Planning: The Next Necessary Stage

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IN a country like India, with its vast territory, centralised planning has its limitations. A central authority can plan for industries whose technological co-efficients are given and whose products are valued for their national significance. Usually, these are large-scale units. They often depend for their inputs on raw materials transported from distant regions; their products are again distributed over different parts of the country. At the current stage of development in the country, the large industries can achieve economies of scale only when they can cater to markets spread over large areas in the country, as the size of the markets in the regions neighbouring the industries is not big enough to absorb their products. Planning of investments in such industries has to be undertaken keeping the total economy in view. Concurrent with industrial planning, the central authority has to plan for transport and communication systems to provide the necessary support to the industries.

This leaves open the sector consisting of industries which serve primarily the regional needs. Medium and small-scale industries belong to this sector. As these industries depend on the markets in the adjoining regions for the sale of their products, they require to be planned at the regional level on the basis of information available for the respective regions. Many of these industries utilise as inputs raw materials available within the regions. By and large, they do not create any pressure on the long-distance transport services. Also, more often than not, these industries have a higher labour-capital ratio than the larger units.

The approach towards industrialisation that has so far been generally followed in our country called for the development, in the first stage, of large-scale industries in the heavy and basic sector. This was expected to provide enough capital goods for the development of industries manufacturing consumer goods in the second stage. This way, a faster rate of growth for the economy could be achieved. The surplus generated by the industries would be invested for their further expansion. With rapid industrial expansion, it would eventually be possible to absorb the backlog of unemployment as well as the growing labour force in the country.

While the first stage in the above scheme seemed to work with some success in India, it did not fulfil the expectations about the second stage and beyond. The failure of the economy to take off in the second stage was reflected in the underutilisation of the capacities created in the first stage. Nevertheless, it was the investment in the heavy and basic industries in the late fifties which provided the basis for a high rate of industrial growth during the decade 1955-1965.

We may now examine why the growth process did not prove to be continuous and resulted in excess capacities in the heavy industries sector. First, one has to take into account the lag in time before a large industrial unit after its installation can attain full capacity production, even when demand for its products exist. In a number of instances, investment on balancing equipment remained to be undertaken. Secondly, the supply of managerial expertise has not kept pace with the need for it, even as the idea of industrial discipline is yet to take root in the minds of the new entrants from agriculture into industry. Dislocation in industries, following from these, characterise a developing economy. Thirdly, industries in the public sector failed to generate surplus earnings for reinvestment. Here again, there is a lag in time before one can expect enterprises — particularly those related to production of capital goods — to earn net profits. Much would depend also on the pricing of the products; some criticism has been made of the underpricing by the public sector industries. Fourthly, after 1965, the public expenditure on investment declined sharply. As a large segment of the private sector is dependent for their functioning on orders placed by government, the decline in public expenditure had serious repercussions on private units' performance as well. With the prospects of expansion bleak, the medium and the light industries too would not place orders for capital goods with the concerned industries. A state of stagnation in the industrial sector of the economy thus ensued, from which it is yet to recover.

The strategy of absorbing the growing unemployed among the labour force failed signally. It came to be realised from experience under the successive Plans that modern technology in industries offers little scope for accommodating the increase in the labour force in the country. In fact, additional employment, created by the organised industries over the successive Plans, actually declined. It is clear now that it will be a long time before the industrial sector in the country can absorb the unemployed labour force. For some time to come, therefore, means have to be found to contain the substantial volume of the unemployment within the agricultural sector and in industries and activities which can be labour-intensive.

We thus have to think in terms of a development process which reverses the order observed by classical economists. The problem confronted by the classical economists was that of diverting labour from agriculture into industry. The Enclosure Act in Britain introduced the element of force to achieve the objective. The rising bourgeoisie in Europe did not have to contend with a surplus labour force. The problem in the developing economy is to hold back the surplus labour in the countryside and to use it productively *there*, if possible. Such a possibility has, however, become feasible with the experiences in Japan on one hand and China on the other.

Japan has shown how, with improved technology, multiple cropping increases productivity of land and makes small plots of land also economically viable. Intensive cultivation also engages more labour. China, faced with a problem similar to India's, took entirely to unconventional measures. They experimented with efforts to attain self-sufficiency in small local areas, in respect of both agricultural and industrial goods. What emerged in the process of trial and error was a series of small industries dotting the countryside — producing goods of rough quality serving the local consumers, and implements and other inputs for agriculture and animal husbandry. The processing of agricultural products too was brought closer to the area of production of these products. The strategy has paid off in two respects. First, it has engaged large numbers of idle manpower to earn their living. Secondly, it has relieved the pressure on the national transport and communications system — which would otherwise be a serious problem in a large country such as China. Two other things need be noted. First, activisation of dormant labour power meant a net addition to the resources of the society. Second, as the scale of the industrial units was not required to be large the resources for investment could be more conveniently mobilised. Lastly, the gestation lag for the small units has also been short.

