MEMORANDUM

ON

THE DRAFT OUTLINE

OF

THE FIRST FIVE-YEAR PLAN

Federation of Indian Chambers of Commerce and Industry

FOREWORD

The outcome of the deliberations of the Planning Commission has been awaited with great interest by informed public opinion in the country. Since 1944 the Governments, both at the Centre as well as in the States, have been at numerous schemes of development and a bewildering multiplicity of plans and projects came to be outlined. No attempt was, however, made to coordinate the various schemes of Central and State Governments nor was there an attempt to relate the cost of these schemes to the resources available. As the Prime Minister recently pointed out "enthusiasm outran discretion", and various authorities were competing with each other in planning for their respective spheres. The appointment, therefore, of the Planning Commission with a distinguished personnel was looked upon to mark at least the end of haphazard planning. It also gave rise to the hope that henceforth Governmental planning would be practical and simple and would eschew doctrinaire theories to attract responsible and enthusiastic participation of the citizens in the implementation of an over-all Plan. To the extent that the Planning Commission have sought to bring coherence into chaotic and haphazard planning by Central and State Governments and have attempted to fulfil the hope raised by their appointment, the Committee of the Federation welcome the Draft Outline of the First Five-Year Plan.

The Committee of the Federation have carefully perused the Draft and in the course of the Memorandum they analyse its implications. They welcome the Commission's gesture in submitting the Draft Outline for public discussion and trust that in finalising the Plan, the Commission would give careful consideration to the points raised in the Memorandum.

28, Ferozshah Road,
New Delhi, *25th September, 1951.*

C. M. KOTHARI
President.

Federation of Indian Chambers of Commerce and Industry

Memorandum submitted to the
Planning Commission on the Draft Outline of the
First Five-Year Plan.

In order to do full justice to a document emerging from an important body like the Planning Commission, and further in response to the desire of the Planning Commission themselves that the Draft Plan be looked upon as a document for the widest possible public discussion, the Committee of the Federation have taken time to peruse the Report in sufficient detail and formulate their views. While making observations and comments on the various aspects of the Draft Plan or while making suggestions for a radical change in some places or a minor adjustment in others in the Plan, the Committee have tried to satisfy themselves that their comments and suggestions help the Plan to be more effectively and widely "regarded as the field of endeavour within which every citizen can co-operate and offer his best for the common good". It is in this spirit of cooperation that the Committee have approached the Draft Plan and they trust that the views expressed in this Memorandum will be received in the spirit in which they are offered. The Committee would like to take this opportunity to make it clearly known that Indian industry and trade are, as ever, anxious to contribute their best to the economic development of the country.

There is one point which needs to be stressed at the outset. The Resolution of the Government of India which defines the scope of the work of the Planning Commission has made a specific mention of the Directive Principles of State Policy. The aim of planning was to be "...a social order in which justice, social, economic and political, shall inform all the institutions of the national life". The Commission was also to see that "the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment". The Committee are in general agreement with the Fundamental Rights and the Directive Principles of State Policy contained in our Constitution. If, therefore, in the course of the Memorandum they are constrained to criticise certain measures which are considered by the Commission to be in pursuance of the Directive Principles, it is because the various measures will have a cumulative effect on the economy. For instance, the various detailed controls, extensive labour legislation and social security measures, measures for reducing inequalities in income and wealth, etc., may all be in keeping with the Directive Principles. It is a point to be considered, however, whether in the earlier stages of our economic development, it is feasible to translate into concrete terms all the desirable objectives contained in the Directive Principles. The various recommendations are dispersed in different parts of the Report and each recommendation taken separately may seem unexceptionable. The result of all these measures together, however, may be to place a burden on the economy which, in the earlier stages of development at any rate, it may not be able to bear.

For instance, the Commission have observed that "economic equality and social justice rank so high among the objectives of planning that at least the first steps in the right direction have to be initiated immediately". And "the problem is not one of merely correcting the inequalities of income as they arise, but of reducing the inequalities of wealth which are to a large extent at the root of the inequalities of income". The Commission therefore advocate that death duties should be levied at an early date. Now, there is no difference of opinion that growing inequalities of income and wealth are not desirable and that taxation policies should be so devised as to reduce the possibilities of growing inequalities. However, it is doubtful whether, to start with, emphasis should be placed on reducing the existing level of inequalities and on more equal distribution of existing wealth. It needs to be emphasised that before wealth can be distributed it has to be produced and an undue emphasis on a socially desirable distribution may affect adversely the production of wealth itself. In fact, this aspect of the problem is noted in the Industrial Policy Resolution of April 1948, which says that "any improvement in the economic conditions of the country postulates an increase in the national wealth. A mere redistribution of the existing wealth would make no essential difference to the people and would merely mean the distribution of poverty". Further, if we are going to make the distribution of income and wealth more egalitarian, it would reduce capital formation, as a lower average income would mean a lower ability and willingness to save. As the Commission have stated, the First Five-Year Plan is to form the basis of future development and it is, therefore, necessary to see that social objectives, however desirable, are not sought at the expense of economic development.

The Committee will now analyse the Draft Plan in three main parts. In the first part are contained the salient feature of the Draft, which will be discussed in greater detail in the course of the Memorandum. In the second part the reactions of the Committee to the broader issues of policy are embodied. And the third part contains a more detailed discussion of the financial implications of the Plan, the tragets in industry and agriculture, transport, etc.

Before proceeding to discuss the broader aspects of policy, it will be worthwhile to mention the salient features of the Draft Plan, which will be discussed in the course of the Memorandum. The following is a brief summary of the financial provisions of the Plan and what its fulfilment would mean in terms of food, clothing, power, etc.

The Distribution of Expenditures in the Plan

The Plan relates to the period 1951-52 to 1955-56. It claims to represent in some ways an improvement on the Six-Year Plan of Economic Development for the country, incorporated into the Colombo Plan last year. The present Plan, it is stated, is based on a detailed examination of the projects and, as a result, some of the schemes figuring in the Colombo Plan have been excluded or modified and some new schemes have been introduced. In terms of over-all magnitudes "the Five-Year Plan attempts to do in five years what was proposed to be done in six". Unlike the Colombo Plan, involving an outlay of Rs. 1840 crores over a six-year period, the new Five-Year Plan is divided into two parts and the total outlay for the entire Plan is Rs. 1793 crores. The first part, involving an expenditure of Rs. 1493 crores, represents the outlay on development after taking into account the resources that can be raised internally through taxation and borrowing, and external assistance which has already been offered to India and which is likely to be made available in this period for financing the development schemes. It will be mainly to this part of the Plan that the views of the Committee will relate, for few details are available for the expenditures of Rs. 300 crores involved in the second part of the Plan and furthermore because of the categorical statement of the Commission in that the first part of the Plan "will have to be implemented in any case". In the distribution of the outlay on development, considerable emphasis on irrigation and power and transport and communications has been placed. Over 56% of the total outlay is to be spent on these items. Next in importance is the outlay on social services and on agriculture and rural development which take up nearly 30% of the total. The outlay on industry and mining on the other hand is a little less than 7%.

Sources of Finance

The finance for meeting this expenditure of Rs. 1493 crores is to be found mainly from internal resources. The Central and State Governments together are to find resources of the order of Rs. 1121 crores. Of this amount, Rs. 211 crores are to be found from surpluses on revenue account of State and Central Governments, Rs. 115 crores from net long-term borrowing of all Governments and Rs. 250 crores from small savings and unfunded debt. In addition, Rs. 393 crores are expected to be available from resources normally set apart on revenue account for developmental purposes. In order to implement Part I of the Plan a further amount of Rs. 373 crores will, however, be necessary. The U.S. Food Loan recently extended to India and the aid offered by Canada and Australia under the Colombo Plan provide a part of the finance required to fill this gap. There is still a gap of Rs. 290 crores which has to be met by deficit financing and the Commission hope that the adverse effects of deficit financing on this scale may be mitigated to some extent by drawing upon our sterling balances.

The Results expected from Implementation

As a result of the implementation of the Plan, a 20% increase in the area under irrigation is expected. The additional power generated would be 1.1 million Kwt., or an addition of 70% to the existing capacity. The programme of agricultural development envisaged, it is expected, will result in an additional production of 7.2 million tons of food-grains, 2.06 million bales of jute, 1.2 million bales of cotton, 690,000 gur tons of sugar, and 375,000 tons of oilseeds. This increase in output of foodgrains together with the three million tons of imports annually which are contemplated, will make it possible to raise the level of consumption from 13.67 ozs. per adult per day to about 14½ ozs. by 1955—56, after allowing for an increase in population by 26 million. With the increased output of cotton, the textile industry is scheduled to produce 4,500 million yards of cloth and the handloom industry another 1000 million yards and that would raise the per capita consumption of cloth from 13.4 yards in 1949—50 to 15 yards in 1955—56, after allowing for exports of 600 to 700 million yards. The per capita consumption of sugar is also expected to increase from 6.3 lbs. in 1949—50 to 8.3 lbs. in 1955—56. Similarly, there are increases envisaged in the production of steel, cement, aluminium, paper and paper board, newsprint, salt, etc. However, as the Planning Commission themselves accept, the net result of all these increases would be to restore by 1955—56 the per capita availability of goods and services in 1938—39.

II

No Discussion in Terms of Employment, Income Generation Physical Resources etc.

The Plan is essentially in terms of money expenditures to be financed from money resources becoming available over the period. In the opinion of the Committee, the Plan gives inadequate attention to the questions of employment and additional income generated as a result of the scale and type of investments envisaged. The Committee find in this a serious lacuna, particularly since the terms of reference of the Planning Commission included "an assessment of the material, human and natural 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 requirements". The Plan does not give any details of the amount of fresh employment that would be created and the types and quantities of various materials such as iron and steel, cement, etc., which would be consumed in the implementation of the various schemes. The Committee further feel that the Report should have contained a more detailed discussion of the rate of economic progress which would result from the Plan.

