

PLANNING IN INDIA

by

A. D. Shroff



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"We are neither omniscient nor infallible, nor are we so rigidly wedded to any course of action as not to alter it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the people of India and our friends abroad telling us when and where they think we are going wrong."

T. T. Krishnamachari

Finance Minister, India

If our political independence has to be sustained for a long **time**—and I hope we will continue to enjoy independence forever in this country—it must **be** supported by our economic strength. With 365 million people to support, **and** with nearly 5 million more mouths to feed every year, it was becoming increasingly imperative that the resources which Providence has been kind enough to give to this country **should be** effectively **mobilised** so that over a period **of** time we could bring about a higher standard of living for our people. A higher standard of living **and** development can be brought about either in a planned way or in an unplanned way, but certainly it is more sensible to develop our country in a planned way. In order that we may have planned development, we must be very clear about the objectives of development. And the broad objectives **may** be such that there can be no difference of opinion in the country whatever be our political **affinities** or affiliations.

That objective fundamentally is gradually to remove poverty by raising the standards of living of the **mass** of our people. Compared to the highly advanced countries of the West in 1946, the per capita income in India was about 1|28 of what it was in the U.S.A. or 1|13th to 1|14th of what it was in the **United Kingdom**. So, there is considerable leeway for us to make up in this country. Even if we do not ultimately raise the standard of living to that **level** which is prevalent in the U.S.A. or in the U.K., we **have still** to work hard **and get** somewhere near a level where our people can be made to feel and **appre-**

ciate that they are living a better life than they were living before.

Another desirable objective, although it may not be accepted universally, is that in an underdeveloped and poor country like India with a certain historical background, we have disparities of income and wealth which have gradually to be bridged. Disparities of income and wealth cannot be eliminated completely. But they can be reduced in two ways. One, by a process of levelling down and another by a process of levelling up.

There is a certain school of thinkers in India who believe that the disparities in income and wealth will disappear if we destroy all the rich people in this country. That brings to my mind a story. Once five members of the Communist Party in France went to the office of the wealthiest man in France. They told him that there are about 37½ million people in France, most of them having nothing like the wealth that he possessed. They asked: "Don't you think it is desirable that an average man in France should be richer even if it means that you completely disappear?" This hard worked businessman said: "I entirely accept your view. I accept your figure that we are 37½ million people in France. Will you give me an estimate of my wealth?" So these people quoted an estimate. "Well," he said, "alright, we will divide my wealth by 37½ million." He worked out the figure, took out a few Francs from his wallet and distributed to each of them 25 or 30 Francs. He then said, "here is your share of my wealth."

Unfortunately, we have a number of people in this country who believe that the poorer people in this country could be brought higher if all the people with riches were completely made poor. It is very gratifying that we have a man like our Prime Minister who recently has come to develop very responsible thinking. He has been placing before the country a very sensible, statesmanlike, right and balanced view that the way to remove disparities of income and wealth in this country is not by levelling down people who have some money but by making

an effort gradually to level up those who are below the standard of life. In actual practice, during the last few years, some of the ministers individually have taken upon themselves the responsibility of at least impressing the people of the country that they are trying to remove disparities of income and wealth. One of our Ministers of Transport thought that he could do it by abolishing first-class travelling. I am mentioning this little illustration to show that when we are out to have planned development on a large scale and at a rapid pace in a country like India, which has a vast population and resources which could be effectively mobilised, it is not this unbalanced type of thinking which is going to help the country ultimately to raise its standard of living and to bring about a more equitable distribution of income and wealth.

These two principal objectives should gain if not universal at least a very wide-spread acceptance in the country before we proceed to plan.

Planning is not an easy task. As far back as 1944, I had a little hand in formulating what is called the Bombay Plan when 8 business men got together. As we were watching the developments of the last world war, we eight business men took the view that it could not be very long before India must politically come to occupy a status and position where she should be at least free if not completely independent to shape her own economic destiny for the future, and we felt that we should place before the country some sort of a Plan. We should give the country at least an indication of what is possible to be done to bring about a large-scale and rapid economic development. Eut in considering this matter, we came up against very serious practical difficulties and one of them was that of determining priorities. We are so very backward in so many matters and in so many spheres of Life that it is not easy to determine straightway what should be done first and what should be done later. What you have to try to do is to make a balanced approach to formulate an integrated plan so that you make simultaneous advance on all fronts at a pace

which would impress the public but at the same time would ensure steady progress.

