APPROACH TO THE FOURTH FIVE-YEAR PLAN

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

—EUGENE BLACK

INTRODUCTION

Since its inception in 1956 as a non-political organisation devoted to public education in economic matters, particularly the role of free enterprise in the economic development of the country, the Forum of Free Enterprise has pleaded for a realistic economic policy. While welcoming planning for economic development, it has warned against comprehensive centralised planning of the Soviet type which has been implemented in the country since the Second Plan in 1956. Subsequent events such as inflation, distortions in the economy, foreign exchange crisis, a food crisis, and recession in industries have proved that the warnings given by numerous economists in Forum of Free Enterprise publications have come true.

Three books* sponsored by the Forum of Free Enterprise incorporating its old and out of stock publications make worthwhile and instructive reading today.

With the breakdown of the planning process in the country in 1966, there have been one-year plans, mostly in the nature of a process to keep the projects of the earlier plans going. An "Approach" to the Fourth Plan, proposed to be drafted shortly and implemented from 1st of April, 1969, has been circulated by the Planning Commission for public comment.

This publication brings together texts by three eminent men in public life, who have practical knowledge of the working of the economy. Their study of present economic conditions and analysis of the Fourth Plan "approach" deserves serious consideration if the country is not to repeat the unhappy experience of the last 12 years.

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* *Planning in India — A Commentary* Price Rs. 10
Socialism in India — A Commentary Price Rs. 15
Taxation in India — A Commentary Price Rs. 15
(Published by Popular Prakashan, 35-C Tardeo Rd., Bombay 34 WB. (available at concessional price to Forum members and Student Associates)

(Authors include the late A.D. Shroff, Founder-President of Forum of Free Enterprise, Mr. Murarji J. Vaidya, present President, Mr. N. A. Palkhivala, Prof. P. T. Bauer, Prof. B. R. Shenoy and other distinguished economists and industrialists.)

APPROACH TO THE FOURTH PLAN

INDIAN PLANNING AT CROSSROADS

Dr. Rustom C. Cooper*

The fact that Indian planning has reached the crossroads is evident from the performance of the three Five-Year Plans and the enforced plan holiday which the Government had most reluctantly to agree to. This is perhaps the best time to review the entire situation and make up our minds.

The planners, in finalising their strategy, should carefully consider the various alternatives and decide what is the best system to be adopted in India. For instance, it has to be decided whether our economic planning should be based on Balanced or Imbalanced growth; whether the present regimented planning is suited for a democracy or whether we should embark henceforth on indicative planning. Having regard to the systems of planning followed so far in the last 15 years what have been our achievements? Where have we gone wrong? What can we do at this stage to improve matters? What should be our approach towards the Fourth Plan?

The problem of transforming an under-developed economy into a self-generating economy calls for the adoption of a meaningful strategy of economic development. This implies :

(*a*) the economy should be required to make the minimum effort necessary to achieve the maximum rate of growth;

(*b*) the process of transformation should not take a very long period of time.

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* *Dr. Cooper is a Past President of the Institute of Chartered Accountants of India, and of the Indian Merchants' Chamber, Bombay. This text is based on an address he delivered while inaugurating the Hyderabad Discussion Centre of the Forum of Free Enterprise on July 27, 1968.*

Among planners there exist two schools of thought favouring (*i*) Balanced Growth; and (*ii*) Imbalanced Growth.

Balanced Growth implies simultaneous investment in a large variety of enterprises to ensure success of individual enterprises. The investment should be avoided in those fields where it is not likely to succeed. Two important implications of the concept of balanced growth are : (*a*) the State should assure simultaneous investment and (*b*) there should be central planning for balanced growth.

The strategy of unbalanced growtn emphasises that poor undeveloped countries where there is scarcity of capital resources and where the capacity to develop simultaneously all industries is limited due to shortage of skill and managerial and organisational ability, should resort to unbalanced planning. The authors of unbalanced growth believe that the doctrine of multiple simultaneous growth is wasteful and uneconomical. More economical and rapid course of development lies in determining a sequence of expansion that will maximise induced investment. A forward thrust of the strategic sectors will create imblanace and, consequently, through incentives and pressures so created, other sectors of the economy will try to catch up. Unbalanced growth may involve either (*a*) development via excess capacity or (*b*) development via shortages. The advocates of unbalanced growth emphasise deliberate unbalancing of the economy. To them the role of the state should be first to create pressures by deliberate imbalancing and then to relieve these pressures. According to them, it is unnecessary to draw comprehensive plans.

