreign collaborators, periodically, with promises of 'fair treatment' and concessions. In this context, it is unrealistic to propose any egalitarian distributive measures. It may, however, be in order to suggest that certain minimum steps, which even modern non-socialistic, non-planning governments would feel necessary, be immediately taken.

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

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

Nations Conference on Food and Agriculture, to whose report the Government of India is a signatory" (pp. 113-4).

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

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

The largest failure of the planning-effort, however, is in agricultural production and the starting of widespread industrial development. This failure has also the most widespread and the most far-reaching consequences. Experience of the last 10 years emphasizes the locational limitation on development effort in India. It has been observed that even in highly integrated economies like that of the U.S.A. great locational divergencies in economic development can take place. An hypothesis advanced to explain these is formulated by Professor Schultz in the following propositions :

- (1) Economic development occurs in a specific locational matrix.
- (2) These locational matrices are primarily industrial—urban in composition.
- (3) The existing economic organization works best at or near the centre of a particular matrix.*

It is not my intention to discuss the detailed application of this or any similar hypothesis to Indian conditions. I refer to it to draw the practical conclusion that in an essentially rural and only partially monetized and integrated economy like that of India, it is impossible to expect the development process, started at a small number of places and in particular sectors, to spread by itself all over the country. With us, development will proceed successfully and at an even tempo only if it is started simultaneously at innumerable centres all over the country. I would also urge, and there is supporting experience for this statement, that emphasis on agricultural development by itself will also not be sufficient to start development. Development must be planned simultaneously in both the primary and secondary production sectors. This is not merely to reinforce the plea for widespread local agricultural and industrial effort. The hypothesis has been mentioned to emphasize the need for the 'starting' of the development process at a very large number of widely-spread centres;

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

this is something radically different from trying to spread a centrally planned development effort all over the country.

With a proper appreciation of this shift in emphasis the present dismal failure may be adequately explained. At present planning in India is a highly centralized process in which all real initiative and direction resides only in a few persons at Delhi. With a formally federal constitution we have, in fact, great concentration of effective political power. That community development all over India is the charge of a central ministry is merely symbolic of current topsy-turvydom. The evil effects of extreme centralization are evident in the fields of education and co-operation. In education the U.G.C. and the Central Ministry put forward model schemes and as these are backed by scarce money, all universities and colleges have to accept them without thought. The result is wasteful expenditure on non-essentials, while even the basic needs of the poorer units remain unsatisfied. Or, take the current debate regarding co-operative policy. The most distressing feature of the present situation is not the dominance, if any, of one view over another, but that policy is being made not through open debate, which can bring out the varying views and the need for adaptation of policy to different circumstances, but through the whims and prejudices of a few at the centre of political power. It is a bare statement of facts to say that there has been, at least in this field, a greater and more deliberate disregard for local, active worker opinion, than was ever met with under British rule.

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

That a shift in the balance of power, even without a change in formal arrangements, can bring about a change in planning policy may be illustrated by a recent experience in Bombay. While power rested completely in big business and its associates, the human costs of the continued growth of industry and population in Bombay city were callously disregarded; immediately following some reduction in the concentration of power it was possible to set up a study group to study existing conditions; but the balance would have to tilt much further before anything really effective is done about the situation. It is too much, therefore, to expect that, while power is concentrated in a few hands in Delhi and the metropolitan areas, activities other than organized large industry, banking and transport, large schemes in the public sector, prestige expenditure, and impressive but empty model schemes will command real attention. Decentralized and

dispersed industry has long been an accepted policy, but it continues to be a meaningless phrase. Even the Khadi Commission acts on the basis of model schemes which, it is surprised to find, do not work successfully.

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

The plan can be a plan of local development in the real sense only if it is thought out locally. The matter does not rest merely with local adaptation and initiative. For its implementation a plan of dispersed decentralized action requires, above all, organization and workers. Only local planning can draw in local leadership. The valuable unused human resources that movements like the co-operative cotton ginning and pressing societies and the co-operative sugar factories in Bombay State were able to tap largely contributed to their success. There is also the possibility of bringing in additional resources and the ability to adjust scales of payment to local levels and needs which can prove valuable assets in implementation of local plans.

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

The contrast with other planning countries is very large in this regard. Decentralization of planning has been established not only in such countries as Yugoslavia, which specially championed decentralization, or Poland in the post-1956 period, but also, with recent developments, in Russia. Russia has today more than 100 planning-regions. In India, planning is undertaken for the country as a whole. What is required is not only a planning-authority for each state but for each important geographical region within each state. In terms of geographic diversity, perhaps, a number of planning-regions greater even than 100 would be justifiable; but in terms of available personnel it might be necessary to limit oneself, in the

first instance, to about 50 planning-regions in the country. If we have such planning-regions with effective authority, the reform will, for the first time, bring into the centre of planning the small towns, the rural areas and the small industries. It will act as some counter-weight to the existing overwhelming politico-economic influence of large organized business and of the top bureaucracy. It is only with some such operation that the difficulty of starting local development, rousing local enthusiasm, tapping in a special way local resources, and adopting costs to local conditions will be overcome. With such dispersal of planning-control and power, one may expect, in course of time, even some diffusion of wealth and well-being.

PLANNING FOR AGRICULTURAL DEVELOPMENT IN INDIA*

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

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

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

The concept of a programme for agriculture is old and dates, in some respects, from the time of the famines of the last quarter

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

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

Two features of the approach evolved in the G.M.F. era and continued today are important from the point of view of planning. The first is that the programme is conceived of as consisting of a series of independent developmental activities. The Planning Commission's Review of the First Five-Year Plan has the following :

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

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

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

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

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

result appeared very different. Whereas in wheat the general expectation had been more or less fulfilled, the increase in production had fallen considerably short of the expected increase in rice, and on the other hand, it had greatly exceeded expectations in case of millets and other cereals. It is important to note that no satisfactory explanation of this divergence of the overall result from expectation was available.