The **First Five-Year Plan** was frankly in no sense a plan. We must confess that before we **gained** independence these ideas had already germinated in the Government of India of those days. Not ideas in the sense that they were very anxious to bring about a large-scale development; but a number of schemes and proposals were placed before the Government of those days and these schemes were being examined. As a matter of fact, we must be fair in our attitude towards the Government immediately preceding Independence. Some of the largest schemes, viz., the river valley projects, were under germination at that time.

In any case, the **question** of priorities was a very difficult question to solve in the **circumstances** under which we were placed in the year 1946. Obviously, **there** could not be any higher priority than to see that we have at least **sufficient** food for our people. Here also we **are** faced with a serious practical **difficulty**. As I have mentioned earlier, owing to the net increase in birth rate, annually we **are** adding 5 million people to our population. So whatever is planned out in the shape of sufficiency of food supply for 365 million people of the country, has to take into consideration the necessity to go on feeding 5 million more people every year. Not only that, for a higher standard of living, it is also essential to make **available** that quantity of foodstuffs for a large number of people at a larger quantum than prevailed before the plan started. Otherwise, there will be no meaning **in** planning. Food cannot be grown on a larger scale without providing a number of **things**. One great deficiency in our agriculture is that large areas of land have not got enough water. We also cannot make agriculture very largely dependent on rainfall. **If** we are planning for a certain quantity of foodstuffs, we have to **make** fairly certain that the quantity **will** be made available to the country in order to do which we **must** ensure in an increasing scale year by year **large schemes** for irrigation. Also, we **have** to change

our methods of agriculture. We must try **and see** that where we were growing say one ton of a **certain** quantity of crop, whether we could not increase the productivity say by **10%, 15%, or 20%**. In order to do that, fertilizers should be used. Our agriculturist is rather an orthodox person. He is accustomed **to** his ways and methods which he would not readily change. But if he can be satisfied by having a certain quantity of synthetic manure, he can increase the **productivity** on land, he will do it. But then, **the** fertilizer should be made **available**. The agriculturist by his own means is not in a position to buy these expensive manures and fertilizers. But these are incidental problems. The main problem is that **food** in **sufficient** quantities should be made available to **an** increasing population and in larger quantities. As **a** matter of fact, what happened after all the efforts we made in increasing our agricultural output was that with the growing population the quantity of foodstuffs available per capita in the country has not shown an increase at all. So this is one of the very difficult problems before the country. Though we gave the highest priority for producing **sufficient** foodstuff for the country, we have not yet **succeeded**. As a matter of fact, in the coming years also this will continue to be **a** very serious problem. **I** think it is a very wise policy on the part of the **Government** that we are building buffer stock, pools of foodstuffs for which particularly we must be very grateful to the U.S.A. They have been making available to us partly as a gift and partly on a long-term loan basis large quantities of their surplus **foodstuff**.

After food in a poor country, the next thing we want is cloth. We have 365 million people. The average consumption of cloth in 1946 per head of population was barely 13 or 14 yards which might be a bit more than a pair of dhoti and a pair of shirts for a man or at best two saris for the average woman in the country. Undoubtedly the standard of consumption of cloth was very low and, **therefore**, priority had to be given to see that sufficient **cloth** was produced in the country.

Here **too** we were up against another **serious difficulty**. The partition of India from the economic **point** of view was a most unnatural partition. That **is** well illustrated by the position of our cotton textile industry. A substantial part of the cotton which we were using in **pre-partition** India came from the territory which **is** now in Pakistan and, therefore, as a result of partition we had practically all the **cotton** textile mills in the post-independent India. The supplies of cotton were substantially reduced by this unnatural partition. Therefore, it was not merely a question of providing more cloth, but also of increasing the cotton crop of the country so that the raw material for **making** cloth would be made sufficiently available. The Government, during the **first** five-year period, had to concentrate to a large extent on increasing cotton crop. Fortunately it is increasing during the last few years.

