Salient Features of the Plan

THE PLAN, *has been drawn up with four fundamental objectives:*

(a) A sizeable increase in national income so as to raise the level of living in the country; (b) rapid industrialisation with particular emphasis on the development, of basic and heavy industry; (c) a large expansion of employment opportunities; and (d) reduction of inequalities in wealth and income and a more even distribution of economic power.

THE object of planning in India is to implement the social and economic policy which is embodied in the Directive Principles of State Policy in the Constitution and which has been reflected recently in the enunciation of the Socialist Pattern of Society as the objective placed before the country. Implementing such a policy implies primarily the .raising of living standards In the country and for this purpose the generation of a dynamism in the economy which will lift it to continually higher levels of material well-being and of intellectual and cultural achievements.

Standards of living in the country are very low. "There are large areas which are underdeveloped even in relation to the rest of the country and there are classes of the population which are almost untouched by modern progressive ideas and techniques.'* Since speed is, therefore, essential, the Commission stresses that, "for several plan periods to come, it is on the mobilisation of the effort rather than on the gains and returns arising therefrom that attention has to be concentrated.''

Economic development is intended to expand the community's productive power and to provide the environment in which there *is* scope for the expression and application of diverse faculties and urges. But the task before an underdeveloped country is "not merely to get" better results within the existing framework of economic and social institutions but to mould and refashion these so that they contribute effectively to the realisation of wider and deeper social values." These values are summed up in the phrase "socialist pattern of society."

The Approach

The Planning Commission has expounded this approach at some length. Essentially, it says, "this means that the basic criterion for determining the lines of advance must not be private profit but social gain,, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution and investment and in fact all significant socio-economic relationships—must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged classes of society and there should be a progressive reduction of the concentration of incomes, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organised effort is enabled to put in his "best in the interests of a higher standard of life for himself and increased prosperity for the country,"

Sphere of the State

It is the implementation of this policy in a situation in which large scale production and a unified control and allocation of resources in certain major lines of activity becomes essential because of the use of modern technology that makes necessary an increasing measure of economic activity by the State. The Commission insists that "in the rest| of the economy conditions have to be created in which there is full scope for private initiative and enterprise either on an individual or on a co-operative basis."

There is an interesting analysis of the key factors in economic growth. These are the rate of growth of population, the proportion of the current income of the community devoted to capital formation, and the return by way of additional output on the investment thus undertaken. On the basis of various assumptions regarding these three the Planning Commission has presented a picture of the growth of the economy which it visualises during the next few Plans. In terms of this projection national income is likely to be doubled in 1967-68 and per capita incomes would be doubled by 1973-74.

The changes in national income, investment and consumption indicated in the Plan will also be accompanied by far-reaching changes in the pattern of economic activity. One of the principal areas in which such a change in pattern will be seen is *the* occupational structure in India. There has been no substantial change in the occupational distribution of labour over the last three or four decades. Agriculture and allied pursuits absorb about 70 per cent of the working force, mining and factory industry absorb only 2.6 *per* cent. Small enterprises including construction take up some 8 per cent, about 7 per cent of the working force is engaged *in* transport, communications and trade; public administration, professions and liberal arts and domestic services account for over 10 per cent.

This shows clearly that the secondary and tertiary sectors have not grown rapidly enough to make an impact on the primary sector. Since the net output per worker in agriculture and allied pursuits is at present barely one-fifth of that in mining and factory establishments and one-third of that in the trade and services sector, a change in the occupational pattern is essential even to increase the per capita national income. As the Planning Commission points out. "Development involves a Transfer of a part of the working force from agriculture to secondary and tertiary activities, but this, in turn, presupposes an increase in the productivity in agriculture itself, if the food and raw material requirements of a developing economy are to be met.''