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

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

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

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

In fact, however, no effect was given to any of the above proposals contained in the Second Five-Year Plan, and the approach and the procedures established in the First Five-Year Plan period, and earlier, continue to be followed till this day. Reviews of progress of agricultural plans of the State carry the calculations regarding additional production potential attributed to individual schemes of development, and the main test of the achievement of plan remains the progress of expenditure. Many years ago the Bombay Grow More Food Policy Committee (1951) attempted to check through field surveys the official estimates of “additional production achieved” both in the total and as attributed to individual schemes and found

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

considerable shortfalls. The Agricultural Administration Committee recorded in 1958 : "At present we have a spectacle of financial targets being fulfilled without the proportionate additional production being realized." ⁴

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

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

A plan which attempts a co-ordinated development of all sectors of the economy in all regions and locations must attain a high degree of specificity. It must not only attempt a full use of the potential, but it must also ensure that the planned development of specific resources in each sector is properly dovetailed with use or consumption in the developmental plans of other sectors. There is thus need for a large degree of correspondence between expectations and achievements in both production resource plans and area plans if the developmental process is to move with reasonable smoothness.

⁴ *Report of the Agricultural Administration Committee, Ministry of Food and Agriculture, Govt. of India, New Delhi, Oct. 1958, p. 43.*

⁵ *Ibid.*, p. 40, 41.

But this can happen only if the present approach is reversed and the agricultural plan is derived, in the main, through the building up and the putting together of plans originally framed locally rather than through a break-down of programmes and estimates framed at the national level.

Curiously enough, there appears to be no serious disagreement regarding the need for this change of approach. I have already quoted the Planning Commission's view in this regard. The report of the Agricultural Production Team sponsored by the Ford Foundation writes : "Equally important, improvement programmes should be tailored to fit the condition faced by individual cultivators, village by village, block by block and area by area." ⁶ The Agricultural Administration Committee puts the matter even more emphatically.

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

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

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

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

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

Before going on to consider this central problem of agricultural planning in relation to the activities of individual agricultural producers, I shall refer briefly to certain aspects of the other side of planning for agriculture in India, namely the general framework of policies at the highest level. Clear formulation of appropriate policies and their co-ordination at both the central and state levels is an essential requirement of planning in any sector. At present there is obvious lack of this necessary action on the part of the central government. I may illustrate the resulting situation by reference to a few salient issues. It has been generally agreed, since the beginning of planning in India, that an appropriate price-policy on the part of government is required for the implementation of a plan for agriculture. However, this price-policy has been entirely absent. To confine oneself to recent years, the period of the Second Five-Year Plan began with complete decontrol on the part of government. Subsequent to the decontrol of 1955, no policy in relation to regulation of prices of even food-grains has been evolved by government. In view of the rise in these prices in 1956-57, government

appointed a committee which presented its report towards the end of 1957. No action was taken on the report and even the relatively mild recommendations relating to the socialization of trade in food-grains made by the committee were not accepted by government. Almost a year after the presentation of the report of the committee, government suddenly announced a decision regarding what was described as state-trading in food-grains. This decision has been variously interpreted in the different states and has led to making the total disorder in food-policy merely greater than before. Recently, the Union Minister of Food resigned, presumably on an issue relating to policy about food-trading and prices, but the resignation has not led to or been interpreted as implying a definitive decision by government in regard to its food-policy in either direction.

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

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

Not only is there no intelligible actual policy in operation, but also it is difficult to be clear as to the intentions and objectives of government. During the last few weeks, for example, government spokesmen have expressed satisfaction in relation to the current fall in the prices of food-grains. Before general adoption of trade- and price-control it was universal experience in all under-developed

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

countries and it has been the experience in India, in particular since 1953, that prices of agricultural commodities, especially food-grains, tend to reach their lowest level immediately after harvest and their highest a few months before it, and that there is a marked difference in the average levels of prices in the two six-monthly periods. In the circumstances, government would be entitled to express satisfaction at the fall of prices at harvest only if it intended to break into this cycle of price-changes and took effective action to stabilize prices at the low harvest-level. In the absence of announcement of any such government policy and of concrete measures taken by government to stabilize prices, the utterances of government spokesmen in recent weeks could only be interpreted as indicating satisfaction at the continued discomfiture of peasant and consumer and at the assured good fortune of traders. The almost deliberate refusal of the Union Ministry of Food and Agriculture to formulate and announce a definite price-policy, even after months of cogitation, has great significance in this connection. The situation relating to the prices of agricultural products and food-grains not only exemplifies the inability of the Government of India to make up its mind regarding basic issues in plan-policy, but also raises serious doubts regarding the real social objectives pursued by those in authority.

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

The position regarding groundnut-cake provides an interesting study. In Bombay State, for example, the use of groundnut-cake

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

as manure was not only advocated by government, but its knowledge and use were actively spread through a policy of acquisition of stocks of groundnut-cake from mills and of subsidizing the sale of groundnut-cake as manure. Within the last two decades, groundnut-cake has been established as the most important manure in general use in the State, especially in relation to crops like sugarcane. Evidently, government or its experts now take the view that the use of groundnut-cake as manure is wasteful, and that it would be more profitable to export it and earn foreign exchange therefrom. Having granted the validity of the changed view, there are at least two steps that government must take before changing its policy radically. In the first instance, through active propaganda and demonstrations, at least the more progressive cultivators should be induced to accept practices which either entirely dispense with use of groundnut-cake or reduce greatly its extent. Secondly, government must, at the same time, arrange for the supply, in adequate amounts, of substitute fertilizers or manures that its experts recommended in place of the groundnut-cake to be displaced. Having some knowledge of the matter, I can say with confidence that neither of these steps has been taken by government; at least in this State. Today, though the internal price of groundnut-cake has increased greatly, sugarcane farmers continue to use it in almost as large quantities as before and as a result the cost of production of sugarcane has gone up considerably.

This short account exemplifies another extremely important aspect of agricultural planning in India that there is relatively little connection between research and its application on the field. The Royal Commission on Agriculture had noticed this as a basic defect of the Indian situation; the 1958 Agricultural Administration Committee also records that though the experimental stations in the country have collected scientific information on manurial requirements of crops, this has not been translated into practical application. At the same time, in framing agricultural policies, government and its experts operate with the results of experiments which they have never bothered to translate into practical application. (The reference to molasses as feed in the quotation earlier is a good example.) It is necessary to emphasize that the responsibility of agencies of government to prove the results of research in the field and to propagate them is as great as the conduct of research itself. To take action on the results of research experiments without caring to see whether they have been translated into practical application and have been generally adopted, is to jeopardize the success of planning; because this undermines the confidence of cultivators in research and in the basis of government policy as being reasonable.

