SECOND
FIVE YEAR PLAN

The Framework

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PREFACE

The First Five Year Plan completes its course in March next year. This Plan, by suggesting a fundamental approach to the solution of the social and economic problems before the country has laid the foundations for a bolder plan in the second five year period.

The draft outline for the Second Plan has been prepared by Prof. P. C. Mahalanobis. It is supported by two other working papers, namely, "The Second Five Year Plan—A Tentative Framework" prepared jointly by the Economic Division, Ministry of Finance and the Planning Commission, and "a Memorandum on the Basic Considerations Relating to the Plan Frame", prepared by the Panel of Economists, Planning Commission. Prof. B. R. Shenoy, a member of the 'Panel' has, however, expressed his disagreement with some of the views of his colleagues in the Panel and submitted a separate 'Note of Dissent'.

The basic approach to the 'plan frame' as embodied in the first three papers, mentioned above, has been accepted by the National Development Council which has also expressed agreement with the targets set out in the draft.

The 'Council' decided that the draft outline of the Plan should be given the widest possible publicity so as to facilitate a discussion on the overall objectives of the plan and the means of attaining them.

The present volume is intended to serve this aim. It is divided into 4 parts: Part I gives the complete text of the Plan Frame by Prof. P. C. Mahalanobis; Part II, the Working Paper prepared by the Economic Division of the Ministry of Finance and the Planning Commission; Part III, the Memorandum by the Panel of Economists and Part IV, the Note of Dissent by Prof. Shenoy.

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PART I

DRAFT PLAN-FRAME

1. PREFACE

1.1 The paper dated March 17, 1955, was prepared as a *draft of a "draft Plan-frame"* and has been circulated as such and is subject to revision by the Planning Commission.

2 The general objectives and policy and administrative questions (which are discussed in Chapters One and Six) can be considered on their own merits.

3.1 The quantitative estimates were worked out with two chief aims in view, namely,

(a) an increase in national income of 5 per cent per year; and

(b) creation of new employment by way of gainful occupation or jobs for 11 million persons over the Plan period.

3.2 Certain basic allocations of investment were made between investment goods and consumer goods industries. It is necessary to maintain this general pattern of investments but there is scope for adjustments in details.

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3.3 The draft Plan-frame is, therefore, not rigid and can be modified; but there are inter-relations between its different parts so that a change of the target in one item may require consequential changes in other items.

4.1 Background information relating to the physical targets and financial estimates (Chapters Two, Three, Four and Five) will be found in the accompanying paper prepared jointly by the Economic Division of the Planning Commission, the Economic Division of the Ministry of Finance, the Central Statistical Organization, and the Indian Statistical Institute.

4.2 The draft of the draft Plan-frame and the above joint paper are consistent with each other but are not identical.

4.3 The Report of the Panel of Economists dated April 10, 1955 has reference to both the above papers.

5.1 Within the general pattern of investments (explained in para 3) an attempt was made to fit in the physical targets on the basis of information that was readily available in the Planning Commission and in the Ministries concerned.

5.2 The draft Plan-frame does not attempt to go into details. In some cases, information was not available; and time was short. Also, it was not necessary to make the list of targets exhaustive or complete in every respect because, as explained in para 3, there is scope for adjustments in details without disturbing the main structure of the Plan-frame.

6.1 The targets are sometimes given as equivalent aggregates within which there can be substitution of components.

6.2 Estimates of financial outlay are to be taken as *net*.

6.3 Construction costs are to be taken as the direct costs of materials, of labour, and of essential technical supervision. It is assumed that excessive margins for intermediaries and other forms of waste will be eliminated.

6.4 It is assumed that promotional and field agencies and services would be integrated and co-ordinated to prevent unnecessary duplication.

6.5 It is assumed that non-official public organizations would be used wherever possible to decrease overhead expenses and stimulate public interest and participation in the fulfilment of the Plan.

7.1 If the basic approach of the present draft is approved, it is suggested that the paper should be revised as necessary and then issued in the revised form as the draft Plan-frame for the formulation of projects.

7.2 After the individual projects are received, further changes and adjustments should be made as necessary to get ready, as quickly as possible, a definitive plan which would be internally consistent and would be capable of attaining the desired objectives.

2. EXPLANATORY NOTE

1.1 *Introduction.*—The Second Five Year Plan is due to begin on April 1, 1956. The approach in the Second Five Year Plan is to take a perspective view of the development over a long period of years, and at the same time to solve immediate problems like unemployment as quickly as possible. Planning would be, therefore, flexible and would always keep a wide time horizon in view; and at the same time detailed annual plans would be prepared and necessary adjustments made at shorter intervals in the light of experience.

1.2 Proper attention must be given to the physical aspects of the Second Five Year Plan. The requirements of each project must be estimated in real terms at the stage of planning and must be forthcoming in right quantities at the right time at the stage of implementation of the project. Also, the products and services resulting from the completion of a project must be fully and promptly utilized to further the execution of other projects and the progress of the plan as a whole.

1.3 A plan in a mixed economy must be comprehensive and cover both the public and the private sector. To achieve a balanced growth, the activities of the private sector must conform in a general way to the programme of production of the plan as a whole. In an expanding economy the private sector would have an assured market which would facilitate decisions by reducing risks and uncertanties. Also, the over-all programme would be laid down in broad aggregates so that there would be wide scope for adjustments in details at the discretion of the private sector.

1.4 The physical targets of production must also be balanced in terms of money. Incomes are generated in the very process of production; and supplies are utilized through market operations. Planning requires that aggregate incomes should be balanced with expenditure, savings should match investments, and the supply and demand of individual goods and services should be balanced in terms of money so as to avoid any inflationary rise of prices or undesirable shifts in prices. Physical and financial planning are different aspects of the same reality.

2.1 *Plan-frame.*—The enclosed paper contains chapters on main aims and objectives; provisional targets of production; investment and development expenditure; expected changes in employment and income; finance and foreign trade; and planning organization and administration to supply a tentative framework for the formulation of the Second Five Year Plan.

2.2 It is requested that the Central Ministers, the State Governments, and other project-making authorities should use the provisional figures given in the paper as a general Plan-frame for the formulation of schemes and projects taking care to make estimates in both physical and financial terms, and to forward them to the Planning Commission as they become ready.

2.3 When the individual schemes and projects have been received in the Planning Commission, the aggregate balances would be examined and adjusted as necessary until an integrated plan is evolved which will be internally consistent and balanced in both physical and financial terms. Estimates of demand and supply are bound to be approximate to begin with; and would have to be worked and re-worked to secure a proper balance.

2.4 It is recognized that while projects are being prepared there would be need of a two way flow of information as well as of consultations between project-making bodies and the Planning Commission. The present recommendations would supply the initial base for such consultations and discussions.

3.1 *Time programme.*—The programme for the first year (April 1956-March 1957) of the Second Five Year Plan must be completed by October 1955. This first year's programme would contain much carry-over from the First Five Year Plan and some new items for which projects are ready or are in an advanced state of preparation. It is requested that projects for 1956-57 (including the carry-over from the First Five Year Plan) should be sent to the Planning Commission as soon as possible.

3.2 The Second Five Year Plan must be ready (in outline form) by March 1956. Projects for the remaining period of the Second Five Year Plan should, therefore, be sent to the Planning Commission as they become ready.

4.1 *Prescribed form for projects.*—Information on projects should be given in the form to be issued separately.

4.2 Some of the projects would have to be submitted necessarily in a general form at the present stage and working details would be prepared after it is decided that they would be included in the Plan. Nevertheless, it is essential that preliminary information should be given in the prescribed form even if the estimates are of an approximate nature because a technical examination of the projects would not be possible in the absence of such information.

4.3 The Planning Commission would be glad to supply further information in this connection and help in the preparation of schemes and projects.

3. GENERAL AIMS AND OBJECTIVES

1.1 *The First Five Year Plan.*—At the beginning of the First Five Year Plan the country was still dislocated by war and partition. There was shortage of food and raw materials. There were signs of inflationary pressures after hostilities had started in Korea. In this situation it is understandable that the targets of the First Five Year Plan were kept modest. Judged in this context, the progress achieved so far may be regarded as satisfactory.

1.2 There are, however, disquieting features. Agricultural prices are declining. Unemployment, especially in urban areas, is increasing. Even the modest expenditure targets in the First Five Year Plan have not been fully achieved on account of delays in preparing projects, inadequate administrative organisation and lack of sufficient facilities to give training to technical personnel.

2.1 *The need of a bold plan.*—The population of India is increasing roughly at the rate of 4.5 millions per year. With a proportion of about 40 per cent in the labour force, about 1.8 millions of persons enter the labour force every year. In addition, a large number of persons in urban areas are without employment and a great deal of under-employment exists in villages. Planning must be bold enough to provide new work for about 1.8 million new entrants into the working force every year and also to offer more work to the large number of persons who are without jobs or who are under-employed at present.

2.2 The level of living is extremely low. Expenditure on consumer goods per person is about Rs. 22 per month of which about Rs. 13 is spent in cash and about Rs. 9 is the value of consumption of home-grown food and home-made articles. Housing is primitive in villages and extremely short in urban areas. The supply of nutritive foods is meagre although nearly two-thirds of the total expenditure is spent on food items. The expenditure on education per person is only about four annas, and on health less than seven annas per month.

2.3 The above estimates are for all classes taken together. The position of the poorer section is much worse. Half the population of India or 185 millions of persons spend less than Rs. 13 per month on consumer goods and possibly half of this amount is consumed in kind or in the form of home-grown food and home-made articles. Of children in the school-going age, less than half attend at the primary stage, and less than one-fifth at the secondary stage. There is probably less than one qualified physician per 30,000 inhabitants in the villages.

3.1 *General objectives of the Second Five Year Plan.*—There is a large pool of idle man-power, and many are without jobs; also about 1.8 millions of persons would be added to the working force every year. The country has large resources of water for hydro-electric and irrigation projects; coal, iron ore and other important minerals; forests, fertile land and cattle. The aim of planning must be to utilize these resources to increase rapidly the level of production and thus of national income.

3.2 Conditions are favourable in many ways. There is economic stability and confidence in the Government. Unemployed man-power and unexploited resources can be brought together to increase both consumption and investment simultaneously. India's prestige is high at the international level. Finally the Congress Party and the Government have decided that the time has come for economic development on a socialistic pattern.

3.3 The Second Five Year Plan is, therefore, being formulated with the following objectives in view:

(1) to attain a rapid growth of the national economy by increasing the scope and importance of the public sector and in this way to advance to a socialist pattern of society;

(2) to develop basic heavy industries for the manufacture of producer goods to strengthen the foundations of economic independence;

(3) to increase the production of consumer goods as much as possible through the household or hand industries and to provide an adequate market for the products;

(4) to develop factory production of consumer goods in a way not competitive with hand industries;

(5) to increase productivity in agriculture and to speed up agrarian reforms with an equitable distribution of land to peasant cultivators so as to stimulate the increase of agricultural production and of purchasing power in rural areas;

(6) to provide better housing, more health services and greater opportunities for education especially for the poorer sections of the population;

(7) to liquidate unemployment as quickly as possible and within a period not exceeding ten years;

(8) and as the result of such measures, to increase national income by about 25 per cent over the Plan period, and achieve a more equitable distribution of income.

3.4 The basic strategy would be to increase purchasing power through investments in heavy industries in the public sector and through expenditure on health, education, and social services; and to meet the increasing demand for consumer goods by a planned supply of such goods so that there would be no undesirable inflationary pressures. Planning would be thus essentially a feed-back process of matching a continuously increasing (planned) demand by a continuously increasing (planned) production giving rise to a steadily expanding economy.

4.1 *Heavy Industries.*—In the long run, the rate of industrialization and the growth of national economy would depend on the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals, and the heavy industries generally which would increase the capacity for capital formation. One important aim is to make India independent, as quickly as possible, of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industries must, therefore, be expanded with all possible speed.

4.2 The new producer goods industries would be developed mainly in the public sector. The private sector would continue to play an important part in the development of basic industries like cement, chemicals, etc.

4.3 The heavy industries being capital intensive would, however, give relatively little scope for employment; and would also generate a large demand for consumer goods which they themselves would not be able to supply.

5.1 *Household and hand industries.*—The increasing purchasing power and consequential demand for consumer goods must be met by increasing the supply of such goods as much as possible through the expansion of household or hand production. This would also quickly generate a large volume of work all over the country.

5.2 Construction work (roads, houses, irrigation and flood control projects, etc.) by hand would also be increased which would create a good deal of employment and generate demand for consumer goods.

5.3 The greater the marketable surplus of consumer goods in the household or hand industries the greater will be the possibilities of investments in heavy industries without any fear of inflation.

5.4 By expanding the household and hand-industries and construction work, the aggregate national consumption would increase continually. Also, relatively more employment would be created among the poorer sections of the people so that the greater portion of the increase in income would go to them.

6.1 *Factory production of consumer goods.*—The production of consumer goods in factories requires heavy investment of capital per engaged person and in many cases competes with the household or hand industries. Until unemployment is liquidated or brought under control, it is necessary to prevent competition between factories and household or hand industries by not permitting investments to be made in such consumer goods factories as would prevent expansion or lead to a shrinkage of employment in the hand industries.

6.2 In the immediate future the factory production of consumer goods would be expanded (where it is not competitive with hand industries) to increase the supply of essential goods (like anti-biotics, fine drugs, etc.) or of goods for export to earn foreign exchange.

6.3 It is recognized that the price of hand-made goods would be often higher than the price of factory-made goods of comparable quality. Appropriate excise duties (which would be selective) would be imposed on factory products to maintain desired price parities with hand-made goods in such cases.

6.4 Once mass unemployment has gone, the aim would be to provide cheap power and small machines to the household sector and hand industries to increase productivity per worker and hence the total national product. At this stage the factory production of consumer goods would also be increased.

7.1 *Agriculture and allied pursuits.*—The fixation of ceilings and procedural arrangements for the redistribution of land to peasant cultivators must be decided at an early date in each State in accordance with general principles and standards settled on an all-India basis, and the redistribution must be completed by 1958. This would make visible important structural changes in the economy resulting in stimulation of agricultural production, provision of a large market for the growing output of industry and handicrafts; and would also transfer a part of the national income from recipients who use it largely for luxurious consumption to recipients who will use it for productive purposes and for raising their low standard of life.

7.2 The National Extension Service Blocks (and Community Projects where possible) would be extended all over the country to help and speed up the improvement of living conditions in rural areas.

7.3 Because of the urgent need of increasing the production of foodstuffs and raw materials, the highest priority would be given to the setting up of a State Bank as recommended in the Report of the Rural Credit Survey Committee, for the supply of agricultural credit.

7.4 The same or an associated system would be used for the supply of credit, raw materials, and marketing facilities to the house-hold and hand industries through an organization of co-operatives with the support (or the direct participation or partnership) of the Government.

7.5 As an increase in the caloric value is not enough for a balanced diet, concerted efforts must be made to increase the supply of food of higher nutritive and protective value such as fruits and vegetables, milk and milk products, eggs, fish, meat, etc.

7.6 Continuing efforts must be made to increase the production of milk products by improving the quality of cattle through the introduction of better breeds, by increasing the production of fodder crops and cattle feed, and by providing better veterinary services by increasing the number of trained veterinary surgeons and veterinary assistants.

8 *Health.*—There must be a rapid increase in the care of health. A national health service would be established in the rural areas with paid health assistants in charge of a group of villages who would work in contact with fully trained physicians. The number of dispensaries and hospitals and facilities for medical training would be increased in urban areas.

9.1 *Education.*—There must be a rapid increase in literacy, improvement in the pay of teachers and better organization of education at all levels.

9.2 On the basis of merit, able students, at all levels and in increasing numbers, must be provided with adequate living and educational expenses to enable them to receive education upto the highest standard according to capacity without regard to sex, creed, caste, or social status of the parents. Special educational scholarships and facilities must also be provided for women and backward groups and communities.

10.1 *Social security and welfare.*—Existing social security schemes such as Employees' State Insurance and Provident Fund schemes would be expanded. A scheme for unemployment benefit in the form of paid attendance at training centres with placement facilities would be introduced in urban areas.

10.2 There must be increasing provision for the social welfare of children (foundling homes, creches, nursery schools, health and recreation centres, etc.), of women (houses for widows, destitute and deserted women; maternity, health and family planning centres), of juvenile delinquents (remand homes, schools, after-care hostels, etc.) and of the handicapped (homes, schools and workshops for the blind, the deaf and the dumb, the crippled, and the mentally deficient or ill, and homes for the aged and the infirm).

11 *Sports and cultural pursuits.*—Increasing facilities must be provided for sports and health activities, educational and cultural broadcast and cinema; and the promotion of literature, music, drama, art and other cultural pursuits.

12 *Housing.*—Better housing must be provided especially for factory workers and poorer sections of the people in urban areas.

13 *Social overheads.*—Expenditure on housing, health, education, social security and welfare, sports and cultural pursuits, and housing would necessarily increase purchasing power and create additional demand for consumer goods which must be met by increasing the production of additional consumer goods through household and hand industries in the first instance.

14.1 *Balanced development and controls.*—With the stepping up of production of both producer and consumer goods, it would be necessary to provide for adequate increases in the supply of electricity and fuels, irrigation, transport and communication. Proper balances must be maintained between different sectors so that production is not hampered by bottlenecks.

14.2 The aim of planning would be to avoid shortages giving rise to inflationary pressures on one hand and over-production with falling prices on the other hand. In the case of falling prices, especially of consumer goods, the demand would be stimulated promptly by increasing purchasing power through investments in the public sector and through expenditure on social services and by open market operations by the Government.

14.3 The Government would acquire and keep adequate reserves of foodgrains and important raw materials produced by agriculture to provide against emergencies of short crops in bad years and to maintain prices profitable to peasants in years of exceptionally plentiful crops. This would maintain a minimum level of peasant incomes, stimulate production, and promote the welfare of both peasants and the working class in urban areas.

14.4 Shortages may, however, develop in the short run which would be dealt with as they arise by appropriate methods such as Government intervention in the market, Government trading, physical controls, rationing and similar measures. Also, the production programme would be adjusted as necessary to restore equilibrium between supply and demand as quickly as possible.

14.5 Rationing of foodgrains, clothing and similar essential commodities would be avoided. Control over consumption. when necessary, would be related to the shortages of specific physical resources.

15 *Regional development.*—Special attention must be given to regional development to reduce disparities in economic opportunities and the level of life between different States.

16.1 *Technical training and scientific research.*—A bold plan will require a rapidly increasing technical staff to prepare the various projects as well as to implement them. Training facilities must be expanded sufficiently quickly to turn out technical and scientific personnel in adequate numbers at all levels.

16.2 Scientific and technological research would be expanded and oriented to serve the needs of national development in an effective manner. The National Laboratories, Universities and other scientific institutions and organizations must undertake co-ordinated researches in accordance with national needs.

16.3 Fundamental research as well as training in research must also be encouraged at the same time to foster the accumulation of basic knowledge and skill for the expansion of applied and technological research.

16.4 The survey of natural resources, especially prospecting for oil and minerals, must be greatly and rapidly increased through State Organizations.

17.1 *Expansion of the public sector.*—Key industries would be established and developed in the public sector generally in accordance with the Industrial Policy Declaration of 1948 as interpreted in December 1954. The Government would also take up the factory production of certain consumer goods which are of strategic importance for the growth of the national economy.

17.2 The public sector must be expanded rapidly and relatively faster than the private sector for steady advance to a socialist pattern of economy. In order to make available large capital resources for investment and national development and to facilitate the implementation of the Plan, the Government will be prepared to enter into such activities as banking, insurance, foreign trade or internal trade in selected commodities.

17.3 The Government would also promote enterprises in partnership with the private sector so that, although the Government would hold a controlling share, initiative can be left to private management subject to the policy decisions by the Government.

18.1 *The private sector.*—A large majority of the population would be engaged in household production in agriculture, in hand industries and in various services which would continue to remain private.

18.2 As the planned demand would have to be matched by the planned production, it would be necessary for the private sector to conform in a general way to the overall programme of production as provided in the Plan. The private sector would be helped by the Government with the supply of credit, raw materials, and marketing facilities to undertake production in accordance with the Plan.

18.3 Inducements (such as tax exemption or preferential permission for capital issue) would be given to channel the profits of the private sector into desirable forms of investments in both private and public sectors or in Government bonds and securities.

18.4 The private sector would enjoy the advantages of an assured and a growing market in an expanding economy, and thus of reduced risks and uncertainties.

19.1 *Finance and foreign exchange.*—Large financial resources would be required for the Second Plan. A small portion would come from sterling balances or foreign loans and aid, and the bulk of the resources must be found from within the domestic economy.

19.2 The tax system would be directed to collect an increasing part of the growing national income in order to permit greater capital formation in the public sector and to finance an expansion of the social services.

19.3 The public sector would be extended to industrial and commercial activities where necessary for raising resources for public purposes.

19.4 Deficit financing would be undertaken on the scale necessary to bring about the greatest possible expansion of production without introducing permanent and all-embracing rationing of essential commodities.

19.5 Conspicuous consumption would be discouraged by graduated excise duties; and a more equitable distribution of income would be assured by taxes on property and unearned income.

19.6 Excise duties would be levied to raise additional resources and also to maintain desired price parities between different sectors.

19.7 Steps could be taken to promote exports; and the import of non-essential and luxury goods would be discouraged by heavy duties in order to release foreign exchange resources for more urgent needs.

4. TARGETS OF PRODUCTION

1.1 The targets of production (mostly in physical quantities) of some important items are shown in Table (1). The physical unit is given in col. (2) and actual production for 1950-51 and 1953-54 in cols. (3) and (4) respectively. Estimates for 1955-56 and planned target for 1960-61 together with the estimated increase (in percentage) during the Plan period are shown in cols. (5). (6) and (7) respectively.

1.2 The above targets are provisional. Estimates of requirements and likely supplies have been examined in a general way on available information. The next task is to carry out a detailed check and make necessary adjustments on the basis of projects to achieve internal consistency in the form of a balanced supply and demand of material and labour resources. Such balancing must also have a proper phasing over time so that neither serious bottle-necks nor excessive supplies emerge at any stage of the Plan.

1.3 Explanatory notes are given on some (but not all) of the items mentioned in Table 1. The number shown within brackets after each item gives the serial number of the same item in Table 1.

2.1 *Electricity* (1).—Planned electrification must be a main link in the economic development in India. The hydro-electric projects started in the First Plan must be continued on an increasing scale in the Second Plan.

2.2 Regional grid-systems combining both thermal and hydel power stations must be planned to secure the best use of local fuels (low grade coal, lignite, etc.) and of installed capacity by large consumers (electric-intensive industries like aluminium, alloy-steels, etc.) keeping in view the development of a future super-grid for India as a whole.

2.3 Small power stations (hydel and diesel) would also be developed for urgent requirements in small towns and rural areas.

2.4 The use of electricity for small-scale and household industries, irrigation by tube-wells, etc., must be steadily increased.

2.5 The production of electricity must forestall the growth of industrial production; and the installed capacity must increase from 2·8 million kilowatts in 1953-54 to 6 million kilowatts in 1960-61, that is, must be more than doubled. Also, the utilization of capacity must be increased.

3.1 *Coal* (2).—The production of coal must be increased from 37 million tons in 1955-56 to 60 million tons in 1960-61 (an increase of about 62 per cent) which would be difficult to achieve but should not be impossible.

3.2 There is, at present, great wastage of high grade coking coal of which supply is short. Necessary Government action must be taken without any delay to prevent such wastage and to promote better conservation.

4.1 *Synthetic petrol and products* (3).—India is short of petrol and meets most of its requirements by imports. In addition to increasing oil-prospecting as quickly as possible, a State plant to produce about 300,000 tons of synthetic petrol must be installed during the Second Plan, and future production must be increased as necessary.

4.2 The above plant must also be used to establish a base for the development of associated chemical industries.

5.1 *Steel* (4).—India has vast resources of iron ore; and increasing production of steel must be made an important link in economic development. The installed capacity would be increased to 6 million tons and production to 5 million tons by 1960-61.

5.2 Necessary action (in the way of establishing a heavy machinery industry and promotion of metallurgical research) must be taken in the Second Five Year Plan to build up the base for the future expansion of the installed capacity of steel by at least one million ton per year from 1961.

5.3 Increasing production of steel would supply a secure foundation for the fabrication of plants and machinery of all kinds, expansion of construction work and of railways and transport generally. If necessary, steel can also be exported to neighbouring countries which are in urgent need of it.

6.1 *Aluminium* (7).—India has large reserves of bauxite and the production of aluminium must be rapidly increased to take the place of copper which is in short supply and mostly imported. Increasing production of aluminium would, in its turn, facilitate electrification; and the production of both electricity and aluminium must be continuously incresaed at the same time.

6.2 The production of aluminium should be increased from about 5 to 40 thousand tons during the Plan period. One or more aluminium plants must be established in the public sector for this purpose.

7. *Manganese ore* (8).—The extraction of manganese ore must be increased and some of the ore must be converted into ferro-manganese before export so as to retain a part of the value created by semi-manufacture.

8. *Cement* (9).—The production of cement must be increased from 4·6 to 10 million tons (*i.e.* more than doubled) during the Second Plan period. The production of other building materials must be increased proportionately to avoid shortages and bottle-necks in construction work.

9.1 *Fertilizers* (10).—The production of nitrogenous fertilizer must be increased by about three times by establishing at least three more factories of roughly the same capacity as Sindri.

