# Allocation of Investments in the Third Plan

*With the size of the Third Plan at long last a settled question, the major preoccupation of the planners in the next few months will be with the questions of the pattern of developmental outlay and the policies necessary for achieving the physical targets subsumed in this pattern.*

*This is indeed the hard core of programming.*

*All that has been done so far is a general assessment of the needs and possibilities and the working out of certain dimensional hypotheses.*

*These are, doubtless , essential preliminaries to a plan-essential for defining the perspective and for indicating the totality of political and economic preparedness required.*

*The Plan itself will take shape as these generalities are reduced to specific schemes and projects, marked out for implementation by the different agencies and translated into a set of operational directives.*

*With the sort of machinery that we have for planning, this will be a long and confused process, the pattern of outlays, targets and policies which constitute the real content of the Third Plan becoming clear only in the last stages.*

**BUT** one already has glimpses of the broad pattern of plan-expenditure and the level of anticipated outputs in certain fields. Without a rough idea about these, it would have been impossible---and meaningless -to set the size of the total effort to be undertaken in the next five-year period. The work that remains to lie done consists in ensuring the consistency and practicability of the sector programme, and breaking down the aggregates into operational targets for each line of activity as- well as each year of the Plan. In initiating and carrying forward this process, the Planning Commission has a task which is at the same time easier and more complicated than it was in the ease of the Second Plan.

### DIRECTION ALREADY SET

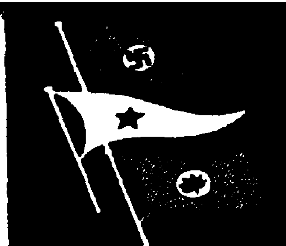
To look first at the factors that favour the Commission at the start. The Planning 'Commission has now a larger total to play with; and it inherits from the Second Plan the broad design into which the Third Plan has to be fitted. True, some of the basic assumptions underlying the perspective of the Second Plan- such as the proposed rate of growth of population—are no longer accepted. True, also, that actual achievement at the end of the Second Plan will fall considerably short of anticipations. Rut there is no dispute about the rightness of the direction of change set by the current Plan; and the Third Plan can lake this as given and seek to accelerate the movement in that direction.

Secondly, with a bigger outlay to allocate, the Planning Commission can adjust the relative priorities without rutting the absolute level of outlay in the different sectors below that of the Second Plan. This may not be of much significance in a purely technical sense; but it does give the Commission certain bargaining advantage, inasmuch as it can focus attention in its discussions with Ministries and State Governments on questions of expansion rather than maintenance of developmental expenditure. Finally, a considerable part of the programme enlarged for the next five years will consist of schemes already started but not finished, as well as projects agreed upon but not started on account of foreign exchange difficulties. In regard to these, elaborate argument is unlikely and in many instances unnecessary. A purist can of course argue that the country would be better off if some of these "carry-over" projects were abandoned and resources divided elsewhere. Hut he would have powerful forces of inertia and vested interests to contend against.

### LEGACY OF HURRIED CUTS

There are, however, also other inheritances from the Second Plan which are not so comfortable for the Planners-. The projects that straddle the Second and Third Plans are part of the "core" of the former. As is well-known, the readjustments of the Second Plan consequent upon the foreign exchange crisis was not a carefully done job. The pattern that was inherent in. the original scheme of things was disturbed in a hurry and it will be a miracle if the "continued projects" at the beginning of the Third Plan mesh into something nice and tidy. Even though the question of abondoning any of these may not arise, the question of stretching or concentrating the outlay on some of them in order to fit other projects into the Plan does become important. The need for establishing proper linkage between past and future investments, within sectors as well as between them, introduces fresh problems of appraisal at the margin.

There is further the sea-change that has occurred on the foreign exchange side since the Second Plan was drawn up. With little or no resources to fall back upon, the temptation to favour projects with low foreign exchange requirements, or projects most likely to prove attractive to foreign lenders or donors, is great. It is certainly possible that .such projects are also justified in the national interest, which is all to the good. But it does to some extent divert attention from the integrated programme to the viability of the individual project. To got something midway between plan assistance and project assistance, it would be necessary to work out the alternatives in terms of sets of inter-related schemes or projects, the choice between which would depend on the extent to which anticipations regarding external assistance are fulfilled, or domestic resources subslitutable for imports are increased. The fact that there are no free foreign exchange reserves to play with makes it imperative for the Planning Commission to pay particular attention to inter-industry relationships and the phasing of 'starts'.



