INDIAN PLANNING AT THE CROSS-ROADS

FORUM OF FREE ENTERPRISE
"SOHRAB HOUSE", 235 DR. D. N. ROAD, BOMBAY-1

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

—Eugene **Black**

INDIAN PLANNING AT THE CROSS-ROADS

I

THE PRESENT ECONOMIC SITUATION DEMANDS RE-THINKING ON FOURTH PLAN STRATEGY & SIZE

By

N. DANDEKER, M.P.*

The Indian economy is overheated by monetary icflation. Between 1960 and 1964 the money supply increased from some Rs. 2600 crores to Rs. 3752 crores, that is to say, by **43.7** per cent. As against this enormous increase in money supply, the increase in national income over the same four years has been only 17.5 per cent or roughly **4.4** per cent per annum. In other words, the money supply has been far in excess of the requirements of the economy, with the result that we are now suffering from the necessary and inevitable consequences of monetary inflation in the form of a steady and persistently rising level of prices.

Between 1952–53, which has been taken always as the base year, and 1963, the general level of prices rose by **32** per cent, an average of 3.2 per cent per annum, which was bad enough; but between 1963 and 24th July 1965, the price level has further increased by not less than 25 per cent in a matter of $1\frac{1}{2}$ years.

The case of foodgrains prices is even worse. Over a period of $1\frac{1}{2}$ years, the prices of foodgrains have increased by 30 per cent; 17 per cent in 1964 and further 13 per cent in the six months ending July, 1965. The result is that we now have galloping inflation.

* *The author is a Member of Parliament who bas had extensive administrative experience as a member of I.C.S.*

The effects of inflation on the people of this country have not yet been considered properly because we are inclined to talk too much in generalities. In the first place, the landless rural worker, who constitutes 17 per cent of the working population, is admittedly going backwards in terms of real income. His money income is not increasing, and has not, in fact, increased anything like as rapidly as the rise in prices. The industrial worker, who constitutes some 16 per cent of the working population, is at best remaining stationary; he is rather better off than others, than the rural landless worker, because he is able, here and there, to achieve, in a delayed way, some rise in wages and some rise in dearness allowances, but only to keep pace with the continually rising cost of living. But the consequence of this necessary concern, to keep pace with the rising cost of living, is that production and productivity have gone into the background. There are no indications of any kind whatsoever that the industrial worker, necessarily preoccupied as he is to keep abreast with rising cost of living, feels at all concerned or is even trying to be concerned with problems of increasing production and productivity.

But the worst sufferers perhaps are the middle classes — the salaried workers, the professionals and the pensioners — who constitute 14 per cent of the working population. They have been crushed with inelastic incomes, and rising prices on the one side and mounting taxes on the other. These middle classes from whom this country is deriving, and has derived in the past, most of its talent, initiative and men who go into the professions, and especially the learned professions, are about the worst hit part of the population. There is no relief for them whatsoever.

The peasant farmer, constituting 53 per cent of the working population is getting less and less for his foodgrains in terms of faster rise in general prices as compared with the rise in prices that the Government propose to give him for compulsory procurement.

He is faced with the position that steadily, over the past few years, "the terms of trade" have been going against him; and today he is faced with the proposition that the Government is virtually going to loot his granary by compulsory levies of one kind or another on foodgrains at uneconomic prices, that is, at prices *below parity* with the general rise in prices.

Finally, the small investor, the person who has Rs. 15,000 to Rs. 20,000 annual income and who is expected to make a certain amount of investment in the general economy, is badly hit. His faith in saving has been destroyed by the continual rise in prices and, therefore, by the continual fall in the value of the money that he has to invest. His capacity to save has been steadily eroded by increasing resort to direct taxation and also indirect taxation and rising prices; and for him the scope for investment has been largely destroyed. He is now being converted into a timid person for whom the only scope for investment is either the loans issued by the Government, or those ridiculous small savings schemes, or the 6 per cent "Units" of the Unit Trust of India. He is reduced to the position of a person who is expected not to be venturesome nor to take any risks, but to sit back and be content with somewhere about 5 per cent on his savings.

