Financial Provisions of the Five Year Plan

(*Contributed*)

NEITHER history nor critics will accuse the members of the Planning Commission of dreaming rosy dreams. Wiser by experience, they take pride in their realistic approach to this problem. Cynics will insinuate that they have not had the courage to unlearn the lesson industry taught the people and *the* Government some time ago. It was the federation of Chambers of Commerce and industry who read a lesson to Government on the principles of planning in practice. Impressive data marshalled by the Federation convinced the Government that the tempo of economic progress will necessarily have to be slow; that, it would be fatal to ignore the limitations in men, money and resources. Recent pronouncements by Cabinet Ministers indicated that they were converts to industry's view on planning. Members of the Planning Commission reveal that they are acutely aware of the limitations of planned economic development in an underdeveloped country.

This is not the only bar to rapid economic progress. Staunch realists as they are, the members of the Planning Commission have no desire to escape from the stern realities implicit in India's social, political and economic make-up. Rate of growth of population is a phenomenon which, cannot be ignored in any plan for India's economic development. Indeed, the Planning Commission is so obsessed with the limitations in men, money and resources and with the mathematics of the millions that it is ultra-conservative in the arithmetics of the plan it propounds. To be aware of one's limitations is a virtue, but it can be carried to a fault. No wonder, therefore, that the Commission's report has had a cold reception.

Defeatist in outlook and disappointing in its interpretation of the broader aspects of planning, the Commission cannot be held guilty of a lack of a sense of priorities. Within the self-imposed limitations, it is right and proper that the Commission should emphasise the need for development of agriculture and for the speedy execution of irrigation and multi-purpose projects. Also correct is its recommendation that the Government should assume responsibility for the growth and development of small-scale and cottage industries. There are not a few who believe that this is the cheapest and shortest way to economic prosperity in an undeveloped country which lacks skill and capital.

Even if it be accepted that the limitations faced by the Commission are not wholly unreal or imaginary, the curious ambivalence in its attitude to inflation is altogether inexplicable. Overawed and obsessed by fears of inflation, it deliberately fixes the targets very low. And yet while making financial provision lor attaining the targets, it chooses the dangerous path not only of open inflation, but fears to impose that measure of austerity without which the Plan cannot be worked at all. Development expenditure is inherently inflationary at the initial stage; there is the additional complication that such expenditure will start when the economy is already infected with inflation. Inflation has its social, moral and economic dangers. There is imperative necessity for putting into operation and perfecting safety devises to neutralise the inflationary repercussions of development expenditure. To underline this is not to concede that inflationary dangers can be pleaded as obstacles to planned economic development. The remedies are not far to seek, provided there is the determination and the ability to apply them.

Why be so apologetic about the grim choice that an under-developed country will have to make since no choice can be grimmer than that of inaction, if the latter is the only other alternation. When will the Government and the planners abandon the perfect bed-side manners of a doctor attending to an old and sick, but a rich patient? It is better to forewarn the people of the hardship and sacrifice that will have to be endured today so that they can have a better standard of living tomorrow. Planning cannot be had without tears, without queues and control. Much higher taxation than is now envisaged will be necessary, besides restoring taxes that have been thrown away.

Because the Planning Commission is so inflation-conscious, it has taken elaborate pains to estimate the current potential resources that can be made available to finance the first instalment of the Five-Year Plan without inflation. Its estimates reveal a net deficit of Rs. 290 crores, which is to be met out of annual sterling releases to the extent of £35 million during the coming live years. Throughout the report there is implicit assumption that India's export-import accounts will remain unchanged during the next five years; that she will continue to have a surplus in the trade and payments balance as at present. This is a debatable assumption, and may upset the Commission's calculation that external resources to the extent of Rs. 290 crores will be available to finance the plan, and that this sum will not have to be utilised in meeting any possible deficit in the country's trade and payments balance.

This is not the only danger that may upset the Commission's careful estimates for financing the plan without inflation. On this aspect of the problem, its second assumption is that the Union Government's revenue receipts will continue to be as buoyant as they are at present; that, the various projects undertaken can be executed without raising administrative expenditure. Admittedly, the surplus on revenue account was large in 1949-50, amounted to Rs. 7.93 crores according to the revised estimates for 1950-51, and the budget estimate for 1951-52 placed it at Rs. 25.61 crores. If budget estimates materialise, the Planning Commission's calculation of an annual surplus of Rs. 26 crores, or Rs. 130 crores in five years, may not be far wide of the mark.

There must necessarily be an element of conjecture *in* future estimate's of the Union Government's revenue and expenditure, but students of public finance are inclined to the view that it may be unduly optimistic to budget for an annual surplus on revenue account exceeding Rs. 10 crores, especially as both the Finance Minister and the Planning Commission agree that the tax resources in which the Union Goveminent is interested are being exploited to the full. It may be that if conditions justifying imposition of export duties at progressively higher levels continue, the Commission's estimates about the Union Government's aggregate surplus on revenue account forms the quinquennium at Rs. 130 crores may materialise; but this, again, depends on India's trade and balance of payments position which may not be as secure or lasting as the Commission assume.

