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big plans slow progress

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Each five-year Plan has been bigger than the previous one but the rate of progress, in fact, has been in inverse ratio to the size

"The bigger the Plan, the faster the progress" is an assumption that seems to be fashionable in certain quarters. An otherwise sober and constructive commentator wrote, for instance, the other day in a newspaper article: "The voice of 'caution' can be heard stridently advocating elongation of the third Plan, a 'holiday' from Planning, 'consolidation,' a smaller fourth Plan and other nostrums. This is the voice of doom, not of sanity. 'Consolidation,' in the present circumstances implies stagnation and the consolidation of human misery."

Are these assumptions correct? Is it really true that a bigger Plan means faster progress, a smaller Plan less progress and no Plan means no progress? Before essaying an answer to these questions, a quick glance at the basic facts about our economic condition today could be helpful.

This shows that our Sterling balances of Rs. 1,402 crores left by the British at the time of Transfer of Power had by March 1965 dropped to Rs. 86 crores, while by June 11, they had sunk further to Rs. 73 crores. Our foreign indebtedness, which in March 1961 was of the order of Rs. 761 crores, had gone up by March 1965 to Rs. 2,192 crores. Our repayment liabilities have correspondingly been rising, it being estimated that no less than one sixth of our total exports during the third Plan will have to be dedicated to this purpose while, of our export earnings expected during the fourth Plan, no less than 28 per cent will have to be allocated to repayment of loans and interest.

Our dependence on foreign aid, which in itself is a legitimate and good thing, has gone beyond all reasonable proportions. While external assistance in the first Plan was 5.5 per cent of the total investment, it was 16 per cent in the second Plan, and no less than 28.5 per cent of the total investment in the third Plan is allocated to external assistance.

The domestic purchasing power of the rupee has been steadily shrinking. It is only 14 paise of the pre-war rupee. The external value of the rupee as quoted in the world's free markets is today, about half of its official value and one can only get a dollar for about Rs. 9 and a pound for Rs. 25. It is not usual for the spokesman of one government to refer in derogatory terms to the currency of another country, but Mr. William J. Crockett, Deputy Under-Secretary for Administration in the United States, while addressing a Committee of Congress is reported to have said: "There is an awful lot of United States-owned currency in two countries (the UAR and India) and if it does any good at all, if it means any gain, any advantage to the United States, we ought to use these currencies. They (these currencies) are there and they are getting more worthless."

As the value of the rupee goes down, prices rise. The Working Class Consumer Price Index in Bombay went up by 8 points in the course of a month in June 1965, to 549. The rise in wholesale prices of edible oils, fuel and other needs of life, continues. We are warned that a grim season in food prices lies ahead, and so rationing in cities and compulsory levies on farms are threatened. No increase in our exports is possible because of this depreciation in our currency and the high cost of our products. Devaluation is reported to have been advised by the World Bank and the International Monetary Fund and, however much we may dislike the thought, it will before long become inevitable if current policies continue. The over-all picture shows that we as a nation have been consuming more than we produce and importing more than we export.