9.2 Fertilizer production must also be steadily and continuously expanded along with irrigation to secure a rapid increase in the outturn of agricultural crops in future.

10. *Heavy chemicals* (11).—The production of sulphuric acid, soda ash and caustic soda must be increased by 1960-61 to roughly four times the actual production in 1953-54.

11.1 *Heavy Machinery* (12).—For rapid industrialization it is essential to fabricate plants and machinery at home. To instal a plant for the production of one million tons of steel per year it is necessary at present to import machinery worth about Rs. 40 or 45 crore from outside. Provision has been made for investment of Rs. 150 crore to establish large engineering workshops to fabricate machinery needed for producer goods plants. An immediate aim would be to manufacture every year most of the machinery required for installing a one million ton capacity steel plant.

11.2 Investment of Rs. 40 crore is contemplated for establishing plants for the manufacture of heavy electrical equipment.

11.3 The production of machinery for the manufacture of consumer goods (e.g. textiles) must be roughly doubled during the Plan period, and an investment provision of Rs. 50 crore has been made for the purpose.

12 *Railway rolling stock* (13).—The annual production of locomotives must be increased from 100 to 400; of wagons from 7,000 to 20,000; and of coaches from 800 to 2,000 per year so as to attain self-sufficiency in rolling stock by the end of the Plan period.

13 *Jute textiles* (14).—Immediate steps should be taken to ensure a fuller use of the existing capacity and to see that by 1960-61 the full rated capacity is utilised.

14.1 *Factory-made consumer goods.*—The factory production of essential consumer goods would be increased in such a way as to prevent competition with the household and hand industries.

14.2 *Cotton textiles* (15).—Production would be increased to 5,500 million yards per year by 1960-61, the additional production being used mainly for exports. (The remaining part of the internal demand would be met by hand-made cloth.)

14.3 *Woollen textiles* (16).—Manufacture of woollen textiles should increase by about 25 per cent during the Second Plan period.

14.4 *Sugar* (17) and *Vegetable oil* (18).—The production of sugar must be increased (preferably through co-operatives) by about 50 per cent and reach 2·1 million tons. A rise by about 33 per cent of the production of vegetable oil will be necessary.

14.5 *Paper* (19), *Bicycles* (20), *Sewing machines* (21), and *Electrical goods* (22).—Production must increase by roughly between 40 per cent and 100 per cent to meet anticipated increase in demand and also partly for export.

15.1 *Hand-made consumer goods.*—Every effort must be made to expand the hand production of consumer goods to provide a marketable surplus to meet the increase in demand.

15.2 *Khadi and handloom* (23).—Production would be increased to 3,200 million yards (from about 1,200 million yards in 1953-54).

15.3 Production of other hand-made articles must be increased by 20 to 40 per cent.

16.1 *Agriculture and allied pursuits.*—The production of *cereals* (28) must be increased from 56 million tons (in 1953-54) to 63 million tons in 1960-61, and of *pulses* (29) from 10 to 13 million tons. This would make the country self-sufficient in foodgrains at a somewhat higher standard of consumption than at present.

16.2 *Cotton* (32).—Output must increase by 38 per cent to 5·8 million bales so that the net import of cotton can be considerably reduced by 1960-61.

16.3 *Sugarcane* (34).—Output must increase to 7·5 million tons of raw sugar (50 per cent increase).

16.4 *Milk* (37).—Production of milk and other edible animal husbandry products should go up by about 25 per cent.

17.1 *Irrigation* (41).—In order to achieve the agricultural targets mentioned above, the total irrigated area must increase from 70 to 100 million acres.

17.2 Special attention must be given to devising suitable measures for flood control.

18. *National Extension Service and Community Projects* (42).—Vigorous organization and persistent efforts would be required for the expansion of production in agriculture and in household and hand industries. NES blocks, which can supply a convenient machinery for this purpose, must cover the entire country by the end of the Second Plan.

19. *Transport.—Railway tracks* (43) would be increased by 3,000 miles (9 per cent increase); *passenger miles* (44) and *freight miles* (45) by 30 per cent and 40 per cent respectively. *National highways* (46) would be increased from 12,500 to 17,500 miles (40 per cent increase) and *State roads* (47) from 20,000 to 35,000 miles (75 per cent increase). *Shipping tonnage* (48) would increase from 525,000 (in 1953-54) to about 1,500,000, an increase of 185 per cent.

20.1 *Education.*—The number of pupils in schools between the ages of 6 and 14 would increase from about 29 millions in 1955-56 to about 46 millions in 1960-61.

20.2 The expenditure *on technical training, higher education and research* (53) must increase by 75 per cent.

21.1 *Health.*—The number of *hospital beds* (54) must increase from 1,12,000 in 1953-54 to 2,50,000 in 1960-61; and the number of *registered doctors* (55) from 65,000 in 1953-54 to 90,000 in 1960-61.

21.2 Two new cadres of junior and senior *health assistants* (56) would be created with two levels of training of two and four years respectively. Each junior health assistant would be placed in charge of a group of 10 villages or one NES block and one senior health assistant would be in charge of 5 such groups or 5 NES blocks together with one registered doctor in charge of two such units or 10 NES blocks in such a way that the whole of the rural area is covered by the end of the Second Plan.

22. *Urban Housing* (57).—The number of urban houses must increase sufficiently to provide additional accommodation for 3 million families during the Second Plan.

TABLE 1—*Targets of Production for the Second Five Year Plan*: 1956-57 *to* 1960-61

Name of item	Unit	Actuals 1950-51	Actuals 1953-54	Provisional estimates 1955-56	Provisional estimates 1960-61	Provisional estimates percentage increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Factory producer goods						
1. electricity . .	m. kw	2·3	2·8	3·5	6·0	71
2. coal . . .	m. tons	32	36	37	60·0	62
3. synthetic petrol .	th. tons	nil	nil	nil	300	..
4. steel . . .	m. tons	1·1	1·1	1·3	5·0	285
5. pig iron (for foundries) . .	m. tons	..	..	0·4	1·8	350
6. iron ore . .	m. tons	3	4	4	13	225
7. aluminium . .	th. tons	3·7	3·8	5	40	700
8. manganese ore .	m. tons	1	2	2	3·5	75
9. cement . .	m. tons	2·7	4·0	4·6	10·0	108

Name of item	Unit	Actuals 1950-51	1953-54	Provisional estimates 1955-56	1960-61	percentage increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
10. fertilizers . .						
(a) nitrogenous .	th. tons	9·2	61·4	90	560	300
(b) superphosphates	th. tons	55	66	100	200	100
11. heavy chemicals .						
(a) sulphuric acid .	th. tons	99	120	150	450	200
(b) soda ash .	th. tons	45	56	75	200	167
(c) caustic soda .	th. tons	11	25	33	100	203
12. heavy machinery to fabricate plants						
(a) steel and producer goods (investment)	Rs. crores	nil	nil	nil	150	..
(b) electrical equipment (investment)	Rs. crores	nil	nil	nil	40	..
(c) consumer goods	index	..	..	100	200	100
13. railway rolling stock						
(a) locomotives .	nos.	nil	86	100	400	300
(b) wagons .	nos.	1095	6892	7000	20000	186
(c) passenger coaches	nos.	479	786	800	2000	150
14. jute textiles .	th. tons	892	864	1000	1200	20
Factory consumer goods						
15. cotton textiles .	m. yds.	3718	4906	5000	5500	10
16. woollen textiles .	m. lbs.	18	20	20	25	25
17. sugar . . .	m. tons	1·1	1·1	1·4	2·1	50
18. vegetable oil . .	m. tons	1·2	1·4	1·5	2·0	33
19. paper . .	th. tons	114	137	140	200	43
20. bicycles . .	thousand	101	290	500	1000	100
21. sewing machines	thousand	33	68	90	150	67
22. electrical goods .	index	..	..	100	166	66

Name of item	Unit	Actuals 1950-51	Actuals 1953-54	Provisional estimates 1955-56	Provisional estimates 1960-61	Provisional estimates percentage increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Hand-made consumer goods						
23. khadi and hand-loom	m. yds.	742	1200	1600	3200	100
24. soap . . .	th. tons	..	..	28	40	43
25. footwear . .	m. pairs	..	..	80	100	25
26. food industries .	index	..	..	100	120	20
27. metalwares . .	index	..	..	100	133	33
Agricultural and associated pursuits						
28. cereals . .	m. tons	41·7	56·1	56	63	13
29. pulses and grams .	,,	8·3	9·6	10	13	30
30. total foodgrains .	,,	50·0	65·0	66	76	15
31. oilseeds . .	,,	5·1	5·6	5·6	7·0	25
32. cotton . . .	m. bales	2·9	3·9	4·2	5·8	38
33. jute . . .	m. bales	3·3	3·1	5·0	5·4	8
34. sugarcane (raw sugar)	m. tons	5.6	4.6	5.0	7.5	50
35. tobacco . .	th. tons	257	256	250	300	20
36. tea . . .	m. tons	607	675	675	750	11
37. milk . . .	index	..	..	100	125	25
38. wool . . .	m. lbs.	..	..	40	50	25
39. timber . . .	index	..	..	100	130	30
40. fish . . .	,,	..	..	100	125	25
Rural development						
41. irrigation . .	m. acres	50	58	70	100	43
42. NES and Community Projects.	no. of blocks	..	479	1,200	5,600	367
Transport : railways						
43. mileage .	miles	..	..	34,500	37,500	9
44. passenger miles .	index	..	..	100	130	30
45. freight index . .	ton-miles	..	..	100	140	40

Name of item	Unit	Actuals 1950-51	1953-54	Provisional estimates 1955-56	1960-61	Percentage increase
1	2	3	4	5	6	7
Roads						
46. national highways	th. miles	11.9	..	12.5	17.5	40
47. State roads . .	,,	17.6	..	20.0	35.0	75
Shipping						
48. tonnage . .	thousand	391	525	610	1,500	146
Social services : education						
49. pupils : age 6-11 .	nos. lakhs	187	..	236	380	..
50. pupils : age 11-14 .	,,	34	..	51	80	..
51. percentage of students in age groups : 6-11 . . .	no. lakhs	42	..	50	75	50
52. percentage of students in age groups: 11-14 . . .	,,	14	..	20	30	50
53. technical training, higher education and research .	index	..	..	100	175	75
Health						
54. hospital beds .	thousand	107	112	125	250	100
55. doctors (registered)	thousand	..	65	70	90	29
56. health assistants .	index	..	..	100	300	200
Housing						
57. urban houses .	lakhs	101	..	120	150	25
Communication						
58. post offices . .	thousand	37	47	53	78	47
59. telegraph offices .	,,	36	39	48	70	46
60. telephones . .	,,	168	220	300	600	100

APPENDIX

(PROVISIONAL)

Commodity Balances in 1960-61

1. Attempts have been made to see, in a rough way, that the targets given in Table 1 are consistent. This appendix gives relevant information for five major commodities: electricity, coal, steel, cement, and heavy chemicals.

2. *Electricity*.—The consumption of electricity in 1960-61 is expected to be 20,000 million kilowatt hour (kwh) which should be possible to secure from an installed capacity of 6 million kilowatts (mkw) with a slightly higher rate of utilization than the present rate. The following allocation of power in millions kwh is envisaged in 1960-61: iron and steel 2,500, aluminium 1300, cement 1100, cotton textiles 1500, fertilizers 1000, all other industries 5600 and light, small power, traction and all other uses 7000—total 20,000.

3. *Coal*.—The industrial development envisaged would require at least 60 million tons of coal. The allocation in million tons in 1960-61 is expected to be as follows: railways 14.0, electricity 5.0, iron and steel 15.0, cement and bricks 5.0, cotton textiles 1.5, jute mills 0.5, paper 1.0, fertilizers 1.0, other industries 4.0, bunker and steamer service 2.0, domestic 7.5, synthetic petrol 1.5 and all other uses 2.0— total 60.0.

4. *Steel.*—The rough pattern of utilization in million tons in 1960-61 is given below: steel processing industries 1.5, railways 0.8, industrial development schemes both public and private 0.8, other Government development schemes including multipurpose and State irrigation projects 0.2, construction 0.5, industrial maintenance and packing 0.3, defence and roads 0.1 and all other uses including export 0.7—total 5.0.

5. *Cement.*—The allocation envisaged in million tons in 1960-61 is as follows: all construction 6.4, current products 0.4, railways 0.5, roads 0.3, multipurpose and State irrigation projects 1.8, and all other uses including export 0.6—total 10.0.

6.1 *Heavy chemicals.*—Balances have been worked out for sulphuric acid, caustic soda and soda ash.

6.2 *Sulphuric acid.*—The allocation in 1960-61 in thousand tons will be as follows: ammonium sulphate 60, superphosphate 110, iron and steel 90 and all other uses 190—total 450.

6.3 *Caustic soda.*—The allocation in 1960-61 in thousand tons will be as follows: soap 30, textiles 20, paper 15, aluminium 5 and all other uses 30—total 100.

6.4 *Soda ash.*—The allocation in 1960-61 in thousand tons will be as follows: glass 100, textiles 10, silicate of soda 10, paper 10, other chemicals 25 and all other uses 45—total 200.

5. INVESTMENT AND DEVELOPMENT

1.1 *Allocation of investment.*—The allocation of investment (or net capital formation) by broad sectors is shown below in Table 2.

TABLE 2—*Allocation of Investment (Rs. crores)*

Sector	Public	Private	Total	Percentage
1. Electricity	450	50	500	8·9
2. Industry	1,000	400	1,400	25.0
3. Transport and communication	850	50	900	16·1
4. Agriculture & irrigation	750	200	950	17·1
5. Construction	250	1,100	1,350	24·0
6. Stocks	100	400	500	8·9
TOTAL	3,400	2,200	5,600	100.0

1.2 Electricity includes both hydro-electric and thermal power stations. Industry includes the household and hand industries. Construction includes residential houses, schools, hospitals, and public buildings.

1.3 Strictly comparable figures are not available for the First Five Year Plan, but the total investment in the public sector planned was roughly Rs. 1600 to Rs. 1700 crore and the same amount was estimated for the private sector. Thus investment or net capital formation through the public sector in the Second Plan would be about double the planned estimates in the First Plan; and the estimated investment in the private sector would be about 40 per cent higher.

2.1. *Allocation by industries.*—The break-down of investment by important industries is shown in Table 3.

TABLE 3—*Allocation of Investment by Industries*

Industry (1)	Investment (Rs. crores) (2)	Percentage (3)
1. Iron and steel	425	30·4
2. Synthetic petrol	80	5·7
3. Heavy machinery to fabricate plants for		
(*a*) steel and producer goods	150	10·7
(*b*) electrical equipments	40	2·9
(*c*) consumer goods	50	3·6
4. Cement, chemicals, etc.	100	7·1
5. Existing State enterprises	50	3·6
6. Aluminium	30	2·1
7. Minerals and prospecting	75	5·4
8. Fertilizers	100	7·1
9. Factory consumer goods	100	7·1
10. House-hold and hand industries	200	14·3
TOTAL	1,400	100·0

2.2 The provision for iron and steel includes expansion of capacity of existing plants; three new plants (Rourkela, Bhilai and one more); factories for the production of pig iron for foundries, and miscellaneous items.

2.3 Along with the installation of one synthetic petrol plant, necessary action must be taken to train personnel and build up experience through pilot plants for the establishment of associated chemical industries.

2.4 The production of electrical appliances would include electrical machinery (such as turbines, generators, transformers, transmission equipment, etc.) required for hydro-electric and thermal projects.

2.5 The heavy machinery industry to be established in the public sector must be able by 1960-61 to fabricate machinery required to instal every year a steel plant of a millon ton capacity or plants to manufacture producer goods of roughly equivalent value.

2.6 The aluminium industry must be developed to make the country independent of imports of copper by 1960-61; and must continue to be further expanded in future.

2.7 Geological surveys and specially prospecting for oil and minerals by the Government organization must be rapidly expanded. Mining operations must also be greatly expanded. A provision of Rs. 75 crore has been made for this purpose.

2.8 Rs. 100 crore have been provided for the installation of fertilizer plants with capacity equivalent to roughly four times the current production at the Sindri factory.

2.9 *House-hold and small industries.*—The greatest importance is attached to the expansion of the household and hand industries as this would be the principal method of liquidating unemployment and also of creating a marketable surplus of consumer goods to meet the increase in demand arising from investments in heavy industries, construction work and expenditure on social services. Rs. 200 crore or Rs. 40 crore per year have been provided for this purpose.

3.1 *Public development expenditure.*—In the First as well as in the Second Plan certain items of current expenditure have been included in addition to provision for investment. This is shown in Table 4.

3.2 Comparable figures for the First Five Year Plan are given in cols. 6 and 7. The total development expenditure of Rs. 4,300 crore in the Second Plan is just short of double the planned development expenditure of Rs. 2,248 crore in the First Plan.

TABLE 4—*Public Development Expenditure*

	Second Plan				First Plan	
Sector	Investment (Rs. crores)	current (Rs. crores)	total (Rs. crores)	percent	percent	total (Rs. crores)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Electricity	450	..	450	10·5		
2. Agriculture, irrigation and rural development	750	200	950	22		
3. Sub-total			(1,400)	33	44	990
4. Industry & minerals	1,000	100	1,100	26	8	178
5. Transport and communication	850	100	950	22	24	536
6. Construction and social services	250	500	750	17	24	544
7. Stock	100	..	100	2	..	..
TOTAL	3,400	900	4,300	100	100	2,248

3.3 In the Second Plan there is a much larger actual expenditure for industrial and mineral development (Rs. 1,100 crore against Rs. 178 crore in the First Plan); and the relative proportion is also much higher (26 per cent of total development expenditure in the Second Plan against 8 per cent in the First Plan). The actual expenditure in the Second Plan is greater but the relative expenditure (as a proportion of the total) is less in all the other sectors.

4.1 *Total development expenditure.*—In addition to the current development expenditure included in Table (4), there are current expenditures for purposes of development not included in the Plan. The position is shown in Table (5) below.

TABLE 5—*Total Government Expenditure (Rs. crores)*

Item	1955-56 (estimated)	1960-61 (estimated)	total Second Plan
1. Non-development (defence and civil administration)	625	725	3,400
2. Development			
(*a*) not in the Plan	200	225	1,100
(*b*) in the Plan	600	1,100	4,300
3. Sub-total	800	1,325	5,400
TOTAL	1,425	2,050	8, 800

4.2 The total Government expenditure is expected to increase from Rs. 1,425 crore in 1955-56 to about Rs. 2,050 crore in 1960-61; the total development expenditure would increase at the same time from Rs. 800 crore to Rs. 1,325 crore; and the development expenditure included in the Second Five Year Plan would increase from Rs. 600 crore to Rs. 1,100 crore.

4.3 The total Government expenditure during the Second Five Year Plan is expected to be Rs. 8,800 crore out of which Rs. 3,400 crore would be non-development (defence and civil administration), Rs. 1,100 crore development expenditure not included in the Plan, and Rs. 4,300 crore development expenditure included in the Plan.

6. EMPLOYMENT AND INCOME

1.1 *Employment.*—In India a very large number of families (comprising a majority of the population) are self-employed, many of which use their labour only partially and thus suffer from chronic under-employment. They must be provided with opportunities of doing more work and thus increasing their income.

1.2 In the urban areas there is a large number of persons without jobs and seeking work for whom new employment must be created. New work must also be found for roughly 1.8 millions of persons who, on an average, would enter the working force every year (calculated on the basis of a labour force composition of 40 per cent of a net average increase in population of 4.5 million per year).

2.1 The programme of production, investment, and development (discussed in Chapters Two and Three) is expected to generate a volume of employment shown in Table (6).

TABLE (6)—*Estimated Volume of Employment in* 1960-61

Sector	(in millions)		Increase	
	1955-56	1960-61	actual (in millions)	per cent
1. Agriculture & allied pursuits	109·5	111·0	1·5	41
2. Mining & factory establishments	4·0	5·7	1·7	42
3. Household enterprises and construction	12·0	15·0	3·0	25
4. Communication, railways, banks, insurance	1·6	2·0	0·4	25
5. Wholesale and retail trade, transport (other than railways), etc.	10·0	12·0	2·0	20
6. Professions, services (including Govt. administration) and the rest	14·9	17·3	2·4	16
TOTAL	152·0	163·0	11·0	7

2.2 If the targets of production are realized then the problem of unemployment should be brought under control by the end of the Second Five Year Plan. Because of the rapid rate of industrialization proportionately the biggest increase of employment, about 45 per cent, would occur in mining and factory enterprises. The household and hand industries, communication, transport, trade etc.. would have an increase of about 20 per cent or 25 per cent and the professions and services of about 16 per cent. Even in the Second Plan, labour would not begin to be drawn away from agriculture and allied pursuits, but would increase at a small rate of the order of only 1.5 per cent, which would still mean an increase of 1.5 million persons in the labour force in this sector.

3.1 *Income.*—The net domestic output at 1952-53 prices had increased from Rs. 91.9 abja in 1950-51 (the base year of the First Five Year Plan) to about Rs. 103·1 abja (provisional estimate) in 1953-54. This represents an increase of Rs. 11.2 abja or 12.2 per cent in 4 years or just over 3 per cent per year. A part of this increase was probably due to exceptionally good agriculture crops in 1953-54 and another part possibly to a partial correction of the previous under-estimation of crops. If allowance is made for these factors the real increase would be probably about 10 per cent in 4 years.

3.2 In the Second Five Year Plan the rate of investment and development would be roughly double that of the First Plan. The rate of increase of income is also expected to be roughly double or about 5 per cent per year. The same estimate has been generally corroborated from more detailed calculations by sectors on the basis of the investment and development programme.

3.3 The expected increase in national income is shown in Table (7).

TABLE (7)—*Domestic Product of the Indian Union at 1952-53 prices;* Rs. abja (=100 crores).

Sector	(actuals) 1950-51	(estimates) 1955-56	(estimates) 1960-61	increase per cent
1. Agriculture and allied pursuits	45·2	52·8	63·4	20
2. Mining and factory enterprises	6·6	9·0	15·0	67
3. Household enterprises and construction	9·3	10·2	14·3	40
4. Communications, railways, banks, etc.	3·1	3·6	4·7	30
5. Wholesale & retail trade, other transport	13·4	15·1	18·8	25
6. Professions, services, including Government administration and the rest	14·3	17·3	20·8	20
TOTAL	91·9	108·0	137·0	27
7. Population (millions)	359·3	383·7	409·7	7
8. Per capita income (Rs.)	256	282	334	19

7. FINANCE AND FOREIGN EXCHANGE

1. *Rate of Investment.*—The planned net investment covering both public and private sectors is Rs. 5,600 crore over the period of the Second Plan. The current

rate of investment is about 7 per cent; this will have to be raised to about 11 per cent of national income by 1960-61.

2.1 *Resources for the public sector.*—The total expediture of the Centre and the State Governments combined is estimated at Rs. 8,800 crore for the Second Plan as a whole (Table 5). Expenditure outside the Plan would increase from Rs. 825 crore in 1955-56 (estimated) to Rs. 900 crore on an average in the Second Plan. Expenditure on the Plan is expected to increase from Rs. 600 crore in 1955-56 (estimated) to an average of Rs. 860 crore in the Second Plan.

2.2 The total receipts from taxes and non-tax revenue, at the current rate of intake of 8.5 per cent of national income, would bring in about Rs. 5,200 crore. Borrowing (net) from the public should yield Rs. 1,000 crore (about Rs. 600 crore from loans and Rs. 400 crore from small savings). Allowing for Rs. 200 crore for receipts from railways and miscellaneous items on capital account, the total receipts from domestic sources, at current rates, would be Rs. 6,400 crore.

2.3 This leaves a gap of Rs. 2,400 crore in the public sector. As against this external assistance may provide Rs. 400 crore. The balance of Rs. 2,000 crore will have to be found at least in part by fresh taxation and profits of such commercial or industrial undertakings as can be started in the public sector. The aim should be to limit deficit financing to a total of Rs. 1,000 to 1,200 crore. A taxation target of 9 to 10 per cent of the national income as against the present level of about 7 per cent must be attained.

3.1 The budgetary position on the above basis is shown below:

TABLE (8)—*Government Budget*: 1956-57 *to* 1960-61
(*Rs. crores*)

expenditure		*receipts*	
1. On the Plan	4,300	1. on the revenue account	5,200
2. Outside the Plan	4,500	2. loans from the public	1,000
		3. railways and miscellaneous fund	200
		4. foreign assistance	400
		sub-total	6,800
		5. additional taxes and loans and profits from State enterprises	800-1,000
		6. deficit financing	1,000-1,200
TOTAL	8,800	TOTAL	8,800

3.2 A good part of the additional income in the Second Plan would be created at lower income levels. The heavy industries would take time to become profitable. Also, foreign assistance may not be realised to the fullest extent. It would be essential, therefore, to keep a stringent watch on expenditure outside the Plan; to make necessary adjustments in the price and subsidy policy of the Government; to reach new strata for tapping saving; and finally, to make changes in the tax structure to raise additional resources required to finance the Second Plan.

4.1 *Finance of the private sector.*—Investment in the private sector is estimated at Rs. 2,200 crore out of which Rs. 1,100 crore or about a half is for housing and Rs. 400 crore for industries.

4.2 With deficit financing of Rs. 1,100 to Rs. 1,200 crore by the Government, the banking system should be able to provide the credit required for working capital. In fact, conditions of easy credit are likely to emerge.

