GOVERNMENT OF INDIA

PLANNING COMMISSION

SECOND FIVE YEAR PLAN

APPROACH TO THE SECOND FIVE YEAR PLAN

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Explanatory Note

The expression 'lakh' and 'crore' signify 100,000 and 10,000 000 respectively.

INTRODUCTION

With the object of assisting study and implementation, the Second Five Year Plan is being made available in the following sections:

I. Approach to the Second Five Year Plan
II. Administration and Organisation
III. Agriculture
IV. Irrigation and Power
V. Industry and Transport
VI. Education and Social Services.

The numbering of pages in the different sections is in accordance with the text of the Plan.

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APPROACH TO THE SECOND FIVE YEAR PLAN

PART I

APPROACH TO THE SECOND FIVE YEAR PLAN

CHAPTER I

DEVELOPMENT OF THE ECONOMY: ACHIEVEMENT AND PERSPECTIVE

I

THE FIRST FIVE YEAR PLAN

THE central objective of public policy and of national endeavour in India since Independence has been promotion of rapid and balanced economic development. The first five year plan was intended as a step in that direction. For formulating the plan, the Planning Commission attempted a fairly comprehensive review of resources and of needs in the light of circumstances then existing. The programme of development incorporated in the plan was calculated to strengthen the economy at the base and to initiate institutional changes which would facilitate more rapid advance in the future. It also aimed at meeting certain urgent problems that had arisen out of the war and partition. In both respects, the first plan has registered significant advance. It has evoked public cooperation and enthusiasm and has given a new dimension to current thinking and policy.

2. The second five year plan has to carry forward the process initiated in the first plan period. It must provide for a larger increase in production, in investment and in employment. Simultaneously, it must accelerate the institutional changes needed to make the economy more dynamic and more progressive in terms no less of social than of economic ends. Development is a continuous process; it touches all aspects of community life and has to be viewed comprehensively. Economic planning thus extends itself into extra-economic spheres, educational, social and cultural. Each plan for a limited period becomes the starting point for more sustained effort covering longer periods, and each step in advance opens out new vistas and brings into view new problems to be solved. While planning—or programming, as it is often called—for a particular period, it is thus necessary to keep in view a more long-range perspective and to be ready to adjust and adapt the programmes in hand as this perspective becomes clearer.

3. The first five year plan was conceived as a modest effort, and the solution of certain immediate problems had necessarily to be attended to on a priority basis. Even this modest effort, it was felt, would strain the resources of the community. In the first two years, the emphasis inevitably was on correcting and controlling inflationary pressures and on restoring the economy to a position of balance. The outlay on the plan was stepped up substantially as from the third year, and the level of plan expenditure by the Central and State Governments was raised by the end of the plan period to about 2½ times the level in 1951-52. Over the five years, the aggregate outlay in the public sector is now expected to be somewhat below Rs. 2,000 crores. This is about the level envisaged when the plan was brought out in 1952. Subsequently, additional programmes were undertaken with a view to making up the shortfalls in the earlier years and to enlarging employment opportunities. These additions, it was recognised, were in part at least substitutions for schemes in respect of which progress was slow for various reasons. The shortfall of Rs. 350 crores or so in plan expenditure in terms of the revised total of about Rs. 2,350 crores may with propriety be judged in this light. In any case, it is the projects executed, the works completed and the results achieved which are of more real significance than the financial outlays incurred.

4. The overall results of the first plan may be stated briefly here. National income over the five years has increased by some 18 per cent. Foodgrains production has gone up by 20 per cent; the output of cotton and of major oilseeds has shown an improvement of 45 and 8 per cent. respectively. Over 6 million acres of land have been brought under irrigation through major works; another 10 million have benefited through smaller works. With the increased supplies of fertiliser and seed and the further expansion of the national extension movement now in view, the outlook for continued and substantial improvements in agricultural producticity can be regarded as distinctly good. Industrial production has increased steadily. The interim index (1946=100) of industrial production works out at 161 for 1955 as compared to 105 for 1950 and 117 for 1951. The revised index with 1951 as base shows for 1955 a level of industrial production about 22 per cent higher than in 1951. The generation of electric power has gone up from 6575 million Kwh. in 1950-51 to 11,000 million Kwh. in 1955-56. The output of cement, which is an important indicator of the volume of investment in the economy is estimated to have gone up from 2·7 million tons in 1950-51 to 4·3 million tons in 1955-56, and the demand for cement has of late risen sharply. Several important industrial projects in the public sector, have been completed, and considerable new investment, especially in the field of producer goods and capital goods industries,

has taken place in the private sector. Although construction work in respect of iron and steel and heavy electrical equipment could not be commenced in the plan period, the preliminary work in connection with the installation of three steel plants and the heavy electrical plant has been completed, and the foundation laid for the larger tasks to be taken in hand in the second plan period. On the whole, the results of the plan have been satisfactory. There is now increasing awareness of the need for development, and it is not without significance that there is demand all over the country for a plan that would secure more rapid advance in all directions.

5. Investment in the economy, it is now estimated, approximated Rs. 3,100 crores over the five years, 1951-56, It has risen from about Rs. 450 crores in 1950-51 to about Rs. 790 crores in 1955-56. The following table sets out the estimated levels of national income, investment and consumption for 1950-51 and for 1955-56:—

National Income, Investment and Consumption—1950-51 *and* 1955-56
(at 1952-53 prices)

Item	(Rs. crores) 1950-51	1955-56
(1)	(2)	(3)
1. National Income	9,110	10,800
2. Investment	450	790
3. Investment as percentage of national income	4·9	7·3
4. National Income (Index)	100	118
5. *Per capita* National Income (Index)	100	111
6. *Per capita* Consumer Expenditure (Index)	100	109

Annual estimates of investment in the plan years are difficult to make and only the broad magnitude of changes in the level of investment can be inferred. Investment in 1951-52 was at an exceptionally high level; it amounted probably to over 7 per cent of national income. But, a part of it was stock-piling, and the strain on the economy was reflected in the large import surplus. Investment appears to have fallen back to a level of 5 per cent. or so in the subsequent two years. It picked up again in 1954-55 to 6 or 6.5 per cent. of national income, reaching a level of 7.3 per cent. in the last year of the plan. The average rate of investment over the plan period works out at about 6 per cent. of national income, which cannot be regarded as impressive. A five year period is, in a sense, too short for a definitive appraisal of the trend or its significance for the future, especially when there have been considerable fluctuations in investment from year to year, but there is no doubt that investment now is running at a rate significantly higher than before the plan commenced.

6. This stepping up of investment, it will be noted, has not been accompanied by inflationary pressures. The following table sets forth the principal monetary and price data:—

Monetary and economic indicators

Idicator	Unit	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Money supply with the public (as on last Friday of the financial year) .	Rs. crores	1,972	1,804	1,765	1,794	1,921	2,180
2. Rupee securities held by R. B. I. (as on last Friday of the financial year) . .	Rs. crores	586	567	546	487	553	726
3. Investment of scheduled banks in rupee securities (as on last Friday of the financial year)	Rs. crores	316	296	303	319	344	360
Scheduled banks' advances (as on last Friday of the financial year) ..	Rs. crores	547	580	529	539	580	713
5. Foreign assets held by R. B. I. (as on last Friday of the financial year) . .	Rs. crores	884	723	724	753	730	746
6. Surplus (+) or deficit (—) on current account in the balance of payments .	Rs. crores	+58	—136	+77	+57	+7	+16*
7. Wholesale prices (last week of the financial year)	Index No. (Aug. 1939 =100)	450	378	385	397	349	390
8. Cost of living	Index No. (1949 =100)	101	104	104	106	99	96**
9. Agricultural production . .	Index No. (1949-50 =100)	96	98	102	114	114	
10. Industrial production (annual averages for calendar years 1950 to 1955)	(a) Interim Index (1946 =100)	105	117	129	135	147	161
	(b) Revised Index (1951 =100)	..	100	103·6	105·5	112·9	122·3

*This in respect of the first 9 months.

**This relates to the period April 1955 to January 1956.

Prices at the end of the first plan were lower by 13 per cent than when the plan started; in fact, they were slightly below the level on the eve of the Korean war. The all-India cost of living index in 1955 was at an average level of 96 as compared to 100 in 1949. Money supply in the hands of the public at the close of the fiscal year 1955-56 was about Rs. 208 crores above the level in early 1951—an increase of a little over 10 per cent as compared to the estimated increase of some 18 per cent in national income. The country's balance of payments improved substantially in 1952-53 which recorded a surpuls of Rs. 77 crores. In 1953-54 there was a surplus of Rs. 57 crores. External accounts were virtually in balance in 1954-55, and 1955-56 is expected to end up with a small surplus. Over the five years the foreign exchange reserves held by the Reserve Bank have gone down by Rs. 138 crores as compared to the drawing down of Rs. 290 crores envisaged in the plan. Although money supply and prices have tended to rise rather sharply in recent months, and this trend needs careful watching, the overall picture is one of stability and steady progress. Domestic inflationary pressures in several countries, it may beadded, are at present probably stronger than in India. On the whole, the economic situation on the eve of the second plan is distinctly better than it was on the eve of the first plan; there is more confidence and greater readiness all round for a larger effort.

7. These gains notwithstanding, the fact remains that living standards in India are among the lowest in the world. The average intake of food in India is below accepted nutritional standards; the consumption of cloth in 1955-56, at about 16 yards *per capita* is still around the pre-war level; housing is very deficient; and only a half of the children in the age graup 6—11 and less than one-fifth of the children in the age group 11—14 attend shool. About a half of the population of India has, on an average, Rs. 13 per month to spend in consumer goods. The *per capita* consumption of energy in India is 1/73 of that in the U.S.A. : and that of steel is 1/22 of the level in the U.S.A.: as compared to Japan India's *per capita* consumption of energy and steel is one-ninth and one-fourteenth respectively. The rate of population growth in India is not higher than in some of the advanced countries, but the annual addition of 4·5 to 5 million represents a large absolute increase in terms of the resources required to maintain even existing standards. This makes it particularly difficult to increase the supply of tools and equipment per head so as to promote rapid economic development Employment opportunities in the country have not been increasing *pari passu* with the increase in labour force. The increase in investment in the first plan has not been on a scale sufficient to absorb the new entrants to the labour market, and there is backlog

of unemployment and underemployment to be made good. In the second plan period, investment and employment have, therefore to be increased more rapidly. It was emphasized in the report on the first plan that development must be envisaged as a fairly long-period process, however much a country might try to shorten it by putting forth its best effort. In formulating the second plan, this long-period perspective has to be kept in mind, even as the emergent needs of the immediate future have to be provided for.

II

Key Factors in Development

8. Development is a process of utilising more and more effectively the resources of the community in furtherance of accepted ends These resources are, in part, given by nature, but they can and have to be transformed by the application of new skills and know-how. In a sense, these skills and know-how are more important than even capital formation proper. In an underdeveloped economy the resources endowed by nature are not fully known, and new techniques of utilising them have to be developed. Exploration and prospecting are in early stages; the necessary techniques are only imperfectly known and the means of bringing them to bear on such resources as have been located and mapped out are not easy to mobilise. A continuous and progressive increase in the community's level of living presupposes not only more effective utilisation of known resources and better application of known techniques; it requires vigilant and increasing search for discovery of new resources and for adoption or development of new productive techniques.

9. It is no exaggeration to say that the most important single factor in promoting economic development is the community's readiness to develop and apply modern technology to processes of production. Advances in this field are taking place rapidly and they are of direct significance not only to the organisation of production, transport and other economic activities but also to the wider issues relating to economic and social organisation. Underdevelopment is essentially a consequence of insufficient technological progress, and this insufficiency or lopsided development can, in turn, be traced to various political, social and psychological factors. Given the desired change in these latter, the rate of development can be related almost directly to advances in techniques. Countries which start late on their industrial career have some advantage in that they have, in the main, to take over and apply techniques that have been worked successfully in more advanced countries. But, there is need simultaneously for keeping abreast of the latest developments in science and technology, if the time lag in economic advance is to be progressively narrowed. The search for new resources and for new

techniques and the readaptation of the available labour force to the new tasks which development connotes are indeed, the foundation of development.

10. In the report on the first plan, the principal determinants of development were indicated, and it was stressed that, apart from the important questions relating to techniques and of psychological and sociological factors bearing on the community's will to progress and its capacity to make the necessary institutional adjustments, the rate of economic development would depend upon (a) the rate of growth of population, (b) the proportion of the current income of the community devoted to capital formation, and (c) the return by way of additional output on the investment thus undertaken. The likely rates of development in India over the next few decades were worked out in terms of certain assumptions regarding these parameters. These we may review in the light of experience in the first plan period and the data now available regarding the rates and determinants of development in other countries.

11. Regarding population growth, only a few observations seem necessary. Rates of population growth can be altered only over a period, and in planning for a limited period, one has to go by the results of trends which commenced earlier. Nevertheless, over a period, the outcome of developmental effort can be noticeably different if population trends are altered in the right direction. This is one of those fields in which traditional modes of thought and behaviour are apt to offer considerable resistance to rational approaches and not many countries can be said to have any definite population policy at government level. Yet, these modes or attitudes are changeable and are probably changing faster than is sometimes realised. The logic of facts is unmistakable and there is no doubt that under the conditions prevailing in countries like India, a high rate of population growth is bound to affect adversely the rate of economic advance and living standards *per capita*. Given the overall shortage of land and of capital equipment relatively to population as in India the conclusion is inescapable that an effective curb on population growth is an important condition for rapid improvement in incomes and in levels of living. This is particularly so, if one bears in mind the fact that the effect of improvements in public health and in the control of diseases and epidemics is to bring about an almost immediate increase in survival rates. While there may be differences as to the likely rates of population growth over the next 20 or 25 years, indications clearly are that even with the utmost effort which can be made—and has to be made—at this stage to bring down birth-rates, population pressure is likely to become more acute in the coming years. This highlights the need for a large and active programme aimed at restraining population growth, even as it reinforces the case for a massive developmental effort.

12. In Chapter I of the First Five Year Plan (1952 Report) a graph showing the probable trends in the growth of national income and aggregate consumption expenditure in India over a period of 25 to 30 years was given. The projections of national income, investment and aggregate consumption expenditure used for the purposes of this graph were designed to bring out the broad implications, in terms of effort and return, of a process of development extending to over a generation. With the help of these projections it was shown that given a continuity of effort in terms of the assumptions made, the country's 1950-51 national income could be doubled by 1971-72, that is, in about 21 years time. Similarly, it was shown that the 1950-51 *per capita* incomes could be doubled by 1977-78, that is, in a period of about 27 years. This latter, implied a raising of the average consumption standard by about 70 per cent by 1977-78 as compared with 1950-51.

13. For purposes of these calculations, the population growth rate was assumed at 12·5 per cent. per decade, for the entire period to which the projections related. It would appear more appropriate now to assume some increases in this rate. For the period 1951—60, the assumption of a 12.5 per cent rate of growth over the decade could perhaps be retained. The rates for the succeeding decades would depend upon the assumptions one makes regarding the rise in survival rates through improvements in public health, sanitation and the like and the fall in birth-rates as a result of volitional control. There is room for differences in judgment here. In the projection now attempted, the rate of growth assumed for the decade 1961—70 is 13·3 per cent. For the decade 1971—80 the rate assumed is 14 per cent. On this basis population would total 408 million in 1960-61, 434 million in 1965-66, 465 million in 1970-71 and 499 or almost 500 million in 1975-76. These estimates are intermediate between the upper and lower estimates put forward by the Census Commissioner in the Census Report, 1951, and it can be said of them, as the Census Commissioner has said regarding his own, that they may well prove to be on the low side.

14. In the first plan report, the proportion of investment to national income was assumed to rise from 5 per cent or so in 1950-51 to about 20 per cent by 1968-69 and to remain at that level thereafter; and, the capital-output ratio was taken at 3 : 1 with a time lag of two years between the increase in investment and the increase in output. The increase in national income in the last quinquennium has been 18 per cent, that is, 7 per cent more than was originally expected. Allowing for certain special favourable factors which operated in this period, it would still appear that a more favourable capital-output ratio can be postulated for estimating the increases in national income for the next few years at any rate. The assumption

regarding the rate at which investment can be stepped up on the basis of domestic savings also need to be reviewed.

15. For the first plan period, the incremental capital-output ratio works out at 1·8 : 1. This highly favourable outcome is the result partly of good monsoons and it also reflects the fact that considerable expansion in industrial output has been possible through utilisation of unutilised capacity. For the second plan period, as will be seen later, an investment of Rs. 6,200 crores is expected to result in an increase in national income of Rs. 2,680 crores. This gives a capital-output ratio 2·3 : 1. This ratio is obtained from calculations of the estimated increases in net output in individual sectors corresponding to the investment proposed in these sectors. The ratio, in other words, is worked out broadly on the basis of the data furnished by the project-making authorities while commending these for acceptance. An element of conjecture does, however, enter into this overall estimate, as there are sectors of the economy for which increases have to be inferred from indirect evidence. A somewhat higher capital intensity than the one which prevailed in the first plan is to be expected in view of the shift in emphasis towards industrialisation. Indeed, as the shift proceeds further in subsequent plan periods, the amount of capital required per unit of additional output should go up further. For the third, fourth and fifth plan periods, we have in the present model assumed capital-output ratios of 2.6, 3.4 and 3.7 respectively. These ratios are illustrative. Precise calculations of investment-output relations can be made only in the light of concrete programmes of development and the technical data regarding costs and output.

16. The capital-output ratio for the economy as a whole is only a shorthand description of the productivity of capital in various sectors. This productivity depends not only on the amount of capital employed, but on a large number of other factors such as the degree of technological advance associated with capital investment, the efficiency with which the new types of equipment are handled and the quality of managerial and organisational skill brought to bear on the use of capital. It has also been observed that the increment of output corresponding to a unit investment of capital has been higher for planned than for unplanned economies. In part at least this is because of the greater coordination of programmes which planning facilitates and the avoidance of booms and depressions that characterise unregulated market economies. A great deal also depends upon the composition of investment. It has been argued, for instance, that a considerable part of the favourable relationship between investment and product in the U.S.S.R. is attributable to the relatively low precedence accorded to housing. The capital-output ratio also depends upon the extent to which economic overheads

are utilised. A phase of under-utilisation may have to be gone through before the full benefits of investment in economic overheads are obtained. It is on account of these diverse factors that the estimates of capital-output ratios for different countries and for different periods of time show considerable variation. By and large, taking a number of countries, the range of capital-output ratios may be said to lie between 3:1 and 4:1, although, for individual countries, and for particular periods, ratios outside this range are not unknown. In comparing the capital-output ratios assumed for India with the ratios elsewhere it may be remembered that non-monetised investment has not been included in the calculations of capital inputs. There is considerable investment of this kind in a predominantly rural economy, and it has to be recognised that investment which involves the direct utilisation of labour and of raw materials available locally is of particular importance and has deliberately to be fostered in the context of prevailing underemployment.

17. This leads us to the question of the likely or feasible rate of investment. In the first plan report, a marginal rate of saving of 50 per cent, as from 1956-57 was assumed, and on this basis it was postulated that the rate of investment in the economy would go up to 20 per cent. of national income by 1968-69 and would settle down at that level thereafter. These, it now appears, are excessively high expectations. In the projection that has now been worked out, the investment coefficient is assumed to go up from about 7 per cent. in 1955-56 to about 11 per cent. in 1960-61; it rises to 14 per cent. by 1965-66, and to 16 per cent. by 1970-71. Thereafter, it remains practically stable, rising to 17 per cent. by 1975-76. A net investment rate of 16 or 17 per cent. of national income is decidedly high, though not unattainable. In the western countries which started early on their industrial career, the rate of net capital formation seems to have ranged between 10 and 15 per cent. In Japan, the investment rate between 1913 and 1939 averaged 16 to 20 per cent. High investment rates varying between 15 and 20 per cent. have been maintained continuously in the U.S.S.R. The data available for countries in the ECAFE region indicate that gross capital formation in Burma since 1950 has ranged from 10 to 20 per cent; in Japan from 24 to 30 per cent; in Ceylon from 10 to 13 per cent; and in the Philippines from 7 to 8.5 per cent. The comparable figure for India would be 10 to 11 per cent. In Latin American countries, the corresponding rates have been around 15 per cent., reaching even higher levels occasionally. Some of the countries in Eastern Europe, like Czechoslovakia and Poland, for instance, have gross investment rates between 20 and 25 per cent. The rates of investment in newly developing countries can certainly be raised above present levels through appropriate investment

policy and programmes initiated by the State, and it would be reasonable to assume that in India, the rate of investment can with effort be raised to levels mentioned earlier.

18. The graph opposits shows the results obtained on these assumptions. National income would, in terms of the projection, be doubled in 1967-68; *per capita* incomes would be doubled by 1973-74. It will be noticed that the rise in national income recorded in the first plan period having been above initial expectations, the improvement at the end of the first two plans will be as large as 47 per cent. in the aggregate as compared to 25 per cent. in the estimates put forward in the report on the first plan. The following table gives a synoptic view of the increasing tempo of development postulated in the model under consideration:

Growth in Income and Investment, 1951-56

(At 1952-53 prices)

Item	1st Plan (1951-56)	2nd (1956-61)	3rd (1961-66)	4th Plan (1966-71)	5th Plan (1971-76)
(1)	(2)	(3)	(4)	(5)	(6)
1. National income at the end of the period (Rs. crores)	10800	13480	17260	21680	27270
2. Total net Investment (Rs. crores) . . .	3100	6200	9900	14800	20700
3. Investment as percentage of national income at the end of the period . .	3.2	10·7	13·7	16·0	17·0
4. Population at the end of the period (in millions)	384	408	434	465	500
5. Incremental capital out-put ratio	1·8:1	2·3:1	2·6:1	3·4:1	3·7:1
6. *Per capita* income at the end of the period (in Rs.) .	281	331	396	466	546

It will be seen that the step-up in investment in the second and third plan period is relatively larger than what is required later. These ten years may, therefore, be regarded as the most crucial in determining the further course of development. It is the crossing of this "threshold" at a time when living standards and the saving potential are low that calls for a measure of external assistance to supplement domestic resources.

III

CHANGES IN ECONOMIC STRUCTURE

19. Behind these changes in national income investment and consumption are, it need hardly be stressed, far-reaching changes in the pattern of economic activity. Development alters the level as well as the structure of demands and supplies, and these changes come about through and further promote changes in the allocation of resources. While one may describe these in aggregative terms like national income and investment, one must not lose sight of the concrete adjustments which take place and are necessary in various sectors and sub-sectors in the economy. Obviously, a doubling of national income does not mean that all products and services in the community flow in at twice the initial rate. Certain items like, say, cereals, may increase only moderately, while the other items in consumption may increase several fold. As the community's needs are satisfied, new wants inevitably appear and these have to be met through supplies of new types of products. It is thus that the economy gets diversified and secondary and tertiary production grows. In other words, the national income stream at twice the initial level is bound to have a different composition; how different or in what respects it is not easy to predict. These changes in demand and in supply conditions need continuous study. The greater the pliability and mobility of resources, the more rapid can be the rate of growth of the economy. A corollary of economic growth is a rapidly changing occupational structure.

20. There has not been any marked change in the occupational pattern in India over the last three or four decades in spite of considerable increases in industrial production. Broadly speaking, agriculture and allied pursuits continue to absorb about 70 per cent. of the working force; mining and factory industry absorb about 2·6 per cent. of the working force; small enterprises, including construction, take up some 8 per cent; about 7 per cent. of the working force is engaged in transport, communications and trade; public administration, professions and liberal arts and domestic services account for over 10 per cent. This means that the secondary and tertiary sectors have not grown rapidly enough to make an impact on the primary sector: nor has the primary sector itself thrown up surpluses which would create conditions favourable for expansion elsewhere. Continued growth of national income and employment requires simultaneous development all over the economy. In agriculture and allied pursuits, the net output per worker is at present barely one-fifth of that in mining and factory establishments, and it is one-third of the net output per worker in

the trade and services sector. Development involves a transfer of part of the working force from agriculture to secondary and tertiary activities, but this, in turn, presupposes an increase in productivity in agriculture itself, if the food and raw material requirements of a developing economy are to be met. Improvements in agriculture through irrigation, supply of better seed and fertiliser and through adoption of more efficient techniques are thus the basis on which the secondary and tertiary sectors have to be expanded. These latter call for relatively large investment per worker employed, so that the degree of shift that can be secured is ultimately related to the amount of investment effort that the economy can put forth.

21. The experience of other countries in the course of their economic development discloses a general tendency for primary employment to decline relatively to employment in industrial establishments and services. The available data on occupational structure show that between 1870 and 1930 the proportion of the active population employed in agriculture declined from 54 per cent. to 23 per cent. in the U.S., from 42 to 25 per cent. in France, and from 80 to 48 per cent. in Japan. In Germany, this proportion declined from 39 per cent. in 1880 to 22 per cent. in 1930 and in the U.K. from 15 per cent. in 1870 to 7 per cent. in 1920. There is, of course, no unique relationship between the rate of growth of national income and the degree of shift in the occupational structure; the latter is also conditioned by such factors as the availability of various types of natural resources and facilities, the pattern of development, the degree of access to markets abroad and the play of various institutional factors. In the U.S.A. a two-fold increase in *per capita* net national product (decade average) during the period 1869-78 to 1894-03 was accompanied by a decline in the proportion of the active population engaged in agriculture from about 50 per cent. to about 37 per cent. At present, the U.S.A. has only about 12 per cent. of the population on the land. In the case of Japan, a decline in the proportion of the population engaged in agriculture from 77 per cent. in 1876 to 52 per cent. in 1920 was accompanied by a five-fold increase in national output. National income in Scandinavian countries and in Switzerland has grown rapidly, but these countries have a relatively larger proportion of the labour force in agriculture than countries like the U.K. and U.S.A. Recent data regarding Latin American experience also show a certain shift of labour from agriculture to industry during the post-war period which has witnessed considerable development. Between 1945 and 1950, the agricultural labour force in that region declined from 60 per cent to about 58 per cent; in this period the capital stock of that region increased by one-third

and *per capita* gross domestic product showed an average rate of increase of over 4 per cent. per annum.

22. For India, the latest data on occupational distribution are those compiled for the 1951 census. For changes in inter-censal years, only rough guesses are possible, and it must be admitted that it is virtually impossible to detect in the short run if the occupational structure has started changing significantly. The rapid growth of towns and cities is perhaps a pointer to the impact of new forces on the occupational structure but the change is unlikely so far to have been of any noteworthy character. The objective of policy from the long-term point of view should clearly be to keep to the minimum further increases in the working force in agriculture. In this sector, effort has to be concentrated on raising production and incomes through greater productivity rather than on increasing employment in terms of numbers. In fact, after a period, there should be a fall even in absolute numbers on the land. Similarly, there is little scope for increasing the working force in traditional small scale industries, which are already burdened with excessive numbers; the problem here is tc prevent too rapid technological unemployment and to maintain and raise incomes through improvements in equipment, techniques and organisation. The bulk of the new employment opportunities have, therefore, to be found in mining and in modern industry, large-scale as well as small-scale in construction and in tertiary occupations. With the best effort that can be made, some increases in the working force in agriculture may be unavoidable for some years to come. By 1975-76, the proportion of the agricultural labour force to the total should come down to 60 per cent. or so. But for this to happen something like a fourfold increase in the numbers engaged in mining and factory establishments has to be brought about, and the investment pattern in the plans has to be adjusted to these requirements. It is in terms like these that the task of creating new employment on an adequate scale has to be visualised. It has also to be borne in mind that the labour force itself, that is, the proportion of the population seeking employment, is apt to go up in course of time—through women seeking paid work, for instance. The fact that there is considerable unemployment and under-employment in other sectors such as trade and services is a further pointer to the need for a big increase in employment opportunities in industries, in construction and in transport and communications. These developments, in turn, lead to a larger demand for labour in he tertiary sector, ond many types of work which at present get done within the household become distinct commercial services. In this way develop a large number of small

businesses and trades offering opportunities for independent work. The problem of creating additional employment opportunities is thus inseparable from that of their diversification.

