All these working papers are going to be printed in the near future. A very brief account of the work done is given below.

13. Professor Charles Bettelheim of France developed a particular method of planning in his papers. His approach may be regarded as a synthesis of the methods of planning followed in socialized countries. He, of course, tried to adapt the methods to Indian conditions. His approach has a good deal in common with the approach of the Plan-frame in regard to the setting up of the targets and the working out of the physical balances. The allocation of investments in the Plan-frame, however, has an entirely different basis. About finances, also, the Plan-frame approach is different. Apart from this, Professor Bettelheim initiated some studies on capacity of production with a view to estimating the additional raw materials and other things which would be required, if the capacity is to be fully utilized; co-efficients calculated for this purpose were found useful for working out the requirements of raw materials for some of the targets given in the Plan-frame. The following workers were actively associated with the studies initiated by Professor Bettelheim; Asoke Rudra, E. Lobel, A. Qayum, Uma Dutta, Probir Das, P. K. Upadhyay, R. L. Rawat, Nikhilesh Bhattacharya, Pranbandhu Das, G. R. Vernwal, G. V. L. Narasinham and Sashi Chakravarty.

14. Professor Ragnar Frisch of Norway pursued studies based on fairly elaborate transactions matrices. Given such a matrix he would maximize a suitable preference function subject to the constraints given by the relations in the matrix and some boundary conditions. Once a reliable matrix of this kind is available and a suitable preference function can be constructed, his method would give, in principle, a solution of the problem of development. The statistical material available in India is, however, not adequate to enable this method being used with success at present; and his work, at this stage, remains primarily of methodological interest. It may be noted that he obtained his linear programming solutions by his double gradient method and demonstrated its superiority over the simplex method in so far as time requirement is concerned. The following workers were associated with Professor Frisch: Tarapada Chaudhuri, Dev Kumar Bose, Amal Ray and Ajit Halder.

15. Dr. Richard M. Goodwin of Cambridge, England and Dr. Tarapada Chaudhuri prepared an input-output table relating to 1950-51. Material for this purpose was extracted by a quick tabulation of a sub-sample of the National Sample Survey and was

used to estimate the overall activity and the sector break-down of costs. The Central Statistical Organization collaborated by supplying detailed information relating to estimates of national income. Work is continuing in this field in the Indian Statistical Institute and recently a larger input-output table for 1951-52 has been completed. Prominent workers in this group were: Tarapada Chaudhuri, Indra Chakravarti, Amiya Dasgupta, Kalpana Joshi, Ashish Chakravarti, Samar Mitra, H.P. Biswas, Prasanta Chowdhury, D. V. R. Murti, B. P. Panesar and Sunil Sinha. Subsequently, Satya Sengupta and his associates worked on studies of a similar type.

16. Jogabrata Roy, Indra Chakravarti, Radha Govinda Laha, A. Ganguly, Shyam Bose and Sukomal Das worked on the problem of projection of consumption and obtained some estimates of elasticities. Their results have been used in the Plan-frame.

17. Ajit Dasgupta worked on the problem of population projection and obtained estimates of projected population under different hypotheses. His group included among others: Murari Majumdar, Ranjan Som, B. N. Sarkar, Dhiren Sarkar and Prosun Sen.

18. Sitanghsu Bhattacharya and Ram Lingam Iyer made some studies on manufacturing industries. Certain field studies on unemployment, and interactions between planned and unplanned sectors were taken up by N. C. Ghosh, H. K. Chaturvedi, Keshav Dutt, Prosun Sen and Sudhir Bhattacharya.

19. Nihar Chakravarti wrote a paper on a plan of land reform. Raja Rao, R. P. Saha, Haribhajan Chowdhury and subsequently G. Kallianpur worked on certain aspects of the problem of land reform.

20. D. B. Lahiri aided by Saibal Banerjee, S. J. Poti, Samar Mitra, Des Raj and Sambhu Halder worked on the general question of the validity of data. D. B. Lahiri subsequently helped in administrative matters relating to planning. C. R. Rao helped in our work by placing the facilities of the Research and Training School at our diposal for these studies. B. Ramamurti (Jt. Director, CSO) assisted by M. P. Srivastava (Asst. Director, CSO) supplied necessary statistical data from the Central Statistical Organization and made its facilities generally available for these studies.

21. J. J. Anjaria (Chief, Economic Division, Planning Commission and Economic Adviser, Ministry of Finance) and I. G. Patel (Deputy Economic Adviser, Ministry of Finance) worked out the financial and monetary side; and generally helped in the preparation of the Plan-frame. Moni Mukherjee (Deputy Director, CSO) and Uma Dutta (of the CSO) worked on my two-sector model and helped

me in following up some of my ideas which culminated in the preparation of the Plan-frame. Pitambar Pant (Deputy Secretary, and Private Secretary to the Chairman, Planning Commission) helped at all stages of the work.

22. Academician D. D. Degtyar, Professor I. Y. Pisarev, M. I. Rubinstein and P. A. Moskvin of U.S.S.R. and Dr. Oskar Lange of Poland gave a critical appraisal of the general approach and the final form of the Draft Plan-frame on the basis of their own experience of socialized economies. Their comments and observations were of great help to us although our own approach is different from theirs in certain important respects. The aim of the Plan-frame has been to seek an approach which would be suited to Indian needs and would be in accordance with the social and cultural traditions of India.

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APPENDIX I

RECOMMENDATIONS FOR THE FORMULATION OF THE SECOND FIVE YEAR PLAN

Prime Minister Jawaharlal Nehru inaugurated the studies relating to planning for national development in the Indian Statistical Institute on 3 November 1954. The work on economic planning was then organized and carried on with the active collaboration of the Central Statistical Organization, the Economic Division of the Planning Commission and the Department of the Economic Affairs of the Ministry of Finance. On the basis of four agency co-operative studies the 'Draft Plan-Frame' was prepared and submitted to the Prime Minister on 17 March 1955. The Panel of Economists, Planning Commission examined the 'Draft ' in April 1955 which was then accepted by the National Development Council in May 1955 as the basis for the formulation of the Second Five Year Plan of India.

PREFACE

1. The paper dated March 17, 1955 was prepared as a *draft of a " draft Plan-frame"* and has been circulated as such and is subject to revision by the Planning Commission.

2. The general objectives and policy and administrative questions (which are discussed in Chapters One and Six) can be considered on their own merits.

3.1. The quantitative estimates were worked out with two chief aims in view, namely,

(a) an increase in national income of 5 per cent per year; and

(b) creation of new employment by way of gainful occupation or jobs for 11 million persons over the plan period.

3.2. Certain basic allocations of investments were made between investment goods and consumer goods industries. It is necessary to maintain this general pattern of investments but there is scope for adjustments in details.

3.3. The draft Plan-frame is, therefore, not rigid and can be modified; but there are inter-relations between its different parts so that a change of the target in one item may require consequential changes in other items.

4.1. Background information relating to the physical targets and financial estimates (Chapters Two, Three, Four and Five) will be found in the accompanying paper prepared jointly by the

Economic Division of the Planning Commission, the Economic Division of the Ministry of Finance, the Central Statistical Organization, and the Indian Statistical Institute.

4.2. The draft of the draft Plan-frame and the above joint paper are consistent with each other but are not identical.

4.3. The Report of the Panel of Economists dated 10 April 1955 has reference to both the above papers.

5.1. Within the general pattern of investments (explained in para 3), an attempt was made to fit in the physical targets on the basis of information that was readily available in the Planning Commission and in the Ministries concerned.

5.2. The draft Plan-frame does not attempt to go into details. In some cases, information was not available; and time was short. Also, it was not necessary to make the list of targets exhaustive or complete in every respect because, as explained in para 3, there is scope for adjustments in details without disturbing the main structure of the Plan-frame.

6.1. The targets are sometimes given as equivalent aggregates within which there can be substitution of components.

6.2. Estimates of financial outlay are to be taken as *net*.

6.3. Construction costs are to be taken as the direct costs of materials, of labour, and of essential technical supervision. It is assumed that excessive margins for intermediaries and other forms of waste will be eliminated.

6.4. It is assumed that promotional and field agencies and services would be integrated and coordinated to prevent unnecessary duplication.

6.5. It is assumed that non-official public organizations would be used wherever possible to decrease overhead expenses and stimulate public interest and participation in the fulfilment of the Plan.

7.1. If the basic approach of the present draft is approved, it is suggested that the paper should be revised as necessary and then issued in the revised form as the *draft* Plan-frame for the formulation of projects.

7.2. After the individual projects are received, further changes and adjustments should be made as necessary to get ready, as quickly as possible, a definitive plan which would be internally consistent and would be capable of attaining the desired objectives.

28th April 1955 P. C. Mahalanobis

INTRODUCTION

1.1. The Second Five Year Plan is due to begin on April 1, 1956. The approach in the Second Five Year Plan is to take a perspective view of development over a long period of years, and at the same time to solve immediate problems like unemployment as quickly as possible. Planning would be, therefore, flexible and would always keep a wide time horizon in view; and at the same time detailed annual plans would be prepared and necessary adjustments made at shorter intervals in the light of experience.

1.2. Proper attention must be given to the physical aspects of the Second Five Year Plan. The requirements of each project must be estimated in real terms at the stage of planning and must be forthcoming in right quantities at the right time at the stage of implementation of the project. Also, the products and services resulting from the completion of a project must be fully and promptly utilized to further the execution of other projects and the progress of the plan as a whole.

1.3. A plan in a mixed economy must be comprehensive and cover both the public and the private sectors. To achieve a balanced growth, the activities of the private sector must conform in a general way to the programme of production of the plan as a whole. In an expanding economy the private sector would have an assured market which would facilitate decisions by reducing risks and uncertainties. Also, the over-all programme would be laid down in broad aggregates so that there would be wide scope for adjustments in details at the discretion of the private sector.

1.4. The physical targets of production must also be balanced in terms of money. Incomes are generated in the very process of production; and supplies are utilized through market operations. Planning requires that aggregate incomes should be balanced with expenditure, savings should match investments, and the supply and demand of individual goods and services should be balanced in terms of money so as to avoid any inflationary rise of prices or undesirable shifts in prices. Physical and financial planning are different aspects of the same reality.

2.1. *Plan-frame*: The enclosed paper contains chapters on main aims and objectives; provisional targets of production; investment and development expenditure; expected changes in employment and income; finance and foreign trade; and planning organization and administration to supply a tentative frame-work for the formulation of the Second Five Year Plan.

2.2. It is requested that the Central Ministries, State Governments, and other project-making authorities should use the provisional figures given in the paper as a general Plan-frame for the formulation of schemes and projects taking care to make estimates in both physical and financial terms, and to forward them to the Planning Commission as they become ready.

2.3. When the individual schemes and projects have been received in the Planning Commission, the aggregate balances would be examined and adjusted as necessary until an integrated plan is evolved which will be internally consistent and balanced in both physical and financial terms. Estimates of demand and supply are bound to be approximate to begin with; and would have to be worked and re-worked to secure a proper balance.

2.4. It is recognized that while projects are being prepared there would be need of a two-way flow of information as well as of consultations between project-making bodies and the Planning Commission. The present recommendations would supply the initial base for such consultations and discussions.

3.1. *Time programme*: The programme for the first year (April 1956—March 1957) of the Second Five Year Plan must be completed by October 1955. This first year's programme would contain much carry-over from First Five Year Plan and some new items for which projects are ready or are in an advanced state of preparation. It is requested that projects for 1956-57 (including the carry-over from the First Five Year Plan) should be sent to the Planning Commission as soon as possible.

3.2. The Second Five Year Plan must be ready (in outline form) by March 1956. Projects for the remaining period of Second Five Year Plan should therefore be sent to the Planning Commission as they become ready.

4.1. Some of the projects would have to be submitted necessarily in a general form at the present stage; and working details would be prepared after it is decided that they would be included in the plan. Nevertheless, it is essential that preliminary information should be given in the prescribed form even if the estimates are of an approximate nature because a technical examination of the projects would not be possible in the absence of such information.

4.2. The Planning Commision would be glad to supply further information in this connection and help in the preparation of schemes and projects.

CHAPTER ONE

GENERAL AIMS AND OBJECTIVES

1.1. *The First Five Year Plan*: At the beginning of the First Five Year Plan the country was still dislocated by war and partition. There was shortage of food and raw materials. There were signs of inflationary pressures after hostilities had started in Korea. In this situation it is understandable that the targets of the First Five Year Plan were kept modest. Judged in this context, the progress achieved so far may be regarded as satisfactory.

1.2. There are, however, disquieting features. Agricultural prices are declining. Unemployment, especially in urban areas, is increasing. Even the modest expenditure targets in the First Five Year Plan have not been fully achieved on account of delays in preparing projects, inadequate administrative organization, and lack of sufficient facilities to give training to technical personnel.

2.1. *The need of a bold plan* : The population of India is increasing roughly at the rate of 4.5 million per year. With a proportion of about 40 per cent in the labour force, about 1.8 million persons enter the labour force every year. In addition, a large number of persons are without employment in urban areas and a great deal of under-employment exists in villages. Planning must be bold enough to provide new work for about 1.8 million new entrants into the working force every year; and also to offer more work to the large number of persons who are without jobs or who are under-employed at present.

2.2. The level of living is extremely low. Expenditure on consumer goods per person is about Rs. 22 per month of which about Rs. 13 is spent in cash and about Rs. 9 is the value of consumption of home grown food and home made articles. Housing is primitive in villages and extremely short in urban areas. The supply of nutritive foods is meagre although nearly two-thirds of the total expenditure is spent on food items. The expenditure on education is only about four annas per person per month and on health less than seven annas.

2.3. The above estimates are for all classes taken together. The position of the poorer section is much worse. Half the population of India or 185 million persons spend less than Rs. 13 per month on consumer goods and possibly half of this amount is consumed in kind or in the form of home grown food and home made articles. Of children in the school-going age, less than half attend at the primary stage, and less than one-fifth at the secondary stage. There is probably less than one qualified physician per 30,000 inhabitants in the villages.

3.1. *General objectives of the Second Five Year Plan*: There is a large pool of idle man-power, and many are without jobs; also about 1.8 million persons would be added to the working force every year. The country has large resources of water for hydro-electric and irrigation projects; coal, iron ore and other important minerals; forests, fertile land and cattle. The aim of planning must be to utilize these resources to increase rapidly the level of production and thus of national income.

3.2. Conditions are favourable in many ways. There is economic stability and confidence in Government. Unemployed man-power and unexploited resources can be brought together to increase both consumption and investment simultaneously. India's prestige is high at the international level. Finally the Congress Party and Government have decided that the time has come for economic development on a socialistic pattern.

3.3. The Second Five Year Plan is therefore being formulated with the following objectives in view:

(1) to attain a rapid growth of the national economy by increasing the scope and importance of the public sector and in this way to advance to a socialistic pattern of society;

(2) to develop basic heavy industries for the manufacture of producer goods to strengthen the foundations of economic independence;

(3) to increase the production of consumer goods as much as possible through the household or hand industries ; and to provide an adequate market for the products;

(4) to develop factory production of consumer goods in a way not competitive with hand industries;

(5) to increase productivity in agriculture; and to speed up agrarian reforms with an equitable distribution of land to peasant cultivators so as to stimulate the increase of agricultural production and of purchasing power in rural areas;

(6) to provide better housing, more health services, and greater opportunities for education especially for the poorer sections of the population;

(7) to liquidate unemployment as quickly as possible and within a period not exceeding ten years;

(8) and as the result of such measures to increase national income by about 25 per cent over the plan period and achieve a more equitable distribution of income.

3.4. The basic strategy would be to increase purchasing power through investments in heavy industries in the public sector and through expenditure on health, education, and social services; and to meet the increasing demand for consumer goods by a planned supply of such goods so that there would be no undesirable inflationary pressures. Planning would be thus essentially a feed-back process of matching a continuously increasing (planned) demand by a continuously increasing (planned) production giving rise to a steadily expanding economy.

4.1. *Heavy industries*: In the long run, the rate of industrialization and the growth of national economy would depend on the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals, and the heavy industries generally which would increase the capacity for capital formation. One important aim is to make India independent, as quickly as possible, of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industries must, therefore, be expanded with all possible speed.

4.2. The new producer goods industries would be developed mainly in the public sector. The private sector would continue to play an important part in the development of basic industries like cement, chemicals, etc.

4.3. The heavy industries being capital-intensive would, however, give relatively little scope for employment; and would also generate a large demand for consumer goods which they themselves would not be able to supply.

5.1. *Household and hand industries*: The increasing purchasing power and consequential demand for consumer goods must be met by increasing the supply of such goods as much as possible through the expansion of household or hand production. This would also quickly generate a large volume of work all over the country.

5.2. Construction work (roads, houses, irrigation and flood control projects, etc.) by hand would also be increased which would create a good deal of employment and generate demand for consumer goods.

5.3. The greater the marketable surplus of consumer goods in the household or hand industries the greater will be the possibilities of investments in heavy industries without any fear of inflation.

5.4. By expanding the household and hand industries and construction work, the aggregate national consumption would increase continually. Also, relatively more employment would be created among the poorer sections of the people so that a greater portion of the increase in income would go to them.

6.1. *Factory production of consumer goods* : The production of consumer goods in factories requires heavy investment of capital per engaged person and in many cases competes with the household or hand industries. Until unemployment is liquidated or brought under control, it is necessary to prevent competition between factories and household or hand industries by not permitting investments to be made in such consumer goods factories as would prevent expansion or lead to a shrinkage of employment in the hand industries.

6.2. In the immediate future the factory production of consumer goods would be expanded (where it is not competitive with hand industries) to increase the supply of essential goods (like antibiotics, fine drugs, etc.) or of goods for export to earn foreign exchange.

6.3. It is recognised that the price of hand-made goods would often be higher than the price of factory-made goods of comparable quality. Appropriate excise duties (which would be selective) would be imposed on factory products to maintain desired price parities with hand made goods in such cases.

6.4. Once mass unemployment has gone, the aim would be to provide cheap power and small machines to the household sector and hand industries to increase productivity per worker and hence the total national product. At this stage the factory production of consumer goods would also be increased.

7.1. *Agriculture and allied pursuits* : The fixation of ceilings and procedural arrangements for the redistribution of land to peasant cultivators must be decided at an early date in each State in accordance with general principles and standards settled on an all India basis, and the redistribution must be completed by 1958. This would make visible important structural changes in the economy resulting in stimulation of agricultural production and provision of a large market for the growing output of industry and handicrafts; and would also transfer a part of the national income from recipients who use it largely for luxurious consumption to recipients who will use it for productive purposes and for raising their low standard of life.