Looming large over all these people is the awful foodgrains situation that has been developing from year to year. Our Food Minister would do well, once again, to study the policies of two illustrious predecessors of his, the late Mr Rafi Ahmed Kidwai and Mr. S. K. Patil.

Mr. Subramaniam is reported to have said at a Seminar on Crop Improvement for increasing food production, in June, that the demand for fertilisers had registered a great jump in the past year whereas the supply was only 50 per cent of the demand, that it would be better to import machinery and raw materials for fertiliser factories rather than import fertilisers. But the administration of our external finances, our foreign exchange, has been such that today the supply position of two most important raw materials for the manufacture of fertilisers in this country, — rock phosphates and sulphur — is precarious.

If this is the position as a result of the plans and policies of the Government as they affect the ordinary person, let us take a look at the present state of public utilities in this country as a result of continual neglect by the Government. While the Government is wasting enormous sums of money upon utterly unproductive ventures in the industrial sector, it has been neglecting the public utilities, which is primarily the function of the state. The state of our Public Utilities can be considered first under Service Utilities and then under Physical Utilities. The first and foremost service utility is Law and Order. Law and order is in utter contempt. Particularly the situation in the villages has been sinking lower and lower, until it is today in a state of contempt.

Health and sanitation, so far as the rural areas are concerned, are as bad as they ever were. The position in regard to the sanitary and health situation in municipal areas is dreadful; and hospitals have become places, not for curing, but for contracting diseases!

As regards education, which is another public utility service, the Union Minister of Education himself has said that general education is in a deplorable state, partly because of inadequate teaching staff, partly because of grossly inadequate and insufficient payment of their salaries, and partly because all the colleges are ill-equipped. I know something about the state of technical education, being myself Chairman of an engineering college in the south of Poona. The state of technical education is also deplorable. There is a great shortage of engineers, degree-holders and diploma engineers, and technically qualified artisans in all trades. That shortage continues; and it continues to mount.

Another public utility service is general administration. Today it has swollen beyond recognition; but it is also frozen into immobility by controls and corruption.

Let us now take a look at the physical public utilities. Water and electricity are important items. Even in the capital of India the state of water and electricity has deteriorated over the last few years. People are being given virtually purified sewage water. In so far as electricity is concerned, every day, without fail, the only thing that does not fail in Delhi is the failure of electricity.

The one thing that has been treated with the greatest neglect as compared with other means of transport is road transport. And as for the development of roads, one has only to go to the villages in the so-called development blocks, to realise what is the state of village and district roads.

Railway trains start on time usually, but never arrive on time. Cattle travel more comfortably than human beings, in cattle-vans which will not take more than a specified number; but human beings are crowded together, in conditions worse than sheep going to slaughter, in the carriages in which they have to travel.

The debate goes on and on about modernising our harbours, year after year, but nothing happens. Meanwhile, our harbours and ports continue to remain equipped in antediluvian fashion, unable to cope with the growing volume of inward and outward traffic, certainly unable to cope with the imports of foodgrains.

The state of communications is also alarming. Some letters never arrive; express letters seem to travel by goods trains; a number of telegrams arrive by post, 48 hours later than they should!

Against this background of neglected public utilities, let us review the state of industry today. The rate of industrial growth, which is the overall index of the state of industrial development, during the Third Plan was set at 11 per cent. At the commencement, it was 7.5 per cent; next year 7 per cent; and then 11 per cent. Thereafter comes a steady progress downwards to 9.1 per cent in 1963-64 and 6.4 per cent in 1964-65. Doubtless, we shall end the last year of the Plan at 5 per cent.

Men engaged in industry are inhibited by savage corporate taxation; they are lost in the jungle of regulatory laws, rules and regulation; they are choked by a thick under-growth of controls, licences, permits and quotas; and they are suffocating for want of the main thing, namely, finance. They are in the grip of a merciless credit squeeze; they are confronted with a capital market which is as dead as mutton; and they are now at the mercy of governmental financing institutions which have come on the scene like undertakers—the Industrial Development Bank, the Industrial Finance Corporation, the State Finance Corporations, the Life Insurance Corporation and the Unit Trust. And, finally, they are being denied foreign exchange.

