

# DRAFT SIXTH PLAN

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# DRAFT SIXTH PLAN I ASPIRATIONS AND LIMITATIONS

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The Draft Sixth Plan is a departure from the earlier plans in several fundamental respects. This is so because it tries to implement the Janata Economic Policy as far as possible. One of the main objectives of the policy is to remove poverty and unemployment in a reasonably short time, say 10 to 15 years. It has also been noticed that the fruits of planning so far have not reached the large masses of the people in rural areas though some sections of the people have enjoyed the benefits thereof. It has, therefore, been decided that the emphasis in our planning effort hereafter should be on Rural Development and small-scale industries, which between them, would provide more employment, increase the purchasing power of the large masses of the people, and help in the removal of poverty at an early date.

**Rural Development:** It may be pointed out that when the Plan Frame for the Second Plan was made by Prof. P. C. Mahalanobis, with the help of Russian technicians and was under consideration by the Planning Commission, it was known that the emphasis was on heavy industries, agriculture and allied services getting secondary importance. In the Panel of Economists, which was convened to discuss the Plan Frame, two papers were submitted by me along with Dr. P. R. Brahmanand, in which, it was pointed out that in an

\* Prof. C. N. Vakil is the doyen of Indian economists. This text is based on a lecture delivered under the auspices of the Forum of Free Enterprise in Bombay, on 6th June, 1978.

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

— EUGENE BLACK

agricultural country like ours, subject to the vagaries of the monsoon and with increasing population, the emphasis in planning should be on the production of wage-goods i.e., food and other essential articles, without which progress would not be possible." This was called the Wage-Goods Model as against the Heavy Industries Model, which was adopted. Our suggestion was ignored. After nearly 30 years of experiment with planning, the defects pointed out in 1956 have been realised by those in authority. It is good that the approach to planning has now changed in the right direction and Rural Development has got its due place. For example, in the Draft Sixth Plan, 43% of the total outlay has been set apart for Rural Development. For this purpose irrigation potential will be increased by 17 million hectares involving an expenditure of Rs. 9,650 crores. Along with other allied activities, it is hoped that employment opportunities will be created by this method so that it will absorb additional labour force which may arise during the plan period and also absorb some of the existing backlog.

**Minimum Needs :** In order to help the large masses of the people in rural areas, the Plan provides for a "minimum needs programme". This includes drinking water, house sites for the homeless, village access roads, elementary education, rural health services, rural electrification and so on, for which Rs. 1,180 crores have been provided. It is expected that by this method there will be some distributive justice. This is expected to help those below the poverty line and is a beginning towards the removal of poverty.

**Industrial Development:** So far as industrial development is concerned, emphasis is placed on the development of small-scale and cottage sector, which will create more employment. Certain areas of production will be reserved for this sector, in which the large units will not be allowed to expand. Appropriate arrangements will be made to bring about this change, and at the same time steps would be taken to reduce sickness in industries, and also control concentration of economic power.

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\* See Page 13.

**The Aspirations of the Plan :** Out of the total outlay of Rs. 1,16,240 crores for the Plan, Rs. 69,380 crores will be in the public sector. A growth rate of 4.7% is expected. There will be additional taxes of Rs. 13,000 crores, Rs. 9,000 crores by the Centre and Rs. 4,000 crores by the States. It is obvious that as agriculture is a State subject, the responsibility of the States will be increased for the implementation of a plan of this nature. The Draft Plan was submitted to the National Development Council for approval in March, 1978. It was not possible for the State Chief Ministers to discuss the details, and at the same time there were controversial problems of financial relations between the Centre and the States. The broad objectives of the Plan were approved and it was understood that the Planning Commission would work out the details of the State Plans with the help of the States, so that the revised plan can be submitted to the NDC before the end of the year. It is obvious from the Draft Plan and the Statements of the Prime Minister and others that the objectives of the Plan are intended to follow the Janata Economic Policy as far as possible and make a distinct departure from the earlier plans. As far as the aspirations of the Plan are concerned, therefore, one may say that they are in the right direction and there will be substantial improvement on the present position if these aspirations can be realised in practice. It is not possible to go into details, because the Revised Plan is yet to be made. We shall, therefore, confine ourselves to certain important broad features, in order to show the nature of the problems that will arise. It is not possible to discuss solutions of such problems; some solutions will be briefly indicated.