The position in relation to supply of fertilizers also emphasizes absence of co-ordinated thinking at the centre and absence of comprehensive estimation of needs of overall programmes. It also perhaps indicates a grave lack of co-ordination between the activities and thinking of such related ministries, as Ministry of Agriculture and Food, Ministry of Commerce and Industry, and Ministry of Finance.

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

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

I have already referred to the notable agreement, which exists today in relation to the need for a changed approach in the planning

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

I shall consider the requirements of effective planning from bottom in agriculture, for lack of which no progress has been made so far, under two heads : organization, and knowledge. I may make clear that when I refer to organization I do not mean thereby organization for production in agriculture, i.e. for example, how large or small the unit of production in agriculture should be, and whether it is the independent farmer or the co-operative farming society that is the exclusive or the dominant form. I refer at this place to organization of the units of production in agriculture whether individual farmers or co-operatives.

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

The need for an organization and the functions it performs are exhibited in the experience of both capitalistic and communistic countries during the last three decades. The New Deal found it necessary to depart, in radical measure, from the principles and prejudices of American State policy and to bring into existence organizations of manufacturers and labourers to carry out the new policy. A whole series of marketing boards was set up in the U.K. for bringing order and efficiency into the marketing of agricultural produce and economy in the operations of British farmers. All communist countries had to begin with organizing farmers into various types of well-knit organizations; the series of terms, "the

co-operative, the collective and the state farm", or "the Production Brigade, the Co-operative and the Commune" indicate the higher and higher stages of organization required for purpose of communist planning. Non-communist under-developed countries have also widely resorted to state-sponsored systems of co-operation for general agricultural development or for particular measures of agricultural reform. This was done in Mexico and in South Italy, in Egypt and in Turkey. The remarkable performance of agriculture in post-war Japan is based on a complete system of agricultural co-operation. Yugoslavia, after her retreat from collectivization, operates her planning with the instrumentality of rural co-operatives.

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

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

functioning of the organization. The assistance of the group committees is available in a variety of ways: for bringing difficulties of members to the notice of officers, for persuading members within the group to adopt innovations, for obtaining co-operation of members in proper alignment of roads, etc.

Organization is needed both to encourage the adoption of good methods and to discourage uneconomic or unsocial practices. One of the problems faced by some sugarcane co-operatives is, for example, the over-extension of irrigation on wells by members. In such case, the apparent short-run interests of members may be in conflict with what is desirable from the long-run point of view. Detailed measurement of the capacity of each well, convincing the members of the undesirability of over-extension and, in the last analysis, even being prepared to sanction coercive measures where a minority appears recalcitrant, have all to be undertaken in such cases. But all this, which is no more than what is involved in the planning-effort, can be attempted only because a relevant organization which can evoke enthusiasm, has specific knowledge and resources, and can also exercise some sanctions, has previously been built up.

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

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

of the produce and economic sale of the processed goods. Development schemes, with related intermediate and long-term finance, can similarly be integrated with the total co-operative organization.

It is curious that little reference is made in our five-year plans to the marketed surplus in agriculture or to measures of obtaining control over it. While, in relation to the agriculturist, planning should be concerned with increasing agricultural production as a whole, in relation to the non-agricultural sector, the plan is specially interested in the volume of the marketed surplus of food and of industrial raw materials. The planning of exports of agricultural produce, or the production of industrial goods through transformation of raw materials produced in the country, or planning of supplies of food-grains to feed the urban population and keep down inflationary potential, depends on the ability to estimate correctly the marketable surplus and to obtain control over its flow. From this point of view also planning requires that the marketing and processing of agricultural produce should be suitably organized co-operatively. Only through this could supplies and stocks of agricultural produce be kept continuously in sight. The importance attached to regulated markets in this connection is highly misleading. Experience has proved that regulated markets, however, carefully regulated in theory, are of little effective use except where strong co-operative organizations operate on them. It is not so much the regulation of marketing but the concentration of agricultural produce in the hands of co-operative marketing and processing organizations that is required for planning.

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

It is perhaps not necessary to argue in favour of the creation of a co-operative structure, because there appears to have been very general agreement arrived at in this matter in recent times. The Ford Foundation Team, which reported some few months ago, has

emphasized the need for seed-supply and distribution of fertilizers to be placed with co-operatives, and for general transfer of responsibility of supply-lines to the co-operative department from the agricultural department; the last recommendation has been made independently by the Agricultural Administration Committee also. In relation to processing, the Ford Foundation Team states emphatically: "The greatest need today is for more co-operatively owned paddy-hulling and rice mills in major rice-producing areas,"¹⁰ and the Team has suggested that strength could be given to marketing and supply co-operatives by using them as agency for price stabilization. Moreover, recent reports indicate that the Ministry of Food and Agriculture has agreed, in principle, to a pilot programme to increase food-production based on the recommendations of the Ford Foundation Team. This programme appears to include adequate supply of farm credit based on production potential, adequate supply of fertilizers, pesticides, improved seeds, improved farm implements and other essential productive needs, all made accessible through strengthened co-operative societies. The programme also appears to contemplate price incentive to participating cultivators through guaranteed minimum prices announced two years in advance. The marketing arrangements and service, preferably co-operative, will enable cultivators to obtain the full market price for their marketed surplus. The organization and operation of co-operative processing will be facilitated wherever feasible.

