THE FOURTH PLAN

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

RESOURCES FOR THE FOURTH PLAN*

By

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The Memorandum on the Fourth Five-Year Plan prepared by the Planning Commission has been endorsed both by the Union Cabinet and the National Development Council. They have, as it were, set, in broad terms, their imprimatur of approval as to the size, strategy and objectives of the Fourth Plan. The Working Groups of the Perspective Planning Division had envisaged outlay of the order of Rs. 30,000 crores for the Fourth Plan. Realising the highly ambitious and unrealistic nature of the outlay, another estimate was made between Rs. 24,000 crores and Rs. 25,000 crores. It appears that against the conflicting estimates made at different stages, a compromise was made for a mimum outlay ranging between Rs. 21,500 crores and Rs. 22,500 crores, with an outlay in the Public Sector ranging between Rs. 14,500 crores and Rs. 15,500 crores and an investment of Rs. 7,000 crores in the Private Sector. It is realised that at this stage it may not be possible to assume larger commitments for more than Rs. 14,500 crores, the balance of Rs. 1,000 crores in the Public Sector being taken up provided the progress of the economy in respect of the growth of output, resource mobilisation and balance of payments during the next 3 or 4 years, is found to be satisfactory.

Even on the existing basis, the Fourth Plan is almost double the size of the Third Plan or it is as large as the first Three Plans put together. The question we have to consider is whether, in determining the size of the Plan and the consequent pattern of resource mobilisation, due regard has been paid to the experience of the working of the Third Five-Year Plan and particularly the stresses and strains as revealed in the mid-term appraisal of the Plan.

It has been accepted in the Fourth Plan Memorandum that the expectations regarding the Third Plan have been belied and

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**From the presidential address at the third quarterly general meeting of the Indian Merchants' Chamber, Bombay, held on December, 15, 1964.*

that the national income has not increased as anticipated while population has risen much faster. Instead of the national income increasing by 30% during the Third Plan, the increase during the first three years has been only 10%. The results, on the assumption that the remaining period of the Third Plan would be better, would still be far lower than those-anticipated. It is a patent fact that serious setbacks in agricultural production and delays in the realisation of output from some of the investments have slowed down the growth of national income. The working of the Third Plan, instead of bringing any relief to the common man, has led to inflation, soaring prices, mounting taxation, rising public debt and unutilised idle productive capacity and a sluggish capital market. This has largely been the result of the adoption of a strategy in planning and the choice of a growth technique which, instead of maintaining a balance between the rate of growth of capital goods and consumer goods, has led to inflationary pressures, resulting in stresses of various types, distortions and imbalances in the ecanomy. The technique failed to provide for the supply of necessary wage goods which could generate the necessary surplus to provide employment in the investment goods sector. Although industrial production increased, supplies of consumer goods have not increased to match the rising demand for them.

The excessive allocation to heavy capital goods industries has led to an intensive consumption of foreign exchange. In fact, factors like import content of initial investment, gestation period, and foreign exchange earning capacity out of investment and residual flow of output were not fully considered in relation to the total investment effort and the targets of achievements. The attempt at what was termed as "take off" proved to be premature and consequently the process of expansion did not show the necessary dynamism for self-sustained growth. Organisational snags such as non-use of irrigation water, under-utilisation of industrial capacities with the consequent waste of foreign exchange resources aggravated the deficiencies in planning. The lags in the progress of the development programme in agriculture have contributed to low production levels, as has been seen by the acute crisis faced by the country in respect of food supply. There has been an overall state of stagnancy in production levels of industry with the consequent

shortfalls both in consumer goods industries and the basic industries.

While the aggregate national product has been less as a result of stagnation on the industrial and agricultural fronts, there has been no proportionate reduction in investments. The money supply with the public has increased and deficit financing in the pattern of resource mobilisation has contributed to the unstable conditions in the economy. In the context of lower production, higher investments and adverse position in foreign exchange, there has been a considerable pressure on domestic prices. The problem has been further accentuated because of the fact that the present rise in prices is super-imposed on the increase that has occurred in the Second Plan period and the inflationary pressures that are already built into the economy. As the Deputy Chairman of the Planning Commission has rightly observed, the rise in prices of food articles and other commodities of daily consumption poses a challenge not only to the ingenuity of the people, but also to the political stability and economic progress of the country.

