Premises for Planning

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The middle-fifties was an important stage in the development of economic thinking in India.

It would not be far from the truth to say that, all things token together, considerably more important and worth-while work on our economic problems was done during the fifties than was done in the whole six-decade period from the eighteen-nineties to the mid-point of the present century.

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The major factor causing a stalemate in the discussions is that the growth models, as hitherto developed, do not answer—nor seek to answer—the basic questions and issues of planning economy. It is not suggested that these questions can at all be fully answered by economists. The emphasis is rather on the point that planning has no meaning, unless there is a major premise or an adopted policy postulated.

I

THERE has been a general complaint all around for some time that the discussions on the Third Plan have not produced any new line of thinking anywhere—neither among the Government economists, nor among those who should be able to take up independent lines of thinking. This stands in sharp contrast against the animated debate that marked the middle fifties when the First Plan was nearing its completion and the Second Plan was being drafted. To a large extent, the discussions at the time of the inception of the Second Plan arose from the provocation given to economists and policymakers by the attempt made by Professor Mahalanobis to build up a theoretical model specially applicable to the Indian economy and to derive the main planning premises as well as conclusions from this model. To some extent also, the debate of 1955-56 was stimulated by the large size of the capital expenditure projected and by the proposal for financing a quarter of the total public investment by inflationary borrowing from the Reserve Bank.

It was noticeable that while the debate on deficit financing and inflationary pressures soon became a continuous repetition of the same arguments and thus became a favourite subject for paper-setters in examinations, the Mahalanobis model provided a starting point for a number of able and intelligent studies of the basic problems of growth. There was the fact that the Mahalanobis model was set forth at a time when the younger generation of economists in India was just ready for something of this type. The Harrod and Domar growth models, effectively publicised only after the publication of Harrod's *Towards a Dynamic Economics* in 1948, were at that time being thoroughly discussed from many different angles,—with variations introduced by changing the time-lags or by opening up the models to international transactions including foreign borrowing. Dynamic growth models were not only becoming fashionable as well as respectable; there was, besides, a certain amount of aesthetic satisfaction in representing the economy in the form of elegant difference equations (which many discovered to be sometimes easier than differential equations). The discovery of the pedagogic value of the schematic diagrams of closed-loop systems led many teachers to further explorations and many of the younger economists to attempts at positive contributions.

It was again near about this time that attention came to be re-drawn to the classical problems of capital accumulation and technological choice. Lewis in his famous *Manchester School* article and Joan Robinson in her *Accumulation of Capital* established a clear link between the fundamental problems of a developing economy—whether Great Britain in the early nineteenth century or India in the mid-twentieth—and the types of problems which the now economics of growth was seeking to analyse through the various types of dynamic models. It is also possible that the presence of Mrs Robinson in India at the time the discussions were going on was itself a factor inviting attention to the classical nature of the problems of economic dynamics.

Another important factor was the increasing awareness among economists of the limitations of static welfare analysis. This led, on the one hand, to a search for a basis for establishing a minimum set of welfare propositions for an economy which has to take growth into consideration, and, on the other, to the opposite direction of concentrating attention on the purely technical aspects of the problem of investment criteria. It was somewhat unfortunate that the 'criterion analysis' was often made independently of any welfare analysis, resulting in the discovery simply of the necessary results of given or assumed capital-labour and labour-output co-efficients. To some extent all this was due to the increasing familiarity with the Soviet theoretical discussions on the criterion problem, in which given or' assumed technical ratios were the only important things and in which there was practically no discussion on the principles behind the choice of targets or of the time-horizon and allocation over time of the growth-paths of different outputs.

There was in addition the fact that statisticians and econometricians in India were becoming familiar with the techniques of input-output analysis and linear programming. The intellectual exercise provided by these, techniques often led to an unconscious brushing aside of the limitations of working with fixed co-efficients and linear equations in a rapidly growing economy. And there were cases in which the exercise was not even intellectual; the computing machine contributed immense powers to the quantitative analyst and it was not surprising that a large part of the analysis emanated not so much from the consideration of the real and human aspects of the problems as from the consideration of what the computing machine could be fed upon.

The important fact, however, was that the middle-fifties was art important stage in the development of economic thinking in India. One has only to compare the types of discussions that were common in the field of Indian economic problems before the Second World War, or even during it and the much more nature type that came to appear in the fifties. It would not be far from the truth to say that, all things taken together, considerably more important and worth-while work on our economic problems was done during the fifties than was done in the whole six-decade period from the eighteen-nineties to the midpoint of the present century. It is necessary to remember that the greatest stimulating factor in this was the experiment in planned economic growth, an experiment which presented problems in the raw and thus offered a challenge to the intelligence of the new generation of economists.