This is a matter in which, however, mere agreement in principle is not enough. What is required is immediate country-wide action. If government is prepared to organize and assist cultivators of certain food-grains in seven districts in a particular manner, there is no reason why the same type of organization and assistance should not also be available to others. If planning is to yield significant results it must be undertaken simultaneously to cover all sectors and areas. From the point of view of agricultural planning I would emphasize two points in this context. In the first instance, the requisite organization of the small, scattered units could come about only with government initiative and assistance; this is universal experience. Secondly, though the ultimate aim should be a fully integrated co-operative system, considerable latitude for adjustments and improvisations should be left in the transitional stage. The creation of a fully integrated co-operative system will inevitably take time and cannot progress in all areas at the

¹⁰ *Report on India's Food Crisis and Steps to Meet It*, by the Agricultural Production Team sponsored by the Ford Foundation, Ministry of Food and Agriculture, and Ministry of Community Development and Co-operation, Govt. of India, April 1959, p. 39.

same pace. As the immediate aim is to organize cultivators for participating in planned activity, the substitution of *ad hoc* or looser forms of organization, e.g. farmer's clubs or borrowers' groups for the co-operative society may have to be made to fill the gap temporarily. No harm will ensue as long as no steps taken immediately militate against transformation into full-fledged co-operative activity in due course. At the higher levels, state-activity will assume greater importance. I would, for example, advocate an immediate incorporation into a state-cum-co-operative system of all mechanical power-driven processing plants operating in connection with all types of field crops. The plants in future should all be operated co-operatively, but for immediate acquisition they should first be taken into the public sector and transferred to the co-operative sector in due course. What is required is immediate, universal action, and seeing that the tiresome, unreal controversies regarding co-operative forms do not hold up this urgent requirement.

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

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

The planning authority at the lowest level should be composed of three elements. Firstly, an element representing the local self-government organizations of the area. This is necessary because it is these organizations that will provide, in the main, local socio-economic overheads which are essential for all planning-effort. They

will be responsible for the schools, the road system, local cesses and imposts, for organization of marketing facilities and; in due time, for the administration of town and country planning legislation, including rural housing. The second element should consist of representatives of the expert official technical personnel. The third and the main element should be the representation of co-operatives of all types and at all levels directly connected with the economic life of the particular area. I assume that at this level the interests represented will not only be agriculturists but all others such as artisans, transport agencies, and even labourers, to the extent that labouring interest was separate and had been organized co-operatively within the area.

I suppose that planning authority of the lowest unit will be concerned chiefly with the development of resources within its area and the increase in production of efficiency of all economic units within that area. The data discussed will be the past performance, current operations, and future projections of activities of the varied organizations represented, and the main task will be to dovetail in a meaningful plan for the area the operations of the various economic agencies and units as well as the activities of officials and the local self-government authorities. The operation and plan for each village, or for each independent unit, or agent will be derived from this total plan.

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

Before turning to another aspect I shall offer a few remarks on organization for agricultural planning at the centre. In the field of agriculture the centre has only a limited role to play. It has to establish appropriate trade and price policies; it has to indicate broad objectives and general principles, but no more, in the context of land reform, co-operative organization, etc., and it has to maintain an adequate flow of especially imported supplies and regulate their distribution. This is apart from its universal role as general co-ordinator. It is obvious that the centre has failed in most of these respects. I have already commented on price-policy and fertilizer-supply. In relation to co-operative-policy the curious combination of high-handedness and vacillation exhibited by the centre has merely created confusion and held up progress. There is reason to believe that, in good part, these defects flow from the present organization of planning at the centre. Looked at from the point of agricultural planning there exists a good case for the abolition, at least the suspension, of the activities of the Planning Commission and placing the work with a policy-committee of the Cabinet. The grounds for this are two-fold. -As an agent of planning the Commission contributes not new knowledge but only old prejudices. But even more serious is the apparent effect of the existence of the Planning Commission on the working of the Central Cabinet. The individual ministers and the Cabinet as a whole, evidently treat the operations of the Planning Commission as an excuse for not making explicit and consistent policy. - We had clear proof of this in the evidence led by the Ministry of Agriculture before the Foodgrains Enquiry Committee in relation to decontrol; and very recently the ex-Minister for Food has publicly blamed the Planning Commission and the N.D.C.—another policy-making body to which no responsibility is attached—for failures on his part. It is high time, the public demanded that economic policy will be made deliberately, consciously, and explicitly by the Central Cabinet as a whole, and that the pronouncements of individual ministers from time to time, and of all ministers over a period, will fall into a pattern and be consistent with announced Cabinet policy. I believe, that the suspension of the activities of the Planning Commission will help in forcing the acceptance of this view on the Cabinet.

I have left for consideration to the last that requirement of the planning of agriculture which is of greatest interest to the members of this Society—knowledge, statistical and other. The nature of this knowledge has to be related to the process of planning from the bottom, sketched above. Obviously the data required are detailed local data, and data in the field. Inevitably, data from sources other than official will also have to be collected and used, though its processing and technical handling will mainly be the concern of official experts. The organization of the data will also have

to be for units that have significance for the new approach in planning. It is well known how thinking in policy and administrative practice shape the collection and collation of data. When, in this State, we had the continuous operation of the revenue survey and settlement organization, data for even parts of talukas were separately collated and analysed, and the revision survey reports contain considerable useful material for students both of economic geography and economic history. Similarly, the exigencies of administration in famines led to the compilation of special famine statistics and a Famine Atlas, even existence of which, I have found, is not known to officials and students today. For effective agricultural planning, it is, I believe, necessary to revert to this older approach of local economic geography. For this, appropriate agricultural statistics of course provide the main base. Where agencies for the collection of local data exist this involves mostly some reorganization and re-shaping; at the same time where these do not exist it indicates the need for the proper organization and the setting-up of agencies for collecting local field data in relation, in particular, to extent of availability of natural resources and their use.

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

In the field of economics also systematic collection and collation of data from a variety of sources will have to be attempted. There are a number of problems central to agricultural planning on which there is little relevant knowledge available today. For example, it is admitted that we know almost nothing about the relation between prices and agricultural production in Indian conditions. Similarly, it is not possible to estimate, even for the country as a

whole, with any confidence, the marketed surplus of important crops. For planning you not only require knowledge about the actual surpluses, at least regionwise, but also about possible variations in them and their causation. There is again the pattern of land-use and of cropping. I must confess that I was more amused than impressed when I learnt of the setting-up of a group at the centre for a study of land-use in the country. For, I know, having often to deal with the data, how scanty they are for any useful study at that level. We have yet to make even a beginning with proper research relating to the restraints, limitations, and motivations that fashion the decisions regarding the crop-pattern of individual cultivators. A lot of this effort will be in the nature of case studies and you will no doubt have to handle and make do with data which the purists among you would shudder to touch. But, after all, improvisation is the very soul of planning in an under-developed country.

