

Economic and social objectives of
India's five year plans.

by

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THE ECONOMIC AND SOCIAL OBJECTIVES
OF
INDIA'S FIVE YEAR PLANS¹⁵

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Development is not only a technical but a social and economic problem. A technical problem considers a multiplicity of means apt to achieve one given end. An economic problem considers a system (multiplicity) of means apt to achieve a system (multiplicity) of ends. Where there is not one but a multiplicity of ends various ends may not be harmonious but may be in substantial or partial conflict with each other. To achieve more of one end may be possible only at the expense of achieving less of another end. An ethical (moral) valuation has to attach different weights of relative importance to various ends. In this way the national community will determine explicitly or implicitly a hierarchy of ends. By contrasting a system of means (given human and natural resources and ways of using them made possible by a given technology) with a system (hierarchy) of ends the society expresses its choice of economic and social policy.

Over the past decade through the Five Year Plans India has formulated her objectives in two main groups: economic ends to secure a rising standard of living for all citizens; and social ends to achieve social justice, i.e., equality of opportunity, and a reduction in inequalities of income, wealth, and economic power—which constitute a "socialist pattern of society."

Let us consider the implications, conflicts, and choices involved within each and between these two groups of ends.

Economic Objectives

In order to secure a rising standard of living a high rate of growth (5 per cent) has to be achieved and sustained. In order to sustain the rate of growth over the future, substantial investments have to be made which limit the achievable improvement in the standard of living in the immediate future. Without providing for future growth a 6 or 7 per cent increase in consumption

could be secured for the next five years; providing for some future growth will confine it to 5 per cent; providing for a higher rate of growth in the future would further lower it below 5 per cent. A series of choices between eating ('somewhat' or 'much') less today for the sake of eating ('somewhat' or 'much') more tomorrow has to be made.

In order to achieve self-sustaining growth in fifteen years costly (i.e., greater) import-saving and export-gaining investments have to be made which will further limit the achievable improvement in the standard of living over the next five or ten years to only 4 per cent per annum, i.e., 2 per cent per head.

A higher rate of growth will in the long run lead to more employment. In the short run, however, there is a conflict between "maximum output" and "maximum employment." More labour-intensive but less efficient methods of production can increase employment today at the expense of producing a lower-value output, and notably less surplus which provides investible funds for more output and employment tomorrow. A choice has to be made: more employment in the 1960's may mean less employment than would otherwise have been possible in the 1970's.

A nation's choice of social time preference is a value judgment on how much the present can sacrifice for the future generation. A development conscious community builds for the future--but the present generation has also a right to live.

Social Objectives

The conflict between maximising output or maximising employment is primarily a social problem. It reveals two out of the three types of income inequalities in India:

1. Inequality of income between the employed and the unemployed.
2. Inequality of income between the bulk of the agricultural (rural) and the bulk of the industrial (urban) population.
3. Inequality of income (and wealth and power) between the 95-97 per cent of the very poor or poor and the 3-5 per cent of the rich or very rich people.

While the third type of inequality hits the eye and understandably causes indignant heartbeats, the first two are not so much in the foreground of public conscience although they are quantitatively and qualitatively more important.

Full employment is undoubtedly the first step for providing a minimum of equality of opportunity and for establishing a socialist pattern of society. This is India's fundamental aim. It is hoped to establish it within a generation. Full employment in an underdeveloped country is a structural problem quite different from that in developed countries. The conflict between raising the standard of living and greater equality in income distribution makes it impossible to establish it overnight. The road to a greater personal (and regional) equality may lead to a shorter-run greater (personal and regional) inequality in the sense that some areas ("growing points") and people in them increase their income at a higher rate than others. The diffusion of the increase in income which marks the integration of a national economy can come only at a second later stage. These are the social growing pains of an underdeveloped economy. What matters primarily is not to lose sight of the final goal and to see to it that vested interests should neither delay nor prevent its achievement. Some alleviating welfare measures can make the path less painful even though they may well prolong it. Economic

development planning can both accelerate growth, i.e., shorten the interval before a satisfactory standard of living for all is reached, and indicate the selection of some welfare measures which do not widen the interval excessively. The economic development operation is unavoidably painful, but progress in economic knowledge in the twentieth century can make it shorter and can provide partial anesthetics which did not exist in the nineteenth century.

Raising agricultural output to 100 million tons by 1966, providing the social overhead capital in transport and energy, and making adequate investment in both capital and consumer goods are the main ingredients of the planned 5 per cent rate of growth. They will absorb the major part of investible funds, will raise employment, but will be insufficient to lead to full employment by 1966. A special effort in drive and organization as well as a small part of investible funds (say, 10 per cent) should be diverted into rural public works in secondary road building, digging, bunding, terracing, etc., which contribute to agricultural capital formation without at first producing more agricultural products. Such activities require very little capital goods or foreign exchange, but they can usefully employ millions of unemployed or underemployed people in rural India. If five million people were employed for 200 days a year in such "1 rupee a day" rural public works, 100 crores per annum would have to be found and spent--of which one-half would be spent by the additionally employed on food and another 25 per cent in home produced textiles and household goods--and another 25 per cent of capital goods may have to be added. Rural technical education in the form of six to ten month courses is a necessary corollary to such activities.