The fundamental objective of planning in India is to accelerate economic development by bringing optimum utilisation of its resources so that the masses can have a reasonably high standard of well-being.

Apart from this primary objective, the following main requirements have also to be constantly kept in mind :—

(*a*) Accelarate economic development by bringing optimum utilisation of resources.

(*b*) Ensure reasonably high standard of well-being.

(*c*) Implement Directive principles of Indian Constitution aiming at creating a society in which all have equal opportunity and where disparity in income and wealth will be reduced to the minimum.

(*d*) Increase Production.

(*e*) Raise *per capita* income.

(*f*) Expand employment opportunities.

(*g*) Improve distribution of wealth by reducing inequalities in income and wealth.

Before we finalise the Fourth Plan, it is necessary to review our achievements so far and decide whether planning during the last 17 years has substantially achieved the above objectives. This type of review can be made with the help of certain yardsticks.

On an average, the economy has grown at the rate of 3.3% per annum during the entire plan period. But since population between 1951 and 1966 rose by 34%, the *per capita* national income rose by only 1.2 per cent, i.e., only one-third of the increase in national income. When one takes into account the fact that the increase in national income has substantially benefited the already richer sections of the population to a considerable extent, the rise in *per capita* income becomes still more insignificant.

India's record of economic progress compares very unfavourably with the rate of growth in other under-developed countries. Our rate of increase in industrial production which is 3% per year, compares very unfavourably with 5% or more achieved by 25 out of 31 under-developed countries included in the United Nation's World Economic Survey for 1961.

Our growth rate is 3.3 per cent as against 6% in Japan, 7% in Thailand, 8% in Nationalist China, 6% in Malaysia and

South Korea. Thus even in Asia our economy is a marginal one in spite of 15 years of planning.

A very disquieting feature of the working of the plans has been the rise in prices which has upset all plan calculations besides hitting hard the poorer sections and fixed income earners. The wholesale prices rose by 9 per cent in 1963-64, 8.7 per cent in 1964-65 and 12.4 per cent in 1965-66 due to (*a*) mounting investment expenditure (*b*) heavy defence expenditure (*c*) deficit financing (*d*) higher indirect taxation. The price level during the Third Plan period alone rose by 32%, which is quite alarming.

In the meantime, the rate of growth of savings very considerably fell short of 14% of the national income which was the target.

The backlog of unemployed persons was 5.3 million at the end of the First Plan. It rose to 8 Million at the end of the Second Plan and 10 Million by the end of the Third Plan. The development plans in India have failed to absorb even the normal increase in labour force during each plan period, not to speak of reducing backlog unemployment. According to Prof. Colin Clark, if the rate of additional investment — expressed as percentage of national income — is four times the rate of increase in population, the economy should be in a position to find jobs for increased labour force. Even when the rate of new investment in the Third Plan was about 14 per cent of the national income and the rate of growth of population was about 2.5 per cent, there was failure of the economy to provide jobs to new entrants to the labour force. This implies that large volume of investment is misdirected into capital goods industries having low demand for labour or it is spent on top-heavy administration in the Public Sector.

Our foreign exchange balances have been depleted during the plan period. There was sharp decline from Rs. 700 crores in 1955-56 to Rs. 100 crores in 1960-61. This trend continued throughout the Third Plan period.

The yield from direct taxation has almost reached the saturation point. Of late, the Government has been relying more heavily on commodity taxes, mainly excise duties. In the last three budgets, the revenue from indirect taxes almost formed 75% of the total tax revenue. Revenue from excise duty has gone up from Rs. 70 crores at the beginning of the First Plan to about Rs. 860 crores at the end of Third Plan. For the year 1966-67, the excise duty is expected to yield Rs. 970 crores and for 1967-68 Rs. 1150 crores. The burden of excise duties is particularly heavy on industrial raw materials and intermediary goods such as cement, iron and steel, oil, etc., and wage goods such as sugar, matches, tea, coffee, etc. This indiscriminate levy of excise duties on industrial raw materials has given rise to cost push inflation. Such taxation policy has done more harm than good to the cause of rapid industrialisation and development of exports.