I have no competence in relation to the manner in which these problems can be best handled. I am only a consumer and as such I have tried to place before you a few ideas on planning in agriculture and have tried briefly to frame the requirements in relation to statistics flowing out of them. However, on one point I feel sure: That the bane of economic policy in this country in the post-independence era has been centralization, and that in the field of statistics the crying need continues to be the strengthening, co-ordinating, and in the new context, proper planning and initiating of the work of primary field agencies. This judgement is founded on a view which I have held for many years and which I put on record in the following words on the eve of the initiation of planning in this country : "For policy formation you require, not so much the National aggregates, but much more detailed information concerning specific regions and activities and a fairly clear idea of the actual operations of specific parts of the economic system. When you have gathered a fair amount of such specific information the National aggregates may help you to build an overall realistic framework which will give meaning to National Income and Accounts; but as long as the detailed information is not available, National aggregates by themselves would prove of little use for policy formation or for judging of its implications."¹¹

With this reiteration of the emphasis on local, decentralized effort and with renewed thanks for giving me this opportunity of expressing my views on this important subject, I close my address.

¹¹ *Report on the Poona Schedules of the National Sample Survey (1950-51)*, V. M. Dandekar, Gokhale Institute of Politics and Economics, Poona, 1953, p. 209.

THE BASIC REQUIREMENTS OF PLANNING IN MAHARASHTRA *

This note is intended to raise certain basic issues in relation to the framing of plans of development for and in a state, and is written with special reference to the economic and social situation in Maharashtra. Discussion which is confined to formulation of a state plan necessarily takes for granted decisions which have to be taken on the national level. I shall, therefore, not advert in this paper to problems of policy, etc. in determination of which a state has little or no scope for independent action. I shall also not discuss questions relating to the overall size of national or state plans.

Within the limits so set, the most important question to be faced at the outset is that of determination of objectives of state plans. As at present, there is little independent thinking exercised in relation to this in the state. The result is to make planned action and its effects very much less useful and fruitful in the states than they need be. Indian plans are conceived of as essentially departmental or sectoral affairs, and within each department or sector they are put together as a series of schemes of expenditure. It is true that in the process of implementation most plans must be translated into a series of steps of concrete action. However, there is a vital difference between an approach which first defines objectives, indicates how certain means will be appropriate for attaining them and follows this with a set of schemes total effect of which is again assessed in relation to the objectives laid down, and an approach which operates entirely at the level of adopting a number of standard schemes evolved at the centre and sanctioned by it.

I begin with stressing the need for broad objectives of the state plan as a whole and also objectives in relation to all the more important activities being formulated after as wide a public discussion as possible in the state. Let us take an example of the planned development of transport within the state. The centre takes an overall national view in this regard, accepts certain national responsibilities and perhaps indicates certain broad standards of performance, etc. Each state must, however, go beyond this and, in the light of its peculiar circumstances and the state of development, define its own detailed objectives for the short and the long term. No doubt, in doing this, it will have to operate within the limits framed by the central decisions, and it will find that in certain matters, as for

* A note prepared for the Maharashtra Commercial and Industrial Conference held in Bombay on June 17, 1960, and printed in the Souvenir published by the Conference.

example, construction of railways, it cannot act on its own. However, even within these limitations it is absolutely essential that objectives of state action be defined clearly. It is well known that the development not only of railway but also of road-transport during British times was very lopsided having been directed very largely to export-and-import trade. The concentration of economic activity at a few major ports, from which we suffer today, is a result of this historical feature. It is obviously necessary for us to take special action to counteract this, which will be done only if each state plan deliberately tackles the problem. The usual approach of state road-plans, that of adopting general standards as that of the Nagpur Conference Plan and mechanically making allotments, results not only in leaving the situation unremedied but also in accentuating it; because all development takes place along the lines of the present structure and confirms it.

A brief look at the map of Maharashtra will show how the entire road-and-railway network is directed towards Bombay, and how there is utterly inadequate development of inter-area communications. Though Marathwada is a rich agricultural region situated between Vidarbha and Western Maharashtra, important lines of communication between these two have not been established across Marathwada. It is obviously extremely important for the economic, social, and political development of Maharashtra that, say, Kolhapur and Sholapur are connected by direct efficient means of transport with Nagpur and, say, Poona with Jalna and Akola. This is an obvious and a glaring gap. There is no doubt that once attention is thus given to overall objectives of a state plan of transport many other important points would be raised. Or take another sector, that of co-operative activity. It is well known that the extent of development as well as the lines of development of co-operative activity differ widely from state to state. Nothing is therefore to be gained but much is lost by compiling a co-operative plan for the state as a series of centrally sponsored schemes. The proper thing to do is to frame, in the light of knowledge of the special advantages and handicaps in the situation within the state, the salient objectives of state effort. The first point that I would therefore make is that a state plan must itself be conceived as an organic whole and that its objectives in general and in detail must be formulated in advance. I feel that, if this is done in a public way, the consensus thus evolved will prove of great help in spreading understanding about the effort and generating enthusiasm.

It may be useful, before proceeding further, to draw attention to the proper spheres of action of the centre and of the states in a federal polity as that of India. The distinction may be brought out by examining salient statistics relating to the provision made in the

Second Five-Year Plan (revised) for expenditure by the centre and by the states by main heads of development. The provision for the total expenditure by the centre and the states is Rs. 2,452 and 2,048 crores respectively. The two most important of the central allocations are Rs. 900 crores for railways, and Rs. 775 crores for large and medium industries and mineral development and scientific research. For the former, there is no provision in state plans, and for the latter, only a sum of Rs. 15 crores is provided. Rehabilitation (Rs. 90 crores) and Broadcasting and Communications (Rs. 61 crores) are two heads in which also there is only a central allocation. Again in relation to the head "other transport" which means chiefly ports and harbours and shipping, the provision in the central plan is Rs. 145 crores and in those of the states only Rs. 4 crores.

