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India: Problems With the Sixth Five-Year Plan

MINOO R. MASANI

WHILE THE broad objectives of India's Five-Year Plan, and the new order of priorities it embodies, have not evoked any noticeable opposition, the question as to whether the Plan will actually lead to the results envisaged is being widely discussed. In order to grope toward an answer to this question, it may be worthwhile to examine the background against which recent developments and the future outlook can be assessed.

After their smashing victory in the March 1977 Lok Sabha elections, the elected legislators of the Janata Party assembled at Rajghat, where the mortal remains of Mahatma Gandhi rested, and took a solemn oath to follow in future the path of the Mahatma. The oath was administered by no less a person than Jayaprakash Narayan, a true Gandhian if ever there was one. In the parliamentary elections of March 1977, the main issue had been political, namely, that of dictatorship versus democracy. But along with it, there was another issue which can be crudely described as the question of Nehru versus Gandhi. That issue was clearly stated in the Election Manifesto of the Janata Party, which came down squarely on the side of Gandhi. Hence the oath at Rajghat.

Nehru, it was pointed out in the Manifesto, had abandoned the path of Gandhiji and given a public sector, heavy industry bias to India's successive Five-Year Plans. Agriculture was relatively neglected and the farmer was not given a fair price for his produce. Small and cottage industries, which are labor-intensive and generate considerable employment, suffered a similar neglect. The emphasis was on heavy industry, which offered limited employment opportunities and did not produce essential consumer goods urgently needed by the people. This, in turn, led to an increase in unemployment and poverty, the concentration of growth in urban areas, and the concentration of economic power in the hands of the state bureaucracy and big business houses. The people were not invited to participate in the development process; and as a result, totalitarian tendencies developed which culminated in the declaration of the Emergency.

The Janata Party Manifesto promised to abandon this Nehru strategy and adopt a Gandhian, agriculture-and-small-industry-oriented, wage-goods model of decentralized economic development. Specifically, this meant that Plan resources allocated for agricultural development would be substantially increased. There was to be integrated rural development, encompassing land reform, land and water consumption and utilization, mixed farming, animal husbandry, aquaculture, the organization of agro- and other rural-based industries, the supply of agricultural inputs at reasonable prices, assurances of a fair price to the farmer for his produce, and an increased flow of credit to agriculture.

Industrialization policy was to be oriented toward the production of wage goods, the generation of employment, and the decentralization of industrial growth. There was to be a shift to employment-oriented technology and mini-industries in the textiles, sugar, paper, dairy, cement, pottery, and other sectors. A statutory reservation of production for small-scale and cottage industries was also promised. For this purpose, 20 to 25 percent of the financial resources of financial and credit institutions was to be earmarked for projects designed to benefit large segments of the population; and this was to be over and above the allocation for agriculture.

The Sixth Plan incorporates, in the concrete form of targets and allocations, these assurances in the Janata Party Manifesto. Under the Plan, a total outlay of about Rs. 3,400 crores[1] (including a projected Plan outlay of Rs. 1,410 crores, plus Rs. 2,000 crores from private sources, including banking and financial institutions) would be made for small-scale and cottage industries. This is expected to result in a three-fold increase—from Rs. 6,700 crores in FY 1977-78 to Rs. 26,700 crores in FY 1982-83—in the output of small-scale industries. Employment in village and small-scale industries is expected to increase by eight million workers.

Basically, the approach of the Janata Party is sound, both politically and economically. Totalitarian tendencies in India have been strengthened by centralized planning and regulation of the economy, and by the growth of a public sector holding monopolistic control of the commanding heights in the organized part of the economy. It is also true that agriculture and, to a lesser degree, small and cottage industries offer a far greater employment potential than organized, large-scale industry. Since capital is scarce, it is legitimate that India should adopt labor-intensive techniques. Further, a number of distinguished economists have urged the adoption of the wage-goods model, as opposed to the heavy industry model, of economic development on the ground that it is more suited to the needs of the economy. The Janata Party, therefore, was in good economic company when it decided to place emphasis on small industries and agriculture in its development program.

