

Rao Committee Report

IN economic measurements one not infrequently comes across magic numbers that remain stable for no valid reasons. The latest such number to come to our attention is the proportion of external assistance to India utilised to that granted. According to the Rao Committee's Report on the Utilisation of External Assistance the ratio of disbursements to the amount for which agreements had been concluded before a given date stood at 55 per cent at the end of the First; Plan, 56 per cent at the end of the Second Plan, 57 per cent at the end of 1961-62, 55 per cent again at the end of 1962-63 and 59 per cent on December 31, 1963. A distinct pattern, however, emerges when one analyses the lag in the utilisation of assistance Recording to the sectors of the economy benefiting from the assistance. It is found that the time lag between ordering and payment is much less in the case of raw materials than in that of equipment for projects. The Committee finds that aid in non-project form can be utilised more rapidly than project-aid and cue of its main recommendations is that the ratio of the former to the latter should be sought to be raised.

The argument on the ground of time-lag in utilisation is straightforward enough to be unexceptionable, but the Committee goes further to make a case in general for the import of raw materials rather than of equipment. Thus it is said: "The use of a larger proportion of external assistance to finance metals, components, etc, is also essential if the country is to be independent of assistance within a reasonable period of time", for it will "speed up utilisation, promote the efficient use of industrial capacity in the country and secure a larger quantity of import, with a given amount of external assistance". Clearly the Committee is assuming away a most important and interesting problem of planning which the country faces. It takes it for granted that it is more economic to set up one's own equipment producing industry and use foreign exchange to import mainly raw materials. There is, however, an alternative approach and that is to

produce domestically raw materials and utilise foreign exchange primarily to import equipment. Which course of action is more economic is not a matter of a priori judgement but of factual calculations and no such calculation has even been attempted.

Of the other practical recommendations the Committee makes to speed up the process of aid utilisation, particularly worthy of notice is the one regarding feasibility reports. The Committee writes: "Another essential step prior to the preparation of a detailed project report is the preparation of an economic and technical feasibility study. It is only if a large number of feasibility studies are available that, the most promising opportunities can be identified and detailed project reports commissioned. It is on the basis of feasibility studies that rational decisions can be taken as to the most worthwhile among alternative investment possibilities. We would emphasise that the feasibility report should not merely be technological in character but should fully explore the economic aspects, taking due account of the possibilities of economising on the use of scarce resources such as foreign exchange. No project should be proposed for aid unless a feasibility report has been completed". To provide background material for the preparation of feasibility reports, "considerably greater attention must be paid to geological, meteorological, soil, water and forest resource studies", for the Committee finds that, "the middle ground between the overall mapping of resources and the detailed study of particular projects is not adequately covered".

Feasibility reports are not considered to be enough. The practice now is to defer the preparation of detailed project reports until assistance for a project is promised. The Committee, however, thinks that in spite of various attendant difficulties "it is desirable for Government to commission project reports for the important projects likely to be put forward for external financing, in advance of the identification of the source of aid". It is recommended that panels of firms mainly Indian but not exclusively so -- should be

requested to agree to finance the preparation of the project reports without necessarily committing themselves to financing the projects themselves.

The Committee's emphasis on simplifying procedures for drawal of funds, import licensing etc, will be generally welcomed. The proposal to apply more widely the technique of imposing monetary limits on the amount of foreign exchange to be used rather than checking lists of goods is typical of the little doses of commonsense attempted to be injected into the system

Nuclear Cut-backs

THE instinctive reaction to any attempt, however small, to revert the trend of nuclear competition is bound to be one of relief. But it would not probably be a mistake to observe that the news of the US-USSR agreement to cut production of nuclear explosives has given rise to as much misgivings as relief. Understandably so. The USSR has decided to stop the building of two atomic reactors. The USA has decided upon "an overall decrease in the production of plutonium by 20 per cent and of enriched uranium by 40 per cent." The percentages are impressively high, but do they imply an equally high increase in the probability of a nuclear world war being averted or an equally high proportionate reduction in the damages to be caused by such a war? Certainly not. The damages that will follow a nuclear war could be expected to be reduced if the stocks of nuclear weapons were to be reduced. These stocks however are already large enough to destroy the world several times over. The marginal destructive potential of any additions to the stocks is, therefore, zero; it follows that the marginal reductions in the potential of destruction of any cuts in production are also zero.

The world can be saved from nuclear annihilation only by the destruction of the stocks of nuclear weapons. It is true that any such measure, to be effective, will have to be taken conjointly with measures for the stoppage of further production of nuclear weapons as well as of nuclear explosives, so that there cannot be any replenishment of the stocks.