The Draft Outline also gives no indication of the expected increase in net national income as a result of the expenditures on power and irrigation, agriculture, transport and communications, etc. As has already been pointed out, 43% of the expenditure is on agricultural development and irrigation and power projects. Out of the remaining 57%, another 43% goes to the development of transport and communications and social services. The industrial sector of the Plan has been allotted an expenditure amounting only to 7% of the total. Even after allowance is made for private investment in industries, which the Commission place at about Rs. 275 crores in the five years, the proportion of investment in industry is still comparatively small. The emphasis on agriculture and social services and the comparative neglect of the claims of industry has resulted in a lower rate of return over the total amount of investment and, although the Commission have not worked out the resultant rate of increase in net national income, certain rough calculations seem to indicate that the rate of increase resulting from the Plan is not likely to be very much higher than an average of 2% per annum. This matter will be discussed at greater length at the latter part of this Memorandum.

Deals Mainly with the "Public Sector" and Relies on Budget Surpluses

The Commission are mainly concerned with what they term as 'public sector', presumably on the ground that public saving *i. e.*, surpluses of Government on revenue account and corporate savings, *i. e.* undistributed profits of public and private corporations, have to play an increasing role in sustaining the high level of investment. The Committee would like to emphasise that the basis of economic development is ultimately the diffused savings of a large number of persons and even the corporate savings of public and private companies are ultimately the result of withholding a part of the profits from the shareholders. The function of Government policy should be rather to create circumstances in which it would be possible for persons to save rather than substitute this source of saving by measures of policy which aim at a surplus on revenue account. The Committee feel that the decline in personal savings to which the Commission make a reference is the result of abnormal conditions in war and post-war years, and that to proceed on the assumption that surpluses on the revenue account by Government are a suitable method of financing development in an underdeveloped region is an unsound procedure.

In their concern for the public sector, the Commission have given a comparatively limited role to private industry. According to the estimates of the Commission, private industries have been able to secuie Rs. 10 to 15 crores per annum from the capital market and even assuming some improvement in the capital market, industry would be able to raise only about Rs. 80 to 90 crores from this source over the next five years. The Industrial Finance Corporation and similar institutions in the State should be expected to supplement these resources by Rs. 10 to 15 crores. At the same time, the arrears of depreciation at the end of 1949-50 are estimated by them to be between Rs. 100 and 150 crores. As against this, the only source from which industry can expect some assistance is the refund of E. P. T. deposits amounting to Rs. 60 crores and even a part of this is currently being released to meet the needs of working capital for industry. On the basis of these calculations, the Commission have come to the conclusion that industry will have to rely on comparatively limited resources both for purposes of making good depreciation and for necessary expansion.

Past Performance of Industry Ignored

The Committee are keenly aware of the difficulties which industry has been facing during the last few years and they would like to recall that they have in the past addressed Government on various aspects of this matter. However, they have to point out here that in spite of the difficulties, and at least some of them avoidable, gross investment in the course of the last five years in large scale industries has been certainly larger than the amount envisaged by the Planning Commission. Although no official statistics relating to capital formation in the industrial sector are available, certain rough culculations are possible. For instance, the total import of 'machinery including belting' in the five years ending 1950-51 was to the tune of Rs. 363 crores. Allowing for certain deductions on account of goods imported on Government account and for non-industrial purposes, the import of capital equipment on private account seems to be not less than Rs. 250 crores. Of this amount, a certain part would be by way of replacement rather than a net addition. No adequate data is still available regarding the extent of replacement demand, but even if it is assumed that the replacements during the five years ending 1950-51 were in the neighbourhood of half this amount *i. e.*, nearly Rs. 125 crores, and if we allow 25% for certain other incidental costs involved such as erection costs, transport, etc., the total fixed capital investment under this head would be nearly Rs. 155 crores. Probably this estimate of replacements is on the high side. Even on this basis Import of new machinery on private account would be about Rs. 125 crores. Before this machinery could have been fully utilised, additional investment in fixed capital other than machinery must have been necessary. On the basis of the data culled from the Census of Manufactures, the ratio between plant and machinery and total fixed capital works out to roughly 1 : 1.75. On this rough basis, Rs. 220 crores would have been invested in new fixed capital. The total investment in fixed capital in industry in the last five years will be, therefore, nearly Rs. 345 crores. The ratio between total fixed capital and total working capital is probably 1 : $\frac{1}{3}$. On this rough basis, working capital requirements would be about Rs. 115 crores. On the whole, therefore, it seems reasonable to assume that in the course of the last five years additional resources employed in industry (including working capital) are likely to be between Rs. 400 and 500 crores. The Committee do not claim any finality to this calculation which is essentially a rough approximation. But they feel that the Commission have under-estimated the past performance of industry and have calculated a much smaller rate of investment in industry for the period of the Plan. The rate of growth in the last five years, it deserves to be noted, has been in the face of serious difficulties and that if Government create an atmosphere more suitable for the functioning of private initiative and enterprise, the Committee feel confident that industry in the country can share more adequately in the task of economic development.

Inadequate Attention to Dynamics of Economic Growth

There has been another consequence of the Commission's concern with the public sector and their reliance on budget surpluses for capital formation. In estimating the resources available for development, the Planning Commission have relied too much on extrapolating the present patterns of taxation and in some cases adding to them. This procedure is self-defeating, for after all, beyond a certain point the present structure of taxation will begin to yield diminishing returns. On the other hand, a developing economy can create, in the very process of its development, further sources of finance. In this context, it is worth remembering that a large part of the real burden of the last war was in fact met in most countries by increased production and that the expansionary forces released by the War effort themselves made possible the financing of further war effort. The Committee are of the opinion that any scheme of development in an under-developed region cannot afford to ignore this dynamics of economic growth. Reluctance to accept this basic truth results in an inhibited approach to the problem of planning. The Commission's reliance on Government surpluses instead of on savings by individuals for financing economic development has led them to the conclusion that the financial resources available are very limited. As the resources, in their opinion, are limited, they have proceeded to lay down limited targets in the private sector. Since a large number of Government-sponsored schemes are already under way to a greater or lesser extent, the Commission have had very little choice left in the matter of distributing even the limited financial resources. As a result of this procedure, the schemes of expenditures in the Plan have been in favour of long-term projects.

Absence of Commercial Policy

Moreover, the Commission have not worked out in the Draft Plan the foreign exchange budget for the Five-Year period, nor have they indicated what in their opinion would be a suitable fiscal policy that would assist economic development. No doubt it was only recently that the Fiscal Commission had submitted their recommendations which are still under consideration of Goverment. Nevertheless, and in fact because of the recent submission of the Fiscal Commission's Report, the Planning Commission should have concerned themselves with certain important and specific aspects of fiscal policy to which the Fiscal Commission have made a reference. The delay on the part of Government to make known their reactions to the recommendations of the Fiscal Commission which were submitted in May 1950, the Committee thought, has been due to their desire to await the recommendations of the Planning Commission also. For instance, it was within the competence of the Planning Commission to work out in detail the recommendation of the Fiscal Commission relating to the protection of industries. The Fiscal Commission had recommended that such protection should be related to an over-all plan of economic development and grouped the industries that may be included in such a Plan under the following classes:

1. Defence and other strategic industries,
2. Basic and key industries,
3. Other industries.

In regard to the first category, *viz.*, defence and other strategic industries, the Fiscal Commission felt that, whether approved plans exist or do not exist, these industries should be established and maintained, whatever the cost may be, on national considerations, and such protection and other forms of assistance as needed should be given to them. In respect of basic and key industries also, the view of the Fiscal Commission was that the fact of their inclusion in the National Plan should itself be a justification for the grant of protection and other forms of assistance that may be needed for their development. The Committee feel that the Planning Commission should have indicated their attitude to the recommendations of the Fiscal Commission.

Further the Plan does not contain any detailed statement on a suitable import-export policy. While dealing with an appropriate price policy for the Plan, the Commission refer to import-export policy as one of the "main ingredients of a programme of holding, and in due course of reducing, the general price level". In their opinion, an import-export policy "designed to make full use of the sterling balance releases available" is desirable. This is the only reference in the Plan to commercial policy. The Committee would like to point out that the past experience of encouraging imports in order to fight inflation has not been at all encouraging. When in 1948 major relaxation of import trade control was introduced and all sorts of sundry knick-knacks were allowed to be imported, its contribution to disinflation was not significant. On the other hand, the opening of flood-gates of foreign manufacture created serious difficulties for certain Indian industries which were established during the war. The Committee feel that an import policy should be decided upon by considerations other than merely holding the price-line and that an import policy which only aims at making full use of the sterling balance releases available is not an adequate policy for economic development. The Committee hope that in the final version of the Plan, the Commission would go into greater details regarding the availability of foreign exchange resources over the period and the most effective manner in which these resources can be utilised for economic development. Foreign exchange budgeting of this type would also tend to reduce the uncertainties and vacillation in the Government's commercial policy.

In the opinion of the Committee, the over-much concern with the public sector, the inadequate attention paid to the problems of requirements and availabilities of essential commodities like iron and steel, cement, etc., the failure to appreciate the role of private initiative and enterprise in the dynamics of economic growth and the absence of any attempt to form a coherent commercial policy are some of the serious shortcomings of the Report. As a result of the inhibited approach to the problem of planning, the Plan has been reduced to a statement of the proposed rates of expenditure in the next five years by the Central and State Governments on various projects which are already under way. The estimate of the internal resources is also no more than a preview of the budgets to come. Consequently, the Committee feel that the Plan has become a planned programme of Public expenditure and not a National Plan of economic development. In the course of the latter part of the memorandum, the implications of this type of planning are discussed in greater detail.

The Committee, however, concede that by and large the plan is more realistic than the spate of schemes which emanated from Central and State Governments in the last three years. Obviously there has been pruning of the various projects, but no indication has been given of the extent of pruning that was necessary. This information would have thrown more light on the relation of the present Plan to the development schemes in the past. It would also help a better understanding of the basis on which the present Plan has been drawn up. In this connection, the Committee cannot help pointing out to the feeling in the public mind that State Governments are still endeavouring to get projects pushed through although they do not find a place in the Draft Plan. For instance, though there is no provision for the Kosi project in the Draft Plan, there are reports to the effect that the Bihar Government give topmost priority to it. The State Government do not seem to prefer the Gandak project referred to in the Draft Plan and as far as the State Government are concerned, it is said that this project is practically shelved for the present. Considerable doubt and misgivings have naturally arisen in the mind of the public consequent upon public statements on the subject by top-men in authority. The Committee, therefore, feel that the position should be clarified as early as possible.

