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India
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THE GOVERNMENT IN ECONOMIC DEVELOPMENT IN INDIA

The attached tables present relationships and data which are important to a discussion of this problem. By relating the public and private plans to the economic development goals of the Government, they may provide a better background for the type of work on government-private sector problems already initiated under this general heading of the India Project. In particular, the data point up the importance of investment in what might be called the non-organized private sector of the economy. Performance in this area (indeed, explicit recognition of its existence) seems to be essentially neglected-- in the Plan (both public and private parts), in official statements on progress and prospects, and indeed any of the writing and research with which I am familiar.

Table 1 attempts to quantify the growth model which apparently underlies the Planning Commission's work. Its immediate relevance is to relate the total new investment which is "essential" (if stated overall objectives are to be obtained) to anything the Government is doing, both in the public and private domains. Through the first two years (and to some extent for the current 1953/54 period) investment financed from abroad, public and private, are actuals; sterling "earmarked" for financing the import surpluses needed for development has been available. This puts the focus upon indigenous savings. For what were they used? Why did Government have such difficulty in tapping even a small part of them? In this latter regard, it seems reasonable to conclude that Government has actually fallen below its expected rate of performance on its part of the Plan. (Evidence here is inferential, since the Five-Year program was never phased explicitly. On the other hand, any different interpretation implies a tremendous rate of build-up of activity in the Government sector. Moreover, I do recollect many contrary early statements to the effect that calendar 1953 would be the peak year for the public sector.) Conceivably of course, the internal savings figure may just be wrong. Direct evidence against this possibility, at least in Pre-Plan years, may exist in the "data" of Tables 3a and 3b.

Table 2 is a Planning Commission product presented essentially in this form in the official Plan document. It was constructed largely on the basis of Plan targets in the field of agricultural output, transport and organised industry. It therefore simply avoids the problems suggested by the considerations above. On the other hand, underlying models notwithstanding, five-year output prospects on the basis of experience by the end of 1952 might well have justified such an extrapolation. Industrial production was up some 25 per cent above the pre-plan year. The 1952/53 agricultural output looked promising indeed (as compared with the very poor two years immediately preceding--and also 1948/49, the national income year). However, the important thing here is not the investment output sequence. There were special factors (like the monsoon) in the agricultural area. More interesting is the fact that the industrial sector was operating at higher levels of existing capacity.

THE FIVE YEAR PLAN DEVELOPMENT MODEL*

(Rs. crs., 1950/51 prices)

	Natl. Inc.	Cons'tion**	Investment				
			Real Savings	Int'gov'tal Loans and grants	Private For. Inv.	"Deficit Financing"	Total Inv.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
50/51	9000	8550	450				
51/52	9150	8670	480	62	--	--	542
52/53	9330	8814	516	45	12	--	573
53/54	9520	8966	554	60	15	75	704
54/55	9755	9154	601	76	30	85	792
55/56	10020	9366	654	76	45	100	875
	5 Yr. Plan Period		2805	319	102	260	3486

* This "period analysis" is based almost entirely upon GOI plans and statements, although the total picture has never been presented, at least to my knowledge. There is, on the other hand, good corroboration for the 1955/56 national income estimate, of the domestic savings over the 5-year period, and somewhat generally of the further investment that could be made through deficit financing and foreign assistance.

** In this model, per capita consumption will increase by 3% over the plan period, from 234 rs. to 241. This assumes a population of 365 million in 1950/51, and an annual growth of 1 1/4 per cent to 388.5 million for 1955/56.

(1) 1950/51, an official approximation. Subsequent totals are derived through a capital income ratio of 3.0.

(2) Col (1) minus col (3).

(3) 1950/51, average propensity to consume of .95. For the remaining years the marginal propensity is taken at .80.

(4) The 1951/52 and 1952/53 figures are the actual use of foreign assistance as given by the Reserve Bank. The subsequent figures have been allocated on the basis of the foreign total assistance.

189 crores	already provided (51-53 by the IBRD, U.S. and Colombo Plan countries).
50	from U.S. for FY '54
20	from other Colombo Plan countries, FY '54
20	IBRD (new steel mill)
40	other Colombo Plan countries '54-56
319	Total

(5) Only 52/53 figure is reasonably accurate (largely oil refineries). Subsequent years are estimated, but coincide with the Planning Commission's total foreign private investment for the 5-year period.

(6) Estimated on the assumption that the GOI will draw down sterling balances as they have indicated for the 5-yr. period taken together. There has been essentially no drawing down to date.