II

The momentum gathered in the fifties is still working in a number of fields, but it is clearly noticeable that there has not been in the recent months anything like the break-through one saw at the time the Second Plan was being prepared. One easy explanation would be that the field has been more or less fully worked out and that we know broadly where we are. The only remaining gaps, according to this explanation, are quantitative data — production data, input-output data, data about the rates of change and so on and so forth; if these are. available in increasing variety and quantity, we can build up the framework of any plan.

A second explanation would be that excursions into the growth models have indicated their purely mechanical nature and consequently their limitations as working tools. The mathematics —- relatively easy, but looking formidable to those to whom a single rotational or operator symbol, or even an italicised letter, is a terror—can be put only in a very general form, the particular types of functional relations being either unknown or based on given co-efficients. All that can sometimes be forced is that there are consistent and meaningful solutions. The stage is thus left open to the econometricians, who can give a body to the equations. It is however realised that the forms given to the equations on the basis of observed or assumed data do not really represent what is wanted in a planning economy with a long-term perspective. There is the difficulty that the independently derived co-efficients may not *all* be realistic *together* in the same system, when some of the important values are changing. And, there is also the difficulty arising from the fact that it would be the deliberate purpose of planning to change some of the coefficients.

The major factor causing a stalemate in the discussions is that the growth models, as hitherto developed, do not answer—nor seek to answer —the basic questions and issues of a planning economy. It is not suggested that these questions can at all be fully answered by economists. The emphasis is rather on the point that planning has no meaning, unless there is a major premise or an adopted policy postulated. This postulate carries within it all the value-judgements of the community and thus gives the necessary shape to the forms of equations and defines the set of targets. It is easy to speak about a 'maximand', but it is also easy to forget the elementary index number problem involved in the definition of the maximand for the economy as a whole. There is a stage at which growth economics shades into welfare economics and one has to leave the mechanical world of technical inter-relations and move into the human world of what is most desirable among the feasible alternatives, or what is most feasible among the desirable alternatives.

It is easy these days to remind ourselves that the establishment of a major premise or a set of premises is not a purely economic problem, and. in any case, not an easy problem. It is not, however, always realised that non-technical issues and questions are often inextricably mixed up with the supposedly technical ones at almost every step. A good example is discussions based upon 'surpluses' in the agricultural sector providing resources for developing the non-agricultural sector. If a surplus is defined as the difference between the output in a particular line of agricultural production and given wages or given consumption levels in that line, and if given capital-labour-output ratios are taken for a line of non-agricultural production, the results can be easily calculated. Then, by varying the different values, within the range of freedom permitted by the system, one can find out various combinations of the two outputs possible in the system, subject perhaps to certain minimum and maximum constraints. From this it is possible to find out how the non-agricultural output can be maximised or at what outputs the two sectors will be at equilibrium. The question that remains unanswered is whether it is at all desirable to extract the so-called surplus from the agricultural sector.

The surplus of the agricultural sector can be conceived either on the basis of given levels of consumption in that sector or on the basis of some idea about the desirable levels of consumption. Either of these involves a major decision about the distribution of incomes and benefits arising from planned growth. It is interesting to note that both in the 'capitalistic' development of Great Britain in the early nineteenth century and in the socialistic development of Soviet Russia in the recent decades, the main emphasis was on the desirability of developing the non-agricultural sector. In Great Britain, it was the food problem of the new industrial areas that was the uppermost, and, in Soviet Russia, it was the deliberate policy of the government to extract as much as possible from the agricultural sector. In the both of these, the adopted policy postulate was weighted heavily in favour of the industrial classes and against the agricultural classes.

A surplus can be generated in agriculture by keeping consumption levels steady with an increase in output, or at least by preventing consumption in the agricultural sector from rising at a rate equal to the rate at which agricultural production is growing. In both of these, there is an implicit distribution hypothesis. It is, of course, possible to generate a surplus in agriculture by reducing the numbers dependent on it accompanied by a steady or increasing agricultural output. As long as the diverted agricultural population produces some net output elsewhere, a policy of this nature would be less open to objections than those mentioned above, but the problem of a distribution-postulate is not entirely eliminated. And, even if the policymakers proceed in a pragmatic manner from one practicable step to another, it is the duty of the economist to bring into the open the type of social welfare major premise that the adopted plan involves.