IV

Physical and Financial Planning

23. These changes in the disposition of the community's manpower resources are an index of the changes that take place in the disposition of other resources as development proceeds. Or, rather, all these are interdependent changes; real resources have to grow and move in balance. Naturally, in these matters, it is not possible to comprehend all these changes and adjustments in a single forward view. But, planning for development involves a judgment, however limited and tentative, of how this disposition of real resources within the community has to be and can best be altered so as to give the results desired. This way of looking at the problem in terms of real resources—sometimes termed physical planning—is an attempt to work out the implications of the development effort in terms of factor allocations and product yields so as to maximise incomes and employment. The point is that while working out a programme, that is, its costs and benefits, it is necessary to look behind the financial or monetary 'veil' and to assess the implications or significance of the programme in real terms, that is, in terms of the reactions it will have on supplies and demands in at least the strategic sectors of the system. Behind an estimate of, say, Rs. 100 crores by a project authority, the demand really is for so much machinery, so much building material, so much labour, etc. The question is not merely one of how the finance is to be raised—although that is an important question—but whether and how the real resources of the kind just mentioned have to be obtained. Similarly when the project is completed, the question is how its benefits will be utilised and what types of demands this will satisfy and in turn create; plans for the latter may also have to be laid out in good time if resources are not to run to waste. What is more, the mobilisation of real resources has to be viewed in the light of the programme of development as a whole and not merely in relation to individual projects. To this end, the way demands for inputs rise in various related lines in response to a planned increase in outputs at particular points has to be studied.

24. There have to be, in other words, certain balances in the plan in terms of real resources. A plan unfolds itself in first upsetting an existing balance and then establishing a new one at a higher level. One has to ask: will the supplies of the machinery needed be forthcoming? Will the necessary labour, skilled and managerial,

be available? Will it be necessary to secure some of the equipment from abroad and if so, will the community be in a position to export the additional amounts required to pay for the same? Will employment opportunities on the required scale be created and will the sum-total of all effort yield the results expected in terms of national income? To an extent, a plan worked out in terms of real resources can provide for the necessary balances through the pattern of investment to be adopted, and where this cannot be done, the bottlenecks to be faced and overcome can be concretely envisaged. The tasks of training the large number of technicians and other experts can hardly be conceived in any other terms.

25. It must be emphasised that the balance to be achieved in the plan has to be both in real and financial terms. Money incomes are generated in the process of production, and supplies are utilised in response to money demands. It is important, therefore, to operate upon and modify money income flows so as to maintain a balance between the supply of consumer goods and the purchasing power available for being spent on them, between savings and investment and between receipts and payments abroad. In addition, a balance between the demand and supply of each important commodity is necessary. The required balances may, of course, be achieved in part through adjustment in prices and factor payments, through budgetary policies—and, if necessary, through physical controls; but the process as well as the means of adjustment have to be visualised in advance and have to be provided for in the plan.

26. The essence of financial planning is to ensure that demands and supplies are matched in a manner which exploits physical potentialities as fully as possible without major and unplanned changes in the price structure. Planning for balanced growth both in physical and financial terms opens up new fields for study and investigation. No economy which is in the early stages of development can have all the necessary data to start with, and the functioning of the economic mechanism cannot be reduced to a few simple rules or laws. The integration between physical and financial resources and the consistency between various sectoral developments have, therefore, to grow progressively, and continuous effort is necessary to secure an integration of policy and experience at each stage. Finance—or domestic finance—cannot, in any literal sense, be a bottleneck in development, since it can always be increased, but plenitude of means of payment is no assurance of the necessary real resources forthcoming; if real resources are not forthcoming an increase in the means of payment can only cause further upsets in the system. The stress on financial balances is, on proper analysis, only another name for sound planning and management of the

economy in terms of real needs and resources. Whether one thinks in terms of physical planning or of financial planning—the two are complementary—the object is to secure the various balances in the economy at continually higher levels.

V

Perspective and Flexibility

27. The large changes in the alignment of real resources that economic development connotes have to be kept in mind while preparing long-range or perspective plans. It may be sufficient for certain purposes to think in terms of a five year plan, but it is essential at the same time to have before the mind's eye a blue-print of developments to be undertaken over a longer period. There cannot be a complete balance between developments in each five year plan; to some extent, a measure of imbalance—seeming over-expansion in some lines and under-expansion in others—may facilitate more rapid and better-balanced development over a period Considerations of this kind apply particularly to sectors like development of power, transport and basic industries where investments are by nature "lumpy". In appraising the need for such investments an important question is what developments are envisaged over the next ten or fifteen years rather than the level of existing or immediate demands. In a developing economy, the growth of demands can be spectacular, once the "threshold" has been crossed. It is not without significance that the picture regarding the demand for power, for instance, has changed so materially in the last few years, and fears of under-utilisation and of surpluses have given place to anticipations of a situation of the opposite kind. There are also signs that the demand for steel, for fertilisers and for cement, to mention a few other instances, will rise rapidly, and the same may be expected to happen in the field of consumer goods, once incomes start on a regular and sustained upward curve. Certain developments in the field of capital goods and heavy machinery might not appear of any great importance if one had in mind only one five-year plan, but these assume a vital role in a continuing developmental process visualised well in advance. This expanding perspective has to be the background for formulation and execution of programmes for the immediate future; it also suggests that the formulation and technical examination of projects to be taken in hand should commence well ahead of the time for implementing them. Further, scientific advance and new techniques in the exploitation of natural resources have a direct bearing on long-range planning. The long range, however, is but a summation of shorter ranges, and it is essential to ensure, as far as possible, that each five year programme fits into the long range perspective as it emerges from time to time.

28. If considerations like the above point to the need for envisaging programmes for a fairly long period ahead, there is need simultaneously for greater attention to plans for shorter periods within the framework of a five year plan. However important the strides in the future, the next step ahead is, for the moment, the most crucial. A five year plan has, therefore, to be broken up into annual plans or programmes, and performance must be judged more and more in terms of the tasks executed on an annual basis. This is not to say that there should be no flexibility in the matter of taking on and seeing through programmes or projects, but this flexibility must be part of the annual plans themselves rather than in the nature of *ad hoc* adjustments. The Central and State Governments operate in terms of an annual budget, and this offers a natural opportunity for reviewing and adjusting the broad annual phasing indicated in the five year plan. But, this review has to be undertaken by the planning authorities on a consideration of the overall needs of the economy and the experience in respect of the fulfilment of tasks for the year about to end. There are, however, difficulties at present in the way of forming an early or precise judgment as to the progress of performance so as to determine the size and content of the next year's programmes. There is in a federal structure a measure of delay involved in getting the data for assessing the performance in the current year well in time for deciding, in the light of this performance, upon the programmes for the coming year and the appropriate fiscal and other measures needed for the same. These difficulties can be overcome through improvements in organisation. Planning presupposes a continuous flow of information and an interchange of experiences, both upwards and downwards, between planning agencies and executive organisations at all levels. It also necessitates the making of adequate arrangements at various intermediate levels and particularly in the central planning office for expeditious processing and analysis of data. These data must relate not only to the developments in public sector but to those in the private sector as well. The two sectors have to work in unison. We should like to stress in this context the need for getting continuous and systematic information on the programmes of investment and development and the progress on them in the private sector. In advanced countries, data on investment intentions and on orders in hand and on stocks are obtained from businesses and enterprises with a view to maintaining a watch on inflationary or deflationary trends. In an underdeveloped country, these data are needed directly for working out plans and adjusting them from time to time.

29. The second five year plan has been conceived as a broad framework within which such annual plans will be made. A plan covering a five year period has to be regarded as flexible. The second five year plan as presented in this document indicates the

magnitude and significance of the tasks to be undertaken, the order of benefits resulting from the developments proposed, and the means and techniques by which resources have to be mobilised and harnessed to the task to be taken in hand. The policy implications of the plan have also been brought out in broad terms. But, planning is not a once-for-all exercise for a five year period; it requires a continual watch on current or incipient trends, systematic observations of technical, economic and social data and adjustments of programmes in the light of new requirements. There are, naturally, uncertainties attached to the various estimates that can be made for a five year period. Some of the programmes set forth in the plan may take a little more time for completion. In a plan of the dimensions envisaged, experience may indicate fields where implementation can with advantage proceed ahead of schedule and others where progress may have to be inevitably slower. Moreover, India is not planning within a closed economy. Developments abroad, economic or political, may necessitate adjustments in the plan. It is in view of these considerations that the plan has to be regarded as a framework within which programmes for each year have to be worked out in detail and implemented.

30. Finally, we should like to refer here to an aspect of long-range planning to which, we feel, increasing attention will be necessary in the coming years. This relates to the developmental problems of the entire underdeveloped regions of Asia and Africa. For various political and social reasons, this region has so far remained largely underdeveloped, and the economies of some of these countries have either remained isolated or have developed affiliations with certain countries in Europe with which they had political ties. As a result, the volume of trade within this region itself has not developed sufficiently and the scope for complementary effort and mutual assistance as between countries in the region has remained largely unexplored. It is evident that as developmental planning proceeds in this region, problems of mutual adjustments in the matter of specialisation in certain lines of production and of mutually advantageous trade and exchange of know-how and experience will assume increasing importance. Planning in the different countries in this region is at different stages, and it is only to be expected that the prime consideration for each country will be the fullest development of its own resources in the light of its needs and along lines it finds economically and socially most promising. Nevertheless, it is essential that the programmes of development are so framed as to give scope for mutually advantageous exchange of products and technical know-how. Even countries which are on the whole short of technical know-how and personnel can still render assistance to

others in a limited way. This is the basis on which cooperation within the Colombo Plan has been organised. It would be desirable to think along similar lines in respect of problems confronting this region and to arrange for interchange of ideas and of technical personnel. Planning in India has thus to be viewed in its wider regional perspective, and it has to be borne in mind that poverty, low standards of living and economic backwardness are problems of common interest, and the efforts and experiences in each country are bound to be of value to the others in the area faced with similar problems.

CHAPTER II

APPROACH TO THE SECOND FIVE YEAR PLAN

OBJECTIVES AND TECHNIQUES

SIGNIFICANT as the achievements of the first plan have been, it is apparent that they have to be regarded as no more than a beginning. The task is not merely one of reaching any fixed or static point, such as doubling of living standards, but of generating a dynamism in the economy which will lift it to continually higher levels of material well-being and of intellectual and cultural achievements. The current levels of living in India are very low. Production is insufficient even for satisfying the minimum essential needs of the population, and a large leeway has to be made before the services and amenities required for healthy living can be brought within the reach of any significant proportion of the population. There are large areas or regions of the country which are underdeveloped even in relation to the rest of the country and there are classes of the population which are almost untouched by modern progressive ideas and techniques. It is necessary to proceed faster with development, and this, it must be emphasised, is possible only to the extent that a larger measure of effort, both financial and organisational is forthcoming. For several plan periods to come, it is on the mobilisation of the effort rather than on the gains and returns arising therefrom that attention has to be concentrated. These gains and returns are important, but more important is perhaps the satisfaction that a community gets from attempting a worthwhile task which gives it a chance to bend its energies to productive and socially useful purposes. The 'costs' of development, viewed in this light, are a reward in themselves. There is no doubt that given a right approach to problems of development, including social policy and institutional change, a community can draw upon the latent energies within itself to an extent which ensures development at rates much larger than nice calculations of costs and returns or inputs and outputs may sometimes suggest.

THE SOCIALIST PATTERN OF SOCIETY

2. A rising standard of life, or material welfare as it is sometimes called, is of course not an end in itself. Essentially, it is a means to a better intellectual and cultural life. A society which has to

devote the bulk of its working force or its working hours to the production of the bare where-withals of life is to that extent limited in its pursuit of higher ends. Economic development is intended to expand the community's productive power and to provide the environment in which there is scope for the expression and application of diverse faculties and urges. It follows that the pattern of development and the lines along which economic activity is to be directed must from the start be related to the basic objectives which society has in view. The task before an underdeveloped country is not merely to get better results within the existing framework of economic and social institutions but to mould and refashion these so that they contribute effectively to the realisation of wider and deeper social values.

3. These values or basic objectives have recently been summed up in the phrase 'socialist pattern of society'. Essentially, this means that the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment—and in fact all significant socio-economic relationships—must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged classes of society, and there should be a progressive reduction of the concentration of incomes, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organised effort is enabled to put in his best in the interests of a higher standard of life for himself and increased prosperity for the country. In the process, he rises in economic and social status. Vertical mobility of labour is thus no less important than horizontal mobility, for nothing is more destructive of hope and more inhibitive of effort than a feeling that the accident of birth or of a poor start in life is likely to come in the way of a capable person rising in life in terms of economic and social status. For creating the appropriate conditions, the State has to take on heavy responsibilities as the principal agency speaking for and acting on behalf of the community as a whole. The public sector has to expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investments in the economy, whether it makes the investments directly or whether these are made by the private sector. The

private sector has to play its part within the framework of the comprehensive plan accepted by the community. The resources available for investment are thrown up in the last analysis by social processes. Private enterprise, free pricing, private management are all devices to further what are truly social ends; they can only be justified in terms of social results.

4. The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital goods industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these fields must be undertaken in the main by the State, and the existing units have also to fall in line with the emerging pattern. Public ownership, partial or complete, and public control or participation in management are specially required in those fields in which technological considerations tend towards a concentration of economic power and of wealth. In several fields, private enterprise can, under present day conditions, make little headway without assistance and support from Government, and in these cases the public or semi-public character of the resources drawn upon has to be recognised. In the rest of the economy conditions have to be created in which there is full scope for private initiative and enterprise either on an individual or on a cooperative basis. In a growing economy which gets increasingly diversified there is scope for both the public and the private sectors to expand simultaneously, but it is inevitable, if development is to proceed at the pace envisaged and to contribute effectively to the attainment of the larger social ends in view, that the public sector must grow not only absolutely but also relatively to the private sector.

5. The socialist pattern of society is not to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. Each country has to develop according to its own genius and traditions. Economic and social policy has to be shaped from time to time in the light of historical circumstances. It is neither necessary nor desirable that the economy should become a monolithic type or organisation offering little play for experimentation either as to forms or as to modes of functioning. Nor should expansion of the public sector mean centralisation of decision-making and of exercise of authority. In fact, the aim should be to secure an appropriate devolution of functions and to ensure to public enterprises the fullest freedom to operate within a framework of broad directives or rules of the game. The organisation and management of public enterprises is a field in which considerable experimentation will be necessary, and this holds, in fact, for the entire socialist pattern. What is important is a clear sense of direction, a consistent

regard for certain basic values and a readiness to adapt institutions and organisations and their rules of conduct in the light of experience. The accent of the socialist pattern is on the attainment of positive goals; the raising of living standards, the enlargement of opportunities for all, the promotion of enterprise among the disadvantaged classes and the creation of a sense of partnership among all sections of the community. These positive goals provide the criteria for basic decisions. The directive principles of State policy in the Constitution had indicated the approach in broad terms; the socialist pattern of society is a more concretised expression of this approach. Economic policy and institutional changes have to be planned in a manner that would secure economic advance along democratic and egalitarian lines. Democracy, it has been said, is a way of life rather than a particular set of institutional arrangements. The same could well be said of the socialist pattern.

OBJECTIVES

6. Within this broad approach the second five year plan has been formulated with reference to the following principal objectives:—

(a) a sizeable increase in national income so as to raise the level of living in the country ;

(b) rapid industrialisation with particular emphasis on the development of basic and heavy industries :

(c) a large expansion of employment opportunities ; and

(d) reduction of inequalities in income and wealth and a more even distribution of economic power.

These objectives are interrelated. A significant increase in national income and a marked improvement in living standards cannot be secured without a substantial increase in production and investment. To this end, the building up of economic and social overheads, exploration and development of minerals and the promotion of basic industries like steel, machine building, coal and heavy chemicals are vital. For securing an advance simultaneously in all these directions, the available manpower and natural resources have to be used to the best advantage. In a country in which there is relative abundance of man-power, expansion of employment opportunities becomes an important objective in itself. Further, the process and pattern of development should reflect certain basic social values and purposes. Development should result in a diminution of economic and social inequalities and should be achieved through democratic means and processes. Economic objectives cannot be divorced from social objectives and means and objectives go together. It is only in the context of a plan which satisfies the legitimate urges of the people that a democratic society can put forward its best effort.

7. These objectives have to be pursued in a balanced way, for excessive emphasis on any one of them may damage the economy and delay the realisation of the very objective which is being stressed. Low or static standards of living, underemployment and unemployment, and to a certain extent even the gap between the average incomes and the highest incomes are all manifestations of the basic underdevelopment which characterises an economy depending mainly on agriculture. Rapid industrialisation and diversification of the economy is thus the core of development. But if industrialisation is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development. This calls for substantial expansion in iron and steel, non-ferrous metals, coal, cement, heavy chemicals and other industries of basic importance. The limitation is, of course, the scarcity of resources and the many urgent claims on them. Nevertheless, the criterion is not merely immediate needs but the continuing and expanding needs in the coming years as development goes forward. India's known natural resources are relatively large, and in many of these fields, as in steel for instance, she is likely to have a comparative cost advantage. It is desirable to aim at proceeding farthest in the direction of developing heavy and capital goods industries which conform to this criterion.

8. Investment in basic industries creates demands for consumer goods, but it does not enlarge the supply of consumer goods in the short run; nor does it directly absorb any large quantities of labour. A balanced pattern of industrialisation, therefore, requires a well-organised effort to utilise labour for increasing the supplies of much needed consumer goods in a manner which economises the use of capital. A society in which labour is plentiful in relation to capital has to develop the art and technique of using labour-intensive modes of production effectively—and to much social advantage—in diverse fields. Indeed, in the context of prevailing unemployment, the absorption of labour becomes an important objective in itself. In using labour-intensive methods, it may well be that the cost of the product is somewhat higher. This entails a sacrifice which can be reduced through technical and organisational improvements. In any case, a measure of sacrifice in the matter of consumption is inevitable while the economy is being strengthened at the base. The sacrifice diminishes as more power, more transport, and better tools, machinery and equipment become

available for increasing the productivity of consumer goods industries, and in the long run the community gets increasingly large returns. Meanwhile, the stress on utilisation of unutilised or under-utilised labour-power alleviates the immediate problem of unemployment. Another point that may need stressing in this connection is that the use of labour-intensive methods often implies that a smaller proportion of the incomes generated is available for saving and reinvestment. Steps must be taken to ensure that this does not happen on any significant scale. It has to be remembered that employment at rising levels of income can be created only to the extent that the saving potential of the economy is raised.

EMPLOYMENT

9. The question of increasing employment opportunities cannot be viewed separately from the programmes of investment envisaged in the plan. Employment is implicit in and follows investment, and it is, of course, a major consideration in determining the pattern of investment. The fact that the plan involves substantial stepping up of investment and development expenditures means that it will raise incomes and increase the demand for labour all round. An employment-orientated plan, however, implies much more than determining the optimum scale of investment. The creation of employment opportunities and reduction in under-employment cannot be approached merely in overall terms. The problem needs to be broken up in terms of sectors, regions and classes. Diversification of the industrial pattern, a suitable policy on location of industries, special measures to assist small scale and cottage industries, maintenance of economic activity continuously at high levels, provision of adequate training facilities, measures to promote geographical and occupational mobility of labour, all these must be considered as elements in the programme of creating new employment on the requisite scale. In this context continuous technical studies regarding the employment component of various types of investment and of the relationship between the direct employment resulting from an act of investment and the further increases this leads to over a period will be necessary.

10. Studies made in the Commission indicate that the second five year plan will provide employment opportunities for the new entrants to the labour force and relieve under-employment in agriculture and in village and small-scale industries. As a result of the plan, the working force in mining and factory establishments, in construction, in trade and transport and in services will increase relatively faster than in agriculture and allied pursuits. This in itself is a good beginning. Over a period, a larger shift in the occupational pattern away from the primary sector and into the

secondary and tertiary sectors will be necessary and is to be expected. There are in the plan substantial programmes of irrigation, soil conservation, improvement of animal husbandry and agricultural improvement in general. These, together with the programmes relating to the village and small-scale industries, will diminish under-employment in the rural areas. It is likely, however, that the plan will not have a sufficient impact on the carry-over of unemployment of the earlier period. Basically, it has to be remembered, unemployment in an under-developed economy is only another aspect of the problem of development. The same factors which limit the scale of effort a community can make by way of increasing the rate of development limit also the advance in the direction of employment. The plan contemplates a large expansion in construction activity both in the public and private sectors, and it should be possible to vary the volume of such activity within limits in response to the changing requirements of the employment situation. Since employment in construction is by its nature temporary, care has to be taken to ensure that new construction programmes are taken in hand as those in progress near completion and that arrangements are made for proper deployment of labour from one project to another.

11. From the economic as well as from the larger social view point, expansion of employment opportunities is an objective which claims high priority, but, it is important to stress the fact that over a period, the volume of employment grows only as the supply of tools and equipment on the one hand and of the wage goods on which the incomes of the newly employed come to be spent is expanded. If the essence of development is the undertaking of new tasks to build up the apparatus of production, the extent to which the available manpower in the country can be used safely for these tasks depends upon the degree to which the supply of wage goods like food, cloth, sugar, and house-room can be augmented quickly. Improvements in productivity in these lines are thus of vital importance from the point of view of employment itself. It is only a truism that the problem of unemployment of an endemic kind is not acutest in the countries in which productivity is high because of the use of machinery and new techniques but in those in which low productivity limits the overall size of incomes, inhibits the use of labour on works which do not add immediately to the supply of currently needed consumer goods and keeps down the size of the market. While it is imperative that in a country with an abundant supply of manpower, labour-intensive modes of production should receive preference all along the line, it is nonetheless true that labour-saving devices in particular lines are often

a necessary condition for increasing employment opportunities in the system as a whole. The objective, it need hardly be stated, is increasing employment at rising levels of incomes.

INDUSTRIAL POLICY

12. The second five year plan accords high priority to industrialisation, and especially to the development of basic and heavy industries. A large expansion of public enterprise in the sphere of industrial and mineral development is envisaged. It is, in fact, intended to strengthen further the programmes of development in respect of heavy industries, oil exploration and coal and to make a beginning with the development of atomic energy. The main responsibility for these programmes rests upon the Central Government. The carrying through of these new programmes will entail, besides the financial investment required, a great deal of strengthening of the organisational and administrative personnel available to Government. It will also necessitate the adoption of expeditious procedures in the matter of taking decisions and executing them. It cannot be emphasized too strongly that unless steps are taken to augment rapidly the output of the means of production and to build up the fuel and energy resources which are so vital to development, the scale and pace of advance in the coming years will be inhibited. The dynamism of the second plan lies to a considerable extent in these new programmes, on the fulfilment of which effort has to be concentrated. The results which the second plan promises are impressive, but correspondingly large is the effort that it calls forth by way of mobilisation and application of real and financial resources.

13. These developments in the public sector have to be viewed together with those envisaged in the private sector. The increase in the output of goods and services to be secured over the plan period is the result of developments in both these sectors. The two sectors have to function in unison and are to be viewed as parts of a single mechanism. The plan as a whole can go through only on the basis of simultaneous and balanced development in the two sectors. The plan incorporates the investment decisions taken by the public authorities, and the corresponding outputs or benefits can easily be estimated. As to the private sector, Government policy can influence private decisions through fiscal measures, through licensing and, to the extent necessary, through direct physical allocations so as to promote and to facilitate the realisation of the targets proposed. A large part of the private sector consists of millions of small producers scattered all over the country. Investment estimates and targets in these fields can only be in the

nature of broad indications. Even in the field of organised industry and business for which more data are available and which are more amenable to incentives or curbs offered or introduced by Government, there cannot obviously be the same degree of closeness or integration between resources and performance as in the case of activities directly undertaken by Government. Various investments in the public sector, such as for irrigation, power and transport, for instance, increase the production potential of the private sector and the producers or enterprises concerned can be expected to take advantage of these facilities. Given an appropriate structure of relative prices, which Government can and has to control and influence, the desired allocation of resources in the private sector can be induced. In fact, it is appropriate to think more and more in terms of an interpenetration of the public and private sectors rather than of two separate sectors.

14. These are general considerations bearing on the formulation of industrial policy in the context of planning. The Government of India's industrial policy since Independence has been shaped broadly in terms of the Industrial Policy Resolution of 1948. That Resolution emphasised clearly the responsibility of Government in the matter of promoting, assisting and regulating the development of industry in the national interest. It envisaged for the public sector an increasingly active role. While it reiterated the inherent right of the State to acquire any industrial undertaking whenever the public interest requires it, it laid down, in view of the circumstances then existing, a certain demarcation of fields for the public and private sectors. Important developments have taken place since the Resolution was adopted in 1948. There is now a clear appreciation of the goals and direction of development. Planning has proceeded on an organised basis, and it is essential to strengthen and accelerate this effort in the coming years. The 1948 Resolution has been reviewed in the light of these considerations and the experience gained so far, and the new Industrial Policy Resolution was placed before Parliament by the Prime Minister on the 30th April, 1956.

15. The full text of this Resolution is given in the annexure at the end of this chapter. As the Resolution puts it, "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area". The Resolution classifies industries into three categories, having regard to the

part which the state would play in each of them. The first category shown in Schedule A, consists of industries the future development of which will be the exclusive responsibility of the State. In the second category, shown in Schedule B, are industries which will be progressively state-owned and in which, therefore, the State will generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category comprises all the remaining industries, the further development of which will, in general, be left to the initiative and enterprise of the private sector. These categories are not intended to be rigid or watertight. In the industries listed in Schedule A, for instance, the expansion of existing privately owned units is not precluded, and the State is free to secure the cooperation of private enterprise in the establishment of new units when the national interest so requires, subject to the proviso that while securing such cooperation, it will ensure, through majority participation in the capital of the undertaking or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking. Schedule B relates to what may be called the mixed sector, a sector in which the State will enter progressively and enlarge its operations, but private enterprise will, at the same time, have the opportunity to develop, either on its own or with state participation. In the rest of the field, development will ordinarily be undertaken through the initiative and enterprise of the private sector, but it will be open to the State to start any industry even in this field. The prime consideration determining State policy over the whole industrial field is promotion of rapid development in keeping with the overall objectives defined. The public sector has to grow—and rapidly—and the private sector has to conform to the requirements of the Plan. There has necessarily to be "a great deal of dovetailing" between the two sectors, and it is recognised that the private sector has to be given the opportunity and facilities to function effectively within the field allotted to it. It is within the framework of this new Industrial Policy Resolution that rapid industrialisation has to be carried through in the coming years.

16. The Industrial Policy Resolution of 1948 also indicated Government's approach to the problem of cottage and small-scale industries. The new Resolution reiterates this approach. These industries offer some distinct advantages in relation to some of the problems that need urgent solutions. They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income; and, they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. The need to promote, modernise and reorganise these industries is paramount. The problem is one of devising effective policies as well as of making suitable organisational arrange-

ments. Unregulated or haphazard application of modern techniques in all spheres of production is apt to create or aggravate technological unemployment. There is need for regulation here. This is not to suggest that a freezing of existing techniques is at all indicated by considerations of economic or social policy. It only means that conditions have to be created in which modern techniques can be adopted and introduced more and more in these lines of production and that the transition should be orderly. In addition, it is important to stress the fact that development along new lines has to be the keynote of policy in this field. As national income increases, demands get diversified, and as power, transport and communication facilities are developed, the scope for small enterprises of various kinds, which either cater for new consumer demands, or function in a way complementary to large-scale industry, increases steadily. From the point of view of enlarging employment opportunities as well as of increasing production these new lines of development have to be fostered energetically.

