WORKING PAPER

INDIAN ECONOMY: * Performance and Prospects

A.Vaidyanathan

Centre for Development Studies
Ulloor, Trivandrum 695011
(India)

Draft, not to be quoted

CENTRE FOR DEVELOPMENT STUDIES

Working Paper No.48

INDIAN ECONOMY: Performance and Prospects

A.Vaidyanathan

Centre for Development Studies
Ulloor, Trivandrum 695011

* This paper was prepared at the request of the Economic and Social Commission for Asia and the Pacific

I

Objectives and Strategy

1.1 In qualitative terms, the objectives and strategy of India's development programmes during the last decade largely follow the lines set in the previous plans. The elimination of mass poverty, reduction of inequalities and attainment of self-reliance are reiterated as the principal long term goals. The principal components of long term strategy continue to stress accelerating the overall rate of development, reducing population growth, increasing the share of publicly owned wealth, state regulation of the private sector, and special programmes (including fiscal measures) to achieve a better distribution of the benefits of development.

1.2. The acceleration of the overall growth rate-typically projected to rise from an historical average of less than 4 per cent a year to around 5.5 per cent a year in the proximate five year period and rising to six per cent or more a year over a 10-15 year period - and the ability to sustain it on a self-reliant basis, with assurance of reasonable price stability, is seen to require: (a) significant step-up in the rate of agricultural expansion from a historical average of around 3 per cent a year to 4-4.5 per cent a year, (b) a rate of industrial growth (8-9 per cent a year) considerably higher than the average with emphasis on rapid substitution in intermediate and capital goods; (c) a progressive increase in the overall rate of investment to reach around 18-20 per cent of national income within a decade or so; (d) purposive reduction in the foreign exchange deficit through a combination of import substitution and export stimulation, the accent being on the former[1]; and (e) a high marginal

---

1/ The long-term projections in draft version of the Fourth Plan (1969-74) as well as of the Fifth Plan (1974-79) posited the elimination of net aid by the early eighties. The revised Fifth Plan however, does not indicate how this objective has been affected by the changed international situation, especially the rise in oil prices. The projected export growth ranges between 7 and 8.5 per cent a year, with heavy emphasis on non-traditional items.

rate of savings (varying from 25 to 30 per cent) in the attainment of which the public sector was to play the key role. Public savings, through current budgetary surpluses and through profits of public enterprises, was to contribute the bulk of the additional savings and became a progressively more important source of aggregate savings.[2/]

1.3 In the matter of equitable distribution of income, the Indian plans have, from the begining, ruled out (with the important exception of land reforms), any major redistribution of past accumulation of private wealth. Nationalisation of existing private enterprises in non-agricultural operations was again consciously de-emphasised until the mid-sixties. In order to bring greater socio-economic equality, government policy has therefore, focussed on (a) increasing the share of public sector in total capital stock through a manipulation of the allocation of new investments between public and private sectors: (b) reservation of new investments in selected, strategic, sectors mostly, if not exclusively, for the public sector; (c) an elaborate system of controls and regulations over the activities of the private sector; (d) progressive taxation combined with the provision of free or highly subsidised services and amenities which will benefit the poor; and (e) special programmes meant to help particularly vulnerable segments (like scheduled castes and scheduled tribes) improve their economic well-being. These elements have continued to form the core of government policy during the last decade also. Nevertheless, several important shifts, — some in quantitative targets, others in accent and emphasis, and yet others by way of innovations -- have taken place since the early Sixties.

2/ For instance, the Draft Fourth Plan (1969-74) projected net domestic saving rate to rise from 8 per cent in 1967-68 to 19 per cent in 1980-81. Over the same period public saving as a proportion of national income was to rise from 0.8 per cent (or barely 10% of the aggregate saving) to 7.7 per cent (or 40% of aggregate saving) The Draft Fifth Plan projects gross saving rate to rise from 12.2 per cent in 1973-74 to 19 per cent in 1983-84, and the public saving rate to rise from 2.8 to 7.7 per cent.

1.4 One such change was the attempt in the early sixties to define the goals of development not in terms of an average per capita real income and a rather vague commitment to reducing the inequalities, but in terms of providing a minimum standard of living to all sections within a specified period. This reflected the growing realisation that inequalities remained large and that far too high a proportion of the people did not have an acceptable minimum standard of living. In fact one version of the long term plan for 1961-76, prepared in 1962,[1/] was built around a minimum per capita consumption target of Rs.20 per month (in 1960-61 prices) to be achieved by 1975-76. Though subsequent plans continued to speak of the minimum income objective, thepersistent shortfalls in growth and the preoccupations with short term problems resulted in this commitment getting blurred to a point that the revised version of the Fifth Plan does not even mention it.

1.5 There has been, in fact, a sustained and significant erosion in the quantitative goals of the sectoral and aggregate growth: The long term growth rate targets for agriculture have been progressively reduced from 4.5 - 5 per cent in the Fourth Plan (1969-74) to 4.3 per cent in the latest version of the Fifth Plan; even the targetted annual growth rate for mining and manufacturing has been brought down even more from around 8 per cent in the Fourth Plan (1969-74) to less than 7.5 per cent in the latest version of the Fifth Plan. The reduction in targetted absolute levels of output implied by these revisions can be seen from Table 1.1. The revisions also imply an erosion in the aggregate real income targets. Thus the third plan targetted real national income, (valued at 1960-61 prices) to reach Rs.330-340 billion in 1975-76; the Fourth Plan (1960-74) implicitly postponed the target date for reaching this level by 3-4 years (to 1978-79); and the latest version of the Fifth Plan expects it to be reached only after 1985-86.

1/ Planning Commission, Perspective of Development, India, 1960-61 to 1975-76: Implications of Planning for a minimum level of living, reprinted in PK Bardhan and TN Srinivasan, op.cit. Poverty and Income Distribution in India, (Calcutta 1974)

Table 1.1. Selected Production targets for 1978-79 in successive five year plans

	Fourth Plan 1969-74	Draft Fifth Plan	Revised Fifth Plan
Foodgrains (Mil. tonnes)	155	140	125
Cloth cotton (mil. meters)	n.a	10000	9500
Paper & Newsprint(Mn. tonnes)	1650	1351	1130
Nitrogen (mil. tonnes)	6.0	4.0	2.9
Petroleum Prods (mil. tonnes)	38	34.6	27
Cement (mil tonnes)	27	25	20.8
Steel (mil. tonnes)	12.5	9.	8.8
Aluminium 000 tonnes	450	370	310
Electricity (10 kwh)	145	120	117

1.6 Another important shift of emphasis which occured in the past decade relates to family planning. Awareness of the need for reducing the rate of population growth had been heightened by the unexpectedly high growth of population revealed by the 1961 census and had led to a substantial increase in the financial allocation for Family Planning in the third plan. The commitment to the programme has since been greatly strengthened with the setting of specific quantitative targets for the reduction of birth rate supported by a manifold increase in financial allocation for extending the net work of family planning institutions for mass education campaigns, and for providing the necessary material inputs and incentives. The financial allocation for Family Planning programme in the Fifth Plan is about two thirds higher than in the Fourth which in turn represent more than ten fold increase over the third plan levels. The target is to reduce the birth rate from 36 per 1000 in 1971-76 to around 25 per 1000 in 1981-86.[1/]

1.7 As regards the policies in pursuit of equality, there were several significant shifts: The last decade witnessed nationalisation of existing private sector enterprises in banking, general insurance and coal mines; progressive nationalisation of foreign trade as well as segments of domestic trade was declared to be the policy; and several "sick" industrial units have been taken over by the

1/ The revised Fifth Plan has revised to 30 per 1000 to be achieved by 1983-84

government. All this marks a substantial shift from the earlier policy of de-emphasising State take-over of existing private enterprises. Secondly, the apparatus for control and regulation of the private sector has been undergoing modifications in response partly to growing criticisms of its cumbersome ways and its ineffectiveness, and partly reflecting shifts in the relative power of various interests involved. Finally, there has been an expansion in both the number and the scale of special programmes aimed at benefitting the poorer segments as it became clear that, contrary to expectations, the benefits of growth and public expenditure were not reaching the small farmer, agricultural workers and other sections which constitute the core of the country's abjectly poor population. Besides recognising the need to move from purely welfare programmes to programmes for development tailored to the needs and potentials of each region, several new programmes have been introduced. Notable among there are (a) the Small Farmers' Development Agency designed to identify andhelp overcome the impediments which small, but potentially viable, farmers face in exploiting to known technologies to increase production; (b) the programme for providing productive employment to marginal farmers and agricultural labourers; (c) development of chronically drought affected areas to help mitigate fluctuations in output and to ensure a permanent increase in productivity and employment; and (d) the national minimum needs programme intended to provide all parts of the country with certain minimum standards of education, public health, roads and other amenities.

II.

Review of Performance since early 1960's

Overall Growth

2.1 Between 1961 and 1971, aggregate real output has risen by some 45 per cent, i.e. at an average annual rate of approximately 3.8 per cent.[1/] Per capita real income has risen by 13-14 per cent over this period. These realised rates of growth, both of aggregate and per capita income, have fallen considerably short of the targets set in successive plans (about 5-5.5 per cent a year for total national income and 2.5 - 3 per cent per annum for per capita real income. The Indian economy also seems to have experienced a slackening of growth during the sixties and early seventies, taken as a whole, compared to the record of the fifties.

2.2 The shortfall in relation to targets, and the deceleration in relation to the performance during the fifties occurred in practically all the major sectors. Thus between 1961 and 1972 the index of agricultural production has risen at an average annual rate of barely 2 per cent a year, compared to 4 per cent or more rate envisaged by the Plan and an actual average of over 3 per cent a year between 1951 and 1961.[2/] Similarly the net output of manufacturing industries, which were targetted to rise by 8-9 per cent per annum, grew by only 5 per cent a year. And in practically in all sectors, the increase in output during the sixties taken as a whole, was apparently lower than in the fifties. If slackening in the overall growth was not as marked, the explanation is in the accelerated expansion of public administration and defence during the sixties (Table 2.1)

1/ Unless otherwise indicated, the growth rates presented in this paper are computed on the basis of three year average at both ends of the period under discussion.