A closely-allied case in point is the proposal for taxing agriculture with a view to providing resources for the Third Plan. A decision to tax agriculture is a decision to reduce the current share of the present generation of agriculturists in the national income, with a view to[1] increasing the current share of other groups, and/or with a view to increasing the future incomes of all or some groups. There is no *a priori* reason why such a decision should not be taken, but it is often forgotten that there is no *a priori* reason why such a derision should be taken. It is possible that there would be general agreement in regard to the desirability of increasing the tax-burdens on the agricultural sector but it should be clearly recognised that there is a major income-distribution hypothesis implicit in what appears on the surface simply as a policy for raising resources for the public sector, or for securing a balance between aggregate demand and supply.

The neglect of the distribution problem is patent in such arguments as that the sector producing nearly 50 per cent of the national income is not contributing its share to the national exchequer. It is also surprising that in many cases the argument for taxing agriculture has been based on the presumption that there has been a large increase in incomes of the agriculturists. Even if the presumption is correct, there is still no knowledge about how the income increase has been distributed *within* the agricultural sector. What is more important is that there is no necessary welfare basis for the contention that the group that has received the largest absolute or relative increment in income is the group which should bear an increased share of the total costs of development It is easy to see that planned development will often mean a large increase in the incomes of the poorest groups, that many would consider this to be a desirable result of planning, that even after the increase in incomes, the poorest group may still remain in the lowost position in the distribution-scale, and that the increase May be very unevenly distributed within the group. If the agricultural sector has to be taxed, the arguments have to be that industrialisation is considered desirable and that is the society's judgement, that development should be financed by preventing a large rise in the incomes in the agricultural sector. The society can adopt the postulate that the groups that *are* relatively rich should bear a larger share of the tax-burden, It can also adopt the postulate that the groups that *have become* richer than they were should bear an increased share of the development costs. It is often forgotten that either of these is a value-judgement and that these two postulates are not identical.

III

We have now reached a stage at which the fundamentals should be clearly stated and fully considered. The First Plan was one of utilising excess capacities and of making good large and glaring deficiencies. It is almost certain that a referendum in 1951 would have almost unanimously supported the major aims of the First Plan and that we would have been able to get a democratically derived social welfare major premise. The problem of choice originates in the existence of, or potentiality for, variety, and at a stage where the elemental needs have been satisfied. The Second Plan did bring in the choice problem, but for a time the technological problem held the field and the more fundamental problems were kept in the background. It is time now that the economists went boldly into the problems of inter-personal distribution. time-horizons and inter-temporal distribution.

It should not be possible for the economists to escape from their responsibility by holding that a decision about inter-personal and inter-temporal distribution is not a purely economic decision. Arguing on that, line, the political scientists, the politicians, or the technicians could all escape the responsibility for decision-making. The facts are that decisions have to be made and that it would be better to make the decisions consistent among one another and with some major premise than to proceed gropingly from one step to another. The economists with their training should be able to contribute somewhat more than those without the training. If non-economic variables are important, there is the economic problem of choosing among these non-economic variables, i.e., of deciding which of the non-economic variables should be given priority. Even if the economist cannot do anything else, he can serve by constantly emphasizing the need for having a major premise — incorporating inter-personal and inter-temporal income distribution targets—right in the forefront when policy decisions are adopted.

There is a vaguely effective distribution, hypothesis in our plans, originating from the ruling political party's resolution on the establish' ment of a socialistic pattern of society. It has not, however, been clearly recognised that there is an infinite number of ways in which income-inequalities can be reduced, and again an infinite number of alternative time-rales at which income-equalisation can be brought about. And, in actual policy formulations, it is the question of raising resources that has often been given priority. Commodity targets have been laid down on the basis of some sort of an 'essentiality criterion', but it has not been realised that the definition of essentiality begs the whole question of the social welfare function. The inter-temporal analysis undertaken so far has been little more than a statistical projection of certain broad categories over a period of the next 10 or 15 years.

It is, of course, possible to go too far in the opposite direction. There is no reason why a major premise, once adopted, should be rigidly adhered to at all costs. There should always be scope for recognising changes in the structural and institutional setup and in attitudes and preference-patterns, and there should further be scope for recognising the errors of judgement previously committed. But there must be at any point or period of time a welfare premise in terms of which the details are to be worked out and the progress evaluated and the failure to work out its inter-personal and inter-temporal distribution implications, may lead to many difficulties, including the setting up of mutually inconsistent targets.

This danger is real in India, where it is generally held that agricultural outputs should be increased, that the price of food to the non-agricultural population should be low, that the agriculturist should get an incentive for his work, that he should bear a large share of burdens of development, that his income should be increased, and so on and so forth. The problems arising from these inconsistent targets can be easily solved in a totalitarian economy. But in a country in which the weapons of a totalitarian economy are not available, one has to decide on many questions, all involving decisions on the desired changes and rates of changes in income-distribution.

