BIG PLANS – SLOW PROGRESS

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"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 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 consolida-~~tion 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.

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This shows that our sterling balances of Rs. 1402 crores left by the British at the time of the transfer of power had by March this year dropped to Rs. 86 crores, while by June 11, they had sunk further to Rs. 73 crores. Our foreign indebtedness, which on March 1961 was of the order of Rs. 761 crores, had gone up by March this year to Rs. 2192 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 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 it if 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."]

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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 this year 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 we may dislike the thought, it will before long become inevitable if current policies continue.

The collapse of the capital market, the current credit squeeze and the moratorium on essential imports are other symptoms of our plight. Mr. T. N. Singh, Minister for Industries, said in Bhopal on July 28th that the foreign exchange position has deterioated to such an extent that the free foreign exchange available for the industrial sector as a whole for the import of raw materials in 1965-66 is practically nil." If this situation is allowed to continue, the wheels of our industry will gradually grind to a stop.

The over-all picture shows that we as a nation have been consuming more than we produce and importing more than we export.

India is on the brink of bankuruptcy.

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. 3360 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 reared, 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 excepted 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 percent for five years. But the index touched 25 percent in 1964-65 showing an increase of only 31.7 percent over four years.

Thus, against a targetted increase of 12 percent in the national income during the First Plan, the actual rise was 18.4 percent giving a welcome surplus of 6.4 percent. This pattern soon changed for in the Second Plan, as against a target of 25 per cent there was a rise only of 20 percent in the national income, with a shortfall of five percent. The position in the Third Plan became much worse since, as against a targetted rise of 34.4 percent, it is estimated that the actual rise will be of the order of 23 percent, resulting in a shortfall of no less than 11.4 percent or one-third 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 percent 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 percent, of the Republic of China (Taiwan) 14.7, Israel 16.6 and Japan 16.8 percent.

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 may 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.

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The second ~~cause~~ is that not agriculture, but the manufacture of steel and machinery is India's basic industry, which, ~~must~~ takes priority over the consumers' 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 the 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.

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