The Public Sector undertakings have largely failed to serve their purpose and continue to exist because of large volume of financial assistance given by Governments. Between 1960-61 and 1964-65 they have earned net profit only for three years and have made loss for the remaining two years. The highest rate of return was 1.8 per cent on invested capital. These enterprises are also suffering from (*a*) large volume of inventories; (*b*) inefficient management, and (*c*) inefficient utilisation of resources.

The above review of the achievements of economic planning during the last 17 years makes rather poor reading. The question naturally is where have we gone wrong? The errors we have committed could be briefly enumerated as under :

(*a*) **Doctrinnaire Planning :** Our planning has not been pragmatic. The draft plans contain routine treatment and stereotyped thinking : the same ideas, the same reservations, the same hopes. Planning is done by those whose knowledge is only of text-book economics, and they are carried away by slogans and are fond of coining new phrases. As pointed out by Mr. G. L. Mehta, "Drawing up a plan is not the same thing as obtaining results any more than pinpointing Mount Everest on the map of India is a substitute for climbing it."

(*b*) **Unrealistic Planning :** Our plans have been based mechanically on certain rate of growth of financial resources, of employment opportunities, of food grains production and industrial development. Presuming these assumptions as correct, our planners have mechanically calculated the projections of future and these have remote semblance to reality. The excess capacity created in engineering and other industries leading topresent recession was based on such calculations of the perspective planning division of the Planning Commission.

(*c*) **Over-ambitious Planning :** Our planning has been over-ambitious. With the exception of the First Plan, Second and Third Plans have been over-ambitious. We have an obsession for bigger plans. By some mysterious formula, the Planning Commission has been just doubling the size of each successive Plan. Our plans are need-based instead of being resource based.

(*d*) **Over-Planning :** The Planning Commission has been preparing plans in concrete terms even for the minutest detail. In the words of Dr. P. S. Lokanathan, "It is the attempt to over-plan, to lay down targets for every little thing and to consider all targets of equal importance that leads to undue expectations on the one hand and to create disappointment on the other when the targets fail to be achieved". As the Governor of the Reserve Bank said, "a seemingly smaller plan in terms of financial outlays but executed without experiencing inflation may, indeed, in terms of physical contents be no smaller than a larger financial plan whose size contains a sizeable element of price inflation."

(*e*) **Overestimation of resources :** Throughout the Three plans, one notices over-optimism on the part of the Planning Commission regarding resources. The Second Plan estimated a surplus from current revenues at Rs. 350 crores. Actually it turned out to be a deficit of Rs. 50 crores. In Third Plan, current revenues were estimated to yield a surplus of Rs. 550 crores. Actually it turned out to be a deficit of Rs. 470 crores. Overestimation of resources and planning finally leads to either more taxation or resort to deficit financing.

(*f*) **Bureaucratic Machinery of Implementation :** The administrative machinery of the government is not well suited to undertake implementation of development plans. It is (*a*) inadequate, (*b*) inefficient and (*c*) unclean. It is inadequate because the task of implementing a detailed plan for each sector is beyond its capacity. It is inefficient because it suffers from red tape. It is unclean because it is corrupt. The administrative machinery is over-loaded with administrative as well as developmental responsibilities. The Government has not tried to utilise non-governmental leadership for the implementation of the plans. The State, in short, is trying to achieve something which is beyond its means.

(*g*) **Centre-State Discord :** There is no harmonious relationship between the Centre and the States which is necessary for the effective implementation of the plans. Regardless of national interests, several states have big plans, depending heavily on the Centre for plan allocation and grants rather than on their own resources. No State is prepared to increase its revenue by efficient tax collection. They have been relying heavily, of late, on overdrafts from the Reserve Bank.

(*h*) **Population Control :** Population control, which ought to have received top priority right from the First Plan, was grossly neglected till recently. This has completely negatived the advantages of increase in agricultural and industrial production.