It is against this background of stresses and strains, as revealed by the mid-term appraisal, that the planners should have revealed a greater degree of economic realism in determining the size of the Plan, not merely in terms of physical targets, but in terms of real financial resources that could be available to the country. In the context of the challenge of the critical situation arising from the persistent and sharp rise in prices and inflationary financing, the Prime Minister had emphasised the need for an annual stocktaking of the performance and a more realistic budgeting for resources. He had also warned against the dissipation of scarce resources by starting too many fresh projects at this stage. Instead, he emphasised the need for concentrating on the speedy completion of the projects already under construction. The primary consideration should be that of counteracting the present inflationary trends and this could be achieved only by a shift in investment priorities to quick-yielding consumption goods industries.

There can hardly be any difference of opinion as to the objectives we have to achieve through a rapid increase in national product within the shortest possible time. We have to tackle the problem of poverty and the vast backlog of unemployment as fast as we can. The decade covering the Fourth and the Fifth Plans is going to be a crucial period in the life of the nation. It is, therefore, necessary that the Fourth Plan must ensure that in spite of unanticipated difficulties experienced in the immediate past, every effort towards bettering the life of the common man regains its lost momentum. But, at the same time, it is equally vital to remember that there is a difference between what is desirable and what is feasible. In order to make real and effective progress, developmental planning must be based on a realistic assessment of the available resources if all our efforts are not to prove frustrating. The availability of resources in men, money and materials and the ability to mobilise these to produce the optimum results should be the guiding principles in the fixation of investment targets.

Whatever be the additional efforts that we may put in, we cannot be oblivious to the fact that the shortfall in the Third Plan targets have reduced the development potential of the economy and have imposed a limitation on the rate of growth the economy can sustain during the Fourth Plan period. It is a significant fact that although the financial target for investment will be reached by the end of the Third Plan, the increase in national income over the five-year period will not have been half of the anticipated increase of 30 per cent.

A rise in the price level of more than 18 per cent during the Second Plan and of about 21 per cent so far during the Third Plan, has resulted in erosion of incomes as is evidenced from the fact that despite large financial outlays the physical targets in most of the crucial sectors have not been achieved; in view of the critical price situation, chronic shortages of food and other consumption goods and the foreign exchange crisis, it is imperative to ensure that yet another crisis of ambition does not overtake the economy in the Fourth Plan, imperilling both social and political stability.

According to the Memorandum on the Fourth Plan, domestic resources of the order of Rs. 18,300 crores will have to be mobilised to achieve the investment target. By the end of the Plan period, while the rate of investment will be stepped up to about 16 per cent of the national income, the rate of savings will have to rise to about 13 per cent. Assuming that the national income grows at the rate of 6.5 per cent per annum as envisaged in the Memorandum and reaches the level of Rs. 19,000 crores by the end of 1965-66, almost two-thirds of the rise in the national income will have to be re-invested in order to achieve the planned rate of investment. The question whether the national income will grow at the rate envisaged assumes crucial importance, for any shortfall in the rate of growth will mean further deterioration in the position and lowering of the levels of consumption.

It is accepted that one of the critical constraints on investments in the Fourth Plan is the need to ensure adequate supply of foreign exchange to cover the requirements both of development and maintenance as also for meeting the obligations on account of interest and amortisation of foreign loans. There are several qualifications to the achieving of the target of foreign exchange envisaged for the Fourth Plan. Firstly, the earnings from exports will have to be of the order of Rs. 5,100 crores. Again, it is difficult, at this stage, to indicate precisely the allocation of aggregate imports between capital equipment for the Fourth Plan projects and materials and components needed for the maintenance of production. This will also largely depend, in a very large measure, on the course of actual indigenous production, particularly on metals, machinery and chemicals. The deficit on merchandise account is expected to be about Rs. 2,100 crores. In addition, resources to the tune of Rs. 1,100 crores—Rs. 500 crores by way of repayment of debt and Rs. 600 crores by way of interest—will have to be found for meeting our obligations. Thus the gap between total payments and total receipts of foreign ecxhange during the Fourth Plan has been calculated at Rs. 3,200 crores which the planners hope to fill with the help of foreign assisrance.

The foreign exchange budget, as formulated, is based on too many assumptions which, to put it mildly, are not realistic. The requirements of commodity imports have been underestimated. At least in the initial stages of the Fburth Plan, the country may have to import foodgrains on a large scale. Besides, having regard to the stresses and strains, agricultural and industrial shortfalls, the underlying optimism is least convincing since it fails to provide for other contingencies such as imports of cefence stores and equipment, price increases in exporting countries and under-estimates of the foreign exchange components of projects, etc. On the other hand, the export target, while desirable from every point of view, appears to be highly ambitious. To a certain extent, the improvement in our export earnings during the last two years must be attributed to the boom in world commodity prices, although various export promotion schemes have played a significant role in this. Already protectionist tendencies have become visible in some of the European countries and the difficulties on the external front have compelled even the Labour Government in the U.K. to impose a surcharge on imports. If past experience is any guide, the gap between payments and receipts of foreign exchange during the Fourth Plan will be very much bigger than Rs. 3,200 crores.

