The Third Five Year Plan
And the Strategy of Indian Development
IMD Little

The broad strategy of Indian planned development seems eminently sound. The Third Plan is part of a series designed to raise the proportion of investment in a rising National Income, and reduce and eventually eliminate that part financed by foreign savings.

One cannot quarrel with this aim, and scarcely anyone who has studied the problem doubts that it involves a rapid increase in industrialisation, involving the building up of heavy industry roughly on the scale planned. There is room for argument only at the margin.

The chief doubt is whether India uses enough of her own resources, and whether she gets enough out of her investment. There seems to have been insufficient effort to solve the problem of putting idle hands to work. Naturally this is a difficult administrative as well as more narrowly economic problem.

Speaking only of the latter, I believe that fear of inflation has been a barrier to greater employment, and hence more output, and that greater willingness to tax (and also to stop wage increase for those already employed) would pave the way for significantly more employment and higher output.

India should certainly use all the foreign resources she can get: so that a more full utilization of Indian resources would require a larger Plan than the Third Plan if the aid now hoped for is forthcoming.

This, I believe, to be not merely within the real limitations of the Indian economy, but also, with sufficient determination, to be possible of achievement without inflation.

If India gets less foreign aid than she expects, then the industrial part of the Plan would probably have to be cut: but I believe the Plan could be enlarged in other directions to provide at least a partial offset to the loss.

The Perspective
IN spite of poverty and malnutrition, severe underemployment, and the gathering threat of open urban unemployment, it cannot he easily assumed that the overriding objective of the Third Five Year Plan should be to increase consumption, or employment. India's growth in the past few years has been heavily dependent on foreign aid (and reduced reserves). This will continue to be true for at least the next 10 years, but it cannot go on for ever. Consequently, India must also plan to develop and strengthen her economy in such a way that she can both rectify her severe foreign exchange deficit and at the same time either make or buy the much larger quantities of capital goods which will undoubtedly be required to sustain a continued process of expansion. Moreover the need for future consumption (including government consumption — e.g., defense) may become even more acute than in the present. There is both the threat of China and of an increase in the rate of population growth. So the Third Plan must be seen in the context of the Fourth Plan at least. Theoretically, indeed, there is no time horizon beyond which the planner does not need to try to peer; but the end of the Fourth Plan will do to be getting on with.

THE PRESENT AND THE FUTURE
The more or less official aims of the Government, and its implied choice between the conflicting demands of the present and the future, are known; it is hoped to balance foreign payments without aid by 1970, with a rate of net investment of around 16 per cent of net national income. At present the rate of investment is probably only 10 per cent, with only 7½ per cent financed from domestic savings. By 1965-66 it is hoped that investment may have risen to 14 per cent, about 12 per cent being domestically financed.

Investment, and the use of foreign resources, have both fallen since the peak of 1957-58, and income has increased. Over the whole Plan foreign resources may account for almost one third of investment. But all such figures and judgments, involving investment, are very rough. There is no official series of investment figures for India, and the various spot estimates have huge holes in them. To fill these holes is one of the most urgent and neglected of the many statistical needs of India.

These figures are thought to be consistent with investment of Rs 9,950 crores in the Third Plan, and of Rs 15,000 crores in the Fourth Plan. Thus it is hoped that the proportion of national income invested and financed by domestic savings can double in the next ten years.

The strain which this achievement would impose, depends greatly on the rate of growth of output and income. Provided that income grows at 5 per cent or more, these targets can be attained or surpassed if consumption grows by one percentage point less than income. Put like that, the task appears manageable for consumption per head would be growing at least as fast as in the past. In effect the idea is to invest most of the proceeds of the impetus for increase in the growth rate. To achieve this the marginal rate at which current income is ploughed back would need to be high — about 25 per cent. There is no possibility of this being achieved without increases in taxation which would be remarkable in the light of the recent past, although the resultant rates still need not be high by the standards of many other countries. But if output fails to rise by 5 per cent per annum it would be difficult to
increase investment to the extent indicated, and the hope of an adequate, self-sufficient, and soundly based, growth by 1970 would probably have to be abandoned.

COULDN'T THE PLAN BE BIGGER?