[1] One crore equals ten million.

Incidentally, the traditional industries of India, which are located in the villages and meet local needs, are not what are now recognized as small industries. The traditional industries manufacture such goods as handloom cloth, household utensils, baskets, bullock carts, silver and gold ornaments, and farm implements. It is these that are really decentralized and offer the largest potential for employment. These industries are, unfortunately, not expanding to any significant degree, and some of them are actually dying out.

The Khadi[2] and Village Industries Commission has been in existence since independence and has encouraged village industries in various ways. Even so, in FY 1977-78 the total production of khadi and village industries amounted to only Rs. 270 crores. It is quite unrealistic to expect that this could be increased to Rs. 2,561 crores (that is, by over 900 percent) by FY 1982-83. The Khadi and Village Industries Commission, which was recently castigated by the Prime Minister for leaning more and more on government resources and subsidies, does not seem capable of carrying out this enormous task, and there is no alternative agency in existence which can undertake it with competence and vigor. Past performance in this field should bring out its limitations. The production of khadi and village industries increased from Rs. 47.4 crores in FY 1960-61 to Rs. 176.6 crores in FY 1974-75. A substantial part of this increase was merely a reflection of the rise in prices. While production increased, employment actually declined from 2,395,000 in FY 1960-61 to 1,960,000 in FY 1974-75. In the circumstances, there

[2] Khadi is hand-spun and woven cloth.

is good reason to be skeptical of khadi and village industries achieving the goals set by the Plan.

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The small industries sector, consisting of units with investment in plant and machinery ranging from Rs. 1 million (independent units) to Rs. 1.5 million (ancillary units), has performed relatively well. In 1977, there were in existence 269,000 units with an annual output of Rs. 6,700 crores (FY 1977-78 estimate), which is roughly 25 percent of total industrial output. Investment in fixed capital in these units amounted to Rs. 2,144 crores (1977), and they employed 2,900,000 workers. According to the Reserve Bank *Annual Report* for FY 1976-77, total credit extended by commercial banks to these units amounted to Rs. 1,421.1 crores, while loans granted by 18 state finance corporations in 1976-77 amounted to Rs. 515.2 crores. This sector has thus made remarkable progress in the last decade or so, and offers substantial employment to Indian workers. It also requires substantially less capital per worker employed than the large-scale industry sector.

These results, incidentally, were achieved in consequence of the following incentives offered by the previous government, which was supposed to be following the Nehru line.

1. The reservation of certain products for small units.
2. Tax concessions and exemptions to small units.
3. The supply of long-term finance and credit to small units on liberal terms.
4. The establishment of industrial estates, where various factory space and other infrastructure facilities are provided to small units at low cost.
5. Preference for products of small units in government purchases.
6. Special facilities for the supply of raw materials, technical assistance, quality control, and marketing, both in domestic and export markets.

The Indian economy has thus a healthy and growing small industries sector which holds out the promise of future growth. But it does not seem likely that the output of this sector can be increased in the Sixth Plan period from Rs. 6,700 crores to Rs. 26,700 crores.

In this connection, the weaknesses of the small sector should be borne in mind. For the fact is that the small industries sector is not all that healthy. According to the census of small industries carried out in 1972, unutilized capacity in this sector amounted to 47 percent of total capacity. Considering the slow growth of industrial production since then, it is unlikely that the percentage of unutilized capacity has gone down. This capacity is unutilized mainly because of a lack of demand, and/or the high cost of production, the poor quality of products, and the misdirection of investment. There is thus a lot of wastage of investment in small units, and additional investment in this sector would not necessarily ensure its growth. Secondly, there are at present 8,000 sick units in the small sector in which Rs. 200 crores of bank credit and a comparable amount of long-term finance are locked up. Both the financial corporations and the banks are concerned about the health of small units in general.