17. The workers in cottage and small-scale industries suffer from a variety of handicaps. Some of these handicaps such as lack of access to raw materials of the right quality and at the right price and the unsatisfactory state of equipment follow directly from lack of finance. There are other difficulties such as inadequate marketing arrangements and the lack of contact with new techniques of production and with the changing requirements of the market which also limit the capacity of the workers in these industries to utilise their labour power and their skill to the fullest advantage. Sustained effort to overcome these handicaps and difficulties will be necessary. In general, the expansion of rural electrification and the availability of power at prices which the workers can afford will give a substantial fillip to these industries, but further assistance in various ways will also be required. It will be necessary, for instance, to organise in rural areas community workshops where workers in different types of industries can come together and carry on their production activities in a suitable environment. There is similarly need for encouraging small and medium-scale enterprise through a number of industrial estates with facilities for transport, power and the like provided by public authorities. In spheres in which it is possible to increase employment and output through cottage, village and small scale industries and where these industries are capable of using improved techniques progressively, it is necessary to think in terms of integral programmes of production covering factories as well as small units of production. The second five year plan has laid special stress on increasing the supply of consumer goods by using existing skills and equipment and steadily introducing technical improvements in the village and small-scale industries sector. This sector has to be organised more and more on cooperative lines so as to enable the

small producer to secure the advantages of buying raw materials and selling his products on a large scale, of getting access to institutional credit and of utilising improved methods and techniques. An integral programme of production may in some cases work on the basis of differential taxation; in others, buying over of the product at stated prices and a state-sponsored or cooperative marketing arrangement may be needed.

18. The problem is not to be viewed as one of merely safeguarding the interests of workers in existing cottage or handicraft units or of maintaining the demand for existing types of cottage industry products. It is also—and increasingly—one of finding new types of products and trying out new modes or techniques of production which cater more effectively to the new demand created by rising incomes. It is the promotional rather than the protective aspect of policy which has to become more and more important in the adaptation and reorganisation proposed in this sector. If cottage and small industries have not fared well so far, one reason is the stagnancy of the economy and the consequent lack of demand. The increase in investment activity which developmental planning involves will increase existing demands and create new ones. In a country like India with vast distances and a large potential market, the demands can and ought to be met through production in efficient, decentralised units. There are other reasons also which weigh in favour of a wide diffusion of industry. Up to a point the growth of large towns and cities is a necessary accompaniment of industrialisation. The availability of power, transport, banking and other facilities in concentrated areas provides certain economies which make for an aggregation of industry in big towns and cities. Beyond a point, however, there are social costs like emergence of slums and increased incidence of ill-health. With the development of transport and communications and extension of power to smaller towns and rural areas, the economic advantage in favour of highly concentrated areas also narrows. From this point of view as also for raising incomes in rural and semi-urban areas, the development of small industries deserves special attention. Only thus is it possible to draw upon the large reservoir of skills and talents available over the vast areas of the country.

Reduction in Inequalities

19. Economic development has in the past often been associated with growing inequalities of income and wealth. The gains of development accrue in the early stages to a small class of businessmen and manufacturers, whereas the immediate impact of the application of new techniques in agriculture and in traditional industry has often meant growing unemployment or under-employment among large numbers of people. In course of time this trend gets corrected partly

through the development of countervailing power of trade unions and partly through state action undertaken in response to the growth of democratic ideas. The problem before under-developed countries embarking upon development at this late stage is so to plan the alignment of productive resources and of class relationships as to combine development with reduction in economic and social inequality; the process and pattern of development has, in essence, to be socialised. There are existing inequalities of income and wealth which need to be corrected and care has to be taken to secure that development does not create further inequalities and widen the existing disparities. The process of reducing inequalities is a two-fold one. It must raise incomes at the lowest levels and it must simultaneously reduce incomes at the top. The former is, basically, the more important aspect, but early and purposeful action in regard to the second aspect is also called for. Development along these lines has not so far been attempted on any significant scale under democratic conditions. There are no historical parallels or plans of action which could be regarded as providing an answer to this special problem facing under-developed countries. The problem will have to be faced pragmatically, and it will call forth a great deal of flexibility and experimentation in the matter of techniques. It is important to ensure that in reducing inequalities no damage occurs to the productive system as would jeopardise the task of development itself, or imperil the very processes of democratic change which it is the objective of policy to strengthen. On the other hand, regard for democratic and orderly change cannot be allowed to become a sanction for existing or new inequities.

20. It must be stressed that reduction in inequalities in income and wealth can follow only from the totality of measures and institutional changes undertaken as part of the plan. The pattern of investment proposed in the plan, the direction to economic activity given by State action, the impact of fiscal devices used for mobilising the resources needed for the plan, the expansion of social services, and the institutional changes in the sphere of land ownership and management, the functioning of joint stock companies and the managing agency system and the growth of the cooperative sector under State sponsorship all these determine the points at which new incomes will be generated and the manner of their distribution. It is the essence of a planned approach that all these measures should be harmonised and brought to a focus in a manner that would ensure an enlargement of incomes and opportunities at the lower end and a reduction of wealth and privilege at the upper end.

21. Fiscal measures have an important part to play in reducing inequalities of income and wealth. It has to be recognised, however,

that some of the measures which might reduce inequalities are apt to react adversely on incentives. The Indian income tax is highly progressive, and apparently, the scope for enlarging public revenues or reducing inequalities through a stepping up of these rates is not large. The Taxation Enquiry Commission stressed in this context the need for measures to check evasion. It also mentioned "a widening of the taxation of wealth and property" as "a possible means of reducing inequalities". The adaptation of the tax system to the requirements of development in the context of the objectives defined is necessarily a problem for continuous study, and official as well as non-official research organisations will have to apply themselves to an examination and elucidation of the implications of various possible changes that can be made in the tax structure.

22. It is possible that rather far-reaching changes in the tax system will be required, if the more well-to-do classes of society are to be called upon to make a larger contribution to the resources for development without losing in the process the incentive to work harder or to save more. It has recently been suggested that the substitution of expenditure for income as the basis for personal taxation, coupled with measures to tax wealth and capital gains, can bring about this result. The idea of an expenditure tax has been discussed by economists on several occasions in the past. There is a growing body of expert opinion in favour of an expenditure tax. There are, however, administrative problems which have to be resolved before a change of this character can be made. It may be that an experimental approach on a limited scale may have to be adopted initially. Experience in more advanced countries seems to indicate that progressive income taxes on the scales that are now prevalent are in reality not so effective, firstly because the incomes by way of capital gains escape such taxation, and secondly because there is a great deal of evasion in various ways. A tax based on expenditure may encourage saving, and, in theory at any rate, it is a more effective instrument than an income tax for moderating inflationary or deflationary tendencies.

23. The most important single factor responsible for inequalities of income and wealth is the ownership of property. Incomes from work are by no means equal, but in part at any rate, they have some justification in terms of productivity or relative scarcity. Some types of work are, however, remunerated more liberally than others for reasons which are not directly connected with productivity. Differential monetary rewards are often a matter of tradition and existing psychological or social rigidities. It has also to be borne in mind that capacity to work effectively at higher levels depends on a person's education and training, and these are a matter of the accident of birth or circumstances. A large expansion of general and techni-

cal education for all classes of people irrespective of their paying capacity is over a period a potent equaliser. The point is that while inequalities in incomes from work have to be corrected, the case for taxation based specifically on wealth or property needs to be carefully examined. The ownership of property signifies taxable capacity additional to that arising from the income accruing from the property in question. The fact that income from wealth is taxed when it accrues, does not rebut the case for a separate, moderate, tax on wealth. There are problems of valuation here, and there are large possibilities of avoidance or evasion through non-reporting transfers and the like. But, given the objective of reducing inqualities of income and wealth and of raising the resources needed for development from classes which have incomes or wealth far above the average, these administrative problems have to be faced.

24. Mention may be made finally of the fact that the yield from estate duty has so far been negligible. Evidently, the estate duty will have to be supplemented by gift taxes, if the object in view is not to be frustrated. There are various alternative sytems possible here and there are ways of differentiating a tax in terms of the size of the gift, the degree of relationship of the beneficiary to the giver and the amount of property which the beneficiary already has. Gift taxes can yield considerable revenues without impairing incentives and they are an important part of the machinery of taxation based on wealth and on expenditure.

25. The foregoing observations are not meant to indicate that any or all of the measures mentioned can be adopted immediately. But, they do suggest that further work on the incidence of these taxes, their effect on incentives and their administrative implications should be undertaken. In the nature of things some of these measures are apt to yield their full benefits only over a period of time, but there should be no hesitation in initiating changes in the desired direction if on an examination of the case the changes suggested promise to assist in the realisation of the objective in view.

26. A reduction in inequalities has to proceed from both ends. On the one hand, measures have to be taken to reduce excessive concentration of wealth and incomes at higher levels, and, on the other, incomes in general, and particularly at the lowest levels, have to be raised. The proposal for a ceiling on incomes that has often been put forward has to be judged in this light and it is important in this connection to stress the substance rather than the form of the proposal. Obviously, a ceiling cannot be imposed merely by legislation. There are, besides wage and salary incomes, incomes from property and from entrepreneurship the regulation of which raises quite complex issues. A ceiling on incomes has little significance unless it also

involves a ceiling on property. Incomes from property or from business are difficult to regulate, except in so far as they come under the normal system of personal taxation. Any attempt to apply a ceiling—which means a 100 per cent. tax on incomes in all forms above a certain level—effective as from a specific date or to apply it in any rigid or mechanical way is likely to create difficulties. It is reasonable that those in receipt of large incomes should make a larger contribution to the public exchequer. This principle is well recognised and in recent years the marginal rates of taxation on incomes in the higher brackets have been stepped up. While inequalities have to be corrected through fiscal and other devices, the emphasis should be no less on positive measures which promote a more even distribution of incomes.

27. It is, in other words, through progressive adaptation of the tax system along lines mentioned earlier and through institutional changes which place an increasing proportion of the community's surpluses directly in the hands of public authorities that an effective reduction in the incomes and spending power accruing to the few can be brought about. Promotion of cooperative forms of production, elimination of functionless rent-receivers, substitution of private usurious credit by institutional credit, control of private monopoly and enlargement of the public sector in strategic lines of production and trade are of far-reaching significance in this context. A ceiling on incomes is, in other words, the end-product of a process; it cannot be a beginning. The quicker the advance towards the socialist pattern which, as stated above, is the totality of economic and social institutions, the more rapidly will economic disparties disappear. In any realistic analysis, the approach to this problem has to be through a change in the conditions that create and perpetutate inequalities. It need hardly be stated that in this approach a floor to incomes, or in other words, a guarantee of a certain minimum national standard of the essentials of civilised life is no less important than a ceiling at top levels.

28. This brings us to the question of regional disparities. In any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be so devised as to lead to balanced regional development. The problem is particularly difficult in the early stages when the total resources available are very inadequate in relation to needs. But, more and more, as development proceeds and large resources become available for investment, the stress of developmental programmes should be on extending the benefit of investments to under-developed regions. Only thus can a diversified economy be built up. These considerations have been kept in mind

while formulating the second five year plan, but they are certain to claim even greater attention in the plans to come.

29. The question was discussed recently by the National Development Council and it has been agreed in principle that within the resources available, every effort must be made to provide for balanced development in different parts of the country. The problem has to be approached in a variety of ways. In the first place, the National Development Council has recommended programmes for setting up decentralised industrial production. Secondly, it has been suggested that in the location of new enterprises, whether public or private, consideration should be given to the need for developing a balanced economy for different parts of the country. Some industries have to be located in particular areas in view of the availability of the necessary raw materials or other natural resources. But, there are other industries in regard to the location of which, on economic considerations, there is a field of choice. Often, the disadvantages of comparative cost are only a reflection of the lack of basic development. Once this is taken in hand, the initial handicaps progressively disappear. A wide diffusion of development nucleii is essential from this point of view. Thirdly, steps have to be taken to promote greater mobility of labour between different parts of the country, and to organise schemes of migration and settlement from more to less densely populated areas. The National Development Council recommended that there should be continuous study of the problem of diminishing regional disparities and a suitable set of indicators of regional development evolved. These approaches, which have been stressed also in the new Industrial Policy Resolution, have to be kept in view while programming development in the public sector as also in the administration of licensing policy for new industrial units in the private sector.

Economic Policy and Techniques

30. The basic approach and the principal objectives outlined above will govern the direction and content of economic policy in the plan period. The function of economic policy in the context of the plan is not merely to mobilise the financial resources needed, but also to promote in all ways it can a pattern of consumption and of utilisation of real resources which conforms to the requirements of the plan. In crucial fields, the desired allocation of resources follows directly from action initiated by the State; investment by public authorities is thus a major instrument of policy. The criteria of public investment are broader than those which govern private investment. The public sector can and has to take a longer and more comprehensive view of the requirements of the economy. The public authorities

have to carry out and assist a programme of complementary investments such that they make in the aggregate a larger contribution to the national product than isolated investments determined by considerations of costs and returns within a limited perspective would make possible. Simultaneously, over a large field of economic activity the role of economic policy in a mixed economy is to influence the course of private investment throught appropriate changes in relative prices and profitability. The techniques through which this is done are, therefore, of vital importance from the point of view of the fulfilment of the plan.

31. A plan is not merely a statement or list of things to be done; it involves an agreement as to how these things are to be done. A democratic system of planning eschews direct commandeering of resources and it operates mainly through the price mechanism. There are, broadly speaking, two types of techniques through which the objectives in view have to be attained. Firstly, there is the overall regulation of economic activity through fiscal and monetary policy, and, secondly, there are devices like export and import controls, licensing of industries or trades, price controls and allocations which influence and regulate economic activity in particular sectors or sub-sectors of the economy. There has been of late a good deal of discussion as to whether planning should confine itself to the former type of control or whether it should extend to the latter type also. Overall fiscal and monetary discipline, it would appear, can go a long way towards regulating the ebb and flow of economic activity, and differential taxation can assist in channeling resources at the margin in certain directions. There is little doubt, however, that a comprehensive plan which aims at raising the investment in the economy substantially and has a definite order of priorities in view cannot be seen through on the basis merely of overall fiscal and monetary control. The second type of controls mentioned above is thus inescapable.

32. In a developing economy the basic trend of governmental operations in the fiscal and monetary field is inevitably expansionist. Expenditures could be stepped up and credit made available in ampler measure, should recessionary trends unexpectedly appear. However, the problem in the main is likely to be one of regulating inflationary pressures. Generation of new demands somewhat ahead of supplies is part of the strategy of development. It follows that a curtailment of public expenditure and other curbing devices can and ought to be used only in the last resort. It could perhaps be argued that if a country had unlimited supplies of foreign ex-

change it could correct the emergence of any inflationary pressure at home by augmenting domestic supplies through larger imports. But, this is clearly not the case, and foreign exchange is a resource which in fact has to be used sparingly. The plan postulates the use not only of current earnings but also of a part of accumulated reserves and of external assistance for the execution of the tasks in hand. Foreign exchange policy as well as commercial policy in general has necessarily to be dovetailed into the implementation of developmental programmes. There are in an under-developed economy many contingent demands on resources. Agricultural production may fall short of the mark for reasons beyond human control. Other bottlenecks may emerge. There is always a certain lag between the creation of new incomes and the increase in available supplies on which they can be spent. Yet a developmental programme cannot be abandoned or scaled down at the first appearance of difficulties or bottlenecks. A measure of risk has to be taken. This means that there must be corresponding preparedness to adopt physical controls and allocations as necessary; and these controls and allocations, as experience has shown, cannot work unless they form a fairly integrated system. Nor can they successfully function without a psychological preparedness on the part of the people, and for this, the necessary climate of opinion and understanding has to be created. If controls are administratively cumbrous and may act as disincentives, lack of them, it has to be remembered, may create inequalities and hardships, to the prejudice especially of classes that need protection most.

33. It would, of course, be desirable on psychological as well as administrative grounds to avoid as far as possible control and rationing of the necessities of life like, for instance, foodgrains. On the other hand, high or rising prices if primary necessities are apt to create serious difficulties. The basic remedy for a situation of scarcity or shortage is, of course, an increase in supplies, and, to an extent when domestic supplies are deficient, imports may be inescapable. It is not possible, however, to rely too far on imports; the necessary imports may either not be available or may involve diverting resources from other important uses. The same may hold for a diversion of domestic resources from investment into consumption. Physical controls may thus become necessary, if the entire plan is not to be disturbed. Thus, controls on essential consumption cannot be ruled out in particular situations. Perhaps, the point to emphasise is that these controls should not be regarded as sufficient by themselves, and their imposition should be accompanied by measures simultaneously to increase supplies.

34. It is of particular importance in this context that Government should build up buffer stocks of foodgrains and other strategic com-

modities, and operate on them so as to moderate price fluctuations. Under-developed economies are highly sensitive to small changes in supply relatively to demand : a slight deficiency pushes up prices excesssively, and a small surplus manifests itself in sharp price declines. Domestic commodity reserves, judiciously operated on, are a no less important device for price stabilisation than the usual mechanism of building up and utilising foreign exchanges reserves. The maintenance by Government of an adequate foodgrains reserve at all times so as to be able to meet an adverse situation effectively and promptly is a necessary safeguard against the inflationary pressures implicit in a big developmental programme. In principle, this applies not only to foodgrains but also to important raw materials and a few other consumer goods. The extent to which such operations can be extended depends upon the soundness of administrative arrangements and the creation of the necessary facilities for storage and for quick transport and distribution. In the case of foodgrains, the case for maintaining adequate stocks and for open market operations with a view to correcting adverse price trends is especially strong and deserves high priority. The plan provides for an addition of 2 million tons of storage capacity through the Central and State Warehousing Corporations. It is important to ensure an early completion of this programme.

35. The maintenance of buffer stocks of foodgrains should enable Government to mitigate sharp fluctuations in prices. Simultaneously, measures will be necessary from time to time to correct price trends in respect of commercial crops; for, there must be a reasonable relationship between the prices obtained by the grower for alternative crops, and the price incentive should work in the direction of encouraging a pattern of crop production which accords with the requirements of the plan. To this end, the mechanism of import and export controls and of import and export duties has to be relied upon to a considerable extent. It is necessary in this context to ensure, as far as possible, that announcements of export or import quotas are timed so as to benefit the producer rather than the middleman. In the case of cotton, the range of price fluctuations is regulated through fixation of floor and ceiling prices, and for sugarcane, the cane prices payable by factories are announced by Government well in advance of the sowing season. Changes in exports or imports are, however, necessary from time to time for making the Government's price policy effective. Some of the agricultural commodities, like oilseeds, for instance, are subject to strong speculative influences, and it is to be hoped that the regulation of forward markets through the Forward Markets Commission will bring the unhealthy speculation in some of these markets under effective con-

trol. Incidentally, it must be stated here that excessive speculation does not accord with a planned economy, and it must be regulated and controlled not only through appropriate rules of trading within the commodity exchanges, but through all devices at the disposal of Government including general as well as selective credit control.

36. It remains to advert briefly to the role of an adequate financial and credit mechanism in promoting development—overall and in particular directions. It will be noted that important steps towards an orientation of this mechanism to the needs of development have been taken in the first plan period. The Imperial Bank of India—the biggest commercial bank in the country—has been converted into a public-owned and public-managed State Bank with a view to the expansion and institutionalisation of rural credit. The Reserve Bank of India not only discharges its regulatory functions in the sphere of currency, credit and foreign exchange; it assists actively in the development of cooperative credit agencies. The far-reaching recommendations of the Rural Credit Survey Committee in respect of the reorganisation of rural credit under the sponsorship of the Reserve Bank and the State are being implemented. The task involved in making credit at reasonable rates available all over the rural areas is formidable, but the new and integrated approach involving joint and coordinated action by cooperative agencies, the Reserve Bank and the State, envisaged in the new reorganisation proposals, will make a rapid advance possible.

37. In the industrial sphere, the Industrial Finance Corporation and the Industrial Credit and Investment Corporation are designed to meet the special needs of the private sector, and the National Industrial Development Corporation will enable Government to take up promotional and developmental work along new lines. Special institutions are needed for assistance to and promotion of small businesses, and a beginning has been made in this direction through the establishment of State Finance Corporations and the Central Small Industries Corporation. It may be necessary also to develop further institutions which could provide the nucleus for a properly organised new issue market especially as a diminishing role is being envisaged for the managing agency system. The recent decision to nationalise life insurance has added another potent instrument to the repertory of the public sector for raising savings and for regulating and directing the flow of funds in accordance with the requirements of the Plan.

38. Briefly, a planned approach to development necessitates an integration of economic and social policies *inter se* in terms of the objectives and priorities on which the plan is based. The techniques

to be employed may and have to vary in the light of requirements. In some cases fiscal or price incentives may have to be relied on; in others, a licensing system may be essential; in still others, fixation of profit margins, allocations of scarce raw materials or other regulatory devices may be necessary. Sanctions of capital issues, foreign exchange allocations, differential tax incentives, financial assistance in suitable cases and the general direction and control of commercial, financial and industrial institutions are a recognised part of the apparatus of planning. A plan is an attempt to improve upon the results that can be achieved under an unregulated and uncoordinated play of private decision. It must, therefore, involve certain restraints and incentives. If the targets of planned investment are to be achieved, means have to be found to secure that the necessary resources do in fact become available and are not devoted to consumption, and it is necessary to ensure that the sacrifices involved are shared equitably. For directing resources for the plan as well as for promoting and facilitating a balanced attainment of the economic and social objectives in view, the plan has to have sanctions or regulatory devices which operate within the existing structure. But, more and more, the structure itself has to change so that the desired balance of incentives and restraints gets built into it instead of having to be brought about through *add hoc* controls and correctives.

ANNEXURE

GOVERNMENT OF INDIA

INDUSTRIAL POLICY RESOLUTION

New Delhi, the 30th April, 1956

No. 91/CF/48.—The Government of India set out in their Resolution dated the 6th April, 1948, the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries—except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens—

"JUSTICE, Social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity of the Nation."

In its Directive Principles of State Policy, it is stated that—

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life."

Further that—

"The State shall, in particular, direct its policy towards securing—

(a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

(b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

(d) that there is equal pay for equal work for both men and women;

(e) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;

(f) that childhood and youth are protected against exploitation and against moral and material abandonment."

4. These basic and general principles were given a more precise direction when Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and

improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the States. The second category will consist of industries, which will be progressively State-owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State.

The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the

State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or

by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet

shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritatives statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on the 6th April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

SCHEDULE A

1. Arms and ammunition and allied items of defence equipments.
2. Atomic energy.
3. Iron and steel. ...
4. Heavy castings and forgings of iron and steel.
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport
15. Shipbuilding.
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.
3. Machine tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

CHAPTER III

THE PLAN IN OUTLINE

THE broad objectives and rationale of the second five year plan have been set forth in the preceding chapter. The plan is intended to carry forward and accelerate the process of development initiated in the first plan period. The principal task is to secure an increase in national income by about 25 per cent over the five years, to enlarge employment opportunities at a rate sufficient to absorb the increase in labour force consequent on the increase in population and to take a major stride forward in the direction of industrialisation so as to prepare the ground for more rapid advance in the plan periods to come. The second five year plan is in one sense a continuation of the developmental effort commenced in the first plan; but there is inevitably a shift in priorities with a larger accent on industrialisation, especially the development of heavy industry, and the necessary ancillaries like transport. The acceptance of the goal of a socialist pattern of society reflects itself not only in the relative proportions of investment proposed in the public and private sectors but also in the approaches to institutional change both in the rural and in the urban sector. The fulfilment of the tasks outlined in the plan requires coordinated effort in both the public and private sectors, but the role of the public sector, as mentioned earlier, is the crucial one.

PLAN OUTLAY AND ALLOCATIONS

2. The total developmental outlay of the Central and State Governments over the period of the plan works out at Rs. 4,800 crores. The distribution of this outlay by major heads of development is as under :—

Distribution of plan outlay by major heads of development

	First Five Year Plan		Second Five Year Plan	
	Total provision (Rs. crores)	Per cent	Total provision (Rs. crores)	Per cent
(1)	(2)	(3)	(4)	(5)
I. AGRICULTURE AND COMMUNITY DEVELOPMENT . . .	357	15·1	568	11·8
(a) *Agriculture*	241	10·2	341	7·1
Agricultural Programmes . .	197	8·3	170	3·5
Animal Husbandry . . .	22	1·0	56	1·1
Forests	10	0·4	47	1·0
Fisheries	4	0·2	12	0·3
Co-operation	7	0·3	47	1·0
Miscellaneous	1	..	9	0·2

(1)	(2)	(3)	(4)	(5)
(*b*) *National Extension and Community Projects*	90	3·8	200	4·1
(*c*) *Other Programmes*	26	1·1	27	0·6
Village Panchayats	11	0·5	12	0·3
Local Development Works	15	0·6	15	0·3
II. IRRIGATION AND POWER	661	28·1	913	19·0
Irrigation	384	16·3	381	7·9
Power	260	11·1	427	8·9
Flood control and other projects, investigations, etc.	17	0·7	105	2·2
III. INDUSTRY & MINING	179	7·6	890	18·5
Large and Medium Industries	148	6·3	617	12·9
Mineral development	1	..	73	1·5
Village & Small industries	30	1·3	200	4·1
IV TRANSPORT AND COMMUNICATIONS	557	23·6	1,385	28·9
Railways	268	11·4	900	18·8
Roads	130	5·5	246	5·1
Road Transport	12	0·5	17	0·4
Ports & Harbours	34	1·4	45	0·9
Shipping	26	1·1	48	1·0
Inland Water Transport	..	..	3	0·1
Civil Air Transport	24	1·0	43	0·9
Other Transport	3	0·1	7	0·1
Posts & Telegraphs	50	2·2	63	1·3
Other Communications	5	0·2	4	0·1
Broadcasting	5	0·2	9	0·2
V. SOCIAL SERVICES	533	22·6	945	19·7
Education	164	7·0	307	6·4
Health	140	5·9	274	5·7
Housing	49	2·1	120	2·5
Welfare of backward classes	32	1·3	91	1·9
Social welfare	5	0·2	29	0·6
Labour and labour welfare	7	0·3	29	0·6
Rehabilitation	136	5·8	90	1·9
Special schemes relating to educated unemployment	..	..	5	0·1
VI. MISCELLANEOUS	69	3·0	99	2·1
TOTAL	2,356	100·0	4,800	100·0

The total outlay mentioned above does not include all expenditures by local bodies on development schemes ; only such expenditure on these schemes as is financed by State Governments is included in the allocations shown in the plan. The total outlay as presented here also does not include the contributions in cash or in kind which are made by the local population participating in developmental work within their localities. These contributions are likely to be of considerable significance in terms of investment in the areas concerned even though they might not make a marked difference to the national totals.

3. The allocations under major heads of development shown above indicate the relative shift in priorities as between the first plan and the second plan. Industries and mining claim about 19 per cent of the total public sector outlay in the second plan as compared to 8 per cent in the first plan. In absolute terms, the step up in the outlay on industries and mining is very large—nearly 400 per cent. The actual outlay under this head in the first plan was less than 50 per cent of the allocation. Judged in this light the increase in the provision for industries and mining in the second plan is even larger than a comparison of the initial allocations would suggest. It will be observed that of the total outlay of Rs. 890 crores on industries and mining, Rs. 690 crores is for large scale industries including mining, while Rs. 200 crores is for promotion of village and small scale industries. The allotment of Rs. 73 crores under mineral development shown in the table is mainly for coal, coal washeries, oil prospecting and the expansion of the Geological Survey and the Bureau of Mines. The expenditure on iron ore mining is included in the allocations for the iron and steel projects.

4. Transport and communications account for 29 per cent of the total outlay in the plan period. While the development programme of the railways absorbs 19 per cent of the total outlay as compared to about 11 per cent in the first plan period, the allocations for other transport and communications form in the aggregate as somewhat smaller proportion of the total than in the first plan. In absolute terms, of course, the outlay on these latter is being stepped up significantly.

