A Smaller Share For The Private Sector

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At the recent meeting of the National Development Council important decisions were taken concerning the public sector plan in the Third Five-Year Plan. Since the plan as a whole deals with what the public sector ought to do and what is expected of the private sector, and the available financial resources remain more or less constant, these decisions inevitably have a bearing on the share and the role of the private sector in the country's economic development.

The draft outline of the Third Plan envisaged a total outlay of Rs. 11,250 crores. The investment component of the outlay was estimated at Rs. 10,200 crores, and this was allocated between the public and private sectors in the proportion of 3.1 : 2 (Rs. 6,200 crores to the public sector and Rs. 4,000 crores to the private). In addition the public sector was allotted Rs. 1,050 crores for current outlays related to plan investment expenditures.

No provision was made for such current outlays in the private sector allocation. The total outlay of Rs. 11,250 crores was thus allocated between the public and the private sectors in the proportion of 64.5% and 35.5% respectively (Rs. 7,250 crores for the public sector and Rs. 4,000 crores for the private).

According to the NDC's decion, the total outlay in the public sector, in terms of the revised physical targets, may now go up to Rs. 8,000 crores. In terms of the financial ceiling, the increased allocation for the public sector may be about Rs. 7,500 crores. Thus an increase between Rs. 250 crores and Rs. 750 crores may be expected in the outlay in the public sector. For the private sector, no increase in the original investment of Rs. 4000 crores is contemplated.

The revised outlay for the Third Plan would therefore increase the share of the public sector in the total outlay from 64.5% to 65.2% or 66.7% and reduce the share of the private sector from 35.5% to either 34.8% or 33.3%. depending upon whether ultimately the public sector expenditure comes to Rs. 8,000 crores or Rs. 7,500 crores.

The estimate of additional financial resources has been placed between Rs. 200 crores and Rs. 250 crores. Thus, if in the Third Plan the development expenditure for the public sector eventually turns out to be Rs. 8,000 crores—and this looks quite likely—there would be a gap of Rs-500 crores between the financial requirements of the plan and the financial resources likely to become available.

How could this gap be filled ? There seems to be no easy solution to this problem. One way would, however, be to negotiate for additional foreign aid in respect of the foreign exchange component of the additional outlays in the public sector plans. It may also be possible to mobilise additional domestic resources through the surpluses of public enterprises now reaching the stage of regular production.

It may be possible to a certain extent to save on the available financial resources through greater people's participation in local projects, and by cutting down the costs or the rephasing of major works involving large outlays and long gestation periods. In the ultimate analysis, however, in view of the obvious limitations of the existing administrative and organisational framework, it would perhaps be overoptimistic to assume that additional financial resources of about Rs. 500 crores could be mobilised.

In that event it appears quite likely that the increase in the public sector outlay will have to be financed by a

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less the public cooperated cleanliness could not be maintained. But they would not explain why they allowed the caterers to set up shops and kitchens everywhere.

Taxi cabs and scooter rickshaws charged five to six times the normal fare—while the taxies charged about Rs. 4 a mile, the scooter rickshaws charged Rs. 2 a mile on the average. Those who came from outside would have spent half their budget on conveyance.

Many people are reported *to have sold the invitations* issued by the Defence Ministry. In one instance three invitations were sold for Rs. 50, it was learnt. Such instances were not few, it was gathered.

The cultural pageant was completely spoiled this year by the addition of the Hindustan Steels and the Oil exploration in Gujerat. The cultural pageant which follows the military parade is meant for depicting the wide and varied culture of India and each State is represented in this. But no one knows the culture behind exhibiting a steel project and oil digging operations. Added to this was the culture of the Central Public Works Department—there was a tableux of the horticulture section of this department.

Traffic arrangements were no better this year and one felt after witnessing hold-ups, jams and accidents here and there that the Delhi Police have still to learn a lot about traffic control on special occasions such as the R-Day. Many a police man was unable to guide the people properly and those who came from

... is still unknown to Delhi Police constables and even to some officers, most of whom know no language except Hindi.

The Traffic Police also failed to exercise their authority over the scooter and taxiwallahs who were looting the

... for over two hours. While they did not want to pay according to the whims of the taxiwallas, the taxiwallas did not want to charge according to the meter. In fact, they cared very little for the uniformed I.P.S. officers.

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corresponding reduction in the outlay now allocated for the private sector. Looking to the composition of the private sector outlay, which incidentally does not provide for any current expenditure, it is also certain that the most significant shift of outlay from the private to the public sector will have to be in the field of industry and minerals.

Here, the private sector is now expected to invest about Rs. 1,000 crores. If the anticipated shift takes place, the outlay in the private sector on industry and minerals may well be reduced by between Rs. 600 crores and Rs, 700 crores. Restrictions on licensing private-sector projects and increased corporate and Personal taxes may be ways of shifting resources from the private to the public sector. Whatever the mechanism of such a transfer of resources may be, the net result would be to hamstring private investment in industry and minerals.

There is of course little virtue in considering the plan as being composed of two rival plans—public and private sector plans. If public enterprises can be managed and run in a business-like manner and made to contribute substantially to the domestic financial resources, none can oppose the proposition that basic industries like steel, power, generation and fertilisers should be entirely in the public sector.

But the experience gained so far indicates that the effectiveness of industrial investment in the public sector can be much lower than that in the private sector. For example, in the First and Second Five-Year Plans, public sector investment in power, mining and manufacturing amounted to nearly Rs. 1,500 crores. The increase in the national income from this investment may be roughly estimated at only Rs. 120 crores. This gives a capital-output ratio of 12.5.

This very high ratio is partly due to the fact that public sector projects by their very nature have long gestation periods. Even so, the ratio now obtaining is abnormally high. This also means that the contribution of public-sector investment the growth of industrial output has so far been very low.

Compared with this situation, investment in mining and industry in the private sector over the First and Second Plans amounted to about Rs. 1,000 crores, and the corresponding increase in the national income from this investment as well as from the better utilisation of the existing capacities can be estimated at about Rs. 550 crores, yielding a capital-output ratio of 1.8.

This low ratio could be partly explained in terms of the inherently short gestation period of industrial projects undertaken by private enterprise. But the effectiveness of private investment in industry would seem to be nearly five times as large as that of public investment. This does not mean that private investment in industry has so far contributed much more to the growth of industrial output and therefore to the general growth of the economy than public investment has been able to do.

The future may be more promising. Nevertheless, when shifting resources from private to the public sector, it would be necessary fully to consider the probable effects of the shift on the growth of industry as a whole and the implications which a retarded or lower growth of industry would have for the integrated development of the country's economy during the Third Plan as well as subsequent plans.