The statistical capital income ratio for industry was undoubtedly low--certainly by comparison with the level it has in the overall ratio of 3:1 used in the model. (I must admit that it is this point which accounts for the inclusion of Table 2. Perhaps--to take a long jump--the only model for Indian development which meets the objectives, especially in the short-run, of the Government is one which exploits to the maximum such favorable output responses.)

To return, however, it does seem true that net capital formation in 1950/51 was of the order of 5 per cent of national income. (Table 3a) On the savings side (3b) the picture is undoubtedly stretched, since the money flows for which there is direct evidence seems to cover only the organised investment (Government and most of industry--perhaps some 250 crores out of the total). On this showing alone, there might be real doubts about the "accepted" savings ratio. On the other hand, Mukherjee and Ghosh did construct, largely on the basis of product flows, an estimate of about 400 crores of real investment (net) in 1950/51. Basic elements in their computation were imported commodities of a capital good nature, domestic output of similar products, construction--based on steel and concrete statistics, village survey material on irrigation, bunds, and of course, government records. Of interest too is the fact that their method suggested the need to expand their estimate of monetized investment by an additional amount for "rural construction" whose gross value they impute at 165 crores, 90 net. This capital formation reflects use of underemployed resources; it is not of course encompassed in national product accounts. The 90 crores adds about 50 per cent to their estimate of (monetized) investment in the private sector. And of course, it adds about 80 per cent to the private investment of a non-organized nature. (This again suggests areas where capital income ratios are low.)

Since 1950/51 was not obviously atypical ~~year~~ with respect to investment, it can be presumed that it continues at some rate through the Plan years. Such unorganised investment must fill most of the gap between the Plans (public and private) and savings in India. The bulk of it apparently goes into housing construction. I don't know whether this deserves the priority claim it seems to exercise upon non-consumption resources in India. I would think this should be a private investment problem of major concern to the Governments. Efforts are needed to channel more of these savings through organized investment outlets--perhaps by expanding the Plans or at least by fulfilling the stated goals. Supplementary (or alternative) efforts are needed toward influencing investment patterns in areas where money savings cannot be tapped and where non-monetary investment could be of a significant magnitude.

Both subjects require investigation. Tables 5 and 6 are starting points for discussing the problem of increasing the flow of India's investible resources through Government (or organized business). More data will be forthcoming. As they take form, I suspect that they will point up the stickiness of the non-monetized (largely the small enterprise) sector of the Indian economy. The discussion will ~~thus~~ naturally merge into the second subject, a pattern of development in India which, at least for a short period, focusses more directly upon the vast underdeveloped parts of the country.

NET NATIONAL OUTPUT
(48/49 prices, Rs. 100 crs.)

	1948/49 (NIC)	(% of 19)	1950/51*	1955/56 (P.C.)	(% of 19)
A. Primarily Household					
1. agric. (excl. plantations)	40.			47.	
2. fishery	0.2			0.3	
3. small enterprises	9.4			10.6	
4. professions, arts	3.2			3.4	
5. domestic service	1.5			1.5	
6. sub-total	54.3	(62.2)		62.8	(62.5)
B. Larger Enterprises					
7. agric. (plantations)	0.7			0.9	
8. forestry	0.6			0.6	
9. mining	0.6			0.8	
10. factory establishment	5.0			6.8	
11. railways	1.8			2.3	
12. communication	0.3			0.4	
13. organised banking, ins.	0.5			0.6	
14. sub-total	9.5	(10.9)		12.4	(12.3)
C. Others					
15. other commerce and transport	14.4			15.4	
16. gov't services (admin.)	4.6			5.1	
17. house property	4.5			4.8	
18. sub-total	23.5	(26.9)		25.3	(25.1)
19. Net Dom. Product	87.3	(100.0)	90.0*	100.5	(100.0)
20. Net foreign incomes	(-0.2)			(-0.4)	
21. Net National Output	87.1			100.0	

* On the assumption that per capita product was unchanged from 1948/49. Perhaps all sub-categories of (19) can also be treated in this way. Such use has been made by Planning Commission and by statisticians of the National Income Unit.

CAPITAL FORMATION*
(1950/51 prices, Rs. 100 crs.)

	net	depreciation	gross
A. Government			
1. irrigation, river valleys, etc.	47		
2. agriculture	7	23	100
3. electricity	23		
4. industries	12	1	13
5. railways and communications, roads	42	30	72
6. buildings	38	10	48
7. others	16	1	17
sub-total	185	65	250
B. Private			
1. agriculture and rural industries	20	100	120
2. industry (mining, etc)	80	110	215
3. private transport	25		
4. construction (buildings, offices)	100	70	170
sub-total	225	280	505
Total - Domestic	410	345	755
- Foreign	60		60
Total Investment	470		815

* Estimates based partly on Planning Commission (Five Year Plan, Vol. I, Appendix, Part I, pp. 10-15; and partly on Mukherjee and Ghosh.