Change in Occupational Pattern

The objective of policy from the long-term point of view should, clearly be to keep to the minimum further increases in the working force in agriculture. In this sector, effort has to be concentrated on falsing productivity and incomes rather than on increasing employment in terms of numbers. Similarly, the Commission concludes that there is little scope for increasing the working force in traditional small scale industries, which are already burdened with excessive numbers. "The bulk of the new employment aportunities", the Commission says, "have therefore, to be found in mining and in modern industry, large-scale as well as small-scale, in construction and in tertiary occupations." While some increases in the labour force in agriculture cannot be prevented for some years, the object is to bring down the proportion of the agricultural labour force to 60 per cent by 1975-76. A four-fold increase In the numbers engaged in mining and factory establishments has to be brought about, and the investment pattern in the plans has to be adjusted to these requirements.

Fundamental Objectives

The Plan has been drawn up with four fundamental objectives:

(a) A sizeable increase in national Income so as to raise the level of living in the country;

(b) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(c) a large expansion of employment opportunities; and

(d) reduction of inequalities in wealth and income and a more even distribution of economic power.

These objectives are inter-related. The achievement of a rapid increase in national income is dependent upon the expansion of the industrial base. The promotion of basic industries like steel, machine building, coal and heavy chemicals are therefore given primary importance under the Plan. The need for a solution of the problem of unemployment in the country complicates the position in this respect, considerably. The provision of employment is a need in itself, it does not necessarily follow from the first two objectives. It is however necessary for the fulfilment of the fourth. That development should result in a diminution of economic and social inequalities and should be achieved through democratic means and processes is the basis underlying the approach to the Second Plan.

The fact that to some extent these objectives are contradictory has led the Planning Commission to indicate its view that, "excessive emphasis on any of them may damage the economy and delay the realisation of the very objective which is being stressed." The limitation provided by the scarcity of resources is of course the fundamental feature of the present situation.

As the plan aims at laying the basis for rapid Industrialisation in the future it lays considerable stress on heavy industries. As the Commission admits, however, investment in basic industries creates demands for consumer goods but it does not enlarge the supply of consumer goods in the short run; nor does it directly absorb any large quantities of labour. The utilization of labour for increasing supply of much needed consumer goods in a manner which minimizes the use of capital is therefore, an essential feature of the Plan. The Commission argues that though the cost of the product may be somewhat higher when labour intensive methods are used this may be justified by the need to absorb labour, which is an important objective in itself. It takes the view, however, that the sacrifice involved in consumption, which is inevitable while the economy is being strengthened at the base, will diminish as the economy expands. In the long run the community will get increasingly large returns.

The Plan is, therefore, claimed to be an employment oriented one. This implies, the Commission *says* "much more than determing the optimum scale of investment." The problem of employment, however, cannot be approached merely in overall terms. In its examination of the approach to the Plan the Commission stresses that the problem must be broken up in terms of sectors, regions and classes. Unfortunately this statement does not really find expression in the body of the Flan.

The Plan Is expected to provide employment opportunities for the new entrants to the labour force and to relieve underemployment in agriculture and *in* village and small-scale industries.

It is admitted that "The Plan will not have a sufficient impact on the tarry-over of employment of the earlier period," But since unemployment in an under-developed economy is only another aspect of the problem of development the Commission seems to be satistied that it is taking steps in the right direction so as ultimately to achieve a solution of the problem,

At the same time the Plan stresses that improvements in productivity are the pre-condition for the rapid growth of employment over the long run. Over a period the Commission asserts "The volume of employment grows only as the supply of tools and equipment on the one hand and of the wage goods on which the incomes of the newly employed can be spent is expanded," It is in this context that the Commission makes what appear to be contradictory statements, though they need not necessarily be s*o*. It urges on the one hand that "It is imperative that in a country with an abundant supply of manpower, labour intensive modes of production should receive preference all along the line." At the same time, it says that "It is nevertheless true that labour saving" devices in particular lines are often a necessary condition for increasing employment opportunities in the system as a whole."

The aim of the Second Five-Year Plan is to bring about a 25 per cent increase in national income. During the First Five-Year Plan the national income rose from Rs. 9,110 crores to Rs. 10,800 crores which meant a rise in per capita income of 11 per cent from Rs. 253 to Rs. 281. During the next five years it is anticipated that the national income will rise from Rs. 10,800 crores to Rs, 13,480 crores, while per capita income will rise by 18 per cent from Rs, 281 to Rs. 330. All these figures are expressed in 1952-53 prices.