5. Some 19 per cent of the total outlay of the Central and State Governments is to be devoted to irrigation and power and another 12 per cent to agriculture and community development. The aggregate expenditure under these two heads works out at Rs. 1,481 crores. Although there is a relative shift in priorities as between agriculture and industry, increased production of food and raw materials must remain not only for the second plan period but for several years to come a major desideratum. The demand for food

and raw materials is bound to increase rapidly as industrialisation proceeds and incomes increase. There cannot, therefore, be any relaxation of efforts to increase agricultural productivity. Of the total provision of Rs. 486 crores for irrigation and flood control Rs. 209 crores is on schemes which continue from the last plan, the balance of Rs. 277 crores being in respect of new schemes. The development of power is vital both for agriculture and for industry. The provision of Rs. 427 crores in the plan for power development includes roughly Rs. 160 crores on schemes continuing from the first plan and Rs. 267 crores on new schemes. The programmes for irrigation and power have been conceived as part of a wider programme of increasing the area under irrigation from Government works twofold and of increasing the supply of power sixfold over a period of about 15 years.

6. Social services take up about 20 per cent of the total outlay in the second plan as compared to 23 per cent in the first plan. In terms of percentages to total outlay under social services and related items, the allocations to education, health and housing are practically the same as in the first plan; in absolute terms they are significantly larger. Thus the provision of Rs. 307 crores for education in the second plan is a little less than twice as large as that made in the first plan. The same is true of health. It must also be remembered that the plan includes only that part of the outlay on social services which is required for increasing the level of development reached at the end of the first plan. If allowance is made for the committed portion of the expenditure on social services which is not included in the plan, the share of social services in developmental outlay would be considerably larger.

7. Of the total development outlay of Rs. 4,800 crores, Rs. 2,559 crores represents expenditure to be incurred by the Centre and Rs. 2,241 crores is the total of plan expenditures by all the State Governments taken together. The break-up of the outlay by States separately together with comparable break-up for the first plan is shown in the Appendix to this Chapter, a detailed break-up by States and by heads of development being furnished at the end of this Report. The classification of outlay between the Centre and the States in the second five year plan is a little different from that followed in the first five year plan. In the first plan, in addition to the schemes to be implemented by the Central Ministries, a number of programmes which were sponsored and assisted by the Central Government through various Ministries were shown at the Centre. Expenditure found on a matching basis by the States for these schemes was, however, intended to form part of State plans. This led to certain difficulties in the presentation of plans. In the second five year plan, the general principle followed

is that plans of States should include to the maximum extent possible all programmes to be implemented by them or by public authorities or local boards or special boards set up by them. The fact that for any particular programme carried out in the States either the whole or part of the resources comes from the Central Government or from agencies set up by it does not, as a rule, affect the principle that the programme should be included within the State plan. While this principle has been generally applied, at this stage there are a few items which belong to State plans but some part of the expenditure is still shown at the Centre. For instance, in housing, welfare of backward classes and village and small scale industries part of the amounts shown at the Centre is likely to be allocated between States when certain proposals or other details which are under consideration have been agreed upon.

8. The distribution of the outlay of the Centre and of the States separately under major heads of development is shown in the table below :—

(Rs. crores)

	Centre	Part 'A'	Part 'B'	Part 'C'†	Total
1	2	3	4	5	6
I. Agricultural & Community Development . . .	65	359	112	31	568*
II. Irrigation & Power . .	105	567‡	217	24	913
III. Industry & Mining . .	747	99	37	7	890
IV. Transport & Communications	1203	120	41	21	1385
V Social Services . . .	396	393	117	39	945
VI. Miscellaneous. . . .	43	42	11	3	99
TOTAL .	2559	1580	535	125	4800*

9. The Central Ministries as well as the State Governments have worked out a phasing of their plans year by year. An examination of this phasing showed a somewhat excessive concentration of expenditure in the first two or three years of the plan. A part of this concentration was accounted for by the increasing momentum of expenditure on projects carried over from the first plan and are already in an advanced stage of execution, and it is necessary that such projects should be completed as early as possible so that they yield the benefits expected. This means correspondingly that

*Includes the unallocated portion of Rs. 1 crore for N. E. S. and Community Project in the States.

†Includes Andaman and Nicobar Islands, NEFA and Pondicherry.

‡Includes Centre's share of expenditure on D. V. C.

the outlay on the new projects should be so phased that the total expenditure on the plan, both by the Centre and by the States, shows a steadily rising trend over the plan period. This is necessary as much from the point of view of matching expenditures and resources as for ensuring that employment is stepped up steadily as the plan proceeds. As has been mentioned earlier, the second plan is to be regarded as a framework within which detailed annual plans are worked out in the light of an examination of the financial and real resources available. The phasing of the plan has necessarily to be flexible. It is, however, necessary to have in readiness a well-worked out annual phasing of outlays from the start, as in many cases orders have to be placed in advance for machinery and equipment and preliminary work commenced by way of setting up the necessary administrative and field staff.

INVESTMENT IN THE SECOND PLAN

10. Of the total expenditure of Rs. 4,800 crores, roughly Rs. 3,800 crores represents investment, i.e., expenditure on building up of productive assets, and Rs. 1,000 crores is what may broadly be called current developmental expenditure. A rough break-up of the two types of expenditure under major heads is shown in the following table:—

	(Rs. crores)		
	Investment outlay	Current outlay	Total outlay
(1)	(2)	(3)	(4)
I. Agriculture & Community Development	*338*	*230*	*568*
(i) Agriculture	181	160	341
(ii) National Extension & Community Development@	157	70	227
II. Irrigation & Power	*863*	*50*	*913*
(i) Irrigation & Flood Control	456	30	486
(ii) Power	407	20	427
III. Industries & Mining	*790*	*100*	*890*
(i) Large and Medium Industries and Mining	670	20	69
(ii) Village and Small-scale Industries	120	80	200
IV. Transport and Communications	*1,335*	*50*	*1,385*
V. Social Services	*455*	*490*	*945*
VI. Miscellaneous	*19*	*80*	*99*
TOTAL	3,800	1,000	4,800

@ Including village panchayats and local development works programme.

This break-up is intended to provide only a broad indication. The presentation of budgets at the Centre and in the States does not at present run in terms of a clear-cut distinction between current expenditure and investment. There are in the revenue account some items of an investment character, and in the capital account, it is necessary to distinguish between direct expenditure on capital formation and loans expenditure which leads to the creation of productive assets elsewhere in the system. There are also transfers from time to time from revenue account to capital account and vice versa of certain types of expenditure the precise import of which in national accounting terms is not readily recognisable. Nor have the projects and schemes included in the plan been worked out fully by the authorities concerned in terms of investment expenditure proper and current developmental expenditure. There is, it may be mentioned in this context, need for a reclassification of Government accounts both at the Centre and in the States so as to bring out more clearly the nature of expenditure in terms of the overall aggregates such as national income or expenditure and its break-up between consumption and investment. This work has been taken in hand.

11. The programme of investment of Rs. 3,800 crores in the public sector must be judged in relation to the investment programmes envisaged for the private sector. The targets of production and development represent the combined result of investment in both the sectors, and it is evident that the development programmes in the two sectors have to proceed at a pace and in a manner that ensure a balanced growth in outputs. Dependable estimates of total investment in the private sector are not available, and it is not possible to present anything more than a broad guess of the likely trends over the next five years. Judging from rough calculations regarding the trends of investment over the last five years and taking into account the known investment programmes in certain fields, the likely level of investment in the private sector over the second plan period might be put at Rs. 2,400 crores, broken down as follows:—

	(Rs. crores)
1. Organised industry and mining	575
2. Plantations, electricity undertakings and transport other than railways	125
3. Construction	1,000
4. Agriculture and village and small-scale industries	300
5. Stocks	400
TOTAL	2,400

12. In the first plan period, total investment in the economy appears—very roughly—to have been around Rs. 3,100 crores, the investment in the private sector being a little more than half the total. The target for the second plan period works out at Rs. 6,200 crores, and for reasons stated earlier, the share of the public sector in the total investment records a substantial rise. The ratio of public to private investment in the second plan is 61:39 as compared to 50:50 envisaged in the first plan. Investment through the public sector is scheduled to go up 2½ times, and the increase in investment in the private sector is expected to be of the order of 50 per cent.

Targets of Production and Development

13. The size and pattern of plan outlay as indicated in the earlier section give a measure of the over-all effort and the priorities envisaged in the plan. Within this broad framework, the plan must outline the concrete programmes of development to be taken in hand and make an assessment of the results to be achieved. The programmes of development in different spheres are reviewed in detail in later chapters of this report. A brief account of these programmes is, however, given here in the paragraphs that follow. The principal targets of production and development to be achieved over the second plan period as a result of the investments proposed both in the public and private sectors are set forth below:—

Main targets of production and development

Sector & Item	Unit	50-51	55-56	60-61	Percentage increase in 60-61 over 55-56
1	2	3	4	5	6
I. *Agriculture and Community Development*					
1. Foodgrains	(million tons) .	54·0*	65·0	75·0	15
2. Cotton	(„ bales) .	2·9	4·2	5·5	31
3. Sugarcane-raw gur .	(„ tons) . .	5·6	5·8	7·1	22
4. Oilseeds	(million tons) . .	5·1	5·5	7·0	27
5. Jute	(„ bales) .	3·3	4·0	5·0	25
6. Tea	(„ pounds) .	613	644	700	9
7. National Extension Blocks	(Nos.) . .	Nil	500	3,800	660
8. Community Development Blocks . . .	(Nos.) .	Nil	622	1,120	80
9. Population served by National Extension & Community Development Programme . . .	(million persons) .	Nil	80	325	306
. Village Panchayats . .	(Thousand Nos.) .	83	118	200	70

*) Relates to the year 1949-50

1	2	3		5	6
II. *Irrigation & Power*					
1. Area irrigated . .	(million acres) .	51	67	88	31
2. Electricity (installed capacity) . . .	(million kw)	3	3·4	6·9	103
III. *Minerals*					
1. Iron Ore . . .	(million tons) .	3·0	4·3**	12·5	191
2. Coal	(million tons) .	32·3†	38·0†	60·0†	58
IV. *Large-Scale Industries*					
1. Finished steel . . .	(million tons) .	1·1	1·3	4·3	231
2. Pigiron (for sale to foundries) . . .	(million tons) .	..	0·38	0·75	
3. Aluminium . .	(000 tons) . .	3·7	7·5	25·0	233
4. Heavy steel forgings for sale	(000 tons) .	Nil	Nil	12	..
5. Heavy steel castings for sale	(000 tons) . .	Nil	Nil	15	.
6. Steel structural fabrications	(000 tons) . .	N.A.	180	500	178
7. Machine Tools (graded).	(value in Rs. lakhs)	31·8	75	300	300
8. Cement Machinery .	(Do.) .	N.A.	56**	200	257
9. Sugar Machinery . .	(Do.) .	N.A.	28**	250	779
10. Textile Machinery (Cotton & Jute)	(Do.) .	N.A.	412	1950	373
11. Paper Machinery . .	(Do.) .	Neg.	Neg.	400	..
12. Power Driven Pumps — Centrifugal . . .	(000 Nos.) . .	34	40	86	115
13. Diesel Engines . .	(000 H.P.) . .	N.A.	100	205	105
14. Automobiles .	(Nos.) . .	16,500	25,000	57,000	128
15. Railway Locomotives .	(Nos.) . .	3	175	400	129
16. Tractors (20-30 DBHP) .	(Nos.) . .	..	..	3,000	..
17. Cement	(million tons) .	2·7	4·3	13	202
18. Fertilisers :					
(*a*) Nitrogenous (in terms of Ammn. Sulphate) .	(000 tons) .	46	380	1,450	282
(*b*) Phosphatic (in terms of Superphosphate) .	(000 tons) . .	55	120	720	500
19. Sulphuric Acid .	(000 tons) .	99	170	470	176
20. Soda Ash . . .	(000 tons) . .	45	80	230	188
21. Caustic Soda . .	(000 tons) . .	11	36	135	275
22. Petroleum Refinery—(crude processed)	(million tons) .	..	3·6	4·3	19
23. Electric Transformers 33 K. V. and below . .	(000 KVA) . .	179	540	1,360	151

(**) Relates to the calendar year 1954.

(†) Figures relates to calendar years.

1	2	3	4	5	6
24. Electric Cables (ACSR Conductors)	(tons)	1,420	9,000	18,000	100
25. Electric Motors	(000 H. P.)	99	240	600	150
26. Cotton Textiles	(million yards)	4,618	6,850	8,500	24
27. Sugar	(million tons)	1·1	1·7	2·3	35
28. Paper & Paper Board	(000 tons)	114	200	350	75
29. Bicycles (organised sector only)	(000 Nos.)	101	550	1,000	82
30. Sewing Machines (Organised sector only)	(000 Nos.)	33	110	220	100
31. Electric Fans	(000 Nos.)	194	275	600	118
V. *Transport and Communications*					
(a) Railways :					
(1) Passenger train miles	(millions)	95	108	124	15
(2) Freight	(million tons)	91	120	181	51
(b) Roads :					
(1) National Highways	(000 miles)	12·3	12·9	13·8	7
(2) Surfaced Roads	(000 miles)	97·0	107·0	125·0	17
(c) Shipping :					
(1) Coastal and Adjacent*	(lakh GRT)	2·2	3·2	4·3	34
(2) Overseas **	(lakh GRT)	1·7	2·8	4·7	68
(d) Ports : Handling capacity	(million tons)	20	25	32·5	30
(e) Posts & Telegraphs :					
(1) Post Offices	(000 Nos.)	36	55	75	36
(2) Telegraph Offices	(000 Nos.)	3·6	4·9	6·3	28
(3) Number of telephones	(000 Nos.)	168	270	450	67
VI. *Education*					
1. School-going children as percent of children in the respective age groups :					
(a) Primary Stage	(6—11 age group)	42·0	51·0	63·0	..
(b) Middle Stage	(11—14 age group)	14·0	19·0	22·5	..
(c) Higher Secondary Stage	(14—17 age group)	6·4	9·4	12·0	..
2. Elementary/Basic Schools	(lakhs)	2·23	2·93	3·50	19
3. Teachers in Primary/Middle Secondary Schools	(lakhs)	7·4	10·3	13·4	30
4. Teachers Training Institutions	(Nos.)	835	1136	1,412	24
5. Enrolment in Teachers Training Institutions	(000 Nos.)	75·6	103·5	134·2	30

(*) Inclusive of tankers.

(**) Inclusive of tramp tonnage.

1	2	3	4	5	6
VII. *Health*					
1. Medical Institutions	(000 Nos.)	8·6	10	12·6	26
2. Hospital beds	(000 Nos.)	113	125	155	24
3. Doctors	(000 Nos.)	59	70	82·5	18
4. Nurses	(000 Nos.)	17	22	31	41
5. Midwives	(000 Nos.)	18	26	32	23
6. Nurse-Dais & Dais	(000 Nos.)	4	6	41	583
7. Health Assistants and Sanitary Inspectors	(000 Nos.)	3·5	4	7	75

Agriculture and Community Development

14. The first five year plan has already initiated the process of increasing productivity in agriculture. Foodgrains production increased by 11 million tons, i.e., by 20 per cent., over the last five years and the increase in agricultural production as a whole has been of the order of 15 per cent. Over the second plan period, agricultural production is estimated to increase by 18 per cent. The lines on which efforts have to be made for increasing the productivity of land are already familiar. The provision of irrigation facilities, better seeds, fertilizers and the spread of improved techniques of cultivation will offer scope for expansion for many years to come. In addition to carrying forward these programmes, the second five year plan is designed to bring about greater diversification in agricultural production. As levels of living in the country improve and the industrial structure gets more broad-based it becomes necessary to devote increasing attention to cash crops and to the production of subsidiary foods such as vegetables, fruits, dairy products, fish, meat and eggs. Another aspect of agricultural development which will receive greater attention in the second plan relates to the institutional arrangements for promoting land use and land management on more efficient lines and for ensuring a greater degree of social justice among the classes dependent on land.

15. The target for additional production of foodgrains in the second plan is placed at 10 million tons, *i.e.*, an increase of 15 per cent. from 65 million tons in 1955-56 to 75 million tons in 1960-61. As a result, the consumption of foodgrains in the country would increase from the present level of 17·2 oz. to 18·3 oz. per adult per day. Larger increases in production are envisaged for cotton (31 per cent.), sugarcane (22 per cent.), oilseeds (27 per cent.) and jute (25 per cent.). About a million more acres are expected to be

brought under cultivation for sugarcane as a result of additional irrigation facilities. If the target for sugarcane is realised, it will be possible to increase the consumption of sugar in the country from 1·4 to 1·7 oz. per adult per day. Apart from the increase in production that is proposed, special efforts will be necessary to improve the quality of domestically produced jute and to increase the proportion of long staple varieties in the outturn of cotton.

16. The targets for agricultural production set out above embody the results of discussions that have taken place with State Governments and the Central Ministry concerned. We feel, however, that these targets are modest in relation to the scope that exists for raising productivity and the demands that will be made by the large investments envisaged in the plan. The provision for agriculture and community development is being increased from Rs. 357 crores in the first plan to Rs. 568 crores in the second plan. This allocation is exclusive of increased facilities for short-term credit which will be afforded by the Reserve Bank, the State Bank and the cooperative movement. Early in 1955 the Planning Commission suggested to State Governments that in framing programmes for agricultural production, it was necessary from the national point of view to place before villages a goal which they should strive to attain over a period of years: *viz*., a doubling within a period of about 10 years of agricultural production, including food crops, oilseeds, fibres, plantation crops, animal husbandry products, etc. It was emphasised that this goal involved on the part of State Governments an obligation to provide the supplies, services and finance needed, plans for which would have to be worked out. The targets set out at present in the plan are in the nature of working estimates indicating the increases in production potential arising from various development programmes. It is hoped that through better integration of the agricultural and the national extension programmes, it will be possible to fix appreciably higher targets for agricultural production. This problem is at present under discussion between the Planning Commission and the authorities concerned. Considering the need for economising foreign exchange, it is important that a coordinated effort is made to step up the domestic production of foodgrains. In fact, all crop yields in India are exceedingly low and they have to be raised rapidly if the programmes of industrial development are to proceed at the rates required. To this end, the national extension agency should concentrate more and more on getting every village and every family to work out and implement a plan for improvement of agricultural productivity through the adoption of improved practices and by investment of their own labour and resources. We suggest also in this connection that systematic sample surveys be undertaken to

measure the increases in agricultural production secured in various national extension and community development areas, so that necessary adjustments can be made in the programmes of development in this field from time to time.

17. Among the programmes to be taken in hand for increasing agricultural production, precedence will continue to be given to the provision of irrigation facilities, the target of additional area to be brought under irrigation being 21 million acres. The consumption of nitrogenous fertilizers is expected to increase from 610,000 tons in 1955 to 1·8 million tons in 1960. Some 3,000 seed multiplication farms covering a total area of about 93,000 acres will be established and land reclamation and improvement programmes extending over 3½ million acres of land will be undertaken.

18. The plan provides for considerable increases in the supply of protective foods like fruits and vegetables; a sum of Rs. 8 crores has been provided for promoting fruit and vegetable cultivation. The production in the allied occupations of fisheries, forestry and dairying is also expected to register substantial increases. The provision for animal husbandry and fisheries in the second plan amounts to Rs. 68 crores as against Rs. 26 crores in the first plan. During the first plan 600 key villages and 150 artificial insemination centres were established; these are to be increased by 1258 and 245 respectively. Veterinary dispensaries which increased from 2,000 to 2,650 in the first plan are expected to increase by another 1,900 during the second plan. The plan also contemplates the establishment of 36 urban milk supply unions, 12 cooperative creameries and 7 milk drying plants. Off-shore and deep sea fishing is to be expanded and for this purpose additional exploratory off-shore fishing stations will be established on the western and eastern coast and in the Andaman Islands.

19. The second plan makes a provision of Rs. 47 crores for cooperation, marketing and warehouses. The integrated scheme of credit, marketing and production recommended by the Rural Credit Survey Committee is to be jointly implemented by the State Bank, the Reserve Bank and the Government and work has already been taken in hand in pursuance of the Committee's recommendations. In particular, the programme of building a network of warehouses all over the country will be carried through with expedition. It is estimated that cooperative agencies will be able to handle about 10 per cent. of the marketable surplus by the end of the second plan. In the meanwhile, greater emphasis is being placed on the extension of regulated markets in the country. The total number of such markets is expected to be doubled by the end of the plan. Over a period, the object of institutional reforms in the field of agriculture is to apply

the cooperative principle to a steadily increasing range of activities. It has been found by experience that the growth of the cooperative movement in the sense of a spontaneous coming together of small and needy persons in the interests of larger production or more equitable distribution cannot be rapid enough. It becomes incumbent on the State, therefore, to sponsor and assist actively in the reorganisation and development of the cooperative movement. A comprehensive programme is being formulated to this end.

20. Perhaps the most significant feature of the First Five Year Plan was the emphasis it placed on the community development and national extension programme. The basic aim of this programme is to improve the economic condition of the people by spreading the knowledge of better techniques and to instil in them a desire for higher standards of living and a spirit of self-help and cooperation. Extension services and community organisations are one of the principal sources of vitality in democratic planning. Nearly one-fourth of the country has already been covered by this programme and the response of the people has been encouraging as seen from the fact that the volunted contributions by the people in community project areas have amounted to about 60 per cent. of the expenditure incurred by Government. It is proposed to carry forward the programmes of community development and national extension so as to cover the entire country by the end of the second plan. A provision of Rs. 200 crores is made in the plan for this purpose. As indicated earlier, these programmes, suitably orientated from time to time, can, we feel, be relied upon to secure increases in agricultural production even beyond the targets envisaged in the plan.

21. The development of village panchayats is an important constituent of the programme of fostering corporate life in the rural areas and of promoting among the rural community active interest in the development programmes of the village. In the first plan period the number of village panchayats increased from 83,000 to 117,000 and the aim in the second plan is to increase it further to 245,000. The plan makes a provision of Rs. 12 crores for promoting the development of village panchayats. There is also a provision of Rs. 15 crores for local development works. The object of this programme, which operates in areas not yet reached by the national extension service, is to enable village communities to undertake works of local benefit mainly with their own labour.

IRRIGATION AND POWER

22. The total area under irrigation in the country has increased from 51 million acres to 67 million acres over the first plan period. An additional area of 21 million acres is expected to come under irrigation by the end of the second plan with the result that the irrigated

area in the country will increase by almost 75 per cent. in ten years. Of the 21 million acres to be brought under irrigation in the second plan period, some 12 million acres will benefit from large and medium projects and 9 million acres from minor irrigation works.

23. The bulk of the additional irrigation from large and medium projects is expected as a result of the completion of the programmes continuing from the first plan (some 9 million acres) whereas new projects inculded in the second plan will account for additional irrigation of some 3 million acres. On completion, the irrigation potential of the major and medium projects started in the second plan would be of the order of 15 million acres. The benefit from major and medium irrigation projects is expected to flow more or less evenly over the second plan period—at the rate of 2 million acres per year over the first three years and some 3 million acres per year over the last two years.

24. In view of the need for a steady increase in agricultural output, it is proposed to devote increasing attention to medium-sized projects. The First Five Year Plan provided for 7 irrigation projects costing more than Rs. 30 crores, 6 costing between Rs. 10 and 30 crores, 54 costing between Rs. 1 and 10 crores and about 200 costing less than Rs. 1 crore each. In the second plan, of the 188 new irrigation projects to be taken in hand, there is none which is expected to cost more than Rs. 30 crores, some ten will cost between Rs. 10 and 30 crores, 42 between Rs. 1 and 10 crores and the remaining 136 will cost less than Rs. 1 crore each. Apart from their quick yielding nature, medium-sized projects offer particular scope for spreading the benefits of irrigation more evenly among different regions.

25. Among programmes of minor irrigation, mention may be made of the proposed outlay of Rs. 20 crores for the construction of 3,581 tubewells with a view to providing irrigation facilities for 916,000 acres. In addition, the exploratory programme of the drilling of deep tubewells which was begun in the first plan for assessing the possibilities of exploiting ground water resources for irrigation will be continued in the second plan.

26. At the beginning of the First Five Year Plan, the total installed capacity for the generation of electricity in the country was 2·3 million k.W. The first plan report envisaged an increase in power capacity of some 7 million kW. in 15 years. The installed capacity for power generation has already increased by 1·1 million kW. over the first plan period and an increase of another 3·5 million kW. over the second plan period is envisaged. A substantial increase—of over 100 per cent.—in the capacity for power generation in the next five years is essential in view of the considerable emphasis on

industrialisation in the second plan. Since this emphasis has to be continued in subsequent plan periods, the original target of an increase of 7 million kW. in power capacity by 1965-66 has to be raised to about 13 million kW.

27. The consumption of electricity in the country is expected to increase from 14 units *per capita* in 1950-51 to 25 units in 1955-56 and 50 units in 1960-61. By the end of the first plan, about 95 per cent. of the towns with a population of 20,000 or more and some 40 per cent. of the towns with a population between 10,000 and 20,000 would be assured of electricity. The aim in the second plan is to provide electricity to all towns with a population of 10,000 or more and to 85 per cent. of the towns with a population between 5,000 and 10,000. The provision of electric supply to villages and small towns with a population of less than 5,000 entails heavy expenditure. The programme for rural electrification has, therefore, to be spread over a fairly long period. In the Second Five Year Plan, a provision of Rs. 75 crores is made for this programme, and it is expected that the number of small towns and villages receiving power supply will increase from 5,300 in 1956 to 13,900 in 1961. In considering the pace of rural electrification, it has to be remembered that it is not merely the availability of power as such, but its quantum in relation to industrial and other needs of particular areas and the terms on which power is made available that provide the real index of progress.

28. The bulk of the additional capacity for power generation in the country will be in the public sector with the result that the State will soon have a dominant position in this field. The total installed capacity in the public sector is expected to increase from 0.6 million kW. in 1950-51 to 4·3 million kW. in 1960-61. The share of the public sector in the total capacity for power generation in the country will increase from 26 to 67 per cent. over the ten years. The significance of this can also be seen from the fact that the total investment of the public sector in electricity undertakings has increased from Rs. 40 crores in 1950-51 to some Rs. 270 crores in 1955-56 and is expected further to increase to about Rs. 680 crores by 1960-61.

Industrial and Mineral Development

29. The major point of departure in the second plan is the precedence that is accorded to the public sector in industrial and mineral development. Governmental initiative in the development of agriculture, power, transport and social services is already an established feature of economic planning in India. But projects of industrial and mineral development have hitherto not figured prominently in the investment plans of the public sector. Thus in the first plan a total provision of Rs. 94 crores was made for the establishment of

large-scale industries in the public sector as against an estimated programme of new investment in the private sector of Rs. 233 crores. In the second plan, the provision of Rs. 690 crores for large-scale industries and mining (including scientific research) in the public sector compares favourably with the estimated new investment of Rs. 575 crores for industries and mining in the private sector. While the private sector is expected to play an important part in the process of industrialisation, there is a pronounced shift in emphasis in favour of the projects in the public sector.

30. Practically the whole of the proposed outlay of Rs. 690 crores for large-scale industry and mining is for development of basic industries such as iron and steel, coal, fertilizers, heavy engineering and heavy electrical equipment. During the second plan three steel plants of one million tons ingot capacity each will be established in the public sector at Rourkela, Bhilai and Durgapur. In addition, at one of these plants, 350,000 tons of pig iron will be produced for sale. Steel production at the Mysore Iron and Steel Works is to be expanded to 100,000 tons. The combined output of finished steel from all the projects in the public sector is expected to be of the order of 2 million tons by the end of the second plan.

31. The programme for the establishment of heavy engineering industries includes a heavy steel foundry at the Chittaranjan Locomotive factory for meeting the requirements of railways for heavy castings and the establishment of heavy foundries, forge shops and structural shops under the auspices of the N.I.D.C. Arrangements are being made for the manufacture of heavy electrical equipment in the public sector. The Chittaranjan Locomotive factory is to be expanded so as to increase its output of locomotives to 300 per annum as against 125 per year at present. The Integral Coach Factory which went into production in 1955 will produce 350 coaches per annum by 1959. Provision has also been made for a new metre gauge coach factory.