Small units have been encouraged without the exercise of proper discretion or economic judgment. An excellent example is provided by the mini-steel plants, which are arc furnaces that use scrap iron to produce steel. These were encouraged when there was a shortage of steel and an enthusiasm for small industries. The units worked well so long as there was a scarcity of steel and their products could be sold at high free market prices. But when the shortages ended and adequate steel became available at controlled prices, a large number of mini-steel plants became sick and ceased operations. They had to be revived by granting them substantial tax concessions. Basically, these mini-steel plants were not a sound economic proposition. There just was not enough scrap in the country to meet their raw material requirements. Secondly, their costs were high. And thirdly, they used large amounts of electricity, of which there is an acute and continuing scarcity in the country. They thus added to the power shortage. Considering that power generation is highly capital-intensive, one wonders whether the mini-steel plants are really as labor-intensive as claimed.

If one is to be guided by the opinion of technical experts, the mini-cement plants, for which the present Minister of Industrial Development is displaying such enthusiasm, are likely to be as great a failure as the mini-steel plants. The *Financial Express* put the case as follows.[3]

[3] *Financial Express*, June 14, 1978.

The Cement Manufacturers Association has extended a qualified support to the government's decision to promote mini-cement plants. It feels that such plants should be considered mainly in respect of backward and inaccessible areas. It has quoted from the 1974 Tariff Commission report to stress the point that the cement industry's economies of scale are such that mini-cement plants would be worthwhile only in areas to which (the) movement of cement from outside would be uneconomical.

A recent seminar on the subject organized by the Cement Research Institute has, however, refuted the contention that production cost is lower in respect of the mini-plants. It noted that while a big cement plant needed a capital investment of Rs. 28 crores, a mini-plant . . . could do with the investment range of Rs. 50 lakhs[4] -Rs. 1.6 crores. But it was disclosed at the seminar that a mini-plant's production cost was higher at Rs. 230 per ton as against Rs. 150 in a large-scale plant. This factor supports the stand of the Cement Manufacturers Association on the large-scale industry's relative economies of scale.

However, the Cement Research Institute is said to have modified the technology to ensure the ultimate viability of the mini-plant.

It has been found that quite a few of the small industrial units were in fact bogus units registered for the sole purpose of getting allocations of scarce raw materials which subsequently could be sold in the black market. With the easing of scarcity conditions and liberalization of imports, these small units have just vanished. Experience has also shown that small industrial units, unless they are ancillaries attached to larger units, find it extremely difficult to market their products. They also suffer after a period from technological obsolescence. They have very limited capacity to absorb economic shocks or respond to a changing economic environment. Their quality control, too, is not always satisfactory. In view of these limitations, it is not easy to speed up the growth of small units along healthy lines.

Further, the growth of small and large units is interrelated. It is no

[4] One lakh equals 100,000.

doubt true that to a certain extent, small units can substitute for large units. But by and large, small units depend on large units for the supply of raw materials, or for the sale of their products. If, therefore, the growth rate of large industries is slowed down, it is likely to have an adverse impact on the growth rate of small industries.

Small industries, unlike cottage industries, cannot conveniently be located in rural areas. They can be located in smaller towns. But experience shows that industrial estates located in distant small towns do not succeed. Thus, one wonders how far small industries can contribute to decentralized development. A number of factors seem to be operating against decentralization. The octroi duties levied by municipalities are a large obstacle to decentralization, but the government does not seem to be taking any effective steps for their abolition. High transport costs are another obstacle to decentralization. Excessive taxation of road transport is responsible for the high costs involved; but again, the government shows no inclination to reduce this taxation. In fact, it was further increased in the last budget.

Thus, there are various limitations to decentralized development through small-scale industries. In the light of these limitations, the targets set by the Planning Commission seem to be unrealistic.

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While the development of small industries is certainly desirable, it should not be done regardless of social cost. The Planning Commission seems to be aware of this; and so is the Finance Minister, H. M. Patel. Yet, when 800 products are reserved for small units, it amounts to encouragement of the small sector regardless of cost. Similarly, the way in which the Industries Minister, George Fernandes, is trying to push ahead with the establishment of mini-cement plants, when cement technologists clearly state that they are not viable costwise, indicates that enthusiasm for small industries is running wild.