Importance on Public Co-operation

The Planning Commission themselves make only modest claims regarding the benefits which would accrue from the implementation of the Plan. And they have very rightly pointed out the importance of co-operation from the people. It cannot be over-emphasised that public co-operation is essential—especially the co-operation of such persons as can help the execution of the Plan with their knowledge, experience and talents, etc. The Committee on behalf of trade and industry in the country would like to reiterate their desire to co-operate with Government in the tasks of economic development. But they note with regret that in the whole Plan there is no evidence of any suitable machinery to secure the co-operation of private initiative and enterprise. Of course, there are the Development Councils, one each for every important industry, consisting of representatives of industry, labour and technical management and appointed by Government. All these, however, are more in the nature of instruments of control than agencies of co-operation. In this connection, it is necessary that industry and trade should be taken into confidence and their co-operation sought rather than that they should be ordered about as to what they should do by an outside agency.

Even now while apparently there is no lack of contact and consultation between Government and business, it is often found Government's final decisions have no relevance to discussions which take place and the advice that is tendered. As a result, these discussion are not as useful as they should be in formulating Government's policy and facilitating the smooth functioning of normal economic activities. The Committee cannot over-emphasise the desirablity of administration following the cardinal principle that no attempt should be made to formulate a new policy in any matter without the fullest consultation with those who have practical experience in that field and with those who would be called upon to carry it out. The spirit of this principle should be followed. Administration should not merely content itself with convening meetings of the representatives of the industry, but follow their advice. To this end, there is need on the part of Administration to frankly recognise the complexity of the economic mechanism and to develop the ability to take advice from those who are actually engaged in industry and trade "which may often go very much against one's own predilections, without resentment and without letting it cause prejudice against the adviser."

Self-Government in Industry

It is of essence to efficient functioning of the economy that there should be the minimum amount of regulation from outsides. Mr. Gorwala, in his Report on Efficient Conduct of State Enterprises, has made out a plea for maximum autonomy to State enterprises and has argued against interference from outside. The Committee feel that the same principle of internal autonomy should be extended to the private sector also and that such regulation as is necessary should as far as possible be exercised by the industry itself. The case for allowing greater freedom for industry and for self-government in industry should receive further attention at the hands of both the Planning Commission and Government.

The Commission speak of a mixed economy in which the private sector must continue to play an important part. In the same context they declare their faith in a comprehensive system of controls. In the view of the Commission, planning in practice means " an economy guided and directed by the State and operated partly through State action and partly through private initiative and effort ". But the Committee have to point out that the result of the various controls and regulations which the Planning Commission recommend would be such a series of irksome "do's and don'ts" that initiative and enterprise would be crippled. In fact the Committee find that as a result of the various measures of regulation and control to which the Planning Commission have given their blessings, there will be very little that is private in the private sector. Both trade and industry will be subject to even greater regulation and control by Government and will have to function within the framework of a series of directives, many of which are administrative fiats to meet particular situations.

Controls

It is possible to conceive of a planned economy in which all decisions regarding the allocation of resources are taken by a Central Authority. In such an economy private initiative has no place and the regimentation of the individual is complete. But such a society is not what the Planning Commission have in mind. They admit that a planned economy in this sense is neither feasible nor desirable in the present context. The Commission, therefore, advocate democratic planning and a mixed economy. But in their doctrinaire adherence to the efficacy of controls and with scant consideration to the problems of incentive in an economy they have proceeded to recommend policies which make mockery of a mixed economy. Not only is there very little that is private in the private sector, but the so-called public sector also is to thrive at the expense of the private sector as will be shown when discussing the financial implications of the Plan.

This attitude of the Commission is all the more surprising in view of the past experience of the working of controls in our country. Hardly anyone who has had anything to do with controls has anything to say in its favour. Partly, this unsatisfactory state of affairs is attributable to a lack of qualified administrative personnel. But the Committee should like to emphasise that even with the best of will and ability a bureaucratic machinery cannot adapt itself to the dynamics of an economic system. Realising the need to consider whether the present administrative methods and machinery are adequate to meet the requirements of a controlled economy, the Commission had rightly directed a special and independent study of the problems of public administration. Mr. Gorwala's report on the subject has revealed the weakness in the existing system. Absence of adequate data, imperfect understanding of the intricate workings of the economy, vacillation, nepotism and corruption—all have contributed to the failure of economic administration both at the policy and at the implementation levels. The Committee feel that the Planning Commission should not have recommended the placing of additional responsibilities on an already over-worked and depleted administrative machinery.

In this context, the Committee would like to urge the Commission to take a realistic attitude in regard to the ability of an administrative machinery to control an economy. In the view of the Committee, a complex economy needs for its smooth functioning a powerful instrument like the price mechanism. Any isolated attempt to regulate the price of one commodity or the other can never succeed and yet, in the context of a mixed economy which the Commission envisage and with our present administrative personnel, it is impossible to introduce and operate "a comprehensive and integrated system of controls". In any case, price controls and rationing are only temporary remedies and can never be allowed to take the status of a permanent policy.

The only solution to our present difficulties can be increased production. The continuance of detailed and extensive controls, on the other hand, retards production and though it may suppress for the time the inflationary potential, a system of controls can never really overcome inflation. While it is accepted on all hands that in the context of the present conditions in the country, some controls would be essential for a short period, the Committee would like to state that in view of various difficulties both technical as well as administrative, the extent of controls should be kept to the minimum. The Committee would like to refer in this context to the beneficial effects on production which the policy of 'dual' pricing has had in the case of sugar. In view of this experience, the Committee should have thought that the Planning Commission would consider the claims of 'dual' pricing. But they regret to note that the Commission are so absorbed with the idea of "holding the price line" that they ignore the long-term benefits of a policy of gradual decontrol.

State Enterprises

Consideration of the price policy of State enterprises is relevant at this stage. Before doing that, however, the Committee will refer to the organisational set up of State enterprises. At the instance of the Planning Commission, Mr. Gorwala has submitted a Report on the Subject. The Committee are not aware of the attitude of the Planning Commission to Mr. Gorwala's suggestions, although they state that the picture of industrial development envisaged in the Plan would not be complete without reference to the State enterprises.

The manner in which State enterprises are run is of national interest for more than one reason. Where they operate in competition with private enterprise, they raise problems which are of great significance to the private sector. The Committee of the Federation have given their serious consideration to the running of these enterprises and expressed the opinion as early as March 1949, that they should as far as possible be managed by companies formed under the Indian Companies' Act. It was emphasised that these should be run on purely commercial lines and that there should be complete non-discrimination between private companies and State enterprises in respect of taxes, factory legislation, price controls, etc. The Committee note that Government of India have also given their attention to the question of devising the most effective machinery for running State industries. Government seem to have realised that excepting in the case of Ordnance Factories and other allied undertakings where direct Government management is of obvious national necessity, departmental management would be unsuitable for Government industrial undertakings. They have conceded that when Government undertake industrial enterprises side by side in competition with private enterprise, they should be managed on commercial lines. Government are understood to have decided that private limited companies under the Indian Companies' Act with Board of Directors should be constituted for the management of the Fertiliser Factory at Sindhri, the Dry Core Cable Factory at Mihijam, Penicillin Factory at Bombay and the Machine Tool Factory at Bangalore. In this connection, the Committee have to point out that the structure of the "company" will make all the difference. For instance, for the Sindhri Factory, a company is expected to be registered as a private limited company with the minimum of shareholders required under the Companies Act, *i.e.*, two. One share out of the total issued share capital will be allotted to a departmental Secretary and the other share will be allotted to the President of the Indian Republic. Thus a commercial concern will be seemingly set up. In actual practice, taking advantage of the provisions of the Company Law, the shareholders—in this case, virtually the Ministry—will have all the powers to exercise control over the management of the company and such management will not be far different from entrusting it to a Department of Government. Further, the Board of Directors to be set up for the company will be required to give effect to the general dircetives of the Ministry. It is also understood that Government will take the power to issue such dircetives as may be considered necessary "in regard to the conduct of the business of the company or the directors thereof", and the directors will be required to give immediate effect to such directives. Besides this general and unlimited power of detailed control in the hands of the Ministry, the powers of the Board of Directors will also be subject to certain specific limitations. The object of the Committee in bringing the above to the notice of the Planning Commission is to stress that the public should be clearly informed of the actual organisational set-up of the so-called companies and their views invited before Government take a decision on the matter.

Mr. Gorwala has suggested that these enterprises should be organised strictly on business lines and that their price policy should be to break-even over a period of years. In suggesting a "no profit, no loss" basis as a suitable price policy for State enterprises, Mr. Gorwala has grossly over-simplified the issue. It seems that the dictum has been borrowed from the Nationalisation Acts in the U.K. But even in the U.K. this formula has been opposed on economic grounds. In India the objection to such a simplified pricing policy is even greater. When the State is entering the field as a pioneer, it will be difficult to strike an even balance between prices and costs. Further, "no profit, no loss" formula is is not very meaningful unless we lay down the elements which go to constitute production costs. For instance, in the case of a State enterprise, is interest to the charged on capital employed and if so, at what rate ? What is to be the provision for depreciation and how is the enterprise expected to meet unforeseen contingencies ? If such reserves are to be built up for contingencies as well as for expansion should these be included in break-even point ? What are the principles governing the building up of reserves ? These and similar problems are covered under the omnibus formula of breaking even over a period of years. The pricing policy to be adopted in the case of multi-purpose projects like the Damodar Valley are also not discussed in the Plan although the price of services like electricty is of considerable significance as it will govern the cost of industries which depend on them.