At the same time, the estimates of foreign assistance seem to be rather optimistic. The climate for aid has been changing rapidly and the flow of assistance is likely to get progressively smaller. The non-availability of foreign exchange resaurces on the required scale is likely to prevent the optimum utilisation of internal resources. Many of our industries are facing difficulties today because of the non-availability of essential imports and the high degree of under-utilisation of installed capacity is a measure of locked-up investment and waste of resources. In this context, the planners should display a sense of sober realism and the size of the Plan arid pattern of investment should be related to the foreign exchange budget which is at once realistic and feasible.

The Memorandum points out that the estimate of resources for the Public Sector is based on the assumption that a number of policy measures will be taken to keep down non-Plan expenditure and maximise revenues at the existing rates of taxation. After taking a credit of Rs. 2,500 crores for budgetary receipts corresponding to external assistance, the Memorandum suggests that additional resource mobilisation of the order of Rs. 2,500 crores to Rs. 3,000 crores may have to be undertaken in the Fourth Plan period. The estimates are based on the view that at the present rates of taxation, tax revenues may be expected to go up by about 8 per cent per annum. This, of course, as the Memorandum admits, will depend on the achievement of production levels as anticipated, particularly in certain specific industries such as petroleum, sugar, steel, cement, paper and cotton textiles, and greater responsiveness of income and corporation taxes, sales tax, taxes on motor vehicles and the like, to growth in production and incomes. Further, it is also envisaged that contributions to Government revenues from Public Sector undertakings will be substantially enhanced.

Referring to the estimate of financial resources for the Plan, it is assumed that both the Central and the State Governments will, as a matter of deliberate policy, exercise strict discipline on the expenditure side and restrict the growth of administrative expenditure on tax collection, general administration, etc., to 5 per cent per annum and of non-Plan development expenditure, on revenue account, to 3.5 per cent per annum. This would, indeed, be a welcome measure if the measure of discipline is implemented in a strict manner which hitherto has been conspicuously absent. It is also equally urgent to aim at avoiding waste arising out of delays in the implementation of various programmes which place a heavy burden on our resources. The non-development expenditure has gone up from Rs. 518 crores in 1950-51 to Rs. 836 crores in 1960-61 and has further increased to Rs. 1,655 crores in 1963-64. Similarly, under Plan and non-Plan expenditure, both revenue and capital at the Centre and States in 1963-64, out of a total expenditure of Rs. 4,153 crores, only Rs. 1,742 crores were Plan expenditure. If the Central and State Governments adopt a rigorous discipline which they propose, we should be able to build up additional current resources of the order of Rs. 200 crores per annum without imposing additional burdens on the sector of the economy which is over-taxed and which has to contribute significantly to the achievement of the Plan target.

Another important source of finance is additional taxation which is estimated to yield additional revenues of the order of Rs. 2,500 crores to Rs. 3,000 crores. It is suggested that since the Centre has already reached the saturation point in raising tax revenue, the States will share the responsibility of raising resources through additional taxation. It is a patent fact that India is the most heavily taxed country since the Government has adopted all the available measures that are found in other countries in the fiscal armoury. It is a moot point whether there is any scope left to the Centre for further taxation which has already stifled initiative and adversely affected savings, investment and the incentive to work. The present policy has ceased to serve the purpose of promoting capital formation and investment on a scale sufficient to accelerate the pace of economic growth. This is further evidenced by the sluggish conditions prevailing in the capital market, with the confidence of investors rudely shaken despite some efforts made by the Finance Minister to revive the market. In the present stage of our development and in the background of the structure of incomes and savings in our economy, the aggregate tax burden has increased substantially particularly in the last 3 to 4 years.

