

THIRD FIVE-YEAR PLAN—ITS
PREMISES EXAMINED

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It is not unnatural for our Planners to be unduly critical of anyone who analyses the basic features of the Third Five-Year Plan. For they, and the Government, to a lesser extent, have been living so much with the Plan, have played an important part in formulating it, that it would be less than reasonable to expect them to subject the assumptions underlying it to a fresh examination. Indeed, even constructive critics are charged with denigrating the Plan and spoiling the atmosphere. Moreover, the elections are scheduled to take place a few months later, and it would not be wise on the part of the Government to admit the short-comings of the Third Plan. Nonetheless, a duty is cast on public-spirited citizens to examine the good points as well as the failings of the Plan, so that a fresh and constructive approach may be made towards the building up of our economy and promoting a higher standard of living of our citizens.

According to the Plan, we have allotted Rs. 7,500 crores to the public Sector; out of this amount, about Rs. 8,300 crores represents the *investment component*, which is approximately equivalent to the amounts that we invested in the First and Second Five-Year Plans. The Private Sector has been allotted Rs. 4,300 crores. In real terms, our investment is bound to be less than what it was during the First and Second Five-Year Plan periods, since prices have tended to rise sharply.

What are the factors which have made a step-up in

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

President, World Bank

investment feasible? Our savings have not increased as much as we would have wished for financing the Third Plan. It is clear that private savings have not increased to an appreciable extent. Nor have public savings, expected to be promoted by high taxation, increased. This is not surprising, since, in a country where the vast majority of our people are living on the margin of subsistence increases in output are liable to be eaten up by increases in consumption.

Nor have we been able to build up the necessary industrial capacity to produce more of those consumer goods or machines indispensable for promoting industrial development. The step-up in investment has been rendered possible, mainly because we have received, and expect to receive, foreign aid and investment from abroad. There is nothing wrong in any under-developed area receiving aid from abroad; and today the climate of opinion in Parliament and in the country has changed from what it was about five years ago, when acceptance of aid from abroad was considered to be repugnant to national honour and self-respect.

From the point of view of the needs of our country, the targets fixed by the Plan are the barest minimum. Our population is increasing at the rate of 2% per annum. We have stepped up our investment with a view to increasing the national income by about 5% each year. We would, therefore, be adding—if all goes well—3% to our income each year. It is sometimes assumed that for instituting comparisons with other countries, we should take, as the basis, the *per capita* income in mature areas like the United States of America, the United Kingdom or West Germany. We are even told that, in another 15 or 20 years, we should catch up with the development in these countries. But, from a realistic point of view, it is not necessary to travel so far, or to institute comparisons with countries which have already reached maturity in the economic sense, to realise the lee-way that we have to make. In South-East

Asia, Malaya has a *per capita* income, which is five times that of India; in other words, an average Malayan enjoys an income which is five times that of an Indian. Ghana has a *per capita* income which is thrice our *per capita* income, and Ceylon, a near neighbour, twice ours. Therefore, from the angle of our needs, our goals must be pronounced to be modest since, according to the present rate, it would take us about twenty years before we can catch up with today's level of national income in Ceylon. However, the more purposeful question that we should put is: Are there any indications that this Plan will accomplish the trick of accelerating our economic development?

It is unfortunate that the Planners should have emphasised only the investment that has to be made in different sectors of the economy without paying any attention to the important question of how such investment can be used to maximum advantage. Maybe when we started planning a decade ago almost from scratch, it was essential to invest, without unduly troubling ourselves on the outputs accruing from such investment. But, today, it is necessary that we should emphasise the need for maximising output from investment; surely, the many industries into which so much capital has been sunk should yield returns which bear relation to the amounts invested. In other words, our approach should be one of finding out ways and means of increasing productivity and making our Managers of enterprises concentrate on economic methods of production. Of late, we have had discussion in Parliament and outside on the question of what the rates of return on our Public Sector enterprises should be and what should be done to improve their efficiency. During the past ten years, we have invested in our state enterprises amounts of the order of Rs. 5,100 crores. What is the return either in terms of contribution to national income or in a commercial sense? Today, most of these enterprises are operating below capacity; state collieries are operating only up to about 55 per cent of their capacity. Surely, if the remaining 45 per cent of the capacity could