In the Fourth Plan period, we should take the following steps to remedy the situation :

(*a*) The system of performance budgeting should be made applicable both to Public and Private Sectors of industry. Not only in industrial activity but in all economic projects the test of performance budgeting should be applied and results constantly watched.

(*b*) All further investment in Public Sector undertakings must be made conditional upon the rate of return on existing investments.

(*c*) Both for public and private sectors, greater attention should be paid to costs and returns of projects.

(*d*) Gestation period of various schemes should be properly balanced.

(*e*) Harmonious growth of capital goods and consumer goods industries should be ensured.

(*f*) Importance of price stabilisation should be realised.

(*g*) Over-ambitious plans with high investment targets which are beyond the capacity of the nation should not be undertaken.

(*h*) There should be less dependence on external aid and more on internal resources.

(*i*) Realistic and sound fiscal policy should be pursued which would create right climate for investment and active capital market.

(*j*) Export should receive a high priority to rectify disequilibrium in the balance of payments.

(*k*) There should be less reliance on Government agencies and bureaucratic machinery for economic development.

To summarise, our approach towards the Fourth Five Year Plan should be broadly as follows :

(*a*) It is necessary to consolidate and carry forward the achievements of the earlier three Plans, make up for their shortfalls and prepare the ground for a self-reliant economy.

(*b*) Self-reliance does not merely mean freedom from external aid but also continuing growth of the economy by itself.

(*c*) Greater emphasis will have to be laid on technology and research for increasing productivity.

(*d*) In the field of agriculture, the gap between irrigation potential and its utilisation will have to be quickly narrowed.

(*e*) In industrial sphere, starting of projects with inadequate preparatory work both in public and private sectors of industry should be avoided.

(*f*) Selective approach should be brought to bear on the choice of projects and programmes.

(*g*) Investment strategy will have to be re-examined having regard to cost structure, quality of products, trends in domestic consumption, export policy, existing idle capacity and establishment of a healthy link amongst consumer, intermediate and producer goods industries.

(*h*) The need for mobilising additional resources to the extent of Rs. 200 crores to Rs. 300 crores per annum as indicated in "Approach to the Fourth Five Year Plan" should be thoroughly re-examined. If the Planning Commission were to lay down a target of a reasonable return of 10% on the huge investment exceeding Rs. 3,000 crores already made in the Public Sector industrial concerns there will be absolutely no need for mobilising additional resources of this order either by deficit financing or by taxation.

(*i*) As long as the investment already made in the Public Sector does not yield satisfactory reutrn (at least 10%), pumping in additional scarce resources into the Public Sector at least during the Fourth Plan cannot be considered to be in national interests since it would only tend to impede country's growth.

(*j*) At present industrial relations in the country are at a very low ebb and need to be tackled on the basis of high priority. Unless a harmonious working environment is created in which workers, managers and administrators accept the common national objectives, our industrial structure cannot create more wealth and raise the living standards of the masses.

A Judicious Industrial Licensing Policy is Essential

Y. A. Fazalbhoy*

"Growth with Stability" is a very important statement in the "Approach to the Fourth Five-Year Plan". We heartily endorse it. Stability alone would end the disastrous rise in prices which we have been experiencing all these years. But first of all agricultural prices must be stabilised.

We are now on the eve of the Fourth Five-Year Plan. It would, therefore, be appropriate for me to refer to certain very important factors which should influence us in our thinking on the Fourth Plan. The period of continuous recession in industry and serious deficit in agricultural products following successive years of crop failure, we hope, are now behind us.

We are now in a position to look forward. There is a refreshing change in our outlook on the future scope of our economy. For a long time, it used to be the practice to look at agriculture and industry as two separate sectors of the economy. Today, the close inter-connection between the two is being increasingly realised.

