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THE TIMES OF INDIA

THIRD PLAN FINANCE

I—Domestic Savings And Foreign Aid

By B. R. SHENOY

FINANCE for investment outlay is ultimately drawn from, and is limited by, the sum of domestic savings and foreign aid. This is an inviolable economic truth of universal applicability, though it seems to need repetition and emphasis. The quest for Third Plan finance thus resolves into an assessment of the magnitude of savings and the availability of foreign aid during the period 1961-62 to 1965-66. Mobilising these resources for plan investment is a matter of organisation, financial technique and detail.

INFLATION

The volume of savings is derived from the rate of saving and the magnitude of the national income. The rate of saving in recent years has varied. During the first three years of the First Plan, when the economy was free from inflation, savings fluctuated from 5 per cent. of the national income in 1951-52 to 6.6 per cent. in 1954-55, as against 6.9 per cent. in the immediate pre-plan year. With the re-emergence of inflation in 1955-56,—savings being augmented by created money,—the rate of savings jumped to 8.1 per cent. and to a peak of 8.6 per cent. in 1956-57. Even as the volume of adulterated milk is no measure of the milk yielding capacity of the cow, these figures are deceptive as a guide of the willingness and ability of the community to produce voluntary savings. It is significant that in 1957-58, when inflation (temporarily) ceased, savings, now limited to voluntary savings, fell to 6.9 per cent., or close to the rate attained three years earlier under non-inflationary conditions.

Currently—the last year of the Second Plan—the savings rate is officially conjectured to be "around" 8 per cent. If the water of inflation is squeezed from it, the rate may be closer to 7 and 8 per cent. Second Plan finance ran into a storm principally because plan computations had assumed the rate to rise to 9.7 per cent. In 1955, the present writer, it is tempting to recall, had observed that a rise in the rate to 8 per cent. "should be deemed an achievement."

Placing the current rate of voluntary savings at a liberal figure of 7.5 per cent. and basing our guess on the achievements in the recent past, this rate may not rise higher than 8.5 per cent. in 1965-66. The Third Plan target is 11 per cent. Apart from vague references to "fiscal, monetary and other regulatory measures," it is not clear how this steep rise is proposed to be achieved. It may call for Communist techniques of direct physical restraints on the expansion of consumption. The target may not materialise under our present policies which are not conducive to accelerate savings. The unduly heavy accent on "welfare" activities, impatient wage policies, the uncertainties created by the objective of a socialist pattern of society, inflation and the inordinately high tax rates induce increased spending in both public and private sectors.

The Third Plan, accepting Second Plan projections, assumes national income to rise at an annual rate of over 5 per cent. In the decade ending 1958-59, this rate was 3.1 per cent. (compound). In the nine years ending 1957-58, for which period we have "final" figures, the rate was 2.5 per cent. (compound). During the last three years of this latter period, when "planning" was intensified, the annual rate of increase in national income was 1.9 per cent. (compound); per capita income in these years was semi-stagnant, as population simultaneously rose by 1.6 to 1.9 per cent., per year.

STATISM

Under the wet blanket of growing statism, rapid expansions of national income seem unlikely. Statism has involved diversion of the largest bulk of domestic savings (56 per cent.) and foreign aid (83 per cent.) into low-return public sector investments and large parts of the resources of the organised private sector into certain (protected) industries, where real costs are high, to the relative neglect of agriculture, which yields 50 per cent. of the national income, and, among industries, cotton textiles, which account for 36 per cent. of industrial production; it has also impinged adversely on the national product through causing, directly or indirectly, leakages of savings into gold hoards, concealed capital exports and their misdirection into socially less essential channels of investment such as urban building property. With these handicaps, we have to rely on favourable weather conditions, which appear but periodically, for spurts in the national product. It may be unrealistic, therefore, to expect national income to grow faster than at an annual average of 3.5 per cent. (compound).