2/ The use of even threeyear averages for computing agricultural growth rates could be misleading because the sector is particularly exposed to fluctuations on account of weather. However the conclusion remains valid when we compare the increases on output based on five year averages: Between 1950-1/1954-55 and 1960-1/1964-5, the index rose 38 %; the increase between 1960-1/1964-5 and 1970-1/1974-5 was 23%

Table 2.1 Growth of Net Domestic Product at Factor Cost, 1900-1 to 1972-3

(Rs.billion at 1960-1 prices)

	1950-51 to 1952-53	1960-61 to 1962-63	1970-71 to 1972-73	Col 2 / Col 1 x100	Col 3 / Col 2 x100
Primary sector	53.43	69.55	85.00	130.2	122.2
of which Agriculture	50.79	65.51	78.83	129.0	120.3
Secondary sector	14.03	27.41	43.59	183.6	159.0
of which manufacturing	10.95	20.17	30.66	184.2	152.0
Transport, Communication & Trade	11.50	19.95	31.01	173.5	155.4
Finance and Real Estate	3.75	5.81	8.10	154.9	139.4
Community and Per. Services	9.86	14.82	25.71	150.3	173.5
of which Public Admn. and defence	3.38	5.86	12.68	173.4	216.4
Total	93.47	137.54	193.40	147.1	140.6
Population	365.3	444	554	121.5	124.8
Per capita income Rs	255.9	307.8	345.9	120.3	112.4

Source: GOI Central Statistical Organisation, National Accounts Statistics 1960-61 to 1972-73, (Jan. 1975)

2.3. Agriculture: The non-fulfilment of agricultural production targets is in part explained by the fact that the various inputs into agriculture did not increase in the measure planned. In particular, the addition to major and medium irrigation facilities, the level of fertiliser consumption, and the area covered by plant protection measures fell substantially short of targets. On the other hand, the targets for minor irrigation, soil conservation and the area under high yielding varieties seem to have been substantially fulfilled (Table 2.2)

Table 2.2 Targets and Achievement* of Various Agricultural Programmes

	Unit	1961-66 Target	1961-66 Achieved	1969-74 Target	1969-74 Achieved
Major and Medium Irrigation	10^6 ha	5.2	2.2	4.8	3.3
Minor Irrigation	10^6 ha	5.2	5.3	4.8	4.5
Soil Conservation	10^6 ha	4.8	4.0	5.6	6.4
Plant Protection	10^6 ha	20	17	80	64
Area under HYV	10^6 ha	-	-	25	25
Fertiliser consumption					
N	000t	1020	550	3200	1800
P 205	000t	410	130	1400	700

Source: Planning Commission

1. GOI, Planning Commission, Draft Fourth Five Year Plan 1969-74
2. GOI, Planning Commission, Draft Fifth Five Year Plan 1974-74

* Except in the case of fertiliser, figures for which relate to total consumption at the end of the two periods, targets and achievement relate to increments during the periods.

The targets and achievements for minor irrigation for the two periods are not comparable.

2.4 The shortfall in output cannot, however, be wholly attributed to the non-fulfilment of input targets. A crude calculation shows that the actual increase in total area and irrigated area under foodgrains, the increase in fertiliser use, and the shifts in the allocation of area as between different foodgrains, should have resulted in a 23-24 million tonnes[1/] addition to annual foodgrain output between 1962-3 and 1972-73; the actual increase was around 20 million tonnes.

1/ This estimate is conservative on several accounts. (1) We have used the yardstick of yield response to fertilisers for traditional rather than the high-yielding varieties. (2) No allowance is made for the fact that the basal yields of HYVs (i.e. the yield without fertilisers) are considerably higher than for traditional varieties, (3) It does not take into account the contribution of several other inputs, like soil conservation, dry farming, plant protection, compost and green manure, to increasing output.

2.5 The point is brought out more forcefully by a comparison of the trends during the fifties and the sixties. Though the expansion of total area had fallen sharply from the fifties to the sixties, this was more than compensated by an acceleration in the tempo of irrigation development and of fertiliser use. Overall, the increase in output potential during the sixties on account of the factors mentioned above was some two third greater than during the fifties. Since no allowance is made for the effect of HYV, which were non-existent in the fifties, on the productivity per unit of plant nutrients, the difference between the additions to potential output during the two periods tends to be under-stated in the above calculations. And yet the increase in actual output between 1962 and 1972 was less than that during 1952 and 1962. (Table 2.3)

Table 2.3: Estimates of Additions to Production Potential for foodgrains, India 1952-72

Elements contributing to increased production	1952-53 to 1962-63			1962-63 to 1972-73		
	Additions to input	Response	Additions to output (mill.tonnes)	Additions to input	Response	Additions to output (Mill.tonnes
Area expansion	14.7 mill* ha	600K/ha	8.8	5.7 Mill* ha	700K/ha	4.0
Extension of Irrigation	4.0 mill* ha	500K/ha	2.0	8.0 mill* ha	500K/ha	4.0
Shifts in crop pattern			0.8			2.0
Fertilizers N	.225 mill tonnes	10t/t	2.2	1.09mill tonnes	10 t/t	10.9
P205	.056 mill tonnes	6t/t	.3	.43 mill tonnes	6t/t	2.6
Total			14.1 (21.0)**			23.5 (20)

* Computed on the basis of 5 year averages

** Figures in brackets refer the increase in actual output based on 5 year averages.

1. These estimates are based on five year average of area and yield centred around each of these years.

2.6 One plausible explanation for the divergent trends in potential and actual production especially during the sixties is that the productivity of inputs has been less than the response coefficients assumed in calculating potential output. The yield response to fertilisers deserves particular attention in this context. Prima facie, the coefficients, being derived from a large number of fertilisers trials on farmers' fields should give a realistic approximation to response under average farming conditions. Indeed, for reasons cited earlier, the assumed responses are conservative. It is nevertheless possible that the response under conditions of mass application may be lower than under simple fertiliser trials for reasons like the following. (i) The farmers may not be observing the appropriate timing and method of placement of nutrients; (ii) the degree of interdependence between fertiliser response and other inputs may be much greater than assumed; and (iii) though the overall average dose is well below the optimum level, it may conceal a high degree of concentration of fertiliser use on a relatively small proportion of area. This, by no means exhaustive list, is itself somewhat speculative. We do know, however, that the fertiliser-water supply interaction is of special importance in the case of high yielding varieties. Adequate, assured and timely supply of water, which is necessary for securing the best performance from the new wheat varieties, is simply not achieved over much of even the irrigated tracts. In the case of rice, on the other hand, the problem seems to be one of controlling excess water on both unirrigated and irrigated conditions during the principal growing season which, over much of the country, coincides with the monsoons. Whatever the explanation, if the productivity of fertiliser is lower than suggested by the fertiliser trials, not only will the additional output per unit of nutrient be lower than assumed, but it will also reduce the economically optimal dose. The latter implies that the farmers will not push fertiliser application to the levels which experimental or demonstration data suggest to be the optimum. This could be the reason why fertiliser consumption has not grown as much as was anticipated even after the introduction of HYVs; and the sharp reduction in the ratio of food to fertiliser prices which took place in the last 2 years could only further dampen the demand.

2.1 Industry: The non-fulfillment of plan targets and the deceleration of growth in agriculture has significantly affected the performance of manufacturing industries. Being the principal source of raw material for an important segment of industry-food, drink, tobacco and textiles accounted for over half the value added by manufacturing in the early sixties-and given that the foreign exchange shortages limited the possibilities of importing agricultural raw materials, a shortfall in agricultural production meant a shortfall in supply of raw materials to these industries. It is also noteworthy that the deceleration in output growth during the sixties was more marked for such industrial crops than for foodgrains. Slower-than targetted growth of agriculture also meant slower-than targetted growth of demand for manufactures. Apart from the direct effect - afterall agriculture and allied activities account for over 50 per cent of the aggregate income - the rate of increase in agricultural production was a major constraint on the growth of another major source of demand for manufactures, namely, investment.

2.8 The targetted investment growth was predicated on certain expectations of income, domestic savings rate and foreign aid. With actual income growth as well as the marginal rate of saving falling well short of targets, and since foreign aid did not show a compensatory rise, the targets of real investment growth could not be fulfilled. Continuing on the trends of the first two plans, real investment recorded fairly sustained expansion, though well below targets, during the Third Plan. But following the droughts of 1965 and 1966, there was a sharp cut back in the growth of investment: After rising some 50 per cent between 1960-1 and 1966-7, gross carital formation in real terms rose by hardly 10 per cent in the subsequent 6 years. Net capital formation actually declined in absolute terms during 1967-68 and even by 1972-73 had barely reached the 1966-67 level.

