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ARTICLES

ECONOMIC DEVELOPMENT

India's Planning Machinery

by Professor Dr Bruno Fritsch, Zurich

India's importance can hardly be overestimated. Politically, India is the largest democracy in the West; economically, it may achieve in a few decades a potential which may be of world importance. India's economic development, which is the counterpart of the country's political independence, may therefore be considered as the most challenging experiment or adventure of our time. It implies, among other things, the transformation of ancient forms of life into new patterns of society. This adventure is not only unique in terms of quality, it is also unique in terms of quantity.

Quantitative Aspects of Economic Development

The quantitative aspect of the problem may be illustrated by the following facts, most of which are known as such, but not always with their economic implications. Take for instance the population problem: one sixth of the world population, i.e. about 480 million people, live on the Indian subcontinent. With an annual increase of an estimated 2.6 per cent p.a., this figure implies an absolute increase of more than 12 million people p.a. This very fact accounts for most of the economic problems of India. Two implications of this quantitative aspect may be pointed out. Assuming for instance that we increase the consumption of grain by only 50 grammes per head, per day, the production of grain would have to increase by 8.5 million tons p.a. This is approximately the equivalent of 10 per cent of the total Indian production of rice and wheat. Or take the labour market: the annual supply of people to the labour market is more than 5 million; supposing each working place has to be equipped with machinery worth \$ 200, then we have to reckon with \$ 1 billion annually just to provide the growing labour force with an appropriate equipment for the working places. \$ 1 billion is approximately the equivalent of the total foreign assistance received by India annually during the past few years.

There are some further facts which may be pointed out, such as for instance the language problem, which recently has been subject of violent discussions and protests. Moreover, the vast territory of India is not homogeneous in many other respects; actually

there are even a few economically independent regions. The total area measures about 4.5 million square kilometers, of which one fifth is forest, two fifths are mountains and deserts, and two fifths, i.e. 40 per cent, cultivated area, of which again only 20 per cent is irrigated land. About 8 per cent of the cultivated area is used for grain-crops and provides for the self-support of the producers, and thus is not integrated into the market economy.

General Objectives of Economic Development

The general objective of India's economic policy is the increase of the social product per capita to a level which would not only prevent the starvation of the growing population, but would also permit such an amount of savings and capital formation as is needed to finance the further growth of national income without foreign assistance. The economists call this the take-off stage. We should keep in mind that this objective implies eventually a revolution of the way of life in all of the 700,000 villages of India, since it cannot be achieved without drastically changing, among other things, the methods of agricultural production. One of the main instruments used to achieve this objective is economic planning.

It is therefore appropriate to comment on the objectives of the five-year plans and on the properties and effectiveness of the Indian planning machinery.

India is the only large developing country which started to plan its economy at a very early stage. India of all the Asian nations has the greatest planning experience. As early as 1944, The Planning Development Department was established under the British Government. The Advisory Planning Board was established in 1946, and in 1948, directives for the industrialisation policy and development came into effect. The Government was given the monopoly of defense and nuclear energy, and of establishing new production facilities. In 1950 the National Planning Commission was established.

Having achieved independence, India had to secure a level of economic development, consistent with its democratic ideals. On the one hand, the country

could not leave things entirely to the uncontrolled market forces, since this might have caused the danger of disrupting developments in many sectors of the economy. In economic parlance, this means that due to external, non-market effects, encountered especially in the early stages of economic development, the market type of allocation does not provide for a maximal use of the economy's resources. On the other hand, India could not also afford to have too centralised a system of controls, which would be not only incompatible with freedom and democracy, but might also evoke considerable resistance from various territorial and functional constituents of its rather heterogeneous economy. India has therefore tried to evolve a procedure of economic planning which is not too rigid or centralised and yet is able to mobilise the cooperation of the people for a balanced programme of rapid economic development. This procedure falls somewhere in-between broad economic policy-making such as in the UK, and detailed economic planning as in a country like the USSR.

