Resources for the Third Plan

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

—Eugene Black

President, World Bank

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India has now been living under a planned economy for the last ten years. The Third Five-Year Plan will begin from April 1, 1961. Several vital considerations govern the framing of a Five-Year Plan. Some of them may be briefly summarised as under:

What are the objects which the planned economy seeks to achieve? (a) The establishment of a "socialistic pattern of society." (b) The removal of inequality of income and wealth. (c) Solving the question of unemployment. (d) Raising the standards of life — increasing both the national and the *per* capita income — raising both production and productivity.

It is proposed to deal here with only one important aspect of the Plan, viz., the raising of the resources, both internal and external.

Before I do so, I should like to point out some of the important lessons which the Second Five-Year Plan has brought home to us. We all realise what an enormous strain and stress our national economy has been bearing for the last five years. People have suffered under the oppressive burden of rising prices reducing substantially the purchasing power of the Rupee. India has been passing through an acute crisis of foreign exchange. Industries have not got fully or in time the raw materials and component parts which they need for their economic and efficient working.

The first lesson that we have learnt is that there should not be a large difference betwetn the estimated and the actual cost of some of the projects of the Plan. For instance, while it was estimated that the three Steel Plants would cost about Rs. 300 crores, it is now estimated that the cost would go up beyond Rs. 620 crores: It is, therefore, essential to ensure that such a policy of estimating does not govern the Third Five-Year Plan.

The second lesson which has been brought home to us is that there should not be a wide gap between the estimated quantity and the actual quantity of foodgrains to be imported into India. Although the Second Plan estimated that only 36 lakhs of tons of foodgrains would have to be imported in the first three years of that Plan at a cost of about Rs. 144 crores, the actual quantity imported went up to 96 lakhs of tons at a cost of Rs. 444 crores. The country had, therefore, to find an extra finance of Rs. 300 crores during the first three years more than the amount provided in the estimates. Planners have to remember that such a wide gap between the estimated and the actual finance required would defeat the very fundamental object of planned economy.

The third lesson which the Plan has taught us is that the enormous rise in the estimated and the actual adverse Balance of Trade not only upsets planned economy, but creates also a developing foreign exchange crisis. It will be interesting to note that while the Second Plau estimated that the adverse Balance of Trade would work out at Rs. 275 crores per year, the actual adverse Balance of Trade during the first three years came to a little more than Rs. 1,500 crores, as against the estimated figure of Rs. 825 crores. This meant a rise of over Rs. 700 crores in three years. It is not difficult to realise what an intolerable strain this large adverse Ealance would put on the economy of the country. It will, therefore, be agreed that the estimates of the Third Plan in this connection should be based on a more carefully calculated data bearing in mind the realities of the situation.

The fourth lesson which we have always to bear in mind seriously is that there should not be a tremendous difference between the estimated amount of foreign exchange required to finance the projects of the Plan, inclusive of the withdrawal of the Sterling Balances, and the actual aid that had to be sought and the actual withdrawals that had to be made from the Sterling Reserves.

The Second Plan estimated that India would need about Rs. 1,100 crores, by way of external assistance. The Public Sector would need the sum of Rs. 800 crores and the Private Sector would need the amount of Rs. 100 crores of external assistance. With the withdrawal of the Sterling Balances to the extent of about Rs. 200 crores, India would be able to secure Rs. 1,100 crores, by way of foreign assistance, estimated in the Plan: What has, however, been the actual position in this connection? According to the "Economic Survey — 1959-1960" the amount of external assistance made available for utilisation during the Second Plan up to 31-12-1959 came to Rs. 1,476.26 crores. Aid authorised since then has come to Rs. 194.89 crores. And the aid which is likely to be received till the end of the Second Plan is calculated at about Rs, 100 crores. Of this, the amount of Rs. 114.43 crores has been earmarked for U.S. Embassy and mutually agreeable loans to U.S. and Indian Firms from P.L. 480. The balance of the external assistance, which will, therefore, be available for utilisation will be Rs. 1,656.70 crores as against the sum of Rs. 900 crores estimated in the Second Plan. Further, while the Plan estimated that India would have to withdraw only the sum of Rs. 200 crores from the Sterling Balances, the actual amount withdrawn till the end of September last came to Rs. 606 crorer. It will, therefore, be noted that as against the estimated amount of external assistance of Rs. 1,100 crores, inclusive of the withdrawal of the Sterling Balances, the amount that would be actually available would be Rs. 2,262.70 crores. There has thus been a more than 100% rise in the estimate made in the Plan. India cannot afford to ignore this serious lesson which the Second Plan has taught her. The country has now got no Sterling Exchange Reserves to fall back upon. It, therefore, becomes the special responsibility of the Planners to see that the estimates in connection with the external assistance do not go wrong.

