PROFESSOR D R Gadgil's 'An Approach to Indian Planning'

deserves serious consideration by all those who are interested in the country's economic development. This brief note has a modest objective. It tries to examine critically Professor Gadgil's comments on the last decade of planning and to see if his approach differs basically from that of the Planning Commission.

Professor Gadgil's article consists of two distinct parts: (i) a critique of the First and the Second Five Year Plans; and (ii) an alternative approach to planning in India. The second is the operational part of the paper.

To Professor Gadgil the most serious failure of planning in India has been the complete neglect of the problem of unemployment, particularly rural unemployment, and the consequent lack of improvement of the standard of living of the people. This is reflected in the large backlog of unemployment at the beginning of the Third Plan and by the stagnant nutrition standards. Agricultural development has also been comparatively neglected. Ceiling and tenancy laws have been shoddily enforced. Co-operation as a means of agricultural reconstruction has not been energetically pursued. Stabilisation of agricultural incomes and favourable terms of trade for agriculture are absolutely necessary for economic development.

Professor Gadgil, however, reserves his most trenchant criticisms for the Government's policy of industrialisation. Its emphasis on economic growth and social overheads and on basic capital goods industries has starved agriculture of much-needed capital resources. It has also resulted in a severe distortion of the already inequitable distribution of income. The factors responsible for this distortion are, mainly: (i) dependence on private savings and leaving investment decisions in private hands; (ii) preferential treatment accorded to industries which have some export potential or which succeed in obtaining foreign collaboration, in the allocation of foreign exchange; and (iii) unregulated private investment in lines of production which do not have a high priority from the point of view of the country's economic development.

Maximising the Surplus

Before examining these arguments, I would like to digress briefly to state what I consider to be the basic determinants of economic development. At the risk of oversimplification, these may be stated as (a) the magnitude of economic surplus, that is, the difference between national production and national consumption, and (b) the mode of utilisation of this surplus. For a fuller discussion of the various concepts of economic surplus see Baran, P A: The Political Economy of Growth. Chapter II). The maximisation of the economic surplus and its rational utilisation so as to ensure a fast rate of economic growth must be the primary objective of planning. This strategy would not however, normally enable a developing country to achieve full utilisation of its labour force. Emphasis on economic overheads like transport and power systems and on basic and heavy industries in the initial stages of development would maximise the economic surplus and make its rational utilisation possible and thereby achieve the fastest rate of growth in the long run. Such an approach to planning, it is understood, entails considerable sacrifice on the part of the people. The Second Plan, with which economic planning may be said to have begun in India in a real sense, was based on such a theoretical foundation.

Let us now return to Professor Gadgil's critique of Indian planning. I believe that the acceptance of the theoretical framework set out above by Indian planners explains the comparative neglect of the problem of unemployment. Not much can, therefore, be done in this regard without altering the basic premises of planning. The question thus boils down to one of value judgment.

The Institutional Framework

The poor performance of agriculture during the First and Second Plans is not the result of inadequate investment. The First Plan was clearly agriculture-based. In the Second, about 31 per cent of the total outlay was earmarked for agriculture. Besides, a considerable part of the huge investment in multi-purpose projects should be reckoned as investment in agriculture which will begin to yield returns in the long run. As against this we have the common complaint of under-utilisation of irrigation facilities and fertilisers. What lies at the root of the agricultural malaise is the slow tempo of change in the rural institutional framework. I am, therefore, one with Professor Gadgil when he pleads for speedier and more rigorous enforcement of ceiling and tenancy laws and for encouragement of co-operatives both in the field of agricultural production and the distribution of the agricultural produce. Even some
element of compulsion may be necessary, and justified, to achieve the co-operativisation of agricultural production. Again, there is little room for disagreement on a policy aimed at stabilising agricultural prices. But any attempt to manoeuvre the terms of trade in favour of agriculture would be detrimental to industrial expansion. It may make for a better deal to our farmers but it would enhance the cost of industrialisation and in general lead to a negation of the objectives of planning pursued so far.

That concentration of income and wealth has grown in recent years is not open to doubt. The extent of concentration is a matter of investigation and an expert committee is already engaged in the task. The factors which Professor Gadgil holds responsible for bringing about this concentration are precisely the ones which planning aims to remove. With the progressive enlargement of the public sector, dependence on private savings and private influence on the economy in general, would be reduced. It is, however, difficult to understand Professor Gadgil's indictment of our import policy. Whatever its shortcomings may be, favouring export-oriented industries and industries which succeed in securing foreign collaboration can hardly be criticised. Foreign exchange is indispensable for us at the present stage of our economic development and every effort to increase our foreign exchange earnings needs to be made.