**Some Pre-conditions for Success :** For the success of any plan and particularly of a plan of the type described above, it is necessary, firstly, to have public understanding as the co-operation and involvement of the public will be necessary for success. The other requirement is that there should be a consensus among different political parties regarding the necessity of implementing such a plan with

enthusiasm and with efficiency. As different political parties are in power in different States, this aspect seems important. The controversy regarding Centre-State financial relations and the desire of some States to have more autonomy also make such an understanding essential. In other words, the plan and its implementation should be treated as non-political, in which all should join to work together as a team, irrespective of political considerations, as it affects the improvement of the standard of life of the large masses of the people. As far as we can see neither of these conditions, have been fulfilled so far. There is no adequate understanding of the new plan effort even among the intelligent public, let alone the ignorant masses. It is not easy to assume at the same time that there will be enthusiastic co-operation from all the States for implementing the plan in all its details. Considerable work, therefore, needs to be done in this direction, by the time the revised draft of the Plan is ready for acceptance by the NDC.

**Laud Reforms :** Though a great deal of effort will be necessary to realise the plan objectives, we may refer to a few cases to illustrate the nature and magnitude of this task. For rural development, the basic requirement is land reforms, with the object of making the cultivator the owner of the land he cultivates. Legislation has been passed to this effect, but its implementation is poor, with some exceptions. The power structure in rural areas is such that the implementation of such reforms becomes difficult, and in those few cases where they have been introduced, the cultivator relapses into his former position due to indebtedness or inefficiency. The land-owner is often the money-lender.

**Machinery for Rural Development :** Among the agencies utilised so far for Rural Development, we may mention the officers of the different departments in rural areas, the Panchayats, the Co-operative Credit Societies, the branches of commercial banks and so on. The Officers of the Revenue Department, Block Development Officers, Officers of the Departments of Agriculture and Animal Husbandry etc. are

expected to help in their respective spheres. The bureaucratic machinery, however, functions in such manner that the benefits intended for the farmer do not reach him; hitherto out of the Plan provision for Rural Development, 60% was swallowed up by the administration; of the remaining 40%, a small percentage reached the farmer, as there was leakage in the process. The Panchayats and Co-operative Societies are as a rule controlled by local influential persons, who manage between them to utilise their services in their own interests, leaving the farmer with a few crumbs. In some cases, these institutions have become centres of political rivalries and intrigues. The commercial banks have increased their branches rapidly in rural areas; their staff is however new to the job and the concept of Lead Bank, by which one of the Banks was to be the leader in organising rural development did not succeed for some time. Only recently, the State Bank of India has made some successful experiments, and this is being followed by a few other banks. Efforts are being made for improvements; the Ashok Mehta Committee is dealing with the reform of the Panchayat System and similar efforts in other directions are going on. But we have to wait and see the nature of the change and its working hereafter. For example, the Janata Party Executive has asked that the Record of Rights in villages should be prepared in two years; this shows that the basic data for improvement are not available; it will take some time to compile the same.