To achieve these targets, the Plan proposes a total developmental outlay in the public sector of Rs. 4,800 crores and an estimated investment of Rs. 2,400 crores in the private sector. Though the investment in the Second Plan will be more than double that in the First Plan, the rate of growth of national income will not be doubled during this periqd. This is partly explained by the shift in the pattern of investment which is considered to be necessary in order to lay the foundations of industrialisation in the country. The shift in emphasis can be seen in the Table on the next page in terms of the proportions which are proposed to be spent on different items in the Second Plan as compared to the First.

The most striking change is the increase in the share of industry and mining from 7-6 per cent of the total public sector outlay in the First Plan to 18.5 per cent in the Second Plan. The other sector which shows an increase is transport and communications, whose share is increased from 23.6 per cent to 28.9 per cent. Since in each case these are proportions of a much larger amount in the Second Plan, it is clear that there is a very substantial increase in the amounts to be invested in these sectors during the Second Plan. The high investment in transport and communications must in fact be considered as a concomitant of the substantial step up of the investment in the industrial sector and more particularly of the shift in the pattern of industrial investment. The transport component of heavy industries is *wry* substantial indeed.

Corresponding to these increases in these two sectors, the other sectors show reductions. It should be clearly noted, however, that the absolute amounts to be spent in each sector are still higher than before. Agriculture and community development shows a fall from 15.1 per cent to J1.8 per cent, while irrigation and power shows a fall from 28.1 per cent to 19 per cent and social services from 22.6 to 19.7 per cent between the two plans.

The emphasis laid on industry and mining in the Second Plan is brought out still more clearly perhaps by a comparison of the absolute amounts, which show an increase from Rs. 179 to Rs. 890 crores. Apart from this, considerable investment is to take place in this sector on the part of private enterprise, the amount being Rs 575 crores not including some private investment in cottage and small-scale industries.

Of the total expenditure of Rs. 4,800 crores roughly Rs. 3,800 crores represents investment while Rs. 1000 crores is current developmental expenditure. It is this figure of Rs 3,800 crores of investment in the public sector that should in reality be compared with the private sector investment of Rs. 2,400 crores envisaged for the Second Plan. The investment in the private sector is thus to be stepped up from an estimated 1,600 crores to 2.400 crores. The total investment, public, and private is to be raised from 3,100 crores in the First Plan to 6.200 crores in the Second.

The scheme of financing envisaged for the public sector outlay of Rs 4,800 crores shows that external aid, deficit financing and the gap to he covered by additional measures to raise domestic resources cover exactly half the total planned outlay. In other words, the budgetary resources that can be raised through taxation, borrowing and other receipts amount to Rs. 2,400 crores.

Rs. 350 crores has been estimated as the surplus from current revenues at 1955-56 rates of taxation. In making this estimate which covers both central and State governments, "provision has been made for only minimum increases in expenditure under non-developmental heads such as defence and administration." The maintenance expenditure on social services and similar developmental items at the level reached by the end of 1955-50 has also been allowed for since expenditure of this type has not been included in the Plan. The Commission stresses that should non-developmental expenditure go up, or should there be any significant loss of revenue on account of the adoption of social measures such as prohibition, there will have to be a correspondinge effort simultaneously to raise further resources if this amount is to be obtained.

Additional taxation is expected to provide Rs 450 crores. In arriving at this figure "the recommendations of the Taxation Enquiry Commission have been taken into account." Borrowing from the public is expects ed to yield Rs. 700 crores as compared with the net absorption of securities by the market (including commercial banks) during the First Plan of Rs, 250 crores. Since Rs. 430

crores of loans mature during the period, gross borrowings over the period will have to be of the order of Rs. 1130 crores. The demand for funds by the private sector has also to be kept in mind In this connection and this is bound to be brisk in view of the private sector's investment programme in the Plan.