The above ideas have changed little since the beginning of the Second Plan. But success to date has been less than anticipated. Thus real National Income has been rising at only about 3 per cent per annum, or a little more. As a result, the development envisaged in 1955-56 in terms of 1952-53 rupees remains roughly the same in terms of 1957-58 rupees. This means that the anticipated levels of income and investment, while bearing approximately the same relation to each other, are really lower by 10-15 per cent.

Allowing for the change in prices (and an apparent change in the coverage of private investment included) the Third Plan is probably less than 50 per cent larger than the actual achievement of the Second Plan, and is about 20 per cent smaller than was originally envisaged. It is certainly inadequate to the needs of the situation. Even if as successful as hoped, the standard of living will rise only slowly from its desperately low level, and it can make no great impact on the problem of underemployment. Moreover, if much more attention were successfully paid to consumption and employment within the framework of a Plan of this size, then India would probably remain relatively as heavily dependent on foreign assistance as before. The question naturally arises as to whether the Third Plan could not be bigger, and aim at larger increase in all the three key magnitudes, investment, consumption, and employment.

II

Size of the Plan

What limits the size of a Plan when there is unlimited labour available? It might be poverty and hence low domestic savings, or organization and planning, or foreign aid. These all merit some discussion.

(a) Savings, Taxation, and Organization

If it were not for the fact of surplus labour, poverty could without question be admitted as a limitation. But why cannot surplus labour create capital, and hence raise savings and investment without impinging on consumption? If it can, then the sheer poverty of India should not limit the Plan.

One answer is that men cannot produce without tools, and that tools are limited. But this is unacceptable. There is no doubt that many more men, many millions more, could be employed with the equipment that could be made available in the next five years. Even in industry there are possibilities of usefully employing more labour for a given amount of capital (or of delaying the reverse); but it is not in industry that much could be done—only 3½ millions are employed in factories—, but on the land. Men can work on improving the land with negligible equipment—shovels and baskets—which would not divert capital from industry.

Agricultural reports testify to the almost unlimited work of this kind that could be done. (Cf. India's Food Crisis and Steps to Meet It, Ford, Foundation Agricultural Production Team, 1959.) All of it might not be very productive, but some would. The list includes contour bunding, terracing and levelling drainage, irrigation ditches and minor canals, digging wells, fencing, making local roads and other constructions from indigenous material which can, again, be got with shovels and baskets. Some social services also fall within the class of needing negligible equipment, e.g., primary education and birth-control (education is certainly the main cost in birth-control). It needs noting in this connection that there is unemployment among those with university degrees.

POTENTIAL INFLATION BARRIER

While poverty as such is not a barrier to undertaking work of the above kind, there is the well-known problem of preventing such greater employment from increasing consumption too much, resulting in inflation in the short run, and in the longer run the need to make a greater provision of capital for the production of consumption goods. This might in turn imply a slower build up of industrial strength and a further postponement of the date when India can grow by her own resources. On the other hand, the presence of unemployed resources makes it possible that their fuller employment could yield, after some lag, both more investment goods and more consumption.

It is sometimes thought that there is no potential inflation barrier in the way of putting idle hands to work, because agricultural production (and well over half India's personal consumption comes from agriculture) would quickly increase (Cf. Ibid). But this is a mistake, for the men employed on land improvement schemes must be paid; and any extra output, however quickly it materializes (and in fact there must be a lag) will add to agricultural incomes as well as to output, so that the extra output is an offset only to the extent that farmers save more of their higher incomes. Thus the ability or willingness to tax provides a limit, not merely to the size of the Plan, but to the amount of extra employment it can create. A larger Plan with less employment may put less strain on the fiscal system and on a politician's courage than a smaller, more labour intensive Plan.

UNWILLINGNESS TO REDISTRIBUTE CONSUMPTION

To put it in another way, if the future growth path of consumption is as planned, there greater employment than at present planned will mean that this consumption must be more evenly spread. The limitation on possible employment results from unwillingness or inability to redistribute consumption sufficiently in favour of the newly or more intensively employed men. This is the barrier round which many believe that China has found a way.