Keeping in view the basic political and social objectives of the government, the National Planning Commission carries out, in preparation of the five-year plans, first, a number of econometric and other technical studies, regarding the long-term development, and prepares a perspective plan of 15 to 20 years mainly in broad physical terms. This perspective plan is set up on a rolling basis, preparatory to the formulation of the next five-year plan.

India has so far completed three five-year plans. The first, covering the period 1951/52 to 1955/56, the second 1956/57 to 1960/61 and, the third covering the period 1961/62 till 1965/66. For instance, when the second five-year plan was prepared, the perspective plan was for a period 1956/57 to 1970/71, and for some sectors up to 1975/76. For the third plan, the perspective plan covered the period 1961/62 to 1975/76 and, for some sectors, up to 1980/81. This enabled each perspective plan to take note of the new facts that had come to light, or of changes in technology which had taken place, since the previous perspective plan was prepared.

The five-year plan is then formulated in the light of the perspective plan, but unlike the latter, it is not yet prepared on an annual rolling basis. The "midterm-appraisal" of the third plan may be considered as a first attempt to apply the rolling-basis method also within the framework of the five-year plans.

The Model of Development

The first five-year plan was prepared on the basis of the Harrod-Domar growth-model which operates under the assumption of fixed proportions of factors of production, and in which growth and capital formation are determined by the rate of saving only. At that time, in India no serious balance of payments problem yet existed. Therefore, it seemed appropriate to adopt this type of model as a basis for planning.

By the time the second plan had to be worked out, the country had already developed to a certain extent, but was faced with a serious balance of payments problem. The Indian planners therefore felt that in a continental type of economy, like the Indian economy, with a limited scope for expanding exports, the magnitude of capital formation depends not merely on the rate of saving, but also on the capacity to produce capital goods, saving thus being a necessary, though not a sufficient, condition of the production of capital goods.

It was, therefore, considered more appropriate to adopt an alternative model. This model was developed by Dr Mahalanobis. A distinction is made in this model between the investment for the production of capital goods and the investment for the production of consumer goods. The importance of allocating the highest possible percentage of investment to the capital goods sector was emphasised, since this implies the highest marginal rate of saving. The emphasis was more on the creation of the maximum growth potential for the future and early attainment of the stage of self-reliant growth, rather than on the maximisation of the current rate of growth. Although the third plan is based on more or less the same model of development as the second, there is now a clearer recognition of the fact that the range of choice as to what type of capital goods might be produced in a planned period, i.e. whether these could be used to produce consumer goods or to produce further capital goods, would depend to a large extent on the type and character of capital goods that could be produced during the previous period.

It may, however, be mentioned that econometric models have so far been used only to a very limited extent in India and that only in connection with preliminary exercises for providing a unifying principle and for determining the broad structure of economy to be aimed at. Once that structure has been decided upon, the model has little practical significance for subsequent stages of the plan, in which it is more the judgment of experienced people, based on various social, economic, technical and administrative considerations, which really plays the determining role.

Preparation of the Five-Year Plans

On the basis of the preliminary exercise of the type described above, a few key figures, i.e. population projections, targets for national income, savings, investment, employment, etc., are worked out on a provisional basis by the Planning Commission, and then a number of working-groups at the centre and in the States proceed to formulate tentative plans for their respective sectors or regions in the light of these key figures.

When the recommendations of these working groups are available, there begins, in the Planning Commission, a process of balancing the supply of various goods and services against their respective demand,