DOMESTIC SAVINGS
(Rs. crs. 1950/51 prices)

	1950/51 (largely P.C. data)	Plan period 1951-56 (estimates)*
Public Savings		
Surplus, current revenues	75[1]	168[3]
Surplus, operations (railways)	23	170
	98	338
Private Savings		
Insurance companies	40	240
Small savings	30	260
Provident funds	15	
Share capital of cooperatives	25	(150)
Deposits in scheduled banks	60	(350)
Direct investment - agric, construction, small scale industry, transport	150	
Direct investment - corporate savings	40	(1467)
Balance item	12	
	372[2]	2467[4]
Total	470	2805

* Public savings are derived from the Plan. Total private savings are a residual, with unbracketed figures those for which some direct evidence is suggestive.

1. Actually recorded as 122 crores. However, the recorded surplus on current account conceals a collection of items aggregating 47 crores. These represent expenditures of a recurrent nature and hence cannot be matched against the net capital formation estimates.

2. From this total the Government borrowed some 77 crores in 1950/51. While there was a decrease of 3 crores in the funded debt, the Government obtained some 42 crores from the small savings scheme and from the state provident funds. It obtained 38 more crores from deposits.

3. This surplus is actually estimated at 568 crores for 5-year plan purposes. However, expenditures of a non-capital formation nature which are included in the Plan aggregate about 400 crores over the 5-year period.

4. According to the Plan, the Government anticipates borrowing about 520 crores from this total. (115 crores through increase in the funded debt, 270 crores from various types of small savings and 135 crores from various deposits.) In the first two years, only small savings have more or less corresponded with this estimate. There was actually a net decrease in other forms of government indebtedness. Total borrowings for the two years thus netted only 27 crores.

SUMMARY, BUDGETARY POSITION, CENTRE AND STATES
(rs. crs.)

Table 5

	1950/51 (actual)	1951/52 (actual)	1952/53 (revised budget)	1953/54 (budget)
I. Total Revenue				
Centre	410.66	515.36	418.64	437.76
A States	294.37	315.60	336.96	350.51
B States	93.38	106.70	110.91	115.29
Total	798.41	937.66	866.51	903.56
Tax Revenue				
Centre	357.00	459.99	372.29	370.44
A States	211.51	218.21	234.22	244.37
B States	58.09	61.69	67.54	68.43
Total	626.60 (80%)	739.89 (79%)	674.05 (78%)	683.24 (76%)
II. Expenditure				
Centre	351.44	387.27	422.43	438.81
A States	293.08	309.11	340.06	362.93
B States	91.93	100.53	111.18	118.62
Total	736.45	796.91	873.67	920.36
Surplus (+) or Deficit (-)				
Centre	59.22	128.09	- 3.79	- 1.05
A States	1.29	6.49	- 3.10	-12.42
B States	1.45	6.17	- .27	- 3.33
Total	61.96	140.75	- 7.16	-16.80

Source: Reserve Bank of India

TABLE 6

India: Percentage Distribution of the Major Heads of Tax Receipts in Consolidated Accounts of the Central Government and the Governments of Class A States*

Heads of Revenue	1928/29	1933/34	1938/39	1941/42	1946/47	1948/49	1949/50	1950/51	RE 1951/52	DE 1952/53
Customs duties	32	34	33	23	20	24	23	26	34	28
Income and Corporation tax	11	12	12	25	35	37	31	30	26	26
Excise and sales tax	20	18	23	22	23	23	25	25	24	26
Stamp and registration duties	9	9	7	6	4	3	4	4	3	4
Others	6	5	6	8	11	8	12	9	8	9
Total tax revenue excluding land tax	78	78	81	84	93	95	95	94	95	93
Land Revenue	22	22	19	16	7	5	5	6	5	7
Total consolidated tax revenue	100	100	100	100	100	100	100	100	100	100

* Figures up to 1946/47 (inclusive) are those of former provinces of undivided India: from 1948-49 they are of Class A States of India, namely, Assam, Bihar, Bombay, East Punjab, Madhya Pradesh, Madras, Orissa, Uttar Pradesh, and West Bengal.

Source: Absolute data compiled from India's Statistical Abstract, Budget Documents, and Reserve Bank of India's Report on Currency and Finance. Taken from: "The Operation of the Land Tax in India and Pakistan," Fiscal Division, United Nations (New York, May: 1953)