To turn to organization, this can also provide a limitation which might bite before the fiscal difficulty referred to above. My impression is that it is the latter that is now operative. Some disagreement has been reported between the Ministry of Agriculture and the Planning Commission over the agricultural allocation for the Third Plan. This may suggest that the former believes
that it could usefully spend more. India has many monuments to the shape not only of vast forts and palaces, but also canals and railways. Of course, more is needed than merely recruiting large numbers of men, and setting them to work, if the result is to be as productive as it might be. But I guess that agricultural and other departments have the skill to organize more work than is planned.

(b) Foreign Aid and Balance of Payments

Owing to the present very small size of the capital goods industry, and of the production of intermediate goods, programmes of industrial development result in a rapidly rising level of imports. More domestic savings can help to finance such programmes only to the extent that consumption goods can be reduced, or exports expanded as a result of lower consumption at home. Analysis of the pattern of Indian imports and exports suggests that the possibilities of this are very limited.

**PATTERN OF FOREIGN TRADE**

It is hard to classify imports accurately. But of a total of approximately Rs 1000 crores of imports in 1958-59, about Rs 250 crores were probably consumption goods. Of these, probably about Rs 180 crores were food (Rs 150 crores being foodgrains), of which about Rs 110 crores were free on account of P L 480. Most of the rest of the food must be imported as a condition of receiving P L 480. The small remainder of consumption goods is likely to be in very inelastic demand. During the Third Plan period, when it is known that P L 480 imports will be available, it would be foolish not to use them—if not for consumption then for the high-priority purpose of establishing larger stocks, which are needed if a mono-sunset dominated economy is to make stable progress. Although some machinery and intermediate goods may be ‘near-consumption’ goods, requiring little further processing, it becomes clear that more savings could do very little to permit more capital good imports by way of saving consumption imports.

In 1958-59 visible exports were Rs 576 crores. Of this, tea, cotton and jute, and their manufactures, accounted for 54 per cent, and other agricultural exports for a further 20 per cent. Other manufactures accounted for only 14 per cent. This is a most unpromising base for expansion. The demand for tea, by far the largest single export (24 per cent of all visible exports), grows slowly and is price-inelastic. Jute, the next largest, is a declining market. Any increased share of these markets, if obtainable, would be mainly at the expense of other under-developed countries. Finally, the cotton industry has not been working to capacity. Thus, while there may be a few products of which more could be exported if home consumption were reduced, quantitatively the result would be small.

**LIMITING FACTOR: FOREIGN AID**

More savings and less consumption at home could therefore have only a slight impact on India’s balance of payments in the next five years, provided that there is no greater tendency to excess demand than in recent years. This would be false only if deflation were carried so far that output in Indian industry was reduced, with a fall in the need for imported materials and semi-manufactures. Obviously this is an absurdity which must be avoided.

Thus foreign aid is an effective limitation on the size of the Plan, except insofar as it is possible to reshape the Plan to use fewer imports of capital equipment for every rupee spent.

**III**

**Savings and Foreign Aid**

The direct reason for the breakdown of the Second Plan was a large underestimate of foreign aid requirements. There seems to have been two main reasons for this. The first was a straight under-estimate of the direct foreign exchange element in capital development, and the material needs of full capacity working, probably due largely to inadequate information and inadequate work done on the problem. The second was that favourable monsoons in the First Plan period had wrongly convinced people that an adequate upward trend in agricultural production had been established. This resulted in the need for higher food imports than anticipated. In spite of the hasty mobilization of increased foreign aid, the Plan had to be cut, and public investment will apparently end up close to Rs 3,600 crores instead of Us 3,800 crores, with private investment probably rather larger than the target of Rs 2,400 crores. Of course, the real cuts in the public sector were considerably greater, since projects, especially the steel plants, cost more than was anticipated.

Foreign savings (capital inflow plus the fall in reserves, including sales of silver) will probably have amounted to about Rs 2,000 crores out of a total investment of Rs 6,000 crores, or a little more. Although the last figure may understate true investment, the proportion financed from foreign savings is certainly rather formidable. But with the Plan as it stood, and with the production of food not rising adequately, any increase in domestic savings (whether via higher taxation or otherwise) would probably have done more to depress Indian industrial production than improve the balance of payments. Yet, with the foreign aid which actually materialized, quite as large a Plan and even a larger one could have survived uncut, and without the unfortunate effects on production of the crisis measures of 1957-58, if a slightly larger increase in food output had materialized and if the Plan could have been made more labour-intensive. This might have meant that a few industrial projects, which subsequently were cut out, could not have been included.