There is no doubt that resources for this form of useful employment-creating activities can be found. The real problem here is organisation rather than capital. Other forms of public works, welfare activities, and protection to labour-intensive small enterprise form the bulk of "anaesthetics" where 10 per cent of national investment may create a multiple proportion of additional employment.

Equality of Opportunity

In a somewhat longer run education is the main instrument of additional employment. This is so fundamental that it has to be discussed separately as the main avenue to equality of opportunity.

Equality of opportunity rather than equality of income is the basic tenet of a modern society. Incomes in some occupations may well be higher than in others, provided the entry into those occupations is free and equally accessible to everybody. Full employment, i.e., the possibility of earning a living by work, represents a minimum of equality of opportunity. Even for that in sufficient minimum, widespread educational and training facilities have to be provided. Some training may enable workers to find jobs quickly and thereby to increase national income. General education will reveal its economic effects—decisive fundamental and not substitutable effects only after a longer gestation period of 10 to 20 years. Input of education today will increase national output the day after tomorrow. General education is in this sense a true social overhead capital with indirect and delayed economic effects. From an inadmissibly narrow economic point of view which discounts future increases in product it might appear that poor countries cannot afford to invest more than a minimum in this field. Free access to education

for everybody irrespective of income is, however, the only way to ensure equality of opportunity. A socialist pattern of society must attach a high value to it--even if it can only be realised in 15 to 20 years time--than the increases in material goods above the minimum of subsistence which can be realised much more quickly. A high proportion of total national expenditure must therefore flow into education.

To raise the rate of growth from three to four and a half or five per cent per annum is a great achievement, which, if sustained, will change the Indian society in one generation. Such a change represents a revolution achieved by evolutionary methods. To raise the rate of growth from five to seven per cent per annum may not be mere difference in degree; it may be a difference in kind passing a "supersonic barrier" of development, a discontinuous jump requiring a thorough shake-up of society while preserving its fundamental freedoms. Only a tremendous effort vastly increasing the quantity and quality of education could achieve it. It would make the masses of rural India more vibrant and eager. High productivity in agriculture as well as in industry can best be achieved by such an educational revolution. Though it will thoroughly reshape old established attitudes and institutions, although it will disrupt continuity, it need not endanger national cohesion and unity. We cannot foresee the paths of single social and economic sub-sectors and cannot describe in detail the mechanism of this change, beyond believing that "if there's a will there's a way"--but the general pattern of change seems clear.

It is not beyond our range of possibilities to plan for such a change. Increases in expenditure on education beginning from 100 crores in the first year and rising by 100 crores per annum to additional 500 crores in the fifth year of the Plan seem to be in approximate order of magnitude. At least half

of this expenditure will be spent on food, of which at first there might be increased imports of surplus products which may be replaced gradually by rising domestic production during the Fourth Plan. The other half of the expenditure must come either from increased savings or from a cut in some other investments.

Reduction in Inequalities of Wealth and Power

This is the most difficult part of establishing a socialist pattern of society. The conflict between equity and efficiency--i.e., between social justice and the rate of growth--is deeper and more difficult to resolve in an underdeveloped than in a developed country. Concentration in many vital sectors is the unavoidable corollary of efficient rapid growth. Even in developed countries, where entry of new firms and potential competition is possible, monopolistic tendencies are imperfectly controlled by antitrust legislation and less imperfectly by a low-tariff import policy which adds international to the imperfect national competition. In an underdeveloped country lack of capital, management, and technically competent personnel on the one hand and the small size of the market on the other hand limit the entry of new firms. Moreover, shortage of foreign exchange makes it impossible to use imports as a price controlling device. Even at a later stage trade trends do not stop concentration of management at least, if not of ownership. Enlargement and modernisation of existing firms are in many cases cheaper than the creation of new units.

Price control may be thought of as an effective device. The experience in many countries is not encouraging, and the handling of price controls in the face of foreign exchange scarcity and import licensing imposes an even greater burden on this inadequate tool. The fundamental difficulty lies elsewhere, however.

The price-mechanism is an essential tool for efficient allocation of resources and should not be used for converting either income distribution or concentration of industry. Nor should income distribution and concentration of industry be always correlated. Income distribution can be somewhat corrected by fiscal devices: progressive income, capital gains tax, and differentiation between earned and unearned income and between income gained and income consumed plus estate duties. Compensating measures must be taken so that income-redistribution will not unduly lower the saving potential. Concentration of industry cannot be avoided where there are economies of scale, but it can be controlled by special tax devices (different amortisation periods, for instance) beyond the point of diminishing costs and in those industries in which there are no diminishing costs. Public investment in monopolistic sectors of industry may maintain a higher degree of competition. Institutional changes in the capital market, for instance, government holding a proportion of non-voting shares with private management, are worth exploring. All these measures are palliatives, not perfect solutions. Social stratification, a strong independent civil service, universities, and writers with different often "monastic" value may create social countervailing force which will limit the concentration of power without restraining technical progress and concentration of industry.

The social sciences do not indicate unequivocal principles of social engineering. We do not know precisely how to avoid the dangers of excessive concentration of economic power without reducing economic efficiency and the rate of growth. A tentative groping for pragmatic solution will throw more light on this intricate set of problems. It will notably probe what slight sacrifice of efficiency for the sake of a notable increase in equity may be

worthwhile. New social and economic institutions and forms may emerge in this process. Awareness of the costs and the results will mark the building of a socialistic pattern of the Indian society.