**Machinery for Industrial Development :** Regarding small-scale industries, a census has been recently taken, though the results are not yet published. A large number of organisations, Central and State, are already working to develop small-scale industries. The object of the Sixth Plan is to give a big push to this movement for more employment. The problem is that there are already some small-scale industries which are sick. We have to find the causes and see that the same mistakes are not repeated. It is pro-

posed to create District Industries Centres for this, so that those concerned can get all facilities at one place. It is not clear whether these Centres will replace existing agencies, or co-ordinate them. So far as competent staff for 460 such Centres for all the districts are concerned, it is not known whether suitable staff is available. Whereas we have some data for small-scale industries, there is very little information regarding Tiny Industries, those whose capital is Rs. 1 lakh or less. They will be so many, so scattered and so diverse in character that the demand for funds for them will be great; the organisation to help them will have to be a wide net-work as they will not be able to take the initiative, and those asked to help them will have to go out of their way to do the work.

While the object of developing small-scale and tiny industries is excellent, in spite of such problems, there need be no conflict between them and large-scale industries. In fact, large-scale industries can help by creating ancillary units or by guiding them in various ways because of their experience in technology and management. Some areas of production have been reserved for small-scale industries, so that they can have the market open to them without competition from large-scale units. Whether in all these areas, the small-scale units will grow and succeed is yet to be seen. The suggestion, however, to ask large-scale units to dismantle some of their existing plans as in soap and matches, to give greater scope to small-scale units may lead to waste of resources, and even scarcity, if the small units cannot meet the growing demand in such articles.

Large industrial houses have been asked to help in Rural Development by adopting villages and spending their resources in men and money for which encouragement is given by Government, by exempting such expenditure from Income-tax. Would it not be better, if the industrial houses are asked to help the development of small industries for which they are better qualified? With the prevailing estrangement between industry and Government due to the

public speeches of some Ministers on the one hand, and the comparative ignorance of rural conditions by those in industry on the other, it would be wiser to utilise their talent in an area in which they can do so with success.

**Resources for the Plan:** Regarding resources for the Draft Plan, deficit financing of Rs. 2,250 crores has been provided, as the proposed additional taxation, loans, expected foreign aid etc. will not suffice. The adoption of deficit financing for Planning in our country has led to disastrous results in the form of continuously rising prices, and falling value of the Rupee, which acts adversely more on the poor. Instead of helping to relieve poverty, poverty is increased by this method. Once the principle is accepted, the amount goes on increasing; the actual deficit in any year is larger than the budgeted deficit; the States add to it by unauthorised overdrafts. In fact, in the very first year of the Plan, 1978-79, the budget deficit is Rs. 1,080 crores; the States have budgeted for large deficits and we should not be surprised if the entire provision of deficit financing in the Draft Plan is reached in the first year, which may go on increasing in later years. This is dangerous; inconsistent with the objective of stability of prices and removal of poverty and should be avoided.

**Economy in Expenditure:** The expenditure of the Government of India and State Governments has increased enormously since Independence, particularly since Planning was adopted. The Departments of Government have grown in size and staff; the public sector undertakings have also grown in dimension; we have now the dominance of the public sector in the economy. Most of these departments and public sector undertakings are overstaffed and under-worked. We have incurred huge foreign debt for them; we have to incur more debt to repay the interest and instalments on the existing debt, as we have not used the amount efficiently. There is public waste of this nature in many government activities. If this wasteful expenditure is curtail-

ed, we shall have efficiency, and will be able to release enough resources for development, without additional taxation or deficit financing. We need a powerful Expenditure Commission to go into all such government activities, to suggest ways and means of reducing expenditure. The last Expenditure Commission we had was the Inchcape Committee of 1921.

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## TECHNIQUES OF PLANNING

The technique of Planning in our country was based on the Plan Frame suggested by Prof. P. C. Mahalanobis in 1956. He had taken the help of Russian technicians who had worked in the Indian Statistical Institute of which he was the Director. The concept of Economic Planning was first evolved in Russia after the Revolution, when the Communists came to power. They were anxious for defence as they were surrounded by enemies, and security was their first priority. They evolved the Gosplan, which was based on rapid development of heavy industries essentially helpful for defence. The welfare of the people was not thought of. In fact, because of the totalitarian regime that they had established, they could force people to work for their Plan on minimum wages. The raising of the standard of life of the people came into the picture much later, when they felt that they had approached a Super-Power Status.