**How MUCH FOREIGN AID?**

What part must foreign savings play in the Third Plan? It appears that the planners expect to need Rs 2,100 crores of aid, inclusive of private capital, but excluding any refinancing and PL 480. The latter two items may each add about Rs 500 crores making a total gross call on foreign resources of Rs 3,100 crores and a net call of Rs 2,600 crores. (See the letter of the three wise bankers to Mr Black.) If realized, this would imply that foreign savings would be financing rather over one quarter of Indian investment as compared with rather less than one third last time.

Taking the Third Plan for granted, the foreign aid requirements can be estimated only from realistic predictions of imports and exports. I think the estimates are likely to be much nearer the mark this time. But imports in particular are extremely hard to predict, depending as they do not only on the import content
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off new projects but also on the whole development of Indian output (the more successful the output growth the greater the import saving). The above figures for aid imply an average deficit on current account, including interest on loans already contracted, of about Rs 500 crores. This compares with figures of 352, 509, 380 for 1956-57, 1957-58 and 1958-59. The deficit for 1959-60 will probably be a little lower than in 1958-59.

I. A R G E I N C R E A S E I N I M P O R T S

But the Third Plan will certainly require a very large increase in imports of machinery, and the invisible surplus will be much reduced by increased interest charges. In the category of intermediates, there should be a large saving in steel imports which may compensate for increases in fertilizers and oil. Food imports may remain about the same, though it is expected that more will go into stock (anyway, as already remarked, it would be absurd from the Indian and the American point of view to attempt to do without PL 480). I imagine that other consumption good imports will be kept down to approximately the present low level. But it is impossible from this distance to make a detailed assessment of the import requirements, though it seems likely that plant and machinery will account for most if not all of the expected net increase in imports.

On the export side, receipts may increase slightly faster than in the past. As implied earlier, the biggest increases are to be looked for in new products and intermediates or raw materials, especially iron ore and metals, but more than a slight overall improvement in the trend cannot be expected. It is very hard to suggest any road to a significantly better performance, although there is no quarrel with those who maintain that India has been insufficiently export conscious in the past.

All of the above seems to suggest that foreign aid will still be accounting for a rather large part of investment by the last year of the Plan: and that if aid is to be dispensed with by 1970, the extra savings effort of the Fourth Plan will have to be still greater than in the Third Plan. By (hen) (1970) it is hoped that the capital goods capacity of the Indian economy will be sufficient to employ a much higher level of domestic saving.

IV

Output Shape of the Plans

To some it seems obvious that a greater use of Indian resources, that is labour, would be desirable. But equally it is obvious that one must aim to produce what is wanted and can be sold. There is a conflict here when most of the increased home and foreign demand is for goods which can be satisfactorily produced only by capital-intensive methods.

Although foreign trade in theory permits the domestic supply pattern to diverge widely from the demand pattern, in practice it certainly appears that it would be unjustifiably risky for India to aim deliberately to produce manufactures for export on a substantial scale. Her geographical position is scarcely favourable for an attack on western markets, although this matters little for very light engineering products. But for these products, there is the powerful established competition of Japan and Hong Kong. In addition, world trade is largest in goods of high quality—and the quality of highly finished goods is likely to be low for many years. High quality generally requires a developed experience or high capital intensity. The former is lacking, and the latter is precisely what the few advocates of a substantially enlarged attention to exports are seeking to avoid. Moreover, it is early for India to be able to recognize where her comparative advantages will lie in the field of manufactures. Further, in a country the size of India, with a wide complement of natural resources, it would be surprising if it did not turn out to be economical for her to produce something of almost everything, and surprising if international trade ever came to more than a small fraction of national income.