On the other hand, the concentration of the responsibilities of the states is brought out by the following table of comparative allocations :

	Centre (Rs. crores)	States (Rs. crores)
Agriculture and Community Development	54	456
Irrigation and Power	63	757
Village and Small Industries	55	105
Road	71	159
Education, Health, and Housing	163	441

It is thus clear that the fields of action of the centre and of the states are, to a large extent, distinct. The centre builds up and maintains the overall instrumentalities of national economic life such as the credit and the monetary system, the railways and ports. It also acts in relation to the basic requirements of the long-term plan of industrialization, with emphasis on large industry and exploitation of mineral resources. The states are concerned, on the other hand, with acting on the total life of all the people in their charge and on all the diffused, dispersed small-scale units and activities. The centre is concerned with the most generalized features of the national frame and with highly concentrated action at a few strategic points; the states must affect all areas and localities, all the relevant fields and all units. The centre is concerned with the strategy of the long-term plan and with initiating the crucial movements; the states have to engage themselves in transmitting the forces impelling economic development to all areas and units, and with concretizing for the individual units the fruits of development. The

generalized objectives of a state plan are, therefore, making possible, initiating and encouraging economic development in all activities and sectors, and areas and localities, and protecting the standard of living and improving and ameliorating the situation, social and economic, of all individuals within their territories. The objectives and the constituents of plans of individual sectors and departments must conform to the requirements of these general objectives. In the light of the above, the locality and the individual are placed at the centre of the activities of states, and providing for the universal impact of the developmental process and for a diffusion of its effects becomes their primary aim.

Another related differentiation in the central and the state action is that certain public-sector activities, in particular, those relating to production, are mainly confined to the centre. The overall controlling and guiding instruments are directed by the centre, and the centre itself undertakes most of the strategic productive and other economic activities which are essential for the long-term plan of development and for starting the main trends and movements required by it. The sphere of action of the state lies in the realm of conservation and better utilization of natural resources, and provision of public utilities and social service.

To the extent that location of any direct activity of the centre within the physical boundaries of a state is likely to prove important for other economic developments within the state, the authorities of the state have to attempt to influence details of the plan of the centre. Barring such action the main activity which would have an important initiating effect, and which falls within the sphere of state action, is that of the multi-purpose river-valley projects. This activity is directly related to the conservation and optimum utilization of regional natural resources. The progress of the major projects, is distinctly limited by the rationing of capital resources carried out as part of the total plan. Consequently, in this connection, the main responsibility of the state is to have in readiness carefully prepared technical plans for the possible major projects and to press for an early and ample allocation of funds for these in successive national plans.

The multi-purpose river-valley schemes represent effort which is likely to initiate large changes within a region and transform its economic life. Even these, however, act through making water and power available in such manner as to stimulate private primary and secondary activities. The proper and full utilization of the resources created by the original investment is thus dependent essentially on the activities of a large number of private producers within the region. The state acts, even in this respect, chiefly as an agency

which improves and augments the supply of certain basic resources and thus makes possible increased and more profitable private activity. In its other activities this aspect of state action is even more fully emphasized.

Having thus described the proper sphere and functions of the planned economic activity of a state, I shall proceed to consider the problems arising out of the concretization of these objectives and aims in relation to a few particular fields. It has been indicated above that large-scale industry and mines are almost entirely a concern of the centre. State action in the sphere of industry is confined largely to small-scale industry and its main objective has to be the spread of industrial activity to all regions. It needs to be emphasized at this stage that development of an economy is essentially related to a continuous shifting of the emphasis, universally, from primary to secondary production. In so far as per capita production in industrial activity is higher than that in agricultural activity, and the possibilities of increasing it constantly are much better than those in agriculture or other primary activity, economic development can only be realized by increasing the extent and complexity of industrial activity in each area. The relatively unstable base of the economy of an area, which is overwhelmingly dependent on agricultural activity, and its greater vulnerability to fluctuations in terms of trade are other strong reasons reinforcing this objective. Furthermore, it has been the experience of many regions in different parts of the world, during the last half century, that even highly intensive development of agricultural resources within a region leads ultimately to stagnation and even to retrogression unless it is accompanied at an early stage with a rapid increase in industrial activity. Therefore, a state must consider as fast a process of industrialization as possible of all areas within its boundaries as the major continuing aim of all its plans of development.

In considering how state action will be shaped by this aim we have to remember that the state would itself enter the field of industrial production only in exceptional cases. It has to act chiefly by way of stimulating private activity. The state may give special assistance and encouragement to co-operative activity as this is accepted in national policy as a preferred form of organization. However, even when the state assists or encourages co-operative activity, the co-operative units are essentially independent operators. Therefore, their spread and success are equally dependent on the conditions created by the policy and action of the state.

A proper appreciation of what has been said above will make clear how state policy has not only to set for itself aims which are not widely recognized as such today, but also to take steps so as to

counteract the evil effects of policies followed previously. The present spectacle of ample lip-sympathy to the concept of decentralization with policies which accentuate concentration is due to non-realization of the duties and functions of the state in this regard. The situation in Maharashtra is particularly distressing. There is lopsided development with a very high degree of concentration in the Bombay region. It must be emphasized that the high degree of concentration in the Bombay region and its continued attraction to industrial producers are themselves the result of conditions created by a highly disproportionate expenditure of public monies. The twist given in British times to transport developments and the concentration of effort in relation to power-supply, and all other public conveniences and social services are to a major extent responsible for the high degree of concentration in Bombay. The disproportionate diversion of public expenditure to this small area continues today and has the double effect of accentuating the problems within the region, and stopping the development of other areas for lack of funds. It is to be hoped that as a result of the report of the recent study group the situation within Bombay city will soon be stabilized and it will be possible to progress towards more rational policies and allocations.

