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THE TIMES OF INDIA

THIRD PLAN FINANCE

II—Public Sector Deficit

By B. R. SHENOY

VIRTUALLY the entire amount of the uncovered overall deficit (Rs. 2,850 crores) is in the public sector. Public sector investment outlay in the Third Plan is placed at Rs. 7,250 crores, a jump of 58 per cent. over the estimated performance (Rs. 4,600 crores) in the Second Plan. The contrast is even greater than these figures indicate. Drafts on currency reserves (about Rs. 590 crores) provided some 13 per cent. of public sector finance in the Second Plan. Recourse to currency reserves is no longer possible. Allowance being made, too, for foreign aid (Rs. 982 crores or 21 per cent. of investments) and created money, finance drawn from voluntary savings for public sector investments in the Second Plan was less than Rs. 3,000 crores, or 65 per cent. of the outlay in the sector. Targets of investment in the immediate future must bear some reasonable relationship to performance in the immediate past.

The inflated character of the proposed investment in the public sector is reflected in the inflated estimates of receipts under the several heads of Third Plan finance. To place "surpluses" from public sector enterprises, "on the existing basis," at Rs. 440 crores seems near fantastic. In the Second Plan, the surpluses from Posts and Telegraphs amounted to Rs. 37 crores and the profits of Central enterprises to Rs. 5.4 crores, or a total of 42.4 crores. As Government enterprises are heavily over-capitalised and their running costs are generally excessive, to expect a surplus of over Rs. 100 crores may be unrealistic.

PERMANENT DEBT

Though subscriptions to permanent debt and small savings in the first four years of the Second Plan aggregated about Rs. 1,300 crores, the whole of this was, in effect, created money. This is obvious in the case of that part of the subscriptions which accrued from the banking system (Rs. 670 crores), including the Reserve Bank. It was true also in the case of the rest of the subscriptions (Rs. 630 crores), as the latter represented a return to the Government of part of the created moneys, raised by the sale of Treasury Bills to the Reserve Bank (Rs. 950 crores). This phenomenon (of subscriptions to permanent debt and small savings representing inflationary funds and returning to the Government) has been in operation since 1954-55; in the prevailing context, it forms part of the mechanism of inflation and receipts under this head (Rs. 1,400 crores) in the Third Plan scheme of finance are a category of back-door deficit financing.

Inflationary finance is also imbedded in the "budgetary receipts corresponding to external assistance." This includes grants and loans to the Government from P.L. 480 counterpart funds, which are created money, and disbursements from them are a case of inflationary finance of the public sector. The total amount of these funds in the Third Plan is Rs. 608 crores; what part of it will go into the public sector is not clear. In the Second Plan, as at November 1959, of a total P.L. 480 aid of Rs. 441 crores, Rs. 327 crores was placed at the disposal of the Government.

Receipts from additional taxation during the Second Plan amounted to Rs. 1,000 crores (as against the Plan target of Rs. 450 crores). This was more than balanced by "current outlay" (Rs. 950 crores) on administrative and social expenditure incidental to the expansion of investment, and allotments (Rs. 100 crores) to cover the increase in the ordinary expenditure debited to revenue. No part of it went into investments proper. It may be difficult to collect the full amount of the proposed additional taxation of Rs. 1,650 crores during the Third Plan. Judging from past experience, it may prove ruinous to middle-class investors by depressing share values. Receipts under this head may balance roughly one half of the amount of the "current outlay." The Third Plan expects contributions of Rs. 350 crores from "revenues on the basis of existing taxation." Considering the rise in the curve of "welfare" expenditure, the possibility of higher pay scales and larger defence expenditure, this may prove to be too high. The expected receipts from the other heads of finance—railways, Rs. 150 crores and miscellaneous capital receipts, Rs. 510 crores—seem attainable.

FOREIGN AID

It would appear, therefore, that the deficit in the resources of the public sector may be of the order of Rs. 2,800 crores, not just Rs. 550 crores, the amount of the overt deficit financing. It would appear, too, that the total amount of foreign aid necessary to see the Third Plan through may be (the amount of the uncovered gap of Rs. 2,850 crores plus Rs. 3,200 crores, the amount of the aid visualised in the Third Plan) Rs. 6,000 crores ($12.60 billion), or well above twice the amount of aid which the U.S. Democratic Party Convention is reported to have contemplated. Foreign aid would, then, represent, not 31 per cent. but the major part (58 per cent.) of the proposed investment effort. Aid on this scale is inconceivable. This reveals the near fantastic dimensions of the problem of Third Plan finance.

HUGE WASTAGE

Despite for planning and the phenomenal jump in investments from Rs. 3,760 crores in the First Plan to Rs. 7,700 crores in the Second Plan, the achievements of the past ten years in overcoming poverty and unemployment and in the progress towards a socialist pattern of society—the three national objectives—have been either disappointing or negative. Per capita consumption of necessaries, in recent years, has been semi-stagnant. Statistics of changes in the pattern of production of consumer goods—cars, art-silk fabrics, films, cycles, cigarettes, sugar, cotton textiles, food grains, sugar-cane, gur—bear testimony to the anti-social shifts in the distribution of national income, which other evidence confirms. The Third Plan will inherit more unemployed from the Second Plan than the latter inherited from the First. The reasons are not far to seek. As a result of corruption and wastage, halting progress in efficiency, construction of idle capacity and investments in the economically less productive projects, it now takes over Rs. 5 in investment, as against Rs. 3 in the First Plan, to achieve an annual increase of Re. 1 worth of output. This extravagance in the use of resources has restricted the expansion of income and employment.