In outlining an alternative policy for industrialisation Professor Gadgil accepts the division of industries into consumption goods and production goods industries. The latter are sub-divided further thus: (i) Economic overheads; (ii) basic industries; and (iii) industries producing capital goods required by the consumption goods industries. He accepts the continuing emphasis on the first two. He would, however, suspend further extension of machine industry producing consumer goods. The demand for these goods will be met partly by the traditional industries using improved techniques and partly by new dispersed and decentralised units. The pattern of the capital goods industry producing machines for consumption goods can then be adjusted to the needs of these dispersed industries. All this requires reformulation of policy in many directions. What is necessary, in the main—an unambiguous price-policy, a channeling of private savings through public agencies, the regulation of private investment and industry and reorganisation of administration. Evidently these measures are not peculiar to the approach outlined by Professor Gadgil.

**Contradictions**

Attention may now be drawn to some of the what seem to the, contradictions in Professor Gadgil's approach. first, having accepted modern science and technology as the foundations on which the economic super-structure is to be built, his emphasis on expanding traditional industries and on setting up new dispersed units to meet the demand for consumption goods seems a little odd. Most of our traditional industries, almost by definition, offer absolutely no scope for any scientific or technological improvements. Second, Professor Gadgil attributes most of our difficulties today to the attempt to force the pace of industrialisation by concentrating on the development of heavy and basic industries. One would, therefore, expect him to wash his hands off these industries in outlining his alternative approach. Not only does he not do this, but he actually approves of the "immediate and continuous investments in the transport and power systems and in the basic industries". Finally, his approval of the policy of basic and heavy industries does not seem to go well with the suspension of machine production of consumption goods and, therefore, of such machines themselves. An important objective of setting up these heavy and basic industries is to enable the production of the machines and the power needed for the production of consumer goods at a future date. What are we going to do with all the steel and all the heavy electrical and mechanical equipment if we do not intend producing machines for sugar mills or cotton textile plants or power to run these industries ?

We may now take up Professor Gadgil's proposal for modernisation of traditional industries and for setting up new decentralised and dispersed units. Honestly, all such talk beats me all ends up. And it is not an emotional reaction either. Let us look at the facts. Which are the traditional consumer goods industries worth the name ? What scope do they offer for the use of better techniques V Almost the only viable traditional industry of any significance is the handloom cotton textile industry. Others are unimportant to the point of being negligible. With so much money already spent on devising measures to effect technological improvements in traditional industries, what have we achieved? The Amher Charkha, the practical utility of which is anybody's guess, is an example. Other industries, such as the indigenous oil or gur or khandari industry, offer even less scope for technical improvements.

**Decentralisation Impractical**

As for the dispersal and decentralisation of new units what is presumably meant is dispersal in location and decentralisation in ownership. But is such a policy really practicable? Even traditional industries have tended, for historical and geographical reasons to be concentrated in particular regions where they enjoy certain advantages by way of availability of raw materials of skilled labour, etc. Any attempt to diversify them in space is bound to meet with insurmountable difficulties. To try to produce sugar in Rajasthan or woollen shawls in Madhya Pradesh may satisfy the puritan with a faith in dispersed and decentralised industry but to a practical economist it does not make much sense. Again, a number of decentralised units would give employment to a greater number of people and to that extent such a move may be commendable. Such units, however, consume a greater part of what they produce in the process of production leaving less surplus for use elsewhere in the economy. The total surplus thus tends to be reduced and this hampers further economic development. What is needed, therefore, in consumer goods industries is an amalgamation of the existing uneconomic units and not their further decentralisation. The sugar industry is a case in point. The reason why Indian sugar is costly in the international market, is the fact that the industry is made up of small and uneconomic units.

To sum up, Professor Gadgil's approach differs basically from that of the Government and the Planning Commission, only in one respect. He would like all our Plans to be employment-oriented. Hence
the emphasis on labour-intensive methods. The Government relegates employment to the secondary position. Its prime objective is, to ensure a fast rate of economic growth in the long run. This approach entails greater sacrifices on the part of the people in the initial stages, but it also promises better returns. The success or otherwise of this approach would depend on the willingness and ability of the people to make such sacrifices as are demanded of them from time to time.

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