Far more debatable is the Commission's estimate of the States' surplus on revenue account during the corning rive years at Rs. 81 crores, or at Rs. 16.2 crores a year. In the immediate past, the Union Government has had a surplus on the revenue account, but not the States. In 1949-50 the States had a revenue surplus of Rs, 3.73 crores, but incurred deficits on Rs. 6,01 crores and of Rs. 11.99 crores in 1950-51 and 1951-52 respectively. Can it be that the Commission has anticipated the findings of the Finance Commission in assuming that the States will be allowed a larger share of the proceeds of the tax on incomes and on profit? If that be so, the Planning Commission's estimates about the States' revenue surpluses may be correct, but its calculation about the Union's surpluses on revenue account may become wrong.

Probably, the Commission would retort that its estimates of States' surpluses on revenue account are based on the assumption that fresh sources of taxation will be introduced by the States, it recommends estate duties not only to supplement the revenue of the States, but also as a legitimate device for " reducing irregularities in wealth and income." There is a case for imposing estate duties, as against any further increase in income-taxes. How fruitful the estate duties will prove is, however, a pertinent querry. Besides, the prolonged delay in imposing the estate duty indicates some of the inherent difficulties in imposing such a duty under the familiar law of inheritance and the joint family system.

Betterment taxes should help the States' finances as irrigation and land improvement schemes proceed; but the Commission's reliance on larger yields from land and from water taxes reveal their unawareness of the Government's declared policy relating to abolition of zamindaries. Higher revenues from land and from ancillary levies, such as cesses and water taxes, may not be depended upon if New Delhi is sincere about implementing its land policy. Far more debatable is the Commission's assumption that the yields from sales taxes can be raised by " wider coverage and better administration',' of these levies. For one thine;, increased indirect taxation will make the whole tax structure more regressive. And, apparently, the Commission conveniently .ignores that, from April 1952 the States powers and authority to levy multiple sales taxes have been restricted, under the Constitution in order to ensure free flow of inter-State commerce and industry.

,. Doubts about the Unions and the States' revenue position, as envisaged by the Planning Commission, have relevancy in view of the two major items included in the balance-sheet for the financing of the plan. While the Union Government is expected to provide Rs. 118 crores during the live years out of " resources normally set apart in the Revenue Account for development expenditure," the Planning Commission expects the States to provide as much as Rs. 275 crores, or a little less than a half of the total development expenditure of the States, from this sum. It is, therefore, obvious that the Commission's estimates of expenditure on the plan is based on assumption of future revenue yields which are, to say the least, optimistic.

Consider now, the Commission's estimates of loan receipts. Its explanations are based on the assumption that though the Union Government may not succeed in raising loans, the States will have a better chance in exploiting local patriotism for securing local loans. That is why the Commission assumes that the Union Government will procure only Rs. 34 crores out of loans while the States will be able to net in Rs. 79 crores through loans in the next five years. The aggregate loan estimates may not be optimistic, but the possibility is that the Union may exceed the target while the States may not reach the quota. This will, of course, raise the problem of further assistance from the Union to the States for defraying the latter's development expenditure.

More debatable is the estimate of the Union's receipts from small savings and unfunded debt at Rs. 275 crores. This year's budget provides for Rs. 43 crores from small savings; this estimate is generally regarded as optimistic, especially in view of the increase in taxation. It would be more realistic to assume annual small savings at Rs, 28 crores, the budget estimate for 1950-51. At this rate, small savings will provide Rs. 150 crores during five years. For more than a year, the Government has not entered the short-term money market; the floating, unfunded debt (as distinguished from inter-departmental transfers which are taken into separate consideration by the Commission) may not exceed Rs. 50 crores—that is, net receipts from such loans—in the next live years. Estimates under this head at Rs. 275 crores may exceed actuals by Rs. 50 to Rs. 75 crores. Even on a very liberal estimate, the Commission's combined figure for revenues available from Capital Account for development to the Union and the States may be an over-estimate to the extent of Rs. 100 to Rs. 125 crores.

A detailed examination of the Commission's estimates indicates that it may not only be unwise to depend on the whole of the Rs. 290 crores of external resources to avoid deficit financing of the plan, but the Commission's calculations of financing internal resources may go wrong by approximately Rs. 200 crores. It may be unavoidable to finance even the first instalment of the first Five Year Plan without incurring a minimum deficit expenditure of Rs. 200 crores. This is not to frighten away the people to emphasise that even the modest plan outlined by the Commission cannot be financed without resorting to deficit financing, but to emphasise that the inflation involved in such deficit financing is not so heavy as to cause alarm or to slow down the tempo of the plan.

Fertiliser Factory

The Sindri Fertiliser Factory is expected to go into production on Derpavali Day this year, according to information released to the Press by the Government of India. During the first 12 months the production of ammonium sulphate is estimated at 1,75,000 tons, while the production of the installed capacity of three and a half lakh tons is expected to be reached by the latter half of 1952.

World Bank Mission to Egypt

The International Bank for Reconstruction and Development, at the invitation of the Egyptian Government, is sending a mission to Egypt to examine projects including irrigation, hydro-electric power development, and fertilizer and steel plants in the area of Aswan. The mission will also discuss with the Egyptian authorities the methods of financing proposed investments in Egypt.

Joseph Rucinski, Chief of the Loan Department's Asia and Middle East Division, will head the mission, which is scheduled to arrive in Cairo before the end of this month,