The fifth lesson is a grave warning to the country, which it can only ignore at its own peril. That lesson is that the people should be always vigilant and put forth herculean efforts to prevent the Government from frittering away the resources which they specifically raise for financing the projects of the Plan, in expenditure which has nothing to do with the Plan itself. This post objectionable tendency on the part of the Government has been persisting all these years since India began to work under planned economy. Let me quote from official documents confirming the existence of this tendency of spending the finance raised specifically for planned economy, for non-Plan objects. The Review of the First Five-Year Plan states:

> "Of the increases in revenue, a considerable proportion has been taken up by the increase in non-development expenditure. Thus, of the increase of Rs. 187 crores in public revenues in 1955-1956* as compared to 1950-1951 as much as Rs. 110 crores was absorbed in non-development expenditure, the balance left for development expenditure being therefore only Rs. 77 crores."

The Economic Survey (1958-1959) has made the following admission:

> "Public revenues have increased significantly over the last three years, partly as a result of the tax measures adopted and partly in consequence of the rise in money incomes. *The proportion of public revenues to national income has gone up from* 9.1 *per cent in* 1956-57 *to about* 10.1 *per cent, but this rise has bren absorbed, more or less by the increase in non-development expenditures.* In consequence, the reliance on borrowing from the public, from the banking system and from abroad for financing the Plan has tended to increase".

(italics by the author)

Thus 1% of national income is diverted from planned economy to purposes which have nothing to do with the Plan. This would come to the huge amount of Rs. 120 crores per annum. Can India allow the Government to divert such huge sums from Plan to non-Plan purposes? Eternal vigilance is the price both of political and economic stability. And none of us should forget

*Revenue receipts in 1950-51—Rs. 780 crores:
in 1955-56—Rs. 967 crores:
Increase in revenue Rs. 187 crores:

this principle of experience while we live under planned economy and growing controls.

Let me now refer to the serious warning which has been sounded by the Estimates Committee of the Parliament, in its 92nd Report.

> *"As* the net additional receipts accruing to the Centre from such additional measures of taxation and from better collections from existing sources of revenue comes to Rs. 792 crores, it would appear that *the balance of about Rs.* 604 *crores of additional revenue raised has been absorbed by increases over the Plan estimates in the non-Plan expenditure."*

(italics by the author)

The Committee has been compelled to tender the following advice to the Planning Commission:

> "In view of the phenomenal rise in non-Plan expenditure in spite of the reasonable size envisaged by the Planning Commission in the direction, it would be most desirable for the Planning Commission to have a special study made of the disproportionate rise and make suitable suggestions to see that such expenditure is kept under control and will not expand in the Third Plan as it has done during the Second Plan period."

In spite of this friendly advice by a responsible body like the Estimates Committee, not a word has been said by the Planning Commission on this very serious aspect of the resources in the Draft Outline for the Third Plan.

It will also be observed from the above authoritative quotations from official documents that the amount frittered away on non-Plan expenditure in 1955-56 came to Rs. 110 crores and the amount frittered away on non-Plan expenditure out of taxation raised specifically for Plan projects at the Centre only would come to, during the Second Plan, Rs. 604 crores. What a tragedy! Over Rs. 700 crores, raised specifically for the Plan projects, diverted from the Plan to non-Plan expenditure during the course of six years. Even with the best will in the world to co-operate with the Government in the working of planned economy, we cannot afford to ignore these lessons when we consider the question regarding the Resources for the Third Plan.