32. The output of minerals in the country is expected to increase by 58 per cent over the second plan period. Mention may be made particularly of coal in view of the large increase in requirements that is implied in the programmes of industrial and transport development. The present production of coal in the country is of the order of 38 million tons. The bulk of this production is in the private sector, the share of the public sector being only 4·5 million tons. It is proposed to increase the production of coal by some 22 million tons in the next five years, some 12 million tons in the public sector and the remaining 10 million tons in the private sector.

33. In view of the paucity of coal deposits in Southern India high priority has been given to the multi-purpose Lignite Project at

Neiveli in South Arcot district. Under this project 3·5 million tons of lignite are to be produced and used for (1) generation of power in a station of 211,000 kW capacity, (2) production of carbonised briquettes in a carbonisation plant of about 700,000 tons annual capacity, and (3) production of 70,000 tons of fixed nitrogen in the form of urea and sulphate/nitrate. In addition, two more fertilizer factories are to be set up. One of these, to be located at Nangal, will produce nitro-limestone corresponding to 70,000 tons of fixed nitrogen per annum. The other fertilizer factory is to be established at Rourkela. It will produce nitro-limestone equivalent to 80,000 tons of fixed nitrogen per annum. Further, the Sindri Fertilizer Factory will be expanded so as to increase its output from 66,000 tons of nitrogen to 117,000 tons.

34. Several of the projects completed during the first plan such as the D.D.T. plant, Hindustan Cables, Hindustan Antibiotics and the Indian Telephone Industries will be expanded. It is also proposed to establish a second D.D.T. plant in Travancore-Cochin. Among the projects included in the plans of States, mention may be made of the Durgapur coke-oven plant in West Bengal and the manufacture of electric porcelain insulators and transformers in Mysore.

35. The bulk of the investment in the private sector is also for the development of basic industries. Substantial programmes of expansion are envisaged for the iron and steel industry in the private sector and the capacity of the industry is expected to increase from the present level of 1·25 million tons of finished steel to 2·3 million tons by 1958. It is proposed to increase the production of cement from 4·3 million tons to 13 million tons—the capacity of the industry being raised to 16 million tons—by the end of the plan. Similarly, capacity for aluminium, ferro-manganese and refractories will be substantially stepped up.

36. The programmes of development in the private sector provide for a substantial increase in the production of machinery in the country, including machinery for cotton textiles, jute, sugar, paper, cement, agriculture and road making. The chemical industry which has already registered a sizeable advance in the first plan period will achieve significant diversification and growth in output. The production of soda ash, for example, is to be increased to three times and of caustic soda to four times of the present level. The third oil refinery at Visakhapatnam will be completed by 1957 and an increase in the production capacity for power and industrial alcohol from 27 to 36 million gallons is envisaged.

37. Among consumer goods industries the output of cotton textiles is to be increased by 24 per cent—from 6850 million yards to 8500

million yards. The break-up of this target as between mills, powerlooms and handlooms has not yet been determined. This, together with the allocation of the required yarn output as between mills and the cottage sector, will be decided upon in the light of a closer assessment of the possibilities of expanding handloom production and of the technical potentialities of the Ambar Charkha. The overall target of production envisaged here will provide for per capita consumption of cloth at about 18 yards and for exports of the order of 1,000 million yards a year. Judging from recent trends in the demand for cloth, a larger increase in production may in fact become necessary. As regards other consumer goods the plan envisages an increase of about 35 per cent in the production of sugar; for a doubling of the output of paper and paperboard; the production of vegetable oils is expected to increase from 1·6 to 2·1 million tons; and, there are also in the plan programmes for development of rayon, drugs and pharmaceuticals.

38. The net output of factory establishments is expected to increase by 64 per cent in response to the programmes of development in the public and private sectors. The emphasis on capital goods industries can be seen from the fact that the net output of these industries is expected to increase by some 150 per cent. India is still in the early stages of the development of basic industries. The next few steps in industrial development are fairly clear in view of the large and growing requirements which are at present met to a significant extent by imports. As these pressing needs are satisfied and the superstructure of basic industries grows, it will be necessary to visualise an integrated programme of development for basic capital goods industries, for organised consumer goods industries and small scale industries.

39. The second five year plan provides for a sum of Rs. 200 crores for the development of village and small-scale industries. Of this, Rs. 59·5 crores is earmarked for the handloom industry, Rs. 55 crores for small-scale industries, Rs. 55·5 crores for Khadi and other village industries, and the rest for other industries. Considerable technical examination with reference to the potentialities of each industry and of various areas will be necessary before targets of production in this field can be presented in concrete terms.

Transport and Communications

40. Of the total amount of Rs. 1385 crores set apart for transport and communications in the public sector plan, Rs. 900 crores are provided for railways. In addition, the railways will spend some Rs. 225 crores for normal replacement. The backlog of replacement

accummulated during the war and the early post-war years has not been made good so far and a sizeable increase in traffic is expected over the second plan period mainly in response to the programmes of industrial and mineral development. The volume of goods traffic is expected to increase from 120 million tons in 1955-56 to about 181 million tons in 1960-61, *i.e.* by 50 per cent, and it is felt that even the large outlay of Rs. 900 crores may not suffice to enable the railways to lift all the additional goods traffic that is offered. It is in view of this that the plan provides for an increase of only 3 per cent per annum in passenger traffic. This order of increase in passenger services will not help much in relieving present over-crowding. The plan outlay of Rs. 900 crores also includes no provision for the construction of new lines to open up parts of the country not served by railways at present. The provision in the plan for new lines is confined to those required for operational purposes and for the new industrial projects. Special attention will be paid during the second plan period to improvements in operational efficiency of the railways. The programme for the development of railways and other means of transport will be reviewed from year to year so as to ensure that the progress of the plan is not impeded by inadequacy of transport facilities.

41. The railway plan provides for doubling of 1607 miles of track, conversion of 265 miles of metre gauge lines into broad gauge, electrification over sections totalling 826 miles and dieselisation over 1293 miles. Provision is also made for the construction of 842 miles of new lines and for the renewal of 8000 miles of obsolete track.

42. With a total capital investment of about Rs. 974 crores at present the railways are the largest single national undertaking. Apart from providing the bulk of transport facilities, the railways run a large number of industrial enterprises for meeting their requirements. These enterprises are to be greatly expanded during the second plan period. The significance of the programmes of industrial development in relation to railway requirements can be seen from the fact that as against the total purchase of 2258 locomotives, 107,247 wagons and 11,364 coaches in the second plan period, the output of locomotives, wagons and coaches at the end of the second plan is expected to reach the level of 400, 25,000 and 1800 per annum respectively. In the second plan period, the railways will need to import materials and equipment worth Rs. 425 crores—Rs. 137 crores for steel, Rs. 81 crores for locomotives and the rest for rolling stock including wagons. In view of the proposed increases in industrial production over the next five years, the dependence of railways on imports will diminish considerably in subsequent plan periods.

43. The second plan makes a provision of Rs. 263 crores for roads and road transport, Rs. 96 crores for shipping, ports and harbours and inland water transport, Rs. 43 crores for civil air transport and Rs. 76 crores for broadcasting, posts and telegraphs and other communications. The Nagpur Plan (1943) outlined a long-term programme for road development over a period of twenty years. With the investment proposed in the second plan the target for road mileage envisaged in the Nagpur Plan will be practically reached by 1960-61. Road transport nationalisation programme is to be suitably phased and the State Governments are expected to add to their existing fleet about 5,000 vehicles. The capacity of the major ports is to be increased by 30 per cent. and minor ports in the maritime States are to be further developed. The plan also provides for an extensive programme for the development of lighthouses. The total tonnage of ships is expected to be increased from 6,00,000 GRT at the end of the first plan to 9,00,000 GRT at the end of the second plan after allowing for the obsolescence of 90,000 GRT. The allotment for shipping, it is recognised, may prove less than adequate, and it may be necessary to increase it, especially in view of the rise in the price of ships. The Hindustan Shipyard is to be expanded and a dry dock is to be constructed at Visakhapatnam. The question of construction of a second ship-building yard may be examined later. The Indian Airlines Corporation and the Air India International have sizeable programmes for purchase of additional aircraft and for improving their operational facilities. The number of post offices which increased from 36,000 to 55,000 in the first plan is to be increased further to 75,000 in the second plan. The demand for telephones is increasing rapidly and the plan provides for a 67 per cent increase in the number of telephones in the country—from 270,000 to 450,000. As a minimum, the extension of telephone facilities in the country must match the present tempo of production of telephones, and the programmes for manufacture of telephones and for extension of telephone facilities have to dovetail. In view of this consideration the provision made in the plan under this head may have to be reviewed. As regards broadcasting, a 100 KW short-wave transmitter as well as a 100 KW medium-wave transmitter will be set up at Delhi and 50 KW short-wave transmitters are to be provided at Calcutta, Bombay and Madras. It is proposed to instal about 72,000 community receivers in rural areas.

SOCIAL SERVICES

44. The total outlay on social services in the plan is placed at Rs. 945 crores or about twice the provision made in the first plan. The continuing emphasis on the development of educational and medical facilities as well as on the advancement of industrial labour, displaced

persons and other under-privileged classes is an integral part of the socialistic pattern of society which seeks to achieve a greater degree of equality of opportunities in the country.

45. One of the Directive Principles in the Constitution is that within a period of 10 years as from 1950-51, free and compulsory primary education for all children until the age of 14 should be provided. On the basis of the targets proposed in the plan, by 1960-61, only 63 per cent of the children in the age-group 6 to 11 and 22·5 per cent. of the children in the age-group 11 to 14 would be provided for. The number of pupils will increase by 7·7 millions at the primary stage and 1·3 million at the middle stage. These targets will require the establishment of 53,000 new primary schools and 3,500 middle schools. At the secondary stage it is proposed to provide increasing diversification of courses. The number of multipurpose schools is to be increased from 250 at the end of the first plan to about 1200 by the end of the second plan. In each sector of development, technical personnel will be needed in rapidly increasing numbers. It is, therefore, proposed to establish three higher technological institutes, one each in the Northern, Western and Southern regions and to develop further the Delhi Polytechnic and the Kharagpur Institute of Technology. The Indian School of Mines and Applied Geology at Dhanbad will also be expanded. The total number of engineering institutions will be increased from 45 to 54 for graduate and post-graduate studies and from 83 to 104 for diploma courses. The out-turn of graduates in engineering is expected to increase from 3,000 in 1955 to 5,480 in 1960 and of engineering diploma holders from 3,560 to about 8,000.

46. The basic difficulty in extending health services in the country lies in the lack of trained personnel in sufficient numbers. Consequently, it is proposed to increase the supply of doctors, nurses, and health assistants by 18, 41 and 75 per cent. respectively in the second plan. An increase of 24 per cent in the number of hospital beds is also envisaged. A sum of Rs. 4 crores is set apart for family planning and it is expected that about 300 urban and 2000 rural clinics will be set up during the plan period.

47. The proposed outlay of Rs. 120 crores on housing relates to the schemes sponsored by the Works, Housing and Supply Ministry. In addition, provisions for housing have also been made in the plans of a number of Central Ministries including Railways, Iron and Steel, Production, Rehabilitation, Defence and others, and in the plans of States. The total number of dwelling units to be constructed by public authorities in the second plan period comes to 1·3 million. The plan provides for an outlay of Rs. 29 crores for implementing schemes relating to labour. Apart from the provision for welfare centres and of training facilities on an extended scale, it is propos-

ed to increase the number of employment exchanges in the country from 136 to 256 and also to expand their activities. The various activities initiated in the first plan for the welfare of the backward classes will be continued on an expanded scale. Greater assistance will be given to the various voluntary agencies for social welfare. Programmes for rehabilitation of displaced persons will have to be continued in the second plan. A sum of Rs. 90 crores has been provided for this purpose.

NATIONAL INCOME, CONSUMPTION AND EMPLOYMENT

48. The targets of achievement and the programmes of development to be taken in hand in different sectors have been outlined in the earlier sections. The sum total of developments in various fields is reflected in the growth of national income. The expected increase in national income during the first and second plan periods is given in the table below:

National Product by Industrial Origin

(Rs. crores at 1952-53 prices)

	1950-51	1955-56	1960-61	Percentage increase during 1951-56	Percentage increase during 1956-61
1. Agriculture & allied pursuits	4,450	5,230	6,170	18	18
2. Mining . . .	80	95	150	19	58
3. Factory establishments .	590	840	1,380	43	64
4. Small enterprises . .	740	840	1,085	14	30
5. Construction . . .	180	220	295	22	34
6. Commerce, transport and communications . .	1,650	1,875	2,300	14	23
7. Professions and services including Government Administration . . .	1,420	1,700	2,100	20	23
8. TOTAL NATIONAL PRODUCT	9,110	10,800	13,480	18	25
9. Per capita income (Rs.) . .	253	281	331	11	18

49. For the major sectors of agriculture, mining and factory establishments the estimates of net output are based largely on the detailed targets of production set out earlier. But in the case of other sectors such as commerce, professions and other services which are largely outside the purview of the plan, only an indirect estimate is possible. Nonetheless, it would appear that national income will increase from Rs. 10,800 crores in 1955-56 to about Rs. 13,480 crores in 1960-61 (at constant prices) i.e. by about 25

per cent. This will mean an increase of about 18 per cent in per capita income from Rs. 281 in 1955-56 to Rs. 331 in 1960-61) as against an increase of 11 per cent. over the first plan period (from Rs. 253 to Rs. 281). It will be seen that despite the substantial increase in the net output of mining and factory establishments that is envisaged, the structure of the economy will change only marginally over the plan period. Thus the share of agriculture and allied pursuits in total national income will decline from 48 per cent in 1955-56 to 46 per cent in 1960-61, and that of mining and factory establishments will increase correspondingly from 9 to 11 per cent. It is this fact which underlines the need for a continuing emphasis on industraliasation during subsequent plan periods.

50. The average level of consumption in the economy will not increase as fast as national income, inasmuch as a larger proportion of domestic output will have to be saved and invested. The programme of investment envisaged for the second plan period—Rs. 6,200 crores—requires, broadly speaking, a step-up in the rate of domestic saving from the present level of some 7 per cent of national income to about 10 per cent of national income in 1960-61. This is on the assumption that external resources of the order of Rs. 1100 crores will become available, as postulated in the plan, for supplementing domestic savings. Total consumption expenditure in the country may, on this assumption, be expected to increase by some 21 per cent as against the increase in national income of 25 per cent. The corresponding increase in total consumption over the first plan period amounts to some 16 per cent. The following table indicates the broad position in regard to national income, investment, domestic savings and consumption expenditure at the end of the second plan period as compared to the position in 1950-51 and in 1955-56:

National Income, Investment, Savings and Consumption

(Rs. crores at 1952-53 prices)

	1950-51	1955-56	1960-61
1. National income	9,110	10,800	13,480
2. Net investment	4,48	790	1,440
3. Net inflow of foreign resources	(—)7	34	130
4. Net domestic savings (2—3)	455	756	1,310
5. Consumption Expenditure (1—4)	8,655	10,044	12,170
6. Investment as per cent of national income (2 as % of 1)	4·94	7·31	10·68
7. Domestic savings as per cent of national income (4 as % of 1)	4·98	7·00	9·7

51. It may be emphasised that if foreign resources of the order required are not forthcoming, it would be necessary to restrict the growth in consumption to a correspondingly greater extent. Indeed, the postulated increase in consumption itself rests on the assumption that national income would increase by 25 per cent in response to an investment programme of Rs. 6,200 crores and that the necessary rate of saving for achieving this order of investment will materialise. The problem of mobilizing resources as required is discussed in the next chapter. But it is noteworthy that the essence of economic development lies precisely in this that unless increases in consumption are held in check to the extent required for realising the rate of investment, the expected increase in national income and standards of consumption cannot materialise. It is also clear that an investment of Rs. 6,200 crores will result in an increase of 25 per cent in national income only if a number of assumptions are satisfied—assumptions about coordination in planning, the avoidance of waste, the requisite effort at organisation and leadership for enlisting the support and cooperation of the people in taking to improved methods of production and for creating a climate favourable for development. The achievements of a plan cannot be read simply from a list of programmes. They depend primarily on the energy and organisational ability brought to bear on the implementation of programmes and policy measures at all levels.

52. Problems relating to employment pattern and policies and the employment potential of the plan are discussed in Chapter V. Additional employment likely to be generated over the second plan period in sectors other than agriculture is estimated at 8 million. In this estimate only full-time employment has been taken into account. There are in the plan programmes of development such as irrigation and land reclamation which will reduce under-employment to some extent and may also absorb new persons. In the present socio-economic structure in the rural areas the distribution of a given quantum of work or income cannot be split up as between employment for the underemployed and full-time employment as such. With the increase in agricultural production envisaged in the plan and the substantial increase in employment opportunities outside agriculture, there will be a significant increase in incomes and a reduction in underemployment in the primary sector. The promotion and reorganisation of village and small-scale industries along the lines suggested in the plan will provide fuller employment to large numbers of persons engaged in these industries. Altogether, in aggregative terms, the plan envisages a sufficient increase in the demand for labour to match the increase in the labour force amounting to 10 million.

APPENDIX

PLAN OUTLAY BY STATES

(Rs. crores)

	First Plan	Second Plan
	1	2
Andhra	75.9	119.0
Assam	28·1	57·9
Bihar	104·4	194·2
Bombay	181·3	266·2
Madhya Pradesh	57·5	123·7
Madras	97·0	173·1
Orissa	85·2	100·0
Punjab	124·0	126·3
Uttar Pradesh	165·9	253·1
West Bengal	151·9	153·7
TOTAL 'A' STATES	1071·2	1567·2
Hyderabad	57·0	100·2
Madhya Bharat	36·1	67·3
Mysore	53·2	80·6
Pepsu	39·2	36·3
Rajasthan	62·8	97·4
Saurashtra	29·8	47·7
Travancore-Cochin	35·4	72·0
Jammu & Kashmir	13·2	33·9
TOTAL 'B' STATES	326·7	535·4
Ajmer	3·6	7·9
Bhopal	9·3	14·3
Coorg	2·0	3·8
Delhi	10·5	17·0
Himachal Pradesh	7·5	14·7
Kutch	4·8	7·9
Manipur	2·2	6·2
Tripura	3·0	8·5
Vindhya Pradesh	9·3	24·9
TOTAL 'C' STATES	52·2	105·2
Andaman & Nicobar Islands	1.5	5·9
North East Frontier Agency	4·4	·5
Pondicherry	0·8	4·8
TOTAL	6·7	20·2
Centre's share of expenditure on D. V. C.	..	12·2
National Extension Service and Community Projects	..	0·7*
GRAND TOTAL	1456.8	2240·9

*This is in addition to Rs. 187 crores included in the Plan allotments for individual States. For national extension and community projects the Plan provides Rs. 200 crores, of which about Rs. 12 crores are shown at the Centre. Provisional allotments under this head were made to individual States when State Plans were formulated; these are to be reviewed when certain details of the programme have been determined.

CHAPTER IV

FINANCE AND FOREIGN EXCHANGE

IT is proposed in this chapter to indicate the lines along which the financial resources needed for the plan are to be raised and to deal with some of the important policy issues that arise in this connection. The problem of mobilising resources has to be viewed in the light of the requirements both of the public and of the private sector, as they both draw upon the same pool of savings, and care has to be taken to ensure an adequacy not only of domestic finance but also of foreign exchange.

2. Basically, the issue is whether and how domestic savings to the requisite extent can be mobilised in the aggregate. This depends on a judgment not only as to the desirablity of limiting consumption beyond a point, but also of the suitability, in the given economic and social set-up, of the means or techniques to be used for the purpose. The latter is an important consideration in shaping taxation and other economic policies in a domocratic state, and especially in the context of the private sector functioning side by side with the public sector. The point to emphasize is that given the decision to invest a certain quantum of resources, the necessary savings have to be found, and clearly the bulk of them have to be found from within the economy. It has also to be borne in mind that foreign exchange resources present a problem to which special attention has to be given. A country which starts on industrialisation has necessarily to import the required machinery and equipment from abroad in the early stages, and it has, therefore, to conserve its foreign exchange resources to the utmost. The fact that supplemental resources from abroad on a considerable scale would still be necessary even after the utmost economy in the matter of imports highlights the need for an active export promotion policy.

FINANCE FOR THE PUBLIC SECTOR

3. The scheme of financing envisaged for seeing through the developmental programme of the Central and State Governments aggregating to Rs. 4,800 crores is as follows:

	(Rs. crores.)
1. Surplus from current revenues	800
(a) at existing (1955-56) rates of taxation	350
(b) additional taxation	450

2. Borrowings from the public	1200
(a) market loans	700
(b) small savings	500
3. Other budgetary sources	400
(a) Railways' contribution to the development programme	150
(b) Provident funds and other deposit heads	250
4. Resources to be raised externally	800
5. Deficit financing	1200
6. Gap—to be covered by additional measures to raise domestic resources	400
TOTAL	4800

The budgetary resources that can be raised by the Central and State Governments through taxation, borrowing and other receipts amount to Rs. 2,400 crores. A further Rs. 1,200 crores, it is suggested, can be raised through deficit financing. Adding to this Rs. 800 crores by way of resources from abroad, the total of resources for the implementation of the programmes in the public sector works out at Rs. 4,400 crores. This leaves a gap of Rs. 400 crores, the means of raising which will have to be decided upon in detail later. It is recognised that the gap has ultimately to be filled by raising additional domestic resources, and given the limits to deficit financing to which reference is made later, as also the fact that the scheme of financing as outlined here already relies heavily on borrowing, the only possible source that can be drawn upon for meeting this gap is taxation and, to the extent possible, profits of public enterprises.

4. The estimate of Rs. 350 crores as the balance available from current revenues at existing rates for financing expenditures under the plan has been arrived at after a detailed examination of the total revenue receipts of the Central and State Governments. In working out this estimate, provision has been made for only minimum increases in expenditure under non-development heads such as defence and administration. The maintenance expenditure on social services and similar developmental items at the level reached by the end of 1955-56 has also been allowed for, as expenditure of this type is not included in the plan. The total receipts of the Central and State Governments over the five-year period are estimated at Rs. 5,000 crores at the rates of taxation prevalent in 1955-56. Of this, the non-developmental expenditures mentioned above

and the maintenance expenditure under developmental heads will take up about Rs. 4,650 crores, which leaves a balance of Rs. 350 crores available for meeting plan expenditures. It is necessary to stress the point that a careful watch on non-developmental expenditure will be necessary in order to obtain for the plan the estimated amount of Rs. 350 crores from revenues at existing rates. Should these go up, or should there be any significant loss of revenues on account of the adoption of social measures such as prohibition, there will have to be a corresponding effort simultaneously to raise further resources, if the contribution of current revenues to the plan is not to go down.

5. The target for additional taxation of Rs. 450 crores mentioned above represents the minimum that has to be attempted. In arriving at this figure the recommendations of the Taxation Enquiry Commission have been taken into account, and it has been assumed that steps will be taken to implement these as early as possible after the commencement of the plan. The State Governments are expected to raise between them a total of Rs. 225 crores, and the Centre is to raise a like amount. On this basis, the contribution of current revenues to the plan amounts to Rs. 800 crores which is only one-sixth of the total resources required. This contribution, as we indicate later, is, in our view, inadequate in relation to needs and a further tax effort will be called for, if the plan is to be implemented fully and inflationary pressures are to be kept down to the minimum.

6. The response to government borrowing programmes has been encouraging in recent years, and the target of Rs. 115 crores set in the first plan has been exceeded by about Rs. 65 crores. The improvement in the demand for government loans has occurred mainly in the last two years, the net offtake of new loans in these years being about Rs. 95 crores a year. During the period, the holdings of rupee securities (other than treasury bills) by the Reserve Bank have shown a decline of about Rs. 70 crores, which indicates that the net absorption of securities by the market (including commercial banks) has been of the order of Rs. 250 crores. If account is taken of the sales of securities held in reserve by the Central and State Governments, the net absorption of securities by the market would in fact be larger.

7. The estimate of Rs. 700 crores of borrowing from the public over the second plan period—an average of Rs. 140 crores a year—thus assumes that the annual receipts from this source will, on an average, be about 40 per cent. higher than they have been of late. While this is not in itself an over-ambitious target, it has to be borne in mind that the total amount of loans maturing in the course of

the second plan is Rs. 430 crores. Gross borrowings over the period will, therefore, have to be of the order of Rs. 1,130 crores. Judged in this light, and especially in the context of a brisk demand for funds in the private sector, the task of mobilising net private savings amounting to Rs. 700 crores in this way for purposes of public investment cannot be regarded as easy of fulfilment. In this connection, the possibility of extending the scope of social security schemes must be fully explored. These schemes are a means of giving a fair deal to employees, but they serve as a valuable source of additional savings. The net accumulations in provident funds and similar schemes are already an important source of finance for public loans, and it is to be expected that their importance will grow in the coming years. The nationalisation of life insurance, which is intended to foster the insurance habit, should also prove a growing source of demand for public loans.

8. The collections under small savings have been placed at Rs. 500 crores over the second plan period. The receipts under this head have gone up steadily in the last few years—from Rs. 33 crores in 1950-51 to Rs. 65 crores in 1955-56. A target of Rs. 100 crores a year on an average over the second plan period will require a further substantial stepping up of these collections. The small savings drive will have to be intensified for the purpose, and a countrywide compaign reaching down to every family and with sufficient follow-up right upto the lowest level is called for. We suggest in this connection that a close examination be made of the strata reached so far by the small savings movement both in urban and in rural areas, and a concerted effort undertaken by State Governments and by non-official agencies to carry the message of the plan all over the country and to bring into the small savings movement all the areas and classes that have so far not been covered. The aim should be to induce every citizen of the country to make a contribution, however small, to the task of transforming the economy.

9. The contribution of the railways to the financing of their plan of Rs. 900 crores has been placed at Rs. 150 crores. In the first plan period the railways contributed Rs. 115 crores towards the estimated outlay on the railway plan of Rs. 267 crores. In the second plan period the railways' own contribution to their plan is a much smaller proportion of the total. It is understandable—and indeed inevitable—that the railways should draw upon the general exchequer to a significant extent at a time when the new developments envisaged in the economy require them to shoulder large additional responsibilities in a short space of time. The railways have also to make in the plan period a contribution of Rs. 225 crores for current depreciation, which has not been included in the plan. Nevertheless, a contribution of Rs. 150 crores by the railways for their plan

can only be regarded as the minimum they must achieve. We would like to reiterate the point that the railways, like all developing enterprises, whether public or private, should endeavour to provide a sizeable part of their needs for expansion from their own resources. In the period of the second plan a considerable expansion in railway traffic is anticipated. Although part of this will be of a type which does not raise earnings proportionately, railway earnings as a whole will go up. Even after allowing for some unavoidable increases in working expenses, it would appear that part of the contribution from the railways should be forthcoming at existing rates in response to the growth of demand. Part will have to be found by selective adjustments in rates and freights. Considering the strain on the financial resources of Government which the second plan involves, we would in fact recommend that the railways exert their utmost to raise their contribution above the level of Rs. 150 crores which has been indicated for them.

10. The estimate of Rs. 250 crores under provident funds and other deposit heads is a projection of the current trends of receipts under these heads. The net accumulations of the Centre by way of provident funds are estimated at Rs. 17 crores for 1955-56 and for the States the corresponding receipts in 1955-56 work out at Rs. 6·6 crores. As against this total of Rs. 23·6 crores, it is reasonable to assume receipts amounting to Rs. 150 crores under this head for the second plan period. The remaining Rs. 100 crores represents recoveries of loans advances made by the Centre and the States and miscellaneous capital receipts.