Apart from the steep rise in taxes on income and corporation taxes, there has also been an enormous increase in the burden of indirect taxation, which has imposed a heavy strain on the community. It is pertinent to point out that the spectacular increase in the taxation of commodities has contributed substantially to the rise in prices which is just sought to be avoided in the Fourth Plan. It has been estimated that at least 30 to 35 per cent of the prices for the goods and the services required by the common man represent the tax component. The Union Excise duties have increased by 1,100 per cent, over 900 per cent of the increase being effected since the Second Plan period. If, therefore, an attempt is made to impose an additional heavy burden of taxation, direct and indirect, of the magnitude of Rs. 3,000 crores, it is bound to have adverse repercussions on the economic development and will release inflationary pressures, inflicting unbearable hardships and privations on the people.

If at all, there is need for a greater spirit of realism which should govern the fiscal policy during the Fourth Plan. The paramount problem at this critical period is to step up the rate of growth by stimulating and sustaining production and productivity which can only be achieved by promotion of savings and capital formation and the revival of confidence in the capital market. There is an obvious recognised need for substantially reducing the tax burdens to a level that would encourage savings, personal and corporate, and for exploring other practical ways and means to build up resources. The existing inflationary pressures in the economy and disincentive effects of heavy taxation clearly indicate that under the present conditions it will be difficult to mobilise the resources envisaged for financing an outlay of Rs. 21,500 crores.

The Private Sector is expected to play a significant part in the Fourth Plan. Unfortunately, no detailed scheme of financing investments in the consumer goods industries on the increased production of which would depend the success of the Plan is made available. On the contrary, a threat has been held out that the Government may enter the field allotted to the Private Sector under the Industrial Policy Resolution. The Private Sector, as usual, is left high and dry, inasmuch as it is meant to be a residual claimant after the resources have been drained away by the Public Sector from the common pool of resources. Corporate savings which provide the major part of the investible resources in the Private Sector are drying up fast as a result of the Government's fiscal and pricing policies. The critical price situation, the grave foreign exchange position, shortages of basic goods, paucity of domestic resources and difficulties in their mobilisation, all warrant a more realistic appraisal of the resources position, a more modest size of the Plan,

The Memorandum envisages surpluses from the Railways and other Public Sector undertakings to yield Rs. 1,350 crores during the five-year period. As far as the Railways are concerned, the target is likely to be hit and they may be able to contribute Rs. 100 crores. However, it appears to be extremely doubtful, in view of the poor performance of the other public enterprises, whether they can mobilise a surplus of Rs. 900 crores in the Fourth Plan. It is significant to note that during the first three years of the current Plan, the surpluses of Public Sector undertakings amounted to no more than Rs. 139 crores as against the Plan target of about Rs. 450 crores. With a view to augmenting surpluses from the Public Sector enterprises, the Plan considers it legitimate for them to charge higher prices with the specific objective of raising resources. It is now stated that a return of 12 per cent on the capital employed would be an appropriate criterion for determining the price policy of most Public Sector undertakings. The implication of the pricing policy for the Public Sector enterprises in terms of inflationary pressures would become evident when we refer to the present working of some of the important Public Sector units. A study undertaken by the Reserve Bank of India has confirmed the belief that the Public Sector units have hitherto not been run on commercial lines and have been characterised by inefficiency and mismanagement. This has been in spite of the fact that the Public Sector enterprises solely depend for their financing requirements on the Government and that they are hardly worried as the units in the Private Sector for raising funds from the public. The study which covers the finances of 48 Government Companies, out of a total of 154 during 1962-63, reveals dividends, as percentage of net worth at 1.3 per cent for 1961-62 and 1 per cent for 1962-63 as against 6.3 per cent and 5.7 per cent for the corresponding years in the Private Sector. At a time when the Government appears to be determined to expand the capital base of the Public Sector by the end of the Fourth Plan so as to make it account for almost half of the nation's entire industry and commerce, it poses a serious question whether the doctrinaire approach would help the economy in mobilising resources for the planned development of the country. Unless the Public Sector units are run on sound commercial lines and managed with utmost efficiency and cost-consciousness, it will be futile to expect the surplus as envisaged by the Memorandum.