Let me take up the question of different sources from which resources are proposed to be raised for the Third Plan. Before I do so, let me deal with two fallacies which persist in the country. The first is that there is only one pool of savings from which both the Public and the Private Sectors have to draw for their requirements. That is not strictly correct.

Taxation and Deficit financing are two special sources available to the Public Sector. They are not available to the Private Sector at all. During the First Plan period, the activities of the Public Sector were financed to the extent of Rs. 575 crores from taxation and to the tune of Rs. 531 crores by way of deficit financing. In other words, 55% of the total outlay of Rs. 2,012 crores was raised by the Public Sector from taxation and deficit financing, not available to the Private Sector. During the course of the Second Plan, it has been estimated that taxation at the Centre and the States would bring about Rs. 1,270 crores. In other words, 53% of the total estimated outlay of Rs. 4,600 crores in the Public Sector will be financed out of taxation and deficit financing, which the Private Sector cannot dream of raising for its requirements. The path of the Public Sector is strewn, therefore, with a bed of roses which can never be available to the Private Sector. It is true that the pool of resources is fed by several rivers. But we should not forget that that portion of the pool, which is fed by the rivers of taxation and deficit financing is not available to the Private Sector. It is, therefore, not strictly correct that both the sectors can draw from the same pool of savings.

The second fallacy is the insistence that the country should look upon planned economy as a national sector. We are advised from all quarters that we should not deal with the Private Sector and the Public Sector as such. One wonders why such unsolicited advice has been given to the people. Let us realise the stark fact that even the Draft Outline for the Third Plan deals separately

with the Public Sector and the Private Sector. It was only the other day that the Prime Minister remarked at the A.I.C.C. meeting that the Private Sector had neither the capacity nor the mental approach to set up heavy industries because, in his view, it was obsessed with collecting quick dividend. I wish to emphasise the fact that those who advise us to look upon planned economy only as a national sector themselves differentiate, and differentiate mercilessly, between the demands of the Public Sector and the duties of the Private Sector. Even the Federation of Indian Chambers of Commerce and Indsutry, which has advised us to look upon planned economy as national sector, recently remarked:

> "The increased share that has been proposed for the Public Sector cannot be viewed with equanimity against the background of the Second Plan."

In view of such categorical statements, let us not be misled by the interested cry of the national sector which suppresses more than it reveals.

Now, I shall take up one item after another referred to in Table I — Financial Resources — given on page 47 of the Draft Outline of the Third Five-Year Plan.

The first source of finance for the Third Plan is "Balance from revenues on the basis of existing taxation". The receipt under this head has been put down at Rs. 350 crores. It is well known that the total additional taxation that was levied during the Second Plan period comes to Rs. 240 crores per annum. It is therefore, obvious that without taking into consideration the higher collection due to the rising tempo of industrialisation and the progressive economic growth in the country, this additional taxation would bring about Rs. 1,200 crores during the Third Plan to the Indian Treasury. Add to this, the expected receipts on the basis of taxation existinp on March 31, 1956, as calculated by the Estimates Committee referred to above. It has put down that figure at Rs. 496.8 crores. It will, therefore, be noted that without imposing the burden of any new taxation during the Third Plan period, the Indian Treasury would receive about Rs. 1,696 crores, as a result of the taxation which was levied for the specific purpose of financing the projects of the Plan and which held the field at the end of the Second Plan period. Instead of the sum of Rs. 1,696 crorcs being made available for the Third Plan, 'the Draft Outline has estimated that the sum of only Rs. 350 crores would be available to the Plan under this head of Budgetary Surpluses on the existing basis of taxation. These are important aspects of the question which we are considering and they should, therefore, merit careful and serious consideration. If such a large sum as Rs. 1,346 crores, out of the amount available by the existing taxation, is to be spent on non-Plan expenditure during the Third Plan period, it is bound to create an intolerable and unbearable situation for the economy of the country. It is a pity that such vital questions as these are not discussed in the Draft Outline for the Third Plan.