11. The total of resources mentioned so far amounts to Rs. 2400 crores. The problem is to find another Rs. 2400 crores. Some 50 per cent of this, that is, Rs. 1200 crores can at the outside be raised through deficit financing. The plan takes credit for Rs. 800 crores of external resources. In the first plan period, the utilisation of foreign loans and grants amounted to Rs. 40 crores a year. An average of Rs. 160 crores a year proposed in the scheme of financing presented above thus represents a large increase in the inflow of resources from abroad.

12. It is obvious that the second five year plan will strain the financial resources of the country. A measure of strain is implicit in any development plan, for, by definition, a plan is an attempt to raise the rate of investment above what it would otherwise have been. It follows that correspondingly larger effort is necessary to secure the resources needed. It is from this point of view and in the light of the continuing requirements of the economy over a number of years that the task of mobilising resources has to be approached. Domestic savings have to be stepped up continuously and

progressively in order to secure the objective of rapidly rising investment and national income.

SAVINGS IN RELATION TO PUBLIC INVESTMENT

13. The problem of financing the development programmes in the public sector may be looked at in another way. Of the total outlay of Rs. 4800 crores over the five year period, approximately Rs. 1000 crores represents expenditure of a current nature for increasing the scale of developmental activities under heads like education, health, scientific research, national extension and the like. Such expenditure does not result directly in the creation of productive assets and is, by convention, regarded as non-investment expenditure. Expenditure of this character has to be met from current resources. The investment component of the plan aggregating to Rs. 4800 crores is Rs. 3800 crores and this could be financed through borrowing. In a developing economy, in which expenditures on capital formation are growing rapidly, it would, in fact, be desirable to finance a part of them from the surpluses obtained by taxation. This principle was stressed in the report on the first plan, and it needs stressing again.

14. In the scheme of financing envisaged for the plan, surplus from current revenues for financing the plan amounts to only Rs. 800 crores as against the requirements of Rs. 1000 crores by way of current expenditures. The contribution of the railways amounting to Rs. 150 crores must, in addition, be regarded as a contribution from current earnings. This means that the total current revenues available for the plan amount to Rs. 950 crores as against the estimated current outlay of Rs. 1000 crores. There is thus no public saving available for financing the investment outlay of Rs. 3800 crores; there is, in fact, a dissaving of Rs. 50 crores. In other words, the entire capital formation of Rs. 3800 crores—and a little more—will have to be financed by a draft on private savings. Allowing for Rs. 800 crores of external resources as a separate category since it represents savings from abroad, and reckoning in the proposed drawing down of accumulated sterling balances by Rs. 200 crores, the amount of current private savings within the economy to be channelled into public investment would work out at Rs. 2850 crores. Assuming further that the uncovered gap of Rs. 400 crores will ultimately be met from public savings, the transfer to the public sector of private savings will have to be of the order of Rs. 2450 crores.

15. Would it be reasonable to assume that private savings of the order of Rs. 2450 crores would become available to the public exchequer? In this context, it will be seen, the distinction between market borrowings, small saving and deficit financing is of minor

importance. All these are devices for diverting private savings either voluntary or forced through price rises, to the public exchequer. The manner in which—and the extent to which—private savings get transferred to the public sector depends essentially upon the willingness of the public to hold their assets in different forms: cash, negotiable government bonds and small savings certificates, or deposits. So long as the total savings transferred are adequate, it is a matter of comparative indifference whether they take the form of subscriptions to loans or of small savings or are held in the form of currency created by the State. The first essential point, then, is whether private savings can be expected to be larger than the requirements for private investment by the amount that is needed by the State. Sufficiency of private savings in this sense can be postulated only if the necessary overall constraints on consumption are operative. In other words, the smaller the proportion of public savings available directly to the state in the form of surplus tax receipts or profits of public enterprises, the greater is the need for other measures or techniques for keeping down consumption within the desired limit.

16. If measures for increasing the overall rate of savings in the economy to the desired extent are not taken, any attempt on the part of the State to appropriate for itself resources on the scale envisaged here will inevitably lead to inflationary pressures—for these latter are only a symptom of the shortage of savings in relation to the competing claims from the different sectors of the economy. It must be emphasised in this context that the control of inflationary pressures and the maintenance of public confidence in the stability of the currency are prime requisites of successful policy for mobilising savings. The contrast between the experience of the earlier and later years of the first plan in the matter of response to government loans is sufficient indication of the fact that public loans and small savings succeed best in an atmosphere of financial stability when the avenues for speculative investment are few and the outlook as to the value of money is considered favourable.

Deficit Financing

17. This brings us to the question of the scope and limits of deficit financing. In the first plan report, deficit financing was defined as Government spending in excess of Government receipts in the shape of taxes, earnings from state enterprises, loans from the public, deposits and funds and other miscellaneous sources. This definition is based on two underlying principles. Firstly, it stresses the fact that a deficit must be judged not merely in terms of the revenue account but must cover all those transactions on revenue as well as on capital account and of both the Centre and the States. Secondly, in defining what type of financing constitutes

deficit financing, the criterion should, by and large, be whether or not the transaction in question tends to increase money supply. The first of these two principles is clearly unexceptionable. The second raises the question whether it is possible to infer directly and in any precise way the impact of a particular type of budgetary operation on monetary circulation merely in terms of the type of operation. Withdrawals from cash balances and increases in floating debt normally tend to increase money supply and are as such recognised as part of deficit financing. But, in regard to the latter, it could be asked if all short-term borrowing necessarily leads to an increase in money supply, or whether, one ought not to distinguish between short-term borrowing from the central bank, from the commercial banks and from the public at large. There is, in principle, a case for such distinctions—both in the case of short-term and long-term borrowing by Government. In so far as government expenditure is financed by central bank credit, there is a direct increase in currency in circulation. Purchase of government securities by commercial banks is also not on par with the purchase of these securities by the public directly. While the monetary impact of government's borrowings will differ according to type of subscriber, it would clearly be impracticable to record government's borrowing operations on this basis. Nor does the ownership of public debt remain with the same persons or institutions that bought it to begin with. This is an area in which fiscal policy of government and the monetary policy of the central bank get intermingled and it is difficult to isolate the impact of one from that of the other. The only practical course is to adopt a convenient convention which under prevailing practices gives as near an approximation to the purpose in hand as possible. In India, where the normal practice is not to rely on the central bank for subscription to new issues of long-term securities and where short-term debt of the government is largely held by the central bank, a deficit measured in terms of withdrawals of cash balances and net increases in floating debt gives on the whole, a reasonably reliable indication of the impact of the budget on money supply. We should, however, emphasize the point that there is no substitute for a close analysis, in a given context, of all relevant budgetary, monetary and foreign exchange transactions.

18. To give an example, it is clear that if a decline in cash balances or an increase in short-term debt is matched by a corresponding withdrawal from foreign exchange reserves, there will not, on balance, be any increase in domestic money supply. It is convenient, however, to treat a decline in cash balances or an increase in short-term debt as deficit financing and to allow separately for the money-withdrawing effect of any decline in foreign

exchange reserves. Mention may also be made in this connection of a similar problem which arises in the case of sales of securities by the Central and State Governments from their cash balance investment accounts. These transactions were regarded in the first plan as deficit financing. The underlying assumption was that in the circumstances of the time such sales would in effect have to be absorbed by the Reserve Bank. This has not happened in fact. As mentioned earlier, the long-term securities held by the Reserve Bank have declined. In effect, therefore, the sales of old securities have not resulted in an increase in money supply. Thus, whereas on one assumption sale of securities from reserves is tantamount to deficit financing, it will, in another situation, have the same effect as borrowing from the public. Whether one includes the sale of securities from reserves in deficit financing or not, it is clear that in judging the effect of deficit financing on money supply it will be necessary to bear in mind other related data such as the change in the holdings of securities by the central bank. Further, the significance of a given increase in money supply has itself to be assessed with reference to a number of other circumstances.

19. Coming to an assessment of the likely reactions of the proposed deficit financing in the plan, it may be noted that against the deficit financing of Rs. 1200 crores, we must set off the drawing down of sterling balances by Rs. 200 crores. The remaining deficit of Rs. 1000 crores represents the net addition to currency in response to the government's budgetary operations. This may be expected to result in a secondary expansion of credit by banks. The ability of banks to create such credit is limited by the fact that the people in India have a distinct preference for holding currency rather than bank money, so that an initial accretion to the cash held by banks permits a relatively small increase in bank credit. If we assume that the ratio between currency in circulation and deposit money remains unaltered, money supply would show something like a 66 per cent increase over the plan period. National income over this period is expected to increase by 25 per cent and we may assume that an increase of the same order in money supply would in any case be sation of the economy and for the increased demand for cash as sation of the economy and for the increased demand for cash as levels of living improve and the convenience of holding cash comes within the reach of a larger proportion of the people. Even so, the expansion of money supply of the order mentioned cannot but be regarded as the outside limit.

20. Deficit financing will augment the ability of banks to extend credit to the private sector. Such expansion will be needed

and will have beneficial results upto a point. Care will, however, have to be taken to prevent excessive credit expansion which may react adversely on prices and to ensure that credit does not flow into speculation to the detriment of productive activity. The Reserve Bank has wide powers of supervision and control over commercial banks. It can vary its own accommodation to the banks and can issue directives to them under certain circumstances. Quantitative as well as qualitative controls on credit, including variations from time to time in the relationship to be maintained between the liabilities of banks and their reserves, should, we suggest, be regarded as an important accompaniment to the scheme of deficit financing we have recommended. Central banking policy along these lines can and has to play a vital role in steering the economy on an even course.

21. We have had occasion in an earlier chapter to mention some of the safeguards that can be adopted against the adverse consequences of deficit financing, and they need no more than a brief mention here. A major safeguard is building up of sufficiently large stocks of foodgrains in order to counteract inflationary pressures that may emerge from time to time, and this has been referred to in chapter II as an important constituent of economic policy. No amount of prudence in financial management can by itself eliminate completely the risk of inflation in an economy attempting to develop rapidly. The best defence against inflation is, in a sence, to keep clear of it, but a policy of "playing safe" is not always conducive to development. A measure of risk has to be undertaken, and the most effective insurance against this risk is command even reserve stocks of food grains—and a few other essential commodities—which can be used to augument the supplies in the market as and when necessary. Prices of food and cloth occupy a strategic position in the Indian economy, and a sharp rise in these prices has to be prevented by the use of all available devices. So long as these prices can be maintained at reasonable levels, the cost of living of the large bulk of the population can be kept under control. Increases in prices of other commodities would be a matter of comparative unimportance, although any excessive rise in prices anywhere in the system does carry the danger of a drawing away of resources into low-priority uses. Corrective action can, however, take care of such a situation. A further defence against inflation is discriminating but prompt use of the instrument of taxation to prevent excessive increases in consumption in certain lines and to mop up the excess profits or windfall gains that deficit financing tends to generate. Finally, physical controls, including rationing and allocations, can be used to prevent consumption from increasing beyond a particular level and for economising scarce materials or scarce productive re-

sources. But experience of the past suggests that physical controls, especially on essential and staple consumer goods, are not a device that can be relied upon to function effectively or equitably for any great length of time. This makes it all the more necessary to utilise to the full all the other available safeguards and correctives, for a curtailment of the plan itself can, in the nature of things, be thought of only in a situation of extreme difficulty.

RESOURCES OF STATE GOVERNMENTS

22. So far we have considered the resources position of the Central and State Governments in the aggregate as against the total plan of Rs. 4800 crores. We may now analyse separately the resources position of State Governments. Appendix I at the end of this chapter sets forth the relevant data, and the following table presents in summary form the contribution Part A and Part B States are expected to make towards the financing of their plans:

Financial Resources of Part A and Part B States

	(Rupees. crores.) 1956-61		
	Part A States	Part B States	Total
I. *Size of the Plan*	*1567·2*	*535·4*	*2102·6*
II. *Resources on Revenue Account*	*312·3*	*24·4*	*336·7*
(i) Balance from revenues at existing rates of taxation	115·3	—17·5	97·8
(ii) Additional taxation	172·0	44·0	216·0
(iii) Share of additional taxation at the Centre	49·1	8·1	57·2
Deduct—Interest charges on new loans from the public	24·1	10·2	34·3
III *Resources on Capital Account*	*377·3*	*108·8*	*486·1*
(i) New loans from the public (gross)	210·0	90·0	300·0
(ii) Share of small savings	158·5	21·5	180·0
(iii) Other receipts (net)*	8·8	(—)12·7	·1
Total Resources on Revenue and Capital Accounts	*689·6*	*133·2*	*822·8*
Gap in Resources	*877·6*	*402·2*	*1279·8*

*These represent accumulations in provident funds, recoveries of loans and advances, appropriations from current revenues for reduction or avoidance of debt and miscellaneous capital receipts *minus* committed disbursements on capital account including repayments of loans, payments of compensation to zamindars and jagirdars, etc.

It will be seen that the balance which these States can make available from their resources at existing rates of taxation is below Rs. 100 crores. Their share of additional taxation against the total of Rs. 225 crores for all States works out at Rs. 216 crores. The States are likely to get about Rs. 57 crores as their share from the additional taxation to be raised at the Centre. Making allowance for interest charges in respect of new loans to be raised from the public, the revenue resources of Part A and Part B States aggregate to Rs. 337 crores. The target for new loans to be raised by State Governments in the second plan period has been placed at Rs. 300 crores. This is a gross figure, the repayments against which amount to about Rs. 35 crores; the net borrowing of some Rs. 265 crores by the States may be compared with the total borrowing programme of Rs. 700 crores for the Centre and States together The State Governments are expected to receive as their share of small savings about Rs. 180 crores. Allowing for other net receipts on capital account, the total of States' resources on capital account works out at Rs. 486 crores. Altogether Parts A and B States are thus expected to find about Rs. 823 crores as against their total plan of over Rs. 2100 crores.

23. The plans of Part C States together with those for Andaman and Nicobar islands, N.E.F.A. and Pondicherry are estimated to involve an expenditure of Rs. 125 crores. The resources of Part C States for meeting these expenditures are negligible and in fact the Centre has to finance gaps on revenue account in respect of several of them. Measures for additional taxation amounting to Rs. 9 crores over the five year period have been suggested for Part C States; their estimated receipts by way of loans from the Centre against their collections of small savings are around Rs. 20 crores. The overall position is that the Centre has to finance the entire plans of these States as also of the other areas mentioned above.

24. It will thus be seen that the resources of all the States taken together fall far short of their requirements—by as much as 60 per cent. of the total. In the circumstance, large transfers of resources from the Centre to the States are inevitable. It has to be remembered at the same time that the Centre's own resources are limited and if a plan of the dimension envisaged is to be implemented in full, it will be necessary for the State Governments to contribute their utmost by way of resources for the plan.

25. The target of Rs. 225 crores of additional taxation to be raised by State Governments has been determined on the basis of detailed discussions with them and an assessment of the likely yield of the various measures recommended by the Taxation Enquiry Commission. The measures in view include land revenue sur-

charges, increases in rates and extension of territorial coverage of agricultural income tax, more extensive adoption of property taxes and taxes on transfer of property by local bodies, a widening of the coverage and an increase in rates of sales tax, etc. So far as the Centre is concerned, some of the recommendations of the Taxation Enquiry Commission were implemented in 1955-56. The yield from these measures has been taken into account in estimating the resources available for the plan at existing rates of taxation. The Central Budget for 1956-57 contains proposals which are expected to yield an additional annual revenue of approximately Rs. 35 crores. A substantial step has thus been taken towards realising the target of Rs. 225 crores of taxation by the Centre over the five year period. That target, as we indicate later, needs to be raised. But, we should like in this context to reiterate the importance of early action on the part of States to obtain the additional tax resources of Rs. 225 crores which they are expected to find. Details have been worked out with State Governments for raising about Rs. 166 crores of this total of Rs. 225 crores, and with some of the States discussions are proceeding in regard to further measures. A rough breakdown of the tax measures to be adopted for raising Rs. 225 crores of additional taxation by States is as follows:

	(Rs. crores)
Land revenue	37·0
Agricultural income tax	12·0
Betterment levy	16·0
Irrigation rates	11·0
Sales tax	112·0
Electricity duty	6·0
Motor vehicles tax Stamp duties and court fees etc.	14·0
Others (mainly local property taxes)	17·0
TOTAL	225·0

It will be seen that what is envisaged is a little more effort along existing lines rather than any far-reaching innovations in the sphere of State texation.

26. Reference has been made earlier to the specific need for augmenting public revenues so as to secure, on net, a surplus which could be utilised for capital formation. The least that is necessary

is, obviously, that each public authority should balance its revenue account. There is scope for some transfer of items of expenditure from the revenue to the capital account; also the present practices in regard to this classification are not uniform in all the States. This aspect of the question is being looked into. Once an agreed classification of revenue and capital items has been worked out, revenue resources must be found by each taxing authority to meet its recurrent needs. The Finance Commission appointed at the end of every five years under the Constitution recommends such transfers of resources from the Centre to the States as it deems fit in view of all the circumstances. Given this award, large or continuing deficits in revenue budgets are clearly indefensible either on principle or on any practical grounds.

THE ROLE OF PUBLIC SAVINGS IN A DEVELOPING ECONOMY

27. An important conclusion that emerges from the above review of the financial resources of the Centre and States *vis-a-vis* the requirements of the plan is that an enlargement of the savings of public authorities is urgently necessary if the State is to discharge effectively the new and growing responsibilities it is being called upon to shoulder. When the role of the State is to supply enterpreneurship and management over a wide field, this must carry with it the corresponding capacity to find the finances needed. A basic weakness of the present situation is that the State has very little resources of its own by way of surpluses it can utilise for investment, and it has, therefore, to depend upon whatever transfer of private savings it can bring about through its borrowing programmes or through deficit financing. Over the first plan period, the total volume of public savings raised by the Centre and States for financing their investment (as distinct from development programmes) appears to have been around Rs. 250 crores. A large part of these public savings became available in the first two years of the plan when export duties yielded large amounts. In the second plan period, as shown earlier, the contribution of current revenues to the financing of the plan is, in fact, somewhat less than is required to meet the current expenditure of Rs. 1,000 crores. This, we should like to emphasize, is a limitation on the State's capacity to push through a big programme of investment.

28. Over a period a substantial increase in the tax resources of the Centre and States is necessary and feasible. As is well known, the proportion of tax revenues to national income in India is around 7:5 per cent. which is much lower than the share of the public exchequer not only in countries like the U.K. and U.S.A. but also in certain relatively under-developed countries. The Taxation Enquiry Commission has drawn attention to the fact that this proportion has remained practically unchanged over several years, and

that a widening and deepening of the tax structure is called for if the various demands of a welfare state are to be adequately met. Considering the financial requirements of the second plan which are considerably larger than were assumed by the Taxation Enquiry Commission—and the dangers of deficit financing, or in the alternative, any cutback in plan expenditures—we recommend that the possibilities of stepping up of the target of additional tax resources substantially within this plan period be investigated fully and the goal set at covering by taxation or from state trading, suitable fiscal monopolies and profits of public enterprises, the gap of Rs. 400 crores which remains in the scheme of financing that has so far been envisaged. Considering the needs of the plan on the one hand and the degree of reliance that is being placed on borrowings and deficit financing, the conclusion is inescapable that the target for additional taxation has to be raised from Rs. 450 crores to around Rs. 850 crores. This will reduce the dangers of any serious inflationary situation developing and will represent a step in the right direction from the more long-range point of view of strengthening the investment potential of the public sector.

29. The lines along which this further effort may be made will have to be examined carefully. In an earlier chapter, mention has been made of some of these, such as a tax on wealth, a gifts tax and a widening of the concept of income so as to include in it capital gains. Reference has also been made to the suggestion that the basis of personal taxation be shifted, at least for the higher income groups, from income to expenditure. The reform and strengthening of the tax system along these lines may open out possibilities not only of augmenting public revenues but of closing some of the loopholes in the present system which offer scope for tax evasion. Such evasion cannot always be stopped by a mere tightening of administration; it may require a modification of the very basis and procedures of assessment. It must be recognised, of course, that taxation has its limits, and this means in turn that it has to be supplemented by institutional arrangements which bring directly into the public exchequer the surpluses which accrue from the sale of goods and services to the public. It is through devices of this type, that is, through appropriate pricing policies in respect of the products of public enterprises and through state trading or fiscal monopolies in selected lines that some of the under-developed countries with levels of living not much higher than those in India are raising the resources required for their developmental effort. An essential corollary—if not a prerequisite—of a growing socialist pattern of society is a corresponding growth in what we have called public savings.

30. Finally, it must be mentioned that the carrying through of substantial investment programmes in the public sector implies the exercise of the greatest degree of economy in both plan and non-plan expenditures. Certain increases in non-plan items may be unavoidable, but the temptation to undertake developmental schemes outside the plan has to be strongly resisted. Here too, there may be unforeseen needs, but the necessary adjustments have to be made through annual plans within the framework of the five year plan. The concept of economy in this context is not the limited one of pruning expenditures; attempts at mere pruning, as experience has shown, rarely bear much fruit. What is required is meticulous care in the use of resources, especially of scarce resources like cement and steel, and the optimum utilisation of available manpower and materials in all projects so as to bring them into early fruition. It is in the light of these considerations that the National Development Council has recently constituted a high-powered Committee to watch over the progress of developmental projects so as to secure the maximum possible economy and efficiency in their implementation.

Investment in the Private Sector

31. In addition to the investment programme of Rs. 3800 crores in the public sector, the requirements by way of investment in the private sector are estimated at Rs. 2400 crores. The broad break-up of these requirements has been given in Chapter III. The question arises whether the resources available to the private sector would be adequate to finance investment of this order, after making allowance for the resources claimed by the State. In one sense, the answer to this question is already implied in the assumption that aggregate savings on the scale required to finance the total investment in the economy would be forthcoming. The problem, as stated earlier, is to see that domestic savings rise from about 7 per cent. of national income at the beginning of the second plan period to some 10 per cent. by the end of the period. This rate of domestic savings would be adequate if external resources of the order of Rs. 1100 crores become available over the five year period. The stepping up of domestic savings as envisaged in the plan is by no means excessive. It implies a marginal rate of saving of a little over 20 per cent. In a sense, therefore, the answer to the question posed in this paragraph is in the affirmative.

32. It is important, however, to stress the point that this overall equality between projected investment and postulated savings is not a complete answer. Operationally, the problem is to ensure that the investments undertaken can be seen through without an exces-

sive strain on the economy through price rises and similar distortions, and the issue is essentially one of the adequacy of instruments or policies for getting the desired result. It is virtually impossible to know in advance whether the necessary savings would be forthcoming; nor is it easy to predict where any shortage of savings would impinge. It can be argued that since the investment programmes in the public sector depend to a large extent on borrowings from the private sector, the impact of any shortage in savings will probably fall mainly on the public rather than on the private sector. On the other hand, the public sector has certain advantages in the matter of getting access to scarce resources. It is also not true that the savings of the private sector emerge at precisely the points at which private investment is to take place. Very much, therefore, depends upon the relative efficiency of the two sectors in getting at the savings where they emerge. This fact highlights the need for suitable fiscal and other policies to ensure an overall sufficiency of savings and for safeguarding to the extent possible the priority programmes of investment in the private sector, should need arise, through special measures of assistance.

33. It is difficult to indicate for the private sector the sources of savings in any detail, as only a small proportion of the total savings utilised in that sector passes through institutional agencies. A large part of the investment in agriculture, trade, construction and small scale industries is financed by direct savings, that is, by the savings of the persons undertaking the investment or the savings of their friends and relatives. In this part of the private sector, any shortage of resources gets reflected directly in a failure to invest. Estimates of the sources of funds for investment in the organised sector of private industry can be made, though inevitably on certain broad assumptions. The scheme for financing such investment is shown in Chapter XIX. The State can assist in the fulfilment of the programmes in this sector partly by cutting out undesirable investment—through capital issues control, control over exports and imports and licensing of industries; partly through tax adjustments and concessions and in part by way of selective financial assistance through the various corporations which have been set up for the purpose. The progress of investment in the private sector has to be constantly watched even as that in the public sector and the necessary adjustments in policy have to be made from time to time. Broadly speaking, it would appear that considering the fairly high rates of investment already achieved in organised industries and the increasing strength of the capital market, it should not be difficult for them to raise the resources needed for fixed investment. As regards working capital, there should be even less difficulty in

view of the deficit financing proposed in the plan. The problem in fact, as argued earlier, might well be to check an excessive expansion of bank credit and a diversion of resources to speculative purposes.

FOREIGN EXCHANGE RESOURCES FOR THE PLAN

34. We now turn to the problem of foreign exchange resources for the plan. It is to be expected that the second five year plan with the substantial stepping up of aggregate investment that it envisages and its stress on industrialisation will involve a heavy strain on foreign exchange resources. Estimates of foreign exchange earnings and requirements over a period of five years cannot be made with any great precision. There are many uncertainties in the situation. Several of India's important export commodities, such as tea, jute goods and manganese ore are subject to sharp fluctuations in demand, and a relatively small adverse turn in the monsoon is apt to necessitate substantial imports of foodgrains and raw materials. Again, the terms of trade change from time to time. Even a ten per cent. deterioration in these can make a difference of as much as Rs. 80 crores to the payments position in a single year. The annual phasing of import requirements presents special difficulties, for this depends not merely on the requirements of the development programme but also on the availability of machinery or key materials like steel from abroad. These uncertainties notwithstanding, it is essential to form a view of the likely trends in the balance of payments and to assess the adequacy of foreign exchange resources in the light of requirements.

35. The difficulties that are inevitably involved in forecasting foreign exchange requirements and earnings over a period of five years are amply illustrated by the experience of the first plan. When that plan was formulated (*i.e.* in December, 1952) it was estimated that there might well be a deficit in the balance of payments of the order of Rs. 180—200 crores per year during the remainder of the plan period. In the event, however, the deficit on current account (exclusive of official donations) for the five year period as a whole has been of the order of only Rs. 50 crores—the large deficit of Rs. 142 crores in 1951-52 and the small deficit of Rs. 9 crores in 1954-55 being partially offset by surpluses in the remaining years. One of the main reasons for this favourable outcome has been the lower volume of food imports on account of a large increase in domestic production. Imports of machinery have also been lower than was anticipated in the first plan report.

36. The following table sets forth the estimated balance of payments position for the second plan period.

India's Balance of Payments on Current Account
(1956-57 to 1960-61)

(Rs. crores)

	1956-57	1957-58	1958-59	1959-60	1960-61	Average for 5 years ending 1960-61	Total of 5 years ending 1960-61
1. Exports (f.o.b.)	573	583	592	602	615	593	2965
2. Imports (c.i.f.)	783	886	990	895	786	868	4340
3. Trade balance (1—2) . .	—210	—303	—398	—293	—171	—275	—1375
4. Invisibles (excluding official donations)	+62	+55	+51	+46	+41	+51	+255
5. Total current account balance (3+4)	—148	—248	—347	—247	—130	—224	—1120

Over the five years, the aggregate deficit on current account works out at about Rs. 1100 crores. The phasing of exports and imports given in the table above is necessarily very rough. But, it will be seen that a large part of the deficit is expected to occur in the second and third years of the plan. The "hump" in the middle of the plan period is accounted for by the fact that imports of steel, machinery and equipment anticipated in the earlier years of the plan reach a peak about the time the plan is halfway through. The construction of the new steel plants and a large part of the expansion and re-equipment of the railways have to be completed before the last year of the plan. As these and other programmes get completed, the strain on the balance of payments will diminish.

37. The general picture that emerges is that while exports will rise moderately from an estimated level of Rs. 573 crores in 1956—57 to Rs. 615 crores in 1960-61, imports will rise substantially over the first four years, resulting in a negative trade balance of about Rs. 1375 crores over the plan period—or Rs. 275 crores a year on an average. After allowing for the surplus on invisibles, the deficit on current account works out to a total of Rs. 1120 crores—or Rs. 224 crores a year.

