Our Delhi Letter

Planning for a Minimum Level of Living

THE guiding objective of planning should be to ensure a minimum level of living by the end of the Fifth Plan. This is the view taken by the Perspective Planning Division in a recent paper. In deciding the minimum income objective, the paper points out, a balance has to be struck between what is desirable and what is feasible. For instance, food requirements on the basis of the balanced diet recommended by the Nutrition Advisory Committee together with a modest consumption of other items would cost Rs 35 per head per month. The assurance of this standard would necessitate a rate of growth of 10-12 per cent per annum, which would be hardly feasible. Hence the objective set by the Perspective Planning Division is the attainment of a minimum per capita consumption expenditure of Rs 20 per month by 1976. This modest minimum was recommended by a non-official Working Group set up by the Seminar on Some Aspects of Planning. It has been accepted by the Perspective Planning Division after considering, among other things, past 'achievements, the experience of the Third Plan so far, our capacity to mobilise domestic resources and foreign exchange of the requisite magnitude, our ability to realise an adequate rate of growth of farm output and to design, construct and operate large, complex projects.

Modest as the objective is. at present half the population does not enjoy even this minimum standard. This may be seen from Table 1 which throws some interesting light on the. present pattern of income distribution. Mere .redistribution of current output, nowever drastic, would not improve the situation materially. On the contrary, such redistribution would certainly affect savings adversely. Resides, a certain degree of inequality — which cannot be precisely determined — is necessary for sustaining incentives. What is necessary to achieve the minimum standard of consumption is a very considerable increase in the size of the total product. Some redistribution will be both desirable and necessary,

The distribution of income follows a remarkably similar pattern, even in countries at very different stages of development and with varying socio-political environments. The similarity is especially marked in regard to the proportion of income earned by the lowest three or four deciles of the population. It follows that as an economy develops the incomes of ail sections of its population rise more or less in proportion to the increase in the total income. The attainment of a specified level of minimum income within a given period then becomes purely a function of the rate of growth of total income. At least this would be the position in an integrated economy, in which the effects of development are transmitted more or less automatically throughout the system. But when the economy is loosely integrated, as India's, the effects of economic development will not automatically percolate to the poorest segments of the population. Some 20 per cent of the population, it is assumed, would fall into this category. In the remaining 80 per cent which would benefit directly from the development of the economy there would be some accentuation of income inequalities. The proportion of high incomes, both from property and work, would tend to increase in the sectors requiring more investment in capital and technical personnel. As against this, the wages of unskilled labour would remain depressed because of leas than full employment. But a force correcting inequality would also be operative. Since the greater part of the new investment would be in the public sector, a reduction in concentration of property incomes in the private sector could be expected. On balance, it is assumed that the distribution of income within the upper 80 per cent of the population in 1975 will not be very different from the present pattern.

Seven Per Cent Growth Target

To achieve the goal of a minimum level of living, therefore, there has to be an increase in the incomes of all sections of the population together with a degree of redistribution that would not affect continued growth. The paper sets down a growth target of 7 per cent per annum. With this rate of growth, the national income in 1975-76 (at factor cost) would be Rs 34,220 crores at 1957-58 prices. (These prices have been adopted to facilitate the use of the latest data on input-output relationships). The macro-economic relations which would prevail at this level of income are given in Table 2.

As for the required degree of redistribution, the average con-

Table 1 : Distribution of Income and Consumption — 1960-61

Decile of Population	Percentage Distribution of income	Percentage Distribution of consumption	Maximum Value of Consumption in the Group (*Rs per capita per month*)
Lowest	2.4	2.98	9.6
Second	3.4	4.45	12.6
Third	4.3	5.56	15.2
Fourth	4.8	6.61	17.9
Fifth	6.3	7.74	20.8
Sixth	7.8	9.00	24.3
Seventh	9.2	10.54	28.6
Eighth	10.6	12.57	34.6
Ninth	14.5	15.69	45.1
Tenth	36.6	24.86	62

Table 2 : Macro Economic Relations — 1975-76

	(*Rs crores at* 1957-58 *prices*)
Net national product at factor cost	34220
Gross national product at factor cost	37050
Add Indirect taxes	2790
G N P at market prices	39840
Minus Exports	1270
Plus imports and interest payments	1190
Gross domestic expenditure	39760
of which :	
Gross capital formation	9270
Public consumption	3300
Private consumption	27190

Assurance of Minimum Level of Living

sumption of the lowest two deciles of the population would have to be doubled; the consumption of the top 20 per cent of the population would also rise, but only by 30 per cent. The precise manner, in which this is to be achieved is, however, not indicated.