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These are, so to speak, generalities of which one can reasonably hope the Planning Commission is aware. To complete the picture, it may be helpful to dwell briefly on the other generalities which will influence the Planners in the allocation of the Third Plan outlay. Some of these—such as balancing of employment with output needs, of consumption with investment demands, of the needs of the domestic market with export necessities etc are not new, but nonetheless of vital importance. In critical appraisal of the distribution of plan-outlays and targets, the extent to which such balancing has been attempted or anticipated becomes a major concern,. But any serious exploration of these questions would require a knowledge not merely of how much is proposed to be spent in each sector or year but, more importantly, on what. It is after all the composition of the additional output obtained from period to period that determines the trends of both supply and demand in the various markets—including, it must be said, the markets for the so-called factors of production. And the make-up of the additional output depends upon the pattern of achieved investment and the efficacy of the production techniques employ, ed. One has, therefore, to probe into the effort as well as the effects in real terms in order to get a glimpse of the extent to which a particular financial allocation of outlays represents accord between emergent demands and supplies. Judgments at this stage are bound to be vitiated by the incompleteness of information in sufficient detail and the uncertainties about responses of the Indian economy to anticipated stimuli.

## II

On present indications, the sharing of the total investment outlay of Rs 10,000 crores between the public and private sectors will be in the ratio of 6:4. The anticipated allocations under broad heads have been given else where in this issue (sec Table IA, p 914).

As always,, plan figures are somewhat tricky and in drawing conclusions from the table referred to, certain things have to be borne in mind. The allocations are in terms of anticipated "investment" expenditure—that is to say, outlay required for creation of physical assets. This has to be distinguished from the broader concept of "development" expenditure, which would include, beside investment expenditure as defined above, certain recurring expenses on plan schemes (shown in Table I, p 914). No such complication'arises in the portion relating to the private sector. But in the case of that sector, some of the investment financed through Government loans, etc are not shown. These are estimated at around Rs 200 crores over the five-year period and are included in the outlays shown against the public sector.

These minor points apart, the striking feature of this pattern of outlays is the large allocation to "Industry and minerals". In view of what has been said earlier, this is not surprising. What is of some interest is that the relative shares of the public and private sectors in this field have, if anything, moved slightly in favour of the latter. This ought perhaps to be attributed, at least in part, to the complementary "conversion" industries that are expected'to come up on the basis of increased supply of steel, machinery, machine tools etc planned for the public sector. While this is a rational way of looking at future developments, it could create problems if the phasing of 'starts' in the public and private sectors is not carefully done.

Of the other allocations, that on Transport and Communications is only slightly higher than in the Second Plan, with a relatively larger share for private transport. This is not odd, considering the huge investments on the railways in the previous Plans. Having cleared the back-log of depreciation, the railways ought now to be able to add more to their carrying capacity as a result of the outlay envisaged; and the expectations are that the railways will be in a position to carry 230 million tons of goods by the last year of the Third Plan. This is a big increase from the level of about 160 million tons estimated for this year. One can speculate *on* the adequacy or practicability of the target set for the railways. But there is no doubt that with the large investment on industries on the one side and the possibility of increased competition from road transport on the other, the railways will be under heavy pressure to reach the target set for them.

At first sight, it seems a bit curious that the third largest allocation should be under the rubric of Social Services , and that too more in the private than in the public sector. This is due not to any recognition of the woeful shortage of educational, health and welfare facilities but to the inclusion of investment in housing in this category. If we take the investment in housing at the same level as in the Second Plan, viz, Rs 1,000 crores, the place of 'social capital" in the total pattern becomes clearer. Despite greater awareness of the problems of education, health and welfare of a growing population, the outlays envisaged for additional facilities in these fields are more or less on an austerity basis. This is a pity, and the Indian community may have to pay a heavy price for it all to soon.

Finally, there is in the proposed distribution of outlays an indication that Agriculture and Community Development will receive much greater attention than in the Second Plan period. Compared to an anticipated "development outlay" of about Rs 550 crores in the Second Plan, planned public expenditure in the next five years is put at Rs 1,000 crores (Table I, referred to above). Like everything else relating to Indian agriculture, these figures may mean much or little, according to one's taste. The Planning Commission has to some extent been shaken by the gloomy prognostications of the Ford Foundation Team last year and sought to reassure people both in India and abroad that so far as it is concerned, agricultural development has a high priority. For this purpose, it has given a boost to the allocation for agriculture not only in the public sector programme but in that of the private sector as well. Private investment in agricultural development during the Third Plan is put at Rs 800 crores, compared to the estimate of Rs 200 to Rs 300 crores in the current live year period. It is a moot point whether any reliance is at all to be placed on these investment figures. But they make a good show.