When the Finance Minister declared in the Lok Sabha that the Planning Commission had completely abrogated deficit financing as a means of raising resources for the Fourth Plan, it was naturally welcomed as a step in the right direction to counter the inflationary pressures which were released in the economy as a result of large doses of deficit financing to which Government had resorted during all the three successive Plan periods. It is at the same time significant to note that even in the scheme of financing as envisaged, provision is made for Rs. 500 crores from this source! Experience has shown that the assurances given by the Government on various occasions as to limiting the scope of deficit financing have not been consistently adhered to and have invariably exceeded the limits. If the Government is to undertake a massive plan with a huge outlay of Rs. 21,500 crores, naturally a considerable gap between the Plan outlay and the resources available is likely to develop and deficit financing is bound to be unavoidable. Inflationary

pressures cannot be curbed except by adopting policies and measures which encourage all-round production and reduce unproductive public expenditure to the minimum. With the size of the plan of the magnitude as envisaged in the Plan, there is a grave risk to the economy since the assumptions are highly unrealistic. It is a matter of common knowledge that both the Centre and the States, which have been hitherto planning beyond the available resources, have resorted to overdrafts from the Reserve Bank in the hope of funding them later by resort to borrowings which have hardly materialised. This can only result in placing the borrowing programme at highly inflated levels, leading to what has been aptly described as concealed deficit financing. In the ultimate result, it is only the Central Banking Institutions which have come to the rescue of Governments by taking up the unsubscribed portions of the loans offered to the public under the borrowing programme. Unless, therefore, the Plan is readjusted to a more manageable size, deficit financing will have to be resorted to under various forms. In the background of economic malaise, it would not be wise statesmanship to perpetuate the dangers of inflation, shortages and continued erosion of incomes.

The Government's borrowing programme is of the order of Rs. 1,600 crores. While it is true that the target of Rs. 800 crores for market borrowings during the Third Plan is likely to be achieved, it should not be forgotten that a major portion of the loans had to be taken up by the Reserve Bank of India itself and the rest was absorbed mainly by institutional investors which are very often under a legal obligation to invest their funds in Government Securities. In view of the present parlous state of the capital market, mainly brought about by Government's taxation policies, and the absence of active gilt-edged market, it is obvious that the Government's borrowing programme will have an inflationary effect. Small savings are expected to fetch about Rs. 1,000 crores during the Fourth Plan period as against Rs. 600 crores anticipated during the Third Plan. It is a moot point under conditions of rising prices and heavy taxation and the marginal propensity to consume in a low income economy like ours being very high, whether the drive for small savings of the magnitude envisaged will catch up the imagination of the public and materialise.

The above review of the pattern of resource mobilisation, as envisaged in the Fourth Plan, has shown that the assumptions regarding the rate of savings and particularly the incremental rate of savings, have an important bearing on the capacity of the economy to invest. Against the background of administrative inefficiency, rising prices, technical and technological deficiency and organisational inadequacy, the task of mobilisation of additional resources on the scale required is, indeed, an extremely difficult one.

The Fourth Plan is going to be very crucial in the economic development of the country and every effort will have to be made to see that internal and external resources are mobilised without aggravating the existing stresses and strains in the economy. Given the situation of excess demand and high average and marginal propensities to consume, a more realistic assumption on the basis of past experience would be to reconsider the available quantum of savings that would be available during the next quinquennium. The estimates made by the Planning Commission are subject to several imponderables such as growth of national income at a given rate, rise in agricultural production, completion of existing projects, uncertainty about foreign exchange resources, etc. In view of this, it will be impracticable to consider the estimates as having any firm base. In fact, most of the estimates, on a close scrutiny, will turn out to be mere guesstimates. Having regard to all this, under the existing circumstances, an investment outlay of about Rs. 18,000 crores would be more practicable and realistic. Any attempt to plan on a more ambitious basis would only result in accentuating the present difficulties and jeopardising development with stability. It is significant to note that both the World Bank Team and the Union Finance Minister, Mr. T. T. Krishnamachari, at one stage, had suggested a plan of the size of Rs. 18,000 crores as only realistic and feasible, having regard to the availability of resources, both domestic and foreign. Even this will require, on the part of the community, an all-out effort to mobilise resources so as to impart a measure of stability and equilibrium so essential to the economy at this juncture.

There can be no finality about the pattern of resource mobilisation as the same is tentative and has merely provided a base for

further intensive work on the same. It is imperative that the Planning Commission and the Government undertake a more detailed and realistic assessment of the resource position in the context of a closer examination of the various projects and outlays proposed under the pattern of investment.