FOODGRAINS TARGET EXCESSIVE

Turning to the developing pattern of demand, first consider consumption goods. Well over half of consumption (in 1952 it was probably about 60 per cent) is food. Foodgrains are about two-thirds of food consumption, and I gather that the target will probably end up as 100-105 million tons (around 5 per cent per annum) against 73½ million tons in 1958-59, an increase of 36-43 per cent compared with an expected increase in total consumption of about 50 per cent (4 per cent per annum for seven years). PL 480 imports will continue, but even if they are 1-2 million tons less, it is difficult to see that people will eat so much—for assuming other food production goes up at least pari passu, it would mean increasing the proportion of food eaten as income rises, contrary to all observation. This could come about only as a result of a large relative fall in food prices; or a large redistribution of consumption to the very poor or both. Both may happen to some extent—but my guess would be that the price shift, to get so much food eaten, would need to be disturbingly large, unless there is a much greater increase in non-farm employment than seems to be planned.

This is the corollary of the point made earlier; i.e. that greater employment requires a more even spread of consumption. Since the poor spend more of their incomes on food, the present target for food production is reconcilable with the implied target for total consumption only if consumption is more evenly spread; and this could best be brought about by greater employment, and higher taxation of those who spend a relatively high proportion of their incomes on non-food items.

Of course, there would be no problem of getting so much food eaten if total consumption were permitted to rise faster, say by 6 per cent per annum. But this cannot be reconcilable with a rising ratio of investment to National Income. On the other hand, the ratio is of no consequence in itself. If both more consumption and more investment can be achieved than now planned, the ratio can be disregarded. The only objection could be that too much investment might then need to be devoted to factory-made consumption goods, and also to intermediate goods destined for consumption. If, however, demand can be sufficiently steered towards food and services by heavy indirect taxation, this objection disappears. Thus it is not argued that the food target is absolutely too high; only that it is too high in relation to other planning magnitudes, i.e. to total employment-income, consumption and investment.

But, while the output target for agriculture may be excessive, given the
shape of the Plan, this does not imply that the Plan expenditure will be excessive. Whether it will be or not is exceedingly hard to judge, because it is almost impossible to relate increased expenditure on agriculture to increased output. It is even impossible to say at all accurately what part of a Plan expenditure is devoted to more food. Thus steel goes into dams for irrigation and into railways to deliver food, and so on. But a fair idea of the emphasis in different plans may be got by comparing the relative expenditures on agriculture directly, plus community development, plus irrigation and food control, plus nitrogen production. Planned expenditure on these rose by about 40 per cent in the Second Plan, and may rise by 60 per cent in the Third. The proportion of the 50 per cent larger Third Plan which is spent on encouraging food output will thus rise, though it had fallen in the Second Plan.

NON-FOOD CONSUMPTION

Other non-food consumption can be briefly dealt with. Services form a large part, and aside from education and health (which there is no space to deal with here) can be left to look after themselves, as they require little equipment. Clothing, itself embodying a large agricultural output, is much the most important manufactured consumption good, and there is at present considerable excess capacity. The rest is a very small proportion of consumption, some of which springs from cottage and small scale industry, where production could probably be increased with little capital expenditure except for the provision of stock. In general, there is no particular reason to suppose that the provision for extra factory made consumption goods is inadequate—provided that the authorities stand willing to use indirect taxation to cut off excess demand, particularly for capital-intensive products (such as rayon, electricity, and passenger travel) and those with a high import-content (such as motor cars).

Rut, naturally, if India is to develop successfully, and this implies a rapid increase in industrialization, by far the most rapid increases in demand (apart from fertilizers) must come in capital goods, and in certain intermediates closely connected with them and with industrialization in general. Thus, assuming that success will be achieved, there is no doubt whatever about the rapidly increasing demands for machinery of all kinds, for heavy chemicals, steel, cement, oil, electricity and transport.

FOOD AND MACHINERY

The determination of the planned output-shape of the Second, Third, and Fourth Plans can be summed up as follows. First, there is the aim to produce enough food, together with sufficient other agricultural output to provide those raw materials and exports which can be produced in India (tea, cotton, jute, coffee, etc). No one doubts the importance of this: and no one could possibly argue that the targets are generally inadequate.