On this basis, assuming national at 1958-59 prices. Assuming the rate of savings to rise simultaneously from 7.5 per cent. to 8.5 per cent., the volume of savings during the Third Plan period, including savings from the total expansions of income during the five years (Rs. 6,300 crores), may then be Rs. 5,900 crores.

The Third Plan contemplates an investment of Rs. 10,200 crores and an "investment outlay" of Rs. 11,250 crores. The difference between the two figures represents expenditure on "social services and certain administrative overheads" in the public sector entailed by Third Plan investment. "Investment" is a measure of capital formation in the physical sense and "investment outlay" includes, in addition, expenditure on the formation of human capital. Both expenditures demand net resources, so that investment outlay is the correct measure of the financial requirements of the Plan. The deficit in resources is, therefore, Rs. 5,350 crores.

This gap must be covered by foreign aid. Aid visualised in the Plan is Rs. 3,200 crores. Rs. 200 crores of this is for building up buffer stocks of food grains and Rs. 500 crores for repayments on past aid. The amount available for plan investment is thus Rs. 2,500 crores. This leaves an uncovered deficit of Rs. 2,850 crores.

DEFICIT

Three factors seem to obscure this deficit from the computations of the Planning Commission. First, it assumes an inflated rate of saving. Secondly, it applies this inflated rate to an inflated rate of expansion of the national income, the latter being assumed to rise to Rs. 17,000 crores from Rs. 13,000 crores in 1960-61. As a result, the Commission's estimate of savings during the Third Plan is Rs. 7,200 crores, or Rs. 1,300 crores too high. Finally, though the Commission accepts the principle of investments being limited by the sum of domestic savings and foreign aid, it does not derive the figure of the necessary foreign aid by deducting the estimates of savings from the projected investments; it assesses this by assumptions of the "foreign income at the close of the current year to be Rs. 13,400 crores, it may rise to Rs. 15,900 crores at the close of the Third Plan, both exchange components" of the in-

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U.P. Official Cleared Of Espionage Charge

STATEMENT BY THE CHIEF MINISTER IN VIDHAN SABHA

"The Times of India" News Service

LUCKNOW, August 1.

U.P.'S Chief Minister, Dr. Sampurnanand, told the Vidhan Sabha today that charges of espionage levelled by a member of the House against an officer of the State Information Department had been found baseless.

As a result of C.I.D. inquiries, he said, it had been established that "no officer of the Government ever met any official of the Chinese Embassy in a Bombay newspaper office or elsewhere and that no information of any kind concerning border affairs or correspondence between the Prime Minister and myself was ever disclosed by any officer in manner alleged or in any other manner.

"No blame about the leakage of information or about any illegal or undesirable contacts with any foreign agent could be ascribed to the officer who was referred to in supplementary questions asked by a member in the Vidhan Sabha on March 24."

During last budget debate Raja Yadavendra Dutt Dube, leader of the Jana Sangh group, had alleged that an officer of the Information Department met a Chinese Consulate official at a newspaper office in Bombay and passed on to him "secret information" about U.P.'s border affairs.

MEMBER QUESTIONED

Referring to the allegation, Dr. Sampurnanand stated today: "As the allegation was of a serious nature, I decided to pursue the matter and questioned the member who had made the allegation on the floor of the House on what information he had based such a serious allegation.

The member gave the Chief Minister certain information on or about March 9 and he immediately ordered an inquiry.

On March 24, replying to a short-notice question, the Chief Minister informed the House that the case had been handed over to the C.I.D. "Every information . . . purporting to have a bearing on the alleged disclosure of secret information had been thoroughly checked both locally and outside the State. No blame about the leakage or about any illegal or undesirable contacts with any foreign agent could be ascribed to the impunged officer."

Referring to three secret fortnightly circulars which Raja Yadavendra Dutt Dube had given him, Dr. Sampurnanand said although the member had not co-operated with him in tracing

guilty of removing secret reports from the file as otherwise all journalists would be suspect.