be exploited, we could supply coal to many industries sorely in need of it, and thus increase the output of our goods.. If there is full utilisation of an enterprise, not only would our national income increase, we may also expect it to yield handsome commercial returns. It is a mistake to suggest that State enterprises should necessarily be operated at a loss and that our industrial managers should not be worried about commercial returns. Undoubtedly, there are enterprises which have to be run at a loss, and are run at a loss, on grounds of social purpose. But, generally, such losses should be incurred knowingly; the tax-payer when he subsidises them must do so on grounds of social advantage. Thus it may be wise policy to run the drugs industry on a no-profit basis, or even at a loss; the advantage of supplying drugs at low cost to the community may more than balance the loss sustained. Let us realise that unless we emphasise the best use that we are going to make of our investments, we are not likely to make significant contributions to our national income. To suggest that a huge investment is necessary in certain of our projects is only partially true. We cannot have a complete picture, until Parliament and the people are furnished with an account of the output that emerges from these investments.

The major lacuna in the Plan is a lack of policy in respect of agriculture; about 50% of our national income is attributable to agriculture. Quite apart from expressing a general desire to promote agriculture, which is welcome, our Planners do not seem to have anything like a grasp of the essentials of a sound policy for agriculture. Land is the most scarce resource in our country; a Planning Commission which seeks to chart the nation's course of development should attempt to formulate the uses to which land is to be put. Of course, it may be pleaded that we have emphasised the need for the production of fertilisers, better utilisation of seeds and such other matters. Now making fertilisers available to agriculturists would miti-

gate the scarcity of land. But these measures do not touch the major issue of proper utilisation of land.

Historically speaking, in a developing economy, the proportion of land devoted to the production of cereals tends to diminish through time. In countries like Japan, United Kingdom or West Germany, where land is a scarce factor, this has been the pattern of development. It is only in the Soviet Union, where land is relatively abundant and population is sparse, that the issue of the alternative uses to which land should be put does not present a major problem. There is no excuse for the Planning Commission of India, which is expected to plan the economic development of our country, ignoring the alternative uses to which land should be put.

It is bad enough not to have recognised land as a scarce factor; over a period of time, land is likely to become more scarce. The total cultivable land in our country, according to an estimate made by experts, is of the order of 300 million acres. Even assuming that we make improvements during the coming 15 years and reclaim land for cultivation, we can at best expect to increase the cultivable area by about 10 or 15 million acres. Our population is about 450 millions and the cultivable land per person works out to about $\frac{1}{4}$ th of an acre. By 1975, our population would have increased to about 600 millions, and we would have a little over $\frac{1}{2}$ acre per head of the population. Half an acre will, in the coming years, become important, and it is, therefore, necessary that we should from now be clear about the alternative uses to which we will have to put it. Land will have to be utilised for producing cereals, for producing industrial raw materials, for producing articles for export and for producing food articles. What is the policy that the Planning Commission should have followed? Should it not have envisaged a reduction in the proportion of land devoted to the production of cereals in the coming 10 years? Today, a little over 66.66% of our land is utilised for producing cereals.

The Commission should have laid down a policy for producing more from less, in another five years. Instead of 66.66% of our land producing cereals, we should have 60% producing foodgrains in 1966. In another ten years, we should have only 50% of the cultivable land devoted to the production of cereals. By following such a policy, we would be able to release land for other uses. But the Planners have envisaged increase in the amount of industrial raw materials, cereals, food articles and export crops, like tea and jute, without relating such increases to the proportions of land which are utilised for these various crops. It is surprising that we have not benefited from the experience of other countries like Japan, the United Kingdom and West Germany. Japan has attempted to take account of the various uses to which land should be put, and increase in the production of different types of articles are related to acreage and productivity. It is significant that up to date, neither the Ministry of Agriculture nor the Planning Commission has anything like a proper land survey. Nor do we have a proper soil survey to enable us to know where best the different crops should be grown in adequate quantities. Surely, it would be most desirable to know the labour intensity of different crops. This would help us to envisage the diversion of additional labour to areas of labour intensity. We could then work out inducements to help labour to move from the less intense to the more intensive labour areas.

There is another aspect which has to be taken into account. If land is most scarce, labour is most plentiful. Indeed this poses a major problem. According to the Planning Commission, our working force is expected to increase by another 50 millions in 1975. We would, therefore, have to provide 50 million additional people with jobs in 1975. To suggest that our surplus labour could be diverted to industry is fatuous. The very dimensions of this problem of providing jobs for 50 million additional persons in industries utilising modern techniques are sufficient to stagger any one who has a remote grasp of realities.