2.9 Deceleration of investment meant that the pace of capacity creations also slowed down. While expansion of capacity in metals, fertilisers, chemical and intermediate goods industries continued, even if at a slower rate than planned, the expansion of capital goods industries suffered a severe set back. In many segments of the capital goods industry (e.g. Railway rolling stock, electrical machinery, and heavy engineering industries) capacities had been created in anticipation of rapid expansion of new investments in electricity generation, metals, coal and transportation. The recession in investment and growth during the mid-sixties found such industries with large excess capacities. The extra-ordinarily rapid expansion of manufactured exports, since 1971, while adding significantly to demand for certain types of industries, was still too small to make a difference to the overall growth of industrial output. The general slackening of demand dampened interest in creation of new capacities and hence production. Production from such investments as was being made was, on the other hand, affected by the continuing delays in completing plants and bringing them to full capacity production. The overall picture of industrial expansion during the fifths and sixties can be seen from Table (2.4)

Table 2.4: Net output of the manufacturing Sector, India, 1951 to 1972

(Rs. million at 1960-1

	1951-51 to 1953-54	1960-61 to 1962-63	1970-71 to 1972-3	Col 2 / Col 1 x 100	Col 3 / Col 2 x 100
Registered Sector	6024.5	11832.1	19086.5	196	161
Consumer goods	3706.2	5266.0	6472.8	142	123
Intermediate goods	1552.1	3903.2	7507.1	251	192
Capital goods	600.6	2213.7	4190.7	368	189
Miscellaneous	165.6	449.2	915.8	271	204
Unregistered Sector	5403.5	8370.6	11641.5	155	139
Total Manufacturing	11428.0	20202.7	30728.0	177	152

Source: GOI, CSO, National Accounts Statistics 1960-61 to 1972-73: Disaggregated Tables (March 1975) Table 25.1 and 26.1

Consumption goods include Industry groups 1,2,3,4,5,7 (20)
Intermediate goods " 6,8,9,10,11,12.13.
Capital goods " 14,15,16,17,18,19)

Self Reliance

Self Reliance

2.10 If one were to judge by the trends in the volume of external assistance in relation to the level of imports and of investment, the economy would seem to have made significant progress towards self-reliance especially since the mid-sixties. The current account deficit which was equal to about 37 per cent of total imports in the early sixties, and about to 42 per cent in the mid-sixties were only 21 per cent of the imports in the early seventies. As a proportion of gross capital formation, the current account deficit has fallen from 16.4 per cent in the early sixties to a little over 5 per cent in the early seventies. (Table 2.5). Moreover the actual level of export earnings and imports, at current prices, were roughly equal to the plan projections. This is however a rather illusory gain because the reduced dependence on aid has been achieved at a levels of economic activity much below those projected by the Plans.

Table 2.5 Current account deficits, capital formation and imports India 1960-73

(Rs. billion at current prices)

	1960-61 to 1962-63	1965-66 to 1967-68	1971-72 to 1973-74
1. Gross domestic capital formation	26.3	50.38	86.44
2. Imports of good and services	11.8	19.32	22.89
3. Current account deficit	4.32	8.09	4.73
4. Ratio of (3) to (1)	16.4	16.1	5.5
5. Ratio of (3) to (2)	36.6	41.9	20.7

Computed from GOI, CSO National Account Statistics 1960-61 to 1973-74, Op.cit

2.11 Foreign Trade: The progressive reduction of the current account deficit was the result of a relatively slow increase in imports, especially since the mid-sxities, in the context of a sustained growth of exports. Between 1970 and 1972 aggregate commodity imports, valued at curent prices, averaged at roughly the same level as in 1960-62, and some 15 percent lower than in the mid-sixties (Table 2.6). Consumer good imports more than doubled between 1960-62 and 1965-67 largely because of unprecedentedly high level of food imports necessitated by the droughts of 1965 and 1966. With more normal weather and the revival of domestic agriculture, food imports fell. Total consumer goods imports in 1970-72 averaged only a fourth of the peak level of the mid-sixties. The decline of capital good imports since the mid-sixties is the direct consequence of the stagnation of investments. Since international prices were rising during the period, the decline in volume of capital good imports which incidentally stands in sharp contrast to the trends of the fifties and early sixties was even more pronounced. The imports of intermediate goods, on the other hand, have been steadily rising throughout the period. Though the slowing down of domestic industrial growth did dampen the demand for a variety of imported raw materials, the requirements of imported fuels and fertiliser materials continued to grow. Delays in completing planned capacity, and bringing completed plants to fall capacity production, compounded by labour problems and power shortages adversely affected domestic production of some industries. The shortfall in domestic output of such items as steel and fertilisers was so severe that a substantial increase in imports was needed to meet demand, even though the latter was much less than expected.

Table 2.6 Trends in Imports, India, 1960-1972

($ million)

	1960-2 1/	1965-67 2/	1970-72 2/
Consumer goods	311	745	189
Intermediate goods	937	980	1360
Capital goods	764	848	639
Other	362	214	179
Total	2374	2787	2367

1/ Computed from data in Fourth Five Year Plan (1965-70), p.102. Classification not strictly comparable with subsequent years

2/ Taken from GOI, Economic Survey 1968-69 and Economic Survey 1975-76

2.12 Upto 1967-68, exports were growing that at a much slower rate than imports; consequently, the trade and current accent deficits showed a tendency to widen. Thereafter, a number of factors contributed to accelerating export growth: in part they were the result of deliberate policy of which the devaluation of 1966, subsidies to exporters , and rapid expansion of trade with East European countries under bilateral agreements 1/, were the most important. In part, and this seems to be true of manufactured products (especially engineering goods), the emergence of excess capacity on account of slack domestic demand probably forced producers to seek out export outlets. Thirdly the world-wide inflation of commodity prices has been a significant

1/ The share of exports going to these countries rose from less than 10 per cent in 1961-62 to over 21 percent in 1971-72.

Table 2.7: Growth of Indians Exports, 1960-61 to 1973-74[1/]

	($ million at current prices)		
	1960-61	1965-66	1973-74
Traditional Items			
Jute Manufacturers	284	384	370
Tea	260	241	195
Cotton and cotton manufactures	139	137	303
Vegetable oils and oil cake	57	86	291
Leather and leather products (incl.footwear)	79	91	249
Cashew kernels	40	57	99
Coir manufactures	18	22	20
Other agricultural products and manufactures[2/]	73	117	252
Non-Traditional items			
Fish and Fish products	10	14	119
Mineral Ores	86	135	207
Iron and Steel	12	17	35
Art silk fabrics	7	10	38
Mineral fuels and lubricants	16	20	20
Chemical products	7	19	67
Engineering goods	18	35	269
Total (including others)	1339	1690	3365

1/Computed from data published in Economic Survey 1975-76, using a uniform exchange rate of 1$ = 7.5 Rs Note that the data relate to single years and are not three year averages.

2/includes, tobacco, coffee, pepper and sugar.

factor in the growth of nominal export earnings since the mid sixties.[2/] From the long term view point the trend towards diversification of exports is noteworthy. While a significant proportion of additional earnings has come from traditional agro-based products, several new items have emerged and the latters share in total earnings has increased: Fishery products, iron ore and manufactures (other than agro-based products), which were relatively unimportant in India's export trade in the early sixties, have expanded much faster than traditional items and now account for a sizeable fraction of export earnings (Table 2.7)

2.13 The rate of expansion in new manufactured exports is particularly impressive. The earnings from engineering good, iron and steel, and chemical products has risen from Rs.280 million in 1960-61 to over Rs.4 billion in 1973-74. Though the level of export demand, is still too small to make a significant difference to total manufacturing output[1/], it has become a perceptible influence on certain categories of industries, notably engineering.

2.14 The tendency for narrowing of the current deficit has been intensified in the last 2-3 years: the export growth has been intensified by the burgeoning demand in the middle east, the favourable prices in world market and fortuitious factors like the very high world price of sugar coinciding with a domestic surplus. An additional factor is the surge of remittances which however remains to be fully explained. Since at the same time foreign aid receipts have also been rising, the economy has been accumulating reserves despite

---

2/ The dollar value of export earnings rose some 15 per cent between 1960-2 and 1965-7; the official quantum index of exports shows a rise of about 12 per cent during the same period. The corresponding figures for the period 1965-67 to 1970-72 are 66 per cent and 12 per cent respectively. While the quantum indices are defective and cannot be taken as a good measure of volume changes the relative movements of dollar earnings and quantum indice do indicate that price increases were a more important factor in the late sixties and early seventies.

1/ On a very crude calculation, exports of all manufactured products relative to gross production of this sector was barely probably less than 5 per cent in 1973-74.

the steep rise in oil prices, continuing world inflation, and high food imports. Much of the increase in import is, however, due to price rises and food shortages; the quantum of imports, especially of machinery, continue to stagnate reflecting the stagnation of investment. It would therefore, be premature to say that the balance of payments outlook has been fundamentally transformed.

2.15 Domestic Resource mobilisation As pointed out earlier, real investment has been consistently below plan objectives. The gap has been more pronounced. Since the mid sixties. The annual rate of real net investment which was projected to rise by over 60 per cent during the Fourth Plan (1969-74), in fact stagnated around the 1967-68 level. For this reason, the reduction in the magnitude of external resources either in absolute terms or as a proportion of investment is considerably less significant than might appear at first sight. On the basis of CSO data the marginal rate of savings during the sixties and early seventies taken as a whole, works out to around 21-22 per cent (Table 2.6) which will below the target (28 per cent). Even the estimate of 21-22 per cent is open to some question.[1/]

Table 2.6 Trends in Domestic Savings, India: 1960-1 to 1972-73
(Rs.billion at 1960-61 prices)

	1960-61 to 1962-63		1970-71 to 1972-73
Net domestic product	137.54		193.40
Net domestic capital formation	17.37		27.83
Net capital inflow (at current price)	4.23		2.51
Net domestic savings	13.14		25.32
Increase in NDP		55.86	
Increase in savings		12.18	
Marginal saving rate		21.8%	

Source: CSO. National Income Statistics.....op.cit

1/ The household sectors investment in physical assets shows a near doubling within one year namely between 1965-66 and 1966-67. Whether in fact such a spurt did take place, or whether it is only statistical in nature remains unclear. If the increase is statistical, the marginal saving rate would be considerably smaller than the 21-22 percent mentioned earlier.

Thw failure of the public sector to achieve its savings targets is particularly noteworthy: It will be seen from Table 2.7 below that, at current prices, net public savings have increased considerably less than net private savings. And as a proportion of net domestic product, public savings have in fact declined whereas the plans aimed at a big rise in both the proportion of aggregate savings generated in the public sector and the ratio of public savings to national income.