7.2. The National Extension Service Blocks (and Community Projects where possible) would be extended all over the country to help and speed up the improvement of living conditions in rural areas.

7.3. Because of the urgent need of increasing the production of foodstuffs and raw materials, the highest priority would be given to the setting up of a State Bank, as recommended in the Report of the Rural Credit Survey Committee, for the supply of agricultural credit.

7.4. The same or an associated system would be used for the supply of credit, raw materials, and marketing facilities to the household and hand industries through an organization of co-operatives with the support (or the direct participation or partnership) of Government.

7.5. As an increase in the caloric value is not enough for a balanced diet, concerted efforts must be made to increase the supply of food of higher nutritive and protective value such as fruits and vegetables, milk and milk products, eggs, fish, meat etc.

7.6. Continuing efforts must be made to increase the production of milk products by improving the quality of cattle through the introduction of better breeds, by increasing the production of fodder crops and cattle feed, and by providing better veterinary services by increasing the number of trained veterinary surgeons and veterinary assistants.

8. *Health* : There must be a rapid increase in the care of health. A national health service would be established in the rural areas with paid health assistants in charge of a group of villages who would work in contact with fully trained physicians. The number of dispensaries and hospitals, and facilities for medical training would be increased in urban areas.

9.1. *Education* : There must be a rapid increase in literacy, improvement in the pay of teachers, and better organization of education at all levels.

9.2. On the basis of merit, able students, at all levels and in increasing numbers, must be provided with adequate living and educational expenses to enable them to receive education up to the highest standard according to capacity without regard to sex, creed, caste or social status of the parents. Special educational scholarships and facilities must also be provided for women and backward groups and communities.

10.1. *Social security and welfare* : Existing social security schemes such as Employees State Insurance and Provident Fund schemes would be expanded. A scheme for unemployment benefit in the form of paid attendance at training centres with placement facilities would be introduced in urban areas.

10.2. There must be increasing provision for the social welfare of children (foundling homes, crèches, nursery schools, health and recreation centres, etc.), of women (houses for widows, destitute and deserted women; maternity, health, and family planning centres), of juvenile delinquents (remand homes, schools, after-care hostels, etc.), of the handicapped (homes, schools and workshops for the blind, the deaf and the dumb, the crippled, and the mentally deficient or ill, and homes for the aged and the infirm).

11. *Sports and cultural pursuits* : Increasing facilities must be provided for sports and health activities, educational and cultural broadcast and cinema; and the promotion of literature, music, drama, art and other cultural pursuits.

12. ***Housing***: Better housing must be provided especially for factory workers and poorer sections of the people in urban areas.

13. *Social overheads* : Expenditure on housing, health, education, social security and welfare, sports and cultural pursuits would necessarily increase purchasing power and create additional demand for consumer goods which must be met by increasing the production of additional consumer goods through household and hand industries in the first instance.

14.1. *Balanced development and controls* : With the stepping up of production of both producer and consumer goods, it would be necessary to provide for adequate increases in the supply of electricity and fuels, irrigation, transport, and communication. Proper balances must be maintained between different sectors so that production is not hampered by bottlenecks.

14.2. The aim of planning would be to avoid shortages giving rise to inflationary pressures on the one hand and over-production with falling prices on the other. In the case of falling prices, especially of consumer goods, the demand would be stimulated promptly by increasing purchasing power through investments in the public sector and through expenditure on social services and by open market operations by Government.

14.3. Government would acquire and keep adequate reserves of foodgrains and important raw materials produced by agriculture to provide against emergencies of short crops in bad years and to maintain prices profitable to peasants in years of exceptionally plentiful crops. This would maintain a minimum level of peasant incomes, stimulate production, and promote the welfare of both peasants and the working class in urban areas.

14.4. Shortages may, however, develop in the short run which would be dealt with as they arise by appropriate methods such as Government intervention in the market, Government trading, physical controls, rationing, and similar measures. Also, the production programme would be adjusted as necessary to restore equilibrium between supply and demand as quickly as possible.

14.5. Rationing of foodgrains, clothing, and similar essential commodities would be avoided. Control over consumption, when necessary, would be related to the shortages of specific physical resources.

15. *Regional development* : Special attention must be given to regional development to reduce disparities in economic opportunities and the level of life between different States.

16.1. *Technical training and scientific research* : A bold plan will require a rapidly increasing technical staff to prepare the various projects as well as to implement them. Training facilities must be expanded sufficiently quickly to turn out technical and scientific personnel in adequate numbers at all levels.

16.2. Scientific and technological research would be expanded and oriented to serve the needs of national development in an effective manner. The National Laboratories, Universities and other scientific institutions and organizations must undertake coordinated researches in accordance with national needs.

16.3. Fundamental research as well as training in research must also be encouraged at the same time to foster the accumulation of basic knowledge and skill for the expansion of applied and technological research.

16.4. The survey of natural resources, especially prospecting for oil and minerals, must be greatly and rapidly increased through State Organizations.

17.1. *Expansion of the public sector* : Key industries would be established and developed in the public sector generally in accordance with the Industrial Policy Resolution of 1948 as interpreted in December 1954. Government would also take up the factory production of certain consumer goods which are of strategic importance for the growth of the national economy.

17.2. The public sector must be expanded rapidly and relatively faster than the private sector for steady advance to a socialistic pattern of economy. In order to make available large capital resources for investment and national development and to facilitate the implementation of the Plan, Government will be prepared to enter into such activities as banking, insurance, foreign trade or trade in selected commodities.

17.3. Government would also promote enterprises in partnership with the private sector so that, although Government would hold a controlling share, initiative can be left to private management subject to policy decisions by Government.

18.1. *The private sector* : A large majority of the population would be engaged in household production in agriculture, in hand industries and in various services which would continue to remain private.

18.2. As the planned demand would have to be matched by the planned production, it would be necessary for the private sector to conform in a general way to the overall programme of production as provided in the Plan. The private sector would be helped by Government by the supply of credit, raw materials, and marketing facilities to undertake production in accordance with the Plan.

18.3. Inducements (such as tax exemption or preferential permission for capital issue) would be given to channel the profits of the private sector into desirable forms of investments in both private and public sectors or in Government bonds and securities.

18.4. The private sector would enjoy the advantages of an assured and growing market in an expanding economy, and thus of reduced risks and uncertainties.

19.1. *Finance and foreign exchange* : Large financial resources would be required for the Second Plan. A small portion would come from sterling balances or foreign loans and aid; and the bulk of the resources must be found from within the domestic economy.

19.2. The tax system would be directed to collect an increasing part of the growing national income in order to permit greater capital formation in the public sector and to finance an expansion of social services.

19.3. The public sector would be extended to industrial and commercial activities where necessary for raising resources for public purposes.

19.4. Deficit financing would be undertaken on the scale necessary to bring about the greatest possible expansion of production would be assured by taxes on property and unearned income.

19.6. Excise duties would be levied to raise additional resources and also to maintain desired price parities between different sectors.

19.7. Steps would be taken to promote exports; and the import of non-essential and luxury goods would be discouraged by heavy duties in order to release foreign exchange resources for more urgent needs.

Chapter Two

TARGETS OF PRODUCTION

1.1. The targets of production (mostly in physical quantities) of some important items are shown in Table (1). The physical unit is given in col. (2) and actual production for 1950-51 and 1953-54 in cols. (3) and (4) respectively. Estimates for 1955-56 and planned target for 1960-61 together with the estimated increase (in percentage) during the plan period are shown in cols. (5), (6) and (7) respectively.

1.2. The above targets are provisional. Estimates of requirements and likely supplies have been examined in a general way on available information. The next task is to carry out a detailed check and make necessary adjustments on the basis of projects to achieve internal consistency in the form of a balanced supply and demand of material and labour resources. Such balancing must also have a proper phasing over time so that neither serious bottlenecks nor excessive supplies emerge at any stage of the Plan.

1.3. Explanatory notes are given on some (but not all) of the items mentioned in Table (1). The number shown within brackets after each item gives the serial number of the same item in Table (1).

2.1. *Electricity* (1) : Planned electrification must be a main link in economic development in India. The hydro-electric projects started in the First Plan must be continued on an increasing scale in the Second Plan.

2.2. Regional grid-systems combining both thermal and hydel power stations must be planned to secure the best use of local fuels (low grade coal, lignite, etc.) and of installed capacity by large consumers (electric-intensive industries like aluminium, alloy-steels etc.) keeping in view the development of a future super-grid for India as a whole.

2.3. Small power stations (hydel and diesel) would also be developed for urgent requirements in small towns and rural areas.

2.4. The use of electricity for small-scale and household industries, irrigation by tube-wells, etc., must be steadily increased.

2.5. The production of electricity must forestall the growth of industrial production; and the installed capacity must increase from 2.8 million kilowatts in 1953-54 to 6 million kilowatts in 1960-61, that is, must be more than doubled. Also, the utilization of capacity must be increased.

3.1. *Coal* (2) : The production of coal must be increased from 37 million tons in 1955-56 to 60 million tons in 1960-61 (an increase of about 62 per cent) which would be difficult to achieve but should not be impossible.

3.2. There is great wastage at present of high grade coking coal of which supply is short. Necessary Government action must be taken without any delay to prevent such wastage and to promote better conservation.

4.1. *Synthetic petrol and products* (3) : India is short of petrol and meets most of its requirements by imports. In addition to increasing oil-prospecting as quickly as possible, a State plant to produce about 300,000 tons of synthetic petrol must be installed during the Second Plan, and future production must be increased as necessary.

4.2. The above plant must also be used to establish a base for the development of associated chemical industries.

5.1. *Steel* (4) : India has vast resources of iron ore; and increasing production of steel must be made an important link in economic development. The installed capacity would be increased to 6 million tons and production to 5 million tons by 1960-61.

5.2. Necessary action (in the way of establishing a heavy machinery industry and promotion of metallurgical research) must be taken in the Second Five Year Plan to build up the base for the future expansion of the installed capacity of steel by at least one million ton per year from 1961.

5.3. Increasing production of steel would supply a secure foundation for the fabrication of plants and machinery of all kinds, expansion of construction work and of railways and transport generally. If necessary, steel can also be exported to neighbouring, countries which are in urgent need of it.

6.1. *Aluminium* (7) : India has large reserves of bauxite and the production of aluminium must be rapidly increased to take the place of copper which is in short supply and mostly imported. Increasing production of aluminium would, in its turn, facilitate electrification; and the production of both electricity and aluminium must be continuously increased at the same time.

6.2. The production of aluminium should be increased from about 5 to 40 thousand tons during the plan period. One or more aluminium plants must be established in the public sector for this purpose.

7. *Manganese ore* (8) : The extraction of manganese ore must be increased and some of the ore must be converted into ferro-manganese before export so as to retain a part of the value created by semi-manufacture.

8. *Cement* (9) : The production of cement must be increased from 4.6 to 10 million tons or more than doubled during the second plan period. The production of other building materials must be increased proportionately to avoid shortages and bottlenecks in construction work.

9.1. *Fertilizers* (10) : The production of nitrogenous fertilizer must be increased by about three times by establishing at least three more factories of roughly the same capacity as Sindri.

9.2. Fertilizer production must also be steadily and continuously expanded along with irrigation to secure a rapid increase in the outturn of agricultural crops in future.

10. *Heavy chemicals* (11) : The production of sulphuric acid, soda ash and caustic soda must be increased by 1960-61 to roughly four times the actual production in 1953-54.

11.1. *Heavy machinery* (12): For rapid industrialization it is essential to fabricate plants and machinery at home. To instal a plant for the production of one million tons of steel per year it is necessary at present to import machinery worth about Rs. 40 or Rs. 45 crores from outside. Provision has been made for investment of Rs. 150 crores to establish large engineering workshops to fabricate machinery needed for producer goods plants. An immediate aim would be to manufacture every year most of the machinery required for installing a one million ton capacity steel plant.

11.2. Investment of Rs. 40 crores is contemplated for establishing plants for the manufacture of heavy electrical equipment.

11.3. The production of machinery for the manufacture of consumer goods (textiles, etc.) must be roughly doubled during the plan period, and an investment provision of Rs. 50 crores has been made for the purpose.

12. *Railway rolling stock* (13) : The annual production of locomotives must be increased from 100 to 400; of wagons from 7,000 to 20,000; and of coaches from 800 to 2,000 so as to attain self-sufficiency in rolling stock by the end of the plan period.

13. *Jute textiles* (14) : Immediate steps should be taken to ensure a fuller use of the existing capacity and to see that by 1960-61 the full rated capacity is utilized.

14.1. *Factory made consumer goods* : The factory production of essential consumer goods would be increased in such a way as to prevent competition with the household and hand industries.

14.2. *Cotton textiles* (15) : Production would be increased to 5,500 million yards per year by 1960-61, the additional production being used mainly for exports. (The remaining part of the internal demand would be met by hand-made cloth).

14.3. *Woollen textiles* (16) : Manufacture of woollen textiles should increase by about 25 per cent during the second plan period.

14.4. *Sugar* (17) and *vegetable oil* (18) : The production of sugar must be increased (preferably through cooperatives) by about 50 per cent and reach 2.1 million tons. A rise by about 33 per cent of the production of vegetable oil will be necessary.

14.5. *Paper* (19), *bicycles* (20), *sewing machines* (21), and *electrical goods* (22) : Production must increase by roughly between 40 per cent and 100 per cent to meet anticipated increase in demand and also partly for export.

15.1. *Hand-made consumer goods* : Every effort must be made to expand the hand production of consumer goods to provide a marketable surplus to meet the increase in demand.

15.2. *Khadi and handloom* (23) : Production would be increased to 3,200 million yards (from the level of about 1,200 million yards in 1953-54).

15.3. Production of other hand-made articles must be increased from 20 per cent to 40 per cent.

16.1. *Agriculture and allied pursuits* : The production of *cereals* (28) must be increased from 56 million tons in 1953-54 to 63 million tons in 1960-61, and of *pulses and gram* (29) from 10 to 13 million tons. This would make the country self-sufficient in foodgrains at a somewhat higher standard of consumption than at present.

16.2. *Cotton* (32) : Output must increase by 38 per cent to 5.8 million bales so that the net import of cotton can be considerably reduced by 1960-61.

16.3. *Sugarcane* (34): Output must increase to 7.5 million tons of raw sugar (50 per cent increase).

16.4. *Milk* (37) : Production of milk and other edible animal husbandry products should go up by about 25 per cent.

17.1. *Irrigation* (41) : In order to achieve the agricultural targets mentioned above, the total irrigated area must increase from 70 to 100 million acres.

17.2. Special attention must be given to devising suitable measures for flood control.

18. *National extension service and community projects* (42) : Vigorous organization and persistent efforts would be required for the expansion of production in agriculture and in household and hand industries. NES blocks, which can supply a convenient machinery for this purpose, must cover the entire country by the end of the Second Plan.

19. *Transport : Railway tracks* (43) would be increased by 3,000 miles (9 per cent increase); *passenger miles* (44) and *freight ton-miles* (45) by 30 per cent and 40 per cent respectively. *National highways* (46) would be increased from 12,500 to 17,500 miles (40 per cent increase) and *State roads* (47) from 20,000 to 35,000 miles (75 per cent increase). *Shipping tonnage* (48) would increase from 525,000 (in 1953-54) to about 1,500,000, an increase of 185 per cent.

20.1. *Education :* The number of pupils in schools between the ages of 6 and 14 would increase from about 29 million in 1955-56 to about 46 million in 1960-61.

20.2. The expenditure on *technical training, higher education and research* (53) must increase by 75 per cent.

21.1. *Health :* The number of *hospital beds* (54) must increase from 112,000 in 1953-54 to 250,000 in 1960-61; and the number of *registered doctors* (55) from 65,000 in 1953-54 to 90,000 in 1960-61.

21.2. Two new cadres of junior and senior *health assistants* (56) would be created with two levels of training of two years and four years respectively. Each junior health assistant would be placed in charge of a group of 10 villages or one NES block and one senior health assistant would be in charge of 5 such groups or 5 NES blocks together with one registered doctor in charge of two such units or 10 NES blocks in such a way that the whole of the rural area is covered by the end of the Second Plan.

22. *Urban housing* (57) : The number of urban houses must increase sufficiently to provide additional accommodation for 3 million families during the Second Plan.