But the Committee note that the Planning Commission have recommended stabilisation of wages and profits as a necessary conditions for giving a breathing space to Government to tackle the present problem of high prices. "Government should be given a period of respite in which to take concerted action for arresting the further rise in prices. To make the course acceptable to the working-class other measures will have to be taken including restrictions on the remuneration of management, the distribution of profits and the issue of bonuses". The Committee have serious doubts as to how far this could be useful in the context of the present circumstances obtaining in India. The proportion of distributed dividends is comparatively small. Stablisation of profits therefore will have very little disinflationary effect. Moreover, profits are residual and unlike wages, there might be years in which profits may not accrue. Consequently, if in good years dividends are to be limited and in bad years dividends cannot be declared, the incentive to invest is bound to be affected adversely. This is a serious consequence particularly in a developing economy and instead of relying on stablisation of personal income as an anti-inflationary measure, the more appropriate policy would be to encourage, through fiscal and other means, the ploughing back of profits.

While the Commission desire a more extensive ploughing back of profits, the provisions of the Income-tax (Amendment) Bill, particularly Section 23-A, seek to prevent building up of reserves by private investment trust companies by insisting upon compulsory distribution of entire profits as dividends. The Committee hope that while preparing the final Report, the Commission will bear in mind the present difficulties in the way of more extensive reinvestment in industry and recommend ways and means which would make ploughing back of profits more attractive. In this connection the Committee would like to draw the attention of the Commission and of Government to some of the industrial awards. In some cases industrial tribunals have ruled in favour of bonus payments even when there were no profits and the bonus had to come out of the past reserves of industry. This practice of making inroads in reserves in order to meet wage claims has serious implications from the point of view of the growth of industry.

The Commission have also made sweeping remarks against the managing agency system in particular and it would appear from the Report that the Commission have almost come to the conclusion that the managing agency system has completely failed in this country and that it requires a complete overhaul. The Commission state that "if the industrial development of the country is to proceed along sound lines, it is necessary to change the present system of industrial management in the private sector in important respects. The managing agency system under which industries are controlled and operated by independent firms has in recent times disclosed a number of features which are harmful to the growth of industries in future". The Commission do not seek to justify these remarks by any further discussion. The Committee would like to point out that while there may have been a few stray cases of abuses in the managing agency system, it is not legitimate to use these isolated instances to denounce the entire system. The remarks of the Commission regarding the managing agency system are all the more untenable because they conveniently ignore the fact that whatever industrial development there is in the country has been largely as a result of the efforts made by the managing agents and that, in the absence of the managing agency system, little progress in the country's industrial sphere would have been possible. Almost all the well-established and efficient concerns in the country at present are run by the managing agents, and all the successful company floatations in recent years have been those with which the eminent managing agency houses in this country are connected.

Industries (Development & Regulation) Bill

The Committee feel that in giving their unqualified blessings to the Industries (Development and Regulation) Bill, which seeks to provide further governmental interference in the running and management of industries, the Commission have not given adequate attention to the desirability of employing 'negative' controls where governmental intervention is deemed necessary. According to the Planning Commission the Central Industries Board proposed in the Bill should be endowed with authority to exercise control over capital issues, etc., "in respect of the important industries and not merely with reference to the scheduled industries as contemplated in the original Bill". "These powers", the Commission state, "would be of considerable use in directing the limited resources of manpower, materials and finance into desired channels and for ensuring the general efficiency of industries. Under the Bill, as it stands at present, the Central Board is entitled to make investigations, to take over the management of recalcitrant undertakings and to sanction capital issue only in respect of a limited number of industries." It will be very useful, the Commission opine, if the Central Board is endowed with authority to use these powers in respect of all industries. The Committee have perused the report in vain to find supporting evidence for the recommendation that the Bill should be passed without any further delay or for the suggestion that its scope should be widened. The Draft Plan merely says :

> "Since the bulk of public resources under the Plan are to be devoted to the development of agriculture, irrigation and power, cottage industries and social services, it follows that for the development of industries, resources must to a great extent come from the Private sector. The Plan does not, therefore, provide for any large expansion of the public sector in the industrial sphere. The Industries (Development & Control) Bill, 1949, which Government introduced in pursuance of their policy for the regulation of industry in the national interest should, however, be passed without any further delay".

The Committee may point out that the Bill covers two distinct and separate proposals which are (1) to bring certain important industries under the purview of the Central Government from that of the State Governments and (2) to vest the Central Government with wide and discretionary powers to control and regulate specified industries in any manner they like. With regard to the first proposal which aims to secure greater uniformity in policy, the Committee are in general agreement with the same. Their real objection to the Bill is that it seeks to vest Government with blanket powers and there is hardly any justification on the Part of the Central Government to assume these powers on the ground of bringing about planned economic development of the country.

The power to issue licences for the new industrial units or substantial extension to the existing plants and to lay down conditions regarding location, minimum size, etc., if necessary (Clauses 8 and 10), the power to make investigations into certain specified undertakings (Clause 15), the power to take over the management of undertakings which fail to carry out governmental instructions (Clause 17), are powers all too sweeping and obnoxious in character. The fact that these powers are to be exercised by Government through "a Central Industries Board consisting of three persons having wide experience in industrial, commercial, technical or judicial matters or in administration and appointed by it" does not remove the objections to this type of regimentation of the industry. The Committee fail to understand particularly the recommendation of the Planning Commission that the Bill should cover all industries especially when Government themselves had never conceived of assuming such comprehensive powers.

The Committee would like to point out that their opposition to licensing is not only based on the experience of vexatious delays, red tape, nepotism and uncertainty that have attended Government controls, but also on the fact that Government already posses sufficient powers to enable them to regulate the development of industries effectively. The Factories' Act requires the registration of factories. The control of capital issues prevents the floatation of companies without previous sanction of Government. Imports, as well as production and distribution of essential commodities, are already under control. Above all, licensing as envisaged in the Bill is not the best way of promoting growth and development of industries on sound regional basis. If the growth of a new industrial undertaking is to be regulated Government may assume powers to prohibit the establishment of any of the scheduled industries in the Union or in any specified territory for a specified period, say 12 months at a time. This power will enable Government to exercise necessary control without its deleterious effect on the working and growth of industries.

If the Industries (Development and Regulation) Bill is to cover all industries as recommended by the Planning Commission, the result would be to reduce the area within which private enterprise can operate. If private enterprise is to work effectively, the Committee feel that the principle of self-government in industry and trade must be accepted and the sooner it is done, the better.

State Trading

The Commission have discussed at length the role of the State in the field of trade and the general relationship between trading and industrial activity. But the Committee must frankly observe that they are not in agreement with the observations of the Planning Commission on these subjects. Special considerations have been advanced by the Planning Commission to subject trade to regulation and control by the State while at the same time conceding that "by and large trade will remain in the private sector." The Commission aver that there is a tendency for resources to go into the distribution of goods rather than their production and "one way of dealing with the problem is to organise trade on co-operative lines so as to reduce the profit margins of private traders". The Committee would like to point out that while co-operative trading can reduce the reliance on normal distributive channels and thus secure to its members gains which would have accrued to the traders, the area within which co-operative trading can function successfully is comparatively small. Moreover, at the present moment in the face of considerable under-employment and unemployment, trading affords a source of livelihood to a number of people. Taking over of trade by the State would only remove for them the only source of livelihood. The Commission go on to add that "State trading in specific lines through corporations set up for the purpose may prove a useful corrective to private trading and may in addition help regulate the prices of certain commodities subject to wide fluctuations. A beginning in this direction can perhaps be made in the field of foreign trade."

This claim of the Commission does not bear scrutiny. After an analysis of India's exports, the State Trading Committee came to the conclusion that India's competitive position in respect of any of her commodities was not such as to enable her to extract a monopolistic or semi-monopolistic price by resorting to State trading. As regards State entering in the field of import trade, there are equally weighty considerations against State trading. The functions of anticipating world price trends, particularly in a foreign market and that of establishing contacts cannot be safely entrusted in the hands of a single agency like the State. It is best that they are left among the competing traders. In this connection, the Report of the State Trading Committee is quite explicit. "Private traders are also likely to make errors, but it is inconceiveable that all of them would make errors of the same kind or of the same magnitude. On the contrary, errors of the bulls operating in the market are generally cancelled by those of the bears. But when the entire trade is concentrated in the hands of a single agency, such cancellation or neutralisation of errors of opposite kind cannot take place and any error on the part of that agency affects the entire country". As regards the Commission's claims that the comparatively lower investment in production is due to the fact that investment in trade is yielding larger and quicker profits, it is necessary to bear in mind the risks and uncertainties inherent in trading. Moreover, increased investment in production is not forthcoming partly as a result of Government policy itself. If Government bend their their energies to creating a suitable atmosphere for investment, more capital would be attracted to manufacturing industry. The Commission would have done well if they had concerned themselves with the basic issue as to what Government should do to create a suitable atmosphere for investment in industries. They would have then discovered that there was every need to reorientate their approach to the whole question of industrial development *vis-a-vis* private enteprise.

It has also to be noted that a State-sponsored corporation even if it is guided by a Board of Directors which includes non-officials is bound to become the traditional departmental-bureau type of organisation and as an administrative device it will suffer from the same drawbacks as any department. If at any time it is felt that the Exchequer should also share the difference between the internal and external price of Indian commodities, besides by way of collecting taxes on the resultant increased incomes, the way is not through State trading, but through increase in the existing export duties or levy of new duties. The Committee have to emphatically point out that State trading is neither desirable nor feasible. On the other hand it is necessary to encourage and permit private trade to resume activities in spheres now controlled by Government. Experience in India as well as in foreign countries has clearly shown that the performance of bulk buying or selling by a single agency is indifferent. It may be pointed out here that even in the U.K. the Socialist Government have come to realise that centralised trading is not part of a welfare State or overall planning. The U.K.C.C. has been dismantled by the Socialist Government, realising that the interposition of the U.K.C.C. between the U.K. importers and the exporters abroad would cause the severance of relationship between the exporter and importer with incidental disadvantages to the consumer from the bargaining point of view. In India also the full or *quasi* State trading undertaken by Government has resulted in considerable wastage. As instances are fairly well-known the Committee do not propose to detail them here again.

Cess to Finance Cottage Industry

The Planning Commission consider encouragement of village industries as a desirable objective. The Committee are cognisant of the role of cottage industries in an under developed economy. They feel, however, that the Planning Commission's suggestion reserving a part of the market for the products of cottage industries and their advocacy of a cess to be levied on the corresponding large scale industry in order to finance a particular cottage industry is unsound. In effect, the suggestion is to levy a cess on the economically efficient mode of production in order to subsidise the inefficient modes. Such policy will entail a burden on the consumer and since, in the nature of things, it is unlikely that cottage industry will be as efficient as large-scale industry, the cess is likely to remain a permanent burden. The Committee feel that stress should be laid on other methods of encouraging cottage industries such as provision of credit or introduction of more efficient tools, etc.