Table 2.7 Trends in Savings, India 1960 to 1972

(Rs.crores at current prices)

	1960-61 to 1962-63		1970-71 to 1972-73	
NDP at factor cost	14018	100	36939	100
Total domestic savings (net)	1382	9.86	4723	12.79
Households	893	6.37	3694	10.00
Private corporations	129	0.92	213	0.58
Public Sector	360	2.57	817	2.21
Administration	(236)		(529)	
Departmental enterprises	(121)		(192)	
Non-departmental enterprises	(3)		(96)	

Source: GOI National Account Statistics 1960-61 to 1972-73, op.cit

The greater part of the increments to public savings has come through the budget: The decade of the sixties witnessed a rapid rise in the government revenue in absolute terms (from Rs.19.9 billion in 1960-72, to Rs.66 billion in 1970-72) and a significant increase in revenues as a proportion of aggregate net output (from around 14 per cent to 18 per cent). Over 80 per cent of the increase in revenues was on account of taxes, and in particular indirect taxes. The latter as a proportion of NDP rose from 8.6 per cent in 1960-62 to 12.1 per cent in 1970-72 reflecting a widening of the tax coverage, and the growth of production. Direct taxes, on the other hand, barely kept pace with aggregate NDP, and in fact trailed behind non-agricultural incomes.

Expenditure, however, increased faster than revenues partly reflecting the expansion of state activity in the sphere of agricultural services education health and other developmental functions, but more importantly on account of the big rise in defence spending and the effect of inflation on salary levels as well as on the cost of goods and services purchased by Government. The burden of subsidies and transfer (reflecting in part the effort to mitigate the effect of inflation, food shortages and drought on the more vulnerable and for more vocal classes) also rose at a faster rate than average and absorbed nearly a fifth of the additional revenues. The net result was that savings through the budget barely doubled in absolute terms; and as a proportion of total revenue fell from close to 20% in the early sixties to under 11% in the early seventies (Table 2.8)

Table 2.8: Trends in Public revenues & Expenditures*, 1960-1972 (Rs. million)

	1960-61 to 1962-63		1970-71 to 1972-73	
Resources				
Income from property & enterpreneurship	2190		6390	
Direct taxes	4870		12800	
Indirect taxes	12130		45100	
Miscellaneous	720		1930	
Total Receipts = Total expenditure		19900		66210
Outlays				
Compensation to employees	8150		26530	
Net purchase of goods & Series	4360		16650	
Interest on public deliver	790		3020	
Subsidies & transfers	2040		12800	
Savings	3570		7210	

* Includes Administration and Departmental Enterprices.

Source: CSO, National Accounts Statistics.....op.cit

Compared to public savings through the budget, the retained earnings of public sector enterprisesare negligible - they accounted

for less than 1 per cent of the total public savings in the early sixties, and remained insignificant throughout the decade. There has been some improvement since, and for the three years 1970-1 to 1972-73, retained earnings of these enterprises accounted for over 10 per cent of public savings. If we exclude public financial enterprise, the picture is considerably worse. In fact non financial public enterprises, excluding railways, P&T and other departmentally operated activity, have consistently been dis-saving throughout the sixties.[1/] The record of public enterprise has thus belied the expectation that a progressive expansion of public enterprise will make a significant contribution to aggregate savings and give the state direct control over an increasing proportion of the country's saving pool.

The poor record of public enterprises in generating surplus is due to several factors: In part, perhaps a large part, it reflects the inefficiencies in the management of these enterprises. In ordinate delays in completing projects, excessive inventaries and low rates of capacity use, which has come to characterise public enterprise operations, mean relatively high unit costs of production. In several cases, these enterprises are also required to bear costs which are not strictly related to production. This happens for instance, when the costs of subsidised housing and amenities to employees are charged to the enterprises account; or when enterprises are forced to carry workers employed for construction even after the construction is completed and the plant goes into production.

1/ These observations are based on the estimates published in CSO's National Accounts Statistics, 1960-1 to 1972-3, op.cit. The total dissaving of this category of enterprise (see Table 28 on p.55 of the above publication) ranged from Rs.1 crore in 1963-4 to a maximum of Rs.61 crores in 1967-68. There was a marginal positive saving of Rs.4 crores in 1970-71.

It needs to be noted, however, that in terms of total operating surplus (net of depreciation), the performance of non-financial non-departmental enterprises have improved significantly through the sixties: Operating surplus (roughly equal to gross profits) has grown from Rs.6 crores in 1960-61 to Rs.327 crores in 1970-71. This represents a considerable improvement in relation to gross value of production but in the absence of comprehensive data on the cumulative investments, it is difficult to judge whether this also represents an improvement in the rate of return to investments. We do have some evidence (from data of the Bureau of Public Enterprise and the Reserve Bank of India) suggest that the ratio of gross profits to capital employed in public sector enterprises (ranging from 3-4 percent since the mid-sixties) is well below the comparable figure for the private corporate sector (8.5 to 10%)

These circumstances are compounded by policies which make it difficult for enterprises to adjust the prices of their products in line with legitimate and unavoidable cost rices. In yet other cases enterprises are forced to bear losses on a part of their operations (e.g., freight rates on bulk commodities, and electricity rates for rural consumers) without freedom for compensatory price adjustments on other parts of their operations.

Employment

Lack of comparable data, on comprehensive basis, makes it difficult to evalute the trends in the level and pattern of employment, and in the incidence of unemployment and underemployment. We do know, or course, that the overall population growth in the sixties (24.7 per cent) was higher than in the previous decade (21.6 per cent) and that the urban population rose faster than the total. The census data show only marginal rise in the labour force but this is largely due to changes in concepts and definitions.

There has also been some qualitative improvement in the available human resources: The incidence of mass communicable diseases like smallpox and cholera have been greatly reduced. There has been a further expansion of health care facilities by bringing publicly financed health-care facilities within easier reach of the people, and by expanding the supply of qualified personnel. As a result, the overall mertality rate has declined further to around 15 per 1,000 in 1971 compared to 27 in 1950. This is ofcourse only a partial measure of the health status of the population. Hardly anything is known about the incidence of morbidity; while available data on food supplies suggest that there may have been little improvement, possibly a slight decline in the average food intake during the last decade. The proportion of literates in the population has increased to 29.3% by 1971, compared to 24 per cent in 1961. The pace of increase in literary rate during the sixties, however, marks a significant showing down over the pace recorded

during the earlier decade. The number of persons educated upto Matriculation or more rose from a little over 8 million in 1961 (less than 2 percent of the population) to 21 million in 1971 (around 4 per cent of the population).

Only partial and sketchy data are available on the evolution of the pattern of employment. Given the apparent slowing down of the overall rate of growth, along with an acceleration of population increase, in the sixties compared to the previous decade, and given further that the overall rate growth is itself relatively low, one could expect the gap between the growth of employment opportunities and the increase in labour supply to have intensified. But the available data are rather conflicting on this point. For instance the total employment in the organised sector (comprising units employing 25 or more persons) has risen 50 per cent between 1961 and 1974 (from 12.1 million to 18.5 million)[1/]. In the case of registered factors for which comparable data over a longer period are available, employment seems to have increased by roughly the same extent during the fifties and the sixties, even though the rate of growth of output in the latter period was distinctly lower[2/]. But these do not tell us anything about the trends in agriculture and in the unorganised sectors which together account for nearly 90 per cent of the employment. Since real earnings of factory workers, who have among the strongest trade unions, has been stagnant throughout the sixties[3/], it is highly probable that non-unionised.

1/ Source: GOI, Ministry of finance, Economic Survey 1975-76

2/ The average daily employment in factories rose from 2.0 million in 1951 to 3.9 million in 1961, and further to 5.1 million in 1971.

3/ The index of real earnings of factory workers (1961=100) was 95 in 1966 101 in 1970 and 1971, and 103 in 1972. See GOI, labour Bureau, Pocket Book of Labour Statistics 1975, p.26

workers in the unorganised sector have not been able to maintain their real income. One would expect the agricultural labourers, to have fared even worse. Some studies[1] have suggested that the real wage rates cover large parts of the country may have declined during the sixties. But without knowing the intensity of employment it is difficult to say what happened to the total real incomes of the agricultural labourers, As for overtrunemployment the National Sample Survey Data do not show a very perceptible rise in either rural or urban unemployment rates, However, a recent study using NSS data concludes that the degree of unemployment and under employment in rurl India which had fallen perceptibly during the late fifties and early sixties, has again registered a sharp rise.[2] Data from Employment exchanges also show a very rapid rise in number of persons registered (especially in the edufated categories) and a steady drop in the ratio of placements to the number registered[2]/. While these rates of increase in registration are partly due to the extension of the coverage of employment exchanges, they do point to a worsening of the employment situation especially for the educated.

1/ See P.K.Bardhan, The Green Revolution and Agricultural Labourers, EPW

2/ Raj Krishna, Rural Unemployment: A Survey of concepts and Estimates for India, mimeo April 1976

3/ The number of applicants in the live register rose from 1.83 million at the end of 1961 to 2.62 million in 1966 and 8.2 million in 1973. The number of placements in these years were respectively 0.40 million (21.7% of number on live register) 0.51 million (19.5%) and 0.52 million (6.3%).

The no. of persons on live register with educational level of matriculation and above rose from 0.59 million in 1961 to 3.9 million in 1973.

Pocket Book of Labour Statistics. 1975 p.27

Poverty and Inequalities

The combined effect of the slackening of output growth and the quickening of population growth during the sixties and the early seventies has been a marked drop in the rate of increase in per capita real income. The latter, which recorded a 20 per cent rise between 1951-2 and 1961-62, increased by only 12.4 per cent in the subsequent decade.[1] If the CSO estimates of savings are correct, there the slow down in terms of per capita consumption growth is considerably more pronounced. In any event the per capita availability of most essential items of mass consumption (See Table 2.9) has increased much less during the sixties than in the preceding decade. The per capita availability of foodgrains has in fact declined in absolute terms.