The same problem arose in respect of jute. Jute **has** been a very important foreign exchange earner for this country. Our best buyer was U.S.A. and for the last 56 years our most important source of **foreign** exchange was jute. All the jute mills remained in India and the substantial part of raw **material** went to Pakistan. We were confronted with a similar problem as in the case of cotton. Naturally, on the agricultural side, the Government should have concentrated all its efforts in growing foodstuff. At the **same** time, they could not divert themselves of the responsibility of making available **sufficient** supplies of cotton and jute to get two of our important **industries** run at full capacity.

Cloth raises very interesting problems in India **and** I would like to illustrate what can be done by **balanced** planning and balanced thinking.

We are a country with a large population and **with** terrific amount of unemployment. More than 70% of the **population** lives on agriculture, and, **@culture**, as you know, is a **seasonal** occupation. **Apart** from the fact that we have actual **unemployment**, there is a lot of seasonal unemployment also **and** for **long** countryside people apart from **carrying**

on **their** agricultural avocation devote a part of **their** time to what we call the cottage industries, the **main** among which is **handloom** weaving: There were large number of **handloom** weavers all over the country—a very large proportion in the South—and, therefore, in considering the question of providing **sufficient** cloth for the country the Government had to consider this question from two points of view. The Government could not leave it entirely to what is called the organised sector of the cotton textile industry to produce all the cloth required by the country. At the same time, the Government had also to think of the **handloom** weavers. If it was left entirely to the organised sector of the industry to produce **all** the cloth which the country wanted, possibly the organised sector could have done the job. But it might have meant distress in the countryside to the **handloom** weavers. On the other hand, we are faced with another difficulty. The demand for cloth has been growing. The organised sector of the industry is not allowed to meet the increased demand. **Our** Government **has** ordered that the organised **sector** of the **industry** shall not produce more than 5,000 million square yards of cloth whatever be its capacity to produce. The balance of cloth required is to come through **handloom** weavers. The **difficulty** is that the **handloom** weaver not being organised and not having the capital resources to buy the necessary **equipment** and raw materials to bring about an **increased** production, the country **has** been **suffering** from a shortage of cloth. So, this is a **very good** illustration of showing that in bringing about planned development one has to maintain an objective balance between different sectors in the same industry and at the same time achieve the desired objective of making available sufficient quantity of product required by the **country**.

I would point out by way of criticism of **the** **Government** policy that it allows ideology to play a more **important** role than it should really be allowed to. The **consequences** of such an ideological **bias** might well be disastrous for the whole **country**.

In an underdeveloped and poor country like **India** the two things required are food **and** cloth. The Government has embarked on large-scale expenditure on a number of projects like the river valley schemes in the Second Five-Year Plan. It is contemplated that the Government will be spending on its own projects—what is **called** Public Sector—Rs. 5,300 crores over a period of five years. Now how is **this** money spent? The **bulk** of this money will go out in the shape of labour cost, **i.e.**, payment of **wages**. These wages will go into the hands of people who are either already employed or seasonally employed or it will go into the hands of people who have **not** been employed so far. Therefore, you will be placing in the hands of a large number of people new or **additional** purchasing power. Under our economic conditions, that purchasing power must first be used in buying **sufficient** food or better quality of food. If one **is** accustomed to bajri or jowar and if one's standard of living is improved, one would like to have a little wheat also. Then, naturally, if one is buying for the family per head 13 or 14 yards of cloth, with more money **at** the disposal one would **like** to buy 16 or 18 yards of cloth per head per year. Under these circumstances, the production will not catch up with this newly created demand. Naturally, prices must rise. Whatever Government might do and whatever the finance ministers might like us to believe, the laws of economics will continue to operate. Although they are not as hard and rigid as the laws of the Medes and the Persians, the laws of economics do assert themselves over a period of time. One such law which by experience we have learnt and which cannot be avoided by **any** legislation is the **law** of supply and demand. If there is a certain quantity of **demand** for a certain product and the supply is not adequate to meet the demand, the law might intervene **and** say that the Government will reduce the demand. But if the demand persists there is only one way the markets will go: the supply being inadequate to meet the demand, the price one has to pay for requirements will have to rise. And if the

prices rise, who will suffer? It is the customer **who** suffers. In what way does he **suffer**? If the **prices** are **reflected** in the general level of **prices**, **then** Re. 1 which the **man** is earning is not worth Re. 1. It is less in proportion to the higher prices that he has to pay to buy his requirements.