The commission recommend "production of the various parts of an article by the small-scale units in a particular industry, the parts being assembled in large-scale factories," as a method for encouraging small-scale industries. The Committee are in agreement with this recommendation. In fact even at present several large-scale industries are facing difficulties as a result of the absence of the necessary subsidiary and small-scale industries. The Committee, however, cannot accept the Commission's suggestion that definite quotas out of the consumption scheduled in the country should be set apart for small-scale industries in respect of those goods which can be had from both categories of industries. There are serious administrative difficulties in fixing such quotas and such reservation of the market would curtail the choice of the consumer unnecessarily. The Committee hope that the Commission would consider the serious economic implications of such schemes of reservation of the market from the point of view of the consumer and also from the point of view of large-scale industry.

The Committee have so far discussed some of the broader issues of policy arising out of the Commission's Report. In the course of this discussion they have referred to the suggestions which in their opinion are ill-conceived in that they emanate from an inadequate recognition of the dynamics of economic growth. The Commission's predilections in favour of budgetary surpluses at the Centre and in the State and their reliance on detailed and comprehensive controls have detracted greatly from the quality of the Report. In the following section, the Committee propose to deal in greater detail with :

(a) financial implications of the Plan and their effects on the private sector,

(b) production targets in industry especially in relation to specific shortages which are likely to arise,

(c) production targets for agricultural commodities and the mechanism for their attainment,

(d) Transport and communications.

III

Financial Provisions of the Plan

The total requirements of the first and the second part of the Plan are put at Rs. 1793 crores and relate only to the development expenditure initiated in the public sector. Of this Rs. 1121 crores are to become available from internal sources. The Centre is to raise Rs. 641 crores and the States Rs. 480 crores. Even if the targets laid down by the Commission with regard to internal sources are fulfilled and even if all the assumptions, on which these are based, happen to come true, there is a gap of Rs 372 crores for the fulfilment of even the modest targets of Part I of the Plan. If we take into account the possible external assistance like the food loan from the U. S. and the aid offered under the Colombo Plan by Canada and Australia, the gap is still in the neighbourhood of Rs. 290 crores. The Committee, however, feel that this estimated gap is an under-estimate because many of the assumptions underlying the calculations of internal sources are not likely to prove true.

The figure of Rs. 26 crores by way of revenue surplus annually in the Central Budget is fairly debatable. The Budget for 1951-52 expected a surplus on revenue account of Rs. 26 crores. But even before the end of thefi nancial year, we find that there are dents in the expected surplus. The five-rupee increase in the pay of lower grade Government employees is going to cost extra Rs. 9 crores and the additional expenditure on refugees has taken up another Rs. 5 crores. There has also been an increase in the expenditure on subsidy on imported foodgrains supplied to the States which will now be in the neighbourhood of Rs. 35 crores instead of the budget estimate of Rs. 21.3 crores. Windfall gains like increased export duties may sometimes come to the rescue of an embarrassed Exchequer, but one cannot always rely on good fortune for a revenue surplus. Economy drive, both at the Centre and in the States, was expected to help the financial stringency. In fact, however, the target of Rs. 5 crores by way of reduction of current expenditure, for which a lump-sum allotment was made in the Central Budget for 1951-52, still remains unfulfilled by nearly 30%. Further, it is assumed that expenditures on defence and administration will not rise significantly. But the trend of non-development expenditure both at the Centre and in the States has been upward throughout the last few years and there seems to be no valid reason to expect a sudden or significant reversal of this trend. On the other hand the uncertain world political situation might necessitate further expenditure of non-developmental character.

As regards the borrowing programme, the Commission have placeda target of Rs. 35 crores by way of long-term loans for the Centre. But this has to be viewed in conjunction with Rs. 79 crores, which is the net long-term borrowing of the States during the same period and also " local loans for local purposes ", which are envisaged. The Committee feel that it is not quite accurate to say that the local loans will not affect adversely the total available supply of loanable funds to the State Governments, although it is conceivable that its effect may be more on small savings and unfunded debt. The ability of the Government to implement successfully the total borrowing programme of the Central and State Governments, which is to the tune of Rs. 365 crores (including small savings but excluding other funds and deposits) is consequently dependent on the confidence they can create in the normal sources of the supply of funds. The investing public consists of corporate bodies like banks and insurance companies and private individuals in the higher income groups. If, as seems likely, the financing of the Plan involves considerable additional taxation, it is unreal to assume that such a step will have no repercussions on the money market.

Under "Resources available for railway development out of ordinary revenues of railways" is placed an amount of Rs. 30 crores. This is in addition to the amount of Rs. 150 crores, which is earmarked for making good the depreciation during the five-year period and which should be debited to the running costs of the Railways during the period. The recent report of the Railway Stores Enquiry Committee, has drawn pointed attention to the wasteful expenditure incurred in the present Railway administration and if an extravagant administration is encouraged to find finances to the tune of Rs. 30 crores for Railway development, it is more than likely that the Railways would exploit their monopoly position and raise the funds through increased fares. In that event, it would be another inequitous form of indirect taxation, from out of which Railway development is to be financed.

Resources Available for the States

In the case of the States, a surplus on revenue account to the tune of Rs. 81 crores over the five-year period is envisaged. This estimate, in fact, is even more debatable. In the immediate past the Union Government at least had a surplus on their revenue account, but not the States. In 1950-51, the States had a revenue deficit of Rs. 6.01 crores and Rs. 11.99 crores in 1951-52. Perhaps it may be that the Planning Commission have anticipated the findings of the Finance Commission in assuming that the States will be allotted a larger share of the proceedings of the tax on incomes and on profits. If that is so, the Planning Commission's estimates about the States revenue surplus may be correct, but then its calculation about the Centre's surplus would be upset. Similarly, the Commission expect additional taxation to the extent of Rs. 213 crores in the States in five years. At least some of the items, from which revenue is expected are not, apart from their regressive nature, such sure sources of revenue as the Commission seem to think. For instance, the yields from Sales-Tax are expected to be increased "by way of wider coverage and better administration of these levies." Any significant increase in the receipts from the Sales-Tax is feasible only if the price level is allowed to go on rising. But the commission's own declared policy is to hold the prices and if possible to reduce them.

The Prospect of Increased Taxation

This detailed discussion on the States revenue position is relevant in view of the fact that the Planning Commission expect the States to provide as much as Rs. 275 crores (*viz.*, a little less than half the total developmental expenditure of the States) from out of "resources normally set apart in the Revenue Account for developmental expenditure". If these figures are to be taken seriously it can only be on the assumption that the revenue income of the States will increase significantly.

The Committee are surprised that the Commission should have recommended further taxation when in fact there is urgent need to review the arbitrary incidence of the present structure of taxation. In fact Sir Chintaman D. Deshmukh, as the Governor of the Reserve Bank of India, while addressing the shareholders in 1948, had admitted "that in the present inflationary conditions, the reduction in the prevailing high level of tax on personal income will encourage saving and its direction into productive channels." Income-tax on companies has gone up by over 100% in the last decade and there have been sharp increases in the rates of corporation tax. Individual incomes in excess of Rs. 20,000 have had to bear tax almost double of the pre-war level of taxes. Surcharges too have gone up considerably. While the Planning Commission recognise that the present rates of taxation in the higher income groups are as high as in some of the advanced countries, for instance, U. K., they have not made any positive recommendations with regard to the desirability of reducing the taxation in order to encourage savings.

The Committee would like to emphasise the desirability of appointing a high level Committee to go into the problems relating to taxation. It is more than 26 years now that a Taxation Enquiry Committee was appointed to examine the distribution of the burden of taxation between different classes of the population. Since then circumstances have altered greatly and apart from the tax levies by the Centre, the conflicting and overlapping taxation measures of State Governments and various other taxation authorities in the country have further increased the tax burden and contributed to their uneven distribution. Established sources of revenue like excise have been surrendered to pursue policies like prohibition and the gap has been sought to be filled by all sorts of fresh imposts. The need, therefore, for a scientific revision of the tax structure of the country, bearing in mind the need for industrialisation, is now more than urgent.

Inflationary Implications

It is not merely a gap between the resources and the expenditures that is likely to cause inflationary pressures. The pattern of investment contemplated in the Plan is such that 30% is to be spent on irrigation and power, 26% on transport and communications and 17% on social services. Of these, the first and the third at any rate, are not expected to result in any quick increase in the supply of goods and services and even in the case of transport and communications, supply of goods would be helped only indirectly as a result of making up arrears of depreciation, etc., as is contemplated in the Plan. Further, the breakup of expenditures between 1951-53 and 1953-56 would indicate that the rate of expenditure is heavily weighted in favour of the first two-year periods. Thus, for instance, the expenditures on irrigation and power in the first two years would be Rs. 213.8 crores as against Rs. 236.5 crores in the next three years. Similarly, the annual rate of expenditure on agriculture and rural development as also expenditure on industry is greater in the first two years of the Plan. Consequently, the average annual rate of total expenditures will be Rs. 318 crores in the first two-year period as against the annual average of Rs. 280 crores in the succeeding three-year period. It is not possible on the basis of the data given in the Planning Commission Report to calculate with any degree of exactitude the rate at which increases in production will take place in the first two years, but on the whole it seems certain that the various targets, in the field of power and irrigation or food production or production in various industries, will be achieved only towards the end of the period.