We find that 70 per cent of our population who live on the land constitute an important factor in our economy. The increasing prosperity in rural areas will have a far-reaching impact on the consumer goods production and through it on the capital goods industries. However, in order to sustain and ensure the steady growth of rural prosperity, we have to reduce the pressure of population on land. In the advanced countries, the percentage of population dependent upon land varies between 10-20 only and the rest of the population depends upon

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* *The author is President of All-India Manufacturers' Organisation. This text is based on his speech at a meeting of AIMO's Central Committee in Bangalore on July 25, 1968.*

other occupations for livelihood. The development of agro-industries in rural areas and consequent increase in trade will widen employment opportunities in small-scale industries and in the services sector.

Recently, discussions were started between the Planning Commission, Ministry of Industrial Development and representatives of industry. The Government and the Planning Commission want to encourage and foster entrepreneurship on a much wider scale. A welcome sign is the current thinking in official circles regarding the desirability of delicensing and decontroling. This is reflected in the Planning Commission's document on the "Approach to the Fourth Plan".

There appears to be some hesitation yet on the part of the Planning Commission to allow free scope for delicensing to have its full impact on production and productivity which is essential for us.

One of the reasons is the likely impact on small-scale units in industries where both small-scale and large-scale units co-exist. It has to be remembered that even as it is, no licence is required for starting a unit with an investment upto Rs. 25 lakhs. Small-scale units fall within an investment of Rs. 7.5 lakhs only and licensing provisions cannot prevent medium scale units with an investment between Rs. 7.5 lakhs and Rs. 25 lakhs from coming up. The small-scale units, are, however, eligible to certain special concessions and considerations at the hands of Government which have helped them to withstand competition from the larger units. The best way of taking care of small units is, therefore, to continue to help them by way of price preference, fiscal incentives, raw material allocations, financial assistance, etc., as before. What is needed is encouragement instead of safeguards and action to ensure co-ordinated large scale development of small industries all over the country. This will be facilitated if AIMO's suggestion for enaction of legislation on the pattern of Small Business Act and Small Investment Corporation Act of the U.S.A. with suitable adaptation for Indian conditions is accepted and implemented by Government.

However, care has to be taken to ensure that the reservation of certain industries exclusively for the small-scale sector does not result in perpetuation of a tendency to remain always as a small-scale one in order to be eligible for Government assistance and subsidy. It should be the objective of Government and the Planning Commission to encourage these small-scale units to modernise themselves and expand over a period of years. When they cross the border of small scale unit, they should not be deprived of Government subsidy and assistance suddenly but be eligible to them on a reduced scale for a specified number of years. In our enthusiasm to make a few products a close preserve of only one section of industries, we are apt to forget the economic interests of the country at large and particularly the consumer who should be really supreme — and we should, therefore, never ignore the immense benefit that would accrue to the country from economies of scale such as only large-scale industries can achieve.

There are, however, a few cases where a judicious policy will have to be followed in de-licensing. In cases where one or a few large-scale units dominated in production and where it is apprehended that de-licensing may result in wiping out of existence several small units in the filed, despite Government assistance and concession, it may be advisable to prescribe a ceiling on production by an individual unit for catering to internal demand.

Another objection voiced is the need for developing industries in the order of priorities and targets laid down in the Five-Year Plans. This should not stand in the way any more as it is now proposed to adopt an indicative approach to planning. The objective of Government to promote certain industries for which indicative targets may be laid down can be achieved through suitable tax concessions and other special facilities. By the same strategy, another objective of establishment of export-oriented/import saving industries can be achieved.

A consideration that is advocated at times in favour of licensing is that it can be used as an instrument to start new units instead of expansion of existing units in the interest of creation of more employment opportunities. It should not be forgotten that if investment is made in existing units more production is achieved by a much smaller investment than in a new unit. After all, capital is scarce in our country, and it should be put to the best use. Further, as the experience of all the developed countries has shown, it is the expansion of the tertiary sector, i.e., service sector in trade, transport, independent professions, etc. which eventually absorb the largest percentage of the working population.