Quite the simplest way of describing the foreign exchange position today is that the mismanagement of our foreign exchange has brought our country to a stage of bankruptcy; there is no other word for it. An industrialist asked me a couple of months ago: "How does a nation go bankrupt? What is the sign?" I said that the sign was, when we were unable to pay our debts, when we were unable to service our debts in terms of interest and amortisation charges; when we had either to cut down drastically our imports of raw materials, components, spares and capital goods, or to default on our foreign exchange obligations, or to ask for a moratorium or if we behaved a little better perhaps, to beg or borrow some more foreign exchange. That is the position today. This has been the direct result, in general economic terms, of an enormous gap between the internal true purchasing power of the rupee, on the one hand, and the bogus rate of exchange at which the rupee is pegged, on the other. While, that state of affairs continues, we naturally have a squandermania in regard to foreign exchange; and the greatest culprits in the matter of squandering foreign exchange have been the Public Sector enterprises, for whom there is almost no control of any kind at all.

What is worse is that in this situation, resulting from mismanagement of our foreign exchange resources, we have been indulging in quack remedies for the last few years. One such remedy has been the increasing resort to rupee payment trade. It is like a magic word. Everybody says : "Oh, I am going to ask for an import licence from a rupee payment country", as if anybody really wants to receive our rupees in payment for imports. It is merely the accounting that is done in rupees. What they eventually want, and what is really mortgaged, are exports from this country to pay for the things that we have so imported; and it is only the unit of accounting that is called the rupee. The consequence of continually emphasising and continually widening the range and scope of rupee payment trade has been two-fold: in the first place, — and this is a matter for very serious expert investigation by the Reserve Bank of India and by the Finance Ministry's Economic Affairs Division, — the terms of trade at which this ever-widening rupee exchange trade is being done have been increasingly turning adverse to us. Secondly, our difficulties of foreign exchange, which are in relation to the free foreign exchange, are worsened. The larger the volume of our rupee payment trade, the worse will be our balance of payments position in regard to free foreign exchange; for the wider we expand the scope of rupee trade, the smaller we are making the potential range and scope of the free foreign exchange trade, with the result that, as the former must necessarily be self-balancing in itself, there is left a smaller and smaller area from which the net foreign exchange that we have to earn can ever become larger and larger in volume. In other words, whereas the net excess of payment due to us in free foreign exchange over payments due by us needs to be proportionately greater in order to be able to pay our way, the actual position is now turning the other way round by a steadily expanding rupee payment trade.

With such a critical foreign exchange situation, and persistently rising prices, to propose a Fourth Plan of Rs. 21,500 crores is an adventurous step. There are three propositions with regard to planning. The first is about the mode of planning. I do not believe in totalitarian strategy of planning employed in second and third plans for two reasons which have been proved in practice. In the first place, the totalitarian type of planning cannot achieve results, especially in a democracy; and secondly, in the process of trying, nevertheless, to achieve results, it erodes democracy. Over the last few years this type of totalitarian planning in India has not succeeded in achieving results; it has succeeded only in steadily eroding the fundamentals of our Constitution, because the Government had been bending the Constitution to the Plan.

Secondly, what is required of a proper Plan is not the planning by Government of everybody else's business, but the planning by Government of its own business. We have discussed earlier the dreadful state of the infra-structure of this country. There is an enormous amount of work to be done in building the infra-structure in our country, so necessary for the progressive growth of the economy and for achieving all the other desirable things; it requires an enormous amount of financial resources, of managerial and technical manpower resources and everything else that we can put into the effort. The business of the Government is to plan and implement its own affairs, not keep on meddling around thinking that it can do the job of heavy industries, it can manufacture cement, it can make steel, it can make heavy machinery and power plants, it can make fertilisers, it can do everything that everybody else can do better.

The third thing is the limit of planning. In attempting to plan beyond our resources, we run into inflation; secondly, we run into financial bankruptcy at the international level when we attempt to plan beyond our external resources; and, thirdly, excessive resort to debts and borrowings, particularly external debts at Government-to-Government level, Is an evil which must steadily give place to internal and external private investment for the prosperity of this country.