There are certain other points, however, which have to he borne in mind. In the agricultural sphere, there is no way of judging the consistency or otherwise of the physical

targets set with the expenditures proposed. So much depends on natural factors and organisational improvements that it would be unwise to judge the likely effort that will go into agricultural development merely by looking at a financial allocation. This is particularly ture when the increase in output is to be achieved largely by the increased productivity of hundreds of thousands of small farms. The Third Plan recognises this by providing considerably larger amounts for promoting the utilisation of irrigation facilities, fertilisers, improved seeds and so forth. In fact, one has to go beyond the specific allocation under agriculture to get an idea of the total programme for agricultural development. For instance, a sizeable part of expenditure in the industrial sector will be on fertiliser, agricultural implements and so forth. Larger allocations to road development. agricultural colleges, village industries etc. would also benefit agriculture indirectly. And finally, the effectiveness of national extension services will perhaps increase with the adjustments and adaptations in organisation that occur, and with greater familiarity of the farmers with the facilities so provided. AH these are perhaps more important than a hundred crores more or less in projected outlay in assessing the relative position of agricultural development in the Plan.

III

Broadly, therefore, one cannot quarrel with the rationale of the distribution of outlays envisaged by the Planning Commission. As was mentioned earlier, it would be indulging in casuistry to attempt at this stage an elaborate analysis of this pattern in terms of the 'balances' that ought to be achieved, the bottlenecks that need to be widened and so on. There are, however, certain observations that may be made *en passant.*

The appropriateness or otherwise of the allocation of plan outlays will be judged in the last analysis by the extent and manner of resource-utilisation achieved by it. It is common knowledge that there is no strict correspondence between the size of the plan outlay and the results it will achieve in the shape of additional output, employment and so forth. Much depends on how it is distributed and what sort of products and incomes it creates from period to period. These affect profoundly the basic ratios used in most projections of national income aggregates, viz, the capital-out ratio and the savings-income ratio. When one focuses attention on the aggregates, these ratios tend to be averages derived from certain suppositions regarding sectoral ratios and the relative shares of the sectors in total investment or income. Consequently, argument about the capital-output and savings ratios assumed in determining the size of the Third Plan, are implicitly concerned with the allocation-pattern. Given the assumed ratios and the proposed pattern of outlay, the relevant question is whether there is reasonable ground for presuming their mutual compatability.

*Prima facie,* the preponderate of investment outlay in the industrial sector during the Third Plan should warrant a high average capital-output ratio. But it does not follow from this that the ratio should be higher than in the Second Plan period. It is perfectly possible—as undoubtedly the Planning Commission hopes—for the capital-output ratio in the industrial sector to be favourably affected by (a) the perceptible shift towards material using industries with a shorter 'gestation' period and (b) the coming into full operation of the projects initiated in the earlier periods. This is merely another way of saying that judgements about the capital-output ratios used by the Planning Commission in its projections should, like judgements about the investment pattern, be tempered by an awareness of alternative real combinations that may correspond to the same aggregate outlay.

There has in the past been considerable difference of opinion about the adequacy of the Third Plan for achieving a 5 per cent annual increase in national income or for creating 12 million new jobs. In this discussion, described as the 'numbers-game' by some, the ratio of growth of population, capital-output ratios, and the savings ratio for the marginal propensity to consume) have all figured in one way or the other. And conclusions have been reached that the size of the Third Plan is inadequate because population is growing faster or the ratio of capital to output is higher or the proportion of savings to income is lower than the Planning Commission believes. Those who take this position may well be right; but they will not be demonstrably so, if they argue on the basis of broad magnitudes rather than detailed allocations.

It may be useful to indicate briefly why this is so. Take the question of employment. Nobody knows for sure what even approximately the achievement of the Second Plan is in respect of the employment target set for it. There have been some estimates of the direct employment created by the Plan projects, supplemented by odd pieces of information about additional jobs in ancillary activities. The general impression however is that the achievement in this field has not been sufficient to absorb the new entrants into the labour force and therefore the back-log has increased. Given this premise, and given the realisation that population growth has been faster than was believed, it could easily be propounded that the Third Plan should have an employment target of 14 or 15 million jobs and that this will need an investment outlay not of Rs 10,000 crores but of Rs 12.000- Rs 15,000 crores.

In the present state of our knowledge of the Indian economy, those who argue thus are neither more nor less vulnerable than the Planning Commission. Apart from the fact that employment data are woefully inadequate for any meaningful processing, the broad similarity between allocation patterns in the Second and Third Plans tells us little about their relative employment potential. The number of continning jobs that we achieve at the end of the Third Plan will depend on the primary effects of plan investments on employment *plus* the induced effects. In addition, what may broadly be called non-plan expenditure in both the public and private sectors also creates new employment as it increases, partly as a result of the past plan outlays.