Fear is also expressed of monopolies coming up if there is delicensing resulting in concentration of economic power in the hands of a few. Some developed countries have already taken care of this aspect after having experienced the adverse effects of undue concentration of power in a few irresponsible hands. The remedies they found are before us. Even in the U.S.A. where the ideal is a free competitive economy, it is believed that this can be maintained only within the framework of regulation protecting those engaged in business from the predatory practices of competitors. This thought was best expressed by the late Mr. Justice Learned Hand, when he said, "A society in which men recognise no check upon their freedom soon becomes a society where freedom is the possession of only a savage few". While we should restrict monopoly, we should not go far beyond the steps taken by these countries. We have to see that the 70 per cent of our population who are engaged in agriculture obtain in increasing numbers the industrial inputs which would bring them greater returns. We must instal plants for manufacture of fertilisers, tractors, power tillers, bull-dozers, excavators for building dams and canals and for clearing forests, equipment for mills that will grind thousands of tons of grain, equipment to keep grain and other agricultural production in cold storage. This, in turn, would help other industries to supply products which would enable them to be housed better, to enjoy more of the amenities our industries offer in the form of better lighting, better quality of items for daily use and items that make life more pleasant and easy. The farmers should be able to enjoy their hours of rest and also during the period of enforced idleness, when there is no work in the farms, turn their hands to the development of small and cottage industries with the aid of power which is increasingly becoming available.

The Approach to the Fourth Plan contemplates additional resources mobilisation of the order of Rs. 200 to Rs. 300 crores for the Public Sector during every year of the Fourth Plan. As the Deputy Chairman of the Planning Commission himself had pointed out in one of his recent speeches, if the investment in the Public Sector had yielded five to six per cent return, it would have generated confidence in the public that more resources would be available and public opinion would have been created in favour of its expansion. It would be advisable for Government to concentrate first on improving the efficiency of existing Public Sector units intead of starting new large-scale units. The Private Sector should, therefore, be encouraged to participate to a larger extent in the developmental efforts in view of their proven record of performance. The Government should also take quick decisions as inordinate delay in taking decisions on important issues such as licensing of fertiliser projects, rise in price of coal and steel etc. is dampening the enthusiasm of entrepreneurs.

As the annual payment by way of royalty has considerably increased from Rs. 16 crores in 1957/58 to Rs. 32 crores in 1967/68, the Government wants to restrict the import of foreign know-how. While understanding the anxiety of Government to restrict import of know-how in the context of the prevailing foreign exchange difficulty, we should remember that applied scientific research and technological developments are going on at a fast pace and to a greater degree than before in all advanced countries, and no one country exclusively relies on its own know-how at present. Advanced countries of the West and Japan are both buying and selling know-how, perhaps buying more than selling. No doubt, they utilise their own industrial and scientific talent to develop the know-how they purchase and carry out know-how research, so that they may be able to offer improved technical know-how not only to the developing countries but also to the developed ones from whom they acquired the know-how originally. It would not be in the interest of India to shut out technological advances being made in other countries, as it would inevitably result in our products becoming more expensive and we would find it difficult to compete with other developed countries.

The Planning Commission is anxious that there should be no repetitive import of know-how. They want some arrangement to be made by which imported know-how could be made available to as many entrepreneurs as possible who would like to have it. It is doubtful, however, whether there would be sufficient response as experience has shown that competitors in the same field do not generally go in for the same know-how. Further, confining ourselves to the technology of one process would throttle initiative and result in competitive weakness. Unless there is competition between the manufacturers, and this can be assured if they have access to different technologies, our economy would not become productivity-oriented and economy-conscious. Further, no entreprenuer would go in for the same know-how, after initial agreement is over, as technological changes in design are taking place rapidly. In any case, cost of know-how is generally less than $7\frac{1}{2}\%$ of the over-all cost. It would, therefore, be advisable for our Government not to follow any hard and fast rule but consider each case on merit. Where the import would be in the interest of the country, the same should be permitted either on an outright purchase basis or on royalty basis.

Fourth Plan should be Based on Available Resources

By

S. M. Dahanukar*

The Planning Commission has placed before the country a note entitled "An Approach to the Fourth-Five Year Plan". It has asked for guidelines for finalising the Plan. The note has been very thoughtfully drawn out and aims at eliminating the past mistakes and reorienting our approach to planning on a practical basis so as to achieve the desired results. It has clearly given a lead in pointing out the direction in which the thinking on planning should change. For instance, it refers to the heavy expenditure incurred on Public Sector projects and has rightly emphasised the need to bring this investment to profitable working before further investment is made in this sector. Secondly, in view of our present foreign exchange difficulties and in view of the need for increased production to meet the consumer demand, greater latitude is to be given to Private Sector industries to expand and develop more freely by reduction in the pesent controls and restrictions to the maximum extent possible.