The Fourth Five-Year Plan is a peculiar Plan — it keeps on fluctuating. When you talk about its overall dimension, somebody will talk to you about some other dimensions. The overall dimension of this Fourth Plan is Rs. 22,500 crores. But it is said it would be limited to Rs. 21,500 crores, representing the resources in sight. Thus, there is already a deficit of Rs. 1,000 crores, to start with. Then we come to the resources in sight, but not visible. The resources in sight, but not visible, amounted to Rs. 3,650 crores. The new budget of the Finance Minister provides for additional visible resources of Rs. 1,000 crores; so that we have now got a deficit of Rs. 2,650 crores. But that, together with the previous deficit of Rs. 1,000 crores, gives us again a deficit of Rs. 3,650 crores. Is this planning?

The second part of the resources dream is that the Private Sector is supposed to produce, for its job, Rs. 2,400 crores. What is this again? Since the capital markets are dead because of Government's economic policies, it will apparently have to come from the various governmental institutions.

So these crores, too, have to come again from the Government. So the visible deficit of Rs. 3,650 crores grows to Rs. 6,050 crores.

The Fourth Plan is supposed to require Rs. 4,000 crores of foreign exchange: the foreign exchange "in sight", whatever that means, is only Rs. 3,000 crores. That means there is a deficit in terms of foreign exchange of nearly Rs. 1,000 crores. Even out of Rs. 3,000 crores of foreign exchange resources in sight, that is to say, resources which we can beg or borrow, about Rs. 1,400 crora would be required for payment of our debts during the next five years. So, the net balance available for investment will be Rs. 1,600 crores. With this Rs. 1,600 crores, we propose to finance, in so far as foreign exchange requirements are concerned, a Plan double the size of the Third Plan, where it is estimated the net foreign exchange available for investment would be Rs. 1,950 crores.

In the light of all these things, serious re-thinking is required on the strategy and size of the Fourth Plan. Otherwise it will turn out into a major disaster for the economy and the public, the fixed income groups being the worst sufferers.

II

A PLEA FOR REALISM IN PLANNING*

by

G. L. Mehta

The Fourth Plan has been preceded by an agonising reappraisal of the achievements and failures in the first three Plans. If the expectations from these Plans were pitched too high, the resulting disappointment seems to cloud our judgement on the merits of planning. Some people are only too eager to throw

* *Based on Mr. Mehta's speech at the Central Advisory Council of Industries in New Delhi, on August, 13, 1965. The author is a former Indian Ambassador to the U.S.A., a former member of the Planning Commission and is the Chairman of the Industrial Credit and Investment Corporation of India.*

away the baby with the bath water. In my judgment, this is an irrational approach. We seem to be carried away too much by our present difficulties to think clearly on the long-term prospects and problems of our economy. Undoubtedly, in the long term, as Keynes said, we shall all be dead, but I think the planners have to think in terms of long-term. We have undoubtedly made many mistakes in the past and the breast-beating we see all around us is sufficient evidence of these mistakes. I think Bernard Shaw said that experience is the name given by people to their mistakes and even mistakes might be worth making if we can learn from them and analyse what has gone wrong. I do hope that in all the soul-searching that seems to be preceding the formulation of the Fourth Plan, besides such esoteric issues as the size of the Fourth Plan, attention will be devoted to more mundane matters like what are to be the concrete results and achievements and what has to be the substance and content of the Plan.

Over five years ago, in November 1959, at a Seminar that was organised by the Federation of Indian Chambers of Commerce and Industry on "Some Lessons of the Second Plan" I had said : "It is tempting on such an occasion as this, to play the popular Indian version of what our American friends call the numbers game. I shall not submit to that temptation. I feel no special qualification for recommending a figure for the size of the Third Plan, which is indeed less a matter of calculation than of political decision. I am sure it must be large enough to inspire hope of real gains and the efforts to achieve them. I am equally sure it must not 'reach for the moon' (of course, this is an obsolete phrase because man is trying to reach the moon) and hence produce failure, disillusionment and worse". I also said : "I have voluntarily renounced the 'numbers game' for still another reason — as a symbol of my hope that not all our energies are going into appeals for fortitude and zeal and into consideration of the gross magnitudes of the next Plan, that at least as much time and effort are being devoted to working out carefully the specific projects in which public investments will be made, and the specific policies necessary to call forth the desired private investments. The gross magnitudes are important to tell us about the size, the pattern and the consistency of the effort we mast make, and to help us understand its implications."