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Imbued with this philosophy and technique, the Russian experts suggested something similar for India. This has come to be known as the Heavy Industries Model for Planning. In this model, the main emphasis would be on the development of large heavy industries like steel; other aspects of development would have a subordinate place. The glamour of such a scheme caught the imagination of the then Prime Minister Pandit Nehru, who blessed the scheme. Prof. Mahalanobis had established personal relations with Pandit Nehru, who was impressed by his persuasive talks supported by foreign experts.

When the Plan Frame was discussed in the Panel of Economists convened for the purpose, searching questions were put to the Russian advisors who were present; they were not able to give satisfactory replies. But the atmosphere was all for the acceptance of the Plan Frame; the suggestion made by me in two papers (along with Dr. P. R. Brahmanand) that the Wage-Goods Model was more suitable for us was ignored. In fact, Deputy Chairman, V. T. Krishnamachari, who presided over the meeting when the Panel of Economists was discussing the problem, called me aside before the meeting resumed discussions after the lunch break, and suggested that I need not pursue my point, because they, the Commission and the Government, were already committed to the Plan Frame.

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The essence of the Wage-Goods Model is that in an agricultural country like ours, with a growing population, subject to the vagaries of the monsoon, the first priority should be the abundant production of wage-goods, food and other essentials of life, required by the ordinary citizen. If this was done the mass of the people would be in a position to have energy to do work in agriculture as well as in small-scale industries. The production of wage-goods should be abundant and cheap, within the means of the ordinary citizen. The farmer should have a marketable surplus, after meeting his own requirements so that he can buy other goods made in towns with the purchasing power thus

created. There would thus be a mutual dependence between villages and towns, and an interdependent economy would be created, healthy for all. Other programmes in Planning should subservise this objective, and may be pursued if this is looked after first.

This idea was elaborated in a book called "Planning for an Expanding Economy" published by us in August 1956. The same was informally discussed by a number of leading international experts, who met in the First World Congress of Economists held in Rome in the first week of September 1956, in which I was invited to participate. Our ideas were appreciated and approved as suitable for developing countries. Some reviews to this effect appeared in well known journals, but all this had no effect on the authorities in the country.

The mistake in the technique of planning was realised when it was seen that the fruits of planning were cornered by some both in rural and urban areas, and the majority of the people remained poor; in fact the number of those below the poverty line and of the unemployed increased. In order to make up for this gross injustice to the poor, in spite of the professions of Socialism and "Garibi Hatao", the Janata Government has changed the emphasis and decided to give priority to rural development and small industries which will give more employment and reduce poverty. The Janata Economic Policy advocates this, and the Draft Sixth Plan tries to implement it as far as possible. But the technique of presenting the Plan as between different sectors has not changed; the old method seems to have been followed.

Though the objectives of the Draft Sixth Plan and a Wages-Goods Model are similar, the latter brings into greater focus the desired emphasis both in theory and practice, and makes it imperative on all concerned to try to achieve the goal. By the adoption of the Wage-Goods Model, the Draft-Plan would have given prominence to the maximum production of wage-goods, food and other essentials of life,

and would have adjusted the Plan allocations from that point of view. Thus would mean that food and other wage-goods would be abundant and therefore cheap. Not everyone in rural areas is a farmer; many have to buy food. If the poor have to be helped, food, the basic necessity and the most important item in the family budget of the poor, should be as cheap as possible.

Such an attitude would raise a protest from vested interests who want higher prices for food and other agricultural products. The higher reward to those who produce these commodities would be available in the form of higher total return on the greater quantity that they would be expected to produce; besides they would get many facilities to produce the same. The way in which the Government has yielded to the pressure of the farm lobby by agreeing to a higher support price for wheat in 1977 and again in 1978, higher than that recommended by the Agricultural Prices Commission, shows that the Government forgets the interests of the poor who cannot afford such higher prices for food. It is possible to recast the Draft Plan so that the objectives of the Janata Policy may be better realised in practice by the adoption of the Wage-Goods Model, which has been explained in brief.