4.3 The newly set up financial institutions (such as the Industrial Investment and Credit Corporation) will assist the private sector. The pattern of investment in the private sector will have to be watched continuously and influenced in the desired direction through tax incentives, selective credit controls, capital issue control and similar devices.

5.1 *Foreign trade and payments.*—Much larger imports will have to be made of capital goods in the Second Plan. The total needs would come to about Rs. 1,200 crore; adding Rs. 400 crore for imports of equipment for replacements, the total requirement would be about Rs. 1,600 crore for imports of capital goods.

5.2 This must be met partly by increased production of food-grains, sugar, cotton, and petrol; partly through foreign assistance and withdrawal from sterling balances and by curtailment of non-essential imports and promotion of exports in every possible way.

8. PLANNING ORGANIZATION AND ADMINISTRATION

1.1 *Planning Organization.*—Planning must be continuous and flexible. In addition to the Five Year Plan, detailed annual plans must be prepared every year. Targets, projects, and policies must be continually reassessed and reformulated to suit changing needs and conditions.

1.2 At the same time it is imperative to keep in perspective the potential growth of the economy over a long period so that decisions can be made to secure a balance between short-term and long-term objectives.

1.3 For planning on lines explained above, it is necessary to build up an appropriate planning organization. A technical organization (consisting of economists, statisticians, scientists, engineers, technologists and administrators) must be established within the Planning Commission for the preparation and continuing examination of the national plan and for working out the various balances relating to it. Technical units must also be established in the Central Ministries, the State Governments, and other agencies to prepare detailed projects and estimates and to revise them as necessary.

1.4 There must be a continual two-way flow of information. Plan targets from the top must be continually checked against possibilities of realization at the level of projects. Possibilities of development envisaged at the bottom must continuously shape the targets formulated at the top.

1.5 Information of many kinds would be continually required for the formulation and revision of the Plan and of detailed projects as well as for the assessment of the progress and implementation of the Plan.

1.6 The information service and planning and project activities must be closely related. The Central Statistical Organisation in association with the Indian Statistical Institute must function as an integral part of the planning machinery at the Centre. Following the same pattern, the State Statistical Bureaux must serve as focal points for statistical services in connection with planning activities at the State level.

2.1 *Administrative machinery.*—Planning on bold lines with a steady expansion of the pubhc sector and advance to a socialistic pattern of economy would require the building up of an appropriate administrative machinery of a new type at all levels.

2.2 There must be decentralization, on business-like lines, of the day to day management of public enterprises with large delegation of financial, administrative, and executive control to develop initiative and responsibility at the periphery so necessary for efficient conduct of business enterprises.

2.3 Attention must be focussed on the implementation of the Plan—on getting things done at the right time—and rules of procedure must, if necessary, be revised to ensure effective action. Secretariat control of the present type must be replaced to a large extent by control by truly autonomous public corporations set up by the Government or through the supply of credit by the State Banks working under the general guidance of the Government in matters of policy.

2.4 Administrative difficulties inherent in the existing Government machinery are likely to prove the greatest obstacle to efficient planning. To overcome such difficulties, large organizational and even constitutional changes may become necessary. The problem is urgent and requires immediate and serious attention.

2.5 The Government must rally public support in favour of the Plan; and encourage and help non-official organizations to promote its fulfilment.

PART II

TENTATIVE FRAME WORK

1. INTRODUCTION

1. An attempt has been made in this paper to work out the targets to be achieved in the Second Plan period in the light of the main objectives in view. The purpose is to present a rough sketch of the overall picture or pattern which the Second Plan should aim at. The detailed targets to be achieved will, of course, have to be arrived at only after a detailed scrutiny of needs and of the means and measures required for their fulfilment. A broad framework is, however, necessary if individual schemes and targets are to be worked out by the authorities concerned with an eye to the overall developments envisaged. The frame work presented in this paper may thus be regarded as a first approximation to what the final Plan might look like. The intention, in the first instance, is to facilitate a discussion on overall objectives and the means of attaining them. The Plan proper will only emerge after a series of discussions between planning and executive authorities on various levels. In this process, the initial assumptions made in this paper and the various suggestions put forward will necessarily come in for a review.

2. The Planning Commission is required under its terms of reference to "make an assessment of the material, capital and human resources of the country including technical personnel and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's re-

quirements." Such an assessment is necessarily a continuous process. When the First Plan was formulated, a quick estimate of the requirements and possibilities of the first five-year period was made and the Plan represented what could be achieved as a first step towards more rapid and sustained progress in the future. The targets set in the First Plan were modest. At the time the Plan was formulated the country had to reckon with the dislocation caused by the war and partition, with the resurgence of inflationary pressures in the wake of hostilities in Korea and with shortages of food and essential raw materials. A cautious approach was inevitable in the circumstances.

3. The economy has gained considerable strength over the past three or four years. Inflation has been overcome. Shortages of foodstuffs and raw materials have disappeared. There has been considerable expansion in industrial production and in the provision of health and education facilities. These achievements of the First Five Year Plan give reason for the hope that a bolder step ahead in the Second Plan is feasible.

4. A bolder plan for the coming five-year period is, in fact, inescapable. Our experience in the past few years has focussed attention on certain disquieting features of the economy. Failure of employment opportunities to expand pari passu with needs and the fall in agricultural prices have made it evident that the rate of investment in the economy is inadequate. While agricultural production has increased, there has not been a corresponding increase in the demand from the other sectors. This, in part, at any rate, may be

attributed to the rather insufficient emphasis on industrial development in the First Plan period. In part, it is due to the rather unexpectedly good monsoons for the last two years. For raising the tempo of development in the next Plan period there must be a greater stress on industrialization. The shift will, of course, be relative. Increases in agricultural production and productivity must remain for many years to come a matter of high priority.

5. The shortfalls in expenditure that occurred in the initial stages of the First Plan have emphasised the need for a detailed and timely formulation of schemes, for the setting up of adequate administrative machinery and for prior training of personnel at all levels. A bolder plan can be initiated only if more of the real resources which are unutilised in the system can be effectively mobilised. It is necessary, therefore, to asses the real resources available and to examine the uses to which they can be put with maximum advantage in view of the objectives in hand.

6. In short, experience with the First Plan suggests that a bolder approach in the Second Plan is both feasible and desirable. It also suggests at the same time that there is little ground for complacency about the financial resources available for securing a greater rate of development. The budgetary position of the Government in the earlier years of the Plan was helped by the extraordinary receipts following the war in Korea. The rate of spending in the first three years was also quite low. More lately while tax receipts have not increased, the response of the public to the Government loans has been encouraging. For the

five-year period as a whole, however, the surpluses from current revenues, the profits of the railways and the accumulations in various deposit funds will turn out to be somewhat below the targets set in the Plan. For stepping up the outlay in the Plan in the fourth and fifth years, it has been found necessary to rely to a great extent on deficit financing. Deficit financing as a means of drawing unutilised resources into the system is justifiable. Continued reliance on it may, however, distort the price structure and create instability. In short, if the Second Plan has to be bolder, it has to be based on greater effort at mobilising the real and financial resources needed.

2. OBJECTIVES OF THE SECOND PLAN

The main objectives of the Second Plan may be set down in general terms as follows:—

(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 industries;

(c) Fuller employment; and

(d) Social justice.

2. These objectives are interrelated. The level of living in the country cannot be raised without a sustained increase in the production and investment. In

order to facilitate greater capital formation in the country, it is necessary to develop the basic industries producing steel, coal, electricity, heavy chemicals and machinery. But in a poor country where consumption standards are already too low, higher investment and the development of basic industries cannot be made to depend on a curtailment of consumption even in the initial stages. An attempt must be made, therefore, to increase both consumption and investment simultaneously by harnessing such resources as are unemployed or unutilised at present.

3. The economic development of the country must conform to the broad social objectives in hand. The development of a socialistic pattern of society has already been enunciated as a basic objective before the country. In formulating the Second Plan, emphasis must be placed on the extension of public ownership or control over the strategic means of production, on greater equality of opportunities, on bridging the gap between the haves and the have-nots and on the protection and enhancement of the well-being of the weak and unorganised sections of society. Men do not give of their best in the absence of a secure and fair share in the fruits of their labour; and achievement of social justice is a necessary condition for releasing the productive energies of the people.

4. The objectives outlined above cannot be achieved fully in a matter of five or ten years. In the short run, it may not be possible to reconcile fully the claims of greater production, fuller employment and a wider capital and industrial base for further progress. Such conflict as arises between different objectives in the

short run must be resolved in keeping with the dictates of social justice and the need for raising standards of life at the lower levels. In planning for a given period ahead, the basic task is to define, as precisely as possible, the advance to be made in each desirable line and to ensure an optimum fulfilment of all the objectives.

National Income and Standard of Living

5. The First Five Year Plan contained an illustrative model of development over a period of some 27 years. According to that model, India's national income could be doubled in some 22 years, per capita income could be doubled in about 27 years, and per capita consumption could be increased by roughly 70 per cent in a little more than five plan periods (i.e., between 1950-51 and 1977).

6. The increase in national income by the end of the First Plan is likely to be greater than was anticipated and may amount to some 15 per cent over the five years. The national income of India increased by some 15 per cent in real terms during the five years 1948-49 to 1953-54. During the first three years of the First Plan, the increase was of the order of 12·5 per cent. Even when allowance is made for the provisional character of the estimate for 1953-54 and for favourable monsoons, it is reasonable to expect a 15 per cent increase in national income over the First Plan period. For the Second Plan, therefore, we may well aspire to an increase in national income higher than 15 per cent—say, 25 to 27 per cent in five years, or 5 per cent per annum as a first approximation.

Net National Output of India at Current and Constant Prices

	**1953-54	1952-53	1951-52	1950-51	49-50	48-49
Net output in Rs. abja*						
at current prices	106·0	98·6	99·9	95·3	90·1	86·5
at 1948-49 prices	99·5	95·2	91·6	88·5	88·2	86·5
Per capita net output in Rs.						
at current prices	283·9	267·4	274·5	265·2	253·9	246·9
at 1948-49 prices	266·5	258·1	251·7	246·3	248·6	246·9
Index number of net output with 1948-49 as base						
at current prices	122·5	114·0	115·5	110·2	104·2	100·0
at 1948-49 prices	115·0	110·1	105·9	102·3	102·0	100·0
Index number of per capita net output with 1948-49 as base						
at current prices	115·0	108·3	111·2	107·4	102·8	100·0
at 1948-49 prices	107·9	104·5	101·9	99·8	100·7	100·0

7. An increase in national income of about 5 per cent every year in the Second Plan is by no means unrealistic or ambitious. A rate of increase in national income of 3 per cent per annum has been achieved over a period of years without any attempt at planning in countries already advanced industrially. In recent years, the socialist countries in Eastern Europe have achieved a rate of increase of some 12 to 16 per cent in national income every year. In the light of this experience, the target of a 5 per cent per annum increase in national income for the Second Five Year Plan must be regarded as a minimum to aim at. With effort and organisation, it could probably be improved upon. On this basis, it should be possible to advance

*abja = 100 crores = 10^9
**preliminary.

the long-term targets outlined in the First Plan by some four to five years, or even more.

Growth in National Income in Selected Countries

Country	*Period*	*Rate of growth (Annual average in per cent)*
U.S.A.	1869-78-1904-13	4·5
	1869-78-1929	4·0
	1899-1908-1929	3·2
	1929-1950	3·0
Canada	1903-29	2·6
Switzerland	1890-1929	2·7
Germany	1876-1913	2·8
Japan	1887-1913	3·0
	1914-1930	6·7
	1914-1937	6·7
Australia	1901-03-1928-29	3·2
	1901-03-1947-48	2·5
Soviet Union	1928-37 (Official)	16
	1949-53 ,,	15
Poland	1947-53 ,,	14·5
Czechoslovakia	1948-53 ,,	12
Hungary	1952-53 ,,	12
Bulgaria ..	1952-53 ,,	16

8. An increase in national income of some five per cent per annum would permit both a sizeable improvement in the level of living in the country and an increase in the rate of investment. If investment is stepped up from roughly 7 per cent of national income at present to about 11 per cent of national income by the end of the Second Plan, total consumption should increase roughly by 20 per cent and per capita consumption by 12 to 13 per cent by the end of the Second Plan.

9. The First Five Year Plan aimed as a first step, at restoring the pre-war levels of consumption of the basic necessaries of life in the country. There has

been a significant increase in the consumption of foodgrains, cloth and other items in recent years and the damage done by war and partition is all but repaired. However, the standards of nutrition, clothing, health, housing and education in the country are still inadequate.

10. The minimum requirements of cereals in a balanced diet were estimated by the Nutrition Advisory Committee as 14 oz. per adult per day. The average consumption of cereals in the country has increased from less than 13 oz. per adult per day in 1950-51 to nearly 15 oz. in 1953-54. The availability of pulses and grams still falls short of minimum nutritional requirements—2·5 oz. against 3 oz. per adult per day. The consumption of a large number of people, however, is below the average level in the country, and the demand for foodgrains is certain to increase if purchasing power is increased at the lower levels. Thus, quite apart from the requirements of a growing population, the production of foodgrains needs to be increased in the Second Plan.

11. In the case of other foods such as milk, ghee, meat, fish, eggs, fats, fruits, vegetables and sugar, the present level of consumption falls far short of minimum requirements. In planning for a higher standard of living, special attention must be devoted in the Second Plan to animal husbandry, fisheries, poultry-farming, vegetable gardening and other branches of food production. How much advance in these directions can be secured within the next five years is a matter for detailed examination.

12. The average consumption of cotton cloth in India is now back to the pre-war standard of 15 yds.,

per person. The Textile Enquiry Committee has recommended an increase in consumption of cotton cloth to 18 yds., per person by 1960. This modest objective must be achieved in the Second Plan.

13. During the war, an acute housing shortage developed in the urban areas. Urban population increased by 42 per cent during 1941-1951, and the shortage of houses at the end of the decade was estimated at more than 18 lakhs in addition to some 10 lakh houses required for displaced persons from Pakistan. There has been a substantial increase in urban construction in recent years, and it is reasonable to expect that the supply of houses in the urban areas would increase from some 102 lakhs in 1950-51 to 115 to 120 lakhs by the end of the First Plan. Broadly, provision has to be made in the Second Plan for the construction of an additional 30 lakhs of houses in the urban areas. The housing problem in rural areas is not as acute as in urban areas. But an effort must be made through the National Extension Service and similar agencies to improve housing conditions in rural areas as well.

14. As regards education, of the total population of children between 6 and 14, only 23 per cent went to school in 1939-40 and some 32 per cent in 1950-51. It is expected that this proportion would increase to 40 per cent by the end of the First Plan. Under the Directive Principles of the Constitution, the State must endeavour to provide free and compulsory education to all children below the age of 14 within a period of ten years. A considerable expansion to a proportion of say, 69 per cent, in primary education facilities must, therefore, be achieved in the Second Plan. Similarly,

the provision of hospitals, doctors, nurses and sanitation facilities in the country is far from adequate and a substantial increase in health and medical facilities during the Second Plan must be assured.

15. An increase in national product by some 25 per cent would be required to ensure the increase in the level of living as envisaged above.

Rapid Industrialisation

16. Industrialisation is a means, not an end. But considering the need for initiating the process of sustained and more rapid progress in subsequent plans, it becomes almost an objective in itself. From the long-term point of view, it is necessary to make a rapid advance in those sectors where the potentialities for further growth and the indirect benefits to other sectors are the greatest. It was with this end in view that the First Plan laid great emphasis on the development of irrigation and power in the country. In the Second Plan, a high priority must be accorded to the development of basic industries such as those producing iron and steel, machinery, electrical equipment and heavy chemicals. The development of these industries in the First Plan has not come up, by and large, to expectations; and this deficiency must be made good in the Second Plan. It is only by developing basic industries that a secure foundation for capital formation can be laid and the country made more and more independent of imports of vitally needed plant and equipment.

17. Historically, the development of heavy capital-goods industries has followed in the wake of a rapid

advance in consumer-goods industries in most countries. But it is not an uneconomic proposition to give priority to the development of heavy industries and to try and reverse the historical process, within limits. A country which seeks rapid development cannot rely on the export of food and raw materials for satisfying the major part of its increasing requirements of capital-goods. Nor can a comparative late-comer in the field of industrialisation hope for a sizeable expansion in the exports of manufactured consumer-goods. The hinterland of countries with an industrial vacuum is disappearing day by day, and countries placed in more or less the same position as we, are naturally anxious to develop industries themselves. Our natural resources put us at no serious disadvantage in the development of basic industries; and such deficiencies of capital or skill as we have, can be removed by careful planning. In both these respects, assistance from more developed countries would be welcome. The emphasis on the development of basic industries, therefore, is not in disregard of the possibilities of international exchange.

18. The major effort in the development of basic capital-goods industries must come from the public sector. This is necessary if the State is to have command over means of production in strategic sectors. Also, private enterprise is not likely to be able to provide the large capital requirements of such industries. Schemes for setting up iron and steel plants and an electrical equipment plant in the public sector are already under way; and the possibility of taking up new schemes in this field must be further explored. Special attention needs to be given to the production of machinery to be employed in other producer-goods

industries and to the production of synthetic petrol. Presumably, it would be necessary to expand steel capacity to 10 or 20 million tons in the next 10 or 15 years. It would be desirable, therefore, to try and fabricate as much of the steel-making machinery as possible at home. Similarly, the development of synthetic petrol in the country would reduce imports and serve as nucleus for the development of several other industries.

19. The private sector must also be encouraged to invest predominantly in the producer-goods industries. A number of such industries, as cement, chemicals and iron and steel are at present largely in private hands. However, a large part of the profits in organised industries is made in consumer-goods industries. Steps must be taken, therefore, to direct a larger flow of private investment into basic industries by suitable tax and credit measures and by making a stricter use of the powers to control capital issues and imports and by licensing of new enterprises.

20. The development of heavy industries would require fuller exploitation of our mineral resources, extension of transport facilities and a rapid expansion in the number of trained personnel in the country. Concrete schemes for scientific training, mineral development and transport must, therefore, be worked out in advance of the projects for heavy industries.

21. In the ultimate analysis, all wealth is forged by human hands and brains with the help of such resources of minerals, land or water as are endowed by nature. The need for extensive surveys to discover

additional mineral resources in the country can, therefore, be hardly exaggerated. At the same time, steps must be taken to conserve such scarce resources as high-grade coal and to develop domestic substitutes for minerals such as copper in which we are deficient. Where necessary, arrangements can be made with foreign countries to make up the gap in skilled personnel in the country by practical training abroad.

22. The development of capital-goods industries requires heavy investment, both directly and indirectly. At the same time, it creates additional demand for consumer-goods which it does not produce. The extent of such development is limited, therefore, by the feasibility of producing consumer-goods on the scale required with the help of the residuary investment funds. The basic strategy in the Second Plan must, therefore, be to invest large sums in the development of basic industries, transport and mining at one end and to economise as much as possible in the capital requirements for other sectors without restricting the supply of consumer-goods. This strategy requires all-out efforts for the maximum utilization of capacity in existing industries and for the development of additional production in the capital-light or small-scale sector of industries. Since a large part of the additional demand for consumer-goods would be directed against food, attention must be paid to the adoption of schemes which would increase productivity in agriculture quickly and at less capital cost.

23. A great deal of unused capacity exists at present in organised industries. This should be drawn upon as fully as possible. It is also possible to expand

production on the basis of existing equipment by working additional shifts. A detailed survey of unused capacity in different industries should, therefore, be undertaken as soon as possible and steps should be taken to ensure the fullest use of existing capacity before setting up new units.

24. The extensive development of small-scale industries in the Second Plan is essential for a number of reasons. Apart from releasing scarce capital resources for the basic industries, they would provide greater employment and incomes for a large number of persons organised in small enterprises. Measures to encourage and protect small-scale and village industries should, therefore, be an integral part of the Second Plan. But one must not lose sight of the fact that with increasing incomes, the pattern of consumption is liable to change fairly quickly, and the output of consumer-goods must be adapted to this changing pattern. Cottage and small-scale industries must not be thought of in terms merely of traditional techniques and traditional types of products.

25. Needless to say, a great deal of effort and organisation will be required for resuscitating small-scale industries. Should these not be forthcoming, the emphasis on capital-saving methods may well land us between two stools—the large-scale capital-using methods may get discouraged without other methods filling in the gap. We may thus have the worst of both the worlds. The consequence of this would be inflation or non-fulfilment of the investment planned.

26. It should also be borne in mind that with production organised on the basis of numerous units, the

problem of ensuring sufficient savings for further expansion becomes more difficult. It is comparatively easy to plough back incomes in organised industries for further progress. If this difficulty is not resolutely faced, the attempt to economise on scarce capital resources in the short run might make capital scarcer still in the future. To a considerable extent this difficulty can be got over by promoting co-operative organisation.

27. Once the economy gets going, employment opportunities become more plentiful, and investible surpluses increase, it would be possible, nay desirable, to introduce more efficient methods of production in the consumer-goods industries as well. Indeed, the ultimate justification for developing producer-goods industries lies in the need for modernising the production of consumer-goods and making it more efficient. Although part of the output of capital-goods may be exported or used for further expansion of producer-goods industries, a part must be absorbed in the modernisation of consumer-goods industries. Thus the development of heavy capital-goods industries is consistent with and requires modernisation of methods of production in other sectors over a period of time. The strategy of balancing the development of producer-goods industries at one end with encouragement of capital-light methods of production at the other end is justified in the immediate future only because we hope that at a later date our savings would rise sufficiently to permit the adoption of capital-using methods over a larger area without starving the rest of the economy for capital and without creating unemployment.

28. Even in the short run, the mechanised consumer-goods industries must be encouraged to modernise and expand where small-scale industries do not provide an effective substitute and where it is possible to expand exports. A plan for the development of heavy industries would inevitably strain our balance of payments position; and any disregard of export possibilities would only defeat the basic purpose in hand.

Fuller Employment

29. A large increase in employment opportunities must be regarded as a principal objective—the kingpin—of the Second Plan. The nature and extent of the problem, however, needs to be carefully defined.

30. First, if there is to be no increase in unemployment, the entire increase in the labour force during the Plan period must be absorbed in gainful occupations. For a population increasing by some 1.25 per cent every year and with a labour force of some 40 per cent of the population, it would be necessary to create new employment opportunities for at least 9 to 10 million persons in the Second Plan.

31. Second, effort must be made to correct, if not to eradicate, such unemployment as already exists in the country. Some of this unemployment is vert; it is unemployment among those who are prepared to work for a wage or a salary. Here the problem can be stated specifically in terms of the number of jobs that must be created. Such unemployment exists in India, particularly in the urban areas and among the educated classes. There are at present some 6 lakh persons seeking jobs through Employment Exchanges in India.

The creation of certain number of jobs—say 2 millions —in the strict sense of the term must be a part of any programme for adequate employment opportunities.

32. For the large number of peasants, craftsmen and small traders, who are self-employed, unemployment arises in the form of lack of gainful work for a part of the year. In this area, the task of creating more employment is not easily distinguishable from that of providing higher incomes. In a sense, as long as incomes of peasants and craftsmen are raised by providing better techniques, more irrigation and greater demand for their products, it is immaterial whether they work all the year round or not. What is shocking is not that they do not have work for a part of the year but that their back-breaking labour for such time as they do work, earns them only a miserable pittance. For those who have some gainful occupation of their own, the emphasis should lie on greater productivity and incomes rather than on employment over a greater part of the year. But, even so, supplementary occupations will have to be found for considerable numbers.

33. There is a special aspect of the unemployment problem, particularly in agriculture, which must be mentioned here. This is disguised unemployment. In an agricultural economy which has remained stagnant for years, a large number of persons remain attached to agriculture without really contributing anything to production. Since gainful occupation outside agriculture is not available to a sufficient degree, the protective instincts of society give everyone some stake in economic activity even though their services are strictly redundant. If employment outside agriculture is available in the future, it should be possible to transfer a certain number of persons at present dependent

on land to other jobs without affecting agricultural output. Although the existence of such disguised unemployment is often asserted, no estimate of its amount is available, or is easy to make. If techniques of production in agriculture improve so as to reduce the demand for labour, especially at harvest time, it would be possible and necessary to transfer a part of the population dependent on agriculture to other occupations. Such a transfer of population from land, however, is a long-term task; for the Second Plan it would be sufficient to aim at stabilising, more or less, the present level of employment on land.

34. On this basis, the employment target for the Second Plan should be of the order of 12 million. It may be noted that this target relates not only to jobs in the strict sense of the word but includes all gainful occupations. The aim should be to absorb these 12 million persons outside agriculture. In addition, it would be necessary to provide additional work or incomes to those already employed in agriculture and small enterprises.

35. It may well be that the total number of persons working in agriculture and allied pursuits increases by a million or two during the Second Plan in any case. Even if adequate employment opportunities outside agriculture are available, some additional persons may prefer to be absorbed in agriculture. After all, more than 6 out of the 9 million persons added to the labour force in this period would be attached to agriculture to begin with. If incomes in agriculture are rising, some of them may prefer not to take up an alternative occupation even at a somewhat higher remuneration.

Again, in some parts of the country, additional employment on land would be economically desirable, for example, on newly reclaimed land.