In other words, the magnitude may be very important but the content and substance of the Plan and its results and achievements are far more important. We are apt to repeat the fallacy that spending means achievement, investment means result. Expenditure is really the beginning of the whole process and the amount to be spent should not be the only yardstick of our planning. Here I do not wish to go into the question of consolidation versus expansion but some of the points that Mr. J. R. D. Tata made deserve consideration in regard to phasing the Plan, particularly in regard to what I would call a more selective growth.

The other day a senior official of the Government of India told me that during the last ten years the word "priority" had lost all meaning in this country. Everything seems to be a matter of priority. A strict order of priorities is necessary in order to see that at least we tide over our immediate difficulties, which does not and need not mean abandoning the Plan nor even necessarily pruning, but certainly rephasing it in many respects. Even if we do not have planning or licensing, investment will have to go on in the economy and we do need to recognise some of the implications of procedures like licensing. At times this does tend to slow down or delay the process of investment. Such procedures should be justified only to the extent that they serve a purpose, e.g., conserve scarce resources like foreign exchange. I would, therefore, suggest that the Government might consider automatic licensing of such industrial projects as do not involve any use of foreign exchange for capital or current use of scarce raw materials, say experimentally for a year or so. This may involve a breakaway from current practice but it can help considerably not only by reducing the workload on the licensing machinery, but also by permitting an opening to free initiative and improvision. The Government has already allowed engineering industries certain liberalisation and diversification in the use of their capacity. My suggestion is a further step in the same direction.

In regard to control of capital issues, I speak with some hesitation because I happen to be the Chairman of the Advisory Committee dealing with control of capital issues. But when capital is so scarce, I do not know what we are supposed to control. It reminds us of what Rajaji said recently in another context that somebody discovered a cure for which there was no known disease and the wife of the man took that cure and died! I do not favour total abolition of capital issues control; it might be required, for instance, in regard to proposals for foreign collaboration or for certain technical questions such as rights issues and the appropriate premium to be decided. But even if we do not wish to abolish it, we could raise the limit for which it is required from Rs 25 lakhs to Rs 50 lakhs or Rs 1 crore and see how it works. If we maintain that our economy has a certain element of dynamism, then our procedures should also change along with the dynamism and we should not be so rigid as to apply those procedures which were there when the capital market was booming or when we wanted to channel our investments to more essential industries.

I suggest that we take into account our experience in industrial licensing in framing the industrial development programmes for the Fourth Plan. We have had some uncoordinated programme in setting up capacity. Entrepreneurs do not always make proper market surveys and then throw the blame on the Government for the targets that have been laid down by the Ministry concerned or the Directorate-General of Technical Development.

On the controversy about consolidation and expansion, I would in all deference like to cite one example within my knowledge. I was connected for nearly four years with the Hindusthan Shipyard as its Chairman. This shipyard was started by a shipping company with which I was connected in my unregenerate days. This shipyard has been in existence and it was taken over by the Government as far back as 1952. The first ship was launched by the late Prime Minister in March 1948. But after all these years, the shipyard is being heavily subsidised. Shipowners are being given assistance and even pressurised to build ships there and the shipyard is not viable. I remember having seen an official note — this was in 1960 — stating that foreign exchange for building $2\frac{1}{2}$ ships only would be available in a year. Does it make sense to have another shipyard until we have made this one viable? I understand that the President of the National Shipping Board recently said that Mysore should also have a shipyard. The only States

now remaining are Rajasthan and Madhya Pradesh. We have been hearing of Japanese collaboration for the Cochin shipyard for the last few years at regular intervals, but what is the progress made on it? Is it proper to burden the consumer and tax-payer of the country for this kind of what Prof. Galbraith would call "symbolic modernism"?