38. Before turning to the details of the expected level of exports, imports and invisible transactions, it is important to underline two assumptions on which the estimates given here are based: (a) that the terms of trade in the next five years will remain, on an average, the same as they have been in 1955-56 (first nine months), and (b) that inflationary pressures will be held firmly under control. The

terms of trade index (with 1952-53=100) stood at about 100 in the first nine months of 1955-56 as against 133 in 1951-52 when the Korean boom was at its height, 101 in 1953-54 and 110 in 1954-55. These figures give a rough indication of the comparative significance of the particular terms of trade we have chosen as the basis of our calculations. The second assumption is one that underlies all our calculations of savings, investment and financial resources for the second plan, but it is relevant to emphasize this fact in the present context. The balance of payments is particularly sensitive to inflationary pressures. Rising domestic prices create new demands for imports and come in the way of exports. While commercial policy can mitigate these adverse repercussions for a time, there is no doubt that the corroding effect of a sharp or continued inflation within the economy cannot long be prevented from making itself felt in the country's balance of payments position. In the interest of domestic economic stability as well as of a healthy balance of payments position, effective control of inflationary pressures is a prime necessity.

EXPORTS

39. The following table gives the expected earnings from major exports over the second plan period as compared to those in 1954 and 1955:—

MERCHANDISE EXPORTS

(Rs. crores.)

	1954	1955	Last year of plan, 1960-61	Annual average, second plan	Five year total, 1956-61
1. Tea	131	112	133	127	635
2. Jute yarn and manufactures.	122	126	118	122	610
3. Cotton yarn and manufactures . . .	72	63	84	75	375
4. Oils (excluding mineral oils)	11	39	24	22	110
5. Tobacco . . .	12	11	17	15	75
6. Hides, skins and leather (raw, tanned & dressed) .	29	27	28	28	140
7. Cotton raw & waste . .	19	35	22	22	110
8. Metallic ore and scrap iron and steel . . .	23	20	27	23	115
9. Coal and coke . . .	6	4	3	5	25
10. Chemicals, drugs and medicines	5	4	5	5	25
11. Cutlery, hardware, vehicles, electric goods and apparatus, and machinery .	3	4	4	4	20
12. Others	130	151	150	145	725
TOTAL . .	563	596	615	593	2965

The estimates for the plan period are in terms of prices prevailing in 1955-56 (first nine months) whereas the data for 1954 and 1955 are in terms of prices then current. It will be seen that the average level of export earnings in the second plan period is expected to be higher than in 1954, and export earnings in 1960-61 are estimated to exceed the 1954 level by 9 per cent. If allowance is made for the fact that export prices in 1954 were roughly 5 per cent. higher than those assumed by us for the plan period, export earnings over the period of the plan can be said to show significant improvement over 1954. As compared to 1955, the level of exports in the plan period shows little improvement. This is mainly because the exports of oils and cotton in 1955 were unusually high and are not expected to continue at that level. In items other than these two, there are however significant increases even as compared to 1955.

40. Tea exports suffered a serious setback in 1955. Exports in that year amounted to some 362 million lbs. as compared to 450 million lbs. in 1954. These exports may be expected to recover in the course of the second plan period, and to reach a level of 470 million lbs. by 1960-61. The average annual rate of exports over the plan period has been assumed at 450 million lbs. Export prices of tea have varied sharply in recent years. In 1954-55 the index (base 1952-53=100) was as high as 169 as against 115 in 1953-54. In the first nine months of 1955-56 tea prices declined steadily, the index for the period as a whole being 149. It will thus be seen that in estimating export earnings (at 1955-56 prices) we have assumed a level of export prices lower than in 1954-55, but significantly higher than in the earlier two years.

41. Exports of jute manufactures in 1954 amounted to 841,000 tons. In 1955 they rose to 893,000 tons. Since competition from other jute manufacturing countries is likely to be felt increasingly over the coming years, it does not seem advisable to count on average exports of more than say 875,000 tons per year during the second plan period.

42. Exports of cotton piece-goods—mill-made and handloom—amounted to 867 million yards in 1954. They declined to 747 million yards in 1955. These exports are expected to rise progressively during the plan period, reaching a level of 1000 million yards by 1960-61. Cotton textiles is one of the oldest industries in the country and it would be natural to expect it to play an increasing role as a foreign exchange earner. On the other hand, the domestic demand for textiles is on the increase. It is important, therefore, that every effort should be made to maintain and improve the competitive position of the industry. Effort should also be made to increase the exports of handloom products for which there is growing interest in foreign markets.

43. Earnings from non-mineral oils are accounted for almost wholly by non-essential vegetable oils. The exports of these oils increased sharply from 16·8 million gallons in 1954 to 75·7 million gallons in 1955. Production of oilseeds is expected to increase considerably during the second plan period. It would be reasonable to expect that although the 1955 level may not be maintained, exports of non-essential oils will average significantly above the 1954 level. There is considerable scope for increase in the export of these oils particularly to new markets. If, as suggested earlier, the targets for agricultural production can be stepped up above the level envisaged in the plan it should, in fact, be possible to maintain and even improve upon the 1955 level of exports.

44. Exports of raw cotton increased sharply in 1955 reaching a level of 93,000 tons as against 26,000 tons in 1954. On an average, raw cotton exports in recent years have been of the order of 50,000 tons per year. We have allowed for the maintenance of exports at this level in the second plan period.

45. The increased export earnings under "metallic ores and scrap" are expected to arise mainly from larger exports of iron ore. Domestic production of iron ore is scheduled to rise from 4·3 million tons in 1954-55 to 12·5 million tons in 1960-61 and domestic consumption from about 3 million tons to 10·5 million tons. Moreover, foreign demand for the ore is strong. Exports of iron ore may thus be expected to increase, and may reach a level of about 2 million tons by the last year of the plan, as compared with exports of around 1 million tons in recent years.

46. No comment seems necessary on other export items which consist of a large number of miscellaneous commodities inasmuch as they are assumed to bring in about the same level of earnings as at present. Mention may, however, be made of the export possibilities for some of the new industries which have developed in recent years. The hope was expressed in the first plan that new lines of export, particularly in the light engineering field, *e.g.* sewing machines, electric fans, cycles, etc. will assume increasing importance as the economy gets diversified. These exports have not yet reached a level where their earnings could be regarded as quantitatively significant. It will be some time before these new industries establish themselves firmly and secure sizeable export markets.

47. On the whole the fact remains that the increase in exports that we envisage over the plan period is not very striking. India's export earnings are derived from a few commodities. Three of them, namely, tea, jute manufactures, and cotton piecegoods account for one-half of the total. These major exports are meeting increasing competition abroad. This limits the scope for any subs-

tantial increase in exports in the short run. While every effort has to be made to promote exports of new items and to develop and diversify the markets for the country's major exports, it has to be recognised that it is only after industrialisation has proceeded some way that increased production at home will be reflected in larger export earnings.

IMPORTS

48. The following table shows the estimated level of imports required in the second plan period:

MERCHANDISE IMPORTS

(Rs. crores)

	1954	1955	Last year of plan, 1960-61	Annual average second plan	Five year total, 1956-61
1. Machinery and vehicles . .	121	159	250	300	1500
2. Iron and steel . .	27	50	60	86	430
3. Other metals . .	24	25	40	44	220
4. Grains, pulses and flour .	49	35	40	48	240
5. Sugar	31	20	7	7	35
6. Oils	94	63	90	82	410
7. Chemicals, drugs and medicines	31	34	33	32	160
8. Dyes and colours . .	19	18	15	17	85
9. Paper, paste-board, and stationery . . .	13	14	10	11	55
10. Cutlery, hardware, electrical goods and apparatus.	28	36	29	29	145
11. Raw cotton . . .	58	54	54	54	270
12. Raw jute . . .	12	17	18	18	90
13. Others . . .	113	130	140	140	700
TOTAL .	620	655	786	868	4340

It will be seen that the bulk of the additional imports relate to machinery and vehicles, iron and steel and other metals. Of the total imports of machinery and vehicles estimated at Rs. 1500 crores over the plan period, the requirements of the public sector take up about Rs. 1050 crores: Rs. 425 crores for transport and communications (Rs. 290 crores being for the railways alone); Rs. 290 crores for industries and minerals (of which Rs. 180 crores is for the steel plants); Rs. 170 crores for irrigation and power schemes; and about Rs. 165 crores for other governmental requirements. Imports of machinery and vehicles needed by the private sector for purposes of expansion, modernisation and replacement are estimated at Rs. 450 crores over the second plan period. The large requirements of imports of machinery and vehicles reflect the emphasis in the plan on the development of basic industries. This emphasis, while it strains the balance of payments position in the short run, is calculated in the long run to strengthen the country's external accounts as well as its investment potential.

49. Imports of metals, and especially of iron and steel, are expected to be on a greatly expanded scale during the second plan period. Iron and steel imports increased from 3½ lakh tons in 1954 to nearly 7 lakh tons in 1955; they are expected to total 70 lakh tons over the plan period, practically all the imports coming in in the first four years. Requirements of non-ferrous metals such as aluminium and copper will also increase materially. Taken together, imports of iron and steel and other metals are estimated to amount to a total of Rs. 650 crores over the plan period. This works out at an average rate of Rs. 130 crores a year, as compared to the imports of Rs. 75 crores in 1955.

50. In regard to foodgrains, total imports of 6 million tons over the plan period have been allowed for. Imports of foodgrains have declined in the last two years. They amounted to 840,000 tons in 1954 and 755,000 tons in 1955. With increasing population and rising incomes, the consumption of foodgrains is certain to go up in the coming years. The stocks held at present by Government are very low, and they need to be replenished early. Considering these facts, imports aggregating to about six million tons in the plan period would appear to be essential, and a substantial proportion of this total will have to be imported in the first half of the period. In the case of sugar it is assumed that, in view of the large increase in domestic production that is envisaged, import requirements will not exceed a total of 5 lakh tons during the plan period.

51. The bulk of the country's total imports of oils consists of mineral oils. It is expected that with the third oil refinery going into production, practically all the requirements of motor spirit will be met from domestic production, imports of motor spirit being replaced by crude petroleum. Aviation spirit, kerosene oil and other mineral oils will, however, have to be imported in substantial

quantities. Taking account of all these factors, it is estimated that the average rate of imports of oils during the plan period will be about Rs. 82 crores per year, which is below the level of imports in 1954 but above that in 1955.

52. Despite increased domestic requirements, the average rate of imports of chemicals, drugs and medicines during the second plan period is expected to be virtually the same as in 1954 and 1955. Substantial increases in the domestic production of chemicals, especially caustic soda and soda ash, are envisaged in the plan. While there will be material savings in the imports of caustic soda and soda ash, imports of other chemicals will go up. Imports of dyes and colours are expected to be smaller on an average than at present owing to the substantial increase envisaged in domestic production. Similarly, some savings in imports is expected because of the increased domestic production of newsprint and other paper.

53. Imports of consumer goods, such as, cutlery, hardware and electrical goods and apparatus should normally increase in response to the improvement in the level of living in the country. Part of the increased demand will be met from additional domestic production. For demands above this level it is assumed, in view of the over-all shortage of foreign exchange resources, that policy will be directed to preventing any material increase in these imports.

54. Imports of raw cotton declined from 123,000 tons in 1954 to 106,000 tons in 1955, and raw jute imports increased from 217,000 tons in 1954 to 248,000 tons in 1955. We have assumed that on an average the imports of raw cotton and of raw jute would run at about the same rate as in 1954-55.

55. We have allowed for a small increase in "Other imports", mainly in order to provide for imports of cement which have become necessary of late. A total provision of Rs. 25 crores has been made over the five year period for this purpose. Other imported commodities in this group consist of a large number of consumer goods such as provisions, tobacco and textiles, and of raw materials such as raw wool, rayon pulp and timber. On the whole, imports of these commodities are assumed to run more or less at present levels.

INVISIBLES

56. On invisible account (excluding official donations) there was a surplus in 1954 of Rs. 73 crores and in 1955 of Rs. 72 crores. During the second plan period this surplus is expected to average about Rs. 51 crores a year. A substantial fall in receipts of investment income is expected in view of the anticipated reduction in official holdings of foreign assets (sterling balances). At the same

time payments of interest and dividends abroad will rise appreciably because of increases in private business investment as well as in official borrowings. Compared to 1954-55, net payments of investment income are estimated to be higher by about Rs. 20 crores on an average per year during the plan period. On other items such as foreign travel, transportation and private donations, no significant changes in net receipts are expected.

THE DEFICIT

57. To sum up, on current account, the total deficit over the five years is likely to amount to Rs. 1100 crores. On capital account, amortisation payments on the U.S. wheat loan and I.B.R.D. loans contracted in the past would be more than offset by the receipts from the U.K. Government on account of sterling pensions. Some of the new loans and credits obtained during the second plan period will also entail some repayments, but these can be allowed for by reckoning these credits on a net rather than a gross basis. On balance, capital commitments on government account are not expected to have any significant effect on the payments position. On private capital account, allowance has to be made for repatriation of capital invested in the country. Here again, while there would be some repatriation of capital, new private capital will flow in and the overall impact on balance of payments may be reckoned on a net basis. It follows then that the current account deficit of Rs. 1100 crores mentioned above has to be matched by a net inflow of foreign resources of that order either on private or on government account.

58. Part of the deficit of Rs. 1100 crores can be financed by drawing down the foreign exchange reserves of the country. The extent to which these reserves can safely be drawn down must be judged in relation to the fluctuations to which the balance of payments is normally subject. Foreign exchange reserves are required essentially to enable the country to tide over temporary balance of payments difficulties. If the reasonable level of such reserves be taken at some six or seven months' imports, Rs. 200 crores or so of the sterling balances to India's credit could safely be utilised to meet part of the foreign exchange requirements of the plan. It will be recalled that the first plan report envisaged a withdrawal of Rs. 290 crores from sterling balances over the first plan period. It was then felt that a reduction in sterling assets of that order would bring foreign exchange reserves to a normal level. The sterling balances of the country have declined by about Rs. 140 crores over the first plan period. In recommending a further draft of Rs. 200 crores over the second plan period, we are in fact suggesting that the normal level of reserves can be taken as lower than what was envisaged in the first plan report. India has repurchased its currency from the International Monetary Fund in the last two years, and is again in a

position to draw upon the Fund which is a supplementary line of reserve in case of need.

59. After allowing for a withdrawal from foreign exchange reserves of Rs. 200 crores, there remains a gap of Rs. 900 crores, which can be filled (a) by floating public issues in foreign money markets, (b) by arranging for bankers' credits and export credits for supply of goods from foreign countries, (c) by borrowing from the International Bank for Reconstruction and Development and the newly formed International Finance Corporation, (d) by loans and grants from other international institutions such as the United Nations Technical Assistance Administration or the proposed Special United Nations Fund for Economic Development, (e) through private foreign investment, and, finally, (f) through loans and grants from friendly foreign governments. It will be necessary for the country to take advantage of all these sources of finance for meeting the foreign exchange requirements of the plan.

60. Over the period of the first plan, a total of Rs. 298 crores of external finance was made available to India for programmes of development in the public sector. Of this about Rs. 204 crores is estimated to have been utilized in the first plan period. The details of the funds authorised and utilised during the first plan period and the balance available for utilization in the second plan are indicated in the following table:—

(Rs. crores).

	Authorisations	Loan or Grant	Estimated utilization upto March 1956	Balance available for utilization in the second plan
U.S.A.—				
Wheat Loan	90·3	Loan	90·3	..
Indo-U.S. Aid Programme	102·5	Grant	70·5	32·0
	39·3	Loan	7·0	32·3
I.B.R.D.	12·0	Loan	8·5	3·5
COLOMBO PLAN				
Australia	10·5	Grant	5·3	5·2
Canada	35·6	Grant	19·5	16·2
New Zealand	1·2	Grant	0·3	0·9
U.K.	0·5	Grant	0·3	0·2
FORD FOUNDATION	5·4	Grant	2·0	3·4
NORWAY	0·3	Grant	0·2	0·1
TOTAL	297·6		203·9	93·8

India has also been receiving technical assistance from the United Nations and its specialised agencies under the expanded Technical Assistance Programme; from the U.S.A. under the Point Four Programme; and from Commonwealth countries under the Colombo Plan. This assistance includes the services of experts, training facilities for Indian nationals and supply of demonstration equipment. Since 1950, 251 experts have been made available under the Indo-U.S. Technical Cooperation Programme, 81 experts from Commonwealth countries under the Colombo Plan and 561 experts under the UNTAA and through the specialised agencies of the United Nations. A number of Indian nationals have received training facilities under these programmes. Further, assistance in the form of experts as well as equipment has been authorised under the U.N.—UNESCO programme for the Western Higher Technical Institute and the Indian Statistical Institute. This assistance has been made available from the Soviet contribution to the U.N. Technical Assistance Programme.

61. On the whole, the external assistance required for the second five year plan is substantially larger than the amounts that have been forthcoming in recent years. In the assessment of financial resources for the public sector credit has been taken for Rs. 800 crores of resources to be raised externally, as against a total of Rs. 204 crores utilised in the first plan. For the investment programmes in the private sector an inflow of foreign capital of the order of Rs. 100 crores has been envisaged.

62. In regard to the requirements of the public sector, there is, as shown earlier, an unutilised balance of Rs. 94 crores available from past authorizations. In addition, arrangements have been made for a credit of Rs. 63 crores from the U.S.S.R. Government for the financing of the Bhilai steel plant. Allowing for a repayment of a part of this credit in the plan period, net accretion of resources on this account will be Rs. 43 crores. Further, for the Durgapur steel plant, finance of the order of Rs. 33 crores has been promised by the British Government and by British bankers. Resources amounting to Rs. 170 crores are, thus, already assured for the plan in the public sector, leaving a balance of Rs. 630 crores for which arrangements have yet to be made.

63. As against the net inflow of Rs. 100 crores of foreign capital postulated for the private sector, a sum of approximately Rs. 22 crores is already available as the undisbursed portion of the loans made by the International Bank for Reconstruction and Development to the Indian Iron and Steel Company, the Tata Hydro-electric companies and the Industrial Credit and Investment Corporation

of India. Allowing for new loans by the International Bank and by the International Finance Corporation and taking into account the possibilities of an inflow of private foreign investment, it is not unreasonable to assume that, some repatriation of private capital notwithstanding, the net amount of foreign capital available to the private sector will come up to the level envisaged.

64. To sum up, the foreign exchange requirements of the second five year plan are large. The estimated balance of payments gap is sizeable, both absolutely and in relation to the funds that have so far been forthcoming. All possible avenues have therefore to be explored for securing the required inflow of resources. It is pertinent in this context to stress the fact that the extent to which development programmes can rely upon resources from abroad can hardly be determined in advance. The problem of raising resources—externally and internally—is in fact to be viewed as a whole. Any shortfall in resources to be raised externally must be made good by greater effort at augmenting domestic resources, if the plans for investment are to go forward smoothly. In any case, the accent of policy must necessarily be on maximising export earnings and economising to the utmost on imports.

APPENDIX—I

FINANCING OF THE STATE PLANS—PART 'A' AND 'B' STATES

1956—61
(Rupees in crores.)

	Size of the State Plan	REVENUE ACCOUNT					CAPITAL ACCOUNT				Total resources on revenue & capital accounts (7+11)	Gap in resources @ (2-12)
		Balance from Revenue at existing rates of taxation	Revenue from Additional Taxation	Share of Additional Central Taxation	Interest charges on loans from the public (DEDUCT)	Total (3+4+5—6)	Loans from the public (gross)	Share of small savings	Other receipts (net)*	Total (8+9+10)		
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra	119·0	6·5	8·0	3·2	2·3	15·4	20·0	3·5	0·1	23·6	39·0	80·0
Assam	57·9	9·0	5·0	1·5	..	15·5	..	4·0	(—)2·2	1·8	17·3	40·6
Bihar	194·2	16·2	28·0	6·5	1·7	49·0	15·0	13·5	(—)0·3	28·2	77·2	117·0
Bombay	266·2	32·5	14·0	8·0	5·2	49·3	45·0	41·0	42·0	128·0	177·3	88·9
Madhya Pradesh	123·7	14·0	15·0	3·5	1·2	31·3	10·0	10·0	..	20·0	51·3	72·4
Madras	173·1	34·0	15·0	6·3	4·5	50·8	40·0	10·0	(—)10·6	39·4	90·2	82·9
Orissa	100·0	9·7	8·0	2·4	0·6	19·5	5·0	2·5	0·2	7·7	27·2	72·8
Punjab	126·3	3·2	19·0	2·1	0·6	23·7	5·0	11·0	(—)4·2	11·8	35·5	90·8
Uttar Pradesh	253·1	(—)2·6	46·0	10·3	4·0	49·7	35·0	35·5	(—)10·0	60·5	110·2	142·9
West Bengal	153·7	(—)7·2	14·0	5·3	4·0	8·1	35·0	27·5	(—)6·2	56·3	64·4	89·3
TOTAL	1567·2	115·3	172·0	49·1	24·1	312·3	210·0	158·5	8·8	377·3	689·6	877·6

Hyderabad	100·2	(—)6·8	6·0	3·0	1·7	0·5	15·0	3·5	1·7	20·0	20·7	79·5
Madhya Bharat	67·3	(—)5·8	9·0	1·2	1·1	3·3	10·0	2·5	(—)4·4	8·1	11·4	55·9
Mysore	80·6	(—)11·2	5·0	0·4	2·3	(—)8·1	20·0	2·5	(—)1.1	21·4	13·3	67·3
Pepsu	36·3	1·1	4·0	0·5	..	5·6	..	1·5	3·5	5·0	10·6	25·7
Rajasthan	97·4	(—)5·2	8·0	2·4	1·7	3·5	15·0	5·0	6·3	26·3	29·8	67·6
Saurashtra@	47·7	1·2	5·0	0·2	1·7	4·7	15·0	4·0	1·1	20·1	24·8	22·9
Travancore-Cochin . . .	72·0	8·7	7·0	0·4	1·7	14·4	15·0	2·5	3·3	20·8	35·2	36·8
Jammu & Kashmir. . . .	33·9	0·5	..	..	..	0·5	..	..	(—)13·1	(—)13·1	(—)12·6	46.5
TOTAL	535·4	(—)17·5	44·0	8·1	10·2	24·4	90·0	21·5	(—)2·7	108·8	133·2	402·2
GRAND TOTAL. . .	2102·6	97·8	216·0	57·2	34·3	336·7	300·0	180·0	6·1	486·1	822·8	1279·8

*These represent accumulations in provident funds, recoveries of loans and advances, appropriations from current revenues for reduction or avoidance of debt and miscellaneous capital receipts *minus* committed disbursements on capital account including repayments of loans, payment of compensation to zamindars and jagirdars, etc.

@To be covered by Central assistance, further resources to be raised by the States and from the proceeds of sales of securities held in reserves.

NOTES :—1. The estimates of additional taxation agreed to with the State Governments aggregated to Rs. 166 crores for Part 'A' and 'B' States. In this statement, the estimate for each State has been revised upwards keeping in view the revised target of additional taxation of Rs. 225 crores for all States, the share of Part 'A' and 'B' States being taken at Rs. 216 crores.

2. The above estimate of additional taxation does not take into account the estimated yield of Rs. 31·1 crores from betterment levy which is to be earmarked for repayment of loans to the Centre and would, therefore, not be available for the State Plans. The State-wise break-up of this amount of Rs. 31·1 crores is as follows :—

	(Rs. in crores)
Orissa	1·6
Punjab	10·0
West Bengal	7·0
Pepsu	6·7
Rajasthan	5·8
TOTAL.	31·1

Hyderabad	100·2	(—)6·8	6·0	3·0	1·7	0·5	15·0	3·5	1·7	20·0	20·7	79·5
Madhya Bharat	67·3	(—)5·8	9·0	1·2	1·1	3·3	10·0	2·5	(—)4·4	8·1	11·4	55·9
Mysore	80·6	(—)11·2	5·0	0·4	2·3	(—)8·1	20·0	2·5	(—)1.1	21·4	13·3	67·3
Pepsu	36·3	1·1	4·0	0·5	..	5·6	..	1·5	3·5	5·0	10·6	25·7
Rajasthan	97·4	(—)5·2	8·0	2·4	1·7	3·5	15·0	5·0	6·3	26·3	29·8	67·6
Saurashtra@	47·7	1·2	5·0	0·2	1·7	4·7	15·0	4·0	1·1	20·1	24·8	22·9
Travancore-Cochin	72·0	8·7	7·0	0·4	1·7	14·4	15·0	2·5	3·3	20·8	35·2	36·8
Jammu & Kashmir.	33·9	0·5	..	..	..	0·5	..	..	(—)13·1	(—)13·1	(—)12·6	46.5
TOTAL	535·4	(—)17·5	44·0	8·1	10·2	24·4	90·0	21·5	(—)2·7	108·8	133·2	402·2
GRAND TOTAL.	2102·6	97·8	216·0	57·2	34·3	336·7	300·0	180·0	6·1	486·1	822·8	1279·8

*These represent accumulations in provident funds, recoveries of loans and advances, appropriations from current revenues for reduction or avoidance of debt and miscellaneous capital receipts *minus* committed disbursements on capital account including repayments of loans, payment of compensation to zamindars and jagirdars, etc.

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	(Rs. in crores)
Orissa	1·6
Punjab	10·0
West Bengal	7·0
Pepsu	6·7
Rajasthan	5·8
TOTAL.	31·1

3. It has been assumed that of the total additional taxation of Rs. 225 crores by the Centre during 1956-61, the share of State Governments would be roughly of the order of Rs. 60 crores. For three Part 'B' States *viz.*, Mysore, Saurashtra and Travancore-Cochin, no credit has been taken for the share of Central taxation for the first four years as they are expected to continue to receive revenue gap grants until 1959-60.

4. New loans from the public (gross) to be raised by the the State Governments as agreed to in discussions held with them in July to September, 1955, aggregated to about Rs. 218 crores. The revised target of gross borrowings for all States is now placed at Rs. 300 crores. The State-wise break-up of this target is based on the trend in actual borrowings of each State in recent years.

5. Of the total collections of small savings estimated at Rs. 500 crores for the second plan period, the share of States has been assumed at about Rs. 200 crores on the basis that the States would receive as their share each year 25 per cent. of the average annual collections in 1951-56 and 50 per cent. of the excess above that level. Of Rs. 200 crores, the share of Part 'A' and 'B' States has been taken at Rs. 180 crores.

CHAPTER V

EMPLOYMENT ASPECTS OF THE PLAN

A PLAN for economic development implies the utilisation of available resources in a manner which would maximise the rate of growth of output. This is essentially a long-term task; so is any policy intended to ensure conditions of full employment. Over a sufficiently long period a policy of full employment does not conflict with that of stepping up the rate of development. It is now widely recognised that the problem of unemployment, especially in an under-developed economy like ours, can only be solved after a period of intensive development. Over a short period of five years, however, there may be a degree of conflict as between competing claims of capital formation at a rapid rate and the provision of larger employment. In determining the programme for the next five years, the prime consideration is that at least the deterioration in the unemployment situation should be arrested.

SIZE AND NATURE OF THE PROBLEM

2. The task to be faced in the coming years in the field of creation of employment opportunities is threefold. Firstly, there are the existing unemployed in the urban and rural areas to be provided for. Secondly, it is necessary to provide for the natural increase in the labour force, which is estimated at about 2 million persons a year over the next five years. Lastly, the under-employed in agricultural and household occupations in rural and urban areas should have increased work opportunities. Under the joint family system the lack of employment opportunities used to be reflected mainly in under-employment or disguised unemployment. This system provided a measure of social security against unemployment, however inadequate it might have been. With the spread of education, land reform and the natural desire on the part of the youth for independent means of living, there is now a tendency towards seeking wage employment which brings unemployment more and more into the open.

3. Experience during the first plan has emphasised the need to view the employment situation not only in the aggregate but also

in its distinct urban and rural components. In assessing the size of the problem, as it would develop during the next few years, it is necessary therefore to take into account its magnitude in the urban and rural sectors in different regions of the country. It is necessary further to distinguish the educated unemployed from other unemployed persons.