There is a clear need for evolving a phased programme and, as emphasised by the Prime Minister, instead of dissipating our resources by starting too many fresh projects at this stage, to concentrate on speedy completion of the projects already under construction. The crucial problem for the Fourth Plan as admitted by the Memorandumis one of accelerating the tempo of development without intensifying inflationary trends in the economy. We must attach the greatest priority to agricultural production and concentrate all our efforts on efficiently implementing the schemes which are calculated to bring about increased production which will be a decisive determinant of development and progress in the country. Simultaneously, importance will have to be given to consumer goods industries and various other quick yielding projects. In fact, this will imply a shift and re-ordering of the priorities so as to be able to achieve both consolidation and advance in directions which are clearly marked as leading to the desired rate of growth. Our economic planning should be geared to meeting the primary needs of food, shelter and clothing so as to counter the inflationary pressures and minimise the stresses and strains already experienced. In other words, we must have a strategy of balance and having provided for adequate supplies of foodgrain and other consumer goods, there is no doubt that we can think of heavy industries, which are necessary, in terms of intersectoral balances. In the supreme task of achieving increased production, both in the agricultural and industrial sectors, the Government should shed its doctrinaire bias and provide the fullest scope and encouragement to the Private Sector to contribute its maximum towards production of increased food, including commercial crops and consumer goods, and play its legitimate role in augmenting the national wealth.

FOURTH PLAN ASSUMPTIONS AND REALITY*

By
DR. A. KRISHNASWAMI

The memorandum on the Fourth Plan submitted by the Planning Commission early last week to the nation's representatives is a distressing document. It abounds in generalities, expressions of intention and the familiar pieties.

Any plan document should take as its starting point certain basic facts. Clearly, there have occurred in our economy major shortfalls in almost every sector. These shortfalls are even greater than envisaged in the mid-term appraisal of the Third Plan published a year ago. The degree of imbalance, internally and externally, is far in excess of what was anticipated at any stage in our planning.

On the domestic front, there is a situation of excess liquidity, a failure of savings to increase and a pronounced pressure on prices. This pressure has occurred in spite of the increase in agricultural output of food grains last year which, in the case of an important cereal like rice, has been a record.

On the external front, our foreign exchange reserves are at a perilously low level. Our second line of reserves, in the form of borrowings from the International Monetary Fund, has already been impaired since we have outstanding repurchases to make to the tune of 200 million dollars before August, 1966.

In the coming five years, we have to meet an enormous interest and repayment obligation; the gap between the country's foreign exchange earnings and foreign exchange expenditures is wider today than it was at any previous period; and this is reflected in one-third of our imports being aid financed.

**Reproduced, with kind permission of the editor, from "Hindustan Times" of December, 23 and 25, 1964. Dr. Krishnaswami, a former M.P., is an eminent economist.*

Our dependence on external assistance for development and even for the maintenance of current levels of production is absolute. Not only are all our imports of capital goods dependent on the availability of aid, but a substantial proportion of our maintenance requirements are being met only because of the availability of non-project assistance, which currently accounts for over half of the total external assistance. It is in this context that one has to view the Planning Commission's exercise on the Fourth Plan.

The memorandum would have been highly entertaining and amusing were its unrealism not a potential danger to the economic stability and well-being of the people, and a threat to our social and political fabric. Instead of addressing themselves to the tasks of reducing imbalances, of concentrating the limited resources at our disposal on areas which would bring maximum immediate benefits or adverting to the urgent task of ensuring internal stability and external viability within a specified period, our planners are content to jog along and administer prescriptions as before but only in larger doses. The queer argument trotted out in justification is that since we have not done well in the past we must do better in the future. This philosophy of determinism, a fanatic adherence to a straight line method of progress and a mechanical approach to investment as being the sole determinant of growth, is a far greater danger to our social and political stability than the current economic difficulties or even the external threat from our northern frontier.

This lack of realism is reflected not merely in the targets for the Fourth Plan but even in anticipations of likely achivements by 1965-66.

The table on Page 16 brings out two rather disturbing features. First, as compared with the assessment made only a year ago, that is, at the time of the mid-term appraisal, the achievements by the end of the Third Plan are likely to be substantially smaller. Secondly, even as compared to the actual levels of output in 1963-64 the estimated production for 1965-66 shows a marked increase in respect of many important commodities.