Let us realise that jobs for 50 million additional people in industry means that approximately twice the working population of United Kingdom and 2/3rds that of the United States of America have to be provided with jobs! If one envisages in addition the amount of capital necessary for employing this labour in industries using modern equipment, one would realise all the more the impossibility of solving the problem of idle labour by following this prescription.

If we wish to plan on sound lines, we must take account of factors which are scarce, and those which are plentiful. Since we have a large working force, our aim should be to utilise labour intensive methods of production. The fact that labour is relatively abundant should be borne in mind by those who plan and execute schemes of industrial and agricultural expansion. Thus, in the new irrigation projects, our engineers, instead of utilising labour intensive methods of production, have put a high premium on labour-saving devices. By so doing they are making the projects not only more costly—these devices have to be imported from abroad and cost foreign exchange—but also they are allowing our labour to run to waste. It is a matter for great pride to us that in the past Sir M. Visvesvaraya should have built the Kannambadi Dam in Mysore State using indigenous labour and importing the minimum amount of equipment from abroad. To have modern conveyor belts may save the engineer the trouble of supervision. It is needless to point out that the time saved in the execution of these projects, by the utilisation of such devices, is not appreciable.

The step-up in the rate of investment has been rendered possible, mainly on account of the aid and assistance that we have received from abroad. Under Public Law 480 of the United States of America, seventeen million tons of wheat have been given to us from the farm surpluses of that country. The advantages that will accrue to our economy are obvious. In any developing economy, shortages

occur due to effective demand out-stripping supplies. It is during such periods of shortage, that the speculator is active, corners large supplies, and pushes up prices. Owing to the help furnished by the U.S.A., we are in a position to build a large buffer stock of foodgrains, which can be utilised to beat the speculator down and stabilise food-grain prices. In addition, the provision of this large stock is a **green signal** given to us to use the large working force which is today unemployed in projects requiring relatively little or no **investment component**. There is need, from now onwards, to think of ways and means of employing large masses of our rural **population** in such projects. If we do not draw up our plans in time, we are likely to face a crisis in the coming year or two. According to the latest report of the Reserve Bank of India, we are likely to have an increase in the production of cereals. This can lead to a precipitate fall in prices of cereals, and a demand on the part of agricultural producers that their prices should be guaranteed.

In a growing economy, the margin between surfeit and scarcity is narrow. What happened in 1953-54 is likely to be repeated in 1962. A mere increase of 3 million tons of rice led to a shortfall in the prices of foodgrains by thirty per cent. We have, therefore, to create a demand for the increased supplies of grain. This can be achieved by employing the large surplus of labour on projects. No doubt the employment of rural labour is likely to present difficulties. Some crops are harvested at different seasons. Consequently, labour is unemployed at different periods. To organise labour so as to dovetail labour into investment projects at different periods would entail major administrative problems. Let us realise that the employment of such labour on a large scale which should be our aim cannot be achieved by fixing wage-rates on a need-based minimum as is done in certain industries. Of course, the wages paid to labour in these projects will have to be related to the wages paid to agricultural labour. Any attempt made to have labour employed on any other basis will lead

to our wasting human capital, thus passing a sentence of unemployment on those who are willing and wanting to do work. It is not possible to sketch, even in outline, the various projects on which such labour may be employed. But projects like road building, reclamation of land and minor irrigation works, are mentioned by advocates of rural employment. In addition, there is one project which requires priority of attention. We have to realise that we are in the presence of an acute inflation. The Economic Survey points out that our cost of living has increased, and that inflationary pressures, experienced by different sectors of our economy, have not abated in the least. The rise in the cost of living is not so much due to the rise in prices of foodgrains as to increases in prices of food articles. After all, the Economic Survey aptly points out that the prices of food articles like vegetables, oil, butter, ghee, eggs, and meat have mounted up by 28 to 30 per cent in 1961, compared with what it was three years ago in 1958. In contrast, the rise in prices of foodgrains is only ten per cent higher today, compared with what it was in 1952-53. Therefore, our aim ought to be to utilise our surplus labour in cultivating vegetable gardens, in improving Animal Husbandry and in building roads linking up centres of vegetable production with market areas.