36. In the context of an employment-orientated plan, there often arises a conflict between greater production and greater employment. If employment is to be maximised, labour-intensive methods of production have to be preferred. On the other hand, capital-intensive methods are more productive. The relative roles to be assigned to these two methods of production deserves careful consideration. This conflict is particularly relevant to the manufacture of consumer-goods. For a single industry, the superiority of a capital-intensive method is easy to demonstrate. But a poor economy as a whole cannot be run on the basis of up-to-date capital-intensive methods for the simple reason that there is not that much surplus for investment to go round. Obviously, therefore, the over-all availability of investible funds and the competing claims on them should determine the relative roles of small-scale and large-scale or mechanised methods of production in the manufacture of consumer-goods. If our aim is to develop basic industries in the Second Plan, as has been argued earlier, the protection and encouragement of small-scale industries assumes importance as a means of preserving a balance between the supply and demand for consumer-goods, quite apart from their employment potential.

37. For absorption of the unemployed, we should not think exclusively in terms of "industries" only. There are a number of activities such as construction of houses, roads, dams and laying of railway tracks

where 'labour-using' methods may be just as economical as others. An increase in these activities can be a very useful source of additional employment.

38. The theoretical reasoning stated above notwithstanding, difficult cases of reconciliation between the two objectives of greater production and greater employment are bound to arise in practice. Granted the need for encouraging and protecting small-scale and village industries, how far should this process be carried? The protection of small-scale industries also implies a redistribution of incomes within the community. The limit to such protection and encouragement—apart from considerations of export and the feasibility of the requisite organisational effort—must be prescribed, therefore, in the light of the broad social objective of protecting and promoting the level of living at lower levels in preference to raising of standards at a higher level.

39. Since some unemployment may be unavoidable for reasons of immobility of labour and the like, an employment-orientated plan must provide for unemployment insurance or relief, with facilities for training and placement, at least in the urban areas. For the rural areas also, it would be an advantage to hold in readiness a number of labour-intensive schemes of public works in case of threatened unemployment. Steps must also be taken to collect promptly data about the emerging pattern of employment and unemployment so as to facilitate the adoption of remedial measures in time.

Social Justice

40. As in the case of all things that really matter in life, social justice is easy to recognise but not so easy

to define. Since the goal of a socialist pattern has now been clearly accepted, concrete steps in this direction have to be taken during the next plan period.

41. An important element in this transformation must be land reform with a ceiling on holdings and an explicit transfer of property rights to the actual tillers of the soil. In order to be economically meaningful, land reform must be supplemented by consolidation of holdings and by provision of credit, marketing and warehousing facilities in the rural areas on the lines indicated in the report of the Rural Credit Survey.

42. A socialistic pattern of society also implies State ownership or control of the strategic means of production. With the rapid development of basic industries, largely in the public sector, the Second Plan would ensure for the State a significant increase in its influence on this sector. Where necessary, the State must be prepared to enter into other spheres such as banking, insurance and trading.

43. Certain basic necessities of life must be provided to a greater proportion of the people irrespective of their ability to purchase the same in order to achieve a greater equality of opportunities in the country. Among these, education and health come first. What is important is not merely an increase of schools and colleges but also an assurance of access to them for children of the poorest parents. The Second Plan must pay special attention to the provision of free boarding, lodging and tuition facilities to poor and deserving students from the primary right up to post-graduate levels. In other words the sphere of public or communal consumption must be increased as the share of the public sector in productive enterprise goes up.

44. Conspicuous consumption by the more well-to-do classes must be checked. In a poor country trying to lift itself by the boot-straps, the self-denial and labour of the poor must provide directly or indirectly the major part of the resources for development. But such self-denial and effort cannot be justified in the midst of glaring inequalities. Conspicuous consumption by a few persons also serves to dissipate the habit of thrift in others who follow suit in some measure for reasons of social prestige. Curbing of conspicuous consumption requires a fairly stiff system of taxes on luxuries. But, basically, the solution is reducing expendable incomes through direct taxation.

45. The Taxation Enquiry Commission has recommended that there should be a ceiling on net personal incomes after tax which, generally speaking, should not exceed approximately 30 times the prevailing average per family in the country. This recommendation is intended to be implemented by steps over a period of time; but a few steps must be taken in this direction in the Second Plan.

46. The emphasis on employment opportunities in the Second Plan will raise incomes at lower levels. At the same time, an inflationary rise in prices which corrodes living standards of the workers and the middle class must be avoided as far as possible; and in the event of inflationary measures gathering strength, steps must be taken to prevent the concentration of wealth and incomes in the hands of the trading and profit-making classes.

47. Industrial relations must be so arranged as to provide labour with both economic security and fair wages. The claims of capital accumulation must, of

course, have precedence in the allocation of profits but a proportion should be devoted to increasing amenities like housing, providing training with a view to promotion, etc. In public undertakings, the State must set an example as a model employer.

48. Agricultural prices are not likely to remain depressed during a bold plan for rapid industrialisation. In the event of a sustained fall in agricultural prices, demand must be stimulated promptly by greater public expenditure and by open market operations by the Government. Any sharp turn in the terms of trade against agriculture would depress the living standards of the large mass of people, jeopardise the increase in agricultural productivity and would curtail demand in general.

3. THE SECOND FIVE YEAR PLAN IN OUTLINE

1. We may now work out in more concrete terms the tasks to be taken in hand in the next plan period in view of the objectives stated above. We then go on to indicate the investment requirements of the targets outlined and their impact on employment opportunities and the structure of the economy.

2. The development of the economy envisaged for a given period ahead, must satisfy three requirements. It must conform to the basic objectives of social policy. The growth of different sectors of the economy must be balanced in the sense that the requirements of each sector in terms of men, machines and materials must

be forthcoming in right quantities at the right time and the products and services of each sector must be promptly and fully utilized so as to promote the growth of other sectors of the economy. Third, the particular pattern of development envisaged must represent an optimum or an economically efficient choice from among the various alternatives available.

3. If the criteria just outlined are to be satisfied in formulating a plan, we have to take into account the socially desirable norms of consumption in certain specified fields such as health and education; the pattern of consumer demand; the scope for international exchange; the interdependence of different industries; alternative methods of production available in different sectors; and the feasibility of mobilising certain intangible factors such as inventiveness and enterprise. In addition, we must proceed from a proper assessment of such resources of man-power, capacity or minerals and land as are unutilised or under-utilized to begin with. It is clear that the formulation of a plan in detail requires supplementing of existing statistical knowledge on a number of points, and such knowledge will grow if the preparation of the plan is taken in hand in terms of a frame tentatively thought out with the help of existing information and of broad judgments.

4. The tentative targets for the Second Plan as outlined in this paper are fixed, as far as possible, with reference to available data and in the light of our experience in recent years. In some cases, policy pronouncements already made have been accepted as a starting point. Complete consistency cannot be claimed for them at this stage. The purpose of the tentative

frame work given here is not to present a set of targets or a statement of the material or monetary requirements which must be treated as given, but to present the broad order of magnitudes involved in reaching defined objectives and thereby to initiate the process which would culminate in the formulation of the plan. Planning is a continuous process of reviewing and revising the tasks to be performed in the light of experience gained and after consultation at various levels. Initial assumptions can be modified in the light of further experience as the plan comes into operation. In the meanwhile, a tentative outline of the tasks to be performed in the next plan may throw some light on the decisions to be made by giving a rough measure of the effort involved in various directions for arriving at a desired set of results.

5. It is not possible at this stage to indicate the phasing of the Plan annually over the five-year period. Targets are set for the final year of the Plan (1960-61) and these are compared with our performance over the First Plan. It would be necessary in the next few months to work out the annual phasing of the Plan. If the Plan fails to gather momentum in the early stages or is thrown out of gear as a result of bottlenecks, the tempo of development in later years is also likely to be retarded. Considering the falling price trends and the unemployment situation, a fresh momentum must be given to the development effort at the very start.

6. The outline of the Second Plan given in this chapter is essentially in real terms inasmuch as targets are expressed in quantities, and magnitudes such as investment and national income are expressed at constant prices. In a money economy the financial aspect

of the plan is inseparable from the physical aspect. Incomes are generated in the process of production and supplies are utilized through market operations. Balanced development requires that supply and demand are balanced in money and real terms. Thus, aggregate incomes must equal aggregate expenditure, savings must match investment, and the supply and demand for individual goods and services must equal in terms of money so as to avoid any inflationary rise in prices or an undesirable shift in relative prices. The question of over-all balance in the economy is discussed in the next chapter, whereas in the present chapter we are concerned with the balance between individual sectors.

7. No attempt is made in this note to indicate the requirements of technical and managerial personnel for the fulfilment of the targets outlined. But it is clear that this gap must be filled early and the Plan itself must provide for creating such resources of skilled personnel and administrative cadres as are needed for its fulfilment. Administrative and financial arrangements also must come for review in this connection.

Targets of Production

8. The provisional targets for production of important commodities and services are given in the table at the end of this section. A few comments are offered here on the assumptions underlying the targets in some important sectors.

Agriculture

9. Despite the general emphasis on industries in the Second Plan we cannot afford to relax in our efforts to increase agricultural productivity in view of our increasing population, growing incomes, limited area,

uncertain monsoons and low nutritional standards. It would also be necessary to provide for the raw materials needed in industries and for exports (or replacement of imports)

10. With a 20 per cent increase in the total consumption over the Second Plan, the consumption of *foodgrains* may well increase by some 15 per cent. It would also be reasonable to expect a shift in favour of superior foodgrains such as pulses and wheat as against millets, and, to some extent from grains to other nutritional or protective foods. In terms of quantity, the consumption of foodgrains is likely to increase less rapidly than the consumption of other commodities. On this basis, an increase in the production of foodgrains from 66 to 76 million tons or so should ensure the maintenance of self-sufficiency on an average at slightly higher standards of consumption. In the case of other foods such as milk, ghee, meat, fish, eggs and vegetables, demand is likely to be more income-elastic, and a provision of a 25 per cent increase in production is, therefore, made. However, in the case of milk, meat and eggs, detailed schemes will have to be worked out if production is to increase on the scale indicated. If this is not feasible, a more liberal provision must be made for the supply of additional foodgrains.

11. The increase in the output of *cotton* from 4.2 million bales to 5.8 million bales is related to the production of cotton textiles, and it is assumed that the country would reduce its net imports of cotton substantially by 1960-61.

12. The total yield of *sugar-cane* would increase from some 5 million tons (raw gur) to 7.5 million toms. The demand for sugar is highly income-elastic; and we

are currently importing large quantities of sugar. We have been self-sufficient in the supply of sugar in the past, and it is not unreasonable to expect that we would revert to that position in the Second Plan.

13. The production of *oil-seeds* is expected to increase from 5.6 to 7 million tons largely in response to domestic demand.

14. In the case of important export items such as *tea* and *tobacco*, exports must be maintained and increased as far as possible in spite of greater consumption at home. The increase in the production of tobacco from 250 to 300 thousand tons and of tea from 675 to 750 million lbs. is postulated on this basis.

15. Apart from the important commercial crops like cotton and tobacco, attention must also be paid to others which have been hitherto of only marginal significance. Some of the marginal items like *wool* are bound to increase in demand at home and have good export prospects. Wool also has special significance from the point of view of providing emloyment in some of the poorer areas such as Rajasthan, Saurashtra and Jammu and Kashmir.

16. The lines on which efforts must be made to raise agricultural production are already clearly established. In order to achieve the targets outlined above, the total *irrigated area* in the country must be increased from 70 to 100 million acres. Special attention must be given to flood-control. The extension of *NES blocks and community projects* to cover the entire country by the end of the Second Plan is already contemplated; and the Rural Credit Survey has indicated the role of credit, marketing and warehousing facilities as the spearhead of rural uplift. Apart from this, the policy of ensuring

an adequate return to agriculturists and the speedy implementation of a well-defined scheme of land reforms have already been emphasised.

Industrial and Mineral Development

17. The development of basic industries in the country has been emphasised as one of the major objectives of the Second Plan. The targets set in this field are somewhat generous in the sense that provision is made for a number of possibilities which remain to be explored fully. Since in this field our endeavour is to develop in new lines, it is necessary to indicate, however tentatively, some concrete possibilities which are desirable in themselves. Detailed projects must be worked out before any of these possibilities are taken up for implementation.

18. The production of *steel* in the country can be raised to five million tons and steel capacity to six million tons by the end of the Plan by expanding the capacity of existing plants and by setting up three new steel plants in the public sector. It may be necessary however, to prepare the market for this steel by developing other industries on the basis of imported steel in the early stages. If steel production is to expand further in subsequent plans, it would be desirable to set up a number of plants for producing the machine-tools required for fabricating the equipment in steel plants and in other producer goods industries.

19. Similarly, the production of *heavy electrical equipment* such as generators and turbines must be started in order to make the country self-sufficient in the growing requirements arising from rapid electrification of the country.

20. We have already made a beginning with the production of *railway rolling stock* in the country, and the railways have a big plan for expansion and re-equipment. The production of locomotives, wagons and coaches in the country can be increased by working existing equipment to full capacity on a multi-shift basis. In view of these considerations, it is not unreasonable to plan for a sizeable increase in the production of railway equipment in the country.

21. There is considerable unutilized capacity in the existing units producing agricultural implements, diesel engines, light engineering goods, and machinery for textile, sugar and other consumer goods. The scope for import substitution is also great in this field; and doubling of output, therefore, may be appropriate.

22. The *fertilizer* target assumes "three more Sindris". On an average, a three-fold increase in the output of *heavy chemicals* is envisaged. Plans for the production of 300,000 tons of *synthetic petrol* have been on the anvil; and this target is included in view of the need for economising on imports and for the development of associated chemical industries. The increase in the production of *aluminium* is envisaged in order to make up for the shortage of copper in the country and to meet the requirements of electrification. The output of 40,000 tons proposed represents a doubling of the target (capacity) proposed in the First Plan. Since production of aluminium has lagged far behind the Plan so far, a considerable effort would be needed to realise the target set here.

23. The production of *coal* and *iron-ore* is related to the needs of other sectors. In the case of *mica* and

manganese allowance is made for increased consumption at home and for somewhat higher exports.

24. The targets for manufactured consumer goods are fixed with reference to the increase in demand resulting from a 25 to 27 per cent increase in national income or a 20 per cent increase in total consumption. Some allowance is made for increased exports, and production by cottage and village industries is expected to increase substantially.

25. The production of mill-made *cotton cloth* is expected to increase from 5,000 million yards to 5,500 million yards, and that of handlooms and small power looms from 1,600 million yards to 3,200 million yards. This would provide for a domestic consumption of 18 yards per person per year while allowing for additional exports of some 500 million yards by the end of the Plan. In the case of *sugar*, an increase in production from 1.4 to 2.1 million tons will make the country self-sufficient while allowing for a sizeable increase in total consumption. The targets for *vegetable oils* and *footwear* are based on similar considerations.

26. In the case of the newer industries producing *electrical goods, bicycles, sewing machines* and *glassware* where there is some excess capacity and where export prospects are good, increases in production ranging from 60 to 100 per cent and even more can be expected.

Transport and Power

27. Development of power and transport are essential preconditions for rapid industrial progress. The

First Five Year Plan outlined a long-term programme for the development of power resources in the country over a period of fifteen to twenty years. It was expected that the installed capacity for the generation of *electricity* would increase from 2.3 to 3.5 million kwh. over the First Five Year Plan. In view of the programme for rapid industrialisation envisaged here, this capacity must be increased to 6 million kwh. by the end of the Second Plan.

28. In the case of *railways*, there is a considerable lag in the development of both goods and passenger traffic. However, the Railways already have a tentative plan of expansion and re-equipment of some Rs. 800 crore. This plan, which calls for an addition of 3,000 miles of railway lines, among other things, may be accepted as the first approximation to the task in the Second Plan.

29. The long-term development of *roads* in the country has already been outlined in the Nagpur Plan. An expansion of road building in the Second Plan is desirable from the point of view of providing both employment and the basic amenities of life in the rural areas. It is reasonable, therefore, to plan for an expansion of national highways from about 12.5 to 17.5 thousand miles and of State roads from about 20 to 35 thousand miles.

Social Services

30. The provision of basic services and amenities such as schools, hospitals, housing, water-works, drainage and parks must respond primarily to the expression of popular needs. It is in this sphere that "planning from below" has real significance. The district plans

under preparation now should give a fair measure of popular aspirations in this field. The extent to which social services can be expanded in the Second Plan is primarily a function of such local initiative and popular partcipation as we are able to elicit by leadership and organisation. The extention of social services must also keep step with the increase in the productive power of the community. Considering the prevailing low standards of health, education, housing etc., to which attention has been drawn earlier, the targets set here appear to be a sort of minimum to be aimed at. It has also been emphasised that apart from increasing the basic amenities and services of life, steps must be taken to make them available to a large proportion of the people irrespective of their means.

Production and Activity in Selected Sectors

	1950-51	1953-54	1955-56	1960-61 (Estimates)
I. *Agriculture*				
Foodgrains (m. tons)	50.0	65.7	66.0	76.0
Other food items (index)	..	..	100	125
Cotton (m. bales)	2.9	3.9	4.2	5.8
Sugarcane (m. tons rawgur)	5.6	4.6	5.0	7.5
Oil-seeds (m. tons)	5.1	5.6	5.6	7.0
Tobacco (th. tons)	258	256	250	300
Tea (m. lb.)	607	675	675	750
Irrigation (m. acres)	50	58	70	100
NES and Community projects (blocks)	..	479	1,200	5,600
II. *Industries*				
Pig iron for foundries (m. tons)	..	..	0.35	1.8
Finished steel (m. tons)	1.1	1.1	1.3	5.0
Cement (m. tons)	2.7	4.0	4.8	10.0
Aluminium (th. tons)	3.7	3.8	4.0	40.0
Fertilizers (index)	..	..	100	400
Heavy chemicals (index)	..	..	100	300
Synthetic petrol (m. tons)	nil	nil	nil	0.30

	1950-51	1953-54	1955-56 (Estimates)	1960-61
Cotton textiles (m. yds.) Mill	3,718	4,906	5,000	5,500
Handloom & powerloom "	742	1,200	1,600	3,200
Woollen manufactures (m. lb.)	18	19.6	20	25
Sugar (m. tons)	1.1	1.1	1.4	2.1
Soap (th. tons)				
Large-scale } Small-scale }	106	76	85	120
		..	28	40
Footwear (m. pairs)				
Large-scale	5.2	5.7	6.0	7.0
Small-scale	..	..	80.0	100.0
Vegetable oil (m. tons)	1.2	1.4	1.5	2.0
Electrical goods (index)	..	..	100	166
Bicycles (thousands)	101	290	500	1000
Sewing machines (thousands)	33	68	90	150
Metalware (small-scale ; index)	..	..	100	133
III. *Minerals*				
Coal (m. tons)	32	36	37	60
Iron-ore (m. tons)	3	4	4	13
Mica (cwts.)	162	..	150	200
Manganese (m. tons)	1	2	2	3.5
IV. *Transport and Power*				
Shipping (tonnage th.)	391	525	610	..
Railway (mileage)	..	..	34,500	37,500
Roads (th. miles) :				
National highways	11.9	12.2	12.5	17.5
State roads :	17.6	..	20.0	35.0
Electricity (m. k wh. capacity)	2.3	2.8	3.5	6.0
V. *Social Services :*				
Hospital beds (thousands)	107	112	125	250
Doctors (registered)—thousands	..	65	70	90
Urban houses (lakhs)	101	..	120	150
Education (% of total children 6—14 going to school)	32	..	40	60

Investment and Priorities in the Plan

31. The main targets to be achieved in the Second Plan have been indicated above, and these are summarised in the table just given. In this section, the investment requirements of the Plan are brought together so

as to indicate the over-all size and priorities in the Plan. The concept of "investment", however, bristles with ambiguities; and in view of the variety of concepts in the field, it is necessary to specify clearly what is included in investment here.

32. In the First Five Year Plan, two concepts were used to denote the size of the Plan, *viz.*, net investment and developmental expenditure. Thus the net investment in the public sector was expected to be of the order of Rs. 1,600 to Rs. 1,700 crore; whereas the developmental expenditure which includes outlay of a capital as well as current nature was initially estimated at Rs. 2,069 crore. Since outlay on the Plan included only a portion of the outlay on certain developmental heads such as health and education, an additional concept of total developmental outlay (as distinguished from that included in the Plan) has also been used at times to indicate the size of the Plan. In the case of 42 organised industries in private and public sector, the First Plan considered the requirements of gross rather than net investment inasmuch as allowance was made for part of depreciation, replacement and modernisation. Similarly, the requirements of working capital were taken account of in the case of industries, but not for other sectors.

33. For the purposes of this paper, we speak of 'net investment' when referring to the economy as a whole. If our idea in assessing the 'investment cost' of a plan of certain size and character is to measure the effort of saving that is involved, it is more logical to consider gross income and gross investment. The entire gross product of the economy is, strictly speaking, available for consumption or investment. The allowance to be

made for depreciation is in many cases notional in the sense that except in the case of repairs, maintenance or replacements no real resources are in fact required currently against the estimated amount of depreciation. Replacement itself is seldom a mere substitution of one machine or building by another of the same type. Nonetheless, since our national income statistics are expressed in net output terms, it may be convenient to relate them to net investment.

34. Non-monetised investment is not included in investment. In a predominantly rural community of self-supporting persons, a significant amount of investment must be done by the application of personal labour and by using locally available materials. With the efforts to mobilise voluntary labour for various nation-building activities such as flood-control, investment in non-money terms must play an important part. It is also illogical not to include such investment when the income generating from it is included in national output. However, in view of the highly conjectural nature of the imputed value of such investment, it is proposed to disregard it at this stage.

35. As regards investment in working capital, i.e., in stocks of goods and services waitng to be consumed or to be utilised in production, it is clear that any additional requirements here are indistinguishable from the requirements of the fixed capital. Both require "savings" in real and financial terms; and as the Rural Credit Survey amply points out, provision of short-term capital has as much relevance to production as that of long term capital. Indeed, unless increments in stocks of all goods are included in investment, it

would be difficult to justify the inclusion of residential houses in investment. Construction of a house is investment not because it resembles a producer goods more than a consumer goods but because it represents a net addition to the stock of houses. The requirements of additional working capital over a period are not easy to estimate; but a rough allowance is made for them here.

36. Although it is more meaningful to speak of net investment when referring to the economy as a whole, it is useful to retain the concept of developmental expenditure in speaking of the public sector. Whether this developmental expenditure under the Plan should include only a part or whole of the expenditure in certain specified heads is a question to which we return later. But at this stage, it may be emphasised that as long as we use more than one concept to indicate the size of the Plan in the public sector, it would be essential to recast Government budgets in a manner which would make explicit the magnitudes of all these concepts. Thus, the net capital formation through the budget, the total developmental outlay and the out lay on the Plan must be all readily ascertainable from the budget statements.

37. The total amount of net investments required for achieving the targets outlined above may be estimated at about Rs. 5,600 crore. This estimate is made up by aggregating, wherever possible, the capital requirements of the individual targets. However, this procedure cannot be adopted uniformly for two reasons. The targets do not cover all the items of production. And in several important sectors, particularly in agriculture, investment is multi-purpose in the

sense that only a complex of products can be related to a complex of investment.

38. Again, it is not as if all the investment in the community is strictly required for the achievement of the targets set. Residential construction, stock-pilling and investment in gold and precious metals can take place irrespective of the requirements of the targets sought to be achieved. It is as well, therefore, to be clear in our minds as to how much allowance we make for such investment.

39. A tentative breakdown of the net investment of Rs. 5,600 crore may be given as follows:

ALLOCATION OF NET INVESTMENT IN THE ECONOMY

	Rupees crores	*Percentage of total*
1. Agriculture and Community Development (including irrigation and flood control)	950	17·1
2. Power	500	8·9
3. Transport and Communications	900	16·1
4. Industries and Mining (incl. small-scale)	1,400	25·0
5. Construction (houses, shops, schools, hospitals, etc.)	1,350	24·0
6. Stocks and Miscellaneous	500	8·9
TOTAL	5,600	100·0

40. Strictly comparable figures for the economy as a whole are not available for the First Five Year Plan

But total net investment in the First Plan was originally envisaged to be of the order of Rs. 3,500 to 3,600 crore. The provision made for aggregate investment in the Second Plan, therefore, is about 55 per cent higher than that in the First Plan. As regards the pattern of investment the major emphasis is on industries and mining. A detailed breakdown of the investment of Rs. 1,400 crore in industries and mining (public and private) may be given as follows:

	Rupees crores	*percentage*
1. Iron and Steel	425	30·4
2. Synthetic Petrol	80	5·7
3. Heavy Machinery to fabricate plants for steel and producer goods	150	10·7
4. Heavy Electrical Equipment	40	2·9
5. Machinery for Agriculture and Consumer Goods Industries	50	3·6
9. Existing State Enterprises (expansion)	50	3·6
7. Cement	50	3·6
8. Chemicals and Drugs	50	3·6
9. Fertilizers	100	7·1
10. Aluminium	30	2·1
11. Minerals and Prospecting	75	5·4
12. Factory Consumer-Goods	100	7·1
13. Small-scale and Village Industries	200	14·3
TOTAL	1400	100·0

41. The provision made for industries and mining here corresponds to the targets outlined earlier. The major part of investment is devoted to basic industries and it is assumed that existing enterprises would work to full capacity on a multi-shift basis wherever possible

A generous provision of Rs. 200 crores is made for small-scale and village industries in view of the considerations outlined earlier.