4. Among difficulties met with in devising appropriate remedies for unemployment are the lack of adequate data on the extent and nature of unemployment, and the manner in which employment responds to different kinds of investment stimuli. Periodic data on unemployment ranging over the economy as a whole are not available except for places served by employment exchanges, the coverage of which is mainly urban. It is, therefore, not possible to state precisely what the magnitude of the problem in different regions is. Data from the exchanges suffer from a number of known limitations. Even so, since the only information on unemployment published at regular intervals is that provided by employment exchanges, the change in the numbers on the live registers may be said to indicate broadly the trends of urban unemployment in the economy. A review of data relating to the first plan period shows that unemployment began to show a marked upward trend when the first plan was half way through. During the first plan period the number on the live registers continued to increase from 3·37 lakhs in March, 1951 to 5·22 lakhs in December, 1953 and further to 7·05 lakhs in March, 1956. These statistics become more meaningful when interpreted in the light of the results of the preliminary survey of urban unemployment undertaken at the suggestion of the Planning Commission by the National Sample Survey. This survey has placed the magnitude of urban unemployment in 1954 at 2·24 millions. It has also sought to establish a rough relationship between the number unemployed and those who remain on the live registers of the exchanges. According to the survey it was estimated that about 25 per cent of the unemployed register themselves with the exchanges. On this basis the magnitude of urban unemployment at present might be of the order of 2·8 millions. This estimate appears to be broadly confirmed by the results of some other surveys recently carried out in urban areas in different parts of the country. Allowing for frictional unemployment, which is inevitable in a growing economy, it is possible to suggest that the backlog of urban unemployment may be of the order of 2·5 millions.

5. To this backlog is to be added the number of new entrants to the urban labour force. It is estimated that in the next five years,

about 3·8 million persons would be added on this account. In arriving at this figure it has been assumed that in the decade 1951-61 urban population would increase by 33 per cent, a rate of urbanisation somewhat higher than for the decade 1931-41 (31 per cent), but lower than the rate for 1941-51 (40 per cent). The rate of urbanisation in 1941-51 was unusually high because of war and partition. It is therefore reasonable to assume that a smaller rate may prevail during 1951-61. Moreover, improvement in rural areas as a result of the operation of the plan and difficulties in securing urban employment experienced in recent years may to some extent check the efflux from rural areas.

6. It is difficult to distinguish unemployment from under-employment in rural areas. Employment opportunities to be provided in these areas have, however, not only to take into account the increased quantum of work and additions to income of a large number of the under-employed, but also the creation of a certain number of whole-time employment opportunities. In this context, a section of agricultural population, namely agricultural workers, especially those who are without land should be specially considered. Surveys of unemployment in rural areas have been recently undertaken in some States. These are yet of a preliminary character, and because of differences in the concepts used a comparative statement for different regions cannot be compiled and national estimates are somewhat hazardous. The only systematic enquiry undertaken recently was the Agricultural Labour Enquiry, according to which in 1950-51 the level of rural unemployment was of the order of 2·8 millions. Recently the National Sample Survey has begun to attempt periodic appraisals of unemployment in urban and rural areas. While its results for the urban population have become available, data in regard to rural areas are not yet available for study and interpretation. It is not possible at present to attempt a quantitative assessment of the change in the structure of employment in rural areas which might have taken place during the past five years. It could, however, be said that since the emphasis in the first plan was on schemes of rural development and since these schemes have on the whole been effectively implemented, rural unemployment is not likely to have increased. In the absence of marked trends in any direction, it might be safe to say that the volume of rural unemployment during the operation of the first plan has not materially changed.

7. As stated earlier, new entrants to the labour force during the next five years have been estimated at 10 millions. Deducting from this number the estimated 3·8 million entrants into the urban labour force, new entrants to the rural labour force in 1956-61 may be

about 6·2 millions. The following table shows the number of job opportunities which may have to be created if unemployment is to be eradicated during the second plan period:

TABLE I

(Figures in millions)

	In urban areas	In rural areas	Total
For new entrants to labour force	3·8	6·2	10·0
For backlog of unemployed	2·5	2·8	5·3
TOTAL	6·3	9·0	15·3

8. The creation of employment opportunities of this order, even if it were possible to bring this about, does not solve the equally pressing problem of under-employment. Here again want of adequate data makes even the formulation of the problem difficult. To provide a suitable guide for the measurement of unemployment and under-employment to agencies which undertake unemployment surveys, a Manual has been recently drawn up by the Central Statistical Organisation. The suggestions made in the Manual have been used in the planning of surveys currently in progress. In regard to other data which are needed to judge the effects on employment of investments in different fields, studies in the Planning Commission are being supplemented by similar studies undertaken on behalf of State Governments during the preparation of the second five year plan. When the results of these investigations become available, it will be possible to give fuller consideration to the regional aspects of the problem of unemployment.

CHOICE OF TECHNIQUES

9. Considering the magnitude of existing unemployment and additions to labour force, as shown in Table I, it would be incorrect to hold out the hope that full employment could be secured by the end of the second plan. As has been pointed out earlier, the goal has to be achieved by a series of planned efforts lasting over a period beyond the second plan. To hasten the process, however, particular attention will have to be paid to maximising the employment potential of projects included in the plan consistent with our long term needs.

10. In the context of an economy with relative abundance of labour, a general bias in favour of comparatively labour intensive techniques is both natural and desirable. Nevertheless, specific investment decisions involving a choice between alternative techniques have to be made in the light of a number of

considerations such as have been set out elsewhere. The area where a conflict in the use of different techniques arises is not as large as is sometimes supposed. In many cases the choice appears to be obvious, dictated purely by technological facts of production. There is no choice, for instance, in the case of heavy industries, where no one would suggest that considerations of size and technology should be set aside to emphasise employment. Again, the need for the setting up of such industries cannot be questioned in view of their place in the larger interests of developing the employment potential of the economy in the long run. In agriculture, except under certain conditions, in the present stage of development the possible economic advantages of mechanisation may be more than offset by the social costs of unemployment that such mechanisation would involve.

11. Construction of roads, housing, railways and the like have an existing pattern of use of machinery which has been evolved over a period of years consistent with the elimination of arduous human labour, which current social values would refuse to accept. This pattern will have to continue during the next five years, although the need to increase the scope for the employment of labour in lieu of machinery is an aspect which should always be borne in mind. In the case of irrigation and power projects the choice is determined partly by technical considerations, and partly by conditions of labour supply in the area, but where such considerations do not prevail, the use of construction machinery has to be viewed against the background of the manpower available in the country and the need for saving the precious foreign exchange resources. The position with regard to the field of transport and communications, other than railways, is somewhat similar.

12. In the short run the stimulation of construction activity is considered to be a solution for unemployment in developed economies. But in India such investment cannot be encouraged beyond a point. Investment in construction tends to be 'lumpy' in character and large displacements of labour have to take place as work nears completion There are, however, advantages accruing as a result of the facilities which construction would provide and these absorb to a large extent the labour employed temporarily in construction work. In regard to persons not so employed such investment involves problems of redeployment of personnel, training etc.

13. It is only when we come to the production of consumer goods that the choice between techniques of production may raise difficult issues. The use of capital intensive techniques irrespective of other considerations involves a double loss in the form of (a) displacement of labour which has in any case to be maintained, and (b) a greater

draft on the scarce resources for investment, particularly foreign exchange resources. The issues involved in this field go to the roots of the problem of economic and social development; some of them are touched upon in the appropriate chapters. The long-term objective of having a rising rate of investment, which cannot be sustained without an adequate level of savings out of current output has to be accepted. It is particularly when the capacity of decentralised production to accumulate surpluses is challanged that the conflict among different desirable objectives becomes a matter of some concern. The surplus generated per person in a comparatively labour intensive technique may be less than in a more advanced technique but the total surplus available per unit of output for capital formation, taking into account the social and economic cost of maintaining those who would otherwise remain unemployed, may perhaps be larger in the case of labour intensive methods. In an underdeveloped economy where the distribution of doles to the unemployed is not practicable, the balance of advantage from the standpoint of equity lies decidedly in favour of labour intensive techniques. From the point of view of development, however, the difficulty in the adoption of such techniques lies in the mobilisation of the available surplus from a large number of smaller units; but this is an organisational problem and requires to be faced. At the same time continued efforts to put traditional techniques on a more efficient basis are necessary. Indeed, though technical developments in such units cannot be spectacular, they can create a substantial demand for new types of tools and equipment and facilitate growth of other industries. Recent studies show that there is enough scope for increasing productivity in small industry without additional capital investment or even greater labour inputs. This requires to be fully exploited. It is only when larger employment opportunities are generated at higher levels of income that the economy will receive a stimulus in the form of improvement in morale of the working population. This is the manner in which we envisage the economy to develop. It is after all the people that are the carriers of progress, even as they are beneficiaries to it.

14. These are some of the considerations which have guided us in the choice of schemes to be included in the plan. The possible effects on employment, direct and indirect, arising from these schemes now require to be set out.

EMPLOYMENT ESTIMATES FOR THE SECOND PLAN

15. Total outlay in the public sector is estimated to be of the order of Rs. 4,800 crores, of which Rs. 3,800 crores represent investment. In addition, investment in the private sector is expected to be of the order of Rs. 2,400 crores. It has been possible to work out the

additional employment likely to be generated by the second five year plan, on the basis of employment data supplied by States and Central Ministries and on the basis of physical targets proposed for the private sector with certain assumptions regarding productivity increases. The results of the study are summarized in the statement below:

TABLE II

(Figures in lakhs)

Estimated Additional Employment	
(i) Construction	21·00*
(ii) Irrigation & Power	0·51
(iii) Railways	2·53
(iv) Other Transport & Communications	1·80
(v) Industries & Minerals	7·50
(vi) Cottage & Small-scale Industries	4·50
(vii) Forestry, Fisheries, N.E.S. and allied schemes	4·13
(viii) Education	3·10
(ix) Health	1·16
(x) Other Social Services	1·42
(xi) Government Services	4·34
TOTAL (i to xi)	51·99
(xii) Plus 'others' including trade and commerce @ 52% of total	27·04
GRAND TOTAL	79·03 or say 80

16. A brief account of the methods used in arriving at these estimates is given in the paragraphs below.

(i) *Construction.*—As has been explained earlier, construction enters into all spheres of developmental effort. The estimate given in the table above under this head brings together the employment during construction phase of all projects such as irrigation and power,

*The detailed break-up of construction employment under different developmental sectors is as follows :—

	Name of Sector	Estimated additional employment in construction
1.	Agriculture & Community Development	2·66
2.	Irrigation & Power	3·72
3.	Industries & Minerals (including cottage & small-scale industries)	4·03
4.	Transport & Communications (including Railways)	1·27
5.	Social Services	6·98
6.	Miscellaneous (including Government service)	2·34
	TOTAL	21·00

roads, railways, buildings, factory buildings, housing and the like. In assessing the employment from the construction component, the level of expenditure scheduled to be incurred in 1955-56 is compared with the expenditure in 1960-61 (the latter assumed at 20 per cent. of the construction expenditure of the second five year plan). For irrigation and power the labour component of the total expenditure is estimated on the basis of studies undertaken by the River Valley Projects Technical Personnel Committee. In case of roads the labour component of the expenditure was available from the Roads Organisation of the Ministry of Transport. These estimates were accepted after discussion with the road engineers of different States. The Ministry of Railways supplied the number of persons required for construction of a given mileage of railway on the basis of their experience of work in different regions. In case of housing the employment norms for a crore of expenditure were provided by the Works, Housing and Supply Ministry and these were accepted with certain modifications after discussions with the State engineers. The same norms were used for housing in the private sector. The employment estimates for construction are likely to err on the high side.

(ii) *Irrigation and Power.*—Employment under this head is for the continuing activity in the field of irrigation and power. This includes maintenance staff on such projects and the personnel required for distributing the benefits accruing out of such projects. The norms for this purpose were worked out by the River Valley Projects Technical Personnel Committee on the basis of a study of the maintenance and operational personnel required on completed projects.

(iii) *Railways.*—The estimate of continuing employment in Railways for maintenance of new lines and for operating them was, again, provided by the Ministry of Railways.

(iv) *Other Transport and Communications.*—This is a composite group consisting of roads and road transport, communications, broadcasting, etc. Part of the new employment in this sector is on maintenance and the rest is on operation. Norms for maintenance employment on roads were settled in consultation with the Roads Organisation. So also were the personnel requirements for road transport worked out. The State Governments in their schemes had supplied data on continuing employment in this sphere. These were used to tally the estimates made available by the Central Ministries. Continuing employment likely to be generated under the schemes of the Communications Ministry was worked out on the basis of the expenditure on the continuing phase shown under the plans of that Ministry.

(v) *Industries and Minerals.*—Employment estimates for the large-scale industries were based on the data supplied to the Licensing Committee. Where such data were not available and physical targets to be achieved under the second five year plan were set, employment estimates were worked out on the basis of latest data in the Census of Manufactures. A 20 per cent allowance was made for increase in productivity. In the case of steel, fertilizers, synthetic petrol, heavy machinery for fabrication of steel plants, and heavy electrical equipment, the estimates furnished by the respective Ministries have been taken into account.

As to mineral development, the present output per person was worked out and after making a 20 per cent allowance for productivity increase and taking into account the production targets to be achieved by 1961, a rough estimate of employment in 1961 was arrived at.

(vi) *Cottage and Small-Scale Industries.*—As for cottage and small-scale industries, the Karve Committee's estimates of about 4.5 lakh full-time jobs have been used. No credit has been taken for fuller jobs mentioned in that Report, since these will provide more work to the under-employed.

(vii) *Forestry, Fisheries, etc.*—With regard to forestry and fisheries, data supplied by the States have been relied upon. For the N.E.S., the employment estimates made by the Community Projects Administration have been used.

(viii to x) *Social Services.*—For Education, Health and other Social Services, data supplied by the States were scrutinised in consultation with the respective Divisions in the Planning Commission, and were suitably adjusted.

(xi) *Government Services.*—As to employment in Government services, estimates of likely increase in non-developmental expenditure on the civil side by 1960-61 over the 1955-56 level were first worked out. On the basis of the average yearly payment per person employed in Government, a rough employment figure was computed.

(xii) *Others.*—Employment estimate for 'others including trade, commerce and other services' is much less firm. This has been based on the occupational pattern revealed in the 1951 Census. The group 'others' comprises commerce, transport (other than railways), storage, warehousing and miscellaneous services not elsewhere specified and general labourers*. According to the 1951 Census, these groups provide employment for 12·876 millions of the working force. The total of these groups, when compared to persons occupied in activities except cultivation consisting of primary occupations, mining and quarrying, industry, railway transport, construction and utilities, health, education, public administration and communications which account for 22·447 millions, gives a ratio of 0·52. It is assumed that the same ratio would prevail in 1961. The omission of purely agricultural occupations in working out the employment ratio is justified on the assumption that in the second five year plan it is intended that additional employment should be largely in the non-agricultural sector. With increase in production in the agricultural sector, persons already in the category 'others including trade and commerce' will find fuller employment by handling greater volume of work from their existing clients. The ratio 1·52 is likely to be considered as conservative.

17. These estimates have to be judged in the context of the objective of the second five year plan of providing employment opportunities outside agriculture on an adequate scale. Even if existing unemployment were to remain unchanged, 10 million jobs require to be created for this purpose. But, of the 10 million new entrants to the labour force a large number will be among families depending on land. In regard to such persons, as has been pointed out earlier, the quantum of additional work has to be measured not in terms of jobs, but in the form of additional income accruing to them. Further, on account of irrigation provided during the plan period, it is reasonable to assume that of the additional acreage irrigated, a part will provide opportunities of work on a full-time basis according to rural standards. There are also allied schemes of reclamation of land by manual labour, schemes of Central Tractor Organisation, etc., and expansion and development schemes of plantations, pepper and horticulture. These put together are estimated to provide employment to about 1·6 million new entrants to the labour force in rural areas. The balance of the irrigation facilities will account for relieving under-employment in agricultural pursuits. In addition, one has to take into account the fuller employment opportunities provided by schemes under the village and small industries programme. Viewed in this light the results of the plan in terms of employment are likely to be significant, but the problem of unemployment will continue to require a great deal of attention during the operation of the second plan.

*The sub-group 'general labourers' of the 1951 Census Occupational classification has been left out because it is not possible to apportion it properly between the two boards groups.

18. It will be useful at this stage to compare the overall employment content of the first and second five year plans. Studies made in the Commission show that direct employment generated during the first plan period in the public and private sectors was of the order of 4·5 million. This estimate, however, excludes additional employment in fields such as trade, commerce, etc. With almost double the size of the development effort, the additional target of employment during the second plan is not likely to be much higher. This is because the step up in the developmental expenditure during the second plan period is not expected to be much larger than that achieved during the first plan period. The reason is that the plan expenditure in the public sector in 1955-56 has been of the order of Rs. 600-620 crores as against the developmental outlay of Rs. 224 crores in 1950-51. In the last year of the first plan, outlay in the public sector is expected to be higher than the corresponding amount in 1950-51, by about Rs. 400 crores. It is likely that as compared to the last year of the first plan, the increase in the developmental outlay in the last year of the second plan will be of the order of Rs. 600 crores. Besides, it is clear from the pattern of investment described in Chapter III that a much larger expenditure is contemplated on transport and heavy industries which have in the short term a relatively smaller employment content.

PROGRAMMES FOR SPECIAL AREAS

19. It is not enough to assess the employment potential of the plan in overall terms. Regional distribution of employment opportunities will have to be attempted. The main difficulty in this assessment is that regional details regarding the central plans and those of industries in the private sector in terms of employment are not yet worked out. But some of the general considerations regarding the direction in which efforts at enlarging employment opportunities in special areas will have to be made, are discussed below.

20. An aspect of employment which deserves special mention is the problem of areas of acute unemployment and under-employment. In some areas chronic under-employment exists and earnings are too low even with reference to average standards for the country. Such situations are not unknown in some of the more developed countries. For instance, in the United States, there are pockets where unemployment is substantially higher as compared to the general level of unemployment in the economy as a whole. Special programmes were taken up in the United Kingdom for depressed areas. Experience of the

measures taken in these countries indicates that one of the important pre-requisites for framing policies is a thorough study of such pockets. While the recent studies give some indication of the overall magnitude of the problem, fuller data are needed for different areas, regarding for instance the availability of local skills, the material resources, facilities available, urgent requirements of the community etc. Such surveys should be undertaken in different States and if some special schemes are drawn up for depressed areas by local communities, it may be possible to give them the necessary assistance. The important point is that the foundation of the programmes to increase opportunities available for employment is necessarily based on the interest and initiative of the local people and communities. Cooperative effort by local communities, private enterprise and the State and Central Governments can make possible a rapid improvement in the levels of living in such areas. The role that local leadership can play in the formulation and implementation of suitable programmes in such areas is obvious.

21. For reasons stated earlier, the directions in which public policy should proceed cannot be precisely envisaged at this stage. Conditions of such areas, as are relatively poor in natural resources, may in some cases necessitate planned measures for transferring surplus labour to other parts. But generally it may be that when large numbers of workers move to areas other than their own complications are likely to arise. As such, bringing gainful work to the doors of people in distress may be a better way of dealing with their problems. Migration in suitable cases, however, should not be ruled out. Government can increase employment opportunities in such areas by (i) giving priority to them in the matter of location of projects in the public sector unless other considerations justify the location of such projects elsewhere, (ii) providing loans to local businessmen and industrialists at relatively favourable terms, (iii) reserving a certain percentage of contracts in the public sector for persons belonging to these areas, and (iv) adoption of other fiscal measures to induce inflow of private capital. Concrete steps to be taken in problem areas of this kind will necessarily have to await fuller investigations.

EDUCATED UNEMPLOYED

22. Unemployment among the educated has to be viewed as a part of general unemployment in the economy. The reason why a country like ours finds a sizeable number of unemployed, and among them the educated, is lack of sufficient development over a number of years to absorb entrants to the labour force. Educated unemployment, however, assumes a special significance mainly because of the following factors: (a) rightly or wrongly there is an

impression among the public that investment in education by an individual should yield for him a return in terms of a remunerative job; (b) an educated person naturally looks for a job suited to the particular type of education he has received with the result that there has been an abundance of supply in regard to crtain occupations and professions and shortage in others, epending on the development of education in the country. Then, again, there are regional preferences shown by the educated which complicate the problem; and (c) there is a general disinclination among the educated to look for employments other than office jobs.

23. To formulate programmes specially designed to alleviate unemployment among the educated, a Study Group was set up in September, 1955. The Group has recently submitted its report. It has estimated in the next 5 years, 14:5 lakhs of educated persons will be added to the labour force. The Group has efined persons with and above matriculation and equivalent education standard as 'educated'. On the basis of the report on a preliminary enquiry on urban unemployment undertaken by the Directorate of National Sample Survey, the Group has placed the number of educated unemployed at 5·5 lakhs. The estimates made by the Group are corroborated by certain other surveys independently undertaken in universities which have been published after the report of the Study Group. The problem to be tackled during the next five years, if educated unemployment is to be eradicated, is the creation of about 2 million jobs for this group. As against this task, the Group has estimated that the Central and State Government projects included in the second five year plan are likely to yield about a million jobs. Another 2·4 lakhs of educated persons will secure employment by replacement of persons who would retire in the next 5 years. In addition, the private sector will absorb about 2 lakhs of persons, leaving the size of the problem substantially unchanged during the period of the plan. The Group has emphasized the regional aspect of the problem and has suggested that in some States like Travancore-Cochin and West Bengal, the situation requires to be carefully watched.

24. According to the Group the question of the educated unemployed cannot be viewed in purely quantitative terms. It is perhaps enough to say that a certain number of jobs are required for unskilled or uneducated categories, but when it comes to making a similar statement with regard to the existing educated unemployed it is necessary to be more specific about the kind of education for which job opportunities are required to be created. The regional and occupational aspects associated with the problem have to be considered separately. Regional immobility among the educated,

except at fairly high levels, comes in the way of the fuller utilisation of such personnel. Instances are not wanting where surpluses in certain categories of educated and trained personnel are reported at some employment exchanges, while these very categories are in short supply at others. In such cases adjustment of supply with demand becomes, to a considerable extent, a question of providing suitable incentives and opportunities. The other aspect, namely the occupational, requires considerable advance planning, both in assessing the demand for such personnel and in making arrangements for future supply.

25. Against this background of the magnitude and character of the problem, the Group has suggested certain fields as capable of providing employment opportunities for the educated. The main criterion laid down by the Group for selection of schemes is that these are urgently needed for the envisaged institutional reorientation of production relations and/or that they deserve higher priority in connection with economic development in general. In the former category of schemes the Group has included strengthening of co-operative organisations in the spheres of production and distribution. Their importance in the context of the social order visualised in the near future needs no emphasis. There seems to be ample scope for expanding organisational, administrative and supervisory training. Production and marketing of goods in small industries, it is suggested, should be taken up by the Cooperatives. The scope for absorption of the educated in actual production in village industries is restricted mainly because of unemployment and under-employment among artisans already engaged in production in this sector. Heavy industries on the other hand will demand technical personnel of a different kind. Between these two lies a large area of small industries which the Group considers appropriate for the purpose of providing employment opportunities for the educated. It has divided industries of this kind into three categories:

(i) manufacturing industries, namely, hand-tools and small tools, sports goods, furniture, etc.;

(ii) feeder industries like foundries, forge shops, tool and gauge making shops, automobile shops, machinery parts, electroplating and galvanising shops and so on;

(iii) servicing industries like repair shops for automobiles, bicycles and other machinery.

26. Another group of schemes where it is possible to absorb the educated is Cooperative Goods Transport. The programme suggested in this field is the setting up of 1200 intra-city operational units with 5 vehicles on an average and another 240 inter-city opera-

tional cooperatives with an average fleet of 25 vehicles. The Group has also recommended the setting up of orientation camps which would help remove the disinclination on the part of the educated to undertake manual work and to create in them self-confidence and a healthy outlook. Such camps, according to the Group, will assist in discovering the vocational aptitude of the youth and if a liaison is established with prospective employers, it will be possible for the latter to pick up educated persons from the camp for suitable employment.

27. The schemes proposed by the Study Group involve a gross outlay of Rs. 130 crores and are expected to provide additional employment to the tune of 2·35 lakhs of persons. The break-up of the total outlay, recoveries and the employment potential are given in the following table:

TABLE III

(Rs. crores)

Schemes	Estimated gross outlay	Recoveries	Net Cost	Employment potential (numbers)
Small Scale Industries	84·0	58·3	25·7	1,50,000
Cooperative Goods Transport	20·0	18·0	2·0	32,000
Schemes of State Govts.	19·0	9·5	9·5	53,000
Work and Orientation Camps	7·1	Nil.	7·1	Nil.
TOTAL	130·1	85·8	44·3	2,35,000

Another set of recommendations which the Group has made for removing the hardship felt by the educated youth in having to wait indefinitely for securing jobs are: (i) improvement in the present system of recruitment to Government posts; (ii) provision of hostels; and (iii) establishment of university employment bureaux.

28. The recommendations of the Study Group require to be implemented on a pilot basis in order to watch the reactions of the educated to such schemes. Suitable provision has been made for this purpose and the Group has been asked to work out the details of these pilot schemes. If the response is adequate, larger provisions for more extensive experiment in this field could be made available.

29. Finally, it should be observed that the problem of educated unemployed calls for long-term measures. *Ad hoc* measures designed to alleviate unemployment in the short run can hardly produce lasting results. Judged from past experience, the educated remained out of gainful occupations in part due to the fact that in its evolution the system of education has not been related sufficiently to our needs of economic development. This also explains to some

extent why in the midst of unemployment among the educated shortages sometimes arise in the case of certain categories of educated personnel. The expansion of education and training facilities should, therefore, be closely linked to the future requirements of the economy and the growth of educational facilities in directions which may accentuate further the problem of educated unemployed should be avoided. There should be systematic examination of openings for educated and trained persons in different categories and the necessary information should be widely disseminated through programmes of educational and vocational counselling, university employment bureaux, etc. Development of the cooperative sector in the rural economy and of small-scale and medium industries will offer growing opportunities for absorbing educated persons in gainful and productive work. Changes in the system of education should keep in view these and other lines of development envisaged in the second five year plan, so that progressively those elements in the system of education which facilitate absorption and stimulate the expansion of employment opportunities are strengthened.

30. The foregoing analysis shows that with the effort envisaged during the second five year plan, additional employment opportunities will be provided to fresh entrants to the labour force. There will be a small addition to the working force engaged in agriculture, but as a result of the large programmes of agriculture, irrigation and rural community development which are to be undertaken, underemployment will be reduced and, after allowing for additions to the working force in agriculture, income per occupied person is likely to increase by about 17 per cent. In the field of village and small-scale industries the estimates given in this chapter take account only of work opportunities which are in the nature of full-time jobs, so that there will in addition be some measure of relief for under-employed artisans. Educated unemployed persons will also benefit as a result of the implementation of schemes in the plan as well as from those which are specially undertaken with a view to their training and orientation in various occupations.

31. These conclusions suggest that in spite of concerted efforts for the mobilisation of available resources and their optimum utilisation as proposed in the second plan, the impact on the two-fold problem of unemployment and under-employment will not be as large as the situation demands. There is at the same time a limit to the amount of investment which can be put through over the period of the plan. In the light of the emphasis placed on heavy industries, the scope for varying the pattern of investment is only marginal in character and any further adjustment of priorities may not yield much larger results in terms of employment. At the same

time it is not always possible, in the existing state of knowledge, to take into account all the ramifications on employment of investments in heavy industries of the type envisaged in the plan. In this connection, it is necessary to stress the importance of implementing the plan so as to maximise its production and employment potential by coordinating complementary investments, planning the use of resources such as water, electricity, etc. which are created by the operation of the plan ensuring that the services of newly created institutions and agencies are brought effectively within the reach of those whom they are intended to benefit. As the plan proceeds, there should be continuous assessment of the additional employment obtained through its operation, so that suitable steps can be taken to ensure that the targets of employment are realised.

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