In India, we face the twin problems of idle manpower and idle machines in the heavy industries sector. The expansion of the light and the medium industries which could call for utilisation of the excess capacity of the heavy industries is held in check, partly by the lack of availability of inputs and partly by the deficiency in demand for manufactured items following from the sharply inegalitarian pattern of income distribution and mass poverty in the country. About 80 per cent of the population, who reside in the countryside, have a meagre purchasing power. A large section of the labour force in the urban areas too remain without earnings as they are unemployed.

The strategy for industrialisation, in this context, requires a basic reorientation. In the present stage of development, what is needed is direction of investment into expansion of medium and light industries and programme of development in the countryside to achieve employment for the rural unemployed. The two objectives can be combined, to some extent, if one considers the potential for the agricultural product-processing industries.

On the one hand, such industry can feed agriculture with inputs such as pumps, tubewells, implements, equipments, and chemicals. On the other, it can process the agricultural products at various stages — from storage and transhipment to conversion into various other products and byproducts. A range of medium and light industries can be agro-based. As the movement of agricultural products in bulk over long distance becomes costly, there is good reason to process them in industrial units within a reasonable distance from the area of cultivation. The scale of such industries would be limited by the hinterland of the supply of their inputs. The existence network of communications in the rural areas does not encourage a significant increase in their scale. With the labour freely available in the countryside at wages for lower than those in the urban areas, entrepreneurs may find it convenient to economise on capital and depend more on labour-intensive techniques of production. The resources for small-scale industries may also be easier to mobilise by entrepreneurs in the rural areas.

However, such a programme for industries in the countryside would depend largely on the level and extension of agricultural activity which must provide the basis for agro-industries and other industries. A prosperous agriculture can generate sufficient income for the marketing of goods produced by industries catering to their demands. The development of agriculture is, therefore, a precondition to the creation of a viable market in the region.

The argument for small-scale and medium-scale industries can be established, in certain circumstances, also for those that are not based on agriculture. If the material inputs are available within the region under consideration, an industry there cuts away the costs of transport of raw materials and intermediate goods over long disances. Secondly, insofar as the market within the region is of a reasonable size the finished products too are not required to be transported over long distances, thereby permitting reduction in the distribution cost. It is conceivable that a small-scale or medium-scale unit of production, catering to regional demands and satisfying the above conditions, can compete with a large-scale unit, even though the latter has some technological superiorities, because the large-scale unit has to depend both for its inputs and for its market on distant areas.

The presence of large numbers of unemployed persons in an economy introduces an additional dimension in the analysis of the economies of scale. A large-scale industrial unit is usually highly capital-intensive and employs a relatively smaller labour force. While their economic efficiency is judged merely by their cost of production, seldom is the *opportunity cost* of keeping the numbers of persons idle, who could have been employed otherwise by setting up smaller units, taken into account.

The *real* cost of engaging an unemployed person in productive work in a labour surplus economy should be less than is indicated by the *market wage rate* because of the perfections in the labour market. This is particularly true when an economy is faced with the surplus of labour because of scarcity of capital resources. Economising on capital per unit of labour then becomes a desirable objective. If the choice of technology for production is left to market forces, such an objective is unlikely to be achieved — even though the viability of the productive unit, which depends on its cost being less than the prevailing price for its output in the market, may be assured. On the other hand, a unit which economises on capital per unit of labour, may prove to be viable but may not necessarily yield as high a return as could the units selected from considerations of market forces. The recourse to non-market measures — for instance, substantial relief from income-tax when the employment per unit of capital exceeds a given limit — may serve the objective with minimum distortion to the market prices.

However, attempts to encourage generation of employment by directly subsidising small-scale industries are unlikely to succeed — as, indeed, has been witnessed in the instance of Ambar Charkha and similar projects. An industry can expand rapidly in the economy when it can attract entrepreneurs by virtue of its efficiency in generating a surplus over the cost incurred in production. The State *can* guide the resources of the entrepreneurs to such enterprises by indirect measures like income-tax relief, allocation of scarce materials, etc. Under these conditions, production of some of the commodities on a small-scale may turn out to be as profitable as on a large-scale — or even more so. Formulation of the necessary conditions for such a policy should be the concern of economists. A policy of this nature is the need of the hour.

US Balance of Payments

THE US balance of payments showed a marked improvement in the first quarter of 1975, registering a deficit of $ 475 million, against a record deficit of $ 6.57 billion in the fourth quarter of 1974. One of the main reasons for the improvement was the movement of the trade balance from a deficit of $ 1.46 billion in the final quarter of 1974 to a surplus of $ 1.84 billion. The balance on current account showed a surplus of $ 2.15 billion in the first quarter of this year, following a deficit of $ 169 million in the previous quarter. In the quarter under review, net long-term private capital outflow dropped to $ 2.126 billion, compared with $ 5.584 billion in the fourth quarter of 1974.