NATURAL ECONOMIC GROWTH IS VIA AGRICULTURE & CONSUMER GOODS INDUSTRIES

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Alone among the four objectives of planning in India—abolition of poverty, liquidation of unemployment, industrialization and the attainment of a socialist pattern of society — industrialization has recorded remarkable progress, the achievements under the other heads being rather disappointing. During the past nine years the index of industrial production has risen by 68 per cent., or at an annual rate of 7.6 per cent. This is considerably more than the expansion in any country in Asia, excepting Japan, and one and a half times to twice the rate of expansion in Canada, Norway, Sweden, U.K. and U.S.A.

Though progress was recorded in all categories of production, the expansion of the output of capital goods—machinery, electrical motors, machine tools and automobiles —and of intermediate goods—coal, iron and steel, other metals, cement, heavy chemicals, paints, tanned hides, rubber goods and electricity—has shown outstanding progress. In 1960, the output of capital goods was from 2.9 times (automobiles) to 8.9 times (diesel engines) their output in 1950; the corresponding rise in intermediate products was from 1.6 times (coal) to 21 times (rayon yarn).

Among consumer goods, the output of cotton textiles showed the least progress, its index rising from 111.9 in 1950 to 114.6 in 1960 (Jan.—Oct.) The index of production of consumer goods used by the relatively better-to-do sections of the community—sewing machines, electric lamps, electric fans, radio receivers, sugar, vanaspati and cigarettes—increased still higher, the rise relatively to 1950 varying from 1.9 times (vanaspati) to 9.6 times (sewing machines).

Much of this expansion, particularly in the sphere of heavy engineering and heavy chemicals, is generally forced or induced, in defiance of the doctrine of comparative costs, by official policy, including rigorous import restrictions, exchange controls and drastic cuts in imports. Private imports were slashed by 38 per cent. in two years, from Rs. 812 crores in 1956-57 to Rs. 505 crores in 1958-59, at about which level they have remained since. Import licences are generally not issued where comparable domestic output is available in adequate quantities, the prices of the substitutes fabricated at home being regarded a minor matter in the face of the paramount need to "save" foreign exchange. This has placed domestic manufacturers in a number of lines in positions of monopoly or semi-monopoly, enabling extortion of near-ransom prices from consumers for what are generally, striking exceptions here and there apart, shoddy substitutes for superior quality imported goods.

Evidence of near-ransom prices paid by consumers may be seen in the vast gaps between landed costs and market prices of virtually the whole range of imported goods. These gaps, which are reflected in the prices commanded by import

licences, vary from 30 per cent. to 500 per cent. or more of the landed costs, depending upon the commodities.

The unsaleability abroad of our sugar surpluses because of the heavy price differential—the price of Indian sugar per ton is about Rs. 700 as against the world price of Rs. 400 per ton—is a sample of industrialisation in a closed market at unconscionably heavy costs. Fertilisers, penicillin and refrigerators are other samples. The landed cost of fertilisers is below the *ex factory* price at Sindri. The cost of imported penicillin is 10 nP. per million units, as against the estimated cost of production at the Pimpri factory of Rs. 1.25. The import of refrigerators is severely restricted. The cost of a refrigerator in India is about Rs. 2,250; the cost of a comparable unit in the U.K. may be about Rs. 1,000. Noteworthy exceptions excluded, what appertains to the foregoing stray instances may apply to virtually the whole range of industrial production in India.

If so, the phenomenal pace of progress of industrialisation of the country is not a matter very much to be enthused over. The consumer does not stand to benefit from it. What good can ensue to him to get mulcted of Rs. 2,250 and receive but a refrigerator in exchange when, if imports were free—as in the good old pre-Plan days—for the same outlay, he could get not only a much better refrigerator, with fewer break-downs and a longer life-span, but still have about Rs. 1,250 for other needs?

Forced industrialisation has also been detrimental to the national product and, therefore, to our effort to overcome poverty. Under tremendous policy pressures, resources get diverted from sectors where they produce higher output into sectors where real costs are higher and output lower. Such diversion has taken place from agriculture to industry, in particular heavy industry.

During the First Plan and the first three years of the Second Plan, it has been estimated that the increase in output from agriculture was of the order of 57 to 69 per cent. of the additional capital invested. On the other hand, in 1946-1953, in five industries—cement, paper, iron and steel and cotton textiles—the additions to output varied from a low of 14 per cent. in paper (iron and steel came close to paper with a percentage of 19) to a high of 36 per cent. in (Ahmedabad) textiles. According to another estimate, in 1956, the average addition to output in 29 industries was 33 per cent. of the additional capital invested.

These figures provide a rough measure of the extravagance and wastages involved in the policy of forced industrialisation. The net result is that, with the intensification of planning in 1955-56, the expansion of Indian national income slowed down to 2.9 per cent. per year. The national product might have gone up at a much higher rate —probably 8 to 10 per cent. per year—if adequate attention had been paid to investment in agriculture and the lighter industries.

Contrary to wide-spread opinion, forced industrialisation has also detracted from progress in the liquidation of unemployment. First, employment being a function of the volume of the national product, the retarded national product has retarded the additions to overall employment. Secondly, it has been estimated that an investment of one crore of rupees would provide employment at current wage rates for 500 persons in large-scale industries producing investment goods, 1,150 persons in large-scale industries producing consumer goods and 4,000 persons in agriculture and the small and household industries. Undue emphasis on industrialisa-

tion and on heavy industries has produced the queer result that, despite a more than doubling of the volume of investment, there was vastly more unemployment at the end of the Second Plan than at the end of the first.

Indian experience conforms to the lessons of history. Revolution in agriculture has nearly always preceded industrial revolution. Progress in lighter industries has nearly always preceded the development of heavy industries. Growth of agriculture provides a broad-based demand for the output of industries and the growth of lighter industries provides an assured demand for the output of heavy industries. This pattern of economic development, one sector aiding the progress of the other, would make for rapidity of growth without tears, because it would be devoid of colossal wastages. The surest road to the modernisation of the economy is via the development of agriculture and the consumer goods industries.

Planning in India is a reversal of this natural process. We are developing heavy industries ahead of light industries and developing both at the neglect of agriculture. In the First Plan, 37 per cent. (Rs. 731 crores) of the Public Sector outlay (Rs. 1,960 crores) was on agriculture. In the second, allocations to agriculture fell to 21 per cent. (Rs. 980 crores) of the total outlay, though the latter (Rs. 4,600 crores) rose by 95 per cent. relatively to the First Plan. Third Plan allocations to agriculture are placed at 20 per cent. (Rs. 1,728 crores) of total outlay, though the latter (Rs. 8,700 crores) have risen to over four times the outlay in the first Plan.

This topsy-turvy progress is inherently unstable. Persistence in it might render the Indian economy more and more vulnerable. It is incorrect to suppose that we are engaged in the "grand adventure" of forcing the pace of Indian economic development. What we are forcing is the pace of expansion of the industrial sector. This accounts for but 16 to 19 per cent. of our economic activity. The artificial boom here is more than negated by the drag it is causing on the expansion of the output of agriculture and the lighter industries, which together account for over two-thirds of Indian economic activity and from which about three-fourths of the Indian people draw their living. Viewing the economy as a whole, our policies have produced forced economic stagnation. There is no escape from this stagnation except through a basic policy reorientation to ensure that first things receive first attention.

The views expressed in this leaflet do not necessarily represent the views of the Forum of Free Enterprise.

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