42. It may be useful to relate these magnitudes to developmental outlay as conceived in the First Plan. For this purpose, we may assume that out of the total net investment of Rs. 5,600 crore, some Rs. 3,400 crore would be organised through Government's budgetary and other operations and the remaining Rs. 2,200 crore or so would represent private investment from private sources. Needless to say, this is only a tentative breakdown.

43. The developmental expenditure under the Plan in the public sector, corresponding to the net investment of Rs. 3,400 crore, might amount to roughly Rs. 4,300 crore. This figure is roughly comparable to the outlay of Rs. 2,069 crore initially proposed for the First Plan. In addition to capital formation proper, a part of the current expenditure on nation-building activities such as health, and education has also to be included in the Plan in the public sector.

44. A tentative breackdown of the Plan outlay of Rs. 4.300 crore in the public sector might be as follows:

Outlay on the Plan in the Public Sector

(Rs. crores)

	Second Plan				*First Plan*	
	Investment outlay	*Current outlay*	*Total outlay*	*Percentage*	*Percentage*	*Total outlay*
1. Agriculture, Irrigation and Community Development.	750	200	950	22	..	..
2. Power	450	..	450	10.5	44	990
			1400	33		
3. Transport and Communications.	850	100	950	22	24	536
4. Industry and Minerals.	1000	100	1100	26	8	178
5. Construction and Social Services.	250	500	750	17	24	544
6. Stocks	100	..	100	2	..	..
TOTAL	3400	900	4300	100	100	2248

45. A considerable shift in favour of industries and mining is thus envisaged in the Plan for the public sector. Nonetheless, the actual expenditure on all other sectors such as social services, agriculture and transport in the Second Plan, as proposed here, is significantly greater than in the First Plan. The total Plan outlay in the public sector (Rs. 4,300 crore) is roughly double the outlay envisaged in the First Plan (Rs. 2,248 crore).

46. The total net investment of Rs. 2,200 crores in the private sector might be distributed roughly as follows:

	(Rs. crores)
Construction	1100
Industry, Mining, Power and Transport . .	500
Agriculture and allied pursuits . . .	200
Working capital in trade and industry and miscellaneous	400
TOTAL	2200

47. It need hardly be emphasised that the pattern of investment outlined above is provisional and is intended to give only an approximate idea of the size and priorities in the Plan.

National Income and the Structure of the Economy

48. One way of describing the objectives of the next Plan would be to compare the structure of production as it is expected to emerge at the end of the Plan (1960-61) with that prevailing on the eve of the Plan (1955-56). This is done in the present section.

49. The latest available estimate of India's national income relates to the year 1953-54. At current prices, the national income of India in 1953-54 was approximately Rs. 10,600 crores. In order to present a picture of the change in the economy over the Second Five Year Plan, it is necessary to have an estimate of national income for the year 1955-56. Even if we make allowance for the fact that national income in 1953-54 was somewhat unusually high on account of favourable monsoons, it is not unreasonable to expect that national income over the last two years of the First Plan would increase by some 4 per cent. On this basis, national income in 1955-56 should exceed Rs. 11,000 crores at 1953-54 prices.

50. However, judged by recent trends, prices in 1953-54 were also high. In outlining the change in the economic structure over the Second Plan, we have necessarily to make all calculations at some constant prices. In one sense, it does not matter what particular prices we use. Nonetheless, since some estimates such as these of government receipts and expenditure are necessarily made at current prices, it is important that other calculations are also made at prices as near as possible to the prices current in the period under consideration. For Second Plan, we have worked out our calculations in terms of 1952-53 prices inasmuch as they are nearer to current prices than those in any other recent year for which national income data are available.

Index of Wholesale Prices in India

(Year ended Aug. 1939=100)

Index of Wholesale Prices in India
(Year ended Aug. 1939-100)

	Food Articles	Industrial Raw materials	Semi-manufactures	Manufactures	General index
1948-49 .	383	445	327	346	376
1949-50 .	391	472	332	347	385
1950-51 .	416	523	349	354	410
1951-52 .	399	592	374	401	435
1952-53 .	358	437	344	371	381
1953-54 .	384	467	359	367	398
1955-Jan, 22.	309	431	345	377	363

51. The national income of India in 1955-56 (at 1952-53 prices) may be estimated at Rs. 10,800 crores. With a 5 per cent increase per annum it should amount

to Rs. 13,700 crores in 1960-61 i.e., an increase of Rs. 2,900 crores. This increase is consistent with the targets set as supplemented by assumptions about minor sectors not included in the targets.

52. The increase in national income would obviously not be uniform for different sectors. The following table illustrates the change in the economic structure envisaged for the Second Plan in terms of the sector-wise breakdown employed in national income statistics.

Domestic Product of India

(at 1952-53 prices)

	Domestic Product of India (at 1952-53 prices) Products (Rs. abja)			Per cent of total products		
	1950-51	55-56	60-61	50-51	55-56	60-61
I. Agriculture & allied pursuits . .	45·2	52·8	63·4	49·12	48·9	46·3
II. Mining .	0·8	1·0	1·5	0·9	0·9	1·1
III. Factory Establishments. .	5·8	8·0	13·5	6·3	7·4	9·9
IV. Small Enterprises .	9·3	10·2	14·3	10·1	9·4	10·4
V. Railway, Communications, Banks etc. . .	3·1	3·6	4·7	3·4	3·3	3·4
VI. Other Commerce and Transport	13·4	15·1	18·8	14·6	14·0	13·7
VII. Professions, Government services etc. .	14·3	17·3	20·8	15·6	16·0	15·2
TOTAL PRODUCTS :	91·9	108·0	137·0	100·0	100·0	101·0
Per Capita Product (Rs.)	256	282	334	..	..	..

53. It is clear from the table given above that of the total increase in national income (Rs. 2,900 crores) the

largest part would still be in agriculture and allied pursuits (Rs. 1,060 crores). Factory establishments would show an increase in net output of some Rs. 550 crores, mines of Rs. 50 crores and small enterprises of Rs. 410 crores. The rest of the additional output of about Rs. 830 crores would be generated in the tertiary sector. However, in relative terms, the increase in income generated would be greater in factory establishments (65 per cent), mining (50 per cent), and small enterprises (40. per cent) than in agriculture (20 per cent) or in the tertiary sector (23 per cent). On balance, the relative share of mines, factories and small interprises in the national income would increase from 17·7 per cent in 1955-56 to 21·4 per cent in 1960-61 and that of agriculture would decline correspondingly from 48·9 per cent to 46·3 per cent. Thus, despite the relatively high targets for industries, the structure of the economy would show only a small change over the Second Plan period.

54. The classification of domestic product by sectors given above does not reveal certain features of the development envisaged for the Second Plan. Thus, the development of heavy industries is obscured in the total of factory establishments. Similarly, the small enterprise sector is not identical with the small industries sector. It includes in addition workers employed in construction industries. A further breakdown of these sectors can be attempted only on rough lines. Thus although the net output of factory establishments increases by two-thirds, the output of consumer goods industries is expected to increase by some 20 per cent only whereas that of producer-goods by 150 to 175 per cent. In the case of small enterprises, as against a total increase of 40 per cent in net output, that of consumer-goods is envisaged to increase by one-third of producer-goods by 50 per

cent and of construction enterprises by some 60 per cent

55. Similarly, the increase in agricultural output of 20 per cent comprises a 15 per cent increase in foodgrains and 25 per cent in other foodstuffs and commercial crops.

56. In short, the structure of production envisaged here is in correspondence with the priorities dictated by the basic objectives outlined earlier. Heavy industries receive the greatest emphasis; in the production of additional manufactured consumer goods, small enterprises get a roughly equal share with factory establishments; and the output in agriculture shows a significant increase of 20 per cent.

57. The national income calculations just outlined are based on the physical targets described earlier. The physical targets themselves were based in most cases on the assumption of a 25 to 27 per cent increase in national income over five years or a 20 per cent increase in total consumption. (Allowance has to be made for greater investment.) The structure of the economy in 1960-61, as envisaged here, therefore, takes into account the increased expenditure on different goods and services as national output increases—after making allowance for such exchange of domestic goods for foreign goods as was implied in the physical targets set.

THE PATTERN OF EMPLOYMENT

58. The creation of adequate employment opportunities is one of the basic objectives of the Second Plan. Some of the implications of this policy have already been set forth earlier. In this section we may consider whether the target of 12 million additional persons to be pressed into gainful occupation outside agriculture

can be realised in terms of the Plan envisaged here. Unfortunately, our knowledge of the occupational distribution of the population on the eve of the Second Plan can only be based on an extrapolation of the picture revealed by the 1951 census. This is not very satisfactory; but a rough estimate has been attempted to see where the additional persons might be absorbed.

59. In 1950-51, out of the total working force of 143·2 million persons, some 103·6 million were employed in agriculture and allied occupations. It is to the remaining 40 million persons—or say 42 to 43 million by 1955-56—employed in mines, factories, small enterprises, trade, transport, communications, professions and other salaried employees that some 12 million additional persons have to be added in the Second Plan. The likely results of the Plan outlined above may be analysed sector by sector.

(1) *Mining*—Some 8 lakh persons are employed in mines at present. With output from mines increasing by some 50 per cent in the Second Plan, additional employment in mines during the next plan period may be of the order of 3 to 4 lakhs.

(2) *Factory Establishments*—Factory establishments employed some 30 lakh persons in 1950-51 of which roughly 24 lakhs were in consumer goods industries and the remaining in producer goods industries. (Total factory employment in 1955-56 may be a little higher than 30 lakhs.) In the Second Plan the net output of factory-produced consumer goods is expected to increase by some 20 per cent and of producer goods by 150 to 175 per cent. On this basis, additional employment in factories during the Second Plan may be of the order of 12 to 14 lakhs.

(3) *Small Enterprises*—In 1950-51, small enterprises employed some 115 lakh persons. The term 'small enterprises', however, is misleading. In addition to small-scale industries proper, it includes those engaged in construction of roads, buildings, irrigation works, carpenters, brick-layers, etc. This latter category accounted for as much as 44 lakh persons out of the total of 115 lakhs in small enterprises. Among the rest, textiles and tailoring accounted for 32 lakhs, metalworking and mechanical enterprises 12 lakhs and food and tobacco industries another 15 lakhs.

The Second Plan envisages an increase of about 40 per cent in the net output of small-enterprises, ranging from 20 per cent in food industries and 25 per cent in the textile and tailoring group and 60 per cent in the construction group. It is clear that incomes of persons employed in small enterprises is low and several of them do not have sufficient work. In this sector, therefore, employment cannot increase as fast as production. Assuming that employment increases, say by one-fourth as against a two-fifth increase in output, this sector would absorb about 30 lakh additional persons during the Second Plan.

(4) *Railways, Communications, Organised Banks and Insurance* —This sector provides employment to roughly 15 lakh persons in 1950-51. The Second Five Year Plan envisages considerable expansion in banking facilities, railways and communications. Additional employment of 3 to 4 lakh persons here may, there fore. reasonably be expected.

(5) *Other Commerce & Transport* —This sector is a great employment provider. Some 95 lakh persons

were engaged in this sector in 1950-51. Nearly two-thirds of this group are employed in retail trade, some 6 lakhs in wholesale trade, 10 to 11 lakhs in hotels and restaurants and about the same number in road transport.

If net output of this sector increases by 20 to 25 per cent as is envisaged, additional gainful occupation for some 20 lakh additional persons should reasonably be available in this sector. It is arguable that we should not rely on trade for additional employment in as much as this sector is already rather large in relation to the total size of the economy. However, for the immediate future some expansion of employment in trade is to be expected.

(6) *Government Administration*—In 1950-51, there were 39 lakh persons employed in Government administration, and additional employment in this sector during the Second Plan may be of the order of some 5 lakhs.

(7) *Professions and Liberal Arts*—This is another important sector from the point of view of employment. In 1950-51, some 64 lakh persons were employed in this sector including some 10 lakh teachers, 11 to 12 lakh barbers, 12 to 13 lakh *dhobies*, 7 lakh scavengers and 8 lakh medical practitioners and health workers.*

60. In view of the substantial increase in the expenditure on health, sanitation and education envisaged in

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* The juxtapositions of barbers and *dhobies* with teachers and doctors is rather curious, but it is retained here in as much as it corresponds to national income classification in India.

the Second Plan and the increased demand for the services of barbers, *dhobies*, etc., an increase in employment by 15 lakhs or more in this sector is not unlikely.

61. To sum up, the additional employment we may count on for the Second Plan is as follows.*

	Increase in employment 1955-56 to 1960-61 (in lakhs)
Mines	3 to 4
Factories	12 to 14
Small enterprises (including construction workers)	30
Railways, communications, etc.	3 to 4
Other Commerce & Transport	20
Government Administration	5
Professional and Liberal Arts	15 to 20
TOTAL	88 to 97

62. Thus, the foreseeable employment potential of Plan is of the order of 9 to 9.5 million persons absorbed outside agriculture. The Second Five Year Plan, therefore, has to be at least as bold as the one envisaged in this paper if it is to fulfil the promise of fuller employment. Perhaps some one to two million persons would be added to those engaged in agriculture in any case in view of the natural immobility of persons in the face of rising standard of living in their existing occupations. Again, not all the persons employed in agriculture and allied pursuits depend on land. Some additional employment among those engaged in fishing, forestry or sheep-raising may not be undesirable.

*In view of the particularly urgent problem of urban unemployment among the educated middle classes, we must also indicate how much employment is likely to be created for this sector. But it has not been possible to attempt this considering the several arbitrary assumptions involved.

63. It should be emphasised, however, that the increase in employment envisaged here will demand a great deal of organisation, besides finance and suitable policies. It is clear that small enterprises, for example, which bear the burnt of the employment effort will not expand on the scale envisaged without sustained effort. Creation of employment opportunities is not a matter of providing 'jobs' and the outcome will depend greatly on the response of the public. Provision of employment also carries with it the implication that training facilities for the type of personnel needed would be provided for on the scale required. Again, in several sectors we have assumed that additional output would mean a more or less proportionate increase in employment. This envisages some control over excessive rationalisation, on concentration of units, and on frittering away of higher demand in raising the remuneration of those already in employment to the detriment of the unemployed. The problem of unemployment, as has already been emphasised, can hardly be separated from that of distribution of income.

64. From this point of view, it may be of interest to note the following figures about the net output per person employed in different sectors. The figures must be interpreted with caution. Thus, figures in money terms do not take into account differences in cost of living or of the non-economic disabilities and advantages of certain occupations or places. Again, net output per employed person represents the earnings of labour as well as capital and does not take the Government draft into consideration. The differences among sectors are partly the result of different capital requirements per unit of output. What is more, the number of per-

sons gainfully occupied per household varies from sector to sector, and the disparities in income per occupied person do not correspond to disparities in incomes per household.* The occupational distribution envisaged for 1955-56 and 1960-61 is also largely conjectural. Nonetheless, the table illustrates an important aspect of the Second Plan. It may be noted that the distribution of additional output and employment in the Second Plan is so designed, by and large, as to raise levels of living at lower levels.

Occupational Pattern in India

	Working force (in millions)			Net output per occupied person (Rs. per year at 1952-53 prices)		
	1950-51	1955-56 Estimated	1960-61	1950-51	1955-56 Estimated	1960-61
1. Agriculture and Allied pursuits . . .	103·6	109·5	111·0	436	482	571
2. Mining and factory Establishments . .	3·8	4·0	5·7	1,737	225	2,632
3. Small Enterprises . .	11·5	12·0	15·0	809	850	953
4. Communications, Rlys., Banks & Insurance .	1·5	1·6	2·0	2,067	2,250	2,350
5. Other Commerce and Transport . .	9·5	10·0	12·0	1,410	1,510	1,567
6. Govt. Administration, Professions, Liberal Arts and the rest .	13·3	14·9	17·3	1,075	1,161	1,202
TOTAL .	143·2	152·0	163·0	642	710	840

65. Net output per occupied person increases by only 4 or 5 per cent in the tertiary sector where it is

*Thus the ratio of earners to non-earners in a household in 1951 was 1 : 1·4 for agriculture; 1: 1.3 for production in rural areas other than cultivation; 1: 2.1 for commerce ; 1: 1.8 for transport; 1 : 1.7 for other services ; and 1 : 1.7 for production other than cultivation in urban areas.

already high compared to the national average. In the case of agriculture and small-scale industries, the increase is of the order of 20 and 12 per cent respectively. Mining and factory establishments also show an increase in net output per employed person of some one-sixth. This increase reflects, however, the shift in favour of heavy industries where large amounts of capital are associated with a comparatively small employment of labour. Thus, by and large, the employment pattern envisaged here is in keeping with the basic objectives of fuller employment and social justice.

5. FINANCIAL RESOURCES FOR THE PLAN

The financial resources needed for the Plan and the manner in which these might be mobilised are indicated in this chapter. A tentative indication of the foreign exchange requirements of the Plan is also given. There are two distinct aspects to this question of raising the financial resources needed for the Plan. First, the savings needed for the capital formation envisaged must be available in the aggregate. Second, the financial resources must be available and utilised by each sector and for each purpose in accordance with the priorities set in the Plan. The second aspect requires a policy of directioning investment.

Savings and Investments

2. If net investment of the order of Rs. 5,600 crore is to be realised over the next Plan period, savings of the same order must be forthcoming. With increased incomes, the volume of savings is bound to increase.

For initiating a process of higher investment and higher incomes by fuller utilisation of unemployed and under-utihsed resources, it is not necessary that savings come first and only these are invested later. Credit has to be taken in advance for the additional savings that are likely to arise as incomes and investment increase. Some initial credit creation, therefore, is an essential part of a development programme. Nonetheless, if planned investments are to be realised without generating serious inflationary pressures, the initial credit creation must be limited with reference to what saving are likely to be available or can be created by suitable policy measures.

3. An investment programme of Rs. 5,600 crore for the Second Plan cannot be carried through without a considerable increase in the rate of savings in the community. Assuming that sterling balances can be drawn down by some Rs. 100 to Rs. 150 crore and foreign assistance of the order of Rs. 500 crore is available during the Second Plan, domestic savings of the order of Rs. 5,000 crore must be available. The Taxation Enquiry Commission has estimated that total savings in India in 1953-54 and total net investment (at home and abroad) amounted to some seven per cent of national income. Their concept of net investment is not strictly comparable to the one used here in arriving at the net investment of Rs. 5,600 crore for the Second Plan. Thus, unlike the TEC, we have excluded non-monetised investment. At the same time, we have made some allowance for investment in stocks and in small enterprises which have been disregarded by the TEC. Again, a sizeable increase in public investment is expected for the last two years of the First Plan. On

the other hand, the TEC's estimate of net investment abroad of Rs. 70 crore in 1953-54 must be regarded as rather exceptional. Normally, we should expect a deficit in our current balance of payments (not taking credit for donations) with the result that the total investment in the country must be higher than domestic savings. Taking these considerations into account, it is reasonable to expect that comparable to the figure of Rs. 5,600 crore for the Second Plan, net investment in the country in 1955-56 would be of the order of 6·75 per cent of national income and corresponding domestic savings of some 6 per cent of national income. On this basis, the growth in investment and savings over the Second Plan would have to be somewhat as follows:

(Rs. crores)

	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	2nd Plan 1956-57 to 1960-61
a. National income	10,800	11,300	11,825	12,375	13,000	13,700	62,200
b. Net investment	730	810	930	1,060	1,300	1,500	5,600
c. Domestic savings	650	680	800	930	1,170	1,370	4,950
d. Foreign resources	80	130	130	130	130	130	650

4. The phasing over the five years of savings and investments given above is intended to be illustrative. The essential point is that in order to achieve a total investment of Rs. 5,600 crore, the rate of investment must increase from 6.75 per cent of national income in 1955-56 to 11 per cent of national income in 1960-61, and domestic savings from 6 to 10 per cent over the same

period. If foreign resources are not available on the scale envisaged, the savings effort at home would have to be correspondingly greater.

5. Whether an increase in the rate of domestic savings from 6 per cent in the beginning of the next Plan period to 10 per cent by 1960-61 is likely to take place in response to a voluntary increase in savings resulting from additional incomes cannot be judged in advance. The increase in savings envisaged here is not very large in relation to the rates achieved in other countries. But, considering the current low rate of saving and the large margin of unsatisfied needs, it may be assumed that savings of the order required would not be forthcoming without special and persistent effort at restricting consumption through fiscal and other devices.

6. In an underdeveloped economy, where there are idle resources, increased investment need not imply a reduction in current consumption. It would, however, imply austerity, that is, preparedness to hold down consumption, especially of luxuries, in the face of rising incomes. A check on the consumption of non-essential commodities, domestic as well as imported, is necessary in order to release additional resources for the production of essential goods. Shortages of essential goods are dealt with better in this way than by direct limitation of consumption. However, if resources released through restriction of luxury consumption are not of much use for increasing the supplies of essential goods, controls over consumption of essentials would become unavoidable. The question of controls must, in other words, be judged in terms of the particular real resources which are in short supply. Foreign exchange

resources have to be conserved with particular care, in that they can be converted into whatever commodities became scarce within the country. In the present world situation, in regard to food and cotton, one can hope that a plan of the magnitude contemplated can be seen through without having to impose controls on necessaries like food and cloth.

7. Up to a point, the emergence of some inflationary pressures or a sellers' market is necessary, since our objective is to push ahead as far as possible in the direction of utilising our resources. Essentially inflationary pressures—or insufficiency of savings—arise as a result of inelastic supplies of goods against which people direct their demand. The elasticity of supply is not equally great in the case of all commodities. With effort and organisation, it can be altered favourably at least in selected sectors. If we are to stop at the first bottleneck in supplies for fear of a rise in prices in that sector, even though supplies in other sectors are elastic to some extent, we are likely to stop short of the full potential for expansion of the economy. We have to be prepared to 'tackle' short supplies in some commodities. Whether in doing so, we would be able to prevent a general and cumulative rise in prices depends, obviously, upon the measure of shortage and the organisational efficiency in dealing with it. In an expanding economy the sufficiency of savings cannot be predicted in advance, but since the overall effort suggested is not excessive and is required for making an impact on employment, the practical problem is one of watching overall economic trends and of correcting through fiscal and other measures any shortages in resources in particular sectors as they rise.

Resources for the Public Sector

8. From the stand-point of finding resources for the public sector, it is necessary to consider not only the outlay on the Plan but total outlay. Expenditure outside the Plan has an obvious significance to the realistic appraisal of the financing of the Plan. The outlay on the Plan in the public sector includes, first of all, all expenditure which results in the creation of new capital assets (directly in the public or indirectly in the private sector). In addition, it should include that part of the current expenditure on specific development heads which represents an increase over the level reached at the end of the First Plan. This would give a clear idea of the 'lift' we are giving to the developmental effort during the next Plan. This is the concept which has been kept in mind in this paper in arriving at the Plan outlay of Rs. 4,300 crore.

9. An alternative would be to include all expenditure under specified development heads in the Plan, leaving out only expenditure on non-developmental items like defence and civil administration. Although this would inflate the Plan figures, it would facilitate a more realistic appraisal of the Plan and its financing by ruling out the possibility of shifting of expenditure as from one sub-category to the other within the broad category of developmental heads. It would also enable a quicker review of the progress under the Plan from the budget itself. On the other hand, by confining the scope of the Plan to the schemes deemed more essential to further effort, we are better able to scrutinise them. The best course under circumstances would, therefore, be to high-light both the total expenditure under specified developmental heads and the out-

lay on the Plan. As a rough approximation, the budgetary position of the Centre and the States combined may be outlined as follows:—

Total Government Expenditure

(Rupees Crores-estimates)

	1955-56	1960-61	Over the Second Plan 1955-56 to 1960-61
1. Outside the Plan			
(a) Non-developmental	625	725	3400
(b) Developmental .	200	225	1100
Sub-total .	825	950	4500
2. On the Plan .	600	1100	4300
TOTAL .	1425	2050	8800

10. The estimated outlay of the Centre and the State Governments combined for 1955-56 is based on the budget proposals for the year, as far possible, and on the revised budget figures for 1954-55. However, in view of the difficulties in combining the figures for the Centre and the States and in apportioning the development outlay, within the Plan and outside the Plan, the estimates must be taken only as roughly indicative of the magnitudes involved.

11. It is assumed that public outlay on the Plan will increase from Rs. 60 crore or so in 1955-56 to Rs. 1,100 crore in 1960-61, *i.e.,* by about 80 per cent in order to make up a total of Rs. 4,300 crore over the Plan period. Expenditure outside the Plan is assumed to increase by 15 per cent over the five years or by Rs. 25 crore every year. The total outlay on deve-

lopmental heads is envisaged to be of the order of Rs. 5,400 crore—Rs. 4,300 crore in the Plan, and Rs. 1,100 crore outside the Plan.