The Draft Sixth Plan is referred to as the Rolling Plan and it is believed in some quarters that this is the new technique which has been adopted. It may be pointed out that the "Rolling Plan" idea is merely a method of keeping the Plan up to date in its targets and achievements. The Plan document is based on certain data obtained at the time of its preparation. It has projections or estimates for the following period of five years, for various items of planning dealt with. The Central and State Governments have been using the Plan document as the basis on which to frame their annual capital budget from year to year. The capital budget of a Government is its Plan Budget for the year concerned.

The Draft Sixth Plan is now made for 1978-83, on available data and projections. The data applicable to the first year have been utilised by the Centre and the States in their budgets for 1978-79. By the time they make their budgets for 1979-80, some things may have changed. The estimates in the Plan may not have been realised. Practical difficulties in performance may have been perceived. Progress in some cases may be good; in others poor; unforeseen situations affecting the estimates may have arisen and so on.

In order to see that the Plan does not become out of date for subsequent years, and takes note of changes as above, the proposal is that there will be a new Monitoring Cell in the Planning Commission, which will be kept informed by corresponding units in the States, of the progress of the Plan from time to time. Instead of evaluation of the Plan at some intervals, there will thus be continuous evaluation. This will enable the Planning Commission to revise the Plan in time for the Budget of the second year 1979-80, and while doing so, they will add one year at the end and take it to 1984, so that there will be a five-year perspective for the Plan, when the Plan Budgets are made for 1979-80, and similarly for later years.

This method is known as Rolling Plan; it is thus a method to keep the Plan flexible with changing circumstances and has nothing to do with the technique referred to above. Besides, the success of the Rolling Plan will depend on the promptness and thoroughness of the States and other agencies in supplying data to the Planning Commission. How far this is achieved will be known only in due course.

It may not be out of place in this connection to refer to the idea of grass roots planning, which means that planning should be started from bottom upwards, from the lower level to higher; in other words, the people should be involved in the planning process by making local bodies like Panchayats responsible for submitting plans for their areas. These would

be co-ordinated at the District level and later by the State before the State Plan goes to the Planning Commission for consideration and acceptance. Whereas such an arrangement would be most desirable, the question is whether we have competent persons at all these stages who can do this work. Even the Planning Machinery in the States is not fully equipped for this important task. Some States have a small Planning Department with a Secretary in charge of it, some have non-official committees or Planning Boards to advise and help in the task. The Planning Commission has suggested improvements in the machinery of Planning and implementation. This shows that this important work is yet to be adequately organised. With the new emphasis on Rural Development, this is both important and urgent, and it is hoped that appropriate steps will be taken without delay to harness available talent for this essential work. (Courtesy: "Sundesh" daily of Ahmedabad)

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### III

## PLAN MODEL SHOULD SUIT INDIAN CONDITIONS

It is suggested that the important lessons of the First Plan are: (1) Observed results do not show correlation with planned efforts. (2) While national income is stated to have gone up, savings do not show any appreciable rise. The generally assumed correlation between income and savings do not appear to hold true. The assumption that when once incomes are increased, savings go up and hence the