Let me now take along with this, the seventh item in Table I, viz. "Additional taxation including measures to increase the surplus of public enterprises". The amount shown under this head is Rs. 1,650 crores. Although the Planning Commission recognises the two aspects of the problem, viz. needs and practical possibilities, it holds the view that: "It is clear, however, that the Third Plan will necessitate increase in both direct and indirect taxation, as also measures to raise the surplus of public enterprises".

It further observes that: "Indirect taxes and increase in the prices of products of public enterprises will, it must be recognised, tend to raise prices and cost, ***but it*** is ***a part of the calculated sacrifices that have to be made".***

(italics by the author)

Let us understand the extent of the burden that is levied on the country. During the course of the Second Plan, the total amount of additional taxation that was levied on the country came to Rs. 240 crores per annum. During the course of the Third Plan, it is proposed to levy a further burden of taxation per annum to the tune of about Rs. 330 crores. In other words, the extent of the extra burden per annum would come to Rs. 570 crores. It may be all right for the Planners to talk of sacrifices. The authorities at Delhi may continue to call upon the

people to progressively tighten their belts. But do they realise the conditions of the masses — the lower and the upper middle classes — who have to carry on their existence, in many cases of a sub-subsistence standard? A human being needs a cheap and a comfortable house, clothes at reasonable price and of durable quality, food that is nutritious and not costly, educational facilities and medical requirements at reasonable rates. These are elementary necessities of the people. It will be a negation of democracy if people are urged day in and day out to undergo sacrifices and are then denied and deprived of the fruit which they are entitled rightly to expect as a result thereof.

The Private Sector is accused of keeping high the prices of its products. It is strange that the Government wants to raise a substantial sum for financing the projects of the Third Plan by raising the prices of the 'products of public undertakings. It is difficult to put up with such a state of things with equanimity and resignation. The crisis of expectation has already turned; into a crisis of frustration and it is time that the Government should take note of this rising crisis of frustration.

The second item in the Table is "contribution of the Railways on the existing basis". When the Review of Plan Resources was published in July 1959, the contribution of the Railways was estimated during the Second Plan at Rs. 250 crores. It is difficult, therefore, to appreciate the circumstances which would lead to a short-fall in contribution from this source during the Third Plan by Rs. 100 crores. This contribution is inclusive of increased fares and freight. There will be a substantial increase in the carriage of goods by nearly 73 million tons during the Third Plan period from 162 to 235 million tons. It is, therefore, surprising that no reasons have been advanced in regard to such a large fall in this contribution during the next Plan period.

The third source of contribution is the "surpluses of other Public Enterprises on the existing basis". This has been taken at Rs. 440 crores. It is mentioned that the surplus from the Central Government enterprises will be Rs. 300 crores and that from the enterprises of State Governments will be Rs. 140 crores.

It is interesting to note that as remarked in the Draft Outline, these estimates represent the balance of resources available with public enterprises after providing for their working expenses, as well as depreciation outlay. If they are to be taken as commercial enterprises — we have been repeatedly told that they should be taken as such — the surpluses could only be arrived at after the provision for taxation. In any case, the Planners are conscious that the figures require further scrutiny which they propose to do in considtation with the Central Ministries and the State Governments before the Plan is finalised. It will be interesting to note from the statement of Investments in Industrial Undertakings, appearing in the Explanatory Memorandum issued along with the Budget of 1960-61, that on an investment of Rs. 547 crores by 31-3-1961, the estimated annual profits by that time will only be 1½ crores of rupees. It is difficult to appreciate how the Planners could have arrived at the figure of a surplus of Rs. 440 crores from Government Industrial Undertakings, when the Finance Minister has stated in the Explanatory Memorandum, that on an investment of Rs. 547 crores, they would only earn a profit of Rs. 1½ crores in 1960-61. The country has a right to expect convincing explanation for such large variations in the figures coming from different Ministries of the Government.