Rate of growth of production in Agriculture and Industry

The Planning Commission expect increases of 14% in foodgrains, 55% in jute, 40% in cotton, 7% in oilseeds, and 14% in sugar. If we assume that in the first two years, a third of this increase would be forthcoming, then the total increase in the supply of goods and services in the course of the first two years would be about 5% of 1950-51 level. According to the estimates contained in the First Report of the National Income Committee, the value of net output in agriculture, including ancillary activities like forestry and fisheries, was Rs. 4100 crores. If we assume that there has been no significant change in the net output of agriculture in the intervening two years, then a 5% increase in the supply of agricultural commodities would mean about Rs. 200 crores. The Planning Commission have given targets for expansion only of certain specified industries and consequently it is difficult to estimate the net increase in the total supply of manufactured articles. If we include the supply of fuel and energy in the calculation of total industrial production, it seems likely that the total increase in large-scale manufacturing industries over the five-year period would be around 20%. If a third of this increase is assumed for the first two years of the Plan then the net increase in the supply of large-scale manufactures (including electricity) will be another Rs. 50 crores. The Commission nowhere state the extent of increase in production which they envisage in the first two years in small-scale enterprises. But it would be safe to say that in the case of smaller enterprises in the first two years, the increase would not be much above 5%. Thus on a rough basis the total increase in the supply of agricultural products, manufactures and small-scale industries would be in the neighbourhood of Rs. 300 crores. Perhaps it is necessary to revise this figure in order to translate it in terms of 1950-51 prices. The prices have risen from 1949 onwards by approximately 10% and therefore in terms of the present price-level the increase in the supply of goods and services would be to the tune of Rs. 330 crores, *i. e.*, Rs. 165 crores per annum. On the other hand, the total rate of expenditures envisaged in the Plan would be about Rs. 318 crores per annum in the first two years. Of course, a part of this rate of expenditure was being incurred even in the past and it is not possible to separate such part of this expenditure as will lead to further income generation, nor is it possible to forecast with any accuracy the total multiplier effect of this new generation of incomes. However, the Committee feel that in view of the low propensity to save of the large mass of people in this country, the multiplier effect may be fairly large and may give fresh impetus to inflation.

Effect on the private sector

The rate and the type of developmental expenditures envisaged in the Plan have a further consequence from the point of view of private enterprise. In order to get an idea of the relative magnitude of the proposed expenditure, it is necessary to compare the Planning Commission's rate with the annual expenditures of Central and State Governments in the last few years. During the period 1946-47 to 1949-50 the developmental expenditures of Part A States in the Indian Union were to the tune of Rs. 249.86 crores. In addition, the Central Government spent amounts to the tune of about Rs. 160 crores on their developmental plans. Thus for the four years ending 1949-50, the average annual rate of expenditure by Governmental agencies was a little over Rs. 100 crores. In the estimates of the Planning Commission, Part A States are expected to spend Rs. 559.6 crores in the course of next five years. In addition, the Central Government propose to spend Rs. 734 crores, a part of which will be on Part A States. Thus, the annual rate of expenditures for Part I of the Plan will be Rs. 260 crores, *i.e.*, more than 2½ times the average rate of the four-year period ending 1949-50. In fact, as we have seen, the rate of expenditures in the first two years is likely to be in the neighbourhood of Rs. 310 crores. Even after due allowances are made for changes in the price levels pertaining to the two periods, it would seem that the rate of real investments by the Government is to be accelerated considerably in the new Five-Year Plan. This accelerated rate of investment has two implications : (1) It would entail a greater diversion of savings to finance investments in the public sector. Although no reliable figures about our consumption and savings are as yet available, it seems likely that such a diversion may create difficulties for the private sector. In addition, the experience of Government enterprise has not been very encouraging so far. For a number of reasons, Government departments quite often spend more for a particular project than would be needed in an efficient commercial concern. In other words, it seems that at least a part of the expenditures incurred by Governments would be frittered away by an inept administration. (2) A programme of expenditures on projects like irrigation and power would also entail a considerable demand for items like steel, cement, diesel oil, petrol etc.

The targets for various industries have been set fairly low and the increases in production are mostly to be by a greater utilisation of existing capacity than by increase in installed capacity. This raises two issues. The rate of utilisation of installed capacity depends on a number of factors including short and long term market conditions and to expect a uniformly high rate of utilisation may, in certain circumstances, be unreal. Moreover, the concept of installed capacity itself is not unambiguous. In fact the figures of installed capacity for various industries given in the reports of different advisory committees, industrial panels and those given by the Planning Commission are found to differ considerably. Under such circumstances, it may well be that the regulatory power, which the Planning Commission want to be conferred on the Government, may be exercised in a manner which, in the long run, has a restrictive impact on the growth of the economy.

The Committee note that the Commission have given a broad indication of the programmes of expansion in some of the important industries. This list, including as it does, only 15 industries, is obviously not exhaustive. In case the Commission are still studying other industries not included in the list, the Committee wish to know how the Commission would fit in the requirements of these industries in the Plan and how they propose to make the consequential adjustments in respect of allocation of resources, etc. Further, the programme of expansion as envisaged in the Plan is, as the Commission state, "but a broad indication" and has been compiled on the basis of information received from the industries concerned. As such, the targets regarding installed capacity can at best be tentative. However, the attention of the Committee has been drawn to instances where sanction for the issue of capital has been refused on the ground that the increase in the installed capacity as a result of the setting up of the individual new unit was not provided for in the Plan. The confusion has perhaps arisen because it is not clear whether the figures of installed capacity by 1955-56 contained in the Report are tentative estimates of expansion in installed capacity or whether they are the targets for the private sector. If they are considered to be targets, the Committee would like to state that they are too low especially in view of the past performance of industry to which a reference has already been made. The Committee, therefore, would like this point to be clarified in the final version of the Plan.

The Planning Commission do not give any indication of the expected amounts of various types of materials which would be needed for the execution of their own projects. It is learnt that Government's irrigation schemes alone would require about 2,000,000 tons of steel, 15,000,000 tons of cement, 3,000,000 tons of diesel oil, etc. But when we remember that our annual production of cement for instance was 2.6 million tons in 1950 and production of finished steel was 1.05 million tons in the same year, we can have some idea of the gaps in supply. The Planning Commission hope that the production of cement will rise to 4.6 million tons in 1955-56 and of steel to 1.3 million tons. Even if these targets are fulfilled-and their fulfilment in itself may be hampered by the lack of materials-there is a possibility of serious shortages arising in the availability of these materials.

Power Projects

The power projects included in the Plan would increase the supply of electricity by 1.1 million Kwt. by the year 1955-56. However, a given unit of power, before it comes to be utilised, will need other complementary materials. After being generated, it will have to be transmitted and finally utilised. At every stage, an additional capital investment is necessary before power is fruitfully employed. Looked at from this angle of proper utilisation of the additional million Kwt. which are to be available, we require a number of other goods such as transmission sets, electrical equipment and various types of electrical appliances including electric motors. The Planning Commission do not seem to have considered in any detail the problems connected with the proper utilisation of the newly generated power.

The Commission are planning an increase of 70% in the supply of electricity. But the Report gives no indication of the price at which power is to be made available. The Committee feel that problems of pricing are vital, since the provision of a relatively cheap source of power is of cardinal importance to our economy. In its absence, the industrial superstructure envisaged by the Commission, such as a large aluminium industry will be economically unsound. The Committee would greatly appreciate a clarification on this important matter.

Pig Iron & Steel

In view of the basic importance of materials like iron and steel for a large scale development programme, one should have thought that provision would be made for ex-expansion of productive capacity in these materials. The Commission, however, state explicitly that "no project for the expansion of steel producing capacity, excepting the expansion of the existing plants which might be taken up now, would materialise during the Five-Year Plan", but they cryptically add "it is possible to alleviate the shortage of pig iron." It is not stated anywhere as to what specific steps are intended, but it is beyond any doubt that one of the most serious shortages at present is in the supply of pig iron. The recent Tariff Board Report on the Retention Prices of Pig Iron states that the minimum pig iron consuming capacity of Indian foundries is estimated at 400 to 450 thousand tons a year while the present screened demand is of the order of 600 thousand tons a year. At present only about 2/3rds of the minimum and less than half the annual screened demand of the foundries can be met from the available indigenous supply of pig iron. As the Steel Corporation of Bengal and the Tata Iron & Steel Co., proceed to implement their expansion programmes for steel within the next three years, the position of pig iron supplies to the foundries will become acute. This in turn is bound to affect very adversely not only a large number of engineering industries which depend on pig iron, but also agriculture, as a result of the shortage of agricultural implements and the railways as a result of inability to provide replacements. The Committee cannot emphasise the necessity of making adequate provision for pig iron too strongly, as on its adequate supplies depends the future of a number of vital industries of the country.

Steel & special varieties of Steel

The Commission state that any programme of addition to the steel producing capacity by installation of new units initiated now will not materialise in the Five-Year period, and therefore they rely mainly on extensions of existing plants. The increase envisaged is only .3 million tons by 1955-56. The Committee feel that this is an inadequate target especially in view of the large increases envisaged in the generation of electricity. If the 1.1 million Kwt. of additional electricity is to be transmitted and utilised fully, it will involve extensive use of iron and steel. The case for considering installation of additional units for producing steel is particularly strong because India possesses some of the finest varieties of high-grade iron ore and the reserves are large enough to last us for nearly 3000 years at the present rate of utilisation. Even as early as 1946-47, the Adivisory Planning Board had estimated on a conservative basis an annual post-war requirement of not less than 2 million tons of steel and had placed a minimum target of 2½ million tons per annum. In view of the extensive development schemes, the Committee are surprised to find that the Commission have satisfied themselves with the modest target of 1.3 million tons. This very moderate target is all the more surprising since indigenous steel is significantly cheaper than imported steel. From the point of view of our national economic development, every effort needs to be made to increase the production of steel in the country.

Although it may be true that construction of one or more of new steel producing units will not be completed before 1955-56, it is still necessary to make a beginning in that direction, because the Committee are convinced that a very much greater increase in the production of iron and steel is basic to the development of Indian industry.

In this context, the Committee would like to draw the attention of Government to the difficulties experienced by local engineering industries as a result of the scarcity of steel after the Korean War and the re-armament drive. In many cases, units in the engineering industry are required to work at around 50% of their capacity. In certain cases, units had to close down completely because of the non-availability from foreign sources of certain special varieties of steel. In the opinion of the Committee, India will have to become self-sufficient in certain consumer goods industries, such as bicycles, sewing machines, electric instruments, etc., and it is very necessary that a beginning should be made now by exploring the possibility of setting up new plants for the production of iron and steel for catering to the multifarious needs of specialised steel which are likely to emerge in coming years.