TABLE (1) TARGETS OF PRODUCTION FOR THE SECOND FIVE YEAR PLAN: 1956-57 to 1960-61

name of item	unit	actuals 1950 –51	actuals 1953 –54	provisional estimates 1955 –56	provisional estimates 1960 –61	percentage increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
factory producer goods						
1. electricity	.. m. kw	2.3	2.8	3.5	6.0	71
2. coal	.. m. tons	32	36	37	60	62
3. synthetic petrol	.. th. tons	nil	nil	nil	300	—
4. steel	.. m. tons	1.1	1.1	1.3	5.0	285
5. pig iron (for foundries)	.. m. tons	—	—	0.4	1.8	350
6. iron ore	.. m. tons	3	4	4	13	225
7. aluminium	.. th. tons	3.7	3.8	5	40	700
8. manganese ore	.. m. tons	1	2	2	3.5	75
9. cement	.. m. tons	2.7	4.0	4.6	10.0	108
10. fertilizers						
(a) nitrogenous	.. th. tons nitrogen	9.2	61.4	90	360	300
(b) superphosphates	.. th. tons	55	66	100	200	100
11. heavy chemicals						
(a) sulphuric acid	.. th. tons	99	120	150	450	200
(b) soda ash	.. th. tons	45	56	75	200	167
(c) caustic soda	.. th. tons	11	25	33	100	203
12. heavy machinery to fabricate plants (investment)						
(a) steel and producer goods	.. Rs. crores	nil	nil	nil	150	—
(b) electrical equipment	.. Rs. crores	nil	nil	nil	40	—
(c) consumer goods	.. index	—	—	100	200	100
13. railway rolling stock						
(a) locomotives	.. no.	nil	86	100	400	300
(b) wagons	.. no.	1095	6892	7000	20000	186
(c) passenger coaches	.. no.	479	786	800	2000	150
14. jute textiles	.. th. tons	892	864	1000	1200	20
factory consumer goods						
15. cotton textiles	.. m. yds.	3718	4906	5000	5500	10
16. woollen textiles	.. m. lbs.	18	20	20	25	25
17. sugar	.. m. tons	1.1	1.1	1.4	2.1	50
18. vegetable oil	.. m. tons	1.2	1.4	1.5	2.0	33
19. paper	.. th. tons	114	137	140	200	43
20. bicycles	.. thousand	101	290	500	1000	100
21. sewing machines	.. thousand	33	68	90	150	67
22. electrical goods	.. index	—	—	100	166	66
hand-made consumer goods						
23. khadi and hand-loom	.. m. yds.	742	1200	1600	3200	100
24. soap	.. th. tons	—	—	28	40	43
25. foot wear	.. m. pairs	—	—	80	100	25
26. food industries	.. index	—	—	100	120	20
27. metalwares	.. index	—	—	100	133	33
agricultual and associated pursuits						
28. cereals	.. m. tons	41.7	56.1	56	63	13
29. pulses and grams	.. m. tons	8.3	9.6	10	13	30
30. total foodgrains	.. m. tons	50.0	65.0	66	76	15
31. oilseeds	.. m. tons	5.1	5.6	5.6	7.0	25

TABLE (1) : TARGETS OF PRODUCTION FOR THE SECOND FIVE YEAR PLAN : 1956-57 TO 1960-61—(*Continued*)

name of item	unit	actuals		provisional estimates		
		1950 –51	1953 –54	1955 –56	1960 –61	percentage increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)
32. cotton	.. m. bales	2.9	3.9	4.2	5.8	38
33. jute	.. m. bales	3.3	3.1	5.0	5.4	8
34. sugarcane (raw sugar)	.. m. tons	5.6	4.6	5.0	7.5	50
35. tobacco	.. th. tons	257	256	250	300	20
36. tea	.. m. tons	607	675	675	750	11
37. milk	... index	—	—	100	125	25
38. wool	.. m. lbs.	—	—	40	50	25
39. timber	.. index	—	—	100	130	30
40. fish	.. ndex	—	—	100	125	25
rural development						
41. irrigation	.. m. acres	50	58	70	100	43
42. NES and community projects	.. no. of blocks	—	479	1200	5600	367
transport : railways						
43. mileage	.. miles	—	—	34,500	37,500	9
44. passenger miles	.. index	—	—	100	130	30
45. freight ton-miles	.. index	—	—	100	140	40
roads						
46. national highways	.. th. miles	11.9	—	12.5	17.5	40
47. State roads	.. th. miles	17.6	—	20.0	35.0	75
shipping						
48. tonnage	.. thousand	391	525	610	1,500	146
social services ; education						
49. pupils : age 6–11	.. lakh	187	—	236	380	161
50. pupils : age 11–14	.. lakh	34	—	51	80	157
51. percentage of students in age groups : 6–11	.. per cent	42	—	50	75	50
52. ,, ,, 11–14	.. per cent	14	—	20	30	50
53. technical training, higher education and research	index of expenditure	—	—	100	175	75
health						
54. hospital beds	.. thousand	107	112	125	250	100
55. doctors (registered)	thousand	—	65	70	90	29
56. health assistants	.. index	—	—	100	300	200
housing						
57. urban houses	.. lakh	101	—	120	150	25
communication						
58. post offices	.. thousand	37	47	53	78	47
59. telegraph offices	.. thousand	36	39	48	70	46
60. telephones	.. thousand	168	220	300	600	100

Appendix to Chapter Two

COMMODITY BALANCES IN 1960-61 (*Provisional*)

1. Attempts have been made to see, in a rough way, that the targets given in Table (1) are consistent. This appendix gives relevant information for five major commodities: electricity, coal, steel, cement, and heavy chemicals.

2. *Electricity:* The consumption of electricity in 1960-61 is expected to be 20,000 million kilowatt hours (kwh) which should be possible to secure from an installed capacity of 6 million kilowatts (mkw) with a slightly higher rate of utilization than the present rate. The following allocation of power in million kwh is envisaged in 1960-61: iron and steel (2500), aluminium (1300), cement (1100), cotton textiles (1500), fertilizers (1000), all other industries (5600) and light, small power, traction and all other uses (7000)—total (20,000).

3. *Coal:* The industrial development envisaged would require at least 60 million tons of coal. The allocation in million tons in 1960-61 is expected to be as follows: railways (14.0), electricity (5.0), iron and steel (15.0), cement and bricks (5.0), cotton textiles (1.5), jute mills (0.5), paper (1.0), fertilizers (1.0), other industries (4.0), bunker and steamer service (2.0), domestic (7.5), synthetic petrol (1.5), and all other uses (2.0)—total (60.0).

4. *Steel:* The rough pattern of utilization in million tons in 1960-61 is given below: steel processing industries (1.5), railways (0.8), industrial development schemes both public and private (0.8), other Government development schemes including multipurpose and State irrigation projects (0.2), construction (0.5), industrial maintenance and packing (0.3), defence and roads (0.1), and all other uses including export (0.7)—total (5.0).

5. *Cement:* The allocation envisaged in million tons in 1960-61 is as follows: all construction (6.4), cement products (0.4), railways (0.5), roads (0.3), multipurpose and State irrigation projects (1.8), and all other uses including export (0.6)—total (10.0).

6.1. *Heavy chemicals:* Balances have been worked out for sulphuric acid, caustic soda and soda ash.

6.2. *Sulphuric acid :* The allocation in 1960-61 in thousand tons will be as follows : ammonium sulphate (60), superphosphate (110), iron and steel (90) and all other uses (190)—total (450).

6.3. *Caustic soda :* The allocation in 1960-61 in thousand tons will be as follows : soap (30), textiles (20), paper (15), aluminium (5) and all other uses (30)—total (100).

6.4. *Soda ash :* The allocation in 1960-61 in thousand tons will be as follows : glass (100), textiles (10), silicate of soda (10), paper (10), other chemicals (25) and all other uses (45)—total (200).

CHAPTER THREE

INVESTMENT AND DEVELOPMENT

1.1. *Allocation of investment:* The allocation of investment (or net capital formation) by broad sectors is shown in Table (2).

TABLE (2): ALLOCATION OF INVESTMENT
(Rs. crores)

sector	public	private	total	percentage
(1)	(2)	(3)	(4)	(5)
1. electricity	450	50	500	8.9
2. industry	1,000	400	1,400	25.0
3. transport & communication	850	50	900	16.1
4. agriculture & irrigation	750	200	950	17.1
5. construction	250	1,100	1,350	24.0
6. stocks	100	400	500	8.9
total	3,400	2,200	5,600	100.0

1.2. Electricity includes both hydro-electric and thermal power stations. Industry includes the household and hand industries. Construction includes residential houses, schools, hospitals, and public buildings.

1.3. Strictly comparable figures are not available for the First Five Year Plan, but the total investment in the public sector as planned was roughly Rs. 1600 to 1700 crores and the same amount was estimated for the private sector. Thus investment or net capital formation through the public sector in the Second Plan would be about double of the planned estimates in the First Plan; and the estimated investment in the private sector would be about 40 per cent higher.

2.1. *Allocation by industries:* The breakdown of investment by important industries is shown in Table (3).

2.2. The provision for iron and steel includes expansion of capacity of existing plants; three new plants (Rourkela, Madhya Pradesh and one more); factories for the production of pig iron for foundries, and miscellaneous items.

2.3. Along with the installation of one synthetic petrol plant, necessary action must be taken to train personnel and build up experience through pilot plants for the establishment of associated chemical industries.

2.4. The production of electrical appliances would include electrical machinery (such as turbines, generators, transformers, transmission equipment etc.) required for hydro-electric and thermal projects.

2.5. The heavy machinery industry to be established in the public sector must be able by 1960-61 to fabricate machinery required to instal every year a steel plant of a million ton capacity or plants to manufacture producer goods of roughly equivalent value.

TABLE (3) : ALLOCATION OF INVESTMENT BY INDUSTRIES

industry	investment (Rs. crores)	percentage
(1)	(2)	(3)
1. iron and steel	425	30.4
2. synthetic petrol	80	5.7
3. heavy machinery to fabricate plants for		
(a) steel and producer goods	150	10.7
(b) electrical equipment	40	2.9
(c) consumer goods	50	3.6
4. cement, chemicals, etc.	100	7.1
5. existing State enterprises	50	3.6
6. aluminium	30	2.1
7. minerals and prospecting	75	5.4
8. fertilizers	100	7.1
9. factory consumer goods	100	7.1
10. household and hand industries	200	14.3
total	1,400	100.0

2.6. The aluminium industry must be developed to make the country independent of imports of copper by 1960-61; and must continue to be further expanded in future.

2.7. Geological surveys and especially prospecting for oil and minerals by Government organization must be rapidly expanded. Mining operations must also be greatly expanded. A provision of Rs. 75 crores has been made for this purpose.

2.8. Rs. 100 crores have been provided for the installation of fertilizer plants with capacity equivalent to roughly four times the current production at the Sindri factory.

2.9. The greatest importance is attached to the expansion of the household and hand industries as this would be the principal method of liquidating unemployment and also of creating a marketable surplus of consumer goods to meet the increase in demand arising from investments in heavy industries, construction work, and expenditure on social services. Rs. 200 crores or Rs. 40 crores per year have been provided for this purpose.

3.1. *Public development expenditure :* In the First as well as in the Second Plan certain items of current expenditure have been included in addition to provision for investment. This is shown in Table (4).

TABLE (4) : PUBLIC DEVELOPMENT EXPENDITURE

sector	second plan				first plan	
	investment (Rs. crores)	current (Rs. crores)	total (Rs. crores)	per cent	per cent	total (Rs. crores)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. electricity	450	—	450	10.5		
2. agriculture, irrigation and rural development	750	200	950	22.5		
sub-total			(1,400)	(33)	44	990
3. industry & minerals	1,000	100	1,100	26	8	178
4. transport and communication	850	100	950	22	24	536
5. construction and social services	250	500	750	17	24	544
6. stocks	100	—	100	2	—	—
total	3,400	900	4,300	100	100	2,248

3.2. Comparable figures for the First Five Year Plan are given in cols. (6) and (7). The total development expenditure of Rs. 4,300 crores in the Second Plan is just short of double the planned development expenditure of Rs. 2,248 crores in the First Plan.

3.3. In the Second Plan there is a much larger actual expenditure for industrial and mineral development (Rs. 1,100 crores against Rs. 178 crores in the First Plan); and the relative proportion is also much higher (26 per cent of total development expenditure in the Second Plan against 8 per cent in the First Plan). The actual expenditure in the Second Plan is greater but the relative expenditure (as a proportion of the total) is less in all the other sectors.

4.1. *Total development expenditure :* In addition to the current development expenditure included in Table (4), there are current expenditures for purposes of development not included in the Plan. The position is shown in Table (5) below.

TABLE (5) : TOTAL GOVERNMENT EXPENDITURE
(Rs. crores)

item	1955-56 (estimated)	1960-61 (estimated)	total second plan
(1)	(2)	(3)	(4)
1. non-development (defence and civil administration)	625	725	3,400
2. development			
(a) not in the plan	200	225	1,100
(b) in the plan	600	1,100	4,300
3. sub-total	800	1,325	5,400
total	1,425	2,050	8,800

4.2. The total Government expenditure is expected to increase from Rs. 1,425 crores in 1955-56 to about Rs. 2,050 crores in 1960-61 the total development expenditure would increase at the same time from Rs. 800 crores to Rs. 1,325 crores; and the development expenditure included in the Second Five Year Plan would increase from Rs. 600 crores to Rs. 1,100 crores.

4.3. The total Government expenditure during the Second Five Year Plan is expected to be Rs. 8,800 crores out of which Rs. 3,400 crores would be non-development (defence and civil administration), Rs. 1,100 crores development expenditure not included in the Plan, and Rs. 4,300 crores development expenditure included in the Plan.

CHAPTER FOUR

EMPLOYMENT AND INCOME

1.1. *Employment* : In India a very large number of families (comprising a majority of the population) are self-employed, many of which use their labour power only partially and thus suffer from chronic under employment. They must be provided with opportunities of doing more work and thus increasing their income.

1.2. In the urban areas there is a large number of persons without jobs and seeking work for whom new employment must be created. New work must also be found for roughly 1.8 million persons who, on an average, would enter the working force every year (calculated on the basis of a labour force composition of 40 per cent of a net average increase in population of 4.5 million per year.

2.1. The programme of production, investment, and development (discussed in Chapters Two and Three) is expected to generate a volume of employment shown in Table (6).

TABLE (6) : ESTIMATED VOLUME OF EMPLOYMENT IN 1960-61

sector	employment (in million)		increase	
	1955-56	1960-61	actual (million)	per cent
(1)	(2)	(3)	(4)	(5)
1. agriculture & allied pursuits	109.5	111.0	1.5	1.4
2. mining & factory establishments	4.0	5.7	1.7	42
3. household enterprises & construction	12.0	15.0	3.0	25
4. communication, railways, banks, insurance	1.6	2.0	0.4	25
5. wholesale and retail trade, transport (other than railways), etc.	10.0	12.0	2.0	20
6. professions, services (including govt. administration) and the rest	14.9	17.3	2.4	16
total	152.0	163.0	11.0	7

2.2. If the targets of production are realized then the problem of unemployment should be brought under control by the end of the Second Five Year Plan. Because of the rapid rate of industrialization, proportionately the biggest increase of employment, about 45 per cent, would occur in mining and factory enterprises. The household and hand industries, communication, transport, trade, etc., would have an increase of about 20 per cent or 25 per cent and the professions and services of about 16 per cent. Even in the Second Plan labour would not begin to be drawn away from agriculture and allied pursuits, but would increase at a low rate of the order of only 1.5 per cent, which would still mean an increase of 1.5 million persons in the labour force in this sector.

3.1. *Income:* The net domestic output at 1952-53 prices had increased from Rs. 91.9 abja in 1950-51 (the base year of the First Five Year Plan) to about Rs. 103.1 abja (provisional estimate) in 1953-54. This represents an increase of Rs. 11.2 abja or 12.2 per cent in 4 years or just over 3 per cent per year. A part of this increase was probably due to exceptionally good agricultural crops in 1953-54 and another part possibly to a partial correction of the previous underestimation of crops. If allowance is made for these factors the real increase would be probably about 10 per cent in 4 years.

3.2. In the Second Five Year Plan the rate of investment and development would be roughly double that of the First Plan. The rate of increase of income is also expected to be roughly double or about 5 per cent per year. The same estimate has been generally corroborated from more detailed calculations by sectors on the basis of the investment and development programme.

3.3. The expected increase in national income is shown in Table (7).

TABLE (7): DOMESTIC PRODUCT OF THE INDIAN UNION AT 1952-53 PRICES

Rs. abja (= 100 crores)

sector	(actual) 1950-51	(estimated) 1955-56	(estimated) 1960-61	increase per cent
(1)	(2)	(3)	(4)	(5)
1. agriculture and allied pursuits	45.2	52.8	63.4	20
2. mining and factory enterprises	6.6	9.0	15.0	67
3. household enterprises & construction	9.3	10.2	14.3	40
4. communication, railways, banks, etc.	3.1	3.6	4.7	30
5. wholesale & retail trade, other transport	13.4	15.1	18.8	25
6. professions, services including govt. administration and the rest	14.3	17.3	20.8	20
7. total	91.9	108.0	137.0	27
8. population (million)	359.3	383.7	409.7	7
9. per capita income (Rs.)	256	282	334	19

Chapter Five

FINANCE AND FOREIGN EXCHANGE

1. *Rate of investment :* The planned net investment covering both public and private sectors is Rs. 5,600 crores over the period of the Second Plan. The current rate of investment is about 7 per cent; this will have to be raised to about 11 per cent of national income by 1960-61.

2.1. *Resources for the public sector :* The total expenditure of the Centre and State Governments combined is estimated at Rs. 8,800 crores for the Second Plan as a whole (Table 5). Expenditure outside the plan would increase from Rs. 825 crores in 1955-56 (estimated) to Rs. 900 crores on an average in the Second Plan. Expenditure on the Plan is expected to increase from Rs. 600 crores in 1955-56 (estimated) to an average of Rs. 860 crores in the Second Plan.

2.2. The total receipts from taxes and non-tax revenue, at the current rate of intake of 8.5 per cent of national income, would bring in about Rs. 5,200 crores. Borrowings (net) from the public should yield Rs. 1,000 crores (about Rs. 600 crores from loans and Rs.400 crores from small savings). Allowing for Rs. 200 crores for receipts from railways and miscellaneous items on capital account, the total receipts from domestic sources, at current rates, would be Rs. 6,400 crores.

2.3. This leaves a gap of Rs. 2,400 crores in the public sector. As against this, external assistance may provide Rs. 400 crores. The balance of Rs. 2,000 crores will have to be found at least in part by fresh taxation and profits of such commercial or industrial undertakings as can be started in the public sector. The aim should be to limit deficit financing to a total of Rs. 1,000 to 1,200 crores. A taxation target of 9 to 10 per cent of national income as against the present level of about 7 per cent must be attained.

3.1. The budgetary position on the above basis is shown in Table (8).

3.2. A good part of the additional income in the Second Plan would be created at lower income levels. The heavy industries would take time to become profitable. Also, foreign assistance may not be realised to the fullest extent. It would be essential, therefore, to keep a stringent watch on expenditure outside the Plan, to make necessary adjustments in the price and subsidy policy of Government, to reach new strata for tapping savings, and finally, to make changes in the tax structure to raise additional resources required to finance the Second Plan.

TABLE (8) : GOVERNMENT BUDGET : 1956-57 TO 1960-61
(Rs. crores)

expenditure		receipts	
(1)	(2)	(3)	(4)
1. on the plan	4,300	1. on the revenue account	5,200
2. outside the plan	4,500	2. loans from the public	1,000
		3. railways and miscellaneous funds	200
		4. foreign assistance	400
		5. sub-total	6,800
		6. additional taxes and loans and profits from State enterprises	800–1,000
		7. deficit financing	1,000–1,200
total	8,800	total	8,800

4.1. *Finance of the private sector :* Investment in the private sector is estimated at Rs. 2,200 crores out of which Rs. 1,100 crores or about a half is for housing and Rs. 400 crores for industries.

4.2. With deficit financing of Rs. 1,000 to Rs. 1,200 crores by Government, the banking system should be able to provide the credit required for working capital. In fact, conditions of easy credit are likely to emerge.

4.3. The newly set-up financial institutions (such as the Industrial Investment and Credit Corporation) will assist the private sector. The pattern of investment in the private sector will have to be watched continuously and influenced in the desired direction through tax incentives, selective credit controls, capital issue control and similar devices.

