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The Inflated Version

Considerable excitement was caused in the past weeks by reports of serious differences of opinion amongst members of the Planning Commission in regard to both the size arid pattern of outlay under the Second Five Year Plan. These differences were attributed to divergent views on what we should aim at arid what would be practicable, assuming the maximum of effort possible in a mixed economy and a federal structure. One was led to believe that in view of this, the draft outline of the Second Plan published in February 1950 would he drastically changed in the process of finalisation. But, to nut it euphemistically, the spirit of compromise has prevailed and the draft outline has now become the final version, with added length and bulk.

It would by and large be correct to say that the final version is in no way different, from the draft outline. Planned outlay in the public sector is unchanged at Rs 1800 crores; allocations to major sectors like agriculture, industry. transport, etc. remain the same Excepting a few minor items, the physical targets remain as before, and the sources of finance arc no different from those in the draft. There is therefore a look of staleness about the final version, which is not entirely redeemed by the embellishments.

The questions which were left unresolved in the draft outline remain so. This is merely another aspect of the sameness mentioned above. We slid have the same targets for taxation, viz. Rs 850 Crores from existing taxes and Rs 150 crores from additional taxation, or a total of Rs 800 crores in live year's. What precisely or. for that matter, roughly are the new levies that will or should be attempted is covered by the old formula taxation will be on the basis of the recommendations of the Taxation Enquiry Commission. It is known that very recently. Prof Kaldor was in Delhi advising the Government amongst other things, on ways and means of making the Indian tax structure more capable of meeting the demands of development. But it does not seem that the Planning Commission has benefited much from Priof Kaldor's efforts in this direction. Nor, apparently, have the State Governments been able to put forward metre concrete proposals in this regard at their meetings with the Planing Commission, The alternative explanation of course is that all concerned consider M grand strategy to keep silent about it.

The taxes, new and old, are expected to yield Rs 800 crores over the live year period. As against this, of the outlay of Rs 4800 crores under the plan, Rs 1000 crores constitutes what is broadly called current developmental expenditure. They will not, that is to saw result in the biriding up of tangible productive assets. Clearly. the current receipts from taxation are inadequate to meet even this part of the developmental outlay, contrary to all that the Taxation Enquiry Commission and the Finance Minister have said so far.

Public capital formation under the Plan will therefore be financed entirely by a draft on private savings (from income after taxe. foreign resources and defieit-financing. This is, in principle, probably acceptable to the traditionalists who would like Governments TO borrow, if at all, for purposes of productive' expenditure. But in practice, it is likely to render the Investment' expenditure dependent on the least reliable of

financial sources. One might, object to this on the ground that deficit-financing could be what, the Government decides; if therefore voluntary lenders, within the country as well a,; outside, do not five up to the Planning Commission's expectations, there will always be the Reserve Bank to borrow from. But in actual fact, the extent to which Government can deficit-finance will depend or. very real forces operative in the economy. Shri Neogy is apparently sceptical about the financial targets and believes that if the planned outlay is put through, it will mean rampant deficit-spending. He sees in thin a grave danger to the middle classes; that apart, the psychological and other repercussions of such a spending spree could be most awkward to the planners, especially against the complacent attitude towards rationalisation of organisation and control in the economy.

The deficit-finance spectre is all-too-familiar, and there is little point harping about it now. Very much similar is the common criticism regarding the Commission's expectations of external assistance. It is. however, significant that the Commission now says clearly that 'any shortfall in resources to be raised externally must he made good by greater effort at augmenting domestic resources, if the plans for investment are to go forward smoothly ' This is indisputable. The point really is: how exactly are the domestic resources to he augmented? The balance of payments deficit on current account for the live-year period will he. according to the Planring Commission, about Rs. 1120 crores. Whatever additional domestic resources we garner will therefore, have to be such as will enable the procurement of foreign exchange. In simple terms, if the expected foreign loans and grants are not. forthcoming, we shall have to produce more export goods and reduce our imports. If this is what we are forced to do, what happens to the beautifull allocation of investment under the plan which, obviously, assumes that no special effort need be made to fill the gap in regard to foreign exchange?

These are, it may he repeated, old doubts carried over from the draff into the final version. Having recapitulated them, one might ponder whether the Commisson had any real alternative. There is, of course, the age-old prescription of adjusting outlay to probable receipts from various source, that would have satisfied nobody, since spending on such a conservative scale would have made mockery of the plan for 'accelerated' development. The answer really is that, having noted the financial risks, the plan should look for methods of insuring against these. The most effective and basic insurance is that of getting labour to produce more and to accept only a part of its additional produce for current consumption. This is a. matter of organisation, and widespread appreciation of what the plan seeks to do and why. It is true that deficit-financing will impose higher prices on the middle classes. But the higher prices are an Indication that some of the ple who produced little and consumed something are now consuming ing more and, what is equally important, producing something' "for the benefit of society. What these people produce may he capital goods or consumer goods. But the essential thing is to get them started on the job of production, so that with the passage of time, they can become net contributors to the social product.

All this involves tremendous adjustments in the organisation of production as well as of distribution. And far-reaching changes in the organisation of these processes must necessarily involve institutional changes. It is here that the Commission, so to speak, soft-pedals. Take the question of agricultural production. The Plan envisages an increase of about 18 per cent in food production; this, according to the Vice-Chairman of the Planning Commission, is not adequate and we should have an increase more like 40 per cent. But how? It is not surely just a ques-t'on of water and fertilizers, and the Japanese method of cultivation. Along with these, and more important, there should be a more intensive application of human effort. This is particularly relevant because or employment considerations, if not any other, we cannot plump for large-scale mechanisation of agricultural operations. A new spirit has to he infused into the rural sector. How can we do it if we are not prepared to change the agrarian structure? One has only to read the Commission's chapter on Land Reform and Agrarian Reorganisation to see how futile the approach Is

It is not necessary to be a Marxian to appreciate the interconnections between economic and social structures and movements, And, in any event, one does not have to be afraid these days of recognising the validity of at least some of Marx's propositions. The Planning Commission have talked for long of physical planning as opposed to financial planning. Working out an input-output matrix is just one aspect of physical planning. Equally important is the institutional side to physical planning. It is therefore somewhat of a pity that the final version of the Second Five Year Plan gives no clearer indication of the Commission's thinking on this than the draft outline did

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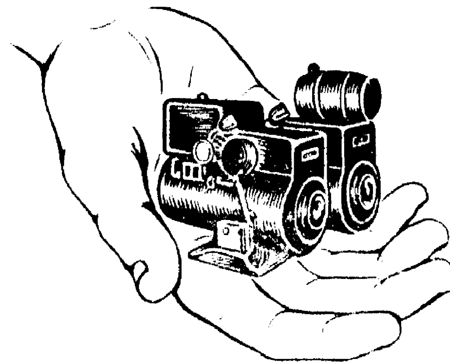

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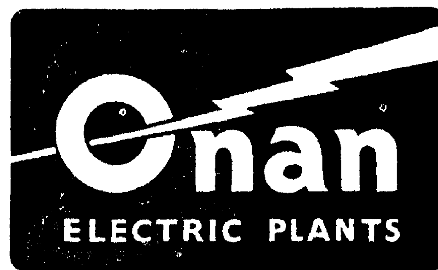

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