This reminds me to correct an impression which might have been created by the Finance Minister in one of **his** speeches. He said that in order to **carry** out the Plan, we want all the money. He said **that** this is a poor country and the people cannot pay more taxes. He further said that he had no **intention** of taxing the salaried class people. He had no intention to tax the middle class people. This might leave the impression in the minds of millions of people in this country—never mind what happens to the Second Five-Year Plan, whether Government wants to spend Rs. 5,000 crores or Rs. 7,000 crores—they are not going to be affected. They are surely going to be affected, through inflation. Inflation means that money is chasing goods. Goods are not **sufficiently** available. So in terms of goods the value of money declines, and if the value of money declines, **the real** income of everybody in the country goes down. But the richer people can stand it because there are margins there. But the salaried people, who depend on fixed income, find that their salaries are not going far enough to meet the requirements. The real hardship falls on the lower middle class people, the salaried class people and on the people who have **fixed** income and who cannot adjust their income to the rising cost of living. So planners may say what they like, the ruling authorities may say what they like, but the laws of economics will continue to operate.

Raving got over these two priorities of **food** and cloth, the third priority which is given in this country is to housing which is a very important thing.

In these days we cannot think only in terms of material goods. That one cannot do without **material** goods is indisputable, but if we want to raise the standard of living, it cannot be raised by only having

more food, more cloth and more housing for all. Every **plan** in the modern world has to have what **is** called the social purpose. That social **purpose** is not only **to** raise the average man and woman in this country in their capacity to acquire larger quantities of material goods of life, but also to impart a new capacity to every one so that by his or her **efforts in life**, he or she can raise his or her **own** standard in society. We can do that firstly by making available education, primary, high school and college, to **an** increasing extent to every person in the country. 'These things are not easily done. They cost a lot of money. There **are** other possible **difficulties**. The Ramakrishna Mission has done a wonderful job in bringing additional educational facilities in the country and nobody than workers like these appreciate what it is to make additional educational facilities available in this country. We may have all the money in the world but overnight we cannot produce all the teachers in the world. The teachers are to be trained to **run** the schools and colleges. Additional **space** has to be found for schools and colleges. All this takes time. But whether it takes time or not the social purpose demands that equal opportunities for advancement and betterment of life should be made available to everybody in the country whatever may be his social station by way of birth, caste or whatever it may be. Therefore, providing increasing facilities make a **further** imperative demand on planned development.

The **Second** Five-Year Plan has been **formulated** on a slightly different **basis**. The ideology behind the **Second** Plan is that if we want this country really to be economically independent we have to learn a **lesson** from what is happening in the advanced countries of the world. The standard of living in a **country** like the U.S.A. is not judged merely by the capacity of the average person to buy his **goods** and **cloth** and house, but by the quantity of steel **which** is made and consumed in the country, **America** **today** is the wealthiest country in the **world** because in that **country** every **man** and woman are the **great-**

est users of steel. In the **modern** world of **industry** progress **cannot** be made **unless** there is **sufficient** quantity of steel. So the ideology behind our Second Plan is that if **India** is to be economically **strong** and independent, India must also build up Heavy industries, the most important of which are steel and cement. Today the total manufacturing **capacity** of steel in India per year is equivalent to three days' production in the U.S. Therefore, in the Second Plan, it is claimed that we will increase production nearly six times so that at least our capacity at the end of five years will be **18** days' production in the U.S. That only emphasises the extent to which we are economically backward.

I was in the United States in connection with the steel expansion scheme we have at Jamshedpur and I was stunned when the steel manufacturers told me that though their present capacity is **125** million tons a year, they are planning to increase it by another 60 million tons during the next 10 years. By the time in **1961** or **1962** we have reached a capacity of **six** million tons, possibly they will have increased from **125** tons to **135** tons or **140** million tons. The fact is that heavy industries will have to be built up. But then the experience of some of the East European countries is rather disturbing.