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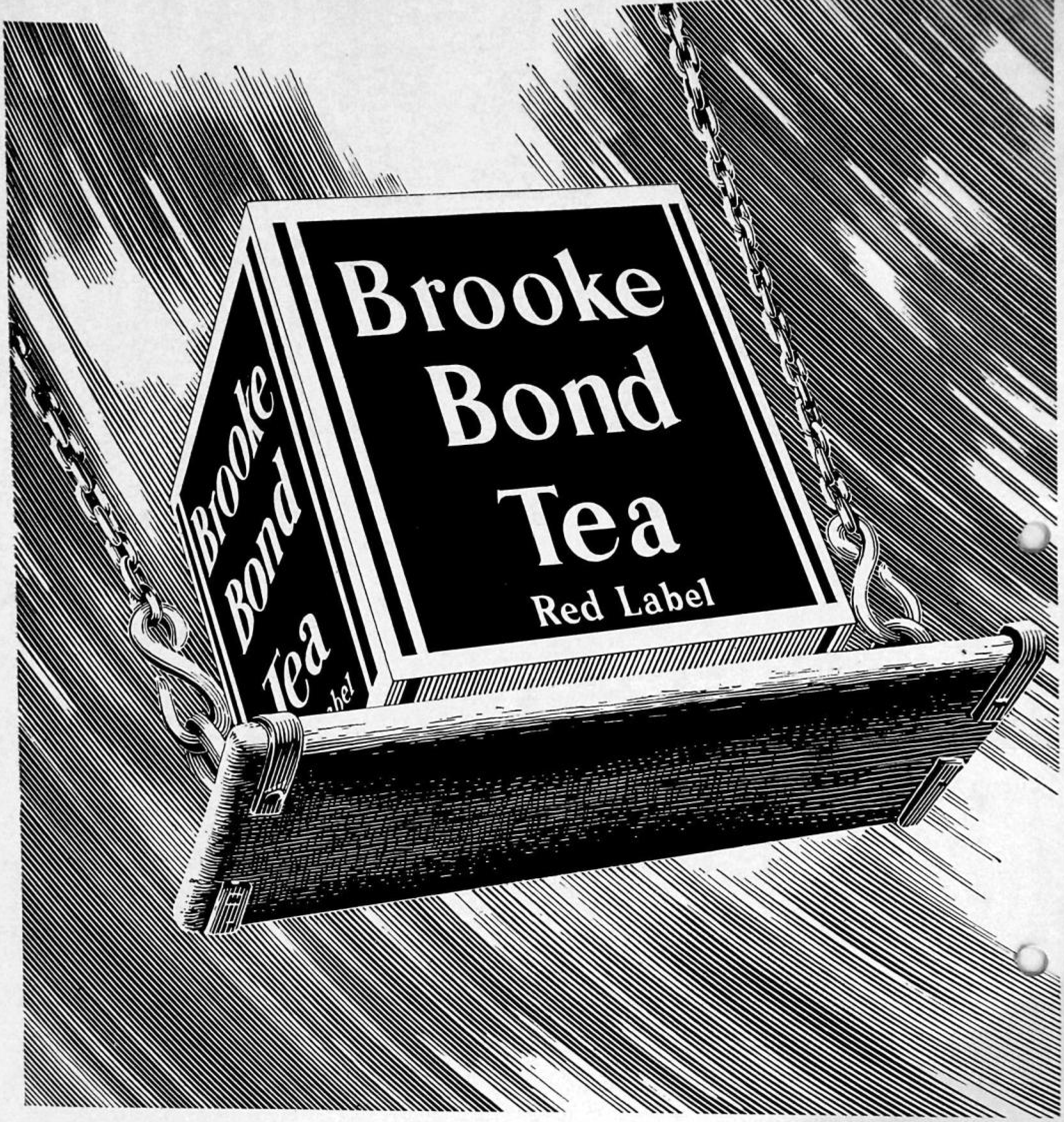

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big plans—slow progress *continued*

India is on the brink of bankruptcy.

The question that arises is: to what extent does our plight really reflect the impact of the five-year Plans on our economic life and development? It is inevitable in a system of planning as comprehensive as ours, that the part played by these Plans in shaping the picture of our economy should be a determining one.

As is well known, each five-year Plan has been bigger than the previous one. The total investment in the first Plan was Rs. 3,360 crores, in the second Rs. 6,831 crores, the targetted investment in the third Plan is Rs. 10,400 crores and the proposed investment in the fourth Plan is Rs. 19,975 crores.

When we turn to the results of these Plans, we find that, while the first Plan exceeded its targets, the second and third Plans have failed to fulfil their promise in all significant respects.