5.1. *Foreign trade and payments :* Much larger import will have to be made of capital goods in the Second Plan. The total need would come to about Rs. 1,200 crores; adding Rs. 400 crores for import of equipment for replacements, the total requirement would be about Rs. 1,600 crores for import of capital goods.

5.2. This must be met partly by increased production of foodgrains, sugar, cotton, and petrol; partly through foreign assistance and withdrawal from sterling balances; and by curtailment of non-essential imports and promotion of exports in every possible way.

CHAPTER SIX

PLANNING ORGANIZATION AND ADMINISTRATION

1.1. *Planning organization:* Planning must be continuous and flexible. In addition to the Five Year Plan, detailed annual plans must be prepared every year. Targets, projects, and policies must be continually reassessed and reformulated to suit changing needs and conditions.

1.2. At the same time it is imperative to keep in perspective the potential growth of the economy over a long period so that decisions can be made to secure a balance between short term and long term objectives.

1.3. For planning on lines explained above, it is necessary to build up an appropriate planning organization. A technical organization (consisting of economists, statisticians, scientists, engineers, technologists, and administrators) must be established within the Planning Commission for the preparation and continuing examination of the national plan and for working out the various balances relating to it. Technical units must also be established in the Central Ministries, State Governments, and other agencies to prepare detailed projects and estimates and to revise them as necessary.

1.4. There must be a continual two-way flow of information. Plan targets from the top must be continually checked against possibilities of realization at the level of projects. Possibilities of development envisaged at the bottom must continuously shape the targets formulated at the top.

1.5. Information of many kinds would be continually required for the formulation and revision of the plan and of detailed projects as well as for the assessment of the progress and implementation of the Plan.

1.6. The information service and planning and project activities must be closely related. The Central Statistical Organization in association with the Indian Statistical Institute must function as an integral part of the planning machinery at the Centre. Following the same pattern, the State Statistical Bureaus must serve as focal points for statistical services in connection with planning activities at the State level, 2.1. *Administrative machinery:* Planning on bold lines with a steady expansion of the public sector and advance to a socialistic pattern of economy would require the building up of appropriate administrative machinery of a new type at all levels.

2.2. There must be decentralization, on business-like lines, of the day to day management of public enterprises with large delegation of financial, administrative, and executive control to develop initiative and responsibility at the periphery so necessary for efficient conduct of business enterprises.

2.3. Attention must be focussed on the implementation of the Plan—on getting things done at the right time—and rules of procedure must, if necessary, be revised to ensure effective action. Secretariat control of the present type must be replaced to a large extent by control, by truly autonomous public corporations set up by Government or through the supply of credit by State Banks working under the general guidance of Government in matters of policy.

2.4. Administrative difficulties inherent in the existing Government machinery are likely to prove the greatest obstacle to efficient planning. To overcome such difficulties, large organizational and even constitutional changes may become necessary. The problem is urgent and requires immediate and serious attention.

2.5. Government must rally public support in favour of the Plan and encourage and help non official organizations to promote its fulfilment.

APPENDIX II

EXTRACTS FROM THE SECOND FIVE YEAR PLAN A TENTATIVE FRAME-WORK

Working paper prepared jointly by the Economic Division, Ministry of Finance and the Economic Division, Planning Commission in consultation with the Central Statistical Organization and the Indian Statistical Institute.

CHAPTER ONE

OBJECTIVES OF THE SECOND PLAN

* * * * * *

NATIONAL INCOME AND STANDARD OF LIVING

5†. The First Five Year Plan contained an illustrative model of development over a period of some 27 years. According to that model, India's national income could be doubled in some 22 years, per capita income could be doubled in about 27 years, and per capita consumption could be increased by roughly 70 per cent in a little more than five plan periods (*i.e.*, between 1950-51- and 1977).

6. The increase in national income by the end of the First Plan is likely to be greater than was anticipated and may amount to some 15 per cent over the five years. The national income of India increased by some 15 per cent in real terms during the five years 1948-49 to 1953-54. During the first three years of the First Plan, the increase was of the order of 12.5 per cent. Even when allowance is made for the provisional character of the estimate for 1953-54 and for favourable monsoons, it is reasonable to expect a 15 per cent increase in national income over the First Plan period. For the Second Plan, therefore, we may well aspire to an increase in national income higher than 15 per cent say, 25 to 27 per cent in five years, or 5 per cent per annum as a first approximation.

7. An increase in national income of about 5 per cent every year in the Second Plan is by no means unrealistic or ambitious.

† Original numbering of paragraphs has been retained.

A rate of increase in national income of 3 per cent per annum has been achieved over a period of years without any attempt at planning in countries already advanced industrially. In recent years, the socialist countries in Eastern Europe have achieved a rate of increase of some 12 to 16 per cent in national income every year. In the light of this experience, the target of a 5 per cent per annum increase in national income for the Second Five Year Plan must be regarded as a minimum to aim at. With effort and organization, it should probably be improved upon. On this basis, it should be possible to advance the long-term targets outlined in the First Plan by some four to five years, or even more.

NET NATIONAL OUTPUT OF INDIA AT CURRENT AND CONSTANT PRICES

	*1953–54	1952–53	1951–52	1950–51	1949–50	1948.49
(1)	(2)	(3)	(4)	(5)	(6)	(7)
net output in Rs. abja**						
at current prices	106.0	98.6	99.9	95.3	90.1	86.5
at 1948-49 prices	99.5	95.2	91.6	88.5	88.2	86.5
per capita net output in Rs.						
at current prices	283.9	267.4	274.5	265.2	253.9	246.9
at 1948-49 prices	266.5	258.1	251.7	246.3	248.6	246.9
index number of net output with 1948-49 as base						
at current prices	122.5	114.0	115.5	110.2	104.2	100.0
at 1948-49 prices	115.0	110.1	105.9	102.2	102.0	10.00
index number of per capita net output with 1948-49 as base						
at current prices	115.0	108.3	111.2	107.4	102.8	100.0
at 1948-49 prices	107.9	104.5	101.9	99.8	100.7	100.0

* preliminary. ** abja = 100 crores = 10^9

8. An increase in national income of some five per cent per annum would permit both a sizable improvement in the level of living in the country and an increase in the rate of investment. If investment is stepped up from roughly 7 per cent of national income at present to about 11 per cent of national income by the end of the Second Plan, total consumption should increase roughly by 20 per cent and per capita consumption by 12 to 13 per cent by the end of the Second Plan.

GROWTH IN NATIONAL INCOME IN SELECTED COUNTRIES

country	period	rate of growth (annual average in per cent)
(1)	(2)	(3)
U. S. A.	1869-78-1904-13	4.5
	1869-78-1929	4.0
	1899-1908-1929	3.2
	1929-1950	3.0
Canada	1903-29	2.6
Switzerland	1890-1929	2.7
Germany	1876-1913	2.8
Japan	1887-1913	3.0
	1914-1930	6.7
	1914-1937	6.7
Australia	1901-03-1928-29	3.2
	1901-03-1947-48	2.5
Soviet Union	1928-37 (official)	16
	1949-53 ,,	15
Poland	1947-53 ,,	14.5
Czechoslovakia	1948-53 ,,	12
Hungary	1952-53 ,,	12
Bulgaria	1952-53 ,,	16

9. The First Five Year Plan aimed, as a first step, at restoring the pre-war levels of consumption of the basic necessaries of life in the country. There has been a significant increase in the consumption of foodgrains, cloth and other items in recent years and the damage done by war and partition is all but repaired. However, the standards of nutrition, clothing, health, housing and education in the country are still inadequate.

10. The minimum requirements of cereals in a balanced diet were estimated by the Nutrition Advisory Committee as 14 oz. per adult per day. The average consumption of cereals in the country has increased from less than 13 oz. per adult per day in 1950-51 to nearly 15 oz. in 1953-54. The availability of pulses and grams still falls short of minimum nutritional requirements—2.5 against 3 oz. per adult per day. The consumption of a large number of people, however, is below the average level in the country; and the demand for foodgrains is certain to increase if purchasing power is increased at the lower levels. Thus, quite apart from the requirements of a growing population, the production of foodgrains needs to be increased in the Second Plan.

11. In the case of other foods such as milk, ghee, meat, fish, eggs, fats, fruits, vegetables and sugar the present level of

consumption falls far short of minimum requirements. In planning for a higher standard of living special attention must be devoted in the Second Plan to animal husbandry, fisheries, poultry-farming, vegetable gardening and other branches of food production. How much advance in these directions can be secured within the next five years is a matter for detailed examination.

12. The average consumption of cotton cloth in India is now back to the pre-war standard of 15 yards per person per year. The Textile Enquiry Committee has recommended an increase in consumption of cotton cloth to 18 yards per person by 1960. This modest objective must be achieved in the Second Plan.

13. During the war, an acute housing shortage developed in the urban areas. Urban population increased by 42 per cent during 1941-1951, and the shortage of houses at the end of the decade was estimated at more than 18 lakhs in addition to some 10 lakh houses required for displaced persons from Pakistan. There has been a substantial increase in urban construction in recent years, and it is reasonable to expect that the supply of houses in the urban areas would increase from some 102 lakhs in 1950-51 to about 115 to 120 lakhs by the end of the First Plan. Broadly, provision has to be made in the Second Plan for the construcion of an additional 30 lakhs of houses in the urban areas. The housing problem in rural areas is not as acute as in urban areas. But an effort must be made through the National Extension Service and similar agencies to improve housing conditions in rural areas as well.

14. As regards education, of the total population of children between 6 and 14, only 23 per cent went to school in 1939-40 and some 32 per cent in 1950-51. It is expected that this proportion would increase to 40 per cent by the end of the First Plan. Under the directive principles of the Constitution, the State must endeavour to provide free and compulsory education to all children below the age of 14 within a period of ten years. A considerable expansion to a proportion of say, 60 per cent, in primary education facilities must, therefore, be achieved in the Second Plan. Similarly, the provision of hospitals, doctors, nurses and sanitation facilities in the country is far from adequate and a substantial increase in health and medical facilities during the Second Plan must be assured.

15. An increase in national product by some 25 per cent would be required to ensure the increase in the level of living as envisaged above.

*   *   *   *

SOCIAL JUSTICE

40. As in the case of all things that really matter in life, social justice is easy to recognise but not so easy to define. Since the goal of a socialist pattern has now been clearly accepted, concrete steps in this direction have to be taken during the next plan period.

41. An important element in this transformation must be land reform with a ceiling on holdings and an explicit transfer of property rights to the actual tillers of the soil. In order to be economically meaningful, land reform must be supplemented by consolidation of holdings and by provision of credit, marketing and warehousing facilities in the rural areas on the lines indicated in the report of the Rural Credit Survey.

42. A socialistic pattern of society also implies State ownership or control of the strategic means of production. With the rapid development of basic industries, largely in the public sector, the Second Plan would ensure for the State a significant increase in its influence on this sector. Where necessary, the State must be prepared to enter into other spheres such as banking, insurance and trading.

43. Certain basic necessities of life must be provided to a greater proportion of the people irrespective of their ability to purchase the same in order to achieve a greater equality of opportunities in the country. Among these education and health come first. What is important is not merely an increase of schools and colleges but also an assurance of access to them for children of the poorest parents. The Second Plan must pay special attention to the provision of free boarding, lodging and tuition facilities to poor and deserving students from the primary right up to post-graduate levels. In other words, the sphere of public or communal consumption must be increased as the share of the public sector in productive enterprises goes up.

44. Conspicuous consumption by the more well-to-do classes must be checked. In a poor country trying to lift itself by the bootstraps, the self-denial and labour of the poor must provide directly or indirectly the major part of the resources for development. But such self-denial and effort cannot be justified in the midst of glaring inequalities. Conspicuous consumption by a few persons also serves to dissipate the habit of thrift in others who follow suit in some measure for reasons of social prestige. Curbing of

conspicuous consumption requires a fairly stiff system of taxes on luxuries. But, basically, the solution is reducing expendable incomes through direct taxation.

45. The Taxation Enquiry Commission has recommended that there should be a ceiling on net personal incomes after tax which, generally speaking, should not exceed approximately 30 times the prevailing average per family in the country. This recommendation is intended to be implemented by steps over a period of time; but a few steps must be taken in this direction in the Second Plan.

46. The emphasis on employment opportunities in the Second Plan will raise incomes at lower levels. At the same time, an inflationary rise in prices which corrodes living standards of the workers and the middle class must be avoided as far as possible; and in the event of inflationary measures gathering strength, steps must be taken to prevent the concentration of wealth and incomes in the hands of the trading and profit-making classes.

47. Industrial relations must be so arranged as to provide labour with both economic security and fair wages. The claims of capital accumulation must, of course, have precedence in the allocation of profits but a proportion should be devoted to increasing amenities like housing, providing training with a view to promotion, etc. In public undertakings, the State must set an example as a model employer.

48. Agricultural prices are not likely to remain depressed during a bold plan for rapid industrialisation. In the event of a sustained fall in agricultural prices, demand must be stimulated promptly by greater public expenditure and by open market operations by Government. Any sharp turn in the terms of trade against agriculture would depress the living standards of the large mass of people, jeopardise the increase in agricultural productivity and would curtail demand in general.

CHAPTER TWO

THE SECOND FIVE YEAR PLAN IN OUTLINE

*   *   *   *   *   *   *

II. INVESTMENT AND PRIORITIES IN THE PLAN

31. *** The concept of "investment" bristles with ambiguities; and in view of the variety of concepts in the field, it is necessary to specify clearly what is included in investment here.

32. In the First Five Year Plan, two concepts were used to denote the size of the Plan, *viz.*, net investment and developmental expenditure. Thus the net investment in the public sector was expected to be of the order of Rs. 1,600 to Rs. 1,700 crores; whereas the developmental expenditure which includes outlay of a capital as well as current expenditure was initially estimated at Rs. 2,069 crores. Since outlay on the Plan included only a portion of the outlay on certain developmental heads such as health and education, an additional concept of total developmental outlay (as distinguished from that included in the Plan) has also been used at times to indicate the size of the Plan. In the case of 42 organized industries in private and public sectors, the First Plan considered the requirements of gross rather than net investment in as much as allowance was made for part of depreciation, replacement and modernization. Similarly, the requirements of working capital were taken account of in the case of industries, but not for other sectors.

33. For the purposes of this paper, we speak of 'net investment' when referring to the economy as a whole. If our idea in assessing the 'investment cost' of a plan of certain size and character is to measure the effort of saving that is involved, it is more logical to consider gross income and gross investment. The entire gross product of the economy is, strictly speaking, available for consumption or investment. The allowance to be made for depreciation is in many cases national in the sense that except in the case of repairs maintenance or replacements of real resources are in fact required currently against the estimated amount of depreciation. Replacement itself is seldom a mere substitution of one machine or building

by another of the same type. Nonetheless, since our national income statistics are expressed in net output terms, it may be convenient to relate them to net investment.

34. Non-monetized investment is not included in investment. In a predominantly rural community of self-supporting persons, a significant amount of investment must be done by the application of personal labour and by using locally available materials. With the efforts to mobilise voluntary labour for various nation-building activities such as flood-control, investment in non-money terms must play an important part. It is also illogical not to include such investment when the income generating from it is included in national output. However, in view of the highly conjectural nature of the imputed value of such investment, it is proposed to disregard it at this stage.

35. As regards investment in working capital, *i.e.*, in stocks of goods and services waiting to be consumed or to be utilised in production, it is clear that any additional requirements here are indistinguishable from the requirements of the fixed capital. Both require "savings" in real and financial terms; and as the Rural Credit Survey amply points out, provision of short-term capital has as much relevance to production as that of long-term capital. Indeed unless increments in stocks of *all* goods are included in investment, it would be difficult to justify the inclusion of residential houses in investment. Construction of a house is investment not because it resembles a producer good more than a consumer good but because it represents a net addition to the stock of houses. The requirements of additional working capital over a period are not easy to estimate; but a rough allowance is made for them here.

36. Although it is more meaningful to speak of net investment when referring to the economy as a whole, it is useful to retain the concept of developmental expenditure in speaking of the public sector. Whether this developmental expenditure under the Plan should include only a part or whole of the expenditure in certain specified heads is a question to which we return later. But at this stage, it may be emphasized that as long as we use more than one concept to indicate the size of the Plan in the public sector, it would be essential to recast Government budgets in a manner which would make explicit the magnitudes of all these concepts. Thus, net capital formation through the budget, total developmental outlay and the outlay on the Plan must be all readily ascertainable from the budget statements.

37. The total amount of net investments required for achieving the targets outlined above may be estimated at about Rs. 5,600 crores. This estimate is made up by aggregating, wherever possible, the capital requirements of the individual targets. However, this procedure cannot be adopted uniformly for two reasons. The targets do not cover all the items of production. And in several important sectors, particularly in agriculture, investment is multipurpose in the sense that only a complex of products can be related to a complex of investment.

38. Again, it is not as if all the investment in the community is strictly required for the achievement of the targets set. Residential construction, stock piling and investment in gold and precious metals can take place irrespective of the requirements of the targets sought to be achieved. It is as well, therefore, to be clear in our minds as to how much allowance we make for such investment.

* * * * * *

III. National Income and the Structure of the Economy

48. One way of describing the objectives of the next Plan would be to compare the structure of production as it is expected to emerge at the end of the Plan (1960-61) with that prevailing on the eve of the Plan (1955-56). This is done in the present section.

49. The latest available estimate of India's national income relates to the year 1953-54. At current prices, the national income of India in 1953-54 was approximately Rs. 10,600 crores. In order to present a picture of the change in the economy over the Second Five Year Plan, it is necessary to have an estimate of national income for the year 1955-56. Even if we make allowance for the fact that national income in 1953-54 was somewhat unusually high on account of favourable monsoons, it is not unreasonable to expect that national income over the last two years of the First Plan would increase by some 4 per cent. On this basis, national income in 1955-56 should exceed Rs. 11,000 crores at 1953-54 prices.

50. However, judged by recent trends, prices in 1953-54 were also high. In outlining the change in the economic structure over the Second Plan, we have necessarily to make all calculations at some constant prices. In one sense, it does not matter what particular prices we use. Nonetheless, since some estimates such as those of Government receipts and expenditure are necessarily made at current prices, it is important that other calculations are also made at prices as near as possible to the prices current in the period

under consideration. For the Second Plan, we have worked out our terms of 1952-53 prices in as much as they are nearer to current prices than those in any other recent year for which national income data are available.