I would like in this connection to refer to the petro-chemical complexes. We seem to have developed almost a complex for petro-chemical complexes not knowing how con plex they are. I have some very slight acquaintance with it in considering some projects of this nature. It is a highly complicated and sophisticated industry and the immense and rapid technological developments taking place in it would make the processes obsolete in a short time. It has a varied and complex marketing problem. But everyone now wants to start a petro-chemical complex. Every State wants a refinery, a steel plant, an atomic energy plant and also I suppose a shipyard and a railway zone; and recently I read that it has been suggested that one of the States should have its own air service. I would earnestly plead with the Government to see that the full financial implications and technical issues of such projects are carefully examined and also to see how much this country at the present stage of its development can afford. There are certain things that are premature at our stage of development — not that they need be ruled out for all time. I earnestly request the Government to consider whether we have the growth rate of demand to absorb all the output of PVC, polystyrene, polyethylene, butadiene that will come up from these complexes.

We were eager first to set up new steel plants. Now we are having a vague idea that we must have petro-chemical complexes. The Government should go into this very carefully, particularly from the point of view of the scarce capital resources of the country. This is a highly capital intensive industry and will involve a tremendous amount of foreign exchange. This is a matter that should be considered at the highest level in the Cabinet because it is not right that the tax-payer and the consumer of the country should be saddled with enormous expenditure tied up without corresponding benefits for a long time.

I plead not for scuttling of plans but for more effective planning. I am afraid that if too many highly capital-intensive projects are undertaken, we shall have a large drain on foreign currency on capital account in, say, 1967 and 1968 on these projects, followed by a glut in markets for the various products in 1970 and 1971. Such bunching of investment in this industry and consequent glut in later years has taken place in other countries like the U.S.A. and Japan, and we should seek to avoid such a mistake. The Investment Centre had a technical team from Japan to review the working of these petro-chemical industries. If I am not mistaken, Japan is the second country in the world and Japan's technology in certain respects is probably superior. I suggest that we properly phase out our entire programme of petro-chemical industries so that the various units come into production over a number of years and not all together. We do not have, as we ourselves know to our cost, unlimited resources. Even when financial institutions give money as a supplement to the capital market — thoughtoday it is more supplanting than supplementing — the money has to be made available in some ways through Government sources. In a way, this is also deficitfinancing. We cannot afford to lock up intheplants which are not fully utilised such large resources for considerable periods of time. The Prime Minister, soon after he asumed officelast year, emphasised this point. I am not saying that we should not have heavy industries or basic industries, but we have to balance between them and the needs of the consumers today for food, shelter and cloth, as well as quick-yielding projects and the completion of such projects as have been taken in hand. These should have a priority. The essence of planning is to distribute resources in such a way as to maximise the returns from them within the accepted policy constraints of planning. We have competing demands on our limited resources. All these demands might appear legitimate and pressing, but the technique of planning should be to be able to make a choice on the basis of rational calculations. Again and again, people plead for flexibility in this matter. For once, I plead for firmness. I plead that when the Government has taken a decision on important matters on the merits of the case, it should not yield to pressure — pressure either of big business or of State Governments — and it should implement the decision firmly.

In this connection, when we consider our targets it is also necessary to examine whether policies relating to the specific industries help to foster their growth. We have had controls on sugar and cement for years together. Yet what has been the result ? Have we been able to control sugar prices? There should be adequate distribution of cement. Have we not had a perennial shortage of cement? We should consider whether the Government could not favourably regard the industry's plea to give it a higher price or to allow free sale of a part of its output. This will not only improve profitability of the industry but also provide larger internal resources to the industry for expansion, and incidentally also improve Government revenues as a result of higher tax returns.

The main point is whether by setting free a certain portion — notdecontrolling entirely — higher production could not be achieved. In December, 1963, price control on some commodities, including certain categories of steel, was removed. Heavens have not fallen as a result of these measures. In our country, we argue in too abstract and general terms about control and decontrol. People say vehemently that all controls are wrong. Slogans like "licence and permit raj" are raised. But people in the Government and responsible businessmen must discuss specific controls at a given time; they should examine why and under what conditions and for what specific purposes such controls were devised, how they are working, whether they can be relaxed and removed in public interest, not merely in the interest of an industry concerned. These questions deserve much more careful and dispassionate consideration than they have hitherto received. I know of certain cases where industries themselves, though outwardly speaking against controls, have privately welcomed these controls for artificially keeping up prices. The Government should consider this question from the point of view of public interest.