Secondly, there is the need to produce sufficient of the ‘non-importables’, electricity, transport, and communications. These three will have accounted for almost half the public investment achieved in the Second Plan, in spite of which the supply has been inadequate. Expenditure on them is planned to rise by 35 per cent in the Third Plan, though the proportion will fall—due probably to the completion of some of the most expensive parts of the railway programme.

Thirdly, the remainder of the available investment (and this remainder is limited by the foreign aid to be received) is and will be primarily devoted to import substitution. In the Second Plan the three steel plants will have formed much the largest element of import-substitution (about 15 per cent of public investment) so that steel imports will be much lower in the Third Plan period. The major emphasis in industrial expansion will shift to disturbing and machinery making in the Third Plan. So that the forthcoming rapid rise in machinery imports will level off or might actually fall by the end of the Fourth Plan period (towards 1970).

There is also an increasing realization of the need for building up exports. But little public investment goes into it. It seems to me that this is perfectly correct, and that it would be folly not to put the main emphasis on non-importables and import substitution, if only because there is no doubt about the demand being there.

TOO MUCH HEAVY INDUSTRY?

The most common criticism of Indian planning is that it has been, and will be, too much orientated towards heavy industry. It is true that agricultural production failed to rise fast enough in the Second Plan period. But it is being wise after the event to say that therefore more attention should have been paid to it. Also it does not follow from the relative failure of output that there should have been more direct investment in it. Probably the surest way to have increased output more would have been to have more heavy industry in the shape of more fertilizer plants. The argument for more direct investment in agriculture should be more solidly based on the possibility of mobilizing the surplus labour potential.

Apart from food and agricultural materials, it has been seen above that what India most needs is the products of mining and heavy industry—steel, electricity, coal, heavy chemicals, cement, oil etc. Who can seriously suggest that she ought to import these things—especially when in some of them at least (coal, steel) she has a marked comparative advantage in the cheapness of the raw materials? Yet she cannot plan to produce all the needs of everything. There is some choice within the field of import substitution: and here the argument in favour of low capital intensity should probably be kept more to the forefront than it has been. This brings one to the more detailed problems of project selection.

V

Economic Balance, and the Best Use of Resources

The price-mechanism in India is a poor guide to what to produce. That the most profitable things should be best presupposes that prices properly reflect the relative scarcities of different goods and services. But capital, labour, and imports, are all very wrongly priced in this sense. Imports are much too cheap, the rupee being greatly overvalued. Capital is also too cheap, and labour too expensive. The price mechanism thus inevitably gives a strong bias to too great capital intensity, too free a use of imported goods, and too little use of labour. It has already been suggested that greater use of labour is a crying need—not merely because employment is a social benefit in its own right, but also for the sake of maximum output from Indian resources.

This implies that Plans should give a lot of employment and have a low
employment, which would increase each year as the programme was built up, would add more to food demand than supply: and the problem would be to prevent food prices rising. If and when it appeared that the eventual increase in supply would be excessive, certain of the more capital intensive ways of producing more food (major irrigation and fertilizer plants) could be cut back. Thirdly, some combination of falling food prices and increased indirect taxation of factory-produced consumption goods could always steer the extra consumption towards food. This would be necessary to prevent too large a part of future plans from being devoted to the provision of manufactured consumer goods, with a consequent delay in the establishment of a sufficient industrial basis to provide for enough capital investment without foreign aid.

TAX RATES NOT HIGH

But a larger Plan, enlarged in the above manner, would initially at least, require a higher saving rate (though not more foreign aid), which would not emerge with central compulsion of some kind. Already the Rs 9,950 crores of investment in the Third Plan will demand very considerably increased taxation. But the increases in taxation will certainly not be excessive provided the Plan is a success. This needs no argument, for consumption is planned to rise by 4-5 per cent per annum, and the increased taxation will be needed only to prevent it rising faster.