Why this is happening can be better understood by examining the political factors that have led to the adoption by the Janata Party of the Gandhian economic path, which is contrasted with the Nehru path. There was considerable disenchantment in India with the kind of planning adopted in the country. The planners promised growth, development, reduction in inequalities, and the development of rural and backward areas. Yet, growth has been slow, unemployment increased, and income disparities widened. There were shortages all around, and the country had suffered from a runaway inflation. It was necessary, therefore, to offer to the people an alternative, and the Gandhian alternative appeared to be the best. The country had tried the heavy industry model of economic development, and it had not yielded the desired results. It seemed fair, therefore, to give a trial to the wage-goods model, which was strongly advocated by a number of economists. The Gandhian path adopted by the Janata Party was in harmony with the proposals of the advocates of the wage-goods model.

In recent years, there has been a strong political awakening in the rural areas. A significant proportion of the rural population is now literate and educated, and they had come to feel very keenly that they were getting a raw deal. It seemed that high wages, high incomes, and the high standard of living that went with it were being monopolized by the urban classes employed in the organized sector. There were endless agitations by trade unions for higher wages; and most of the time, the demands were conceded to them. Large industries, even when they were established in rural areas, gave employment—and all the benefits—to urban people. The farmers felt that they got very little out of big industries located in rural areas. On the other hand, the farmers were not allowed to benefit from the scarcity of foodgrains, for the prices of foodgrains were controlled. But industrial prices and wages went on increasing with relative ease. This disenchantment of the rural population with the old type of planning made it necessary to adopt a new economic approach.

Western ideas that "small is beautiful," as well as the Western concern over problems of pollution and the exhaustion of energy and other resources, also influenced thinking in India. It seemed that even the West was finding that Gandhi was right; and it was but proper, in the circumstances, that the home country of Gandhi should adopt his path.

Against this background, one would have expected a radical departure by the Janata Party from the economic policies and plans adopted in the past by Jawaharlal Nehru and his daughter. There has, however, been no such departure. Instead, one observes a remarkable continuity in economic as in foreign policy, tempered by a certain shift in emphasis. While some Janata Party leaders find it convenient to emphasize that there has been a rejection of the Nehru line and the adoption

of a Gandhian line, in reality policy changes have been quite moderate. Simultaneously, other Janata Party leaders like Chandra Shekhar, the Party President, and members of the Union Cabinet like George Fernandes, Industry Minister, Mohan Dharia, Commerce Minister, Jagjivan Ram, Defense Minister, Mr. Bahuguna, Oil Minister, and Biju Patnaik, Steel Minister, have been mouthing Nehruite and other leftist slogans.

In this ding-dong battle within the Janata Party, it would appear that the statist and leftist elements are gradually gaining over the protagonists of Gandhi. Charan Singh, who has a strong rural base in the north of India, has attacked these elements as the mouthpieces of urban industry representing the industrialists and the trade unions.

It is not, however, only the former Congress politicians in the Janata regime who are dragging their feet. The Janata promise of decentralization and participative democracy has remained largely on paper because the functioning of the bureaucracy has remained unchanged; and it is the bureaucrats who today control the administration in which the politicians squabble. Referring to the dangers of inefficient implementation of the Five-Year Plan, Dr. D. T. Lakdawala, Deputy Chairman of the Planning Commission, said in Bombay on July 27, 1978: "If you reconcile yourself to the same degree of inefficiency as prevails in all walks of economy in the nation today, you can write off the Five-Year Plan."

The Finance Minister, H. M. Patel, who has by now introduced two budgets, one in June 1977 and the other in February 1978, has found himself committed to a great deal of nonproductive governmental expenditure which the government lacks the clout to reduce. In the result, the scope for shifting resources in favor of agriculture and small and cottage industries has proved to be very limited. Despite an increase in the income tax in the June 1977 budget and the imposition of quite vicious excise duties in the February 1978 budget, all that the planners have found it possible to do is to increase the allocation in this area from 11 percent in the last Plan to a miserable 12.4 percent in the current Plan. The allocation for irrigation and flood control has similarly been raised from 10.7 percent to 13.9 percent.