Selected Targets of Production and Development

	Target	Mid-Term Appraisal	Current production 1963-64	Present estimated (1965-66) target	1970-71 Targets estimate on a plan outlay of Rs. 22,500
	Million tonnes				
Food grains	**100**	**100**	**81**	**92**	**120**
Sugarcane (Gur)	**10**	**10**	**10.01**	**11**	**13.5**
Jute	**6.2**	**6.2**	5.85	**6.2**	**8**
Iron Ore	**30**	**26**	15	**26**	54
Coal	**98.6**	**89.9**	**66.3**	76	**125**
Petroleum (refining)	**17.25**	15.25	**9.2**	**12.22**	**28.26;**
Fertilizer (nitrate.)	8	**5.86**	**3.93**	**4.25**	**2%**
Fertilizer (phosphate)	4	**2.50**	**1.50**	**2**	**10**
Cement	**13**	**14**	**9.6**	**12**	**30**
Steel Ingots	**9.2**	7.8	**6**	8.9*	**16.6**
Oilseeds	**9.82**	**9.82**	**6.77**	**7.6**	**10**
	In Million Acres				
Irrigaton Additional Potential at outlet	**29.5**	**23.2**	...	**20**	**14**
	M.khw.				
Electricity (Generated)	**45,000**	45,000	**26,900**	**43,000**	**88,000**
	Numbers				
Diesel engines	**166,000**	**166,000**	...	**60,000**	**140,000**

* *It is understood that the output of 8-9 millions tons would be realised not in 1961-66 but in 1966-67*

Of course, the figures for the full year 1964-65 will be available after a few months. But can any one basing himself on present indications assume that there would be spectacular increases in levels of industrial and agricultural production? Yet the Planning Commission, with a gay abandon, assumes spectacular increases. For food grains the Third Plan assumed an annual output of the order of 100 million tons in 1965-66. Currently, we have achieved an annual output of 81 million tons. With only 18 months more to go for the termination of the Third Plan, we are expected to, have an output of the order of 92 million tons !

As for coal, the Third Plan visualised an output of 98.6 at the end of the Plan. The mid-term appraisal scaled it down to 89.9 million tons. Today we are producing 66 million tons. However, the Commission expects that in another year and a half we would be able to produce 76 million tons of coal, an increase of 10 million tons !

The same story is repeated in the case of cement. The target laid down in the Third Plan was of the order of 13 milliontons. Currently, we are producing 9.5 million tons of cement. The Commission expects an output of 12 million tons by 1965-66.

There is no warrant for assuming that most of these targets would be achieved by 1965-66; indeed they are not targets but expressions of intention, dreams of a happy world to be achieved; and if the truth be told it is extremely doubtful whether even the authors of the Plan are wholly convinced that these would be the actual or even approximate levels of performance of the economy.

It would have been more appropriate if the Planning Commission had given us an unvarnished account of our economy. It would be interesting to know the present position of schemes already under initiation which would materialise only after 1966 and the balance of the task to be completed by a certain specified date. How this task is to be completed is after all one of the main functions of the Planning Commission to suggest. Instead, the Plan document only contains a set of arbitrary figures, the internal consistency of which is not beyond dispute even according to the planners. The path by which these targets are to be attained is left completely hanging in the air.

Instead of setting targets in a mechanical fashion, it would have been more useful if the Planning Commission memorandum on the Fourth Plan had assessed existing potential and suggested ways of utilising it to the maximum.

After all, during 15 years of planning, we have increased our stock of capital at an extraordinarily high rate, in relation to past trends, with the result that particularly in the industrial field, both in the public and the private sectors, we have had no time to digest the large inputs of capital equipment. According to impartial observers the machine capabilities in different fields are far in excess of the use made of them. Therefore, our primary duty in the coming two or three years ought to be to utilise the existing potential to the maximum.

In certain cases additions to capacity may be essential and we should expand where necessary by adding balancing equipment or balancing facilities. Consistent with this objective one ought to formulate a rigorous financial plan which aims at removing excess liquidity and bringing current foreign expenditure, including debt servicing, in line with current earnings.

The financial plan must eschew deficit financing not merely in the budgetary sense of balancing current revenues with current expenditure. It is essential that the total Government operations, current and capital, should be financed from out of the current revenue and genuine savings diverted to the exchequer. In concrete terms, the financing of Government outlays must be without any recourse to the banking system.

The narrowing of the gap between imports and exports involves strenuous efforts to cut down imports, particularly imports of food grains, by concentrating on increased production in the short run. This is not beyond us. At the same time, emphasis must be on increasing the availability of those goods such as oilseeds, tea, jute, hides and skins and mineral ores for which there is a ready market abroad.

The major limitation today is the inelasticity of supply. In all current discussions we appear to have overlooked the balance of payments history of our country. Except during the decade and a half after the war, India always had a favourable trade balance in order to fulfil her foreign debt obligations. It is time we reverted to this pattern, instead of the present position where our commodity imports exceed exports by nearly a third. If this is to be achieved, we cannot rely excepting to a limited extent on import substitution.

No doubt a country of India's size, population and natural resources must produce more of the commodities which in an earlier stage of development she had to import. Thus greater production of steel, heavy electrical equipment, machinery of different kinds is essential to enable a high level of investment and growth. But side by side with this we must enlarge the range and volume of new as well as traditional exports.