Widespread industrialization, which I consider to be the essence of any plan of regional economic development cannot, of course, be brought about directly or solely by state action. But state policy has to play a vital part in creating the conditions needed for such spread of industrial activity. It is the state that has to provide all the public goods, services, and conveniences needed to make widespread industrialization possible. Other things being equal, places where industrial activity is concentrated will be found to enjoy superior advantages in respect of transport, power and water supply, credit and marketing facilities, availability of technical experts and of labour-supply etc. Having granted that large centres of population will inevitably enjoy some relative advantage, public policy has to see that if it cannot countervail this, it does not at least worsen the situation. Today the dice are loaded entirely against the smaller localities and the more backward regions. They do not get even a proportionate share of the expenditure required for the building-up of the conveniences and the external economies. Transport systems are built chiefly for connecting important and populous distant centres and not for developing intermediate regions. Power transmission and the public utility rates structure are largely directed towards immediate revenue receipts. Therefore, the existing centres and customers get preference, and the disparities are intensified. Here, deliberate action for development of backward areas and disregard of immediate gains are obviously needed. The story is the

same with allocations needed for local development of water-supply and housing. The availability of labour and the readiness of people to accept employment in a locality are intimately connected with the amenities and especially with availability of the educational and the medical facilities.

In this regard the change of policy that is required must itself be built round a pattern or a model of development. A decision must be taken in relation to the number and the pattern of dispersion of centres of industrial activity creation of which is taken as the objective of state plans of expenditure. Obviously, objectives like village or district self-sufficiency are ruled out in relation to such plans, and there would clearly be grades of concentration and complexity among the centres projected. I should, on a total view of the subject, suggest that state-plans of Maharashtra should be worked round an objective of from three to five industrial centres for each district. I should also suggest that once such a target is accepted, plans of all the relevant activities should be worked for and round it. For example, it is useless to think independently of schemes of various types of industrial estates. The additional facilities provided through the concept of an industrial estate should be considered as only extras. Basically, all plans of transport, power, water and other development, and of the educational, health and housing expenditure should be put together so as to subserve the basic objective of widespread industrialization through creation of a number of possible industrial centres in each district.

Plans of expenditure regarding economic and social overheads are the most potent instruments available to a state for encouraging widespread industrialization. There are, however, a number of supplementary measures that it could undertake. I shall illustrate briefly by two different types of examples. Firstly, decentralization comes up against a number of difficulties arising out of a highly centralized administration. Consequently, decentralization of administration is a primary requirement. Decentralization also encounters difficulties of relations with local authorities in which tax powers assume great importance. In this regard, some arrangement of the state with local authorities appears necessary so that industries may not be perpetually faced with problems of uncertain treatment and varying levels of taxation. It might even be possible to think of collection by the state of a generalized tax, proceeds of which could be distributed to the relevant local authorities. The other illustration is in relation to permitting or encouraging concentration in the use of basic materials of industry. In relation to a number of activities, administrators are apt to encourage concentration through the convenience to them of diminished number of centres of activity.

Such unconscious biases need to be deliberately got over. For example, all forest produce should be processed, to the greatest possible extent, near the forests, and on as small a scale as is found technically and economically feasible. Our greatest lack is that of suitable base materials. The desired policy-orientation may be explained through the following example. It is expected that in the near future a number of plants for manufacture of power alcohol from molasses will be set up in this state. Power alcohol is an important base for a number of industrial activities. For some of these it would be necessary to collect all the alcohol production of the state at one site, and work on the whole of it; in the alternative, a number of small dispersed industrial units, near the units of production of alcohol, could be planned on this base. Our circumstances require that the second approach should be preferred to the first.

I do not propose to offer any observations on the question of techniques as I assume that most of the development contemplated above will proceed within the sphere of what is now generally called small-scale industry. There is a good case, in my opinion, for protecting traditional industry only to the extent needed to prevent considerable increase in technological unemployment. Theoretically, there is also a case for assisted technical improvement of traditional industry. However, plans of such improvement have proved highly disappointing during recent years. Such schemes as have to be continuously subsidized, for example, the Ambar Charkha, are related chiefly to unemployment relief or to production which is not oriented towards market economy. Thus, it appears that our main effort in relation to industrialization must be concentrated on industrial activity which is both small-scale and technically efficient.

Earlier discussion will have made clear that, in this crucial matter, the state is not so much an active agent as one which provides the essential framework and guides activity, as far as possible, in desirable directions. The bulk of the effort will necessarily be private or co-operative. In this context, it is necessary to draw attention to another fact of uneven distribution in our socio-economic life. The backward tracts are those in which the people as a whole are unacquainted with modern techniques whether in industry or in finance, or in commerce. It is necessary, therefore, to introduce actively elements with knowledge of such techniques in the backward areas. If in any region water-supply is greatly increased and made secure, its proper use is dependent on instructing the farmers in irrigated farming. This could be done, in part, by introducing small bodies of farmers trained in irrigated farming, but care has to be taken to see that these are regarded as friendly instructors and not as exploiting intruders. Industrialization of backward areas, in my opinion, presents a parallel problem. They require not only

the provision of appropriate public utilities and conveniences, but also the introduction of elements with the needed technical and financial skills and resources. There is ample scope for persons from the highly industrialized centres and areas. These, I feel, would be welcome everywhere if they take care to assume the role of teachers and of partners. Instructing local elements and seeking their partnership in innovating effort will quickly dispel the fears that are usually aroused in relation to intrusion of outside elements.

The highly stratified and sectionalized character of our society adds to the usual difficulties of spreading the benefits of developmental efforts. If members of those communities, who find themselves more fortunately placed in relation to modern economic and technical development, and in a position to pioneer and innovate, go out of their way to seek active co-operation of others who are not so fortunately placed, not only will the social strains be materially reduced, but also the process of development itself will become more rapid.

It is universally admitted that under-development appears glaringly through inadequate use of labour resources in an economy; and, per contra, that the possibility of better and fuller use of labour resources offers the most obvious and striking opportunity to the under-developed economies. Indian plans of development have given almost no concrete consideration to this problem. In contrast the major advantage gained by China appears to have been through tapping this resource. Some economists consider the under-employed as a source of no-cost labour and, therefore, lay great store by the possible utilization of the source. In India the supposition is not realistic, because if the labour is employed on any type of work it will necessarily demand to be fed somewhat better than what it was when unemployed. In a country which undertakes the full responsibility of feeding all its population at a basic minimum level, and which is in a position to divert the labour force to any location and employment, the unemployed could prove as an almost no-cost source of labour. Neither of the above conditions is at present fulfilled in India.