In countries whose economy is largely rooted in **agriculture**, the economy will be terribly upset if there is undue development of heavy industries. Poland and Hungary under the domination of Soviet Russia, particularly since the last World War, have had some of the heavy industries thrust on them to meet total requirements of the countries under the Soviet regime, with the result that a country like Poland, which before the last world war was considered a granary of foodstuffs, has been so much denuded of its agricultural products and its energies **so** much diverted towards the production of heavy industries, that it has caused widespread economic distress in the country. That economy reached a stage where **even** without **arms** and **without sufficient** fighting equipment people have been **able** to throw

off the Soviet bureaucracy. The same was attempted in Hungary.

The **background** of Hungarian situation is economic distress which was mainly created by bad economic planning. As a matter of fact, it was no economic plan. **It was** something which was forced on the country to meet some of the political exigencies of their overlords.

In any **case**, the experience of those countries during the last 10 or 12 years ought to impart a **very** good and favourable lesson to us who are trying to build up our economy. Our Prime Minister was very right and very wise when he said at **Indore** that we must benefit from the experience of these countries in seeing that we do not give undue emphasis to the development of heavy industries when we are short of foodstuffs, when we are short of consumer goods. **Over** a period of years, concentration on heavy **industries** may produce imbalance in our economy which may prove disastrous to our backward economy. In any case, short of producing a very serious imbalance, it is inevitable that if we are going to make substantial economic progress in the country we must gradually develop heavy industries also. We cannot, therefore, depend on supplies from abroad because we do meet with unforeseen circumstances like the Suez Canal situation. If a country like ours entirely depends on supplies of machinery such as finished material to keep our economy going, we might be landed in a difficult situation.

It is one thing to say that a thing is desirable to do and it is quite a different matter to do the thing in actual practice. Because, whenever we may desire to achieve an objective, we must have the resources. But unfortunately the situation in this country is that we are planning out on a basis which has very little relation either to our actual resources or to our capacity for raising additional resources. To plan out an expenditure of Rs. 5,3001- crores in a country like ours is rather over-ambitious. I do claim to be as patriotic as anybody in this country and I do not see any humiliation as an Indian national to admit

that I have not got the resources to fulfil the Plan in five years. It is no loss of prestige to say that we have not got the resources to spend Rs. 5,3001- crores over five years without putting such strain on the economy of the country that it may well break down. In these matters, again I give credit to the Prime Minister who has shown **that** one must have a flexible mind. Unless we have a flexible mind and adapt ourselves to the changing circumstances, both here and abroad, we are not likely to attain the objectives which we **all** desire and pray for. Therefore, what our immediate need in the country is, to put it in the ordinary parlance, to cut the coat according to our cloth. If we attempt anything else, nothing but disaster will face this country.

Now, about resources. The planners said when the Plan was **made** that in the public sector, **that is**, where the Government takes the direct responsibility of handling projects of development, Government will spend Rs. 4,8001- crores. The figure of Rs. 5,3001- crores is a revision which has very recently been made. Their estimates of getting Rs. 4,8001- crores were **as** follows: at the end of the first Five-Year Plan between the Central and State Governments there **will** be budget surpluses amounting to Rs. 400 crores. These surpluses do not exist except in the **statisticians** office of the Planning Commission. Then they provide for increased taxation. The original estimate was over a period of five years there should be increased taxation of Rs. 4001- crores, that is Rs. 80 crores additionally every year. Then they said that by savings and borrowings there will be Rs. 8001- crores. That has yet to be seen. Then they expect foreign exchange assistance from the World **Bank**, from other countries like the United States of America and through the Colombo Plan. Having provided for that, there will be a gap of Rs. 1,2001- crores. These Rs. 1,2001- crores are said to be found by what is called **deficit** financing.

Deficit financing sounds a very highly technical phrase. But it is not so highly technical. **Deficit Financing** means that the Government will **issue** so

many more currency notes to meet **their obligations** to the **extent** of Rs. 1,200|- crores during the next five years. One of the most **efficient** industries run by the Government of India is the Nasik **Printing** Press. In my little experience of management of industries, I have found that that industry is most efficiently run where there is no system of costing, and Nasik Printing Press is one where costing does not matter. A currency note of Rs. 1,000|- does **not** cost more than a few **annas** to produce. It is **also an** industry which runs very smoothly on one **shift** as it can run on three shifts, and deficit financing in **simple** terms, seriously enough, is only for the Governor of the Reserve Bank of India on receiving a message from the Finance **Minister** in New Delhi that so much money is needed to instruct the Manager of the Nasik Printing Press that Rs. 50 crores more of currency notes should be produced at the Reserve Bank of India on next Monday and the money is there.