12. The question is how a total Government outlay of Rs. 8,800 crore (Rs. 4,500 crore outside the Plan and Rs. 4,300 crore on the Plan) is to be financed. Assuming that the Government takes some 8.5 per cent of national income in taxes and in non-tax revenue as has been the case on an average over the past four or five years (7 per cent in taxes and about 1.5 per cent in non-tax revenue) the total revenue receipts would amount to about Rs. 5,200 crore. Borrowing from the public may possibly yield (net) another Rs. 1,000 crore (about Rs. 600 crore from loans and Rs. 400 crore from small savings). Contribution from railways may be put at Rs. 200 crore over five years. The budgetary position of the Government over the Second Plan might, therefore, look somewhat as follows:

	Rs. crores
Expenditure :	
(a) On the Plan	4,300
(b) Outside the Plan	4,500
	8,800
Receipts :	
(a) On revenue account	5,200
(b) From railways	200
(c) Loans from the people	1,000
	6,400
Deficit	2,400

13. As against the gap or deficit of Rs. 2,400 crore we may take credit for some Rs. 400 crore of foreign assistance*. Over the First Plan, foreign assistance utilised in the public sector is likely to be of the order of Rs. 250 crore. Thus we are asuming a 60 per cent increase in the amount of external assistance utilised by the public sector.

14. The remaining gap of Rs. 2,000 crore cannot be filled up by deficit financing or creation of money. As a first approximation, we may assume that such money creation can be resorted to the extent of Rs. 1,000 to Rs. 1,200 crore by the Government. Allowance must also be made for credit creation by banks for the needs of the private sector, say Rs, 400 crore or so, bringing total credit creation from Rs. 1,400 to Rs. 1,600 crore. A part of this credit would be withdrawn from the system as we use up our accumulated sterling balance. We have made an allowance earlier for a decline in our foreign exchange reserves by some Rs. 150 crore. Even then, total money supply in the economy might increase by some Rs. 1,300 crore during the Second Plan. We have argued earlier that credit creation is essential to development and that some price rises may well ocour in an economy trying to reach to the full limit of its resources. In India, a larger money supply will be needed as the monetised sector expands relatively to the non-monetised sector. Even then, with a 25 to 27 per cent increase in national income, an increase in money supply by some Rs. 1,300 crore on a base of some Rs. 2,000 crore must be regarded as a sort of outside limit.

*In addition, foreign assistance of Rs. 100 crore is envisaged for the private sector.

15. If, then, for the reasons just stated deficit financing by the Government must be restricted to some Rs. 1,000 to Rs. 1,200 crore, it would be necessary to raise at least Rs. 800 crore by increased taxation, or by compulsory borrowings, or through increased profits of Government enterprises. If additional Government profits are to be raised, it might be necessary for the State to enter into the field of trading or production of consumer goods. The scope for such expansion of State activity into profit-making ventures will have to be carefully examined. Alternatively, taxation in the country will have to be raised from some 7 per cent of national income to 9 or 10 per cent of national income by 1960-61. An increase in taxation from 7 to 9 or even 10 per cent of national income cannot be regarded as excessive if our aim is to have a bolder plan which requires an increase in the savings of the community from 6 to 10 per cent of national income. But it should be borne in mind that some tax adjustments will be necessary even to maintain the existing level of tax receipts at 7 per cent of national income.

16. The foregoing discussion of the resources for the public sector has been in terms of the receipts and expenditures of the Centre and the States combined. A survey of the financial position of individual States during the Second Plan will have to be prepared separately.

Resources for the Private Sector

17. Of the total investment of Rs. 2,200 crore in the private sector, Rs. 1,100 crore is envisaged in construction, Rs. 500 crore in industry, mining and

transport; Rs. 200 crore in agriculture; and Rs. 400 crore in working capital in trade and industry and in residual items.

18. The Taxation Enquiry Commission has estimated that net investment in organised enterprises (public limited and private limited companies) and in private transport mounted to Rs. 75 crore in 1953-54. Correspondingly, corporate savings and new subscription to capital of companies together have also been put at Rs. 5 crore for that year. This investment is roughly comparable to the provision made here for an investment of Rs. 500 crore in industries, mining and transport in the private sector for the next Plan period. An increase in the rate of such investment from Rs. 75 crore in 1953-54 to an average of Rs. 100 crore over the next Plan may be regarded as feasible, particularly in view of the larger profits that are likely to arise in organised industries if unutilised capacity is put to full use. The more important problem would be to ensure a proper allocation of the investment in the private organised sector of industries. Apart from capital issues control and export and import controls, a differential tax policy might be needed in this context. Where necessary, arrangements may be made for loans or planned increases in prices for realising important investments in this sector.

19. The requirements of working capital for industry and trade can be met without much difficulty through bank accomodation. We have made allowance for an increase of some Rs. 400 crore in bank credit earlier in arriving at total credit creation in the economy. Indeed, with deficit financing of Rs. 1,000 to

Rs. 1,200 crore in the public sector, the problem may well be one of preventing excessive bank accommodation.

20. Of the net investment of Rs. 2,200 crore in the private sector about one-half is envisaged to be in construction. This implies private construction activity of the order of Rs. 220 crore per year on an average in the next Plan period. Private monetised construction at present may be estimated at about Rs. 150 to Rs. 160 crore per year. The source of savings for construction activity cannot be indicated. Nor can it be asserted that the increase in construction activity envisaged would, in fact, be realised. If aggregate savings are inadequate, there is no knowing where this shortage would impinge. As long as investment in the high priority part of the private sector is assured, any shortfall in the availability of resources for other purposes would not seriously retard the tempo of development.

Balance of Payments

21. A close analysis of the balance of payments position for the Second Plan period has yet to be made. Considering the type and structure of our exports, it is doubtful if a large increase in earnings can be secured, at least in the earlier years of the Plan. In the targets indicated earlier, provision has been made for larger exports of cotton textiles, tea, mica, manganese and some of the newer products like sewing machines, electrical goods, etc. However, in view of the increasing competition in some export items, it might be safe not

to assume any significant increase in export earnings. The balance would turn mainly on imports.

22. Of the total investment of Rs. 5,600 crore, about Rs. 2,500 crore will be of a kind that makes little demand on foreign exchange. For the rest, that is, about Rs. 3,000 crore of investment in irrigation and power, communications, industries, railways, etc., if we assume the imported component at 33 to 40 per cent (as a very rough average), the import requirements would work out at between Rs. 1,000 and Rs. 1,200 crore. To this, we may add Rs. 400 crore or so as imports needed for replacement.

23. Total imports of capital goods over the Second Plan period may thus amount to Rs. 1,400 to 1,600 crore. At present, these imports are of the order of Rs. 100 crore a year. Since the overall external account is more or less in balance, it may be assumed that we could finance Rs. 500 crore worth of machinery and equipment imports from current earnings. The problem, then, would be to find foreign exchange resources of the order of Rs. 1,000 crore. Allowing for a saving of foreign exchange of some Rs. 200 crore on petrol, raw cotton, sugar and similar items where domestic production is expected to increase, there would still be a problem of finding Rs. 800 crore of foreign exchange. The foreign exchange assets held by the Reserve Bank can perhaps be drawn down by Rs. 100 to 150 crore during the next Plan period (*i.e.*, from the present level of Rs. 730 crore to 550 or 600 crore, after making an allowance of a decline of Rs. 30 crore or so in the last year of the First Plan). This leaves a balance of Rs. 650-700 crore. If Rs. 500 crore

of this could be met by way of external assistance, there will still be need for economising on imports and for promotion of exports. Since the reducible element in our imports is small, there is a correspondingly greater need for increasing exports.

PART III

BASIC CONSIDERATION

1. INTRODUCTORY

The Panel of Economists had its third session on the 8th, 9th and 10th April to consider the main issues relating to the preparation of a plan-frame. The issues grouped themselves under three broad heads:—

(I) size of the Second Five Year Plan;

(II) structure and content of the Plan;

(III) policy and institutional implications of the plan-frame proposed.

These questions were considered by the Panel in the light of a large number of papers—about forty—received from its members, and also in the light of the papers prepared by the economists and statisticians in the Government and the Reserve Bank and at the Indian Statistical Institute. This memorandum sets out the main conclusions reached by the Panel on these issues.

2. SIZE OF THE PLAN

2. The Panel subscribes to the view that a bolder plan for the second five-year period is both necessary for dealing with the large problems of poverty and unemployment and under-employment and feasible in view of the momentum gained during the First Five Year Plan. The Second Five Year Plan must not only provide for a more rapid increase in aggregate national income; it must make an advance towards the declared goal of a socialistic pattern of society. It is important, in other words, to secure simultaneous and balanced progress in the direction of raising living standards, increasing employment opportunities and reducing economic and social inequalities. The problem, therefore, is not merely one of stepping up the rate of investment in the economy—though that is necessary and important; but of securing an optimum increase of production and employment together with a wider measure of social justice. A bolder plan is, obviously, not merely a bigger plan; it must be one which is motivated by a bolder economic and social philosophy. Necessarily, it calls for a much greater effort and contribution by all classes of the community and presents a much greater challenge of organisation and administrative achievement. The Panel also wishes to emphasize the fact that clear decisions of the policy and institutional implications of a bolder plan are essential at the very outset if the several objectives and targets are to be realised.

3. The question of the size of the Plan may be considered with reference to the order of increase in national income (or production) on the average which should be

aimed at during the Second Plan period, the employment objectives which should be borne in view and the resources which could be available for the financing of the Plan.

4. We consider that the Second Five Year Plan should aim at securing an increase in national income of about 25 per cent in the course of five years. If allowance is made for favourable monsoons, the increase in national income during the period of the First Plan is likely, on the basis of figures upto 1953-54, to be of the order of 12 to 13 per cent. The rate of increase proposed to be aimed at in the Second Plan period is thus roughly double of that attained during the First Plan. We have observed the rates of increase in the national income of other countries over different periods and consider that, given a determined bid to put forth a maximum measure of effort, this rate of increase can be attained. It is clear that if such a big advance in the rate of increase of national income is to be achieved, a considerable stepping up of the tempo of development is indispensable. That the higher average rate proposed for the Second Plan is, however, not unattainable is indicated by the mounting scale of the development effort from year to year, as judged by the rate of investment, during the First Plan period.

5. The rate of increase in national income aimed at is partly set by the employment objectives. The Planning Commission has indicated to the Panel that the Plan must provide for a creation of new opportunities for gainful employment for at least the additions that will take place to the labour force in the five-year period as a result of the increase in population. The minimum new employment target must, therefore, be the absorp-

tion of 9 to 10 million workers. Considering that, in addition, at least some of the existing under-employed have to be given fuller employment, the employment target of the Plan has, in fact, to be higher.

6. We may, in this connection, stress a few salient points regarding the present occupational structure. Agriculture and cottage industries together account for about 75 per cent of the working force and carry a large amount of excess man-power. There is, therefore, little hope of any substantial absorption of the new increases in the labour force in these lines. New opportunities of the order of 10 or 12 million jobs have thus to be created on a base of some 30-40 million of the existing labour force employed in the secondary and tertiary sectors. The Plan has to provide for substantial investment in heavy industry, but such investment is by nature capital-intensive; it cannot absorb large numbers of workers. It is not possible in the short period to bring into being a new employment structure which would afford stable job opportunities on an adequate scale. It is necessary at this stage, therefore, to increase the opportunities for revolving employment in construction and public works activity and so to plan this activity that it leaves behind, through additions to the society's productive equipment, a significant amount of permanent employment. Simultaneously, through programmes aimed at maintaining and increasing the demand for simpler types of labour-intensive industries, the scope for durable employment in the field of industrial production may also be expanded.

7. For raising national income by some 25 per cent over the five-year period, investment in the economy will have to be stepped up from the present level of about

7 per cent of national income to about 11 per cent by the end of the next Plan period. This is not too high a target, but it is fairly ambitious. It implies, on an average, a 50 per cent stepping up of the rate of investment and hence of savings (except to the relatively small extent to which resources from abroad can be obtained to supplement domestic savings). In terms of the total volume of investment, the next Plan would have to provide for about double the investment in the First Plan. We should like to stress that the effort involved in this increase is considerable and will strain the economy a very great deal.

8. We have reviewed broadly in this context the papers placed before us by the official economists on estimates of financial resources for the Second Plan. The papers bring out clearly the fact that considerable fresh taxation will be necessary even for ensuring that tax revenue maintains its present share of about 7 per cent of national income. Given the order of the proposed Plan, however, we think that something like 9 per cent of national income will have to be directed into the national fisc in the form of total taxation, if deficit financing is to be kept within safe limits. We consider that the estimates of the likely receipts from public borrowings and small savings are capable of being realised, with the necessary drive.

9. We wish to stress in this connection the need for full and speedy implementation of the recommendations of the Taxation Enquiry Commission for mobilising the resources needed for development. Our present tax structure is not such as to ensure even a proportionate increase in tax receipts as national income goes up. What is needed, however, is more than this—an increase

in the proportion of national income that becomes available to the public sector. The measures recommended by the Taxation Enquiry Commission for a widening and deepening of the tax structure have, therefore, to be implemented expeditiously, and tax administration has to be strengthened to enable it to cope with the additional work and effectively to minimise evasion. We note, however, that the Taxation Enquiry Commission in framing its recommendations, proceeded on the assumption of a total size of the next Plan for the public sector (*viz.*, Rs. 3,500 crore) which was significantly smaller than is now proposed (*viz.*, Rs. 4,300 crore) on a fuller consideration of the objectives of increasing production and employment. Even if the scope for deficit financing is now assessed somewhat less rigorously, the higher order of the proposed Plan compared to what the Taxation Enquiry Commission assumed, indicates the large measure of fiscal effort that would be required *beyond* the recommendations of the Taxation Enquiry Commission, if significant inflationary effects are to be avoided. An urgent summary review of the measures necessary to step up the tax effort is, therefore, necessary. When the plan-frame is adopted and a clearer picture is available of the extent and composition of the increases in national income that are likely to take place, the tax measures that would be appropriate to the increase in production could be worked out more precisely. An analysis of the investment structure of the tentative plan-frame, to which we refer in more detail in the next section of this memorandum, indicates that much the largest part of increase in industrial production would occur in producers' goods and small-scale cottage industries, neither of which would significantly expand the base of existing direct or indirect taxes in the period of the Second Plan. Owing to the employment-bias of the other components of the Plan, too, the largest short-term increase in incomes would be in the form of wages of workers on construction and public works, including irrigation projects, or of agricultural producers. This emphasises the great difficulty of increasing tax proceeds unless a fundamental revision in some current concepts that underlie the tax system, is accepted. One of these concepts relates to the exemption of essentials from the scope of an important part of commodity taxation. When so large a measure of effort is necessary to increase the *proportion* of tax revenues to national income, which has remained so obstinately static, one cannot escape the logic of the fact that the mass of consumption is by the mass of the people. Unless this bears a somewhat higher burden of taxation, no perceptible change in the stubborn ratio of public revenues to national income can be achieved. We wish to endorse, in particular, the recommendation of the Taxation Enquiry Commission to the effect that Article 286(3) of the Constitution may be amended to remove the present exemption of articles "essential to the life of the community" from the scope of State sales taxation. Simultaneously, measures to secure a practical ceiling on incomes through a steepening of taxes on income and wealth, including estate duties, become an imperative necessity. A revision of the price policy of important public enterprises with a view to obtaining a larger surplus as a contribution to the resources for economic development, is similarly required. Besides, the general increase in rates of direct and indirct taxation that will be involved in the considerable stepping up of tax effort, will be part of the challenge to administrative efficiency that the big development effort for putting through the next Plan entails.

10. The extent to which recourse may be had to deficit financing will determine the magnitude of the efforts through alternative means of mobilising resources for the financing of the Plan. In an economy in which planned development is being undertaken, a part of the expenditure in planned development is being currently or within a short time, reflected in increase in current production. There is, therefore, an increment in total production against which it is possible to increase money supply within the community. No close and invariable relation as to the desirable measure of increase in money supply with increase in production can, however, be postulated, especially in an economy which is neither fully integrated nor fully monetised as the Indian. Even so it is reasonable to state that with a constantly increasing level of national income an addition to money supply may not only not have inflationary consequences, but may be required to prevent a decline in prices which may lead to distress and distortions in the economy.

11. Deficit financing is thus not necessarily always dangerous; it is the timing and magnitude of it that is of crucial importance. Deficit financing undertaken while the economy is already under inflationary pressure, or in such volume as will rapidly generate inflationary effects, has to be avoided. It appears to us that at present there is no general inflationary pressure in the economy. We do not, therefore, see any danger in undertaking deficit financing in a limited measure at the beginning of the Second Five Year Plan period. For a year or two, deficit financing at a rate of Rs. 200 crore or so is safe—and even necessary. But, continuous deficit financing on this scale for a number of years is certain to generate inflationary pressures. A bolder

plan with an emphasis on employment and heavy industry has inevitably a large inflation potential. We should like, at this stage, to caution against any tendency to undue optimism as regards the extent to which the use of deficit financing may avoid the awkward necessity of a deliberate endeavour to mobilise resources, as a result of the apparently large budgetary deficits of recent years not having produced adverse consequences. Firstly, the deficits have not been as large as was originally envisaged in budget proposals. Secondly, there has been an unexpected—if not entirely adventitious—increase in foodgrains production. It is impossible to forecast the total national and international economic situation at this stage. We cannot, therefore, say with certainty that the situation will remain equally favourable throughout the Plan period. The undertaking of deficit financing may itself change the situation unless counteracted by a rapid pace of development or by international conditions. We feel it necessary to suggest, therefore, that the strictest watch be kept on the situation. Any indication that inflationary pressures are developing must be met by timely and suitable action to keep it under check. We do not suggest that the Plan should be changed immediately when some inflationary signs are observed. The immediate step would be to take appropriate action to keep inflation in check and have elaborate plans ready for the event of a further increase in inflationary pressure. These plans may involve imposition of financial and physical controls, and if there is no readiness to face this possibility, deficit financing would not be safe. It would be equally necessary at the same time to re-examine the financial plan to see whether it is not possible to increase the resources available to the

Government in other directions. On the whole, we do not recommend deficit financing of a larger extent than that indicated by the figure of Rs. 1,000 crore for five years and are of the opinion that the situation in this regard should be kept under watch and should in any case be re-examined at the end of the second year or at the midpoint of the Plan period.

12. The pattern of investment in the Second Plan indicates that a very considerable increase in imports of capital equipment and machinery will be necessary. This will undoubtedly entail a heavy strain on the balance of payments. Such estimates as are available of the foreign exchange financing of the Plan, indicate that foreign assistance to the tune of over Rs. 600 crore will be required for the Plan period, if a draft on foreign reserves is to be avoided. In our opinion, foreign reserves should be kept for unforeseen emergencies or as a safeguard against miscarriage of calculations and not committed to any significant extent in respect of planned expenditure.

3. STRUCTURE AND CONTENT

13. We have considered the size of the Plan in the previous section and indicated the measure of the effort for mobilising the resources required for the purpose. It is now necessary to examine the Plan from the point of view of its structure, the pattern of investment it contemplates, the effect it will have on employment, and the kind of relationship that it postulates between different sectors of the economy for the purpose of securing internal consistency.

14. Broadly speaking, it is the intention of the Plan to maximise employment and capital formation, and increase consumption, consistently with the magnitude

of the suggested overall increase in national income by 25 per cent over the five-year period. Obviously, we want to make the greatest possible impression on unemployment and under-employment in the country, but the employment provided must be such as not only to lead to an increase in national income by 25 per cent, but also to see that the increase is distributed in such directions as to lead to the desired quantum of increase in both the capital goods and the consumption goods. Without the former, there can be no real increase in productivity or in the capacity for further and accelerated growth in the economy; without the latter, there will be no immediate change in the level of living, no incentive or enthusiasm for popular effort, and every danger of the emergence of inflation and a consequent breakdown of the programme for development. We must, therefore, make an appropriate division between saving and consumption from the additional incomes generated by the Plan. Having done this, we have to see that the investment outlay not only leads to the desired increase in consumption goods and services, but also to such increases in capital goods and services as will not only be consistent with the needs of consumption goods industries but also lead to an increase in productivity, facilitate the growth of capital equipment from domestic resources, and make for an accelerated growth in the output of consumption goods in subsequent Plan periods.

15. Let us first take up the question of investment. The tentative Plan-frame contemplates an investment outlay of Rs. 5,600 crore during the five-year period, together with current expenditure of Rs. 900 crore on development services by the Government, the latter figure being exclusive of the level of development expen-

diture expected to be reached at the end of the First Plan period. The broad pattern of the proposed investment outlay of Rs. 5,600 crore is visualised as under:—

Allocation of Net Investment in the Economy

	Rupees crores	Percentage of total
1. Agriculture and Community Development (including irrigation and flood control)	950	17·1
2. Power	500	8·9
3. Transport and Communications	900	16·1
4. Industries and Mining (including small-scale)	1400	25·0
5. Construction (houses, shops, schools, hospitals, etc.)	1350	24·0
6. Stocks and Miscellaneous	500	8·9
TOTAL	5600	100·0

16. We are generally in agreement with the investment pattern outlined in the preceding table. We are obviously not in a position to comment on the technical accuracy of the actual figures given under each head of investment; in fact, this cannot be determined except through a process of detailed examination at the technical level of the individual projects included in the investment outlay and we presume this will be done by the Planning Commission during the coming months. But the greater weight that the investment pattern assigns to industry and mining has our full approval.

17. In saying this, however, we do not want to underestimate the importance of agriculture in our economy. Agriculture will, for long, remain the most important economic activity of our people, and without an adequate supply of food and raw materials, there can be no economic development. But there is no

denying the fact that the First Plan has laid a solid base for the development of agriculture, and while a part of the large increase that has taken place in agricultural production is due to favourable weather, a part is certainly due to the creation of better facilities for increasing production. The Second Plan continues the process and is designed further to strengthen the agricultural base of the economy. But the very development of agriculture beyond a certain stage requires the development of non-agricultural activities, specially of industry, not only for providing markets for the increased agricultural produce but also for providing the supplies of industrial consumer goods which alone can provide the incentive for increased agricultural production. Moreover, the expansion of agriculture needs more equipment and industrial goods like fertilisers, for which larger investments are required in the industrial sector. We would, therefore, emphasise that the greater importance proposed to be attached to industry in the Second Plan is not in opposition to agriculture but is only a complement to the same, designed not only to bring about a balanced growth of the economy but also to facilitate the expansion of agriculture and, even more important, to reduce the surplus population on land and raise the level of living of those left in agriculture. The economy needs both an agricultural and an industrial base; these are not in conflict but are really complementary, and, beyond a certain initial stage of development, the growth of one conditions and facilitates the growth of the other. Hence, the greater priority assigned to agriculture in the First Plan and that proposed to be assigned to industry in the Second Plan. All the same, we would underline the importance of maintaining and expanding agricultural production in the

Second Plan period. There should be no feeling of complacency on the agricultural front because of the currently easy position in regard to foodgrains. Every effort must be made to step up the production of foodgrains and raw materials, and a suitable proportion of the investment contemplated in the Second Plan, especially in the field of heavy industry, must be linked with this objective; and there should also be built up, during the period, sufficient reserves of foodgrains and essential raw materials that will give stability to the economy and prevent sudden falls in the pace of its general economic development.

18. We note that the tentative plan-frame gives high priority to what are known as heavy industries and that consumer goods do not figure prominently in the investment pattern. The explanation for this lies predominantly in the fact that a high capital-output ratio is assumed in the case of both factory consumer goods and consumer goods emerging from the small-scale and village industries sector. In the case of factory consumer goods, the full utilisation of excess capacity is expected to lead to a considerable increase in the volume of output without any significant increase in the volume of fixed capital; in the case of non-factory consumer goods, labour is more important than capital equipment and the capital-output ratio is expected to be much more favourable than in the case of the organised industrial sector. It may be added that the investment in consumption goods industries, both factory and non-factory, though small in amount as compared to that in the so-called heavy industries, is nevertheless designed to bring about an increase in output of about 25 per cent (20 per cent in factory consumer goods and 33 per cent in

non-factory consumer goods) during the Plan period. A great deal of special effort will be required to achieve this objective, especially in the field of organisation; and this is not going to be easy. We shall revert to this subject before the end of this section.

19. The important place assigned to power, transport and communications is also a part of the same scheme for bringing about not only a balanced development of the economy but also to endow it with the capacity for self-propelling and accelerated growth. Economic overheads involve heavy investment; but they yield rich dividends in the form of making possible an all-round expansion of the economy; and there can be no denying the need for assigning an important place to these heads in the investment programme contemplated for the Second Plan.

20. The Plan also assigns a great deal of weight to construction, the bulk of which is really of the nature of investment in fixed capital for economic and social overheads and which must be taken in conjunction with the contemplated increase of about Rs. 100 crore in the annual expenditure on social and allied developmental services in the Second Plan period as compared to the level expected to be reached in the last year of the First Plan period. Social overheads have a dual purpose; on the one hand, they represent investment in human capital and promote an increase in productivity; on the other hand, they represent an end-product in themselves and bring about a direct addition to consumption services and thereby promote a rise in the level of living, which is, after all, the final objective of planning. Hence, it is that there is always a special pressure exerted for stepping up the level of expenditure on social overheads in

terms of both investment outlay and current expenditure. There is also the further complication in the case of our country that the basic levels of remuneration of many of those engaged in the supply of social overhead services, are below reasonable standards and there is, therefore, strong pressure for using available funds for raising these levels rather than use them for expanding the supplies of these services. There is no simple answer to the questions raised by this problem. All that we can say is that a certain minimum level of expenditure on social overheads is an essential condition for economic development, while further expansion of this expenditure is a concomitant of the growth of this development. We may express the same thing in a different way by saying that both investment and expenditure on social services must become increasingly important with every successive Plan period. For the purposes of the Second Plan period, we are satisfied that the level assigned to this category in the investment programme is, as far as we can go, taking into account the resources available and the need for building up our economic overheads, though we cannot certainly express ourselves as satisfied with the position in absolute terms. That is really no more than saying that the economic development contemplated in the Second Plan period is no more than a second stage in a long journey, the end of which will be reached only after many more plan periods. There is no point in acting as if we have reached the goal before we have gone even half-way towards it.