Power Alcohol

Similarly, the Commiteė would like to draw the attention of the Government to the need for increasing the production of power alcohol. The comparatively restricted sources of petroleum in the country make it all the more necessary that the maximum possible use be made of power alcohol as a source of motive power. The Committee are glad to note that the production of power alcohol is to be increased from 4½ million bulk gallons to 19 million bulk gallons and they would urge Government to explore the possibilities of even greater increases in the production of this vital commodity.

The recent difficulties in the supply of petroleum from our normal source of supply, which is Persia, would also indicate the need for increased reliance on local forms of motive power. In this context, the Committee have noted with interest the reports appearing in the Press that Governmeut are considering the establishment of oil refining plants in India, which would supply a part of our needs of petroleum. Since the matter has not been discussed in the Draft Plan, they will appreciate if they are informed about the developments in this regard.

Coal Industry

The Committee note that the Commission have rightly stressed the importance of conservation and economic working. In regard to coking coal, the Commission have expressed and have reaffirmed that the future policy should be one of strict enforcement of the conservation measures recommended by the Coal Conservation Committee which recommend the prevention of the use of coking coal for purposes other than the production of iron and steel.

The Commission also recommend enforcement of washing but the Committee would like to point out that washability of Indian coal is yet a problematic proposition that the kind of washery best suited to Indian coal is yet to be determined and that the installation of washing plant is a costly affair which is beyond the means of about 90% of the existing collieries.

Transport & Communications

The Commission envisage an expenditure of Rs. 388 crores, *i.e.*, nearly 26% of the total, on transport and communcations. Of this amount Rs. 200 crores are earmarked for Railways, Rs. 93 crores for development of roads, Rs. 7 crores for road transport, Rs. 15.8 crores for shipping. The provision for inland waterways is only Rs. 16 lakhs.

The important role of transport as an integral part of the economic system is particularly vital in a country like ours. In an under-developed country with vast distances and with a majority of its population dependent on agriculture, it is important that all forms of transport should be developed. The evolution of transport in India, as is well-known, was dictated by various non-economic considerations and the partition of the country has created fresh problems for which suitable changes in the network of communications are necessary. In view of this, the Commission would have done well to formulate the outlines of a more integrated system of transport, but more than half the expenditure contemplated in the Plan under the head of 'Transport and Communications' is intended for Railways. Further, the resources earmarked for the railways, *i.e.*, Rs. 200 crores in addition to the estimated expenditure of Rs. 150 crores arising from the depreciation of assets in the period of the Plan, would be mostly utilised for making good arrears in maintenance and replacements. The result of all these expenditures on railways is expected to be not more than to restore the standard of service by railways to the prewar level and there could be little scope for expansion. In the opinion of the Committee, insufficient attention seems to have been paid to other forms of transport and this neglect would tend to prepetuate the present lop-sided transport structure.

In this connection, the Committee may refer to some of the facts regarding the the operating efficiency of the railways which have emerged as a result of recent investigation. The Railway Stores Enquiry Committee has drawn pointed attention to the considerable amount of waste that seems to be rampant in the stores policy of the railways. If other forms of transport are going to be starved in order to help the State-owned railways, it is all the more necessary to see that the quality of administration in the railways is improved. The fact that the railways occupy a more or less monopoly position in the transport of certain types of materials and the fact that they can raise the fares and freights in order to cover inefficiency and even to make a profit, are further reasons why a more detailed examination of the methods and procedures of railway administration is called for.

The Plan for road development has been pruned considerably. Against the Nagpur Plan target of Rs. 611 crores for roads, other than national highways, the Plan envisages a total expenditure of only Rs. 94 crores. This together with the Rs. 27 crores which have been spent during the three years ending 31st March 1950, would constitute less than 20% of the target in the Nagpur Plan. The Committee would like to point out that for wide and isolated areas in the country, improvement of road transport will bring much more immediate benefit. It would be desirable to evoke the voluntary effort of the local population in this behalf. Apart from reducing the financial costs of road development, such mobilisation of local persons for constructive activities like road building would be useful in fostering a community spirit which is very necessary for the agricultural re-organisation contemplated in the Plan.

The allocation for inland waterways is very inadequate in view of the fact that great potentialities exist for this type of transport. Certain jute producing areas in West Bengal as also the Gangetic canals are capable of being developed into a network of inland waterways. In the Union of Travancore-Cochin, as also in parts of Madras State, facilities exist for development of inland water transport. Apart from being the cheapest form of transport it is one which is potentially capable of reviving and developing a flourishing country-craft industry.

Shipping

The Committee are glad to find that the Commission have endorsed Government's view that coastal trade should be reserved for Indian vessels. In order to make the reservation of coastal trade a success coastal shipping would need an additional 175,000 tons. At the current level of prices this would involve an expenditure of not less than Rs. 15 crores. But the Plan, however, provides for an addition of only 80,000 tons and the extent of Government aid is limited to Rs. 4 crores. On the basis of existing costs, the two figures (80,000 tons and Rs. 4 crores) are not easily reconciled. In the opinion of the Committee both the tonnage as well as the financial aid to be given by Government need to be increased.

It is not clear whether the Commission's estimates of Rs. 12 crores provided under the head "large-scale industries" and intended for assisting and acquiring the ship-yard at Visakhapatnam include any amount which is intended to cover the cost of construction of ships in the Vizag yard and to be made available to Indian companies for operation on the coast. If it is so, they would like clarification as to the extent of aid which would become available in this form.

With regard to overseas shipping a provision of Rs. 6.5 crores is made and this does not include the aid to be given to the Eastern Shipping Corporation. The Commission do not state how much of the funds earmarked for the development of shipping are to come from Government and how much is to be available from external sources; but whatever the source, the rate of interest to be charged on these loans would require careful consideration. Over a period the rate of return on capital invested in shipping is never as high as in manufacturing etc., and yet it is in our national interest to develop a shipping industry of our own. As such, a low rate of interest on loans advanced is only a form of protection and as such legitimate. It is also advisable that the provision and allocation of finance for the purchase of ships should be flexible and should not be allowed to lapse merely because whole or part thereof remains unused at the end of a particular budget year. Further, in order to build up tonnage, the shipping industry should be given full or partial exemptions from taxation on such portion of their profits as may be utilised for the acquisition of ships. Such a policy would only be in keeping with the Commission's suggestion that "scope for encouraging, through fiscal and other measures, the practice of ploughing back profits for replacement and other capital expenditure needs to be examined by Government". It is also very necessary that the financial assistance by way of loans granted to the shipping industry should not be used as a reason for intervening in the affairs of the companies concerned in regard to management, working, policy and rates, etc. In paragraph 11 of the Section on Transport and Communications, the Commission seem to suggest a considerable amount of control on the shipping industry. This, the Committee feel, is the surest way of keeping the industry in a crippled condition.

Other Industries

The Commission have also indicated the expansion programmes in the case of other basic industries such as heavy chemicals, cement, diesel engines, etc., and also in the case of consumer good industries such as matches, paper and paper boards, glass and glass-ware, soap, sugar, etc. The Committee would like to know the manner in which these programmes have been formulated and also whether the Commission consider these as targets for the Five-Year period. They hope that in view of the extensive requirements of the various industrial products for the implementation of the Plan, the Commission would consider carefully the question of our total requirements during the Five-Year period. On the basis of our requirements, suitable modifications may be made in the expansion programmes of the private sector. It is understood from stray statements made by Members of the Planning Commission that they are considering other industries not included in the present list and that in the final version more industries would be included. In this connection, the Committee would like to draw the attention of the Commission to the need for considering the position of a large number of medium-scale consumer goods industries. An attempt should be made to assess national requirements during the period of the Plan in respect of the major consumer goods and to seek the maximum possible self-sufficiency in respect of these goods. The Committee would be glad to have the detailed views of the Commission on these matters.

Agricultural Production

The Commission deal at great length with the problems of increasing the production of agricultural commodities. The Committee are aware of the importance of agriculture in our economy and they are also cognisant of the need to increase agricultural production to make up for the deficiency resulting from the partition of the country in the first instance and also to meet the expanding demand of our growing industries. They are, therefore, glad to note that the Commission envisage significant increases in food as well as non-food crops. In the main, the Commission seem to rely on the beneficial effects of irrigation and on the transformation of the subsistence economy into economic agriculture in certain selected areas. They do not indicate the extent to which production is expected to increase, say, during the first two years and in every successive year. No indication is given also of the extent to which fresh land would be brought under cultivation and its distribution amongst different crops.

The Commission's estimates plan for an increase of production in all the States and of all commodities. The increase in food crops over the five-year period is to be 7.2 million tons, which is 17.7% of the present production. However, increase in the case of Bihar is to be 84.3%, in the case of Travancore-Cochin 55%, in the case of PEPSU 46.5%, in the case of Hyderabad 46.1%, in the case of Punjab 30.5% and in the case of Madhya-Bharat 34.4 %. The smallest increases are in the case of Madhya Pradesh 8%, the case of Bombay 8.4% and in the case of Uttar Pradesh 9.7%. These targets raise certain problems. It is obvious that the Planning Commission are banking upon the use of irrigation facilities to increase production in States like Bihar, Travancore-Cochin and PEPSU. But even in other areas, they are expecting increases of various proportions. Similarly, in the case of cotton, the average increase in production for the whole of India is 55.6%, but the percentage increase is 394.7% for Mysore, 75 % for Rajasthan, 70% for PEPSU, 69.3% for Madras, 78% for Saurashtra. The smallest increase is for Uttar Pradesh, which is 14.3%.' In the case of Jute also, the average increase is 63% while in Uttar Pradesh the increase is as high as 673% and in Orissa it is 83%. The average increase for oilseeds and sugar are 7.2% and 15.2% respectively and are spread fairly evenly amongst the States. The Committee would like to know how these various targets of production of different crops were arrived at. This question is very pertinent because the past experience of the Grow More Food campaigns in the States has shown that there is often a wide divergence between expected and actual results of certain schemes. If, therefore, the State Governments have formulated targets only on the basis of certain standard rates of increases expected from irrigation, fertilisers, reclamation of land, etc., it is quite likely that, as in the past, performance would fall short of expectations.