The Finance Minister in a note that is reported to have been circulated to the A.I.C.C. session at Bangalore — I hope that was circulated because I do not want to be told that the press report was misleading — has stated: "The policy of price controls has also been reviewed in the interest of giving impetus to industrial growth. We sought in the past to maintain stability of prices by controlling prices either by statutory notification or by some informal understanding with the industry. Such controls, when they work, are useful. But often they only tend either to restrict the growth of enterprise or to create an unofficial market in which higher prices are realised without being shown in the books to the detriment, among other things, of Government revenues. Such controls cannot serve any useful purpose. Several of these have already been removed; but it is necessary to take a second look even at the remaining area of controls to see if they are being effectively administered and are serving any social purpose. In short, while we cannot rely exclusively on market mechanism for the distribution of all essential and scarce materials, we have to be continually on the lookout for opportunities to minimise the reliance on controls by a judicious mixture of price incentives and disincentives."

I commend these valuable observations to Government's consideration and to the consideration of the Deputy Chairman of the Planning Commission.

Planning is a continuous process and we cannot have a holiday from it. It does not make sense to me. The nation cannot escape development, and the process has to go on.

The point is to have it on a much more selective and, in certain cases if necessary, on a much more strict basis in larger public interest, even if it be detrimental to some sectional interests. And that was what I meant when I stressed observing the highest priority.

More than the size of the Fourth Plan, a thorough scrutiny of the policies and procedures is essential. As the events of the last few years show, we no longer sewn to have a coherent plan of development; we have been all the time improvising, This is the third foreign exchange crisis that we have had. Surely, we could have anticipated this. I had said in November, 1959, that "....the experience inevitably raises some pertinent questions about the Second Plan. Firstly, was there a foreign exchange budget? Or, to put in another way, were the Foreign exchange requirements of the Plan estimated with sufficient care and was enough leeway left for those inevitable contingencies which we cannot foresee but must always provide for? And was a reasonable calculation made of the import content of rising current expenditures by Government?"

Heavy imports of foodgrains was also not properly anticipated.

We must give up chopping, chiselling, improvising programmes in response to pressures as they arise from time to time. This is the result of a drift. And if this is the consequence of ambitious planning, it is desirable to plan realistically within our means and then adhere to the plan. Let not the shortfalls deter us ; we have to change our difficulties into opportunities and our obstacles into hopes. It is far better to have a modest plan because when it succeeds, people will be more enthused than being disappointed by serious shortfalls.

III

PLAN CONSOLIDATION TO REDUCE STRAINS ON ECONOMY

By

K. SANTHANAM, M.P.

During his first year in office, Mr. Lal Bahadur Shastri has been steadily consolidating his position. His excellent performance in Canada and at the Commonwealth conference together with the agreement on Kutch has placed him in a strong position to face the crucial test of his career. He has now to meet the economic crisis before the country with courage and speed.

It is not necessary to show that our economic situation is serious and deteriorating. Mr. T. T. Krishnamachari acknowledged this fact recently in his own facetious manner by

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* *Reproduced, with kind permission of the Editor, from "Statesman" of July 14, 1964. The author is a member of Parliament, a former Chairman of the Finance Commission, and an eminent economist.*

declaring that he would not allow the country to slide into bankruptcy., That statement was curiously reminiscent of that other historic statement by Mr. 'Churchill that he had not become the Prime Minister of Britain to liquidate the empire. I hope the Finance Minister of India will have better luck.

I do not think there is any need to speak about bankruptcy. India is not anywhere near it. But there is no denying the fact that Indian economy is grinding to a halt. The chronic and increasing foreign exchange crisis, the mounting prices of essential consumer goods in spite of heavy taxation, high rate of interst and stringent restrictions on credit, leave no doubt that drastic measures are needed. There are reports from all over the country that many plants are working below capacity.