Such a policy of employment would call for changes in our industrial and taxation policies. It would not surprise anyone to be told that the utilisation of our industrial capacity in almost all industries is today only 50 per cent or even less on a single shift basis. It may be argued that, in the case of a few enterprises, lack of imports is the limiting factor. Thus, the automobile industry has been handicapped, because it has not been able to import components to the extent desired. This, in turn, has affected the growth of ancillary industries dependent on such imports. But, even in the case of industries which do not depend on imported materials, there is not the incentive to produce to full capacity. But the employment of large masses of people will lead to an increase in demand for

consumer goods. It is essential that these demands should be satisfied in time.

We have to devise a system of incentives and disincentives, so that industry may be induced to operate its capacity fully. These incentives and disincentives are intended to bring about increases in the supply of goods, thus preventing any rise in prices. Instead of relying on physical controls, which, in any case, can be operated only for short periods, and are often operated after a shortage occurs, it would be better to rely on incentives and disincentives which induce businessmen to operate their plants to full capacity. We have, after all, a limited stock of capital, and it ought to be our aim to make it go as far as possible. Thus, it may be worth while working out a system of progressively larger depreciation allowances for those who operate three shifts. In other words, the rate of depreciation allowance would be higher for the second shift, as compared with the first, and still higher for the third shift, as compared with the second. To this proposal, objection may be advanced on the ground that the Government would be losing revenue. But if the truth be told, it is likely to gain more revenue than what it is likely to forego by granting this concession. Surely, more revenue would be obtained from increased receipts from excise and sales taxes which would be larger, because of increased sales of goods. Another objection likely to be advanced is that the industries may not be able to take advantage of this concession, because of shortage of power. It is true that we are suffering from shortages of power, that such shortages have been accentuated by the wrong policies and ideological bias displayed by various Ministries, notably the Ministry for Oil and Fuel. While it will be admitted that there is force in this argument, and there ought to be fresh thinking on the development of power and the building up of power capacity in the country, let us realise that the situation is not as bad as we are inclined to think. After all, it is shortage of power during peak hours that inhibits industries and prevents them from

operating to full capacity. Therefore, it would be wise policy to make it expensive during these hours, cheaper during the less busy hours, and cheapest during the least busy hours. These differential rates would compel businessmen to minimise their costs by operating plants for three shifts. Of course, when industries operate three shifts for twenty-four hours, other problems arise. We might have to stagger, in many of our urban areas, the hours of work for different offices. This would enable people to go to offices at different hours, and not put too much strain on the limited transport facilities in the urban areas.

Another problem is that of increasing exports during the coming five years. I have already indicated the need for adopting a policy for agriculture so that we might divert land to the production of articles of export. In addition, we will have to concentrate on measures of special assistance for promoting traditional exports. It is a fallacy to suggest that our traditional exports do not have a future, that we should encourage the newer exports—the light engineering goods—and that we should reconcile ourselves to losing our markets for traditional exports. True, these traditional exports—cotton, tea and jute—may not increase as rapidly as the newer ones. But they can be increased. Let us also realise that even if the export of engineering goods increases by 200 per cent in the coming five years, they would still represent but a fraction of the amount that the country earns by exporting tea or jute. While encouraging the growth of the newer exports, let us not lose our sense of proportion. Our traditional markets for tea have been invaded by Ceylon and East Africa. We have lost to Ceylon and East Africa, because we have not paid attention to the development of our tea gardens. Ceylon and East Africa have encouraged the re-planting of tea, have provided tea plantations with fertilisers, and have attached high priority to improvements in the quality of their tea. In contrast, most of our tea gardens have not been re-planted these forty years. Nor have we provided'

the planters with sufficient amount of fertilisers for **increasing** their output. In addition, various taxes, imposed by the Centre and the State Government, on tea, **have** tended to increase costs. In a world where competition is keen, we seem to be revelling in handicapping our dollar and sterling earners.