21. It will be noticed that the pattern of investment outlay set out in this section assigns an important

place to stocks. We have already explained the importance of holding enough stocks of foodgrains and essential raw materials in order to facilitate the smooth functioning of the development programme and provide some insurance against the risks due to possible failures of the monsoon or other interruptions in supplies. We would only urge in this context, the importance of undertaking and completing, as quickly as possible, the scheme for licensed warehouses recommended by the Rural Credit Survey Committee.

22. In considering the structure of the Second Plan, it is even more important to consider its employment aspect. It needs no saying that our major problem is one of unemployment and under-employment. In the urban areas, besides the several lakhs of persons seeking employment through the employment exchanges, there are others who have not registered themselves; and in addition, there is a considerable volume of under-employment and disguised unemployment prevalent among those who are shown as occupied in small industries, trades, and miscellaneous services. In the rural areas, the findings of the Agricultural Labour Enquiry reveal the presence of a considerable measure of both unemployment and under-employment among agricultural labourers; the same is also true of rural artisans and workers engaged in miscellaneous services. There is also the undoubted presence of under-employment and disguised unemployment revealed by the vast numbers of the co-called earning dependents who, by definition, do not earn enough even to sustain their own maintenance. Then, there are the cultivators of small and uneconomic holdings among whom there is a great deal of disguis-

ed unemployment. Among the estimates that have been placed before us, the lowest shows that leaving out the problem of disguised unemployment and under-employment among the cultivators, about 34 lakhs of people are wholly unemployed and there is a volume of under-employment equivalent to 49 lakhs of man-years; the major portion of the incidence of both being found in the rural areas. In addition to all this, there is the problem of employment created by the annual additions to the labour force estimated at about 1·8 million resulting from the normal growth of the population. The problem is indeed of enormous dimensions; and it would be too much to expect that it can all be solved within the Second Plan period. All the same, an attempt has to be made; and it has to be as big as our resources can permit. The tentative Plan-frame visualises that about 10 to 12 million people will find employment during the Plan period, the investment pattern being specially designed to make this possible. It must be pointed out that the figure mentioned above does not refer to jobs as such in the sense of work on wages or salaries; a part will undoubtedly be jobs of this type; but a part will be in the form of employment opportunities that will enable so many more self-employing workers to obtain their livelihood. Even as it is, the number of self-employing workers is much larger than that of hired workers; and the position is not likely to undergo a material change during the Second Plan period.

23. It is expected that a large number of workers will be employed in construction, which includes constructional activity of various kinds, including those required for both economic and social overheads.

There is also some likelihood of increase in the number of workers in mining and in the organised as well as the hand sector of industry. Employment opportunities, particularly for self-employed workers are expected to grow in the sectors of trade and miscellaneous services largely as a result of the increase in economic activity resulting from the Plan, while paid employment for hired workers will increase largely in the sphere of public administration and social services. Incidentally, this is also expected to eliminate the growing unemployment among the educated classes in the country.

24. The pattern of employment opportunities visualised above rests to a large extent on the ability of the system to organise the labour force in the country, while the achievement of the targets set forth in regard to industrial consumption goods rests upon the ability to organise the sector of small industries and hand trades in the country. Both these involve large problems of organisation and unless these are successfully tackled, it would be difficult to implement the Plan either in respect of its employment or its investment programme. Too much emphasis cannot, therefore, be laid on the task of reorganisation, which is practically the king-pin of the success of the Plan; and much more attention needs to be paid to this aspect of planning than has been done so far.

25. The other important problem is one of organising the supply of labour for whom jobs are to be found in the Second Plan period. Theoretically, the existence of a large volume of unemployment and the substantial additions that are made to the labour

force every year by the growth of population should perhaps make such organisation unnecessary. In actual fact, however, labour in India has a great deal of lack of mobility as between rural and urban areas, and as between different States. It also suffers a great deal from lack of training either in skills or even in disciplined or regular hours of work. There is also the further fact, so glaringly revealed by the findings of the Agricultural Labour Enquiry and the National Sample Survey rounds, that large sections of the working force in rural areas obtain either wages or incomes much below the national average; and social justice demands that this class, which in a way is the most exploited class in the country, is given the first chance to improve its condition when new jobs are being created in the country. Moreover, the incidence of distribution of this class is unevenly spread over different parts of the country and social justice demands that special attention is directed to what may be called the distressed areas in the country as distinguished from other areas which are better off, though in absolute terms their condition is no matter for satisfaction either. In view of these facts, a suggestion has been made for the organisation of a National Labour Force, recruited from the classes which at present have either little or no income and particularly from those areas where the incidence of economic distress is comparatively high.

26. This proposal might be likened in its effect to that of the continuous recruitment in the army during the war. The agricultural labourers, small farmers etc., are not employed all round the year. The experience of war has shown that provided full-time employment

at reasonable rates is available, comparatively large numbers of adult males from such areas can be released full time and are fully mobile for employment. If it is possible to make use of such a labour corps in particular aspect of the general programme of development a number of advantages may arise. Firstly, it will withdraw significant numbers from labour in the countryside and thus relieve the unemployment and under-employment situation in many parts. Secondly, it will create a mobile force which can, as in the army, be fully trained in a variety of skills required for purposes of the development plan. This training may have an important civic aspect also. The labour force may form a revolving body from which suitable recruits can be obtained for new and growing scattered townships and centres of industrial and other activity. We suggest a careful examination of the proposal to organise a National Labour Force.

27. We would emphasise special attention being paid in planning of all works programmes to areas which are backward in any way, *e.g.*, where communications are poor, climatic or other conditions unfavourable, the economy largely unmonetised, agriculture insecure, the standard of living low or which are inhabited by aborigines or other similar classes. These areas not only require the works programmes but also specially need the employment opportunities offered by them. We take it that when this attempt at deliberately opening or developing the backward tracts is made, the economic, cultural or other adverse effects of the process will be guarded against in advance.

28. It is also important to provide a positive policy for the stimulation of additional employment opportunities for self-employed persons, particularly in view of the fact that the major portion of the additional employment visualised in the Plan is in this field. In this connection, we would recommend the development of a large number of small towns widely distributed over different parts of the country into industrial townships with planned provision for small-scale and light industries. Unlike the townships for refugees that had been set up without due care for their employment potential, the towns proposed for development should be selected after the most careful inquiry by competent persons in each region or locality and after most careful examination of the raw materials, markets, and other relevant factors in the region. There was a good analogy for this in the trading estates that had been set up in England in the post-depression period, and they could well be set up in the first instance in the community project areas and National Extension Service blocks. Thus, a new link could be established between the rural areas and the urban areas, and what is called urbanisation would not only increase employment in the country but also add to its regional spread, promote regional self-sufficiency, encourage a fruitful inter-change between rural and semi-urban areas, and take economic development into the regions which need it the most, *viz.*, rural India. It must be emphasised, however, that these industrial townships in rural India will have to be planned from below and cannot come from the top. Planning of small-scale industries, consumption goods industries, and processing industries involves the intelligent co-operation and participation of many

thousands of people and can only be undertaken at the district level; the Centre can help with finance and technical aid, but the initiative and the planning must come from the people of the districts and regions concerned in the country.

29. Finally, there is the question of the relation between small-scale and large-scale industries in the field of consumption goods. As we have already pointed out, every attempt should be made to bring about the fullest possible utilisation of existing capacity in the factory consumer goods industries; but we do not contemplate, for the Second Plan period at any rate, any significant increase in their installed capacity. This is not only because we want to concentrate our scarce resources of foreign exchange and essential materials on the setting up and expansion of the heavy industries and economic overheads; but also because we want to provide more employment opportunities for those who are already engaged in the small-scale and cottage industries and find employment for the new additions that are being made to the labour force every year. Hence the emphasis on small-scale and cottage industries in the Second Plan.

30. The fact remains, however, that these hand industries are technically inferior and cannot obviously face the competition of factory industries unaided. At the same time, the needs of development with its accent on increased productivity cannot be reconciled with a continuance of the present inferior technical level of the existing hand trades. It is, therefore, necessary to have a common production programme that will provide a secure market for the products of these industries and at the same time provide for gradual

improvement of techniques and skills among their workers. Details of such a programme will need careful working out, but it can be stated at this stage that there will have to be organised on a regional and a national scale, co-operative and other forms of organization for the supply of raw materials and finance and for the marketing of finished products of the workers engaged in hand industries. A beginning will also have to be made in setting up a special sales organisation for these industries. At the same time, every attempt will have to be made to set up increasingly efficient norms of work, and facilities and incentives provided for reaching these norms. All these imply a tremendous challenge to the organisational talent of the country; and on the degree of success with which this challenge is met will depend the success of the whole scheme of a socialistic pattern of society, with employment for all and decentralisation and wide distribution of both economic activity and economic advantages. We cannot emphasise too strongly the important, almost the crucial, place which this occupies in the Second Plan. A successful solution of this problem, together with the setting up of the economic and social overheads including heavy industries envisaged in the Plan, will make possible much faster and larger development in the next Plan period.

31. To sum up, the structure of the Plan that is visualised for the Second Plan period provides for increased capital formation and also for increased consumption. It emphasises the importance of economic overheads and heavy industries in creating the base for larger and faster economic development in subsequent years. It underlines the need for looking after

employment and sets out a pattern of decentralised and small-scale economic activity that will not only deal with the problem of unemployment and of growing numbers, but also with that of creating a socialistic pattern of society that can function within a democratic set-up and reconcile development and increased productivity with individual initiative and a large and fair field for all small units of economic activity. The structure that we have outlined cannot come by itself. It needs organisation for being brought into existence; and in it lies a challenge to the organisational talent of our people.

4. POLICY AND INSTITUTIONAL IMPLICATIONS

32. In this part of the memorandum we consider the regulatory and institutional set-up required to implement the Plan. We assume as basic, the social philosophy appropriate to Indian federal democrary progressing towards a socialistic pattern of society. In terms of economic organization and activity we interpret this as denoting the following salient characteristics. A society composed chiefly of small decentralised units of economic activity in which the increase in scale required in any activity is brought about chiefly through mutual co-operation, horizontal and vertical, and in which centralization and very large-scale operation are resorted to only to the extent necessary to derive appropriate advantage from modern technology. In such a society the role of the State assumes the following forms in the main: (i) Central planning, direction and conduct of economic activity to the extent necessary for rapid economic development and increase of welfare; (ii) State assistance and participation in the formation and conduct of co-operative units; and (iii) State

action to eliminate or to counter the effects of the continuance of privilege or the exercise of monopoly power.

33. In considering the exercise of State authority we start with the assumption of a continuance of the existing forms of regulations and control of economic activity. In the context of this report, the most important of these are capital issue control, the regulation of establishment, location and operation of certain types of industrial units, control over the imports of capital goods and consumer goods, control over the allocation of products like cement and steel, control over the exports of selected commodities. The only recommendation we would make in relation to existing regulations is that the fullest co-ordinated use be made of them for a proper and detailed implementation of the Plan. It is also assumed that legislation will shortly be enacted which will more adequately regulate the activities of the public companies, and in particular to deal with the problem of managing agency and the concentration of economic power that it creates in the private sector.

34. We do not suggest any radical departure from the Industrial Policy Declaration of 1948. In fact, the sphere of the State activity indicated in that resolution will be more fully covered as a result of investment in this Plan. It may also be found necessary, during the Plan period, to include within the public sector some activities closely related to the present declared scope, such as, basic minerals. The proper organisation of coal production in the country and conservation and utilisation of coal resources may also require the inclusion of that industry in the public sector. Similarly, the special importance that will now be attached to

the production from small establishments will make it necessary to include not only the generation but also the distribution of electric power fully within the public sector. While we do not recommend any significant extension of the public sector beyond the terms of policy accepted by the Government, we must make it clear that there is no objection in principle to such extension. In fact, the limiting factor is one of being able to cope with the administrative burden that would result from such extension. The cost of compensation may also have to be considered. If, however, during the course of the Plan period, circumstances become either more favourable from the administrative point of view or if it is found that opportunities for monopolistic or quasi-monopolistic exploitation are increasing in the private sector, there should be no objection to a further extension of the public sector. State trading in exports of jute, for example, was recommended many years ago by a representative committee consisting of administrators, businessmen, etc. In view of the peculiar position of these exports and the methods of trading in them, it is worth examining again whether State trading in jute should not be undertaken.

35. We are not in a position to make specific recommendations at this stage, but we would certainly emphasise the need for the Government to examine each possibility of extension of the public sector in any important activity where, because of the policy under the Plan or other factors, a group of producers or traders are reaping special advantages.

36. While we do not suggest any general extension of the public sector, in the near future it would,

certainly, be necessary for implementing the Plan to extend the scope of the regulatory regime in particular directions. Thus confining to hand industries, all increases in consumption goods during the Second Plan period will make it necessary to extend the operation of licensing legislation to include even processing activities. The best way of dealing with the situation would be for all the State Governments to bring within licensing and regulatory legislation such establishments as are carrying out the processing and preparation of primary products and the production of consumer goods as are not covered by the existing regulations of the Industries Act..

37. A number of other regulations on consumption goods industries will follow from the common production plan for machine and hand industries in particular spheres. The division of market between machine and hand industry is sought to be maintained, today, in the case of cloth production by a system of excises and subsidies on the one hand and reservation of fields on the other. The principle of reservation may not be so easily applicable to all industries and in their case a comparatively stable relation between prices of hand and machine products could be maintained only through excises and subsidies. There may be doubts whether these purely fiscal measures will prove successful; and if these doubts were justified, other measures may be required to implement effectively a common production programme. In any case, the organisation of increased production through hand industry will require considerable effort in distribution of supplies of technical and financial assistance to the dispersed producers and the collection and sale of

their product. This would be largely done through co-operatives and as problems encountered will, in part, be similar to those dealt with by the Rural Credit Survey Committee in the case of agricultural production, the same expedients could be used in this case as well. In relation to technical guidance, and purchase and sale, the problems of cottage industry may, however, be different and more difficult. Bringing about increased production through this agency will, therefore, require, as we have already mentioned, very considerable organisational effort in the Plan period. Any failure in this effort will create a difficult situation. On the one hand, there may be shortage of production by hand industry through inability of co-operatives to organise production or to carry out sales of products and their distribution. And, on the other, there may be profiteering by producers and traders in that situation. If such a situation arises, it may be necessary for the State to intervene and to consider the possibility of State trading of products. In the initial stages of the organisation of this production it may, however, be wiser not to undertake State trading in this sphere.

38. As the spheres common to machine and hand industry will cover a large number of consumption goods in general use, the prices and supplies of goods over this large sphere will have to be constantly under the State observation and regulation. In a number of important producers' goods, such as cement and steel, the existing allocation controls will continue, and price controls could be imposed if necessary. This leaves, mainly, the prices of agricultural goods for consideration. In the present context, the stability of agricul-

tural prices has special importance. Already the Government have announced their intention and readiness to put a floor to prices of some agricultural products. Government's ability to do this effectively depends on their having an operative system which extends to all parts of the country. From this point of view, an early implementation of the recommendations of the Rural Credit Survey Committee regarding warehousing, processing and marketing of agricultural produce is of the utmost importance. It is only the setting up of the warehouses etc., recommended by the Committee that will put the State in a position to meet emergencies. We recommend that the warehousing system should be used by the State for the purchase and sales of buffer stocks of agricultural commodities not only for the purpose of dealing with any sharp falls in agricultural prices such as we are witnessing today, but also with the objective of preventing any sharp seasonal fall or rise in prices. Need for action in this regard may arise either in all commodities all over the country or only in an individual important commodity in particular regions. Such a system of buffer stocks will not only serve the limited purpose of evening out seasonal fluctuations but would also come in useful and serve even larger purposes if the occasion arises. For example, the system could be put to use in case of an adverse monsoon or a sharp inflationary rise in prices.

39. The Government of India has taken an important policy decision recently by its announcement regarding creation of a State Bank of India through nationalisation of the Imperial Bank and certain other State-associated banks. We welcome this decision

and strongly recommend its early implementation in full. It is of the utmost importance to bring into existence as early as possible a State Bank of India operating over the whole of the country at the level envisaged by the Rural Credit Survey Committee. The regulation of activities in the sphere of banking and also through banks may have considerable importance in the planning effort. For this purpose early implementation of the policy announced recently is an important and essential step forward.

40. The inevitably increased importance of the public sector in economic activity makes the problem of increasing its efficiency of vital importance to the success of planned development. Though it is not correct to say that the efficiency of the public sector today is necessarily below that of the private sector, it is clear that in itself, it is not too high and further that it could with considerable advantage be greatly increased. No definite pattern of organisation of units in the public sector has yet been evolved in India. There is not enough experience in the matter, neither has any particular type shown definite success. We have no bias in favour of any particular type of organisation and feel that considerable research and experimentation on the operation of different types of units in the public sector will be extremely worthwhile. The experimentation need not be confined to purely public organisation but may well be extended to public-cum-private organisations where the State holds full ultimate control and uses the private agency as a partner and as the agency of management. The general efficiency of administration is an equally important consideration which requires equal attention.

41. We may draw attention to a danger that is inherent in the type of mixed economy we have *viz.*, unless adequate care is taken the slowest ship may set the pace of the convoy and inefficient units may get undue protection. The question of incentives and disincentives should be, therefore, very carefully studied and adequate and effective measures taken.

42. The State partnered co-operative seems now to be generally accepted as the most important type of organisation in the future of economic development in India. Observation of its development, adaptation and success for various types of activities and in various contexts is, therefore, of great importance.

43. One of the gravest obstacles to undertaking a more ambitious programme of development in most directions today is the general state of unpreparedness of our society for the effort in most directions. The most important features of this are lack of trained personnel and of suitable organisations. The first lack is felt in all aspects of development of social welfare or related activities. Teachers, doctors, technicians of all kinds are found to be in short supply, the moment any large expansion is contemplated. But even more important is the organisational backwardness. This is experienced in every sphere. It is felt in the administrative structure, its efficiency and its capacity to carry out additional responsibilities; it is experienced in local governmental authorities; it is seen in the lack of established and effective pattern for conduct of economic activity in the public sector. These difficulties are patent today in attempted development along established lines. They are felt all the more keenly when orientation of the economy, on the now agreed

lines of decentralised self-employment or co-operative activity is attempted. The manifold advantages of such an organisation can be reaped only when the large work it involves by way of distribution of supplies and collection of product, of storage and finance, of technical guidance and administrative supervision is efficiently organized and carried out. The creation of such organisation is an immense national task without whose accomplishment the proper development of agriculture and rural industry in particular will be well-nigh impossible. One of the reasons why in our opinion we cannot aim higher today is this lack in many directions. One of the most important tasks of the next Five Year Plan must, therefore, be to remedy this grave handicap and defect. The energies of the Government and of all constructive workers in the country must be turned in this direction so that at the end of the Plan period the economy and the society will be in a position to take a much greater step forward and to achieve a rate of development which would not only be bold but spectacular.

44. We now turn to consideration of policies which are not only important for the execution of the Plan but are also important as indicating the determination of the State to progress towards the socialistic pattern. The first set of policy decisions to be considered in this regard are those relating to land reform. The content of this programme has by now been fairly clearly determined. It consists mainly of four measures: consolidation of holdings which has an important bearing on the productive effciency in agriculture, operation of the ceiling which makes available land for redistribution to landless labourers without unduly lowering the size of any unit, the floor to holdings which

makes it impossible for units smaller than of certain size to be cultivated as independent farming units, and co-operative farming which would bring in all such uneconomic units into farms large enough to be operated efficiently. The content of the land reform programme has already been announced and has raised wide expectations throughout the country. The announcement has also had some adverse effects on the situation through the action of the land-holders, through evictions and the like, to safeguard their interests in anticipation of the policy. It appears to us of the most urgent importance for the State Governments all over the country to recognise certain basic principles of action in regard to all the four constituents of this programme, to formulate definite policies of action at as early a stage as possible and to implement them. The best course as well as the most logical, of course, is to bring the whole programme into operation simultaneously. The operation of the floor raises, however, certain difficulties, apart from the practicability of forming quickly an enormous number of co-operative farming societies. These difficulties are related to the extent of employment that is available in the economy. Similar difficulties, however, do not attach to that part of the programme that relates to the imposition of a ceiling on holdings and the consolidation of scattered holdings. We recommend, therefore, that immediate steps be taken to impose a ceiling on agricultural holdings and redistribute the land thus released to landless labourers. We also suggest that action be taken in regard to consolidation of holdings without delay. As early as possible when enough experience has been gained in the country-side regarding operation of other co-operative effort and when adequate employment has been generated, the other two features of the land reform programme should be put into operation.

45. The operation of the ceiling and redistribution of land to the landless will bring about considerable lessening of inequality in rural society. The acceptance of the idea of a ceiling on land must lead, in our opinion, logically to the acceptance of the parallel concept of a ceiling on all personal incomes for the urban and industrial sector. This has already been mentioned by the Taxation Enquiry Commission and we feel it vital that a policy announcement regarding this be made in the Second Five Year Plan of the Government. Two other recommendations of the Taxation Enquiry Commission we would endorse for immediate action towards lessening inequalities. These are: (a) a steepening of the estate duties and (b) imposition of the Capital Gains tax. We expect an appreciation of the values of all kinds of property because of the operation of a plan of development and feel it necessary that the above steps be taken at the beginning of the period of a bold plan. It may, further, be useful to conduct enquiries into increase of land values in urban areas and the spread in levels of salaries. In case of the latter, we would recommend the inquiry not to be confined to salaries of officials but to embrace within it salaries (and total spending power) of individuals in private business also.

46. Lessening of inequality is a two-fold process. One of its aspects is the lowering of unduly large incomes. An equally important or, perhaps in the long run, the more important aspect is that of increasing

or making more secure the incomes of the poorest. In this connection, we would welcome greater progress, wherever possible, in the standardisation of wages and fuller implementation of the minimum wage legislation in the country, due regard being paid to the effect of wage increases on employment. Both should reduce the total range of differentials in wage payment. It is not possible at this stage to recommend any general social security schemes which would have wide application, or would materially lessen insecurity of incomes. We would, however, recommend exploration of the possibilities of the State offering life insurance schemes wide-spread throughout the country. In the absence of measures of social security as such, we must look to the fullest extension of social service expenditure for doing something in this behalf. However, if this expenditure is really to result in lessening inequalities and in materially improving the conditions of the most disadvantaged, special care must be taken by the State authorities to see that it is deliberately routed and administered in such a manner that its benefits, in the largest measure, go to the poorest, the most disadvantaged and the most insecure classes.

47. We have dealt so far with some of the policy implications of the size and structure of the Plan, as prescribed in the "frame" for the Second Plan period. What we would emphasize in conclusion is that unless these policy implications are duly considered, and rapid and effective action taken thereon, the chances of successfully implementing either the size or structure of the proposed Plan will be seriously jeopardised.

Even if the different parts of the Plan are fairly well-balanced and the size of the effort involved is not beyond the country's capacity, it would be wrong to entertain optimistic expectations merely on the technical soundness of the targets proposed. Behind these targets, there are, initially major assumptions regarding the capacity of the country and especially of the Government to put through the programme as proposed. For these assumptions to materialise, a big organisational effort will be called for. Planning does not mean merely a programme of large investment, especially not when the objective is not merely an increase in output but also the creation of a socialistic pattern of society. It is only when there is a firm legislative, and administrative base that it is possible to think in terms of doubling the rate of progress in the Second Plan period, of increasing capital formation, of raising levels of living, and providing the machinery for accelerated development in the future. We cannot, therefore, emphasize too strongly the importance of facing up boldly and without hesitation the legislative and administrative implications of a bigger and a bolder plan. The Second Five Year Plan is a challenge to the nation. It requires effort and substantial efforts at that and on a large and organized scale. It requires austerity and restraint on the part not only of those whose incomes are high but even of those whose incomes are not so high. What is required is a national effort and a national effort can be forthcoming only if it is clearly visible to the people that there will emerge from it a new and desired type of society. Hence it is that we lay so much emphasis on the policy implications of the Plan-frame that has been placed before us.

PART IV

A NOTE OF DISSENT

I am unable to subscribe wholly to the views of my colleagues on (1) the size of the Plan, (2) deficit financing as a means of raising real resources for the Plan, and (3) certain policy and institutional implications of the Plan-frame. I may set out, briefly, my views on these subjects.

I. SIZE OF THE PLAN

2. The Plan-frame is built on the basis of a 25 to 27 per cent increase in the national income in five years. The targets of production in the several sectors, which correspond to this rise in income, would require an increase in net investment (or savings) from 6·75 per cent of the national income in 1955-56 to 10·95 per cent in 1960-61. This relationship yielded a figure of a total net investment of Rs. 5,600 crore in five years; Rs. 3,400 crore of this expenditure would be in the public sector and Rs. 2,200 crore in the private sector.