The Railway contribution is expected to be Rs 150 crores as compared to Rs 115 crores during the First Plan, while Rs 250 is expected to be obtained from Provident Funds and other deposit heads. The foreign aid or Rs 800 crores estimated under the Plan .should be compared to Rs 200 utilised during the First Plan.

This picture is not very bright. That is why the Planning Commission admits that "the Second Five Year Plan will .strain the financial resources of the country."

Looked at from another viewpoint also, the picture is equally depressing. Whereas the current developmental outlay in the public sector is Rs 1000 crores, the surplus from current revenues, plus the railway contribution together amount to only Rs 950 crores, "There is thus no public saving available," .says the Planning Commission "for financing the investment outlay of Rs, 3800 crores; there is in fact a dissaving of Rs. 50 crores. The entire capital formation of Rs. 3800 crores and a little more- will have to be financed by a draft on private savings." Allowing for the external aid and the drawing down of sterling balances by Rs. 200 crores, "the amount of current private savings within the economy to be channelled into public investment would work out at Rs. 2850 crores. Even if the gap is covered by public savings, the transfer of private savings to the public sector will have to be of the order of Rs 2450 crores.

The foreign exchange position is also likely to prove difficult during the Plan. The Commission makes a number of assumptions:

(a) That the terms of trade in the next five years will remain on an average, the same as they have been in 1950-56 (first nine months) and

(b) that inflationary pressures will be held firmly under control.

On these assumptions, exports are expected to rise from Rs 573 crores annually in 1956-57 to Rs 615 crores in 1960-61, while imports will rise substantially over the first four years, resulting in a negative trade balance of about Rs 1375 crores over the Plan period—or Rs 295 crores a year on average. After allowing for the surplus on invisibles, the deficit on current account works out to a total of Rs. 1,120 crores—or Rs. 224 crores a year. Drawing down of sterling balances by Rs. 200 crores-will cover a part of the gap. The balance of Rs. 900 crores remains to be covered. If the Rs 800 crores of foreign aid to the public sector and Rs 100 crores of private foreign capital envisaged in the Plan materialise, this gap will be covered.

Distribution of Plan Outlay

	First Plan		Second Plan	
	Rs. crores	% of total	Rs crores	% of total
AGRICULTURE AND COMMUNITY DEVELOPMENT	**357**	**15.1**	**568**	**11.8**
Agriculture	**241**	**10.2**	**341**	**7.1**
Agriculture Programme	197	8.3	170	3.5
Animal Husbandry	22	1.0	56	1.1
Forests	10	0.4	47	1.0
Irrigation	384	16.3	381	17.9
Power	260	11.1	427	8.9
Flood control and other projects, investigations, etc.	17	0.7	105	2.2
INDUSTRY AND MINING	**179**	**7.6**	**890**	**18.5**
Large and Medium Industries	148	6.3	617	12.9
Mineral development	1	—	73	1.5
Village & Small Industries	30	1.3	200	4.1
TRANSPORT AND COMMUNICATIONS	**557**	**23.6**	**1385**	**28.9**
Railways	268	11.4	900	18.8
Roads	130	5.5	246	5.1
Road Transport	12	0.5	17	0.4
Ports & Harbours	34	1.4	45	0.9
Shipping	26	1.1	48	1.0
Inland Water Transport	—	—	3	0.1
Civil Air Transport	24	1.0	43	0.9
Other Transport	3	0.1	7	0.1
Posts & Telegraphs	50	2.2	63	1.3
Other Communications	5	0.2	4	1.3
Broadcasting	5	0.2	9	0.2
SOCIAL SERVICES	**553**	**22.6**	**945**	**19.7**
Education	164	7.0	307	6.4
Health	140	5.9	274	5.7
Housing	49	2.1	120	2.5
Welfare of backward classes	32	1.3	91	1.9
Social Welfare	5	0.2	29	0.6
Labour and Labour Welfare	7	0.3	29	0.6
Rehabilitation	7	0.3	29	0.6
Special schemes relating to educated unemployment	—	—	5	0.1
MISCELLANEOUS	**69**	**3.0**	**99**	**2.1**
TOTAL:	**2556**	**100.0**	**4800**	**100.0**