of exports with imports, of raw materials with finished products, of production with consumption, of savings with investment, of financial resources with physical resources, of employment with labour, of training programmes with manpower requirements, etc. Allowance is also made for contributions likely to be made by human factors, i.e. improvement in skill and efficiency. Also, an attempt is made to ensure the maximum possible balance in the plan. Some imbalance is often found to be unavoidable which, however, is sought to be adjusted through monetary and fiscal measures, as well as physical controls. These measures are undertaken in preparation for a draft outline of the five-year plan and then repeated for the final report of the plan. In the latter adjustment the provisional key figures which were used as a basis for the draft outline, are reviewed and finalised in the light of comments by various authorities and organisations in the country. The draft outline of the plan is published several months earlier than the date of the issue of the final report of the plan and is discussed widely in the country—in the press, universities, chambers of commerce and parliament. At the same time, the central ministries, the State Governments, and authorities of the districts (15 to 20 blocks) and blocks (100 villages) not only give their comments, but also work out their own provisional plans in the light of broad targets given in the draft outline. All these comments and plans are then examined and coordinated at successive levels and ultimately utilised by the Planning Commission for the preparation of the final report of the plan.

In preparing the five-year plans various methods have been used, in a selective manner, for the over-all economy as well as for different sectors. These methods include programming techniques, budgeting, methods of balance, inter-industry tables, linear programming, etc. However, as far as the last two methods are concerned, it has not yet been possible to make wide use of them except in a limited number of cases.

The five-year plans are supplemented by annual plans (annual national budgets), an economic counterpart of the familiar financial budget. The annual plans provide, on the one hand, a much needed flexibility in the implementation of the five-year plan and, on the other hand, set out the programmes of development to be implemented every year with sufficient concreteness and detail. One of the main objectives of the annual plan and of the mid-term appraisal is to take account of every new opportunity of development that may occur.

In the planning procedure evolved in India the role of the National Planning Commission is two-fold:

- ☐ To originate policies for development and
- ☐ to integrate ideas and programmes for economic development, formulated by other agencies in the country, into a nation-wide and consistent framework.

The Planning Commission is essentially a non-political advisory body which makes recommendations to the Government and has no sanctions of its own. Care has been taken to organise it neither as a pure research institute which is out of touch with various political, economic and administrative problems, nor as an administrative machinery which is too closely involved in day-to-day affairs.

In the following section a short review of the objectives of the last three five-year plans of India and an outline of the present situation is given.

The Last Three Five-Year Plans

The first plan had a total volume of Rs 23.6 billion and envisaged an annual increase of the national income of 1.2 per cent; 12.2 per cent of the total investments was allotted to agriculture and community developments.

The second five-year plan involved a total volume of Rs 45 billion, which is nearly a doubling of the expenses of the first five-year plan. Again about 12 per cent of the total sum was allocated for agriculture and community development. The target for the annual increase of the national income was set at 3 per cent p.a. It was in this plan that the declaration of the Indian socialist pattern of society was made by the late Premier Jawaharlal Nehru, and that a remarkable shift towards a heavy-industry approach according to the Soviet type of economic planning took place.

The basic objectives of the third five-year plan were: a growth rate of 5 per cent p.a., self-sufficiency in food-grain production and the expansion of domestic industrial capacity to make India in 10 years independent of foreign aid for its industrial development. These targets imply an increase of the agricultural production by 30 per cent during the third plan period, a 17 per cent rise in per capita income and the creation of 14 million more jobs and employment opportunities. Top priority was given to the development of agricultural production and to the improvement of education. Total expenditures of the third plan were set at Rs 72.5 billion.

The targets of the first plan were modest. Therefore, on the whole, most of its objectives were achieved. Those of the second plan, however, were not fully achieved, because of the shortage of foreign exchange due to imports of capital goods. During 1957 and 1958 India faced a severe balance of payments crisis; the targets had to be cut down and already at that stage agricultural production could not match the growing demand. As a result of these developments the second five-year plan was only a partial success.

But in spite of these difficulties there was considerable (although not sufficient) progress during the ten years covered by the two first five-year plans, i.e. the period of 1951 till 1960/61. During these ten years, India had an increase in national

income of 42 per cent, a per capita increase of 16 per cent, a 50 per cent increase in agricultural production, and nearly a 100 per cent increase in industrial production.