INDEX OF WHOLESALE PRICES IN INDIA

(Year ended August 1939 = 100)

year	food articles	industrial raw materials	semi-manufactures	manufactures	general index
(1)	(2)	(3)	(4)	(5)	(6)
1948-49	383	445	327	346	376
1949-50	391	472	332	347	385
1950-51	416	523	349	354	410
1951-52	399	592	374	401	435
1952-53	358	437	344	371	381
1953-54	384	467	359	367	398
1955, Jan. 22	309	431	345	377	364

51. The national income of India in 1955-56 (at 1952-53 prices) may be estimated at Rs. 10,800 crores. With a 5 per cent increase per annum it should amount to Rs. 13,700 crores in 1960-61—*i.e.*, an increase of Rs. 2,900 crores. This increase is consistent with the targets set as supplemented by assumptions about minor sectors not included in the targets.

52. The increase in national income would not be uniform for different sectors. The table following illustrates the change in the economic structure envisaged for the Second Plan in terms of the sectorwise breakdown employed in national income statistics.

53. It is clear from the table that of the total increase in national income (Rs. 2,900 crores) the largest part would still be in agriculture and allied pursuits (Rs. 1,060 crores). Factory establishments would show an increase in net output of some Rs. 550 crores, mines of Rs. 50 crores and small enterprises of Rs. 410 crores. The rest of the additional output of about Rs. 830 crores would be generated in the tertiary sector. However, in relative terms, the increase in income generated would be greater in factory establishments (65 per cent), mining (50 per cent), and small enterprises (40 per cent) than in agriculture (20 per cent) or in the tertiary sector (23 per cent). On balance, the relative share of mines, factories and small enterprises in the national income would increase from 17.7 per cent in 1955-56 to 21.4 per cent in

1960-61 and that of agriculture would decline correspondingly from 48.9 per cent to 46.3 per cent. Thus, despite the relatively high targets for industries, the structure of the economy would show only a small change over the Second Plan period.

DOMESTIC PRODUCT OF INDIA

(at 1952-53 prices)

sector	products (Rs. abja)			per cent of total product		
	1950-51	1955-56	1960-61	1950-51	1955-56	1960-61
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. agriculture & allied pursuits	45.2	52.8	63.4	49.2	48.9	46.3
II. mining	0.8	1.0	1.5	0.9	0.9	1.1
III. factory establishments	5.8	8.0	13.5	6.3	7.4	9.9
IV. small enterprises	9.3	10.2	14.3	10.1	9.4	10.4
V. railways, communications, banks, etc.	3.1	3.6	4.7	3.4	3.3	3.4
VI. other commerce and transport	13.4	15.1	18.8	14.6	14.0	13.7
VII. professions, government services, etc.	14.3	17.3	20.8	15.6	16.0	15.2
total product	91.9	108.0	137.0	100.0	100.0	100.0
per capita products (Rs.)	256	282	334	—	—	—

54. The classification of domestic product by sectors given above does not reveal certain features of the development envisaged for the Second Plan. Thus, the development of heavy industries is obscured in the total of factory establishments. Similarly, the small enterprises sector is not identical with the small industries sector. It includes in addition workers employed in construction industries. A further breakdown of these sectors can be attempted only on rough lines. Thus, although the net output of factory establishments increases by two-thirds, the output of consumer goods industries is expected to increase by some 20 per cent only whereas that of producer goods by 150 to 175 per cent. In the case of small enterprises, as against a total increase of 40 per cent in net output, that of consumer goods is envisaged to increase by one-third, of producer goods by 50 per cent and of construction enterprises by some 60 per cent.

55. Similarly, the increase in agricultural output of 20 per cent comprises a 15 per cent increase in foodgrains and 25 per cent in other foodstuffs and commercial crops.

56. In short, the structure of production envisaged here is in correspondence with the priorities dictated by the basic objectives outlined earlier. Heavy industries received the greatest emphasis; in the production of additional manufactured consumer goods, small enterprises get a roughly equal share with factory establishments; and the output in agriculture shows a significant increase of 20 per cent.

57. The national income calculations just outlined are based on the physical targets described earlier The physical targets themselves were based in most cases on the assumption of a 25 to 27 per cent increase in national income over five years or a 20 per cent increase in total consumption. (Allowance has to be made for greater investment.) The structure of the economy in 1960-61 as envisaged here, therefore, takes into account the increased expenditure on different goods and services as national output increase—after making allowance for such exchange of domestic goods for foreign goods as was implied in the physical targets set.

IV. The Pattern of Employment

58. The creation of adequate employment opportunities is one of the basic objectives of the Second Plan. Some of the implications of this policy have already been set forth earlier. In this section we may consider whether the target of 12 million additional persons to be pressed into gainful occupation outside agriculture can be realised in terms of the Plan envisaged here. Unfortunately, our knowledge of the occupational distribution of the population on the eve of the Second Plan can only be based on an extrapolation of the picture revealed by the 1951 census. This is not very satisfactory; but a rough estimate has been attempted to see where the additional persons might be absorbed.

59. In 1950-51, out of the total working force of 143.2 million persons, some 103.6 million were employed in agriculture and allied occupations. It is to the remaining 40 million persons—or say 42 to 43 million by 1955-56—employed in mines, factories, small enterprises, trade, transport, communications, professions and other salaried employees that some 12 million additional persons have to be added in the Second Plan. The likely results of the Plan outlined above may be analysed sector by sector.

(1) *Mining:* Some 8 lakh persons are employed in mines at present. With output from mines increasing by some 50 per cent in the Second Plan, additional employment in mines during the next plan period may be of the order of 3 to 4 lakhs.

(2) *Factory establishments:* Factory establishments employed some 30 lakh persons in 1950-51 of which roughly 24 lakhs were in consumer goods industries and the remaining in producer goods industries. (Total factory employment in 1955-56 may be a little higher than 30 lakhs.) In the Second Plan the net output of factory-produced consumer goods is expected to increase by some 20 per cent and of producer goods by 150 to 175 per cent. On this basis, additional employment in factories during the Second Plan may be of the order of 12 to 14 lakhs.

(3) *Small enterprises:* In 1950-51, small enterprises employed some 115 lakh persons. The term 'small enterprises' is, however, misleading. In addition to small-scale industries proper, it includes those engaged in construction of roads, buildings, irrigation works, carpenters, brick-layers etc. This latter category accounted for as much as 44 lakh persons out of the total of 115 lakhs in small enterprises. Among the rest, textiles and tailoring accounted for 32 lakhs, metal working and mechanical enterprises 12 lakhs and food and tobacco industries another 15 lakhs.

The Second Plan envisages an increase of about 40 per cent in the net output of small enterprises, ranging from 20 per cent in food industries and 25 per cent in leather products to 33 per cent in the metal group, 50 per cent in the textile and tailoring group and 60 per cent in the construction group. It is clear that income of persons employed in small enterprises is low and several of them do not have sufficient work. In this sector, therefore, employment cannot increase as fast as production. Assuming that employment increases, say by one-fourth as against a two-fifths increase in output, this sector would absorb about 30 lakh additional persons during the Second Plan.

(4) *Railways, communications, organized banks and insurance:* This sector provides employment to roughly 15 lakh persons in 1950-51. The Second Five Year Plan envisages considerable expansions in banking facilities, railways and communications. Additional employment of 3 to 5 lakh persons here may, therefore, reasonably be expected.

(5) *Other commerce and transport:* This sector is a great employment provider. Some 95 lakh persons were engaged in this sector in 1950-51. Nearly two-thirds of this group are employed in retail trade, some 6 lakhs in wholesale trade, 10 to 11 lakhs in hotels and restaurants and about the same number in road transport.

If net output of this sector increases by 20 to 25 per cent, as is envisaged, additional gainful occupation for some 20 lakh additional persons should reasonably be available in this sector. It is arguable that we should not rely on trade for additional employment in as much as this sector is already rather large in relation to the total size of the economy. However, for the immediate future some expansion of employment in trade is to be expected.

(6) *Government administration:* In 1950-51, there were 39 lakh persons employed in Government administration, and additional employment in this sector during the Second Plan may be of the order of some 5 lakhs.

(7) *Professions and liberal arts:* This is another important sector from the point of view of employment. In 1950-51 some 64 lakh persons were employed in this sector including some 10 lakh teachers, 11 to 12 lakh barbers, 12 to 13 lakh dhobis, 7 lakh scavengers and 8 lakh medical practitioners and health workers.[1]

60. In view of the substantial increase in the expenditure on health, sanitation and education envisaged in the Second Plan and the increased demand for the services of barbers, dhobis etc., an increase in employment by 15 lakhs or more in this sector is not unlikely.

61. To sum up, the additional employment we may count on for the Second Plan is as follows[2].

INCREASE IN EMPLOYMENT

sector	increase in employment 1955-56 to 1960-61 (in lakhs)
(2)	(2)
mines	3 to 4
factories	12 to 14
small enterprises (including construction workers)	30
railways, communications, etc.	3 to 4
other commerce & transport	20
government administration	5
professions and liberal arts	15 to 20
total	88 to 97

[1] The juxtaposition of barbers and dhobis with teachers and doctors is rather curious, but it is retained here in as much as it corresponds to national income classification in India.

[2] In view of the particularly urgent problem of urban unemployment among the educated middle-classes, we must also indicate how much employment is likely to be created for this sector. But it has not been possible to attempt this considering the several arbitrary assumptions involved.

62. Thus, the foreseeable employment potential of the Plan is of the order of 9 to 9.5 million persons absorbed outside agriculture. The Second Five Year Plan, therefore, has to be at least as bold as the one envisaged in this paper if it is to fulfil the promise of fuller employment. Perhaps some one to two million persons would be added to those engaged in agriculture in any case in view of their existing occupations. Again, not all the persons employed in agriculture and allied pursuits depend on land. Some additional employment among those engaged in fishing, forestry or sheep-raising may not be undesirable.

63. It should be emphasized, however, that the increase in employment envisaged here will demand a great deal of organization, besides finance and suitable policies. It is clear that small enterprises, for example, which bear the brunt of the employment effort will not expand on the scale envisaged without sustained effort. Creation of employment opportunities is not a matter of providing 'jobs' and the outcome will depend greatly on the response of the public. Provision of employment also carries with it the implication that training facilities for the type of personnel needed would be provided for on the scale required. Again in several sectors we have assumed that additional output would mean a more or less proportionate increase in employment. This envisages some control over excessive rationalization, on concentration of units, and on frittering away of higher demand in raising the remuneration of those already in employment to the detriment of the unemployed. The problem of unemployment, as has already been emphasized, can hardly be separated from that of distribution of income.

64. From this point of view, it may be of interest to note the following figures about the net output per person employed in different sectors. The figures must be interpreted with caution. Thus, figures in money terms do not take into account differences in cost of living or of the non-economic disabilities and advantages of certain occupations or places. Again, net output per employed persons represents the earnings of labour as well as capital and does not take Government draft into consideration. The differences among sectors are partly the result of different capital requirements per unit of output. What is more, the number of persons gainfully occupied per household varies from sector to sector, and the disparities in income per occupied person do not correspond to disparities in incomes per

household[1]. The occupational distribution envisaged for 1955-56 and 1960-61 is also largely conjectural. Nonetheless, the table below illustrates an important aspect of the Second Plan. It may be noted that the distribution of additional output and employment in the Second Plan is so designed, by and large, as to raise levels of living at lower levels.

OCCUPATIONAL PATTERN IN INDIA

sector	working force (in millions)			net output per occupied person (Rs. per year at 1952-53 prices)		
	1950-51	1955-56	1960-61 estimated	1950-51	1955-56	1960-61 estimated
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. agriculture and allied pursuits	103.6	109.6	111.0	436	482	571
2. mining and factory establishments	3.8	4.0	5.7	1,737	2,250	2,632
3. small enterprises	11.5	12.0	15.0	809	850	953
4. communications, railways, banks and insurance	1.5	1.6	2.0	2,067	2,250	2,350
5. other commerce and transport	9.5	10.0	12.0	1,410	1,510	1,567
6. govt. administration, professions, liberal arts and the rest	13.3	14.9	17.3	1,075	1,161	1,202
total	143.2	152.0	163.0	642	710	840

65. Net output per occupied person increases by only 4 or 5 per. cent in the tertiary sector where it is already high compared with the national average. In the case of agriculture and small scale industries, the increase is of the order of 20 and 12 per cent respectively. Mining and factory establishments also show an increase in net output per employed person of some one-sixth. This increase reflects, however, the shift in favour of heavy industries where large amounts of capital are associated with a comparatively small employment of labour. Thus, by and large, the employment pattern envisaged here is in keeping with the basic objectives of fuller employment and social justice.

[1] Thus the ratio of earners to non-earners in a household in 1951 was 1 : 1.4 for agriculture; 1 : 1.3 for production in rural areas other than cultivation; 1 : 2.1 for commerce; 1 : 1.8 for transport; 1 : 1.7 for other services; and 1 : 1.7 for production other than cultivation in urban areas.

Chapter Three

FINANCIAL RESOURCES FOR THE PLAN

* * * * *

Savings and Investments

2. If net investment of the order of Rs. 5,600 crores is to be realized over the next plan period, savings of the same order must be forthcoming. With increased incomes, the volume of savings is bound to increase. For initiating a process of higher investment and higher incomes by fuller utilization of unemployed and under-utilized resources, it is not necessary that savings come first and only these are invested later. Credit has to be taken in advance for the additional savings that are likely to arise as incomes and investment increase. Some initial credit creation, therefore, is an essential part of a development programme. Nonetheless, if planned investments are to be realised without generating serious inflationary pressures, the initial credit creation must be limited with reference to what savings are likely to be available or can be created by suitable policy measures.

3. An investment programme of Rs. 5,600 crores for the Second Plan cannot be carried through without a considerable increase in the rate of savings in the community. Assuming that sterling balances can be drawn down by some Rs. 100 or 150 crores and foreign assistance of the order of Rs. 500 crores is available during the Second Plan, domestic savings of the order of Rs. 5,000 crores must be available. The Taxation Enquiry Commission has estimated that total savings in India in 1953-54 and total net investment (at home and abroad) amounted to some seven per cent of national income. Their concept of net investment is not strictly comparable to the one used here in arriving at the net investmet of Rs. 5,600 crores for the Second Plan. Thus, unlike the TEC, we have excluded non-monetized investment. At the same time, we have made some allowance for investment in stocks and in small enterprises which have been disregarded by the TEC. Again a sizeable increase in public investment is expected for the last two

years of the First Plan. On the other hand, the TEC's estimate of net investment abroad of Rs. 70 crores in 1953:54 must be regarded as rather exceptional. Normally, we should expect a deficit in our current balance of payments (not taking credit for donations) with the result that the total investment in the country must be higher than domestic savings. Taking these considerations into account, it is reasonable to expect that comparable to the figure of Rs. 5,600 cores for the Second Plan, net investment in the country in 1955-56 would be of the order of 6.75 per cent of national income and corresponding domestic savings of some 6 per cent of national income. On this basis, the growth in investment and savings over the Second Plan would have to be somewhat as follows :

GROWTH IN INVESTMENT AND SAVINGS

(Rs. crores)

	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	2nd plan 1956-57 to 1960-61
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(a) national income	10,800	11,300	11,825	12,375	13,000	13,700	62,200
(b) net investment	730	810	930	1,060	1,300	1,500	5,600
(c) domestic savings	650	680	800	930	1,170	1,370	4,950
(d) foreign resources	80	130	130	130	130	130	650

4. The phasing over the five years of savings and investment given above is intended to be illustrative. The essential point is that in order to achieve a total investment of Rs. 5,600 crores, the rate of investment must increase from 6.75 per cent of national income in 1955-56 to 11 per cent of national income in 1960-61, and domestic savings from 6 to 10 per cent over the same period. If foreign resources are not available on the scale envisaged, the savings effort at home would have to be correspondingly greater.

5. Whether an increase in the rate of domestic savings from 6 per cent in the beginning of the next plan period to 10 per cent by 1960-61 is likely to take place in response to a voluntary increase in savings resulting from additional incomes cannot be judged in advance. The increase in savings envisaged here is not very large

in relation to the rates achieved in other countries. But, considering the current low rate of savings and the large margin of unsatisfied needs, it may be assumed that savings of the order required would not be forthcoming without special and persistent effort at restricting consumption through fiscal and other devices.

6. In an underdeveloped economy, where there are idle resources, increased investment need not imply a reduction in current consumption. It would, however, imply austerity, that is, preparedness to hold down consumption, especially of luxuries, in the face of rising incomes. A check on the consumption of non-essential commodities, domestic as well as imported, is necessary in order to release additional resources for the production of essential goods. Shortages of essential goods are dealt with better in this way than by direct limitation of consumption. However, if resources released through restriction of luxury consumption are not of much use for increasing the supplies of essential goods, controls over consumption of essentials would become unavoidable. The question of controls must, in other words, be judged in terms of the particular real resources, which are in short supply. Foreign exchange resources have to be conserved with particular care, in that they can be converted into whatever commodities become scarce within the country. In the present world situation in regard to food and cotton, one can hope that a plan of the magnitude contemplated can be seen through without having to impose controls on necessaries like food and cloth.

7. Up to a point, the emergence of some inflationary pressures or a sellers' market is necessary, since our objective is to push ahead as far as possible in the direction of utilizing our resources. Essentially inflationary pressures—or insufficiency of savings—arise as a result of inelastic supplies of goods against which people direct their demand. The elasticity of supply is not equally great in the case of all commodities. With effort and organization, it can be altered favourably at least in selected sectors. If we are to stop at the first bottleneck in supplies for fear of a rise in prices in that sector, even though supplies in other sectors are elastic to some extent, we are likely to stop short of the full potential for expansion of the economy. We have to be prepared to 'tackle' short supplies in some commodities. Whether in doing so we would be able to prevent a general and cumulative rise in prices depends, obviously, upon the measure of shortage and the organizational efficiency in dealing with it. In an expanding economy the

sufficiency of savings cannot be predicted in advance, but since the overall effort suggested is not excessive and is required for making an impact on employment, the practical problem is one of watching overall economic trends and of correcting through fiscal and other measures any shortage in resources in particular sectors as they arise.

8. From the stand-point of finding resources for the public sector, it is necessary to consider not only the outlay on the Plan but total outlay. Expenditure outside the Plan has an obvious significance to the realistic appraisal of the financing of the Plan. The outlay on the Plan in the public sector includes, first of all, all expenditure which results in the creation of new capital assets (directly in the public or indirectly in the private sector). In addition, it should include that part of the current expenditure on specific developmental heads which represents an increase over the level reached at the end of the First Plan. This would give a clear idea of the 'lift' we are giving to the developmental effort during the next plan. This is the concept which has been kept in mind in this paper in arriving at the plan outlay of Rs. 4,300 crores.