The next source of finance for the Plan is the raising of loans from the public. This has been put down at Rs. 850 crores. The amount that was estimated for this purpose during the Second Plan is Rs. 800 crores. This amount is, however, inclusive, as the Draft Outline remarks "of purchase of Government Securities by the State Bank out of the deposits of P.L. 480 Funds."

The extent to which these funds have been utilised for that purpose is, however, not indicated. The country is entitled to know what that amount is. It is necessary to look at the contribution from this source in its true perspective and to understand how far the people have responded and could respond to this call. Again, the estimate of Rs. 850 crores, as Loans from the public during the Third Plan, postulates that there will be considerable increase in the subscription to these Loans by the Life Insurance Corporation and from the various Provident Funds. The amount to be received as proceeds of Prize Bonds is also included in these loans. It is difficult, therefore, to understand what the proper response to these loans from the public would be in the next Five-Year Plan. Apart from the funds which the Government could raise by way of taxation and deficit financing, for financing the projects of the Plan, the Government is bringing other important sources of continuous finance such as the funds of the Life Insurance Corporation and the various Provident Funds under their special control.

The Finance Minister, during a Press Conference which he gave at New York, has stated: "We have no programme of nationalisation and when the State took over Life Insurance, it was because of the great amount of savings that became available for investment through that account."

This new technique requires to be carefully noted. The more and more such sources of finance are captured by the Government, the pool from which private enterprise can draw its requirements after the Public Sector has exhausted its contents will become smaller and smaller in the future. It will be easy to realise what further difficulties it will create for private enterprise to raise the finance that it may need to carry out the obligations imposed on it under planned economy.

The next source is small savings. As against the expected contribution from this source during the Second Plan of Rs. 380 crores, the amount put down for the Third Plan is Rs. 550 crores. The Planners are conscious that the average of Rs. 110 crores per annum as small savings is high relatively to the expected annual collection from this source of Rs. 75 crores during the Second Plan. They have, however, pinned their faith on the growing response from this source as they feel that the habit for saving will considerably develop in the country during the next Five-Year Plan. To attract contributions towards small savings, various concessions in the matter of taxation have been given to those who subscribe to the small saving fund. Despite these facilities and allurements, the Government has not been able to raise the estimated fund under small savings during the Second Plan period. It is doubtful whether it will be able to collect

Rs. 550 crores under small savings during the Third Plan period. It is, however, surprising that in all such matters the Government does not take the people into its confidence and explain to them as to why the actual amount under all such heads falls far short of the amount that may be estimated under those heads when the Plan is framed.

Another source consists of "Provident Funds, Betterment Levies, Steel Equalisation Fund and Miscellaneous Capital Receipts". As against the sum of Rs. 213 crores estimated from these sources during the Second Plan, they feel that they would receive Rs. 510 crores from these sources during the next Plan period. This is based on several assumptions.

If the amount from the Provident Funds is to be utilised for the purpose of buying loans, it cannot be available for financing the projects of the Plan. And yet, the full amount of the Provident Funds has been included in the amount to be received under this head!

With the development of steel in the country, the Indian economy can justly claim the disappearance of the Steel Equalisation Fund in due course. It was started for the purpose of selling the imported steel at a cheaper rate, i.e., at a rate less than the cost of importation, and to reimburse the loss thereby created from the Steel Equalisation Fund. People can justly expect that with the development of the steel industry, they should get their steel at a much cheaper rate than the rate which is charged at present. It is a matter of regret that such important aspects of the qutstion are not discussed in the Draft Outline of the Third Plan.

I have already dealt with the question of additional taxation including measures to increase the surpluses of public enterprises. The next important source of finance will consist of "budgetary receipts corresponding to external assitance". This has been put down at Rs. 2,200 crores in Table I meaning thereby that the sum of Rs. 2,200 crores of external assistance would be available as budgetary resources for the Public Sector.

It should be noted that the foreign aid required for the Private Sector to the tune of about Rs. 300 crores is not included in this amount.

