

then we assume that the income velocity of circulation of money will remain more or less the same during the Plan period and further, that the volume of credit will move *pari passu* with currency, we find that there will be a price rise of about 40 per cent. This may of course be checked to a certain extent by selective credit control. If, however,

there is a shift from profit to wage with a view to the socialistic pattern of society that the Plan envisages, it is probable that the marginal velocity of circulation of money will exceed the average velocity. On the whole, therefore, on the most probable assumption's, one would put the price rise resulting from the planned deficit somewhere between

35 and 45 per cent over the five year period, or, on the average, between 7 and 9 per cent per year. I do not think that this order of price rise need cause much concern, particularly when it is remembered that the measure that is responsible for it is dictated by the need for creating employment.

Balance of Payments and the Second Plan

THE Planning Commission has worked out in a little more detail than what had been done for the draft Plan-frame the foreign exchange cost of the Second Plan, the size of which is now increased from Rs. 6500 crores to Rs. 7100 crores (productive investment from Rs. 5600 to Rs. 6100 crores). Table below gives the estimates regarding foreign exchange cost and the foreign exchange resources as given in the draft Plan-frame and the Draft Second Plan. It may be mentioned that the estimates of foreign exchange resources given by the Draft Second Plan bears out the point we had earlier made in these columns that the Plan-frame had underestimated somewhat the availability of foreign exchange resources. (External Resources for the Second Plan, Draft Plan-frame Number, June 18, 1955, p. 757).

The foreign exchange cost, according to the Second Draft Plan, would be Rs. 1833 crores instead of Rs. 1500 crores as given in the Draft Plan-frame. Of this Rs. 1833 crores, Rs. 1450 crores would be on imports of capital goods, Rs. 353 crores, on imports of intermediate goods and Rs. 50 crores on estimated smuggled imports.

The estimate of the foreign exchange resources is based on the 1954-55 payments position which was more or less in balance. In 1954-55, we imported Rs. 100 crores worth of capital goods. This Rs. 100 crores would now be utilised for the Second

Plan i.e. Rs. 500 crores for the five year period. Savings in imports worth Rs. 250 crores are also expected as a result of increased domestic production of food and sugar. The sterling assets, it is further assumed, could be drawn down by Rs. 200

crores. Private foreign investment, it is expected, would be worth Rs. 100 crores. Increase in export earnings would be Rs. 27 crores. The remaining gap of Rs. 756 crores would have to be filled by external assistance, loans or aid.

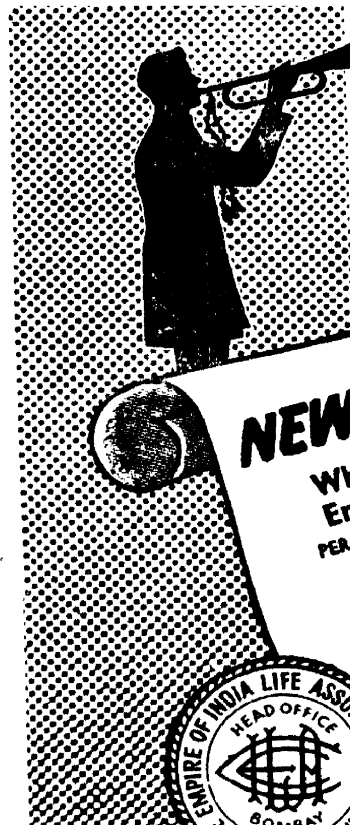
FOREIGN EXCHANGE COST (Rs. Crores)

	Draft Plan-frame estimates	Second Draft Plan estimates
Imports of capital and other intermediate goods	1100	1450 (capital goods only—includes replacement)
Intermediate Products	—	353
Replacement needs of equipment	400	—
Smuggled Imports	—	50
	1500	1853

FOREIGN EXCHANGE RESOURCES (Rs. Crores)

	Draft Plan-frame estimates	Second Draft Plan estimates
Out of current earnings	500	500
Saving in imports of petrol, raw cotton, sugar and similar items due to increased domestic production	200	250
Sterling Balances	150	200
Expected Private Foreign investment	—	200
Expected Foreign Aid	500	776 necessary foreign aid.
Increase in export earnings	—	27
	1350	1853

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