9. An alternative would be to include all expenditure under specified developmental heads in the Plan, leaving out only expenditure on non-developmental items like Defence and Civil Administration. Although this would inflate the Plan figures, it would facilitate a more realistic appraisal of the Plan and its financing by ruling out the possibility of shifting of expenditure, as from one-sub-category to the other within the broad category of developmental heads. It would also enable a quicker review of the progress under the Plan from the budget itself. On the other hand, by confining the scope of the Plan to the schemes deemed more essential to further effort, we are better able to scrutinize them. The best course under the circumstances would, therefore, be to high-light *both* the total expenditure under specified developmental heads and the outlay on the Plan. As a rough approximation, the budgetary position of the Centre and the States combined may be outlined as in the table on page 138.

10. The estimated outlay of the Centre and the State Governments combined for 1955-56 is based on the budget proposals for the year, as far as possible, and on the revised budget figures for 1954-55. However, in view of the difficulties in combining the figures for the Centre and the States and in apportioning the development outlay, within the Plan and outside the Plan, the estimates must be taken only as roughly indicative of the magnitudes involved.

TOTAL GOVERNMENT EXPENDITURE

(Rs. Crores—estimates)

	1955-56	1960-61	over second plan 1956-57 to 1960-61
(1)	(2)	(3)	(4)
1. outside the plan (a) non-developmental	625	725	3400
(b) developmental	220	225	1100
sub-total	825	950	4500
2. on the plan	600	1100	4300
total	1524	2050	8800

11. It is assumed that public outlay on the Plan will increase from Rs. 600 crores or so in 1955-56 to Rs. 1,100 crores in 1960-61, *i.e.* by about 80%, in order to make up a total of Rs. 4,300 crores over the plan period. Expenditure outside the Plan is assumed to increase by 15% over the five years or by Rs. 25 crores every year. The total outlay on developmental heads is envisaged to be of the order of Rs. 5,400 crores—Rs. 4,300 crores in the Plan, and Rs. 1,100 crores outside the Plan.

12. The question is how a total Government outlay of Rs. 8,800 crores (Rs. 4,500 crores outside the Plan and Rs. 4,300 crores on the Plan) is to be financed. Assuming that the Government takes some 8.5 per cent of national income in taxes and in non-tax revenue as has been the case on an average over the past four or five years (7% in taxes and about 1.5 per cent in non-tax revenue) the total revenue receipts would amount to above Rs.5,200 crores. Borrowing from the public may possibly yield (net) another Rs.1,000 crores (about Rs. 600 crores from loans and Rs. 400 crores from small savings). Contribution from railways may be put at Rs. 200 crores over five years, The budgetary position of the Government over the Second Plan might, therefore, look somewhat as follows :

expenditure	(Rs. crores)	*receipts*	(Rs. crores)	*deficit* (Rs. crores)
		on revenue account	5,200	
on the plan	4,300	from railways	200	
outside the plan	4,500	loans from the people	1,000	
	8,800		6,400	2,400

13. As against the gap or deficit of Rs. 2,400 crores, we may take credit for some Rs. 400 crores of foreign assistance.* Over the First Plan, foreign assistance utilized in the public sector is likely to be of the order of Rs. 250 crores. Thus we are assuming a 60 per cent increase in the amount of external assistance utilized by the public sector.

14. The remaining gap of Rs. 2,000 crores cannot be filled up by deficit financing or creation of money. As a first approximation, we may assume that such money creation can be resorted to the extent of Rs. 1,000 to Rs. 1,200 crores by the Government. Allowance must also be made for credit creation by banks for the needs of the private sector, say Rs. 400 crores or so, bringing total credit creation to Rs. 1,400 to Rs. 1,600 crores. A part of this credit would be withdrawn from the system as we use up our accumulated sterling balances. We made an allowance earlier for a decline in our foreign exchange reserves by some Rs. 150 crores. Even then, total money supply in the economy might increase by some Rs. 1,300 crores during the Second Plan. We have argued earlier that credit creation is essential to development and that some price rises may well occur in an economy trying to reach to the full limit of its resources. In India, a larger money supply will be needed as the monetized sector expands relatively to the non-monetized sector. Even then, with a 25 to 27 per cent increase in national income, an increase in money supply by some Rs. 1,300 crores on a base of some Rs. 2,000 crores must be regarded as short of the outside limit.

15. If, then, for the reasons just stated deficit financing by the Government must be restricted to some Rs. 1,000 to Rs. 1,200 crores, it would be necessary to raise at least Rs. 800 crores by increased taxation, or by compulsory borrowings, or through increased profit of Government enterprises. In fact, a combination of all these will be called for. If additional Government profits are to be raised, it might be necessary for the State to enter into the field of trading or production of consumer goods. The scope for such expansion of State activity into profit-making ventures will have to be carefully examined. Alternatively, taxation in the country will have to be raised from some 7 per cent of national income to 9 or 10 per cent of national income by 1960-61. An increase in taxation from 7 to

* In addition, foreign assistance of Rs. 100 crores is envisaged for the private sector.

9 or even 10 per cent of national income cannot be regarded as excessive if our aim is to have a bolder plan which requires an increase in the savings of the community from 6 to 10 per cent of national income. But it should be borne in mind that some tax adjustments will be necessary even to maintain the existing level of tax receipts at 7 per cent of national income.

16. The foregoing discussion of the resources for the public sector has been in terms of the receipts and expenditures of the Centre and the States combined. A survey of the financial position of individual States during the Second Plan will have to be prepared separately.

Resources for the Private Sector

17. Of the total investment of Rs. 2,200 crores in the private sector, Rs. 1,100 crores is envisaged in construction; Rs. 500 crores in industry, mining and transport; Rs. 200 crores in agriculture; and Rs. 400 crores in working capital in trade and industry and in residual items.

18. The Taxation Enquiry Commission has estimated that net investment in organized enterprises (public limited and private limited companies) and in private transport amounted to Rs. 75 crores in 1953-54. Correspondingly, corporate savings and new subscription to capital of companies together have also been put at Rs. 75 crores for that year. This investment is roughly comparable to the provision made here for an investment of Rs. 500 crores in industries, mining and transport in the private sector for the next plan period. An increase in the rate of such investment from Rs. 75 crores in 1953-54 to an average of Rs. 100 crores over the next plan may be regarded as feasible, particularly in view of the larger profits that are likely to arise in organized industries if unutilized capacity is put to full use. The more important problem would be to ensure a proper allocation of the investment in the private organized sector of industries. Apart from capital issues control and export and import controls, a differential tax policy might be needed in this context. Where necessary, arrangements may be made for loans or planned increases in prices for realising important investments in this sector.

19. The requirements of working capital for industry and trade can be met without much difficulty through bank accommodation. We have made allowance for an increase of some Rs. 400 crores in bank credit earlier in arriving at total credit creation in the eco-

nomy. Indeed, with deficit financing of Rs. 1,000 to Rs. 1,200 crores in the public sector, the problem may well be one of preventing excessive bank accommodation.

20. Of the net investment in the private sector of Rs. 2,200 crores, about one-half is envisaged to be in construction. This implies private construction activity of the order of Rs. 220 crores per year on an average in the next plan period. Private monetized construction at present may be estimated at about Rs. 150 to 160 crores per year. The source of savings for construction activity cannot be indicated. Nor can it be asserted that the increase in construction activity envisaged would, in fact, be realized. If aggregate savings are inadequate, there is no knowing where this shortage would impinge. As long as investment in the higher priority part of the private sector is assured, any shortfall in the availability of resources for other purposes would not seriously retard the tempo of development.

Balance of Payments

21. A close analysis of the balance of payments position for the Second Plan period has yet to be made. Considering the type and structure of our exports, it is doubtful if a large increase in earnings can be secured, at least in the earlier years of the Plan. In the targets indicated earlier, provision has been made for larger exports of cotton textile, tea, mica, manganese and some of the newer products like sewing machines, electrical goods, etc. However, in view of the increasing competition in some export items, it might be safe not to assume any significant increase in export earnings. The balance would turn mainly on imports.

22. Of the total investment of Rs. 5,600 crores, about Rs. 2,500 crores will be of a kind that makes little demand on foreign exchange. For the rest, that is, about Rs. 3,000 crores of investment in irrigation and power, communications, industries, railways, etc., if we assume the imported component at 33 to 40 per cent (as a very rough average), the import requirements would work out at between Rs. 1,000 and Rs. 1,200 crores. To this we may add Rs. 400 crores or so as imports needed for replacement.

23. Total imports of capital goods over the Second Plan period may thus amount to Rs. 1,400 to 1,600 crores. At present, these imports are of the order of Rs. 100 crores a year. Since the overall external account is more or less in balance, it may be assumed that we could finance Rs. 500 crores worth of machinery and equipment

imports from current earnings. The problem, then, would be to find foreign exchange resources of the order of Rs. 1,000 crores. Allowing for a saving of foreign exchange of some Rs. 200 crores on petrol, raw cotton, sugar and similar items where domestic production is expected to increase, there would still be a problem of finding Rs. 800 crores of foreign exchange. The foreign exchange assets held by the Reserve Bank can perhaps be drawn down by Rs. 100 to 150 crores during the next plan period (*i.e.*, from the present level of Rs. 730 crores to 550 or 600 crores, after making an allowance for a decline of Rs. 30 crores or so in the last year of the First Plan). This leaves a balance of Rs. 650-700 crores. If Rs. 500 crores of this could be met by way of external assistance, there will still be need for economising on imports and for promotion of exports. Since the reducible element in our imports is small, there is a correspondingly greater need for increasing exports.

APPENDIX III

THE SECOND FIVE YEAR PLAN

A MEMORANDUM PREPARED BY THE PANEL OF ECONOMISTS,* PLANNING COMMISSION

Covering letter dated New Delhi, 10 April, 1955 from Professor D. R. Gadgil, Vice-chairman of the Panel of Economists, submitting the Memorandum to Shri C. D. Deshmukh, Chairman of the Panel.

In submitting the accompanying Memorandum, we would like to point out that the time at our disposal did not permit us to make an exhaustive study of the numerous papers placed before us both by our colleagues and by others nor to have a full and thorough discussion of the numerous issues involved. We regard this Memorandum as an interim document, pending fuller study on several points we have only briefly touched upon. We hope that we shall have occasion later to go into greater detail on some of the items included in this Memorandum. In the meanwhile, we have given our best possible consideration to the various questions connected with the Plan-Frame that we could within the time at our disposal, and the Memorandum that accompanies this letter represents the broad consensus of opinion reached at our meetings. One of our colleagues, Prof. B. R. Shenoy, has differences of opinion on some points and proposed to submit a separate note as soon as possible.

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*The Panel of Economists consists of:

(1) C. D. Deshmukh, *Minister of Finance and Member, Planning Commission—(Chairman)*; (2) D. R. Gadgil, *Director, Gokhale School of Economics & Politics, Poona—(Vice-chairman)*; (3) A. K. Das Gupta, *Professor of Economics, Banaras University*; (4) M. L. Dantwala, *Member-Secretary, Research Programmes Committee, Planning Commission*; (5) B. N. Datar, *Director, Labour & Employment Division, Planning Commission*; (6) B. N. Ganguli, *Delhi School of Economics*; (7) L. C. Jain, *Professor of Economics, Saugor University*; (8) J. V. Joshi, *Executive Director, Reserve Bank of India, Bombay*; (9) D. G. Karve, *Director, Programmes Evaluation Organization, Planning Commission*; (10) Bala Krishna, *Professor of Economics, University of Madras*; (11) D. T. Lakdawala, *Professor of Economics, University of Bombay*; (12) B. K. Madan, *Economic Adviser, Reserve Bank of India, Bombay*; (13) S. K. Muranjan, *Principal, Sydenham College of Commerce, Bombay*; (14) J. P. Niyogi, *Professor of Economics, University of Calcutta*; (15) V. R. Pillai, *Professor of Economics, University of Travancore, Trivandrum*; (16) K. N. Raj, *Professor of Monetary Economics, Delhi School of Economics*; (17) V. K. R. V. Rao, *Director, Delhi School of Economics*; (18) D. S. Savkar, *Director of Banking Research, Reserve Bank of India, Bombay*; (19) S. R. Sen, *Economic & Statistical Adviser, Ministry of Food & Agriculture, New Delhi*; (20) B. R. Shenoy, *Professor of Economics, University of Gujrat, Ahmedabad*; (21) C. N. Vakil, *Director, School of Economics & Sociology, University of Bombay*; (22) J. J. Anjaria, *Chief, Economic Division, Planning Commission—(Secretary)*.

BASIC CONSIDERATIONS RELATING TO THE PLAN-FRAME

The Panel of Economists had its third session on the 8th, 9th and 10th April to consider the main issues relating to the preparation of a plan-frame. The issues grouped themselves under three broad heads :—

(i) size of the Second Five Year Plan;
(ii) structure and content of the Plan;
(iii) policy and institutional implications of the plan-frame proposed.

These questions were considered by the Panel in the light of a large number of papers — about forty—received from its members and, also in the light of the papers prepared by the economists and statisticians in Government and the Reserve Bank and at the Indian Statistical Institute. This memorandum sets out the main conclusions reached by the Panel on these issues.

I. Size of the Plan

2. The Panel subscribes to the view that a bolder plan for the second five-year period is both necessary for dealing with the large problems of poverty and unemployment and under-employment and feasible in view of the momentum gained during the First Five Year Plan. The Second Five Year Plan must not only provide for a more rapid increase in aggregate national income; it must make an advance towards the declared goal of a socialistic pattern of society. It is important, in other words, to secure simultaneous and balanced progress in the direction of raising living standards, increasing employment opportunities and reducing economic and social inequalities. The problem, therefore, is not merely one of stepping up the rate of investment in the economy—though that is necessary and important; but of securing an optimum increase of production and employment together with a wider measure of social justice. A bolder plan is, obviously, not merely a bigger plan; it must be one which is motivated by a bolder economic and social philosophy. Necessarily, it calls for a much greater effort

and contribution by all classes of the community and presents a much greater challenge of organization and administrative achievement. The Panel also wishes to emphasize the fact that clear decisions on the policy and institutional implications of a bolder plan are essential at the very outset if the several objectives and targets are to be realized.

3. The question of the size of the Plan may be considered with reference to the order of increase in national income (or production) on the average which should be aimed at during the Second Plan period, the employment objectives which should be borne in view and the resources which could be available for the financing of the Plan.

4. We consider that the Second Five Year Plan should aim at securing an increase in national income of about 25 per cent in the course of five years. If allowance is made for favourable monsoons the increase in national income during the period of the First Plan is likely, on the basis of figures upto 1953-54, to be of the order of 12 to 13 per cent. The rate of increase proposed to be aimed at in the Second Plan period is thus roughly double of that attained during the First Plan. We have observed the rates of increase in the national income of other countries over different periods and consider that, given a determined bid to put forth a maximum measure of effort, this rate of increase can be attained. It is clear that if such a big advance in the rate of increase of national income is to be achieved, a considerable stepping up of the tempo of development is indispensable. That the higher average rate proposed for the Second Plan is, however, not unattainable is indicated by the mounting scale of the development effort from year to year, as judged by the rate of investment, during the First Plan period.

5. The rate of increase in national income aimed at is partly set by the employment objectives. The Planning Commission has indicated to the Panel that the Plan must provide for a creation of new opportunities for gainful employment for at least the additions that will take place to the labour force in the five-year period as a result of the increase in population. The minimum new employment target must, therefore, be the absorption of 9 to 10 million workers. Considering that, in addition, some at least of the existing under-employed have to be given fuller employment, the employment target of the Plan has, in fact, to be higher.

6. We may, in this connection, stress a few salient points regarding the present occupational structure. Agriculture and cottage

industries together account for about 75 per cent of the working force and carry a large amount of excess manpower. There is, therefore, little hope of any substantial absorption of the new increase in the labour force in these lines. New opportunities of the order of 10 or 12 million jobs have thus to be created on a base of some 30-40 million of the existing labour force employed in the secondary and tertiary sectors. The Plan has to provide for substantial investment in heavy industry, but such investment is by nature capital-intensive; it cannot absorb large numbers of workers. It is not possible in the short period to bring into being a new employment structure which would afford stable job opportunities on an adequate scale. It is necessary at this stage, therefore, to increase the opportunities for revolving employment in construction and public works activity and so to plan this activity that it leaves behind, through additions to the society's productive equipment, a significant amount of permanent employment. Simultaneously, through programmes aimed at maintaining and increasing the demand for simpler types of labour-intensive industries, the scope for durable employment in the field of industrial production may also be expanded.

7. For raising national income by some 25 per cent over the five-year period, investment in the economy will have to be stepped up from the present level of about 7 per cent of national income to about 11 per cent by the end of the next plan period. This is not too high a target, but it is fairly ambitious. It implies, on an average a 50 per cent stepping up of the rate of investment and hence of savings (except to the relatively small extent to which resources from abroad can be obtained to supplement domestic savings). In terms of the total volume of investment the next Plan would have to provide for about double the investment in the First Plan. We should like to stress that the effort involved in this increase is considerable, and will strain the economy a very great deal.

8. We have reviewed broadly in this context the papers placed before us by the official economists on estimates of financial resources for the Second Plan. The papers bring out clearly the fact that considerable fresh taxation will be necessary even for ensuring that tax revenue maintains its present share of about 7 per cent of national income. Given the order of the proposed Plan, however, we think that something like 9 per cent of national income will have to be directed into the national fisc in the form of total taxation, if deficit financing is to be kept within safe limits. We consider that the

estimates of the likely receipts from public borrowings and small savings are capable of being realized, with the necessary drive.