It is wholly unnecessary to get stuck in this predicament, if we are not afraid of a fundamental reassessment of our policies. The attainment of all three objectives demands maximisation of output. We cannot abolish poverty except through expansion of production. Employment increases only with output. Output provides the wherewithal for reducing inequalities. Our policies, therefore, should be production oriented. Since the pattern of production cannot change overnight, it follows that savings and other resources should

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'STATUS QUO' TO BE MAINTAINED

Punjab Language Formula

"The Times of India" News Service

CHANDIGARH, August 2: The Punjab Chief Minister, Mr. Pratap Singh Kairon, declared today that the State Government was committed to the full implementation of the regional formula in the State.

Although he did not specifically mention what part of the regional formula he had in view, he seemed anxious that the two main clauses of the formula which had not been implemented so far should be enforced as soon as possible.

One of these two clauses envisages the creation of separate department for Punjabi and Hindi. The other calls for making regional languages medium of administration up to the district level.

The Chief Minister said that so far as he was concerned he was not bringing forward any language formula and would allow the present arrangement to continue until any agreed formula was evolved.

He added that only when the people agreed to learn and adopt both the languages as their own, the troubles of Punjab would come to an end.

Asked if he would accept the recommendations of the 26-member committee on language, the Chief Minister said that the recommendations of the committee would be duly considered by the Government. His only desire was that there should be perfect communal harmony in the State, he added.

LANGUAGE ISSUE

Sewak Dal Team To Meet P.M. On Aug. 7

"The Times of India" News Service

JULLUNDUR, August 2: A fresh move to solve the Punjabi language issue might be initiated on August 7 when a deputation of the Panth Sewak Dal which is led by Giani Kartar Singh's group would meet Mr. Nehru.

The deputation, which is likely to put the Dal's viewpoint on the language problem before the Prime Minister, will be led by Mr. Amar Singh Dosanjh, the Dal President, according to an announcement made here this evening from the Dal's headquarters.

GOVT. SERVANTS WARNED

Akali Agitation

"The Times of India" News Service

AMRITSAR, August 2: The Punjab Government, it is reliably understood, has issued a circular warning Government servants directly or indirectly aiding or abetting the Akali agitation for Punjabi Su...

Chintpurni Fair

"The Times of India" News Service

HOSHIARPUR, August 2: The five-day Sawan Ashtami fair of Chintpurni concluded yesterday. Thirty thousand pilgrims attended the fair.

About 4,000 pilgrims travelled on cycles and the rest on foot and by buses. A bus carrying about 31 pilgrims to Bharwain fell into a 'khud' about 25 feet below the road, about 13 miles from Hoshiarpur, but none of the passengers or the driver was injured as the bus did not turn turtle.

Naini Tal Festival

"The Times of India" News Servi

NAINI TAL, August 2: The loc Municipal Board at its meeting o Saturday decided to hold an autum festival and fair this year. M Manohar Lal Sah, President of th Board, was in the chair.

A seven-member committee heade by Mr. Sah was to draw up an elabo rate programme for the festival aim ing at stimulating tourist traffic t the town and providing entertainmen to visitors.

DEVELOPMENT OF AGRICULTURE

Govt. Steps Urged

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be devoted first for the expansion and modernisation of agriculture and the lighter industries, which account for about two-thirds of Indian economic activity. This is not to argue against the need and importance of diversification. But heavy industries must follow the growth of light industries and agricultural progress must precede industrialisation, if waste is to be avoided.

This demands abandonment of the present policies of pressurised diversion of investment resources into the public sector, investments in it being limited to the sum of public sector savings, government to government foreign aid and the current savings of the community, placed at the disposal of the State voluntarily. This change in the approach to planning must be accompanied by monetary and fiscal policies to ensure zero inflation and price stability, and a minimum of interference in the economic life of the community.

It is time we abandoned our pet theory that inflation and rising prices, balance of payments difficulties, controls, in particular, exchange controls and import restrictions, are "part and parcel" of a developing economy and that, with the aid of P.L. 480 imports, we can accelerate economic growth through deficit financing. It has caused not a little damage to the national product and to social progress.

These policy changes cannot at once lead to an increase in the flow of savings. But a faster increase in the national product, and a larger expansion of employment, may result from the same volume of investments by eliminating extravagance and misdirection of savings and inducing more productive investments in such a way that the amount of capital employed for raising Re. 1 worth of output would be less than now. With agricultural yields generally among the lowest in the world, the returns on improved farming so considerable, and with the large demand for the expansion of industries producing the elementary needs of modern living, this should bring an increase in national income of an order of 8 to 10 per cent. per annum. As our own experience of the early years of the First Plan has confirmed, monetary and fiscal stability should make for accelerated increased in savings with the growth of income. Even on the basis of a rate of savings of 8.5 per cent at the close of the Second Plan, national income should be Rs. 21,000-Rs. 24,000 crores, as against the Planning Commission's target of Rs. 17,000 crores and the volume of savings during the Third Plan Rs. 7,300-Rs. 8,000 crores, as against the Planning Commission's target of Rs. 7,200 crores. This should place the Indian economy on the right road to progress.

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