In 1965/66 India faced a severe economic crisis, the most striking feature of which was the food shortage caused by the drought. The third plan envisaged a total output-level of grain of about a 100 million tons. The actual output in 1965/66 reached only 76 million tons, as compared to 88.4 million tons in 1964/65, when India had a record crop. The problem of re-distribution from surplus areas such as Madras and Andhra-Pradesh to emergency areas in the south and north caused additional difficulties, especially in connection with hoarding of grains.

One of the inevitable consequences of this situation was the enormous rise in prices. The main increase in food prices occurred, however, already in 1964—21.3 per cent—whereas in 1965 it increased only by 6 per cent. The wholesale prices went up by 14 per cent in 1964, and by 8 per cent in 1965; later this rate increased again.

If we look at the three plans, we find an accelerating rate of public expenditure. It may be recalled that the first plan covered a total expenditure of Rs 23.6 billion with an annual increase in national income of 1.2 per cent. The second plan covered a volume of expenditure of Rs 45 billion with an annual rate of increase in national income of 3 per cent, whereas the third plan involved a total expenditure of Rs 72.5 billion with an annual increase of 5 per cent and the original draft of the now postponed fourth five-year plan envisaged a total expenditure of Rs 215 billion with an annual increase of 6.5 per cent in the national income.

At the same time the dependence on foreign assistance should be, according to the plan, reduced. With an accelerated rate of growth of income required to match the still accelerating rate of population growth a substantial increase of the saving rate, namely from the present 8 per cent to about 20 per cent in national income, will be necessary.

It is therefore not surprising that in view of this crisis the Indian government had to postpone the implementation of the fourth five-year plan which already has been drafted. Instead, the government has worked out a flexible intermediate programme, while preparing data and targets for the new four-year plan on a more realistic basis. Among other measures, a shortening of the planning period is discussed, but no final decision has been reached as yet.

Future Prospects of India's Economic Development

It is agreed that the key factors determining India's economic future are population, agriculture and financial stability. It is also agreed what should be done, but there is little agreement as to the methods to be adapted. For instance, it is agreed that family planning should cut down the still rising growth of

population which in the first plan came to 1.86 per cent p.a., in the second plan to 2.18 per cent p.a., and in the third plan to 2.3 per cent p.a., and after a revised population estimate to 2.6 per cent p.a. For this purpose, the third plan, as well as the fourth, envisaged an increasing number of family-planning centers and the introduction of new contraceptive methods.

On the agricultural side, it is known that irrigation, fertilisation, insecticides, land reform and transport and marketing facilities are the key factors in increasing and raising agricultural productivity.

Within the financial sector, a decrease of last year's budget deficit of Rs 3 billion is rightly seen as one of the most important measures in fighting inflation.

The Indian planners have certainly learned a lesson from their experiences. They may be summarised as follows:

□ The agricultural surplus is the key to economic development and to industrialisation. Therefore, they have realised that a shift from investments in heavy-industry toward the development of agriculture has to be made.

□ The Indian planners have realised the importance of flexible planning and of appropriate re-checking of the implementation of the plan. The Indian type of planning is democratic; however, it is over-sophisticated, perhaps too complicated and too bureaucratic.

□ They are now more aware of the importance of the implementation mechanisms on a District and Block level and especially of the importance of information and checking systems.

□ The importance of small projects which has so often been neglected is now recognised.

□ The gap between field work and highly abstract economic model should be narrowed.

□ In general: a more flexible and pragmatic planning is required.

The future prospects of the economic development of India will certainly depend upon the ability of our Indian friends to transfer these lessons of experience into positive action. However, the main problem still seems to be a political one. We should bear in mind that during all the years since India became independent, it has never ceased to adhere to democratic traditions. India has done so in spite of many economic difficulties, some of which would not have occurred under dictatorial systems of government. Democracy is, and always has been the most delicate method of government. From the point of economic efficiency, democracy is certainly not the most effective way of dealing with problems such as those faced by India today. Yet, democracy seems to be the only form of government which secures a certain minimum of freedom, the price of which is not—and never has been—low. We thus have all reasons to continue our economic assistance to India at a scale consistent with the dimensions of these problems.