There is not even a glimpse of Swatantra philosophy to be found in the two budgets, despite the fact that Mr. Patel is a leading member of the Swatantra Party. Even deficit financing, the villain in the Indian economic drama, is as rampant as ever. The Union budget of February 1978 provided for deficit financing in the unprecedented amount of Rs. 1,050 crores for the current fiscal year. Morarji Desai, the Prime Minister, who had sworn publicly that he would never tolerate deficit financing, has nobly swallowed this overdose in the noble cause of remaining Prime Minister. What is worse, official figures on the increase in the money supply during the single month of April 1978 show that the additional currency placed in the hands of the people during that month was of the order of Rs. 760 crores, or three quarters of the entire year's allocation, which is obviously going to prove misleading. We are going to need lots of luck to maintain the present level of prices. Despite a temporary stabilization of prices, we shall have to be prepared for a further rise in prices.

The apparent direction of the Sixth Five-Year Plan has been one of the main issues in the bitter controversy between Charan Singh, who has now resigned as Home Minister in the Union government, and Morarji Desai, the Prime Minister. At the height of the controversy, when it looked as if Charan Singh would leave the Janata Party altogether, he repeatedly expressed the view that the issue in the next parliamentary elections (due in 1982 at the latest) would be that of "Gandhi vs. Nehru." Even though Charan Singh has, for the present, decided to remain within the Janata Party despite his resignation from the government, his forecast may well turn out to be a sound one. There is a great deal of truth to his allegation that the Desai government has been backtracking on economic policy.

Far from this allegation inducing the Janata administration to move in the Gandhian direction, there only appears to be a flurry of activity in government circles to put even more curbs on big business organizations, which are wrongly described as "monopoly houses." "When in trouble, attack the monopoly houses," is by now an old dictum of Indian politics. Nehru did this, and so did Indira Gandhi. Unhappily, circumstances are now impelling the Janata Party to follow the same path.

In the *Times of India* of July 26, 1978, the Editor, Girilal Jain, ended an article entitled "Janata Party in a Trap" with the following words.[5]

[5] *Times of India*, July 26, 1978.

> Politicians not backed by active contact with the people must, *à la* Mrs. Gandhi in 1969, think and act in populist terms. Already some Janata leaders are resorting to radical rhetoric. They expected to press for its translation into concrete legislation as the power struggle in the party becomes intense. This can give the economy a jolt which it may not be in a position to take in its stride.

Faced with an impending debacle caused by its inability to work together as a harmonious coalition, which it in effect is, and with a backlash visibly developing in favor of Indira Gandhi, the Janata government is only too likely to fall back on populist policies such as the nationalization of industries, among which the automobile industry has already been publicly mentioned by the Minister of Industries. This will, in turn, as Girilal Jain has observed, cripple the economy, and can be counted on to create conditions of even greater political instability during the life of the Sixth Five-Year Plan.

Dilemmas of Japanese Defense

NASU KIYOSHI

SINCE WORLD WAR II, Japan has been the most indifferent of all the advanced nations of the world to problems of defense. On July 24, 1978, General Kurisu Hiroomi, who had been dismissed as Chairman of the Japanese Joint Staff Council, declared that "the Self-Defense Force is a castle built on sand." He predicted that the government would do nothing to improve its capabilities.

From the early 1930s, Japan went the way of militarism, and because of it met defeat in World War II. Immediately after the defeat, Prince Higashikuni, the Prime Minister, asked of the nation that it declare its repentance. The result was a most extreme distaste for armaments, and the view that Japan went to war because of armaments and would not have done so without them. Only a very small number of politicians and intellectuals objected when, in 1947, the MacArthur draft of a new constitution was presented to the Diet. Article Nine provided for the renunciation of war as an instrument of national policy.

> Article Nine. Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes.
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> In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

The constitution was drafted by MacArthur's headquarters, and in point of fact the right of the Diet to introduce amendments was not