Declining the request, Dr. Sampurnanand said that all newspapermen knew the identity of guilty persons. The Government would see that the journalist concerned did not have access to any office.

Dr. Sampurnanand added that while the member who had levelled the charges must have done so in good faith, his informant must be a person who had "ane axe to grind." "The result has been that an innocent officer has been subjected to unnecessary humiliation and mental distress," he said.

STAY OF HABEAS CORPUS BID

Akali Chief's Advice To Lawyers

"The Times of India" News Service

CHANDIGARH, August 1: Master Tara Singh, the Akali leader, has directed the Akali Dal Legal Defence Committee to defer by a few days the filing of a habeas corpus petition to challenge his detention.

A communication to this effect received from Dharamsala Sub-Jail is believed to be a sequel to the order of the Punjab Government confirming the Akali leader's detention for one year.

The Akali Chief has also asked two members of the Legal Defence Committee, Mr. Gurnam Singh, a former Judge of the Punjab High Court, and Mr. Amar Singh Ambalvi, an advocate, to see him in the jail, to receive further instructions from him regarding the habeas corpus petition.

According to Mr. Harbans Singh Gujral, the legal representative here of the Dal, an application seeking permission to interview Master Tara Singh in jail has been forwarded to the Deputy Inspector-General of Police, C.I.D., Punjab. He also revealed that the Akali Chief had a severe attack of piles on July 24.

Nankana Sahib Jatha

"The Times of India" News Service

AMRITSAR, August 1: Mr. Mo

Investment Projects

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vestment projects, which are not always reliable, among other reasons because, ordinarily, they cannot be rigidly fixed in advance. In the process, its estimates of foreign aid have fallen short of needs, even on its own assumptions, by Rs. 1550 crores.

The amount of the deficit in the private sector may not be considerable. In both the First and Second Plans achievements in this sector had exceeded targets, the estimated investments during the Second Plan being Rs. 3,100 crores, as against a target of Rs. 2,400 crores. The target for the Third Plan (Rs. 4,000 crores) is 29 per cent. ahead of the performance in the Second Plan. But private sector savings have been vastly larger than private sector investments. The problem of a deficit in this sector may arise from unduly heavy drafts of savings into the public sector and large dissipations of savings into wasteful uses, such as gold hoards, and non-plan investments. In any case, a deficit in the private sector does not convey the same threat of primary inflation as a deficit in the public sector. The private sector has no direct access to the issue of money, *which is open to the public sector.* Compulsions of profitability in the selection of investment undertakings and financial prudence on the part of lenders—commercial banks—provide some inbuilt safety device against inflationary credit creation.

(To be concluded)

[illegible] Service Course [illegible] 40 forest [illegible] at the Indian Forest Rangers' College, Dehra Dun. Five officers will be sent to the U.S.A. for training in the latest techniques of management of hilly watersheds. A provision of Rs. 2 lakhs has been made for forest research.

PUNJAB VILLAGE WASHED AWAY

200 Families Homeless

"The Times of India" News Service

FEROZEPORE, August 1: Bahianya village, about 80 miles from here, has been washed away, following a breach in the newly-constructed Sirhind feeder.

About 200 families have been rendered homeless. The houses in the village have been destroyed. Food grains and fodder have been submerged.

No loss of human life has, however, been reported.

Mr. Bhim Singh, Deputy Commissioner, visited the spot yesterday and announced a grant of Rs. 5,000 from the District Relief Fund.

RAILWAY TRACK DAMAGED

Trains Diverted

"The Times of India" News Service

BHATINDA, August 1: The bund constructed by the Northern Railway authorities to control flood water near the Budhalada station on the Bhatinda-Delhi line gave way yesterday, resulting in damage to the railway track. Consequently mail trains between Delhi and Ferozepore had to be diverted via Ambala.

Flood water from the Sirhind canal and the Bahadursinghwala drain has caused considerable [illegible]