Marketable Surplus of Agriculture

The food policy enunciated by the Planning Commission relies on increasing prodction of foodgrains by 7.2 million tons. This will increase the supplies of foodgrains to consumers. Insofar as increased production will tend to reduce prices of foodgrains it will exert a disinflationary influence. But on the other hand, the agriculturists who earn more money by selling more will spend it on goods and services for themselves and for their families. If these are not available in sufficient quantities one of the two consequences will follow : (1) The additional purchasing power now in the agricultural sector will have an inflationary effect on prices of non-agricultural commodities, which are consumed by the agriculturist, or (2) if the agricultural sector does not receive from outside the sector gocds which it needs, the agriculturist will consume more of his production and put forth less on the market. The marketable surplus in the sense of what remains over and above the customary needs may be large, but only a part of this will in fact find its way to the market. This in turn will raise the prices of foodgrains and have an inflationary effect.

In order to achieve the agricultural targets and especially to increase the marketable surplus, the Committee feel that a greater emphasis on increased industrial production is necessary.

IV

Summing Up

In the course of the Memorandum, the Committee have discussed the following main points ;

1. The Committee welcome the Draft Outline of the First Five-Year Plan prepared by the Planning Commission. They appreciate the Commission's gesture that the document should be only a draft to be revised in the light of criticism and

discussion by the public. The Draft Outline seeks to bring coherence into the somewhat chaotic state of piecemeal planning by Central and State Governments. The Commission have laid down modest targets. Further, the division of the Plan into two parts of which Part I relies only to a very limited extent on external assistance is also a welcome feature as it would reduce uncertainties in its implementation.

2. But the Draft Outline suffers in that it is essentially in terms of money expenditures to be financed from money resources becoming available over the period. The Report contains no discussion of the implications of the Plan in terms of additional employment or of the physical resources which would be necessary for its implementation. No indication is given either of the increase in the net national product envisaged as a result of the planned investments or of the increases in production in each successive year.

3. The Commission rely mainly on what they term public savings, *i.e.*, surpluses of Government on revenue account and corporate savings, *i. e.*, undistributed profits of public and private corporations. In their opinion, these resources of finance have to play an increasing role in sustaining a high level of investment. The Committee are unable to accept this view and they feel that the basis of economic development in an underdeveloped country is ultimately the diffused savings of a large number of persons. The intention of Government policy should be rather to create circumstances in which it would be possible for persons to save rather than substitute this source of saving by methods of policy which aim at surplus on revenue account. As a result of the Commission's reliance on Government surplus rather than on savings by private individuals, their approach to the problem of economic development has become inhibited. They neglect the dynamics of economic growth and ignore the great possibilities of development acquiring a momentum of its own which in turn creates further sources of finance. As it is, the Commission's reliance on Government surpluses has led them to the conclusion that the financial resources available are very limited. As the resources, in their opinion, are limited, they have proceeded to lay down limited targets in the private sector. Again, as a large number of Government-sponsored schemes are already under way to a greater or lesser extent, the Commission have very little choice left in the matter of distributing even the limited financial resources. As a result of this procedure, the plan has become a planned programme of public expenditure and not a National Plan for economic development.

4. The Commission have made almost no reference to a suitable commercial policy for the Plan. They merely suggest that as a part of disinflationary policy, the import and export policy should be such that it allows the fullest use to be made of the sterling releases available. The Committee feel that an import policy should be governed by considerations other than merely holding the price line. They hope that in the final version of the Plan, the Commission would devote greater attention to the problems of commercial policy and indicate the extent of foreign exchange resources which would be available over the period and

the best manner in which they could be utilised. The Commission have also suggested that State Trading in specific lines through corporation set up for the purpose may prove a useful corrective to private trading, and that a beginning in this direction can perhaps be made in the field of foreign trade. The Committee consider this view wholly erroneous and would urge upon the Commission to reconsider their attitude to State Trading.

5. The Commission have rightly emphasised the need for public co-operation in the implementation of the Plan, but their version of a mixed economy envisages a very detailed and comprehensive system of controls. Instead of taking trade and industry into confidence, the Commission seem to rely more on regulation and control. Their unqualified blessings to the Industries (Development and Regulation) Bill, their unwarranted strictures on the managing agency system, and their inability to realise the difference between control and co-operation are calculated to create a situation in which there would be little that is private even in the private sector.

6. The Commission have made no reference to the question of proper administrative machinery for State enterprises and the appropriate pricing policy for these. But at their instance, Mr. Gorwala has submitted a Report dealing with this subject. The Committee are glad to note that he recommends the association of industrialists in State-managed concerns and advocates autonomous public corporations. The Committee are convinced that not only must State enterprises be organised on commercial lines, but they must also be subject to the same labour legislation, taxation, controls, etc., as private enterprise.

7. Major part of the financial resources of the Plan is to be found by extrapolating present taxation structures and by enhancing certain taxes. In view of the fact that the present structure of taxation has evolved itself in a haphazard manner and since its incidence is arbitrary and inequitous, the Committee feel that a scientific investigation into the structure of taxation is long overdue.

8. In the absence of sufficient foreign aid forthcoming, there is a gap of Rs. 292 crores between resources and expenditures even for Part I of the Plan. Further, the distribution of expenditures under the Plan is such that 43% of the total is on agricultural development, irrigation and power projects and of the remaining 57% another 43% goes towards development of transport and communications and social services. As a result of this, the increase in net national product especially in the first two years of the Plan would be much less than the increase in disposable income as a result of the planned programme of expenditure. This will have inflationary implications and may distort the entire perspective of the Plan. In view of the dangerous implications of a further inflationary impetus, the Committee feel that a certain redistribution of expenditures with greater emphasis on quickly maturing projects would be desirable. The Committee would also urge the necessity of actively considering ways and means to encourage savings and also their reinvestment in industry.

9. The Commission have planned a 70% increase in the supply of electricity over the Five-Year period. They do not, however, seem to have given sufficient attention to the problems of utilisation of this additional power. In the opinion of the Committee, additional electricity will need considerable amount of complementary capital outlay for its transmission and proper utilisation. It would also require various types of specialised equipment which at present is not being produced in sufficient quantities in the country. The Commission also give no indication of the price at which electricity would become available.

10. The Commission have given a programme of expansion for 15 specified industries in the private sector. It is not known whether these estimates are merely tentative figures arrived at on the basis of data available to the Commission or whether they are considered to be as targets. The Committee feel that if they are to be construed as targets, they will have an unduly restrictive influence on industrial development. In respect of basic industry like iron and steel, the contemplated increase of .3 million tons of steel at the end of 5 years is wholly inadequate. The shortage of pig iron which is being felt even now is likely to be accentuated in the course of the implementation of the Plan. The Commission, therefore, should explore the possibilities of increasing the capacity of this basic heavy industry, namely, pig iron and steel.

There are a number of industries which are not mentioned by the Commission. The Committee would like to know whether these are being considered by the Commission and if so, how they would be fitted in with the rest of the Plan by making the consequential adjustments.

11. In order to fulfil the targets in agriculture also, it is necessary to increase the supply of industrial products, because unless the agriculturist can be supplied with the commodities he needs, he will not have incentive to put forth more on the market in order to buy his needs. The Commission have laid down targets for agricultural production, but no indication is given either as to how these have been arrived at or how these would in fact be achieved.

The Committee have discussed some of the important issues arising out of the Draft Plan. If they have been critical of the Commission's views on certain matters, it is because they feel that in its present form the Plan leaves trade and industry in the country little scope to contribute their best to the task of economic development. The criticisms contained in the Memorandum therefore should not be construed as an opposition to planning. The question is no longer whether to plan for economic development or not, but how best to utilise the energies of all sections of population for the tasks of economic development. The common conception that trade and industry in the country are opposed to planning is wholly unfounded. In fact a business man who is averse to planning fails and soon goes out of business. The difference, therefore, is with regard to methods and techniques of planning which would be most fruitful from the point of view of achieving results.

The Commission have rightly emphasised the impo.. the successful implementation of the plan. The co-operation of p... of public co-operation for by their training, talent, and experience in the economic development who can contribute prerequisite for the success of the Plan. At the same time, however, the purp... country is a of their recommendations would be to regulate and stifle the ability, initiative ...ay enterprise at every turn. The Committee recognise that in abnormal situations like the present, certain amount of regulation may be necessary and desirable. This does not mean, however, that such regulation should be so detailed and comprehensive that it interferes with the normal functioning of the economy. Nor does it mean that it should be administered by an authority which is external to trade and industry and which by its very nature is unable to realise the full implications of its administrative actions. In the case of public enterprises, Mr. Gorwala has made a plea for autonomy in their management. The Committee feel that the principle of autonomy and self government can fruitfully be extended to the private sector. It is only then that trade and industry would be able to shoulder the responsibilities which are theirs in the implementation of the Plan.

The Committee are aware of the important role that the private sector must play in the great and worthwhile task of economic development. They would like to take this opportunity to state once again that trade and industry in country are keen as ever to co-operate with Government. The country is passing through a difficult period and they consider it their duty to help in every possible manner. They feel that as a nation we are still more complacent than is warranted by the gravity of the situation. We are working lesser number of days per year than in any other country in the world and consequently we are producing less. The need of the hour is to increase production and this must be the paramount consideration governing all policies.

On the other hand, the present policy of Government is inconsistent with their objectives. The Commission expect the private sector to play an important part in production as well as distribution and at the same time they advocate an extension of controls and a virtual government ownership of the means of production and even of trade. The Commission seek to hold the level of prices or even to reduce them and yet the financial implications of the Plan have distinct inflationary possibilities. The Commission suggest that the "scope for encouraging through fiscal and other measures the practice of ploughing back profits for replacement and other capital expenditure needs to be examined by Government"; and yet, the provisions of the Income-tax (Amendment) Bill seek to prevent building up of reserves by private trust companies by insisting upon compulsory distribution of all their profits as dividends. These are only some of the many contradictions between the objectives and policy. The Committee hope that in its final version, the Commission will revise their Draft and Government their policies so that all can bend their energies to the task of improving the economic condition of the people.