Table 2.9 Selected indicators of change in average living standards, India 1951-1972

	Unit per Capita	1950-1 to 1952-3	1960-1 to 1962-3	1970-1 to 1972-73
Foodgrains	gms/day	376	457.8	450.6
Edible oils	kg/year	2.84	3.77	3.9
Sugar	Kg/year	3.0	5.4	6.3
Cotton clothing	meter/year	8.5	14.6	12.5
Man made fabrics	meter/year	n.a	1.2	1.6
Bicycles	No./million	750	3000	3700
Sewing machines	"	145	742	566
Radio receivers licenced	"	1550	4810	17400.
Electricity consumed. (domestic)	" kwh/year	1.6	3.4	7.3

1/ Estimates based on 3 year averages.

The picture regarding the trend in living standards will not be complete without knowing whether and in what manner, the distribution of wealth and incomes has changed. (The evidence on the latter question is often ambiguous, sometimes contradictory, and hence, far from conclusive. And such data as are available have not been analysed systematically to obtain an overall picture of the behaviour inequalities.

In terms the distribution of wealth, the most important change has been progressive increase in the proportion of capital sock owned and operated by the public sector. Though the share of the public sector in new investment since the mid sixties (40 per cent) has been lower than the peak achieved during the third plan (about 50 per cent), its share in total capital stock has steadily increased to around 35 per cent in 1973-74.[1/] If the public sector had managed to earn a rate of return comparable to the private sector, this would have meant a corresponding reduction in the proportion of total property incomes accruing to the public sector. And since it is well known that property incomes are much more unequally distributed that income from work, thisshould have reduced the inequality in the distribution of private incomes. However, in point of fact, the return to public investment has been much below those realised by the private sector. Consequently the increased public ownership is unlikelyto have improved income distribution in the private sector. Indeed if the suspicion that the benefit of the subsidies implicit in the pricing policies of public enterprices accrued primarily to the well to do is correct, the distributive efforts of public ownership may h v.

1/ This is based on the estimated distribution of the stock of reproducible tangible welath between public and private sectors in 1950-51 (See)
and the accumulated total investment by two sectors from 1951-52 through 1973-74 as estimated by CSO.

The There are no comprehensive data on the distribution of private wealth. Surveys for rural areas suggest that the inequality in the distribution of wealth (including land) has worsened.[1] But in so far this reflects the combined effect of a possibly, disparate changes in the price of different assets and of differential rates of accumulation of real assets, it cannot be taken as conclusive evidence of worsening inequalities. On the other hand, there is evidence from the NSS that the distribution of operational holdings 1971-72 was somewhat less unequal than in 1961-2. Even though the proportion not operating any land rose marginally, there was a substantial reduction in the number of holdings and the average the proportion of holdings in the 1-5 acre range rose; and size of holdings above 15 acres; the average size of holdings in all other classes rose, the increase being an inverse function of the size of holding (Table).

The evidence on the distribution of private incomes is patchy and inconclusive. There is a widely held view that whatever may have happened to the distribution of land - and this is at best marginal the incomes of the larger farms have increased considerably faster than that of small farms partly because the farmer have superior access to inputs and credit, both in terms of the quantum and of the terms on which they are obtained. The only empirical evidence on this issue pertains to two districts: Ferozpur in the Punjab and Muzaffarnagar in Up, both in the heartland of the green revolution.[2] At current prices, the Ferozpur data show that the percentage increase in farm business income between the mid-fifties and the mid-sixties is significantly higher than average in the case of bigger farms and lower than average for small farms. But the Mutaffarnagar data do not show such a pronounced difference. Much more careful study of the data involving adjustments for price change and possible distortions due to grouping are needed before firm conclusions can be made. Even then, no generalisation is possible unless similar data are available

---

1/ RP Pathak, KR Ganapathy and YUK Sharma, Shifts in Pattern of Asset Holdings of Rural Households, Economic and Political Weekly March 19, 1977.

2/ GR Saint, "Green Revolution and Distribution of Farmer Incomes", Economic and Political Weekly, March 27, 1976

Table 2.12 Percentage distribution of no of holdings and area operated by size of household operational holdings 1960-61 and 1970-71

Size class	1960-61 Households	1960-61 Area operated	1960-61 Av. Area per hh (acres)	1970-71 Households	1970-71 Area op rated	1970-71 Av. Area per hh (acres)
0	26.86			27.41		
01-.99	15.10	1.30	0.44	14.93	1.69	0.52
1.00-2.49	15.63	5.77	1.89	17.94	7.56	1.93
2.50-4.99	16.17	12.74	4.03	16.44	14.91	4.15
5.00-7.49	9.02	11.99	6.80	8.66	13.31	7.02
7.50-9.99	4.81	9.04	9.61	4.28	9.30	9.94
10.00-14.99	5.42	14.29	13.49	4.72	14.22	13.76
15.00 and above	6.99	44.86	32.49	5.62	39.01	31.70
Total	100.00	100.00	5.11	100.00	100.00	4.57

Source: S.K. Sanyal 's Comment on "Trend in current unemployment in India," E.P.W. Jan 29, 1977.

for other areas.

for other areas. On the other hand, the rise in the share of the households operating no land, the apparent decline in rural real wage rates over large parts of the country, and the fact that the real earnings of important segments of organised urban labour, (like factory workers) has stagnated, would seem to suggest a relative deterioration in the position of the poorer classes. Com

Comparable nation wide data on the distribution of population by level of consumption at different points of time are available from the National Sample Survey. The main limitations with these data are (a) considerable adjustments have to be made for changing price level in order to get at change in real rather than nominal consumption and (b) the data are published separately for rural and and urban areas and very little work has been done to reconstruct the distribution of the total population by level of per capita

real consumption. The latter type of studies are available only for rural areas[1]. They suggest that the degree of inequality in the distribution of population by level of per capita consumption (both in nominal and real terms) has not changed appreciably over the sixties, and may in fact have declined a bit. That the behaviour of the national distribution may conceal considerable inter-regional variations is shown by the study of the Punjab data which, according to one study, point to aggravation of inequalities in real consumption over the sixties.[2]

Impact of Public Sector:

Unequal distribution of private income was supposed to be mitigated by a fiscal policy which would on the one hand tax the rich more heavily than the poor and on the other use the proceeds for activities which will benefit the poor more. The extent of progression in the incidence of taxation relative to incomes is the subject of some debate. Direct taxation on agriculture is negligible in relation to the sector's output and its incidence is domenstrably regressive. The schedule of nominal rates on non-agricultural incomes is indeed progressive, but the degree of effective progression is greatly reduced by the various exemptions and rebates allowed by the law. Since a considerable part of taxable non-agricultural income escapes the tax net altogether, and the incidence of such evasion is perhaps highest in the upper income groups, the progression of the tax collected to actual incomes is apt to be further dampened. In the case of indirect taxes, the incidence is significantly progressive in relation to consumer expenditure, but some doubts have been raised about their progressivity in relation to the incomes especially in the high income brackets. Overall the incidence of taxation would appear to be progressive though to a much less striking degree than usually believed.

---

1. Several of these studies are reported in P.K. Bardhan and T.N. Srinivasan, (ed.) Poverty and Income Distribution....Op.cit)

2. Indira Rajaraman, Poverty, Inequality and Economic Growth, Rural Punjab 1960-1 to 1970-1 (mimeo, 1974)

The impact of expenditures is far less certain: of course, expenditure on public health, school education, small farmers and marginal farmers programmes and similar other activities do benefit the poor relatively more than the rich. However not all such expenditures benefit the poor; and the poor are by no means the exclusive beneficiaries of such expenditures. Also, considerable sums are provided as subsidies (explicit and implicit) though the budget and through the operations of such enterprises as irrigation, electricity and transport. The direct and explicit subsidies through the budget is currently of the order of Rs.6 billion; the extent of subsidies implicit in the pricing of goods and services supplied by public enterprise remains to be quantified and could well be a multiple of the recorded subsidies. If there is no accurate idea of order of subsidies provided by the State and its organs, even less is known about who the beneficiaries are. Many of these subsidies, e.g. for food, higher education, urban hospitals irrigation and electricity probably benefit the better off segments more than the poor.

The record of the Indian economy since the early sixties can thus be summed up as follows: As before, the performance of the economy on terms of growth has fallen considerably short of target; moreover, there are indications that the growth has slowed down during this period. The slow down reflects the combined effect of a deceleration in agricultural production and a near stagnation of real investment (largely attributed to the slack in public investment). These in turn caused strong recession in domestic demand for manufactured products especially capital goods. The slow down in domestic demand helped relatively strong export growth. At the same time the impact of domestic recession on capital goods imports and the decline in food imports from the extraordinary levels of the mid sixties, led to a comparative stagnation of aggregate imports despite rising import prices. This resulted in a progressive reduction in the current account deficit through the early seventies, both in absolute terms and as a proportion of imports. The current account deficit as a proportion of investment also fell. But these indications of increase self-reliance are misleading as they were achieved at much lower levels of overall activity and growth than

-1

planned. Given the overall growth rate it is very unlikely that the additions to the labour force could have been absorbed in productive employment. Unemployment and underemployment have generally risen. There is evidence, though controversial, evidence of a reduction in the real wage rates of agricultural labourers. The increased share of public ownership and the slight reduction of the inequality in the distribution have apparently made no great difference to the distribution of private consumption. And while there are very few comprehensive studies about the distributive effect of public sector operations, it is unlikely that they made a big difference. Overall, the average real consumption of an Indian experienced distinct slowing down over the sixties and early seventies. In fact, the per capita consumption of such items as foodgrains has actually fallen. Even if the degree of inequality has not changed appreciably, the relatively slow growth of per capita real incomes and consumption points to an increase in the absolute number below the poverty line, perhaps even the proportion.