I have already pointed out that as against the estimates of Rs. 800 crores of foreign assistance for the Second Plan, the country had to strenuously work for obtaining such assistance, which would now exceed Rs. 1,700 crores. Further, as against the proposed drawing down of the Sterling Balances of Rs. 200 crores only during the Second Plan, circumstances have compelled us to withdraw over Rs. 600 crores from those balances up to now. The estimates have thus gone wrong by over 100%. They have put enormous strain on our economy. They have raised issues of grave importance. The situation that has been created and the crisis through which we have been passing give us a serious warning which we should not and cannot ignore in considering the problem of foreign assistance for the future.

The Planning Commission hopes that the estimated receipts from exports of Rs. 3,450 crores during the next five years will be realised and the sum of maintenance imports taken at Rs. 3,570 crores will not be exceeded. Past experience does not, however, inspire, the confidence that the hopes of the Planners will be realised. Very slow progress has been achieved in the programme for export drive. The Planners themselves are conscious of this great difficulty because the Plan itself states that "a viable balance of payments position can be reached only on the basis of a progressive increase in the domestic capacity for producing capital goods and tquipment and a strengthening at the same time, of the export capacity of the economy."

It will be a herculean task to achieve this twin objective. Let us, however, proceed on the basis that the Planners would prove to be the true prophets in this vital matter.

Further, the point to be remembered is that the total amount of external assistance that is expected to be received will be Rs. 3,200 crores, including the amount of Rs. 608 crores to be received under P.L. 480 Agreement concluded in last May. The amount of Rs. 2,200 crores that will be available for the public sector alone, as mentioned in Table I, has been arrived at after deducting from the sum of Rs. 3,200 crores the amount of the repayment of Rs. 500 crores towards loans already borrowed, setting aside the sum of Rs. 200 crores for the buffer stock of foodgrains and not taking into account the sum of Rs. 300 crores of external assistance required for the private sector. While the sum of Rs. 600 crores will be received in Rupeer, the balance of Rs. 2,600 crores will be received as foreign exchange.

It is, however, difficult to find under which source the Rupee Assistance received as Loans or Grants from the P.L. 480 Counterpart Funds is included. While Table I shows that the external assistance to be received in the Second Plan will only be Rs. 982 crores, "The Plan Resources and Outlay", a review published in July 1959, gave that figure at Rs. 1,100 crores. The country is entitled to expect a proper explanation when the estimates go down by over Rs. 100 crores in a single item. It is not, however, unfortunately, the practice of the Planners to take the country into thier confidence and give them the explanations to which they are entitled.

Take for instance, the amount to be carried forward from the Second to the Third Plan. Table I shows that no such amount has been carried forward. In the statement which the Finance Minister made on his return from abroad, he told us that the sum of Rs. 128 crores would be carried forward beyond 31-3-1961. It is difficult to believe that no amount would be carried forward from the Second to the Third Plan, particularly when as against the receipt of nearly Rs. 1,700 crores as external assistance, the amount to be spent as such assistance in the Second Plan has been shown as only Rs. 982 crores in Table I. And yet, not a Rupee has been included as the amount carried forward under the head of external assistance.

One cannot understand the justification of the omission of this item from the statement of the financial resources that would be available during the next Plan. Moreover, when the figure of

the carry forward amount was included in so far as the resources for the Second Plan were concerned and made available, the amount of the carry forward varied from Rs. 93 crores in 1956 to Rs. 196 crores in the Economic Survey of 1959-1960! A rise of over 100 per cent in the carry forward amount in four years! If any commercial house were to play with the figures in the manner in which the Planning Commission has been playing, I have no doubt that there will be a loud cry from the Government for making a searching inquiry into the management of the finances by that house. And yet, the Planning Commission itself does not seem to recognise it as its duty to give proper explanation when there is a substantial variation in the figures under the same heads from time to time.