In regard to foodgrain production, on which our whole economy is geared, the first Plan yielded an increase of 15.9 million tons against the target of 11.6 million tons, or an excess of 4.3 million tons. The second Plan yielded an increase of 14.1 million tons against the target of 14.9 or a shortfall of .8 million tons while the increase during the third Plan is expected to be 11 million tons against a target of 19 million tons, or a shortfall of 8 million tons.

The indexes of industrial production do not show very different results. As against a base of 100 for 1950/51 the index of industrial production at the end of the first Plan had risen satisfactorily to 139. The target for the second Plan was 207 but the figure reached was 195. The target for the third Plan was 329 or an increase of 68.7 per cent for five years. But the index touched 25 per cent in 1964/65 showing an increase of only 31.7 per cent over 4 years.

Thus, against a targetted increase of 12 per cent in the national income during the first Plan, the actual rise was 18.4 per cent giving a welcome surplus of 6.4 per cent. This pattern soon charged for in the second Plan, as against a target of 25 per cent there was a rise only of 20 per cent in the national income, with a shortfall of 5 per cent. The position in the third Plan became much worse since, as against a targetted rise of 34.4 per cent, it is estimated that the actual rise will be of the order of 23 per cent resulting in a shortfall of no less than 11.4 per cent or 1/3 of the hoped-for rise in national income.

How poor has been our rate of growth can be seen from the fact that, while the rise in our gross national income during 1959-62 was 5.8 per cent per annum, according to the monthly bulletin of *Statistics of the United Nations*, the rise in the gross national income of Pakistan during the years 1959/63 was 6.8 per cent, of the Republic of China (Taiwan) 14.7, Israel 16.6 and Japan 16.8 per cent. Is it not clear from these official figures that the bigger the Plan, the slower the rate of growth of the economy and the bigger the shortfall in industrial and agricultural production?

The rate of our progress has in fact been in inverse ratio to the size of our five-year Plans. It would be an error to think that this correlation is accidental or that it may be incidental to faulty implementation of the Plans which is often advanced as an alibi. There is reason to fear that this correlation is inherent and inevitable and that a big Plan *must* mean slow progress because of the greater *diversion* involved of scarce resources from more to less productive investment.

The reason why resources that are drawn within these Plans are likely to yield lower returns than if they had been left free in the pockets of the people is that we have been indulging in Four Fallacies. The first of these is that we as a nation spend money we do not possess. This refusal to live within one's means, to cut one's coat according to the cloth, involves deficit finance in many other ways than the printing of currency notes which is only the simplest and crudest of them. This results in inflation, with rising prices and all its anti-social implications.

The second cause is that not agriculture, but the manufacture of steel and machinery is India's basic industry, which, must take priority over the consumer's needs. Hence a wrong order of priorities. While the first Plan was sound in putting agriculture first, the second and third Plans provided for the allocation of investment to give disproportionate extent to steel and other heavy industries, while agriculture and the building of the infrastructure through the provision of water, transport, communications and power were shabbily neglected. Since steel is the most capital consuming *and the least labour-intensive of all industries*, these Plans have failed to give proportionate returns in either employment or production to match the investment. Hence the flagging in rate of growth and hence again inflation. The importation of this Stalinist bias in our national planning in the middle 50's in totally different circumstances from those that obtained in the case of the Soviet Union in the early years of its existence, has been nothing short of a major disaster.

Professor Mahalanobis himself has admitted that an investment of Rs. 1 crore gives an output of Rs. 57 lakhs if invested in agriculture, while the output on the same investment is Rs. 33 lakhs in consumer goods industries and only Rs. 19 lakhs in heavy industries. Thus, the capital output ratio for agriculture is 2:1, for consumer goods 3:1, and for heavy industries 5:1.