III

Prospects and Problems

31 Since the pace of improvement in living standards, and more especially the living standards of the poor, is evidently unsatisfactory, it is natural to ask whether the basic approach to solving problems of mass poverty and unemployment warrant a reconsideration.

Population Control

To begin with and on this there can be no controversy - sustained effort to bring down the rate of population growth is of paramount importance, no matter how other elements of the development strategy are reshaped. The last decade witnessed a very considerable expansion of the Family Planning Programme both in coverage and intensity. Significant progress has been made in terms of the number of couples in the reproductive age groups who are protected against conception. A further intensification is needed to achieve the rather modest target of bringing down the birth rate to around 30 per thousand by 1983-84. However the manner in which the programme was pushed forward in the last year or two, might well redound against the programmes and there is genuine apprehension about how the programme might be affected as a consequence. While the immediate preoccupation must, of necessity, be to restore the public image of the programme and the people's confidence in it - and this will call for a radical change in the manner of approach to the people - the goals set for reducing the birth rate do not admit of dilution. The penalties for failing to reduce the birth rate, and hence the overall growth of population, would be to make the problem of providing full employment and minimum incomes that much bigger, and more difficult. The penalties may not be so evident in the short run, but viewed in a 20-30 year perspective their dimensions are overwhelming, the more so if, as seems likely, there are severe constraints to accelerating the overall rate of economic growth to levels of significantly higher than recorded so far.

Constraints on growth : Agriculture*

3.2 As pointed out in the previous section, one of the most crucial factors limiting the overall rate of growth in India is the rate of increase in agricultural production. The ramifications of a shortfall in agricultural production targets on the rest of the economy are far reaching: besides its direct impact on the overall growth, it affects the demand for manufactures, it affects the supply of raw materials for important segments of industry; it would mean smaller surpluses for export and larger import requirements; and shortage of agricultural supplies, especially of food, is a major ingredient of inflation with all its attendant distortions. We have seen earlier that the shortfall in agricultural growth during the sixties reflects a slowing down in the gross cropped area, the failure to achieve the targeted levels of input use, especially irrigation and fertiliser use, and a lower-than-expected productivity of input.

3.3 Irrigation: In the future, the reserves of cultivable land being practically exhausted, there is little scope for increasing the cultivated area (i.e., net sown area). The only way effective crop area can be increased is through more intensive cropping of the cultivated land which in turn depends largely on the rate at which irrigation facilities can be expanded and on the quality of these facilities. Available estimates of "ultimate potential", though highly notional, do show that there is much scope for extension of irrigation. The Irrigation commission estimated that ultimately 107 million hectares (gross) could be irrigated; by comparison, the potential created so far (through 1973-74) adds up to around 45 million hectares. The rate of additions to potential has steadily risen from less than 500,000 ha per annum in the fifties to over 1.4 million ha per annum in the Fourth Plan and 2.4 million ha in the current plan. Furtherincrease in the rate of additions may be possible but the are likely to belack of sufficiently detailed knowledge on the location and extent of ground-water supplies, the shortage of properly investigated and engineered major and medium projects, as well as likely imblances between the distribution of unexploited potential and the availability of financial resources across States.

*This section, as well as the earlier discussion of past agricultural growth, draws heavily on the author's on going study of agricultural development.

3.3 More quantitative expansion, however, is not enough to ensure that cropping intensities on irrigated land increase sufficiently maintain the effects of gross cropped area. Irrigated cropping intensity have indeed risen (from 1.09 in 1950-1 to 1.13 in 1960-61 to 1.22 in 1972-73), but this rate has to be stepped up appreciably if the deceleration the gross crop area in the last decade is to be arrested. This calls for qualitative improvement of irrigation, both on new projects and on existing projects, aimed at building efficient distribution systems down to the farm level, cutting down wasteful use of water and controlling cropping patterns. The recognition of qualitative aspects of irrigation planning is reflected in the command area development, Ayacent development and other similar projects. But they deserve much greater emphasis in the future.

3.4 Qualitative improvement involves much more than physical engineering of the system. Where land in the command area of an irrigated projects owned and operated by a large number of farmers each with fragmented holdings - and this as is typically the case in all parts of the country - and individual farmer can, and often does, gain at the expense of others, by violating the socially desirable allocation of water in time and space. One manifestation of this is the tendency for the farms near the head of a canal system to grow crops which are more water intensive than desirable from social viewpoint and leaving the farmers at the tail-end with little or no water. In smaller areas, as for example the area commanded by a distributary, conflicts also arise over who should get, how much water, and in what sequence. The relative power of different claimants is often the decisive factor in settling these conflicts. Not only does this result in an inequitable distribution of the benefits of irrigation between farmers in the command area, but could well lead to a reduction in the additional output per unit of water. Unless farmers cooperate, or can be made to cooperate, in enforcing the crop patterns, as well as timing and quantum of water deliveries to individual plots necessary for achieving maximum production per unit water, it is

difficult to ensure efficient use of irrigation. Clearly the formulation of regulations by theState is not by itself sufficient; Experience has amply shown that no state agency can really police compliance of regulations in this sphere, much less enforce compliance. This can be done only by local institutions governed by the farmers themselves, which, in turn, is predicated on collective acceptance of the socially-desirable regime of water allocation and the willingness to enforce this regime on all members of the community. The lack of such institutions is an extremely severe constraint on the extent to which the efficiency and productivity of India's irrigation systems can be improved.

3.5 Productivity of Fertilisers: Many analysts of agriculture seem to suggest that the inadequate attention to irrigation is the root cause of slow-growth in crop production, and that the bottle-necks to growth will be broken decisively by giving much greater emphasis to irrigation development. This is erroneous. The direct contribution of irrigation is indeed significant. With more abundant and assured water supply, the same crop yields more than under rainfed conditions; more importantly, it makes possible. a shift in the crop-mix from low yielding, low value crops (like millets) to high yield, high value crops (paddy, sugar cane); and also a higher cropping intensity. Far more important however, is the indirect effect of irrigation on production through increasing the capacity of the plant to absorb nutrients as well as the productivity per unit of nutrient. There is a considerable body of data to show that the physical limit to fertiliser use and the associated yields on irrigated lands are much higher than on rainfed areas. And for comparable levels of application, the yield response for unit of nutrient is also higher under irrigated conditions.

3.6 While the extension of irrigation increases the potential for increasing yield through fertilizer use, it does not by itself ensure that the potential is realised. The actual level of fertiliser use is in fact far below the level which technical experts recommend, and, as pointed out in the previous section, there is reason to believe that the productivity of fertilisers is lower than expected.

It is also to be noted that a big part of the increased production potential is on account of increased fertiliser application. (for instance according to our calculations in Table about half the additional foodgrains potential attributable to yield increase in the fifties and nearly two thirds in the sixties, were due to fertilisers). Under the circumstances one ought to be concerned at least as much with identifying and remedying the causes of the gap between the potential and actual levels of fertiliser use, as with accelerating investment in irrigation. We have indicated some of the reasons in Section 2, but they are no more than suggesti A great deal more work is urgently needed in order to get a better grounded understanding of this problem.

Implications of Agricultural Shortfall

3.7 While no definite prediction of the future rate of agricultural growth is possible, it would be useful to examine the implications of the following to realise the crop output targets set, e.g., in the revised version of the Fifth Plan. Suppose that agricultural production increases no faster then 3 per cent a year, a rate which is actually somewhat above average of the last15 years. If nevertheless the overall growth rate targets are to be realised, it would be necessary to achieve a higher rate of expansion in manufacturing industry (around 9 percent a year) than currently visulaised (around 7.5% a year)[1/]. Whether or not this can be done is in part a function of the ability to muster the organisational capacity and personnel on the requisite scale. Considering that even the attainment of the present (revised Fifth Plan) targets for industry, energy and transport are contingent on a substantial improvement in the quality of planning, construction and management of projects (especially in the public sector), any attempt to compensate for slow agricultural growth with faster industrial expansion may well be frustrated by organisational constraints.

1/ On the assumption that (a) the rates of growth of gross output and value added are the same in agriculture and (b) the elasticity of tertiary sector output relative to total remains as projected by the Plan. In point of fact, as the importance of purchased input to output is growing in agriculture, value added in the sector is likely to grow slower than gross output. To this extent the calculation understates the degree of acceleration in industry required to maintain overall growth targets.

3.8 Assume for a moment that the constraints on the supply side can be overcome. In this event, the alteration of relative sectoral growth rates would upset the internal balance of the economy. Specifically, the output of agricultural products will fall substantially short of domestic demand while that of manufactures will exceed internal requirements. On a rough estimate, if the Plan targets of population and real income growth are met, and agricultural production grow by only 3 per cent a year over the next 15 years, the total agricultural production will be adequate to meet only 80 per cent of domestic demand in 1988-89, the absolute value of the deficit being close to $10 billion at 1973-74 prices.[1/]

3.9 In theory, this deficit could be absorbed without inflation and without adversely affecting the consumption of the poor, through a system of public procurement and distribution involving a significant degree of implicit taxation of producers and/or subsidies to consumers. But when one considers the resistance to public procurement, as well as the difficulties and financial burden involved in running an effective public distribution system of a far more modest scope[2/] this seems hardly a credible route to pursue.

1/ This estimate is based on the following data and assumptions:

a) population aggregate real income savings and investment, grow as projected in the revised Fifth Plan through 1988-89;

b) Elasticity of demand for agricultural products in relation to per capita private consumption is 0.8; and

c) Gross value of crop production in 1973-74 was Rs.270 billion (CSO, National Accounts Statistics, 1960-1 to 1973-74, Disaggregated Tables).