The nature and the extent of the assistance received from various countries and various sources raise several vital issues which require careful consideration. Some loans are tied to the projects. Some loans are tied to the markets. Some loans are tied to both. These conditions which are attached to the loans deserve careful scrutiny. Their impact on the capital cost of our projects cannot be ignored. The effect of the cost of the spare parts to be imported from the country to which the loan is tied on our future competitive capacity for selling our products in the international markets deserves serious thought. The nature and the extent of collaboration that we ask for and that we receive require serious examination. The cumulative effect of all this on our future national economy deserves the most serious consideration and calls forth a penetrating study in regard to its effects on our political independence and economic freedom.

The last source of Finance is "Deficit Financing". The figure mentioned under this head is Rs. 550 crores. The Planners themselves, however, recognise that "the scope for deficit financing in the Third Plan is very limited".

They are convinced that taking recourse to deficit financing will depend "on how far production increases, specially in agriculture and how effectively inflationary trends are held in check."

Neither of these objects has been achieved during the Second

raise that expenditure substantially in the future. It is difficult to foretell how it may affect the working of the Third Plan. As regards taxation, both direct and indirect, it has gone up at the Centre alone from Rs. 442 crores in 1952-1953 to Rs. 806 crores in 1960-1961. Fresh taxation, therefore, to the tune of Rs. 364 crores has been imposed by the Centre alone on the country during the last eight years. The country is called upon now to face a further ordeal, as visualised in the Third Plan, of bearing a new huge load of about Rs. 330 crores per annum, by way of fresh taxation, during the next five years. As both the First and the Second Plans have taught us the bitter lesson that the amount raised by taxation for financing specifically the projects of the Plan is frittered away on non-Plan expenditure, it is high time that the Government should give a definite and categorical assurance to the country that the amount that may accrue to the Treasury, as a result of additional taxation levied during the Second Plan and any further taxation that may be imposed hereafter, shall be utilised only for the purpose of financing the projects of the Plan.

We have now entered the period of dear money. It will have its own adverse effect on the ability, at any rate of the Private Sector, to fulfil its obligations even under planned economy. It is not easy to appreciate the views of the Governor of the Reserve Bank when on the one hand he calls upon the banking institutions in the country to adopt a bold policy of financing industries on a long-term basis and on the other hand, to give one directive after another to the Banks for curbing their credit by freezing a large part of the deposits which the Banks receive and by raising the rate of interest to a penal level. All this is bound to raise the cost of production. It will also make the task of holding the price line much more difficult in the future than it is at present.

The effect of these new economic trends on the working of planned economy cannot be ignored. Moreover, it is difficult to say with certainty at this stage, whether we shall receive the full amount of Rs. 3,200 crores, by way of external assistance, which forms the fundamental foundation of the Third Plan. It is difficult

to deny that political considerations will not influence the flow of foreign assistance to this country during the next quinquennium. Under the circumstances, it will be agreed that all these considerations must receive their due weight in determining the resources for the Third Plan which we shall be able to secure both internally and externally.

Economic laws do not respect ethical or ideological aspirations. Although Mr. T. T. Krishnamachari wanted to fulfil a Plan of Rs. 5,600 crores and although he insisted that the challenge of the Plan must be accepted and faced, even in September 1957, the position in October 1958 had to be recognised by the authorities at New Delhi and they had to lay down that the Outlay of the Plan shall not exceed Rs. 4,500 crores. While one may always welcome the spending of money needed for ushering in as quickly as possible a Welfare State in the country, one cannot ignore the lessons which the country has learnt, as a result of the working of the two Plans, that there should be a broader and harmonious synthesis between the spirit of idealism and the realities of the situation. In this connection, the significance of the following wise words oi the International Economic Mission, which visited India should not be lost once again on the authorities at New Delhi. It said that: "The Third Plan is a big Plan to all appearances, and if it can be made 'more manageable' by the omission of some projects the need for which is less immediate, it is worth doing so."

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

Based on the speech delivered under the auspices of the **Forum of** Free Enterprise in Bombay on October, 25, 1960.

Free Enterprise war born with man and shall survive as long as man survives.

—A. D. Shroff

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