cumulative process is started is not valid in India. (3) The economy as it is constituted does not have resilience to go through unassisted either during periods of short-fall in food or during periods of excess. (4) While national income has gone up, employment has not proportionately increased. Thus, the assumed correlation between income and employment holds true only within limits. The economy has thus the twin problems of achieving a high rate of growth of incomes and a high rate of growth in employment. (5) The working of the Plan has revealed that the analysis behind the formulation of the Plan was *ad hoc* and could not take note of the forces which bring about development in the Indian economy. (6) Finally, we now find ourselves in a situation in which we are not definite whether the economy is expanding, whether such expansion has cumulated behind it and whether it is expanding in the right direction. All this leads to the conclusion that the first approach, however appropriate for the First Plan, needs to be changed for another which is more suitable. The second approach which emphasises heavy industry, a greater extent of regulation and regimentation and utilises the coefficients and relationships as derived from Soviet experience is far removed from the realities of the Indian situation than the first. Further, it does not at all take into account the peculiarities of the Indian economic scene. Moreover, here the physical targets are estimated without stating clearly the institutional and ideological implications. It appears to be out of tune with the prevailing climate of opinion in India. The only alternative is to adopt an approach which places cardinal emphasis on the elements of strength and weakness in the Indian structure and which draws up a Plan best suited to our conditions.

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We have referred earlier to the need for a reduction of outlay on unproductive items by the Government authorities. After all, a significant portion of development expenditure by the Governments on these items is on roads, health services, housing, education and social welfare. Most

of these services can be performed at low cost provided the under-utilised labour and skill resources of the public are utilised in these fields through a system of appropriate social incentives. More attention than hitherto is to be given to activities which involve the application of individual initiative in fields in which there are no monetary returns. The problem is one of devising appropriate methods by which the young and the old of the country can devote part of their working time or leisure for activities which, while they involve some exertion on their part, would lead to more proportionate returns to the community. If a spirit of voluntary work could be created and it pervades the different parts of the country, it would be possible to economise on expenditure which is primarily unproductive and which does not contribute to material output. The resources directly available for capital formation could be augmented in this field.

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A more important problem facing the economic planners is that concerning the mobilisation of surplus labour power in rural areas and their transformation into fields of activity which would lead to capital formation. The crucial question which determines the employment potential here is the quantity of potentially available marketable surplus of food and other wage goods. The quantity of marketable surplus in its turn depends upon the level of production and the extent of internal requirements in the farms. In the short run, whenever, there is a sudden expansion in output, the internal requirements being more or less constant, the problem for the farmers is the disposal of the produce. If, however, we have appropriate institutional devices to mobilise the marketable surplus and utilise it in the form of additional employment of labour power, periods of excess production of food would be transformed into periods of rapid capital formation. The lack of an appropriate credit system, insufficiency of innovators, the lack of managerial capacity, inability of the system to make quick adjustments, all these are coming in the way of such a

transformation. There is no doubt that a part of the excess production will have to be retained as buffer stocks, but provided short-term productive opportunities exist and these opportunities tend to be self-liquidating, initiative will be taken either by the State or by the private authorities to utilise the food and surplus labour power in appropriate productive channels. The main problem here is one of organisation. The economic system as it is constituted in India today gets into difficulties when there is a little short-fall in food production and also when there is a little excess. A little less or a little more creates serious problems. This is because corresponding changes in the rest of the economy are not taking place in such a way that the incidence of excess or shortage is absorbed in the most productive manner possible. More attention than hitherto should be given to working out a system of appropriate organisational arrangements so that periods of surplus production are automatically converted into periods of boon? If the suggestion is accepted, then measures for built-in flexibility have to be worked out. (Excerpts from the paper "INSTITUTIONAL IMPLICATIONS OF A BOLDER PLAN" by Prof. C. N. Vakil and Dr. P. R. Brahmananda in "PAPERS RELATING TO THE FORMULATION OF THE SECOND FIVE-YEAR PLAN" by the Panel of Economists of the Planning Commission.)

*(The views expressed in this booklet are not necessarily the views of the 'Forum of Free Enterprise'.)*

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF  
(1899-1965)  
Founder-President,  
Forum of Free Enterprise.

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Published by M. R. PAI for the Forum of Free Enterprise  
235 Dr. Dadabhai Naoroji Road. Bombay-400 001, and  
printed by H. NARAYAN RAO at H. R. Mohan & Co.,  
9-B Cawasji Patel Street. Bombay-400 001