9. We wish to stress in this connection the need for full and speedy implementation of the recommendations of the Taxation Enquiry Commission for mobilizing the resources needed for development. Our present tax structure is not such as to ensure even a proportionate increase in tax receipts as national income goes up. What is needed, however, is more than this—an increase in the proportion of national income that becomes available to the public sector. The measures recommended by the Taxation Enquiry Commission for a widening and deepening of the tax structure have, therefore, to be implemented expeditiously, and tax administration has to be strengthened to enable it to cope with the additional work and effectively to minimize evasion. We note, however, that the Taxation Enquiry Commission in framing its recommendations, proceeded on the assumption of a total size of the next Plan for the public sector (viz. Rs. 3,500 crores) which was significantly smaller than is now proposed (viz. Rs. 4,300 crores) on a fuller consideration of the objectives of increasing production and employment. Even if the scope for deficit financing is now assessed somewhat less rigorously, the higher order of the proposed Plan compared to what the Taxation Enquiry Commission assumed indicates the large measure of fiscal effort that would be required *beyond* the recommendations of the Taxation Enquiry Commission, if significant inflationary effects are to be avoided. An urgent summary review of the measures necessary to step up the tax effort is, therefore, necessary. When the plan-frame is adopted and a clearer picture is available of the extent and composition of the increases in national income that are likely to take place, the tax measures that would be appropriate to the increase in poduction could be worked out more precisely. An analysis of the investment structure of the tentative plan-frame to which we refer in more detail in the next section of this memorandum, indicates that much of the largest part of increase in industrial production would occur in producers' goods and small-scale cottage industries, neither of which would significantly expand the base of existing direct or indirect taxes in the period of the Second Plan. Owing to the employment bias of the other components of the Plan, too, the largest short term increase in incomes would be in the form of wages of workers on construction and public works, including irrigation projects, or of agricultural producers. This emphasizes the great difficulty of increasing tax

proceeds unless a fundamental revision in some current concepts that underlie the tax system is accepted. One of these concepts relates to the exemption of essentials from the scope of an important part of commodity taxation. When so large a measure of effort is necessary to increase the *proportion* of tax revenues to national income, which has remained so obstinately static, one cannot escape the logic of the fact that the mass of consumption is by the mass of the people. Unless this bears a somewhat higher burden of taxation, no perceptible change in the stubborn ratio of public revenues to national income can be achieved. We wish to endorse, in particular, the recommendation of the Taxation Enquiry Commission to the effect that Article 286(3) of the Constitution may be amended to remove the present exemption of articles "essential to the life of the community" from the scope of State sales taxation. Simultaneously, measures to secure a practical ceiling on incomes through a steepening of taxes on income and wealth, including estate duties, become an imperative necessity. A revision of the price policy of important public enterprises with a view to obtaining a larger surplus as a contribution to the resources for economic development is similarly required. Besides, the general increase in rates of direct and indirect taxation that will be involved in the considerable stepping up of tax effort will be part of the challenge to administrative efficiency that the big development effort for putting through the next Plan entails.

10. The extent to which recourse may be had to deficit financing will determine the magnitude of the efforts through alternative means of mobilizing resources for the financing of the Plan. In an economy in which planned development is being undertaken a part of the expenditure in planned development is being currently or within a short time reflected in increase in current production. There is, therefore, an increment in total production against which it is possible to increase money supply within the community. No close and invariable relation as to the desirable measure of increase in money supply with increase in production can, however, be postulated, especially in an economy which is neither fully integrated nor fully monetized as the Indian. Even so it is reasonable to state that with a constantly increasing level of national income an addition to money supply may not only not have inflationary consequences, but may be required to prevent a decline in prices which may lead to distress and distortions in the economy.

11. Deficit financing is thus not necessarily always dangerous; it is the timing and magnitude of it that is of crucial importance. Deficit financing undertaken while the economy is already under inflationary pressure, or in such volume as will rapidly generate inflationary effects, has to be avoided. It appears to us that at present there is no general inflationary pressure in the economy. We do not, therefore, see any danger in undertaking deficit financing in a limited measure at the beginning of the Second Five Year Plan period. For a year or two, deficit financing at a rate of Rs. 200 crores or so is safe—and even necessary. But, continuous deficit financing on this scale for a number of years is certain to generate inflationary pressures. A bolder plan with an emphasis on employment and heavy industry has inevitably a large inflation potential. We should like at this stage to caution against any tendency to undue optimism as regards the extent to which the use of deficit financing may avoid the awkward necessity of a deliberate endeavour to mobilize resources, as a result of the apparently large budgetary deficits of recent years not having produced adverse consequences. Firstly, the deficits have not been as large as originally envisaged in budget proposals. Secondly, there has been an unexpected—if not entirely adventitious—increase in food-grains production. It is impossible to forecast the total national and international economic situation at this stage. We cannot, therefore, say with certainty that the situation will remain equally favourable throughout the Plan period. The undertaking of deficit financing may itself change the situation unless counteracted by a rapid pace of development or by international conditions. We feel it necessary to suggest, therefore, that the strictest watch be kept on the situation. Any indication that inflationary pressures are developing must be met by timely and suitable action to keep it under check. We do not suggest that the Plan should be changed immediately because some inflationary signs are observed. The immediate step would be to take appropriate action to keep inflation in check and have elaborate plans ready for the event of a further increase in inflationary pressure. These plans may involve imposition of financial and physical controls, and if there is no readiness to face this possibility, deficit financing would not be safe. It would be equally necessary at the same time to re-examine the financial plan to see whether it is not possible to increase the resources available to Government in other directions. On the whole, we do not recommend deficit financing of a larger extent than that indicated by the figure of Rs. 1000 crores

for five years and are of opinion that the situation in this regard should be kept under watch and should in any case be re-examined at the end of the second year or at the midpoint of the Plan period.

12. The pattern of investments in the Second Plan indicates that a very considerable increase in imports of capital equipment and machinery will be necessary. This will undoubtedly entail a heavy strain on the balance of payments. Such estimates as are available of the foreign exchange financing of the Plan indicate that foreign assistance to the tune of over Rs. 600 crores will be required for the Plan period, if a draft on foreign reserves is to be avoided. In our opinion, foreign reserves should be kept for unforeseen emergencies or as a safeguard against miscarriage of calculations and not committed to any significant extent in respect of planned expenditure.

II. Structure and Content

13. We have considered the size of the Plan in the previous section and indicated the measure of the effort for mobilizing the resources required for the purpose. It is now necessary to examine the Plan from the point of view of its structure, the pattern of investment it contemplates, the effect it will have on employment, and the kind of relationship that it postulates between different sectors of the economy for the purpose of securing internal consistency.

14. Broadly speaking, it is the intention of the Plan to maximize employment and capital formation, and increase consumption, consistently with the magnitude of the suggested overall increase in national income by 25 per cent over the five year period. Obviously, we want to make the greatest possible impression on unemployment and under-employment in the country, but the employment provided must be such as not only to lead to an increase in national income by 25 per cent, but also to see that the increase is distributed in such directions as to lead to the desired quantum of increase in both capital goods and in consumption goods. Without the former, there can be no real increase in productivity or in the capacity for further and accelerated growth in the economy; without the latter, there will be no immediate change in the level of living, no incentive or enthusiasm for popular effort, and every danger of the emergence of inflation and a consequent breakdown of the programme for development. We must, therefore, make an appropriate division between saving and consumption from the additional incomes generated by the Plan. Having done this we have to see

that the investment outlay not only leads to the desired increase in consumption goods and services, but also to such increases in capital goods and services as will not only be consistent with the needs of consumption goods industries but also lead to an increase in productivity, facilitate the growth of capital equipment from domestic resources, and make for an accelerated growth in the output of consumption goods in subsequent Plan periods.

15. Let us first take up the question of investment. The tentative Plan-frame contemplates an investment outlay of Rs. 5,600 crores during the five year period together with current expenditure by Government of Rs. 900 crores on development services, the latter figure being exclusive of the level of development expenditure expected to be reached at the end of the First Plan period. The broad pattern of the proposed investment outlay of Rs. 5,600 crores is visualized as under :—

ALLOCATION OF NET INVESTMENT IN THE ECONOMY

sector	rupees crores	percentage of total
(1)	(2)	(3)
1. agriculture and community development (including irrigation and flood (control)	950	17.1
2. power	500	8.9
3. transport and communications	900	16.1
4. industries and mining (including small-scale) ..	1400	25.0
5. construction (house, ships, schools, hospitals, etc.) ..	1350	24.0
6. stocks and miscellaneous	500	8.9
total ..	5600	100.0

16. We are generally in agreement with the investment pattern outlined in the preceding table. We are obviously not in a position to comment on the technical accuracy of the actual figures given under each head of investment; in fact, this cannot be determined except through a process of detailed examination at the technical level of the individual projects included in the investment outlay and we presume this will be done by the Planning Commission during the coming months. But the greater weight that the investment pattern assigns to industry and mining has our full approval.

17. In saying this, however, we do not want to underestimate the importance of agriculture in our economy. Agriculture will for long remain the most important economic activity of our people; and without an adequate supply of food and raw materials, there can be no economic development. But there is no denying the fact that the First Plan has laid a solid base for the development of agriculture, and while a part of the large increase that has taken place in agricultural production is due to favourable weather, a part is certainly due to the creation of better facilities for increasing production. The Second Plan continues the process and is designed further to strengthen the agricultural base of the economy. But the very development of agriculture beyond a certain stage requires the development of non-agricultural activities, specially of industry, not only for providing markets for the increased agricultural produce but also for providing the supplies of industrial consumer goods which alone can provide the incentive for increased agricultural production. Moreover, the expansion of agriculture needs more equipment and industrial goods like fertilisers, for which larger investments are required in the industrial sector. We would therefore emphasize that the greater importance proposed to be attached to industry in the Second Plan is not in opposition to agriculture but is only a complement to the same designed not only to bring about a balanced growth of the economy but also to facilitate the expansion of agriculture and, even more important, to reduce the surplus population on land and raise the level of living of those left in agriculture. The economy needs both an agricultural base and an industrial base; these are not in conflict but are really complementary, and, beyond a certain initial stage of development, the growth of one conditions and facilitates the growth of the other. Hence the greater priority assigned to agriculture in the First Plan and that proposed to be assigned to industry in the Second Plan. All the same, we would underline the importance of maintaining and expanding agricultural production in the Second Plan period. There should be no feeling of complacency on the agricultural front because of the currently easy position in regard to foodgrains. Every effort must be made to step up the production of foodgrains and raw materials, and a suitable proportion of the investment contemplated in the Second Plan, especially in the field of heavy industry, must be linked with this objective; and there should also be built up during the period sufficient reserves of foodgrains and essential raw materials that will give stability to

the economy and prevent sudden falls in the pace of its general economic development.

18. We note that the tentative Plan-frame gives high priority to what are known as heavy industries and that consumer goods do not figure prominently in the investment pattern. The explanation for this lies predominantly in the fact that a high capital-output ratio is assumed in the case of both factory consumer goods and consumer goods emerging from the small scale and village industries sector. In the case of factory consumer goods, the full utilization of excess capacity is expected to lead to a considerable increase in the volume of output without any significant increase in the volume of fixed capital; in the case of non-factory consumer goods, labour is more important than capital equipment and the capital-ouput ratio is expected to be much more favourable than in the case of the organized industrial sector. It may be added that the investment in consumption goods industries, both factory and non-factory, though small in amount as compared with that in the so-called heavy industries, is nevertheless designed to bring about an increase in output of about 25% (20% in factory consumption goods and 33% in non-factory consumption goods) during the Plan period. A great deal of special effort will be required to achieve this objective, especially in the field of organization; and this is not going to be easy. We shall revert to this subject before the end of this section.

19. The important place assigned to power, transport, and communications is also a part of the same scheme for bringing about not only a balanced development of the economy but also to endow it with the capacity for self-propelling and accelerated growth. Economic overheads involve heavy investment; but they yield rich dividends in the form of making possible an all-round expansion of the economy; and there can be no denying the need for assigning an important place to these heads in the investment programme contemplated for the Second Plan.

20. The Plan also assigns a great deal of weight to construction the bulk of which is really of the nature of investment in fixed capital for economic and social overheads and which must be taken in conjunction with the contemplated increase in the annual expenditure on social and allied developmental services of about Rs. 100 crores in the Second Plan period as compared with the level expected to be reached in the last year of the First Plan period. Social overheads have a dual purpose; on the one hand, they represent

investment in human capital and promote an increase in productivity; on the other hand, they represent an end-product in themselves and bring about a direct addition to consumption services and thereby promote a rise in the level of living, which is after all the final objective of planning. Hence it is that there is always a special pressure exerted for stepping up the level of expenditure on social overheads in terms of both investment outlay and current expenditure. There is also the further complication in the case of our country that the basic levels of remuneration of many of those engaged in the supply of social overhead services are below reasonable standards and there is therefore strong pressure for using available funds for raising these levels rather than using them for expanding the supplies of these services. There is no simple answer to the questions raised by this problem. All that we can say is that a certain minimum level of expenditure on social overheads is an essential condition for economic development; while further expansion of this expenditure is a concomitant of the growth of this development. We may express the same thing in a different way by saying that both investment and expenditure on social services must become increasingly important with every successive Plan period. For the purposes of the Second Plan period, we are satisfied that the level assigned to this category in the investment programme is as far as we can go, taking into account the resources available and the need for building up our economic overheads, though we cannot certainly express ourselves as satisfied with the position in absolute terms. That is really no more than saying that the economic development contemplated in the Second Plan period is no more than a second stage in a long journey the end of which will be reached only after many more Plan periods. There is no point in acting as if we have reached the goal before we have gone even half-way towards it.

21. It will be noticed that the pattern of investment outlay set out in this section assigns an important place to stocks. We have already explained the importance of holding enough stocks of foodgrains and essential raw materials in order to facilitate the smooth functioning of the development programme and provide some insurance against the risks due to possible failures of the monsoon or other interruptions in supplies. We would only urge in this context the importance of undertaking and completing as quickly as possible the scheme for licensed warehouses recommended by the Rural Credit Survey Committee.

22. In considering the structure of the Second Plan, it is even more important to consider its employment aspect. It needs no saying that our major problem is one of unemployment and under-employment. In the urban areas, besides the several lakhs of persons seeking employment through the employment exchanges, there are others who have not registered themselves; and in addition there is a considerable volume of under-employment and disguised unemployment prevalent among those who are shown as occupied in small industries, trade, and miscellaneous services. In the rural areas, the findings of the Agricultural Labour Enquiry reveal the presence of a considerable measure of both unemployment and under-employment among agricultural labourers; the same is also true of rural artisans and workers engaged in miscellaneous services. There is also the undoubted presence of under-employment and disguised unemployment revealed by the vast numbers of the so-called earning dependants who, by definition, do not earn enough even to sustain their own maintenance. Then there are the cultivators of small and uneconomic holdings among whom there is a great deal of disguised unemployment. Among the estimates that have been placed before us, the lowest shows that leaving out the problem of disguised unemployment and under-employment among the cultivators, about 34 lakhs of people are wholly unemployed and there is a volume of under-employment equivalent to 49 lakhs of man-years, the major portion of the incidence of both being found in the rural areas. In addition to all this, there is the problem of employment created by the annual additions to the labour force estimated at about 1.8 million resulting from the normal growth of the population. The problem is indeed of enormous dimensions; and it would be too much to expect that it can all be solved within the Second Plan period. All the same, an attempt has to be made; and it has to be as big as our resources can permit. The tentative Plan-frame visualizes that about 10 to 12 million people will find employment during the Plan period, the investment pattern being specially designed to make this possible. It must be pointed out that the figure mentioned above does not refer to jobs as such in the sense of work on wages or salaries; a part will undoubtedly be jobs of this type; but a part will be in the form of employment opportunities that will enable so many more self-employing workers to obtain their livelihood. Even as it is, the number of self employing workers is much larger than that of hired workers; and the position is not likely to undergo a material change during the Second Plan period.

23. It is expected that a large number of workers will be employed in construction, which includes constructional activity of various kinds, including those required for both economic and social overheads. There is also some likelihood of increase in the number of workers in mining and in the organized as well as the hand sector of industry. Employment opportunities, particularly for self-employed workers, are expected to grow in the sectors of trade and miscellaneous services largely as a result of the increase in economic activity resulting from the Plan, while paid employment for hired workers will increase largely in the sphere of public administration and social services. Incidentally, this is also expected to eliminate the growing unemployment among the educated classes in the country.

24. The pattern of employment opportunities visualized above rests to a large extent on the ability of the system to organize the labour force in the country, while the achievement of the targets set forth in regard to industrial consumption goods rests upon the ability to organise the sector of small industries and hand trades in the country. Both these involve large problems of organization and unless these are successfully tackled, it would be difficult to implement the Plan either in respect of its employment or its investment programme. Too much emphasis cannot therefore be laid on the task of reorganization, which is practically the king-pin of the success of the Plan; and much more attention needs to be paid to this aspect of planning than has been done so far.

25. The other important problem is one of organizing the supply of labour for whom jobs are to be found in the Second Plan period. Theoretically, the existence of a large volume of unemployment and the substantial additions that are made to the labour force every year by the growth of population should perhaps make such organization unnecessary. In actual fact, however, labour in India has a great deal of lack of mobility as between rural and urban areas, and as between different States. It also suffers a great deal from lack of training either in skills or even in disciplined or regular hours of work. There is also the further fact, so glaringly revealed by the findings of the Agricultural LabourEnquiry and the National Sample Survey rounds, that large sections of the working force in rural areas obtain either wages or incomes much below the national average; and social justice demands that this class, which in a way is the most exploited class in the country, is given the first chance to improve its condition when new jobs are being

created in the country. Moreover, the incidence of distribution of this class is unevenly spread over different parts of the country and social justice demands that special attention is directed to what may be called the distressed areas in the country as distinguished from other areas which are better off, though in absolute terms their condition is no matter for satisfaction either. In view of these facts, a suggestion has been made for the organization of a National Labour Force, recruited from the classes which at present have either little or no income and particularly from those areas where the incidence of economic distress is comparatively high.

26. This proposal might be likened in its effect to that of the continuous recruitment in the army during war. The agricultural labourers, small farmers, etc., are not employed all round the year. The experience of war has shown that provided full time employment at reasonable rates is available, comparatively large number of adult males from such areas can be released full time and are fully mobile for employment. If it is possible to make use of such a labour corps in particular aspect of the general programme of development a number of advantages may arise. Firstly, it will withdraw significant number from labour in the countryside and thus relieve the unemployment and under-employment situation in many parts. Secondly, it will create a mobile force which can, as in the army, be fully trained in a variety of skills required for purposes of the development plan. This training may have an important civic aspect also. The labour force may form a revolving body from which suitable recruits can be obtained for new and growing scattered townships and centres of industrial and other activity. We suggest a careful examination of the proposal to organize a National Labour Force.