I consider it to be of the greatest importance for state plans to think out this problem of the profitable employment of under-employed labour. In the first instance, I should urge that independently of the unemployment aspect provision of a basic minimum of food for all be accepted as a national responsibility. No country can properly talk of planned economic development until this preliminary condition has been fulfilled. Once this is accepted, it is possible to connect the effort of providing minimum food for all with that of making use of unemployed labour. In this context, it may be taken for granted that all families of the able bodied who suffer from inadequacy of food, do so because of inadequate employment of

the earners. Therefore, for the major part, the problem of providing minimum of food could be solved by providing appropriate employment opportunities and by providing for the additional supplies of food-grains that are required as a result of this policy. For many decades past, it has been recognized that distress during even the severest Indian famines arises not out of lack of physical supplies of food but out of lack of resources with which to buy food, on the part of the bulk of agricultural labourers and large numbers of small farmers. The lack of resources is itself due to failure of the season, leading to failure of production and to lack of agricultural employment. The problem of chronic under-employment in our rural areas is thus essentially a small-scale version of the conditions which appear magnified in the event of a failure of seasons. Already in the famine of 1952-53 in Maharashtra, famine relief was combined to a considerable extent with works of capital formation such as contour bunding, construction of tanks, etc. It should be possible, therefore, to devise one programme of public works directed towards three ends, namely, the provision of minimum supplies of food, relief of rural unemployment and under-employment, and construction of capital works in connection with the provision of social and economic overheads in the country-side. Another favourable circumstance for the designing of such a programme is that the more backward areas which suffer to a great extent from rural under-employment are also those in which the provision of public utilities is usually much below the average.

This programme of public works will fall into two main parts, (i) seasonal, and (ii) continuous providing for the needs of two main types seeking employment. In most backward areas there is sufficient surplus manpower to provide a year-round complement of labour if suitable employment opportunities are provided, and there is also a large number of those with inadequate agricultural employment opportunities. The programme will have to be skilfully devised and tailored to suit the need of each region. The old Gazetteer describes the Bombay Deccan region as a treeless plateau. Of late years the denudation of its already scanty cover has reached alarming proportions and it is of the utmost importance to undertake extensive efforts towards systematic afforestation, especially in the heavy-rainfall areas and to raise and protect grass and shrubland over the rest of the areas. This is a multi-purpose need. Stopping erosion in every way, and conserving water-supply as far as possible, are two other universal needs. These are basic needs. At present conventional financial calculations are blocking the formulation of countrywide programmes in their regard. Little progress is likely to be achieved in rural Maharashtra unless the whole outlook in relation to this problem is changed as indicated above. Attention may

be drawn to a relevant supplementary consideration. It is unlikely that the progress of industrialization and the even progress of the urban economy can be maintained without a broad-based and increasing demand for consumer goods, originating in the rural areas. A policy of protection of the rural standard of living as sketched above has thus many facets which reinforce each other.

The above leads naturally to consideration of problems of organization of agricultural production. Better use of under-employed resources requires reorganization of agricultural production which releases the under-employed labour in convenient units. Such reorganization is also required for operating on the scale needed for taking full advantage of scientific advance. There is little doubt that the only approach feasible for us in this connection is the co-operative. Unfortunately, the almost entire absence of purposive experimentation in this regard, combined with a lot of loose talk, has created considerable misunderstanding in this regard. The co-operative approach should mean, in this context, no more than the continuous possibility of a number of independent units coming together for taking suitable advantage of economies of scale. The degree to which and the directions in which overall authority over the units is exercised by the co-operative, would vary from circumstance to circumstance. Increasing productivity of land-resources to the utmost with economy of capital and rational management of labour would be the governing conditions. Encouragement and the speeding-up of efforts at consolidation, preventing any further sub-divisions and making possible in every way experimentation with co-operative use of resources in farming, are essential ingredients in a state agricultural policy.

It is also necessary to stabilize immediately the situation in regard to cultivating possession of land. Present arrangements which breed uncertainty and lead to delays and litigation have to be reviewed and measures adopted for reaching quickly a firm basis for future operations. The pitifully small scale and the average low quality of the natural resource of our agriculturists make it highly desirable to think of combining as many other activities as possible without agriculture. The careful conservation of our forest, grass and shrub resources is one factor; another which has even more universal importance is the combination of agriculture with animal husbandry. In this regard great importance attaches to the building-up of the consumer demand for products of live-stock economy and to seeing that the advantages of this market are diffused among the bulk of the agriculturist-producers. Here again, the co-operative approach for obtaining economies of large-scale operation has to be adopted rather than the more apparently impressive centralized effort for which most administrators have such fascination. Even with

full exploitation of the live-stock economy, redundant labour will remain in our rural areas, following any scheme of reorganization of agriculture. Therefore, from the beginning, the reorganized units of agriculture will have to be looked upon as mixed units engaging themselves not only in all kinds of uses of natural resources but also in all types of industrial and labour-employment activities.

Only a few months ago I had the opportunity of expressing my views fully on the subject of planned development of agriculture. I shall not go over the same ground again but shall, before concluding this paper, reiterate the suggestions made there regarding the need for a thorough overhaul of planning procedures. The creation of appropriate and efficient organizations for the formulation as well as the implementation of plans of development is, at present, the most crying need in the states. In these organizations officials and non-officials must equally participate. Today, state plans appear to be the concern of only the officials at the highest range. This must change and an approach must be evolved which will allow not only for general participation in the process of planning but also for the adaptation of detailed plans to local circumstance and locally felt need. This will require also the state's insisting on obtaining for itself greater measure of freedom and latitude in planning. Present rigidities in this regard and the stranglehold over all activities of the centre especially of the Planning Commission and its agencies and officials, make impossible any real progress. The state authorities must fight against this, so as to enable them to frame a real system of planning from the bottom.

I realize that I have been able to deal in this paper with only a small number of broad issues. This was inevitable. To my mind there is little planning as such in the state today. The first requirement is therefore to comprehend clearly what we mean by a state plan, what could be the objectives of such a plan and the nature of organizations needed for its formulation and implementation. This paper is put forth as a contribution towards thinking about these basic problems.

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