As for cotton, it is one long tale of woe. The Committee of the Working Party on the Textile Industry, in March 1951 recommended measures for improving that industry and modernising the mills. If these recommendations had been implemented by the Government, there would have been a reduction in the costs of production and improvement in the **quality** of textile products. Valuable time given us immediately after World War II was squandered in discussions over the pace at which **rationalisation** of the textile industry should proceed. While no one denies the need to **employ** surplus labour, it cannot be suggested that we **should** avoid projects of capital development just because they involve employment of large capital and of little labour. In the present context of affairs, schemes of modernisation must necessarily be linked up with export of goods. This question of increasing exports is of prime importance. In a developing economy where pressures from internal consumers are on the increase, exports cannot be increased unless our production is increased. It has been pointed out by Sir Donald Macdougall that by 1970 we would have to export goods of the order of Rs. 1,500 crores of rupees, so that we may be in a position to repay the loans which fall due by that date, and make interest payments on the loans that we have borrowed, and import maintenance imports for running the industries fairly fully. This is not beyond our capacity to achieve, provided we do not pursue a policy of drift, and are aware of the importance of increasing production and improving the quality of products.

Of the various prescriptions recommended for a growing economy, one which is recommended is the need to

practice austerity. **But** austerity should not take spurious forms, like "voluntary" surrendering of salaries or the **fixation** of ceiling on income. There is nothing reprehensible in paying a person a remuneration for the job he does. Some types of talent are more scarce and have to be properly compensated, so that others have the necessary incentive to acquire those skills. Nor is voluntary **surrendering** of salaries praise-worthy, as it is made out to be. Indeed, of late, this surrender of salaries may lead in many cases to down-grading the monetary value of jobs. In a sense, this is grossly unfair to the less privileged who **do** not have other resources to fall back upon and are forced to fall in line just because social discipline dictates that they should do so.

However, in a developing economy, it is essential that we should have austerity in the sense of concentrating on the more important tasks instead of the less essential things. **It** is of primary importance that we **should** devote our resources to the production of food articles in which everyone is interested. How strange that, instead of indenting on Japanese help for cultivating vegetable gardens, we **should** consider it desirable to request assistance from that country for producing tape-recorders! Or again is it more important to produce nylon and dacron than better and more cloth! The argument that nylon and dacron are used for tyre cords is **superficial**, since all of us know that a major portion of these articles is utilised for producing cloth, which is generally consumed by the upper income groups. Can we not do without miracle fabrics for some time? How odd that when we are short of resources, we should invest **crores** of rupees on atomic energy for producing power, when we know that the cost per unit is four times that of hydro-electric power! **Would** it not be better if we had utilised such atomic energy for producing Isotopes which, in addition to being useful for combating various diseases, could be **utilised** for revolutionising our agriculture?

There is reasonable certainty of financing the Third Plan, thanks to the aid and assistance furnished by the consortium under the leadership of the United States of America. But, surely, this throws a greater responsibility on us. If we do not achieve results, we alone will have to bear the blame. If this experiment in aid fails, we will be doing a great disservice to other under-developed countries, since all aid-programmes will receive a serious setback. Let us realise that, in any developing economy, the margin between surfeit and scarcity is relatively small. There is always a danger of inflationary forces gathering momentum, if things do not go strictly according to schedule; and things do not go according to schedule, even in the best of planned economies. We have not as yet broken the back of inflation, and we are not likely to do so, unless we cease to be care-free on the food-grains and food articles front. Especially if we wish to export more, the chances of pressure on domestic availabilities would be greater. By not devoting sufficient attention to this problem of inflation and allowing it to gain momentum, we are building up a more unequal society.

Even after a decade of planning, there are wide areas in the country which have seen no visible signs of change. Whatever limited resources we had, we should have diverted an appreciable proportion towards the development of local areas on a regional basis. If after ten years of planning we have not succeeded in doing anything for these areas, why should there be mass enthusiasm for the Plan? Even after ten years of planning, the Planning Commission has arrived only at the stage of adopting as an objective regional development. We should have encouraged States to pick out backward areas for "special attention". We should have encouraged our peoples in different areas to set up simple pig iron fabrication plants. Today owing to a shortage of bricks, the costs of building have gone up. It would have been wise policy to have found out ways and means of encouraging people to start small brick factories in different parts of the country. These are but a few

instances of the possible measures that might be adopted in order to make people realise that the Plan is affecting their lives.

Setting up a factory in one region or another does not necessarily bring about a transformation in the mental and emotional attitudes of peoples in backward areas; the monumental approach, dearly beloved of our Planners, is not everything. What is needed is a careful working out of small area plans, based on groups of villages, so that everyone begins to feel the wind of change. This task appears to be simple. But, actually, it requires more intensive hard work and planned execution and careful supervision.

[The views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise]

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"Free Enterprise was born with man
and **shall survive** as long as man
survives."

—**A. D. Shroff**

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