2/ According to the Draft version of the Plan, real GDP was to be approximately doubled between 1973-74, and 1985-76. Over the same period, non-food imports were also projected to be doubled. (See, GOI, Planning Commission, Draft Fifth Five Year Plan, 1974-79, Ch.1) Applying to, implicit, unit elasticity of imports relative to GDP to the projected growth in the revised plan, which would double the GDP between 1973-74 and 1988-89; and taking total non-food imports in 1973-74 at Rs.31 billion, total non-food imports in 1988-89, works out to Rs.65 billion.

3.10 The only way in which prices of food and other essential commodities can be kept stable under th se conditions would be through imports. The magnitude of additional imports required can be judged by noting that, while the total non-food import requirements in 1988-89 consistent with revised Fifth Plan would probably be of the order of $6-7 billion, the additional imports to fully bridge the deficit in agricultural supplies alone will be $0.10 billion. The additional import requirements may be even larger if the acceleration of industry is in sectors which uses imported raw materials and equipment.

3.11 In order to meet this without reccurse to foreign aid (which in any case is unlikely to be available on this scale), The rate of export growth will need to be much higher than currently projected (7-8 per cent a year). And given the limited scope for increasing traditional, agro based exports, practically all the increase will have to come from the non-traditional items like fishery products, even handicrafts, and manufactures based on non-agricultural raw materials. These categories need to grow by 12- 13 per cent a year, in order to reach 7-8 per cent average annual increase in aggregate exports visualised in the long-term projections of the Fifth Plan. They will need to grow faster (18 per cent a year) in order to maintain the overall growth of real income and a viable balance of payment, in the face of a shortfall in agricultural growth.[1/]

Sustained annual increase of 15 per cent and more in aggregate export is not unknown among developing countries. Moreover India,

---

1/ According to the Draft Fifth Plan projection, total exports are to rise from an estimated $2.6 billion in 1973-74 to $6.1 million by 1985-86; over the same period, the earnings from non-traditional exports defined as above are projected to rise from $0.8 billion to $3.3 billion. Extrapolated this would bring the level to $4.6 billion by 1988-89 (If the entire deficit of agricultural products ($10 billion) were to be imported, the non-traditional exports would need to be $15 billion. Since there are limits to increasing supplies of fishery products and ores beyond levels already assumed, most if not all, the extra exports will have to be in the form of manufactures.

it is often pointed out, is still one of the minor trading nations of the world accounting for barely half a percent of world exports in 1974. With its large and diversified industrial base and the emergence of large potential markets in the middle east, it would seem that if only India were determined and followed the "right" policies, it can achieve quite high rates of export growth. Such general arguments are however of little use in judging whether and under what conditions acceleration in export growth of the magnitude indicated is feasible or likely.

3.13 Sustained growth of manufactured exports - at these high levels cannot be achieved unless the major potential export industries are clearly identified and adequate resources are committed to expanding the capacity on a scale which fully meets anticipated domestic demand and generates sizeable of exports. Also since the projected growth of manufactured exports is faster than that of domestic manufacturing output, the pattern of export demand will became progressively more important in sharing the pattern of industrial investments and production. But as of now, ideas on what the appropriate pattern of exports should be (taking into account the emerging pattern of world demand, the policies of major importing countries, as well as India's technological and factor endowments), remain quite ill-defined. And there is hardly any conscious planning for expansion of export capacity.

3.14 Detailed long term planning of export capacities may not be feasible because of the many uncertainty about future or because a significant part of potential exports falls within the ambit of the private sector. According to Conventional wisdom, the focus of policy under these conditions, should be on providing adequate incentives (though appropriate exchange rate and subsidy policies), and building the necessary institutional infra-structure to stimulate exports. On closer examination, however, it is apparent that the profitability of exports depends on a great deal more than exchange

rates and subsidies. The rate of productivity increases in export industries, the extent to which these gains are shared with labour and the behaviour of the general price level are all relevent.

3.15 The success of some countries on the export front, in the face of considerable domestic inflation, is not wholly explained by their exchange rate policies alone. Equally important is the ability of their governments, to insulate the export industries from domestic inflationary pressures by passing on the burnt of it to the domestic consumers either thcugh a tax/subsidy mechanism, or though on ability to contain wage increases well below the rate of price inflation and productivity increase. Exactly how this has been accomplished in the countries with a excertional records of export growth remains to written.

3.16 At a more basic level the attainment of very high rates of export expansion in a world of highly competitive and uncertain, markets, implies an aggressive search for new external markets, implies an aggressive search for new external markets and a high degree of resilence on the part of domestic enterprises in adopting their production and marketing strategies to changing conditions. A relative new comer to the world market in manufactures, like India, has the further problem establishing marketing channels: Other countries seem to have done this, at any rate in the intial stages, by producing largely on contract for multi-national corporation and other privat firms from developed countries the latter provided both know-how and ready access to established marketing outlets.

3.17 Altogether, a shift in strategy which seeks to compensate for slow agricultural growth by making the economy consciously more export-oriented, has far reaching implications for the patterns of production, organisation, and economic management within the country and in its external postures as well. Such changes touch issues which cannot, at any rate are not, decided purely on economic calculations. And when the economic calculation itself is not in a position to convincingly demonstrate in advance that the gains will be dramatic and reasonably assured, its ability to persuade major shifts of policy is not likely to be significant.

Resource Mobilisation

3.18 A shortfall in agricultural growth implying as it does that both aggregate output and the supply of consumption goods are smaller than planned, greatly aggrevaates the already difficult problem of resource mobilisation. With aggregate output below targets, the mobilisation of real savings on the scale required to finance the original investment programme without risking inflation calls for even higher marginal savings rates than planned. At the same time, the smaller supply of consumer goods creates an inflationary potential, adds to the cost of government operations, and makes it the more difficult, politically, to raise taxes or adjust prices of public enterprise products. The tendency, under these circumstances, to resort to deficit financing only makes matters worse.

3.19 Financial stringency and inflation do result in a pruning of the real investment programme. But this adjustment is made not on the basis of a coherent revision of the plan as a whole, but in a haphazard and ad hoc fashion depending in part on the random delays in preparing and implementing projects and sometimes by such arbitrary devices as across-the board cuts in allocations. The revision of the overall plan perspective both in terms of overall growth rate and of the composition of output and investment, does indeed take place However, this process has been to be too infrequent, and the gaps between targets and realisation too persistent, to correct distortions in the investment pattern.

Once adopted, the five year investment allocations under the public sector plan serve as the basis for the operating ministries and departments to programme their activities. Many of these activities have to be planned several years ahead and cannot be switched on or off at short notice without heavy cost. And in many cases facilities have to be expanded in relation to certain expected long-term demand growth. If the latter should fail to materialise, imblances between capacity and demand emerge resulting in idle capacity in some segments and shortages in other.

3.21 . Another source of distortion is the tendency to start too many projects and thereby to spread the resources thinly over a wide compass. The inclusion of a project in the original five year plan has tended to be viewed as a commitment from which it is politically difficult to withdraw. There are strong pressures to start as many of the projects included in the five year plan as possible, even when the emerging trends in the economy warrant (for lack of demand or for lack of finance) some of them being postponed or dropped. With the real resources available being by much smaller than originally expected and the costs of projects (quite apart from inflation) under-estimated, this means spreading available resources on far too many projects, thereby delaying the completion of all. While no precise quantification is possible, the swelling ripe-line of unfinished projects may be one factor explaining the sharp rise in the overall capital output ratio observed during the last 2 decades. To the extent a more 'realistic' target reduces the scope for such distortions, it should also improve the realised productivity of investment as measured by the ICOR). The overall ICOR may also be brought down by the change in the composition of investments associated with lower growth rates.[1/]

The Problem of Poverty

3.22 Altogether, the apparently severe constraints on the expansion of agricultural output and on stepping-up the growth of exports beyond levels currently assumed, would seem to argue for a lowering of the overall growth targets in the interests of price stability and of minimising wasteful distortions. Would this not slow down the pace of diversification and the rate of new employment creation, thereby making the prospects of solving problem of object poverty recede further into future? However, this is not a meaningful question: The relevant comparison is not between what can be done for the poor with hypothetically high and low growth rates, but between what is being accomplished now and what can be done with appropriate policies given the fact of a modest overall growth. Viewed from this angle the problem talks on a somewhat different compelsion.

1/ The demand for largely capital intensive goods and serives (like metals, construction materials, energy and transport are to an important degree determined by the rate of growth of investment.

3.23 Recognition of severe constraints on the realisation of even the modest growth targets of the Revised Fifth Plan, implies that if the attainment of minimum income objectives is to be pursued seriously, redistributive measures which enable the incomes of the poor to rise at a higher rate than average must be given greater weight in policy. Programmes to help the poor improve their income and welfare are of several different types. Ceilings on land ownership, protection of tenancy rights and other elements of land reform aim at giving more land to the small cultivator, some land to landless, and a higher share of the produce to the tenants. All measures which lead to the redistribution of land in farms of the marginal farmers and the landless have a strong employment aspect in that it creates opportunity for self employment. Stimulation of small scale enterprise (through a combination of protection and positive measures to increase their competitive capacity vis-a-vis large enterprises) and the attempts to evolve appropriate technology are designed to create larger employment for a given level of output, and also achieve a wider spatial dispersion of benefits. A third category consists of such programmes as "minimum needs", rural public works, drought-prone area programmes, programmes for tribal areas and scheduled castes, all of which are explicitly focussed on improving the welfare skills and productivity of specific, well-identified, segments of the poor.

3.24 Redistribution measures operating through land reform, ceilings on urban incomes and property and similar other measures, however desirable they may be, are unlikely to make much headway under the present conditions. All these reforms have a direct adverse effect on the economic status of the classes which are in control of the instruments of power; and the poor simply are not organised to press their claim in any effective manner. Less direct and drastic measures emphasising redistribution through the fiscal mechanism and through programmes which help increase productivity and employment of the poor are widely believed to be a more promising answer. While this course is also beset with many problems, not the least of which is that it involves acceptance of "sacrifices" on the part of the

well-to-do, it is arguable that the only course open is to push along this road as far as possible. The focus of such programmes has to be primarily if not exclusively increasing the absorption of labour in agriculture and related increase in the scale and improve the effectiveness of the third category of programmes mentioned above.