The **only difficulty** is how this money behaves when it actually goes out and is paid in settlement of Government's obligations on its various projects. The **behaviour** of money is as important as **behaviour** of men. There is an economic law which is **called** the Gresham's law. It says that bad money drives out good money. It depends upon the **behaviour** of the money whether the money is good or bad. **Just as** too much power **affects** people, money by itself loses its **balance** when there is too much of it in circulation. It asserts its own position since it competes with the supply of goods, **and** when it competes effectively, its value goes down and the prices go **up**. When prices go up, they cause a lot of difficulty **Individually** and **familywise** to millions of people in the country.

We have reviewed the position forecast by the planners when they formulated the Second **Five-Year** Plan. Now it happens that some of the estimates which were made **on** the side of receipts **are** not proving very correct. On the other hand, some of the **estimates** which were **made** on the side of **expenditure**

are proving correct. The expenditure side is going up, the receipt side is going down and, therefore, the gap of Rs. 1,200|- **crores** which have to be bridged in balancing the two sides is getting wider. How is **the** gap to be made good? On the other hand, on second thought, planning **pandits** have come to say that after all Rs. 1,200|- crores of deficit financing is not such a simple affair as the planners had thought. On second thought, they have **realised** that putting Rs. 1,200|- crores of additional money in the country without **sufficient** goods to buy **will** create very serious **difficulties** in the economic situation. Therefore deficit financing must be reduced. If we reduce the deficit financing, it still creates a wider gap. The wider **gap** can be made up through one of the other items on the receipt side. One item is increased taxation. Therefore, what **was** originally **estimated** to bring in Rs. 400 crores over a period of five years from **additional** taxation **has** now been raised to Rs. 1,300 **crores**.

Say Rs. 900 crores by way of additional taxation will have to be imposed on the country to give Government the necessary funds to carry through the Plan. It requires a lot of ingenuity. They cannot produce all this extra money of Rs. 900 crores through additional taxation without producing adverse **effect** on the economy. One of the soundest principles of taxation is that that tax is good when it achieves **two** objectives: it brings in the largest amount of money to the exchequer without producing such a reaction on the payers of this tax that their capacity is reduced. In other words, they must continuously watch that the law of diminishing returns does not start operating. The law of diminishing returns means that taxation **cannot** be **carried** to a point where ultimately the capacity of the taxpayer will be **so** low that even the tax which he paid **originally** **cannot** be **got**.

The **Finance** Minister has been very original **and** ingenious in thinking new ways of raising **additional** money for financing the **Plan**. When he started on his journey of collecting new taxes, he **imposed** some

a few months ago. Some of the taxes, from the point of view of the collections they will bring to the exchequer, are of very little **importance**. But in matters of taxation, it is not only the **collection** that the exchequer makes, but the effect it leaves on the payers of tax which is important. Therefore, in imposing a new **tax**, although the total amount collected may be small, if the psychological effect will ultimately reduce the capacity to raise more taxes then that tax is unsound. Some of the taxes which were recently proposed and which have been brought **into** operation will soon be found to be unsound, scientifically and logically. **For** instance, one of the new levies, which is really not a tax but a device, is called **compulsory** deposits. This levy would not have been imposed if **sufficient** thinking had been devoted to it. There are many serious factors involved in the collection of this compulsory deposits from manufacturing companies. The full implications were never thoroughly studied.

Where it is a long way to go to collect Rs. 900|**crores** of additional taxation, unless there is sufficient thinking on any additional imposition of new **taxes**, whether direct or **indirect**, it may cause serious disturbance to the whole economy of the country and might well defeat the fundamental objectives of planned development.

*(Based on a talk at the Vivekananda College,
Madras, on January 17, 1957)*



"We want to **produce** the material **goods** of the world and to have a high **standard of living**, **but not** at the expense of **the** spirit of man, **not at the** expense of his creative energy, not at the expense of his adventurous **spirit**, not at the **expense** of all those **fine** things of **life** which have **ennobled** man **through-**
out the **ages**."

Jawaharlal Nehru

Prime Minister of India