The composition of final demand for 1975-76 is estimated from the total consumption and the pattern of its distribution (see Table 3). Per capita expenditure on food items as a whole is expected to increase by less than 50 per cent over the 1960-61 level. Demand for manufactures will be more than doubled, and that for services increased by nearly 75 per cent. Significant shifts in the pattern of demand within each of these major groups are also indicated. In the food group, the demand for milk and milk products, oil and sugar will rise much faster than the demand for foodgrains. Among manufactures, clothing will continue to be the most important item, though the rate of increase in expenditure on clothing will be relatively low. The demand for durables is expected to increase nearly four-fold.

Demand Pattern

Consumption (private and public), investment and exports account for only a part of the total demand for goods and services in the economy. A variety of goods and services are needed in the process of production and distribution. The demand for these intermediate uses is determined by the composition of final demand on the one hand and the prevailing input-output relations on the other. On this basis, the levels of output of some of the more important products required in 1975-76 arc estimated. Consumer goods like textiles and soap would have to increase 2½ times over the 1960-61 level. But the output of coal and petroleum products would have to increase fivefold; electricity. cement and chemicals six-fold; and steel and machinery more than twelve-fold.

Any exercise in projection has to be based upon various assumptions. Here, for example, it is assumed that the pattern of expenditure in 1975-76 would be the same as in 1960-61; that the reliance on foreign assistance would cease totally by 1975; and that half of additional exports would be minerals and new manufactures. It is assumed even more unrealistically that the imports of foodgrains would be drastically curtailed. (Imports of agricultural products are anticipated to go down from Rs 320 crores in 1960-61 to Rs 155 crores in 1975-76). Finally, while technical co-efficients of production have been used with suitable modifications for likely . technological changes, the quality of the results obtained must necessarily reflect the lack of adequate data and the uncertainty regarding future developments.

A structural change in the economy is naturally implied in a perspective of development that anticipates a three-fold increase in the national income. The contribution of all sectors to the total product would increase substantially by 1976 but their relative importance would change. The primary sector, which provided 46 per cent of the total national income in 1957-58 would account for only 37 per cent in 1975-76 while the importance of the secondary sector would rise correspondingly from 19 per cent to 27 per cent. The share of the tertiary sector would remain more or less unaltered.

But What about Employment?

There is one other crucial consideration. Consistent with the income objective and the required rate of growth, will it be possible to provide employment to the entire labour force? At an assumed rate of increase of productivity of 4 per cent per annum in agriculture and small industries and 5 per cent in mining and manufactures, the additional jobs available would be only 25 million, which would leave some 50 million new entrants to the labour force unemployed. These persons would have to be absorbed in construction, trade and services, but only at the risk of lowering their productivity. The position of this group, relative to the others, will worsen. The 7 per cent rate of growth will not, therefore, solve the problem of unemployment in a manner consistent with the minimum income objective.

To finance the requisite investment, the public sector will have to become an important source of saving. Its savings will have to increase from 0.3 per cent of national income in 1960-61 to 10.4 per cent in 1975-76. The private corporate sector will have to retain a larger proportion of its profits after tax, raising its savings from 0.7 per cent of national income in 1960-61 to 1.1 per cent in 1975-76. Personal savings will also have to increase from 7.1 per cent to 8.6 per cent. This would imply a marginal propensity to save of about 10-12 per cent.

Table 3: Pattern of Household Consumption — 1960-61 and 1975-76
(At 1957-58 prices)

Items	1960-61		1975-76		1975-76 as per cent of 1960-61	
	Total Consumption (*Rs million*)	Per capita Consumption (*Rs*)	Total Consumption *Rs million*	Per Capita Consumption (*Rs*)	Total Consumption	Per Capita Consumption (*Rs*)
Food	**66,900**	**153**	**137,700**	**220**	**206**	**144**
Foodgrains	35,100		62,100			
Milk and Milk Product	10,500		28,400			
Fruits & Vegetables	4,300		9,900			
Meat, Egg & Fish	3,500		8,300			
Oil	3,300		7,700			
Manufactures	**21,000**	**48**	**62,000**	**99**	**295**	**207**
Clothing	11,300		31,200			
Durables	3,200		11,400			
Services and Others	**30,000**	**68**	**74,000**	**119**	**247**	**173**
Total	**118,000**	**269**	**273,800**	**438**	**282**	**163**