The crucial point, however, is this. The magnitude of both the primary and induced effects on employment will vary with the pattern of investments, the income generated by this and the manner in which the additional incomes are spent. We have no reason to pre-

sume that the 'multiplier' effect on employment will be the same in the Third Plan as in the past. The structural changes that are occurring in the Indian economy are certain to improve the speed and efficiency with which impulses from one segment are transmitted to another. Should full account be taken of these dynamic elements, the correspondence between Third Plan outlays and employment may not be as black as mere extrapolations of past trends might indicate. The difficulty, of course, is that neither the Planning Commission nor anybody else is equipped with enough relevant data to assess the potentialities.

***Our Delhi Letter***

# Intermediate Ports

'THE export possibility of a single commodity to a single country handled by a single agency will decide the development within the next few years of a number of intermediate ports along the roast of India. The commodity is iron ore; the country to which it is to be exported is Japan; and the agency that is handling the export is the State Trading Corporation.

The Intermediate Ports Development Committee, which recently reported to the Government of India, has accepted the Corporation's estimate that by 1966-67 it should be possible for India to export 15 million tons of iron ore. The Committee's own estimate of export by that year is 13 million tons but it feels thai it would be. advantageous to develop port capacity ahead of needs.

The total capacity for handling iron ore likely to be available at all the ports, including major ports, in 1965-66 is estimated at 12.4 million tons. The Committee has kept the following targets of export of iron ore by various ports in view (see Table ! p 836).

With this development and what is contemplated (in regard to both major and minor ports), the total ore exporting capacity of all the ports in India in 1966-67 is assessed as shown in Table II. (See p 836.)

India is estimated to have considerable deposits; and at least some of these are in areas where there is no immediate prospect of our setting up steel plants of any considerable size.

The export of iron ore has been appreciably going up in recent years. In 1956-57 the figure was 1.8 million .tons. For 1960-61 the estimate is 4 million tons. In 1965-66 the total export may go up to 9 million tons on the basis of the existing contracts. The State Trading Corporation expects the possibility of an increase to 15 million tons. The Corporation takes pride that to some extent the increased demand for Indian ore is due to the standard performance of the Corporation itself. Maintenance of shipping schedules and quality control have helped to generate confidence in the minds of prospective buyers.

Japan has taken India as a base source of supply for iron ore, and Japan has a fast-expanding steel industry. The geographical position of India in relation to Japan is of considerable advantage to the latter. Also, the quality of Indian iron ore is such that it is suitable for use in open hearths as well as in blast furnaces. On other points too, Indian ore compares favourably with that of other major sources like Bazil. Canada, Sweden, Chile and North and South Africa,

Japan's steel industry buys iron ore through a consortium. The present total import of iron ore by Japan from all sources is between 11 to 12 million tons a year. It is estimated that by 1965 this will go up to 25 million tons. If Indian prices are competitive and if Indian port and railway capacities are adequate, the Japanese steel Industry will certainly agree to take almost any quantity available in India.

Other customers of Indian ore are East European countries and West European States,

East European countries have been India's customers in the last two years. Czechoslovakia, Rumania, the G D R, Hungary, Poland and Yugoslavia are all expanding their respective steel production capacities. With almost all these countries India has rupee payments arrangements. Since it will be beneficial rupee balances on Indian commodities of use to them, the Corporation hopes that Indian export of iron ore to these countries will definitely increase.

Among West European countries, Italy is a prominent and regular buyer. No doubt, other major consumers in this region find Indian ore relatively costly. Their main sources are Sweden, Canada, Spain, North Africa and Brazil. Nevertheless, there has been growing interest in Indian ore from these buyers, for they are reported to be keen on having alternative sources of supply.

The intermediate ports that are to lie developed to handle the estimated increase in iron ore export are those given in Table I.

*Paradip* :

The Committee feels that even without a railway line from Cultack, it will not be difficult to move 5 lakh tons of iron ore to this port with the improvements that the Committee has suggested. When the traffic at Paradip reaches the figure of 5.5 lakh tons a year, it will he necessary to provide an all weather-port together with a railway link from Cuttack.

For handling a traffic of 2.5 lakh tons, the Committee recommends improvements at the port of a cost of Rs 99 lakhs. This should be given first priority. When the traffic has reached 2.5 lakh tons and when there is indication that the anticipated traffic of 5.5 lakh tons will actually materialise the Committee recommends certain additional works costing Rs 55.3 lakhs. This will have second priority.

*Kakinada* :

This port should be enabled to handle an annual traffic of 4 lakh tons of. cargo, expected in the next few years. First priority improvements required to handle this traffic are estimated to cost Rs 25 lakhs. Certain additional works costing Rs 9 lakhs are also necessary though these may be accorded second priority.

*Masulipatnam* :

A traffic of 4 lakh tons per annum is expected in the next few years. One of the most important developments required at Masulipntnam for handling this traffic is the stabilisation and improvement of the bar at the port. This work, estimated to cost Rs 17 lakhs, should be given first priority. Certain additional