3. The total developmental outlay corresponding to a net investment of Rs. 3,400 crore in the public sector would be Rs. 4,300 crore. Adding to this an expenditure of Rs. 4,500 crore outside the Plan, the total outlay of the Centre and the States would be

Rs. 8,800 crore in five years. The Plan-frame proceeds to finance this expenditure in the following manner:—

	(crores of rupees)
1. Revenue and other current receipts at the current rate of 8·5% of the national income	5,200
2. Railway surplus	200
3. Loans and small savings	1,000
4. Foreign assistance	300
5. Additional taxation, compulsory savings, and higher profits from the government enterprises	800-1,000
6. Deficit financing	1,000-1,200
TOTAL	8,800

4. If we separate from the above, the outlay on the Plan (Rs. 4,300 crore) the resources for the Plan would be derived probably as under:—

	(crores of rupees)
1. Loans and small savings	1,000
2. Foreign assistance	400
3. Revenue surplus on the basis of revenue receipts at the current rate of 8·5% of the national income	900
4. Additional taxation, compulsory savings, and higher profits from the Government enterprises	800-1,000
5. Deficit financing	1,000-1,200
TOTAL	4,300

5. My colleagues have stated that the increase in investment required for the Plan-frame is "fairly ambitious" and they "stress that the effort involved in this increase is considerable, and will strain the economy a very great deal" (para 7). Earlier, however, they have observed that "given a determined bid to put forth a maximum measure of effort", the national income objective, which this rate of increase in investment would yield, "can be attained" (para 4). This, to my

mind, does not adequately indicate the risks which an investment attempt on this scale may involve (unless foreign assistance becomes available in an incomparably larger measure than envisaged in the Plan-frame). To force a pace of development in excess of the capacity of the available real resources, must necessarily involve uncontrolled inflation. In a democratic community where the masses of the people live close to the margin of subsistence, uncontrolled inflation may prove to be explosive* and might undermine the existing order of society. Alternatively, if appropriate "physical measures", familiar to a communist economy, were adopted (in an effort to prevent inflation) we would be writing off, gradually or rapidly, depending upon the exigencies of the Plan, individual liberty and democratic institutions by administrative or legislative action. We should be, therefore, forewarned of the danger of an over-ambitious Plan.

6. The Plan-frame begins by prescribing the increase in national income which the Plan would set to achieve. Its authors, then, proceed to find the real resources necessary for the corresponding rate of investment. In making the national budget it is permissible to determine expenditure first and, then, raise equivalent funds, as the receipts of the State form but a part of the national income. The budget can grow by drawing on the rest. This procedure cannot be applied to the budget of a Plan, which embraces the entire monetised saving and investment activity

*From the standpoint of social cecurity, the incidence of further inflation on the real incomes of the constable in the Police Forces and of *jawan* in the Defence Services should be borne in mind. Thit aspect of the matter must not be dismissed lightly under the thoughs that dearness allowances would provide adequate compensation The salary and allowances of a constable in the Police Force, I understand, varied between Rs. 86 and Rs. 100 p. m.

of the nation. Here the availability of real resources must be assessed first, and the investment plan must match it. In a communist economy the volume of savings may be made to vary within fair limits by restricting allocations to the consumer trades. Within these limits a communist plan can determine expenditure first, and, then, proceed to find the requisite resources. In a democratic society the scope for variation in savings, which is largely the result of individual choices, is comparatively limited.

7. The availability of real resources must depend on the reliability of the estimates of saving. Under no circumstances can total net investment (excluding external assistance) exceed the total net savings of the community. Revenue surpluses, surpluses of the State business undertakings, loans, ploughing back of profits, deficit financing, credit creation, and so on, are but devices of appropriating the savings of the community for purposes of the Plan. There is no device of creating real resources which are not saved.

8. A paper on Capital Formation in India (No. 44) supplied to the Panel of Economists, estimates net domestic capital formation in India, in the recent past, as under :—

(Rs. crores)

Net Domestic Capital Formation in India

	(1) Net Domestic Capital formation	(2) National Income	(3) 1 as % of 2
1948-49	446	8,580	5·2
1949-50	524	9,000	5·8
1950-51	589	9,500	6·2
1951-52	672	10,000	6·7
1952-53	659	9,800	6·7
1953-54	719	10,500	6·8

9. During the first three years of the First Five Year Plan, net capital formation, as a percentage of national income was more or less stationary, the increase in the national income being presumably absorbed, in large part, partly by an increase in the population and partly by an increase in consumption. Relatively to 1949-50, capital formation (as a percentage of national income) in 1953-54 rose by 17·24 per cent, an annual increase of 4·56 per cent. Under the Plan-frame net capital formation (10·95 %) at the close of the Second Plan (1960-61) would be' 61·98 per cent higher than (6·75%) at the close of the First Plan(1955-56), or an annual increase of 12·40 per cent.

10. The over-ambitious character of the Plan-frame is also reflected in the rate of increase it aims at in the national income. Allowance being made for favourable monsoons, the increase in national income during the First Plan is estimated at 12 to 13 per cent, or an annual increase of 2·4 to 2·6 per cent. The corresponding increase in the Plan-frame is 5 per cent per annum or 25 to 27 per cent in five years.

11. Statistics of the growth of national income in certain overseas countries show that in Canada, Switzerland and Germany the rate of growth in national income generally approximated to the rate of growth experienced in India during the First Five Year Plan. In U.S.A. the rate of growth was 4·5 per cent until 1913 and 3 per cent from 1929 to 1950. Both in *per capita* income and the capacity to save we are far behind these countries. It is significant that in the Soviet Union, Poland, Czechoslovakia, Hungary and Bulgaria, the rate of growth in recent years varied between 12 to

16 per cent. This was, doubtless, rendered possible by totalitarian devices.

12. Judging from our own recent experience, and also the experience of other democratic countries, the available real resources (savings) for develoment cannot for sometime be expected to be of an order that would permit anything like a doubling of the rate of growth in national income. The current rate of savings in India is generally estimated at 7 per cent or under of the national income. During the past five years it has risen by about 1 per cent. It would be too optimistic to assume that the rate of increase may be accelerated in the next five years. A reduction in the inequalities of income distribution, which is the declared policy of the Government, would tend to reduce overall savings. The consumption of food of the vast masses of the people being both below the national average and below the minimum nutritional standards, it has been estimated that about 50 per cent of the increase in consumer expenditure is liable to be utilised in India on food-grains. In conformity with traditional experience, a succession of good harvests, which we have experienced, may be followed by a couple of years or so of bad or indifferent harvests. Under the circumstances it may not be safe to assume a rate of saving of much higher than 8 per cent at the end of the next five-year period. The possibility of this conjecture proving too high cannot be ruled out. The size of the Plan needs to be, therefore, revised to match the real resources as indicated by this rate of savings and the estimate of the rate of increase in national income should be adjusted to conform to the investment equivalent to this rate of saving.

13. The rate of increase in income would depend upon the bias of the Plan for labour-intensive schemes and for cottage industries. The probable magnitudes of the investment and of the growth in income remain to be worked out. This it is not possible to do immediately. On a rough estimate, the order of magnitude of the investment would be probably about Rs. 3,500 to Rs. 4,000 crore. Considering that the total investment in the public sector in the three years of the First Plan did not exceed Rs. 885 crore (38·65 per cent of the target of Rs. 2,290 crore for five years), this is not too low a target to aim at in the Second Five Year Plan. Investment in the public sector may roughly correspond to the target fixed for the First Plan. If at the end of the five-year period the actual investment, at constant prices, should be about 70 per cent of the target, the public sector investment of the Second Plan would be about 43 per cent higher than that in the First Plan.

14. As no plan can be bigger or bolder than the available resources, the size of the investment programme should be reviewed periodically to ensure that it keeps within the limits of savings. If such a review should reveal a shortage of resources it would be short-sighted to fill the gap by credit creation or deficit financing as this will be self-defeating. A deficiency of total real resources for development will get manifested, in the sphere of finance, by a failure to secure finance otherwise than through an excessive creation of credit, or deficit financing. The inability of the Plan-frame to place more than about 75 per cent of the resources required for the Plan under the usual sources and the

reliance on deficit financing for the rest is broad evidence that the size of the Plan far exceeds the available savings.

15. The deficiency of resources, in fact, may be larger than the magnitude of the deficit financing, as the assumed receipts from other sources may prove to be over-optimistic. To mention one item, it would appear exceedingly unlikely that from an average of Rs. 45 crore per year during the past seven years, the revenue surplus would jump up to an average of Rs. 180 crore per year in the Second Plan. The available real resources were inadequate even for the comparatively moderate First Plan. This is reflected in the disparity between the achievements and the targets. Economic development is not merely a matter of credit creation or deficit financing. Scarcity of savings manifests itself in a scarcity of the needs of production, and in administrative and organizational difficulties, which limit the pace of development and which credit creation cannot correct.

16. Indian poverty and the massive rural under-employment are conceivably the result of continued shortfall of saving and investment below the demographic rate (or a rate of investment necessary to maintain *per capita* income undiminished in a growing labour force). It is not to be expected that full solution of this problem would be possible in five years. The employment potential of the First Five Year Plan has been estimated at 9 to 9·5 million persons. This is roughly equal to the natural growth in the labour force during the period. We may presume, therefore, that with a higher rate of investment, than during the First Plan period the Second Plan would begin to provide relief to the under-employed in addition to absorbing the annual increase in the

labour force. The unemployment position may be worsened if the programme of investment proving over-ambitious, inflation should develop, as this would dissipate savings and, in due course, reduce the employment potential of a given volume of savings.

17. The size of the Plan-frame has been unduly inflated as result, on the one hand, of an over-optimistic growth in national income, which it aims at, and, on the other, of an unduly high average rate of saving as applied to this assumed growth in income. A much lower figure would result if both these rates were more realistic projections of Indian experience of the recent past. Though a certain measure of accelerated progress may result as incomes grow and savings increase, a steep upward movement from a background in which the mass of the people live on the margin of subsistence may not be possible except in a totalitarian regime.

2. DEFICIT FINANCING

18. The case for deficit financing, briefly, would appear to be that, (1) for "initiating a process of higher investment and higher incomes by fuller utilization of unemployed and under-utilized resources" credit must be "taken in advance for the additional savings" that will be forthcoming, in the future, from the larger incomes, and that "some initial credit creation, therefore, is an essential part of a develoment programme" (p. 48 of Paper No. 8); (2) that "a larger money supply will be needed as the monetised sector expands relatively to the non-monetised sector" (p. 56 of Paper No. 8); (3) that a larger money supply will be needed with an increase in the national income; (4) that, there being no current inflationary pressures in the economy, there was no danger

in undertaking deficit financing in a limited measure; and (5) that the apparently large budgetary deficits of recent years have not produced adverse consequences.

19. My colleagues have cautioned "against any tendency to undue optimism as regards the extent to which the use of deficit financing may avoid the awkward necessity of a deliberate endeavour to mobilise resources" (p. 8). I wish to join them in this cautioning. I also generally agree with (2), (3) and (4) above as offering justification and scope for a certain measure of deficit financing.

20. With regard to (1) above, a distinction must be made between unemployment in industrial economies and under-employment in under-developed economies. The problems of the two economies differed in fundamental respects. In under-developed economies the only factor of production that was in abundance was unskilled labour. There was a scarcity of the other needs of production—machinery, materials, and skilled personnel with the technological and managerial know-how. This is reflected in the rate of saving and investment being below the demographic rate. The simplest form of investment needed some equipment and technical know-how at some stage. In industrial economies, on the other hand, the rate of saving being generally above the demographic rate, unemployment of labour was accompanied by unemployment or under-utilization of the complementary real resources of production. Credit creation could bring two together. Deficit financing or credit creation, here, is a device of mobilizing the real resources. We cannot seek in this a solution to the problem of development of under-developed economies. In the latter it was a question

of a scarcity of savings, for which created money was no substitute. Under-employment in under-developed economies, thus, offered no criterion for deficit financing in the way unemployment in the industrial economies offered such criterion.

21. A paper on "Installed Capacity and its Utilisation in Indian Industries" (No. 24) presented to the Panel shows that appreciable percentage of unutilised capacity exists in a number of industries including jute, sugar, certain heavy chemicals, machines and machine tools. It is conceivable that there may exist, in the case of some at least of these industries, complementary skilled personnel, which are unemployed or under-employed; there may also exist in the economy the materials of production required to employ these personnel. The reasons for the partial idleness of the plants may vary. This would require individual studies on these industries. In some cases it may reflect export difficulties or competition from imports, which, conceivably, may be related to the over-valued exchange rate. Deficit financing or credit creation cannot meet the needs of such cases. The economic significance of this unused capacity to the total activity of even the organized private sector would be negligible. Some of them may justify extention of credit by the banking system or by the State Credit Corporations. They cannot be said to provide a case for deficit financing of the public sector.

22. Regarding (5) the amount of the deficit financing with a monetary effect undertaken since August 15, 1947 to March 31, 1954 has been comparatively moderate. Excluding the purchase of sterling by the Government in 1948 against ad hoc Treasury Bills,

which had no monetary impact, and allowance being made for the variations in the public debt holdings of the Reserve Bank and the commercial banks, the deficit financing of the period averaged about Rs. 50 crore per annum. Between 1947-48 and 1953-54 the Wholesale Price Index rose from 308 in the former year to 435 in 1951-52 and stood at 398 in 1953-54. Part of the rise in the price index is probably attributable to the activation of latent inflation. But this last factor could not have lasted beyond the early part of this period. The amount of the latent inflation in India was in any case moderate. It would seem significant, however, that prices continued to rise until 1951-52 and were about 29 per cent higher at the end of the period relatively to the beginning of the period, notwithstanding the moderate magnitude of the budget deficits.

23. My colleagues consider that for a year, deficit financing at a rate of Rs. 200 crore per annum is safe—and even necessary—and for the five-year period they would put it at within Rs. 1,000 crore. I consider these figures far too excessive.

24. Deficit financing does not create real resources. Together with the issue of loans, collection of small savings, etc., it is one of the devices of appropriating, for the public sector, the real resources which exist in the economy. The necessity for deficit financing arises from the fact that an individual converts a part of his real income into cash balances, the rest of it being either consumed or invested (through the stock exchange or otherwise). The cash balances, like the investments and the amounts spent on consumption, tend to grow with

the growth in income. As they form a part of the savings there exist somewhere in the economy equivalent real resources. Deficit financing provides the individual with the cash balances and acquires the real resources for investment in the Plan. If the demand for the increase in cash balances is not adequately met, prices would decline and there may ensue unemployment. Part of the cash balances would be provided by the banking system through the creation of credit. In this case the equivalent real resources would be acquired by the private sector, in whose favour the banking system would create credit.

25. The amount of the deficit financing and the amount of the credit creation should be together limited to the *increase* in the cash balances. The rate of increase in the cash balances would depend upon the rate of increase in the Indian National Product during the Five Year Plan. An estimate of the magnitude of the credit creation and of the deficit financing under this head would require a closer study than is immediately possible. The Bernstein Fund Mission estimated deficit financing and credit creation by the banking system at about Rs. 33-1/3 crore per annum for the last three years of the First Five Year Plan. We may assume a round figure of Rs. 35 crore per annum for the next Five Year Plan. This is only a conjecture. But it indicates the order of magnitudes involved. What part of this amount would be deficit financing and what part credit creation by the banking system would depend upon how the increase in the cash balance real resources of the public would be divided between the public and private sectors.

26. To the amounts of the deficit financing under this head must be added the sterling releases acquired for the public sector, to arrive at the total figure of the deficit financing that might be safely undertaken. The total amount of the sterling releases during the five-year period has been placed at Rs. 100-150 crore by the Plan-frame. Part of this would have to be allocated to the private sector and will be matched by equivalent credit creation by the banking system. If we may assume a division of the cash balance resources and the sterling releases between the public and the private sectors, respectively, in the ratio of 2:1, the order of magnitude of the aggregate deficit financing would be Rs. 180-220 crore for the five years, or an annual rate of Rs. 35-44 crore.

27. Since the precise amount of the deficit financing is contingent upon the actual rate of increase in the national product and the actual withdrawals from the cash reserves, both of which may be subject to wide variation in an economy where weather conditions significantly influence output and prosperity, it may not be prudent finance to take advance credit for the amount of the deficit financing even if the order of magnitude were larger. The preference of the public for cash balances may, moreover, change with their confidence in the honesty of the rupee. Under the circumstances this source should be held in reserve to help meet possible shortfalls in the receipts from other sources.

28. I realise that this is less than cat's meat before the order of magnitude of the deficit financing proposed in the Plan-frame and that approved by my colleagues.

But, if the above analysis is correct, I do not see how a significantly different conclusion may be arrived at. Even on the assumption of a doubling of the rate of growth of the national income, the demand for the additional cash balances cannot be of an order to justify deficit financing on a scale equivalent to 50-60 per cent of the money supply. If a third of the central bank money proposed to be put into circulation through deficit financing went to augment the reserves of commercial banks, and if they built on it a volume of credit six to seven times, the total money supply at the end of the Plan period may be more than double the money supply at the beginning of the period. This would be clearly inflationary. An increase in the rate of growth of national income from 13 per cent to 27 per cent would not require a doubling of the total money supply.

29. Deficit financing is essential in an under-developed economy to permit full use of the scarce real resources. By the same token deficit financing should stop severely short of the point at which inflation begins. Inflation does not, on balance, add to the aggregate real resources. It creates wasteful or socially less useful demands on the limited savings. Investment gets diverted into luxury trades to meet the demand for their products resulting from inflation incomes. It diverts an undue proportion of savings into urban property and real estate, into gold hoards and jewellery, and into foreign exchange, as a result of the effort of the savers to protect the value of their savings. The resources available for the Plan would be, as a result, correspondingly less, and overall economic development would be impeded.

30. Inflation tends to be self-perpetuating. With the rise in prices and wages, the original estimates of

the cost of the project taken in hand will be out of date. More deficit financing would be necessary for their completion. And, as they cannot be left half-finished, there would be a pressure for further deficit financing. At any given moment, the whole of the currently available savings being invested either in the public or the private sector, or outside the Plan, there would be no idle savings to draw upon. Real resources would have to be drawn into the Plan by force, which would render the distortions and wastages referred to above, unavoidable. This takes away from the practical value of the caution, that the inflationary situation should be kept under watch. Once inflation begins, it tends to gather momentum, and while it runs its course we are apt to be more or less helpless witnesses. The best protection against inflation is to prevent it by keeping the investment programme within the available real resources.

3. POLICY IMPLICATIONS

31. In this section we shall deal with legislative and administrative measures, taxes on lower income groups, extension of nationalisation, continuance of controls, price support of agricultural produce, and the proposed National Labour Force.

(i) *Legislative and Administrative Measures*

32. No plan can be bigger or bolder than the available real resources. The Taxation Enquiry Commission has estimated net savings in India at about 7 per cent of the national income in 1953-54, which is about Rs. 730 crore. This is an overall figure and, therefore, includes savings utilised for capital formation in the organized

private sector (about Rs. 75 crore), public savings, urban savings, rural savings, and also non-monetised savings. Other estimates of savings are more or less of the same order. To the extent this estimate is reliable, it is a measure of the total permissible investments in India. Any attempt to exceed this limit would raise prices, and would impede overall economic development. Consistently with individual freedom and democratic institutions, there is no device of significantly adding to the volume of the flow of savings, though, with proper inducements (which should include an honest rupee and an unpegged interest rate), it may be possible to stimulate the flow somewhat. The situation, however, may be significantly different under a totalitarian regime which may impose authoritarian reductions in consumption. Overall savings, then, are no longer dependent upon individual choices. I presume that planning in India would be consistent with democracy and democratic institutions.

33. I am unable to agree to the following recommendation of my colleagues:

"It is only when there is a firm legislative and administrative base that it is possible to think in terms of doubling the rate of progress in the Second Plan period, of increasing capital formation, of raising levels of living, and providing the machinery for accelerated development in the future. We cannot, therefore, emphasise too strongly the importance of facing up boldly and without hesitation to the legislative and administrative implications of a bigger and a bolder plan" (para 47).

I apprehend that reliance on legislation and administrative measures to increase the rate of saving which will permit a bigger and bolder Plan, may, by degrees undermine our democratic social order, which would be too high a price to pay for accelerated economic development. Legislative and administrative action should be direct to ensuring the specially most effective uses of savings. To permit accelerated economic development it would be preferable to supplement domestic savings by foreign capital and foreign aid.

(ii) *Taxes on Lower Income Groups*

34. There is hardly room for a further reduction in the standard of living of the lower income groups in India. Finance for the Plan must be raised from the middle and the upper income groups. Measures of taxation and other devices which would tend to reduce further the consumption of the lower income should be avoided. I am unable, therefore, to agree to my colleagues' recommendation to amend Article 286 (3) of the Constitution in order to permit taxation of articles "essential .to the life of the community" (para 9). Amendments to the Constitution, which should be rare. should much rather be in the direction of adding to the liberties, privileges and rights of the common man than otherwise.

(iii) *Extension of Nationalisation*

35. I agree with my colleagues that the scarcity of administrative and specialised personnel, and the necessity of conserving savings for the Plan are factors against extension of nationalisation. But they have no objection for such extension on principle. I would oppose

general extension of nationalisation on principle. Nationalisation should be ordinarily limited to public utility concerns and to concerns involving national security. Otherwise State intervention should be concerned with the prevention of monopolies or quasi-monopolies. Efficient management of business and industrial concerns in a competitive market economy is a highly specialised function and requires qualities which a civil servant is not required to, and in the ordinary course of his training may not, acquire. This function is best left to private entrepreneurs, in the prevailing socio-economic order which is dominated by the market economy and the pricing system.

(iv) *Continuance of Controls*

36. I do not feel convinced of the economic importance of continuing the remnants of controls. Decontrols have proved a noteworthy success. Controls and physical allocations are not a necessary adjunct to planning. The distribution of productive resources, including the ratios in which they are used, are subject to variation and depend upon diverse technological, economic and price considerations. It is quite impossible to take into account these complex and changing considerations and arrange anything like a satisfactory allocation of resources. There are great advantages in allowing freedom to the economy, and to the price system in the use and distribution of the needs of production. I am unable to agree with my colleagues that a case exists for continuing what controls now remain. Steps should be taken to remove controls as early as may be possible. Controls and allocations are an essential characteristic

of communist planning. They do not very well fit in under planning in a free enterprise market economy.

(v) *Price-support of Agricultural Produce*

37. I wish to join my colleagues in the matter of the urgency and importance of completing speedily the scheme for licensed ware-houses, and for the provision of credit and marketing facilities to farmers. My colleagues have stated that the ware-housing system "should be used by the State for purchase and sales of buffer stocks of agricultural commodities not only for the purpose of dealing with any sharp falls in agricultural prices such as we are witnessing today but also with the objective of preventing any sharp seasonal fall or rise in prices" (para 38).

38. In theory it may be possible to distinguish between seasonal price movements from the long-term price trends, and to prescribe that seasonal fluctuations should be smoothed out by State purchases in times of harvest and sales between harvests. In practice, however, such distinctions may prove to be difficult and seasonal interventions may turn into long-term price support operations.

39. Price support of agricultural produce in India is a risky venture and we should be forewarned of the inherent dangers of it. About 50 per cent of Indian national income is drawn from agriculture. A policy of price support is, in essence, a subsidy by the rest of the community to the producers of the price-supported commodity. In countries where agriculture is a minor sector of the national economy, the incidence of the

subsidy may be spread out thinly on the larger sector of the economy and the proceeds may provide substantial relief to farmers. The reverse would be the case in India. The strain of the subsidy will manifest itself in a shortage of budget resources for the open market purchase and storage of agricultural produce. This, in due course, would lead to abandonment either of the price-support policy or of inflation. In either case damage would result. If the dilemma does not appear in one season it is likely to come in the next, as successful price support would stimulate production. In the Indian context a policy of price support of agricultural produce may force the economy down the inclined plane of inflation. Even in the United States, where agriculture is a minor sector of the national economy, price support has only survived. It has not succeeded. It has led to undue stock-piling of agricultural commodities and, in the past, had involved a great deal of wastage of stocks through deterioration. Selective price support policy is a poor answer to this difficulty. The distinction between crops would be invidious, the relief provided may prove to be a token, and it might cause a distortion in the pattern of agricultural production and economic instability.

40. The price situation in India today was too complex to be resolved by price support of agricultural commodities or other inflationary measures such as deficit financing. The price decline was neither universal nor uniform. The prices of some major commodities had moved in opposite directions. The fall was heaviest among foodgrains, oil seeds, and black pepper. Some

agricultural produce, *e.g.*, tea, raw hides and lac, which were export goods, and raw jute, among import goods, had risen almost as high as some other agricultural prices had fallen. The prices of manufactures were either steady or showed a slight upturn on the average. The cost of living index was either steady or had fallen only slightly. In a back-ground of dissimilar price movements, simple monetary remedies may aggravate the complexity and difficulty of the price structure. It may, on balance, adversely affect the employment position by stiffening the already rigid cost structure. Price support and deficit financing were no remedies to individual over-production, to export difficulties attributable to quality and to domestic costs, or exchange overvaluation. Price support and deficit financing might, in fact, aggravate these maladies.

41. The complex problems of the prevailing price situation emphasise the importance of economic rationalisation, for progress with stability, whereby the fiscal, the investment, the monetary, the interest rate, the tariff, and the exchange rate policies are rendered mutually consistent and harmonious.

(vi) *National Labour Force*

42. I apprehend more risks than I see advantages in the proposed National Labour Force. It may create a privileged class of workers, who may prove to be relatively more expensive to keep and to move. The availability of this force may impede relief to the regional under-employment problems. The necessity for such a force may not arise until labour becomes a bottleneck in economic development.

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