27. We would emphasize special attention being paid in planning of all works programmes to areas which are backward in any way, e.g., where communications are poor, climatic or other conditions unfavourable, the economy largely unmonetized, agriculture insecure, the standard of living low or which are inhabited by aborigines or other similar classes. These areas not only require the works programmes but also specially need the employment opportunities offered by them. We take it that when this attempt is made at deliberately opening or developing the backward tracts the economic, cultural or other adverse effects of the process will be guarded against in advance.

28. It is also important to provide a positive policy for the stimulation of additional employment opportunities for self-employed persons, particularly in view of the fact that the major portion of the additional employment visualized in the Plan is in this field. In this connection, we would recommend the development of a large number of small towns widely distributed over different parts of the country into industrial townships with planned provision for small-scale and light industries. Unlike the townships for refugees that had been set up without due care for their employment potential, the towns proposed for development should be selected after the most careful inquiry undertaken by competent persons, in each region or locality and after most careful examination of the raw materials, markets, and other relevant factors in the region. There was a good analogy for this in the trading estates that had been set up in England in the post-depression period, and they could well be set up in the first instance in the community project areas and National Extension Service blocks. Thus, a new link could be established between the rural areas and the urban areas, and what is called urbanization would not only increase employment in the country but also add to its regional spread, promote regional self-sufficiency, encourage a fruitful interchange between rural and semi-urban areas, and take economic development into the regions which need it the most, viz., rural India. It must be emphasized, however, that these industrial townships in rural India will have to be planned from below and cannot come from the top. Planning of small-scale industries, consumption goods industries, and processing industries involves the intelligent cooperation and participation of many thousands of people and can only be undertaken at the district level; the Centre can help with finance and technical aid, but the initiative and the planning must come from the people of the districts and regions concerned in the country.

29. Finally, there is the question of the relation between small-scale and large-scale industries in the field of consumption goods. As we have already pointed out every attempt should be made to bring about the fullest possible utilization of existing capacity in the factory consumption goods industries; but we do not contemplate, for the Second Plan period at any rate, any significant increase in their installed capacity. This is not only because we want to concentrate our scarce resources of foreign exchange and essential materials on the setting up and expansion of the heavy

industries and economic overheads ; but also because we want to provide more employment opportunities for those who are already engaged in the small-scale and cottage industries and find employment for the new additions that are being made to the labour force every year. Hence the emphasis on small-scale and cottage industries in the Second Plan.

30. The fact remains, however, that these hand industries are technically inferior and cannot obviously face unaided the competition of factory industries. At the same time, the needs of development with its accent on increased productivity cannot be reconciled with a continuance of the present inferior technical level of the existing hand trades. It is therefore necessary to have a Common Production Programme that will provide a secure market for the products of these industries and at the same time provide for gradual improvement of techniques and skills among their workers. Details of such a programme will need careful working out, but it can be stated at this stage that there will have to be organized on a regional and a national scale cooperative and other forms of organization for the supply of raw materials and finance and for the marketing of finished products of the workers engaged in hand industries. A beginning will also have to be made in setting up a special sales organization for these industries. At the same time, every attempt will have to be made to set up increasingly efficient norms of work, and facilities and incentives provided for reaching these norms. All these imply a tremendous challenge to the organizational talent of the country ; and on the degree of success with which this challenge is met will depend the success of the whole scheme of a socialistic pattern of society, with employment for all and decentralization and wide distribution of both economic activity and economic advantages. We cannot emphasize too strongly the important, almost the crucial, place which this occupies in the Second Plan. A successful solution of this problem together with the setting up of the economic and social overheads including heavy industries envisaged in the Plan will make possible much faster and larger development in the next Plan period.

31. To sum up, the structure of the Plan that is visualized for the Second Plan period provides for increased capital formation and also for increased consumption. It emphasizes the importance of economic overheads and heavy industries in creating the base for larger and faster economic development in subsequent

years. It underlines the need for looking after employment and sets out a pattern of decentralized and small-scale economic activity that will not only deal with the problem of unemployment and of growing numbers but also with that of creating a socialistic pattern of society that can function within a democratic set-up and reconcile development and increased productivity with individual initiative and a large and fair field for all small units of economic activity. The structure that we have outlined cannot come by itself. It needs organization for being brought into existence; and in it lies a challenge to the organizational talent of our people.

III. POLICY AND INSTITUTIONAL IMPLICATIONS

32. In this part of the memorandum we consider the regulatory and institutional set-up required to implement the Plan. We assume as basic the social philosophy appropriate to Indian federal democracy progressing towards a socialistic pattern of society. In terms of economic organization and activity we interpret this as denoting the following salient characteristic. In a society composed chiefly of small decentralized units of economic activity in which the increase in scale required in any activity is brought about chiefly through mutual cooperation, horizontal and vertical, and in which centralization and very large-scale operation are resorted to only to the extent necessary to derive appropriate advantage from modern technology, the role of the State assumes the following forms in the main : (i) Central planning, direction and conduct of economic activity to the extent necessary for rapid economic development and increase of welfare ; (ii) State assistance and participation in the formation and conduct of cooperative units ; and (iii) State action to eliminate or to counter the effects of the continuance of privilege or the exercise of monopoly power.

33. In considering the exercise of State authority we start with the assumption of a continuance of the existing forms of regulation and control of economic activity. In the context of this report, the most important of these are capital issue control, the regulation of establishment, location and operation of certain types of industrial units, control over the imports of capital goods and consumer goods, control over the allocation of products like cement and steel, control over the exports of selected commodities. The recommendation we would make in relation to existing regulations is that the fullest coordinated use be made of them for a proper and detailed

implementation of the Plan. It is also assumed that legislation will shortly be enacted which will more adequately regulate the activities of public companies, and in particular to deal with the problem of managing agency and the concentration of economic power that it creates in the private sector.

34. We do not suggest any radical departure from the Industrial Policy Declaration of 1948. In fact, the sphere of State activity indicated in that resolution will be more fully covered as a result of investment in this Plan. It may also be found necessary, during the Plan period, to include within the public sector some activities closely related to the present declared scope, such as, basic minerals. The proper organization of coal production in the country and conservation and utilization of coal resources may also require including that industry in the public sector. Similarly, the special importance that will now be attached to production of small establishments will make it necessary to include not only the generation but also the distribution of electric power fully within the public sector. While we do not recommend any significant extension of the public sector beyond the terms of policy accepted by Government, we must make it clear that there is no objection in principle to such extension. In fact, the limiting factor is one of being able to cope with the administrative burden that would result from such extension. The cost of compensation may also have to be considered. If, however, during the course of the Plan period, circumstances become either more favourable from the administrative point of view or if it is found that opportunities for monopolistic or quasi-monopolistic exploitation are increasing in the private sector, there should be no objection to a further extension of the public sector. State trading in exports of jute, for example, was recommended many years ago by a representative committee consisting of administrators, businessmen, etc. In view of the peculiar position of these exports and the methods of trading in them, it is worth examining again whether State trading in jute should not be undertaken.

35. We are not in a position to make specific recommendations at this stage, but we would certainly emphasize the need for Government to examine each possibility of extension of the public sector in any important activity where, because of the policy under the Plan or other factors, a group of producers or traders are reaping special advantages.

36. While we do not suggest in the near future any general extension of the public sector, it would, certainly, be necessary for

implementing the Plan to extend the scope of the regulatory regime in particular directions. Thus confining to hand industries all increase in consumption goods during the Second Plan period will make it necessary to extend the operation of licensing legislation to include even processing activities. The best way of dealing with the situation would be for all State Governments to bring within licensing and regulatory legislation such establishments carrying out the processing and preparation of primary products and the production of consumer goods as are not covered by the existing Regulation of Industries Act.

37. A number of other regulations on consumption goods industries will follow from the common production plan for machine and hand industries in particular spheres. The division of market between machine and hand industry is sought to be maintained, today in the case of cloth production by a system of excises and subsidies on the one hand and reservation of fields on the other. The principle of reservation may not be so easily applicable to all industries and in their case a comparatively stable relation between prices of hand and machine products could be maintained only through excises and subsidies. There may be doubts whether these purely fiscal measures will prove successful and if these doubts were justified, other measures may be required to implement effectively a common production programme. In any case, the organization of increased production through hand industry will require considerable effort in distribution of supplies of technical and financial assistance to the dispersed producers and the collection and sale of their product. This would be largely done through cooperatives and as problems encountered will, in part, be similar to those dealt with by the Rural Credit Survey Committe in the case of agricultural production, the same expedients could be used in this case as well. In relation to technical guidance, and purchase and sale, the problems of cottage industry may, however, be different and more difficult. Bringing about increased production through this agency will, therefore, require as we have already mentioned, very considerable organizational effort in the Plan period. Any failure in this effort will create a difficult situation. On the one hand, there may be shortage of production by hand industry through inability of cooperatives to organize production or to carry out sales of products and their distribution. And on the other, there may be profiteering by producers and traders in that situation. If such a situation arises, it may be necessary for

the State to intervene and to consider the possibility of State trading of products. In the initial stages of the organization of this production it may, however, be wiser not to undertake State trading in this sphere.

38. As the spheres common to machine and hand industry will cover a large number of consumption goods in general use, the prices and supplies of goods over this large sphere will have to be constantly under State observation and regulation. In a number of important producers' goods, such as cement and steel, the existing allocation controls will continue, and price controls could be imposed, if necessary. This leaves mainly the prices of agricultural goods for consideration. In the present context, the stability of agricultural prices has special importance. Already Government have announced their intention and readiness to put a floor to prices of some agricultural products. Government's ability to do this effectively depends on their having an operative system which extends to all parts of the country. From this point of view, an early implementation of the recommendations of the Rural Credit Survey Committee regarding warehousing, processing and marketing of agricultural produce is of the utmost importance. It is only the setting up of the warehouses etc., recommended by the Committee that will put the State in a position to meet emergencies. We recommend that the warehousing system should be used by the State for purchase and sales of buffer stocks of agricultural commodities not only for the purpose of dealing with any sharp fall in agricultural prices such as we are witnessing today but also with the objective of preventing any sharp seasonal fall or rise in prices. Need for action in this regard may arise either in all commodities all over the country or only in an individual important commodity in particular regions. Such a system of buffer stocks will not only serve the limited purpose of evening out seasonal fluctuations but would come in useful and serve even larger purposes if the occasion arises. For example, the system could be put to use in case of an adverse monsoon or a sharp inflationary rise in prices.

39. The Government of India has taken an important policy decision recently by its announcement regarding creation of a State Bank of India through nationalization of the Imperial Bank and certain other States associated banks. We welcome this decision and strongly recommend its early implementation in full. It is of the utmost importance to bring into existence as early as possible a State Bank of India operating over the whole of the country

at the level envisaged by the Rural Credit Survey Committee. The regulation of activities in the sphere of banking and through banks may have considerable importance in the planning effort. For this purpose early implementation of the policy announced recently is an important and essential step forward.

40. The inevitably increased importance of the public sector in economic activity makes the problem of increasing its efficiency of vital importance to the success of planned development. Though it is not correct to say that the efficiency of the public sector today is necessarily below that of the private sector, it is clear that in itself, it is not too high and further that it could with considerable advantage be greatly increased. No definite pattern or organization of units in the public sector has yet been evolved in India. There is not enough experience in the matter, neither has any particular type shown definite success. We have no bias in favour of any particular type of organization and feel that considerable research and experimentation on the operation of different types of units in the public sector will be extremely worthwhile. The experimentation need not be confined to purely public organization but may well be extended to public-cum private organizations where the State holds full ultimate control and uses the private agency as a partner and as the agency of management. The general efficiency of administration is an equally important consideration which requires equal attention.

41. We may draw attention to a danger that is inherent in the type of mixed economy we have viz., unless adequate care is taken the slowest ship may set the pace of the convoy and inefficient units may get undue protection. The question of incentives and disincentives should be, therefore, very carefully studied and adequate and effective measures taken.

42. The State partnered cooperative seems now to be generally accepted as the most important type of organization in the future of economic development in India. Observation of its development, adaptation and success for various types of activities and in various contexts is, therefore, of great importance.

43. One of the gravest obstacles to undertaking a more ambitious programme of development in most directions today is the general state of unpreparedness of our society for the effort in most directions. The most important features of this are lack of trained personnel and of suitable organizations. The first lack is felt in all aspects of development of social welfare or related activities.

Teachers, doctors, technicians of all kinds are found to be in short supply the moment any large expansion is contemplated. But even more important is the organizational backwardness. This is experienced in every sphere. It is felt in the administrative structure, its efficiency and its capacity to carry out additional responsibilities; it is experienced in local governmental authorities; it is seen in the lack of established and effective pattern for conduct of economic activity in the public sector. These difficulties are patent today in attempted development along established lines. They are felt all the more keenly when orientation of the economy, on the now agreed lines of decentralized self-employment or co-operative activity is attempted. The manifold advantages of such an organization can be reaped only when the large work it involves by way of distribution of supplies and collection of product, of storage and finance, of technical guidance and administrative supervision is efficiently organized and carried out. The creation of such organization is an immense national task without whose accomplishment the proper development of agriculture and rural industry in particular will be well-nigh impossible. One of the reasons why in our opinion we cannot aim higher today is this lack in many directions. One of the most important tasks of the next five year plan must, therefore, be to remedy this grave handicap and defect. The energies of Government and of all constructive workers in the country must be turned in this direction so that at the end of the plan period the economy and the society will be in a position to take a much greater step forward and to achieve a rate of development which would not only be bold but spectacular.

44. We now turn to consideration of policies which are not only important for the execution of the Plan but are also important as indicating the determination of the State to progress towards the socialistic pattern. The first set of policy decisions to be considered in this regard are those relating to land reform. The content of this programme has by now been fairly clearly determined. It consists mainly of four measures; consolidation of holdings which has an important bearing on productive efficiency in agriculture, operation of the ceiling which makes available land for redistribution to landless labourers without unduly lowering the size of any unit, the floor to holdings which makes it impossible for units smaller than of certain size to be cultivated as independent farming units, and cooperative farming which would bring in all such uneconomic units into farms large enough to be operated efficiently. The

content of the land reform programmes has already been announced and has raised wide expectations throughout the country. The announcement has also had some adverse effects on the situation through the action of landholders, through evictions and the like, to safeguard their interests in anticipation of the policy. It appears to us of the most urgent importance for the State Governments all over the country to recognise certain basic principles of action in regard to all the four constituents of this programme, to formulate definite policies of action at as early a stage as possible and to implement them. The best course as well as the most logical, of course, is to bring the whole programme into operation simultaneously. The operation of the floor raises, however, certain difficulties, apart from the practicability of forming quickly an enormous number of cooperative farming societies. These difficulties are related to the extent of employment that is available in the economy. Similar difficulties however do not attach to that part of the programme that relates to the imposition of a ceiling on holdings and the consolidation of scattered holdings. We recommended therefore that immediate steps be taken to impose a ceiling on agricultural holdings and redistribute the land thus released to landless labourers. We also suggest that action be taken in regard to consolidation of holdings without delay. As early as possible when enough experience has been gained in the countryside regarding operation of other cooperative effort and when adequate employment has been generated, the other two features of the land reform programme should be put into operation.

45. The operation of the ceiling and redistribution of land to the landless will bring about considerable lessening of inequality in rural society. The acceptance of the idea of a ceiling on land must lead, in our opinion, logically to the acceptance of the parallel concept of a ceiling on all personal incomes for the urban and industrial sectors. This has been already mentioned by the Taxation Enquiry Commission and we feel it vital that a policy announcement regarding this be made in the Second Five Year Plan of Government. Two other recommendations of the Taxation Enquiry Commission we would endorse for immediate action towards lessening inequalities. These are : (a) a steepening of the estate duties and (b) imposition of the Capital Gains tax. We expect an appreciation of the values of all kinds of property because of the operation of a plan of development and feel it necessary that the above steps be taken at the beginning of the period of a bold plan. It may,

further, be useful to conduct enquiries into increase of land values in urban areas and the spread in values of salaries. In case of the latter, we would recommend the inquiry not to be confined to salaries of officials but to embrace within it salaries (and total spending power) of individuals in private business also.

46. Lessening of inequality is a two-fold process. One of its aspects is the lowering of unduly large incomes. An equally important or, perhaps in the long run the more important, aspect is that of increasing or making more secure the incomes of the poorest. In this connection we would welcome greater progress, wherever possible, in the standardization of wages and fuller implementation of the Minimum Wages legislation in the country, due regard being paid to the effect of wage increases on employment. Both should reduce the total range of differentials in wage payment. It is not possible at this stage to recommend any general social security schemes which would have wide application, or would materially lessen insecurity of incomes. We would, however, recommend exploration of the possibilities of the State offering life insurance schemes wide-spread throughout the country. In the absence of measures of social security as such, we must to look to the fullest extension of social service expenditure for doing something in this behalf. However, if this expenditure is really to result in lessening inequalities and in materially improving the conditions of the most disadvantaged, special care must be taken by the State authorities to see that it is deliberately routed and administered in such a manner that its benefits, in the largest measure, go to the poorest, the most disadvantaged and the most insecure classes.

47. We have dealt so far with some of the policy implications of the size and the structure of the Plan, as prescribed in the "Frame" for the Second Plan period. What we would emphasize in conclusion is that unless these policy implications are duly considered, and rapid and effective action taken thereon, the chances of successfully implementing either the size or the structure of the proposed Plan will be seriously jeopardized. Even if the different parts of the Plan are fairly well balanced and the size of the effort involved is not beyond the country's capacity, it would be wrong to entertain optimistic expectations merely on the technical soundness of the targets proposed. Besides these targets, there are, initially major assumptions regarding the capacity of the country and especially of Government to put through the programme as proposed.

For these assumptions to materialize a big organizational effort will be called for. Planning does not mean merely a programme of large investment, especially not when the objective is not merely an increase in output but also the creation of a socialistic pattern of society. It is only when there is a firm legislative and administrative base that it is possible to think in terms of doubling the rate of progress in the Second Plan period, of increasing capital formation, of raising levels of living, and providing the machinery for accelerated development in the future. We cannot therefore emphasize too strongly the importance of facing up boldly and without hesitation the legislative and administrative implications of a bigger and a bolder plan. The Second Five Year Plan is a challenge to the nation. It requires effort and substantial efforts at that and on a large and organized scale. It requires austerity and restraint on the part not only of those whose incomes are high but even of those whose incomes are not so high. What is required is a national effort and a national effort can be forthcoming only if it is clearly visible to the people that there will emerge from it a new and desired type of society. Hence it is that we lay so much emphasis on the policy implications of the Plan-frame that has been placed before us.