Some people have the impression that tax rates are high in India. This is wrong. Only corporation tax and direct personal tax on the very rich are high, and the latter is not effective. Other rates of tax are mostly low. In fact the middle classes, say those with over Rs 200 a month are lightly taxed: even on paper the direct tax paid does not match British standards until about Rs 56,000 a year, and indirect taxation is far lower. Administratively it is harder to tax in India. But there is no doubt that the fiscal requirements of the Third Plan are very well within the administrative limits. Yet one fears that fiscal pusillanimity is a danger, especially in view of the relative inability of the Centre to get the States to increase the taxes reserved to them. In spite of this, it is hard for an economist not to believe that the best use of Indian resources requires a larger Plan (assuming she gets as much foreign aid as is needed for the industrial programmes), and consequently, for a while at least, a still greater taxation effort than will be required for the present Third Plan.

VI

Conclusions

The broad strategy of Indian planned development seems eminently sound. The Third Plan is part of a series designed to raise the proportion of investment in a rising National Income, and reduce and eventually eliminate that part financed by foreign savings. One cannot quarrel with this aim, and scarcely anyone who has studied the problem doubts that it involves a rapid increase in industrialisation, involving the building up of heavy industry roughly on the scale planned. There is room for argument only at the margin.

The chief doubt is whether India uses enough of her own resources, and whether she gets enough out of her investment. There seems to have been insufficient effort to solve the problem of putting idle hands to work. Naturally this is a difficult and administrative as well as a more narrowly economic problem. Speaking only of the latter, I believe that fear of inflation has been a barrier to greater employment, and hence more output, and that greater willingness to tax (and also to stop wage increases for those already employed) would pave the way for significantly more employment and higher output. India should certainly use all the foreign resources she can get: so that a more full utilization of Indian resources would require a larger Plan than the Third Plan if the aid now hoped for is forthcoming. This, I believe, to be not merely within the real limitations of the Indian economy, but also, with sufficient determination, to be possible of achievement without inflation. If India gets less foreign aid than she expects, then the industrial part of the Plan would probably have to be cut: but I believe the Plan could be enlarged in other directions to provide at least a partial offset to the loss.

Getting more out of any given investment programme is largely a matter of commercial skill and good
administration at all levels. On this I have nothing to say. But economic coherence is also important. It is important to have a sensible pricing policy. It is important to produce enough non-importables so that production is not held up by bottlenecks. It is important to select the right things to produce more of in India, and not to produce too much of them, and so on. All of this requires difficult and interlocking estimates of demand, but also, if output is to be maximized with limited capital, it requires close attention to problems of phasing and to the problem of optimum resources allocation. Since economic decisions have to be, in practice, largely guided by actual costs and returns, this latter suggests an enquiry into how prices can be made to reflect scarcities whenever possible—and where not, how some rational and consistent bias can be introduced at planning levels. Although some attention is paid to these problems I doubt whether it is sufficient—and certainly adequate attention is not paid to the information required for good coherent planning. Lack of good statistics is not an altogether minor limitation on the detailed soundness of Indian Plans.

But, whatever criticism may be made, it is reasonable to hope for better results from the Third Plan than the Second. Experience of planning and economic administration has increased; and I believe that more realistic and better work has gone into the formulation of the Third Plan. There is a good chance that an urgently needed increase in the tempo of development will be achieved.

IN Bulletin on Industrialization And Productivity

ARTICLES on different aspects of the problem of the most effective utilization of scarce capital resources in underdeveloped countries are contained in the third issue of the Bulletin on Industrialization and Productivity, which has been released by the United Nations.

In addition, the publication includes studies dealing with the financing of small-scale industries in underdeveloped countries; statistical methods of quality control in industry; and the role of the UN Special Fund in fostering industrial development.

The Bulletin, which is prepared by the Industrial Development Branch of the UN Department of Economic and Social Affairs, comes within the Secretariat’s work programme for the promotion of industrialization of underdeveloped countries.

One of the articles, entitled “Capital Intensity and Costs in Earth-moving Operations” is an analysis of the relationship between levels of capital investment and costs in various projects reported by governments.

Another article describes the results of the discussions of a working party convened in New Delhi 7—14 September 1959 under the joint sponsorship of the ECAFE and the UN Bureau of Economic Affairs. The purpose of the meeting was to consider, in the light of the conditions prevailing in the region, the various aspects of the technology of earth-moving operations using manual labour, mechanized equipment or combinations of the two techniques.