Pointing out that the motivation for this pattern of planning has nothing to do with popular welfare but has a great deal to do with the glory of those in government in developing countries, Mr Colin Clark, the eminent economist mentions Prime Minister Nehru as saying in August-September 1960, that "A number of textile mills is not industrialization. It is playing with it. Industrialization is a thing that produces the machines. It is a thing that produces steel." I remember that occasion since, as it happens, Mr. Nehru was replying to my own observations a little earlier in the debate. Mr Clark goes on sadly to observe; "Before long, the world is going to be littered with unwanted and obsolete steel mills, built at great sacrifices by poor countries suffering emotional political leadership with money which could have done far more good if it had been devoted to other industries."

The third fallacy is that Government should produce more and more, the people less and less. Hence, while these Plans actually collect from the taxpayer in the form of taxes and loans, resources for the State sector, the free sector is left to fend for itself by raising money in the market. The allocation of resources shows a set pattern, despite the failure of the State to fulfil its targets, of a larger and larger slice going to the State sector, leaving a dwindling balance for the free sector of the economy. Thus, while in the first Plan the share of the resources allocated to the State sector was 46.4 per cent, it rose to 54.6 per cent in the second Plan, and 60.6 per cent in the third Plan. It is now *proposed to raise it to* 65.05 per cent in the fourth Plan.

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big plans—slow progress continued

The wasteful nature of this investment can be judged from the figures available in regard to 46 Government-owned companies (along with two subsidiaries) for the year 1962-63. These enterprises had a capital employed of Rs 1,294.11 crores. The net result of their operations was a loss of Rs. 12.33 crores.

It would be disingenuous to be surprised at these figures. The business of government is to govern. Governments are not made to produce efficiently. The ancient stoics had a theory that "the nature of something is defined by its purpose." Thus the eye is for seeing, the stomach for digesting and the lungs for breathing. You can no more get a government efficiently to produce manufactured goods or grow food grains than you can breathe with your stomach, hear with your eyes, or digest with your lungs.

The fourth fallacy is that the National Planning Commission and the Government should have the right to dictate what shall or shall not be produced and at what price it shall be sold. This has created a Command Economy which is modelled on Soviet Planning and has little in common with the "indicative" planning of France and Britain which is advisory and voluntary in its nature. It has also created a veritable jungle of controls, licences and permits, which kill incentive and breathe corruption.

What then is the way out of the mess in which we find ourselves? To me the answer appears inescapable that what is called for is the abandoning of the four fallacies in which we have been indulging and a radical reversal of the faulty economic policies and planning in which we have indulged for the last ten years.

This cannot be done overnight, particularly with a government as lacking in decisiveness and a sense of direction as the one this country is blessed with at present. What is immediately necessary therefore is a pause—a period of heart searching, of introspection, of direction finding. As early as March 22nd, 1965, opening a discussion on the Budget in Parliament, I had urged the need for making the third five-year Plan a seven-year Plan and giving the country a badly needed two year holiday from Planning. I had cited the example of Khrushchev who, when he took over from Stalin, had said that there was no need for a new Plan until the targets of the existing one were achieved first and he had, therefore, made that five-year Plan into a seven-year one. As Mr. S. K. Patil jocularly remarked, there are "Planning pundits" who are apt to regard any criticism of their plans or any suggestion for a pause or holiday as "an act of sacrilege." I am glad that, in such an act of blasphemy, I now find myself in good company. The World Bank, India's best friend, already has given advice pointing in the same direction.

The implications of making the third Plan a seven-year Plan would be: (1) that we would have time to fulfil the targets of the third Plan, completing unfinished business and projects and fully utilizing installed capacity; (2) there would be no additional wasteful investment in the State sector for two years and (3) there would be time to think things over and get a better sense of direction. Such a Plan holiday can also be utilized for progressive decontrol and the cutting out of a lot of red tape in which we have enmeshed ourselves. It would give time to concentrate on agriculture, roads and power—essential elements in the infrastructure—which have been wilfully neglected all these years.

I venture to suggest that the result of this step would, within a period of two years, be nothing short of a miracle.