In this connection, some persons have suggested a Plan holiday. If planning is a kind of race or show, the proposal may have some meaning. But economic activities are continuing processes and there can be no holiday for planning, unless the idea of planning is to be abandoned altogether and the Indian economy left to the vagaries of *laissez faire* which has been discarded everywhere.

We have to discover a method which will maintain the continuity of planning and at the same time ease the strain which the economy is unable to bear. The heroic attitude of ignoring the crisis, which is the fashion set by the Vice-chairman of the Planning Commission, can only lead to disaster. The Indian economy is sick and needs some rest and careful nursing.

As has been pointed out, this rest cannot be obtained by stopping planning of any other activity. The strain can be eased only by phasing our actions more carefully and inducing greater confidence in the business and industrial community and in the general public.

I think, that the first step to be taken is to extend by one year the period of completion of the Third Five Year Plan. This will automatically reduce to half the money which is to be pumped into the economy by the Government during this year and the next. It has been the experience of the first two Plans that much unproductive and hasty expenditure was incurred in the last year to fulfil the financial targets of those Pkns. If the

States and departments are now told that they could complete the Third Plan targets by March, 1967, there will be an immediate relaxation of the pressure on the economy.

In any case, some important projects would be left over from the third to the fourth Plan, if the former were to end by March, 1966. The extension of the Plan by one year need not delay this proces of completion, nor should it in any way interfere with the preparation of projects for steel, power and other key factors. Instead of his preparation being a part of the Fourth Plan, they will be more appropriately the work of the last year of the Third Plan. Only new investments, except in a few indispensable projects, like oil refineries, will be postponed to the financial year, 1967-68.

The next step, I would suggest, is that while keeping the contemplated target of Rs 21,000 crores for the Fourth Plan intact, the period of that Plan may also be extended to six years. This will automatically make the position of resources easier without any agonising reappraisal of priorities or targets. Such an extension will also have a special advantage if it is decided that, instead of the present annual reviews, there will be only a mid-term review at the end of three years.

The present system of innumerable meetings and conferences of Ministers, officials and members of the Planning Commission to discuss the annual targets is a most wasteful and harassing procedure. All the top officials of the Central Government and the States have to start consultation regarding the programme for the next year before they have hardly finished settling the details of those of the current year. Most of the discussions have to be conducted almost in vacuo as no reliable estimates of the progress of projects are usually available within two or three years of their inauguration. Triennial conferences in place of these annual conferences will not ony save precious time and money but will enable those responsible to evolve proper criteria for judging the progress of implementation.

Another idea which deserves to be explored is to investigate where and to what extent capital investment has become saturated in any Line of activity. I am convinced that in many matters the country has invested so much capital that if it were converted into a revolving fund, the industry or economic activity concerned would be self-financing. In handloom, khadi, textiles and other industries further progress should be limited to the expansion which could be financed out of repayments of interest and principal and savings. In the case of the railways, if annual contributions to the general budget were automatically treated as being re-lent for railway expansion, the Indian railway system can also become self-financing.

Slowly, every branch of the Public Sector should work upon a time limit when it will generate all the savings needed for its own expansion. When the fourth Public Sector steel plant has been set up, the steel industry ought to be in such *a* position. The notion that investment in the Fourth Plan should be almost proportionate to that of the third for every item has become a vested interest. This is a dangerous development from which Indian planning has to be rescued, if it is not to degenerate into a mechanical performance.

There is a considerable amount of humbug about investments in social overheads. It is quite true that universal primary education and junior and higher technical education deserve top priority, but the country will not lose anything if for a time further expansion of secondary and college education, promotion of literature and art and other matters are left to voluntary agencies with occasional marginal assistance from public funds, if necessary. In many States, particularly in those which are backward, the tendency towards concentration of all social activities in State departments has resulted in a minimum of progress for the maximum expenditure.

If the measures indicated above are adopted, there should be no difficulty in making a firm declaration that there will be no additional taxation for the next three years. It would also be possible to give up some useless taxes which do not bring much money to the treasury but continue to create a lot of ill-will towards the Government. The main thing is to convince the people that those in charge of the economy have courage and imagination and that they are not hopelessly bound down by ideas and procedures which might have been valid 10 years ago but have become burden-some now.

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

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—A. D. Shroff

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