On the agricultural sector, apart from the various steps for increasing food production, such as supply of hybrid seeds, fertilizers, insecticides etc. emphasis has been rightly given to provision of financial assistance to the agriculturists through the co-operative and commercial bank credit net-work. Similarly, the question of large number of small agriculturists dependent on rain water for cultivation has to be tackled and that has been rightly emphasised in this note. The suggested aids to the small farmer who is only dependent on nature are welcome.

Another very important subject is the question of stabilisation of prices. On this, the note has emphasised the need

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for procuring and maintaining sufficient stocks of foodgrains with the Government so as to act as a buffer to regulate market activity and stabilise the prices. With the stabilisation of foodgrains prices, the prices of other commodities would tend to stabilise. To aid this, the note suggests that we should resort to marketing of consumer goods through fair price shops and through channels of consumer co-oprative societies on a much larger scale. It is felt that this would enable people to get consumer goods at reasonable prices.

Indication of fresh thinking on the approach to the plan in many important directions is indeed welcome. The note however, has overlooked one very important factor which has created difficulties in our past planning.

In the past, the planners had first decided and laid down the rates of growth and targets to be achieved in industrial and agricultural sectors to ensure steady improvement in the economy during each year of the plan period. After fixing this, details were worked out as to how these can be reached and what would be the requirements for industrial, agricultural development and of the infra-structure required besides the question of education, health and social welfare. Having worked out these details, the finance required was estimated. Then the Planning Commission had attempted to look round for the resources to meet this planned expenditure required to achieve the targets set. It has been the experience in the past that invariably the available resources fell considerably short of the anticipated expenditure and finance required. This "gap" was made up by (*a*) resort to deficit financing, (*b*) reliance to a much greater extent on help from foreign countries and (*c*) leaving the balance as "unbridged gap" which somehow could be made up as plan progressed! The net result was that we were committed to a much larger size of expenditure than was feasible with our resources. This from any consideration is a wrong approach to planning. It is because of this that the plans came into difficulties in the past and failed to give positive and real benefits.

It is necessary to give up this approach altogether and instead adopt a different approach. For that we should first assess our definite and certain resources that are available during the plan period. Reliance on a limited scale to deficit financing may be taken into consideration. Reliance or help from foreign countries should be limited and we should no take in our estimate for the Fourth Plan more than 50% of such help received during the Third Plan period. This is because the servicing of the loans already taken from foreign countries has now become a big burden which we have to meet in the coming period. Thus after ascertaining, on a conservative basis, the available resources at our disposal, we should launch on a planned programme of development and keep the expenditure strictly within the limits of these resources. These may be allocated to different sectors according to relative urgency and importance to ensure their best utilisation.

Since more than 50% of the National Income comes from agriculture it is but right and proper to devote our resources and energies for its growth. This would ensure maximum return on capital invested and help in sizably reducing imports of foodgrains. In the industrial sector, investment must be channelised to projects which would come into production in short periods rather than projects which require long gestation period. Similarly, judging from the past experience of last 10 or 12 years it is best to allow industrial growth through channels other than the Public Sector. Economic progress is best achieved by healthy competition and by incentives that make people work for their own advantage while serving the nation. Further, in view of limited resources, expenditure on other non-developmental aspects, however important or urgent they appear, must be kept to bare minimum. As in everyday life, we must first earn money before we can think of spending it for better living.

Perhaps, from all this, it might appear as though we are aiming for a very low rate of growth. However, there is no need to be apprehensive of this because whatever rate of growth we will achieve by this process would be a "positive" gain and would enable us to take the next step for a further and increased positive gain. It is only by planning on this basis that we shall be able to achieve a certain and real economic growth. At the moment what economic growth we seem to achieve on the one hand is more than nullified by the increase in the cost of living and thus there is no "real" gain. This situation can only be corrected if we decide and strictly adopt a resource-based plan in place of requirement-based plans of of the past.

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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