This is inescapable since a developing economy with an industrial structure which is getting increasingly complex and diversitied is bound to need more and not less of imports. The pattern of imports may alter in the sense that there may be less need for consumer goods or complete equipment because of increased output at home. But the requirements of imported materials and components which for natural or technical reasons cannot be produced in the country will increase very rapidly.

The memorandum points out that the Planning Commission had trimmed the original fanciful ideas of the Perspective Planning Division of the Commission. Originally it was recommended that we should have an outlay in the Public Sector alone of over Rs. 24,000 crores. The Private Sector was to be responsible for another investment outlay of Rs. 7,000 crores. After reflection it was decided to reduce the total outlay to something between Rs. 24,000 and 25,000 crores. It will be remembered that these estimates were based on 1960-61 prices.

The memorandum now envisages an outlay of Rs. 22,500 crores at 1963-64 prices. Out of this amount Rs. 7,000 crores has been allotted to the Private Sector. Since prices have been mounting since 1960-61 by at least 8 per cent, the amount that would be achieved in physical terms would be considerably less than assumed could be achieved in 1960-61. But even this level of investment would cause considerable overstrain on our internal resources and affect our external viability.

It has been pointed out aptly by a keen critic that the estimates made of tax receipts and increases in taxation to cover the deficit of about Rs. 2,500 crores or Rs. 3,500 crores in rupee resources are fanciful. The chapter on financial resources is extremely vague, and even the members of the Planning Commission appear to suggest that they have not as yet bestowed sufficient thought to this question. They remark that "preliminary estimates of resources which are under scrutiny will be reviewed further after the Budgets for 1965-66."

Prices today are approximately 15 per cent higher than they were a year ago, and advice that price levels should be controlled and costs scaled down will not be heeded unless outlays are scaled down. To bridge the gap between revenue and expenditure the Planning Commission suggests increases in sales-taxes and taxes on urban property.

But these have already reached high levels in most instances and it is difficult to visualise a significant amount by way of increased taxation. Notwithstanding the attempts it has made to scale down outlays it is still a victim of the compulsion of numbers. If the expenditure envisaged by it is incurred, it would necessarily lead to deficit spending; and this would only accentuate the strain on our internal resources and external resources. All this underlines the need to concentrate on getting the maximum out of past investments in agriculture and industry and limiting fresh investments to those projects and programmes which give immediate returns and which are absolutely necessary.

The approach outlined above will not affect adversely either the growth or the growth potential of our economy. The assumption behind much of our present planning seems to be that the growth can be made to proceed in a pre-determined escalation, that any shortfall in a particular Plan period can be made good by investing more in the same pattern in the next period. This is wholly erroneous. The rate of growth of an economy is as much influenced by the volume of investment

as by its pattern and any imbalances emerging in the course of development must be taken into account in determining both the size and pattern in subsequent periods. Failure to do so will only help to queer the pitch for further development since the imbalances would result in internal pressure in terms of prices and costs and external weakness in the form of a strain on the balance of payments.

A strategy of consolidation, of conserving during periods of stresses and strains scarce resources and of minimising sectoral maladjustments will not only make for economic growth with reasonable stability, it will also help to accelerate the rate of growth itself.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

What is Right Sort of Planning ?

"There is a right way and wrong way to do most things. Planning is the appropriate use of means for the achievement of objectives. In this country, planning is taken to mean the attempt by a centralised agency to establish a pattero for the economy as a whole and to enforce it by a host of specialised and detailed controls, including Government engaging in certain enterprises and so on. This whole paraphernalia, which in this country goes by the name of planning, is in fact bad planning, because it is almost guaranteed to defeat rather than to promote your objectives.

"On the other hand, a Central Government which maintained law and order, provided for the national defence, secured people in the enforcement of private contracts freely entered into, provided a stable monetary framework, fostered the spread of elementary schooling and the improvement of road communication and, for the rest, fostered a free market to enable millions of individuals in this country to use their own resources in accordance with their own objectives — such a government would be engaging in good planning, in planning which was suited to the promotion of economic development in the sense of the improvement of the lot of the ordinary man."

From "*Inflation: Causes & Consequences*"
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Published by M. R. Pai tor the Forum ot Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by S. J. Patel, at Onlooker Press, (Prop. Hind Kitabs Ltd.) Sassoon Dock. Colaba, Bombay-5.

10|March|1965

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