The first and most striking result would be that the stopping of unproductive expenditure on new projects would facilitate the completion and fuller utilization of third Plan projects at different stages of completion. Fuller utilization of capacity would result in increased production which in turn would have a favourable impact on the price level. Increased production would increase the tax returns at the existing level of taxation. As there would be no fresh investment on new projects, this would facilitate a cut of 30 per cent to be made in expenditure and the tax revenues required. This in turn would make it possible for the incidence of all taxes both direct and indirect, to be halved.

The second result would be that more money would be left in the pockets of people for saving. With appropriate changes in the interest rates, these savings could be channelled into productive investments. This would lead to a tremendous spurt in industrial activity, the like of which this country has not seen for many a year.

The third result of a Plan holiday would be that additional purchasing power would be left in the pockets of agriculturists and the rural population. Through cuts in excise duties and decontrol, the agriculturist would get more manufactured goods by selling a given quantity of his products. This would serve as an incentive for him to produce more and bring more on the market.

Our rate of growth would accelerate, the size of the cake would expand and every one of our people would get a bigger slice. Before this, the paltry achievements of the second and third Plans would pale into insignificance.

There is a neighbouring country of ours, little Ceylon, which used to follow the same kind of economic policies as we do today. The result was the cutting off of U.S. aid and a rapid drift towards bankruptcy. In March 1964, the people of Ceylon showed that they had had enough, with the result that today there is a Liberal government there which has embarked on sound economic priorities, and foreign aid has been resumed. Only the other day the Government of Ceylon invited our finest Tax expert, Mr Palkhiwala, to visit Ceylon to guide them in regard to their fiscal policies. Is it not an irony that our fiscal experts are invited by a foreign government while being neglected by our own?

Big tasks and small minds go ill together. There are too many people in key positions who lack faith in the people, daring, imagination and vision. There has been a niggling attitude to prosperity and the enjoyment of the good things of life.

Our administrators and legislators impose ceiling after ceiling. Having successfully legislated a ceiling on land holdings and on rural incomes by amending the Constitution, demand is going that there should be a ceiling on urban wealth and income. A free country needs no ceilings. It wants the floor to rise but so far as the aspirations of our people are concerned, the sky should be the limit.

There is a niggling attitude to population control. Even one per cent of the outlay of the Plan is considered too ambitious for this vital purpose! There is a niggling attitude to foreign capital, quibbling and squabbling and driving it away to

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big plans—slow progress *continued*

other countries, which are only too happy to receive it with open arms.

Our Government talks a lot about science and technology but here again they are essentially restrictionist and reactionary. They bolster and sink huge amounts of capital on an outmoded method of transportation like the railways at a time when railway lines are being pulled up by the mile in other countries, but they hold down the building of roads and road transportation which is the modern twentieth century method of surface transportation. They try to hold back the use of diesel oil as against petroleum at a time when diesel is fast replacing petrol in a large measure in other parts of the world. Only the other day, the wise men in the Energy Survey Committee appointed by the Union Government came to the conclusion that coal, which belongs to the nineteenth century "age of fossil power," was still the best source of energy for India and that we need not go in too much for an oil and petroleum-oriented economy!

It is most unfortunate for this country that it should have at the helm of affairs, people as small-minded and reactionary as those about whom A. P. Herbert wrote that delightful jingle, "Let's stop somebody from doing something."

Let's stop somebody from doing something!
Everybody does too much.
People seem to think they've a right to eat and drink,
Talk and walk and respirate and rink,
Bicycle and bathe and such.
So let's have lots of little regulations.
Let's make laws and jobs for our relations,
There's too much kissing at the railway stations—
Let's find out what everyone is doing, and then stop everyone from doing it."

In place of such a mentality, we want the broad sweep and dynamism of the man who brought about the German Miracle and who, at a time when his country, like ours, was bound hand and foot in red tape and controls, gave the stirring call which should be our watchword today; "Let the men and the money loose and they will make the country strong."