The answers to these questions involve difficulties. Apart from the Index number problem *in* the definition of the desirable output-mix, there is the fact that the future is not just a block alternative to the present. There is an infinite variety of futures—alternative bundles of alternative time-paths of different outputs of different lines of production, with the associated alternative time-pattern, of changes in the income distribution. And, besides, the time-paths all spread into the infinity. The first essential for bringing everything into manageable proportions is to consider the problem in terms of specified time-horizons. It is possible to take a very long view—the historian's view in the reverse gear—remembering that fifty years or a century is nothing in the history of a nation. It is alternatively possible to proceed on the basis that the results of planning—in terms of consumer goods-should be enjoyed by the majority of the present working force in their own lifetime. In that case, the appropriate time-horizon should be 15 years or thereabouts. It is of course possible' to take—as is often done—an election-to-election view, which will put a premium on short-gestation projects. Generally, of course, it is a mixture that would be found to be operative, but here again one comes face to face with the desirable time-mix of the projects included in the plan.

IV

The economist can be of real help in providing the analytical framework for bringing together the alternative feasible social welfare postulates and the technical requirements of the different types of plans. In fact, he is qualified only for this, and it is not surprising that he can be no belter than pedestrian when offering advice on specific problems of taxation or raising resources or selecting projects. The fact that the economist cannot offer a unique or satisfactory answer to the problems raised by him is not the important point. What really is important is that the complex of issues should be sorted out. and one should be able to specify exactly where non-economic elements enter into the economic problems, what these non-economic elements are and what are the implications of the different degrees of importance attached to particular non-economic variables.

Welfare economics hag for a long time engaged itself in the rather sterile field of the static allocation problem. It is now relatively easy to state the conditions of optimisation and one knows where the economist *qua* economist has to stop. There is, however, the immense field of economic growth whose welfare economics—in the form of a theory of economic policy—can make valuable contributions, even if these sometimes consist in indicating certain limits and limitations. There are fields in which the first essential is to pose the questions logically and accurately. One notes that many of these questions have not yet been asked in India and that a considerable amount of hypothetical matter has often been taken for granted.

The basic problem of income distribution has not yet been studied in India either by statisticians or by economists, despite the fact that there has been a fairly large volume of theoretical work on the problem of the interrelation between income-growth and macro-economic income distribution. Little is known, here about income-distribution by sectors and there is practically no information about intra-sector distribution. The discussions in terms of broad sectors naturally raise the question of inter-sector income distribution, and policy conclusions regarding the distribution of planning costs require information about the intra-sector position as well. Now that many of the regional and city surveys have been completed, there should be an encouragement of statistical and economic investigation of the problem of income-distribution. The work is one largely for the statisticians, but economists can also help considerably in interpreting the data and in analysing the probable economic effects of the changes in distribution brought about by planned development, by taxation, or by the deliberate adoption *of* particular types of distribution policies.

There are other problems also, some of them of wider importance. Take, for example, the question of the welfare-significance of a widening of the field of choice available to the consumers. The question was not of much importance under the First Plan, but it is obvious that with the increase in the variety of consumer goods produced in India, the question is becoming important, There is, similarly, the question of the welfare significance of expanding employment *per se.* There have been proposals for the adoption of unorthodox methods for creating employment—if necessary, at wages below the market rates. If other choices are available, there is some contribution that the economists can make in bringing the issues into clearer light. There are, besides, all the problems relating to the generation of sectoral surpluses and those regarding the distribution of the costs of development among different groups of persons and over different periods of time.

The economists who have been analysing various types of growth models can easily go one step further and introduce income-distribution explicitly in their models. One can enquire, for example, what happens to a particular multi-sector growth model, where We have not only certain technical and behavioural relations, but also certain distribution goals to achieve, and when we know that distributional changes may be causes, effects, targets and also instruments of policy. One easy way out would be to suggest that the problem of distribution is one that the state can lake up independently of any other consideration. But as long as a distribution pattern and the process of changing it have effects on productivity, such a clear-cut separation is inadmissible in an analysis of the theory of economic policy.

The Third Plan will in many ways be a technical follow-up of the second, and one might say that with the tracks already laid down, there is not much that the economist can say on the technical side. But this need not inhibit in any way the analysis of many of the basic problems of economic growth that have not yet been studied in the Indian context. There is. therefore, a provoking challenge before the economist in India and it should be possible to hope the discussions on the problem of economic development will run along many new lines in the coming years.