3.25 **Scale of Anti-Poverty Programmes:** The scale of anti-poverty programmes depends on the scale on which resources, both financial and real, which can be mobilised. And since the whole point of the programme is to redistribute real incomes in favour of the poor, it is imperative that the resources are mobilised mostly from the richer segments of the population. It is possible that a trimming of the overall growth targets more in line with the possibilities of expanding agricultural production and exports, might improve the efficiency of investment and thereby release more resources for anti-poverty programmes even at current levels of resource mobilisation. But it would be prudent not to overestimate the extent of additional resources on this account. Any sizeable increase in the scale of anti-poverty programmes, without risking inflation, will have to beplanned on thebasis of a more intensive effort to raise resources from the well-to-do segments of the population.

3.26 The general nature of the measures needed for this purpose are sufficiently well known. In the first place there is room for improvement in the tax system, and particularly the direct tax system. Effective taxation of agricultural incomes andincreasing the efficiency of income taxation (by eliminating the innumerable and complex exemptions, changing the unit of taxation, adjusting therate structure, and stiffening penalties for evasion) have an especially important role both for raising longer resources and for ensuring greater effective progression in the incidence of the tax burden. Secondly there is need and scope for a thorough review of the quantum of implicit and explicit subsidies given through the budgets and theoperation of public enterprises, as well as the distribution of the benefits from these subsidies as between different classes. If, as widely

3.28 Efectiveness of Anti poverty programmes There is also much room for improvement in the effectiveness of anti-poverty programmes. The variety of programmes currently in operation is justified in so far it reflects an attempt at discriminating between the needs of different classes of the poor. The emphasis is, and rightly, on using these programmes to build productive assets as the basis for a lasting increase in employment opportunities and incomes in rural areas rather than simply as a vehicle for somehow providing jobs to the poor. Judging by the experience of other Asian countries notably China and Japan, there seems to be vast scope for increasing the amount of labour in Indian agriculture[1]. Properly designed programmes, both in terms of type of works and if their geographical distribution could make a significant impact in raising the employment and income levels of the poor regions and the poor classes.

However, in actual fact, these programmes have a large overlap with the normal development activities and, where such overlap exists, the arrangements for coordination are less than adequate. Ideally, such a coordination should be based on an overall programme for agricultural and rural development of the selected areas, prepared after a systematic study of the potentials and constraints specific to each area. Though the need for such area plans has been long recognised and repeatedly emphasised, little in fact has been achieved. Further the choice of areas for anti-poverty programmes are not always derived from an objective determination of the intensity of poverty, unemployment and future production potentials. And, in an effort to placate as many constituents as possible, the anti-poverty programmes tend to be spread widely among regions and projects thereby diluting their effectiveness.

3.29. As a first step towards rationalisation of the anti-poverty programmes, it would be desirable to group the numerous schemes which qualify for inclusion into the following three broad countries according to the type of activities and the group of people which form their focus. (1) The "minimum needs" programme, which as conceived by the Fifth Plan, seeks to ensure that all parts of the country and all sectors of society will have, within a specified period, a certain minimum standard of education and health facilities, drinking water supply, access to roads, and

suspected, a disproportionate share of these subsidies benefit the relatively well-to-do, a reconsideration of the principles and policies governing them will be very much in order. The objective should be to ensure that the extent of benefits to the bettter-oof segments is reduced as much as possible or, at a minimum, that the extent of such subsidies and their beneficiaries are explicitly identified. The third area of action, and one which to some extent follows from the second, relates to the pricing of public enterprise products. The object is of course to ensure that public sector investments generate a reasonable rate of return. Improvements in operational efficiency - by reducing construction lags, achieving and maintaining a high level of capacity use, and minimising feather-bedding etc - are clearly essential. As the same time it is also important to rationalise the pricing policies of these enterprises and provide sufficient flexibility to permit them to be adapted in the light of changing cost and market conditions. This has far reaching implications for themanner in which public sector units are organised and managed. As mentioned earlier, the implementation of these reforms will adversely affect the interests of the well-to-do, and it would call for a great deal of collective foresight to forge necessary political will to overcome the resistance.

3.27 Any significant redistribution of incomes in the above fashion will result in shifts in the pattern of consumer demand. A shift towards a more equalitarian income distribution, will mean an increase in the requirements of relatively essential commodities (like foodgrains) at the expense of the less essential items (like animal products, fruit, and clothing and of course durables). But so long as fiscal policy is effective in restraining the overall consumption increase within the limit set by the available supplies of agricultural commodities, the problem is simply one of changing the product mix within a given total; and this change can be accomplished, in principle, by appropriate adjustments in relative prices. But since markets are not perfect, adjustments in relative price changes may not be adequate and the State may have to intervene with a public distribution system to make the necessary supplies available at reasonable prices.

such other amenities. The activities will improve the general welfare of the population, and strengthen the social infrastructure, but their effects on production are neither immediate nor direct. (2) Programmes of the area development type focussing primarily on districts or taluks with a high incidence of poverty whether due to a very low level of average per capita real incomes or due to their maldistribution. The focus of effort in these area, which should be possible to identify on a fairly objective basis, ought to be on preparing and implementing projects for increasing the production potential, preferably on the basis of an integrated long-term development. Once this is done, all projects in the area could be brought under a single region. (3) Programmes aimed at improving productivity and income of particular groups of poor like, e.g., small farmers, marginal farmers and rural artisans. Since these categories are spread all over, including the relatively better-off areas, they will necessarily have a much more diffused geographical focus.

3.30 A second step would be set apart a certain portion of the public sector plan funds explicitly for these three categories of anti-poverty programmes, perhaps giving a much greater priority for categories (1) and (2). (Such an idea was in fact advocated in the early stages of the discussion of the Fifth Plan in respect of the minimum needs programme but did not make much headway). Whether and in what manner funding of such programmes can be done within the context of the federal structure and the existing convention governing Centre-State financial relations, are questions which need further consideration. Quite clearly, since most of the programmes fall within the sphere of the State Government, the latter will have to be persuaded to the idea of a separate minimum needs and backward areas programme, funding them separately, and of deciding the selection of the areas and projects on an objective basis.

3.31 The acceptance of anti-poverty programmes as a separate and high priority activity, should introduce greater purposiveness and objectivity in the use of public resources towards this goal. Its success, however, requires a high degree of decentralisation of actual planning and implementation so that the selection of projects as well as the design of organisations for planning and

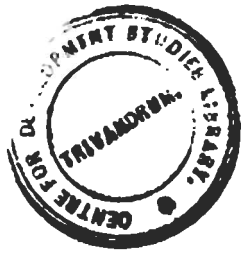
implementation one adapted to local conditions. Effective decentralisation is thus the third important requirement. This does not mean only autonomy in spending, or even of strengthening the administration underpinning for the programme; it is just as important to have effective representative local institutions which can participate and manage this activity with a sense of stake and involvement, rather than serve (as they have tended to so far) as mere lobbies for larger assistance from higher levels of government or as agents for disbursing such assistance as is received. The acid test of this would be in the willingness and ability of the local institutions to raise at least a part of the cost of the development projects from within its community.

3.32 The ability to build effective local institutions is of central importance for the success of not only anti-poverty programmes but of rural development generally. In part, this is a matter of getting people to accept the twin principles that the beneficiaries of development work share at least a part of the costs of such works and that the better-off beneficiaries should pay more. But the role of institutions goes far beyond this. As pointed out in the discussion of agriculture, the effective exploitation of the potentials for increasing yield may require planning of land use pattern and layout of irrigation systems and cropping pattern by village and groups of villages. And once developed there is also the problem of ensuring that some inputs like water are so allocated and used as to maximise overall output This is an extremely difficult and complex problem, but one which demands imaginative, and yet viable solutions if agricultural development generally and anti-poverty programmes, in particular, are to achive desired results.

To sum up, it is the contention of this paper that (a) The possibilities of accelerating overall growth, even to the degree visualised in the long term projections given in the revised Fifth Plan, are doubtful essentially because of the severe constraint on the possibility of stepping up the growth of agriculrure and export ; (b) These constraints on agriculture are in part technological and in large part institutional; while in the case of exports the ramification of a significantly more out-ward oriented growth may involve changes in many fundamental tenets, including political, of current development policy. (c) To continue committing investment programmes (both the level and the composition) without regard to the above constraints; expose the economy to risks of inflation and wasteful use of limited investible resources, (d) With a modest growth, it is inevitable that redistributive measures should play a much bigger role in efforts to improve the conditions of the poor, the so because with slow growth the probability of the poor getting jobs and maintaining the real wage level is greatly reduced. (e) A larger anti-poverty programme, consisting essentially of employment generating growth, infrastructural and productive agricltural projects concentrated in the poor areas, is possible provided that the fiscal system is and effectively to contain the consumption of the rich. There is also much scope for increasing the impact of such programmes by greater care in selecting areas and in planning and implementation of the projects. (f) Both with anti-poverty and agricultural programmes, the development of viable and responsible local institutions is critical to success.

This is by no means an exhaustive treatment of the various facets of India's development problem. It is easy to list many other aspects which are important but which have not been touched upon : e.g., organisation of the public sector, urban problem, the apparatus for regulating the private sector; the chaotic state of the pricing and distribution system, regional balance etc. etc. However the intention was not to be exhaustive but to focus on what seemed to be fundamental constraints on the speed with which ther problem of object mass poverty can be tackled. There could be different opinions on whether what havebeen identified as fundamental constraints are in fact so. The judgements regarding the factors underlying the constraints, and the mean by which and the speed with which, they can be overcome can also be subject of debate. After all the purpose of this paper was to start a debate.

April 1977


CENTRE FOR
TRIVANDRUM