

THE FOURTH FIVE YEAR PLAN (1970—75)



PLANNING COMMISSION
GOVERNMENT OF PAKISTAN
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P R E F A C E

The Fourth Five-Year Plan has been formulated at very critical juncture in the nation's history. Many of the basic premises on which the country's political, economic and administrative arrangements were based over the past two decades have been in the process of continuous re-examination and modification. The future pattern and direction of political system in Pakistan is in the process of evolution and there is a strong possibility that entirely new dimensions will be added to economic planning in the country. While this transitional phase requires flexibility in planning it also poses a great challenge to the planning institutions of the country and reinforces the need for continuity in economic development. If Pakistan can demonstrate that its development and planning institutions have reached a stage of maturity where the development process can continue while a political change is imminent, then the country would have met and survived one of its most critical tests.

The Fourth Plan has been prepared in response to the present changing conditions. The Plan provides for an adequate measure of flexibility in respect of unresolved issues and at the same time constitutes a definitive and positive departure in areas where there are no doubts about the future trends and compulsions. The Fourth Plan will constitute a major test of the nation's will to continue with the task of economic development under difficult circumstances and to combine it with the ends of social justice. The Plan suggests concrete proposals through which income inequalities can be reduced and equal opportunities assured for all our people. It will also serve as a vital instrument of accelerated development of less developed areas. It will attempt to introduce the concept of social responsibilities in the private sector and public accountability in the Government sector.

In the final analysis, economic planning is an integral part of the political and social system and must draw its inspiration and its objectives from it. With the revival of political life, it is imperative that the development strategy of the Fourth Plan is implemented within the new political and social framework that will emerge after the elected representatives of the people assume administrative responsibilities.

The Planning Commission have prepared the Plan under the guidance of the President and the National Economic Council with the specific objective of seeking to move rapidly towards the solution of some of the basic issues facing the nation. It has been a very difficult exercise and a concerted effort has been made to seek national consensus on basic issues. For this purpose consultations were carried out in many forums. The Planning Commission set up Advisory Panels, discussed problems with friends and critics alike, and tried to obtain the best possible advice both within the Government and outside. It was gratifying for the Planning Commission that the recommendations finally made by it found unanimous approval of the National Economic Council. It is our earnest hope that the Fourth National Plan will find enthusiastic support both within the country and abroad.

I have no doubt that the Fourth Plan is going to be very crucial in our national life. Its basic aim is to ensure social justice to every citizen of Pakistan and to remove the sense of deprivation and hardship from all parts of the country. I think this objective is worthy of any sacrifice which we, the people of Pakistan, may have to make and any discipline that we may have to accept.

M. M. AHMAD,
Deputy Chairman,
Planning Commission.

17 July 20 1970



PART I

ECONOMIC FRAMEWORK



CHAPTER I

TWO DECADES OF DEVELOPMENT (1950—70)

The country has gone through two decades of development. In the process its economy has altered significantly. The size of the national product has grown substantially, its structure has become more diversified and developed, and the practices and techniques of production have been modernized. For an economy deficient in crucial natural resources, the transformation has come a long way. It has meant sacrifices for large sections of the people. Although the inflow of foreign assistance helped finance mounting development outlays, the burden was also borne by a sizable domestic savings effort, especially in relation to the low level of *per capita* income.

2. This phase of development has also had its limitations. The rate of population growth stepped far above historical rates and much of the gain in output did not lead to improvement in the standard of living. Concentration of wealth increased. The large expansion in the provision of social services proved insufficient to satisfy the needs or aspirations of the people. There was a growing disenchantment with the inequitable nature of the growth pattern, an acute impression that the development process had discriminated against poorer regions and income groups. A careful analysis of the achievements and failures of these two decades is an important step in the preparation of the Fourth Plan.

GNP and Per Capita Income

3. The country's GNP increased by 122 per cent, in real terms, over the twenty year period that is, at an annual rate of 4.1 per cent. The increase was less marked in the first decade over which a 28 per cent increase was recorded than in the second decade which witnessed a 73 per cent expansion. The differential in the growth rate of the two decades was highly significant for the growth of *per capita* output. The increase in the growth rate of GNP from 2.5 per cent in the first decade to 5.6 per cent in the next (see Table 1) represented the difference between stagnating *per capita* income and significant increases in it, *i.e.*, between a nominal increase in *per capita* income of Rs. 7 over the first decade and an increase of Rs. 91 over the second decade. Influenced by sluggish growth in the first ten years and rapid population growth, rate of growth of *per capita* income over the two decades was restricted to 1.4 per cent per annum. Furthermore, successive Plan attempts to the contrary, imbalance in regional income distribution accentuated as East Pakistan's *per capita* income increased at an annual rate of only 0.7 per cent while in West Pakistan the rate was over 2 per cent. Desperate performance in the agricultural sector, discussed in detail later, and concentration of private enterprise in the manufacturing sector in West Pakistan were the main factors responsible for the unbalanced growth.

TABLE I
GNP and per capita Income

Period	GNP		Population	GNP	GNP
	(1959-60 factor cost)	(Rs. million)		Per Capita (1959-60 prices)	Per Capita (Current prices)
1949-50	24,466	79
1959-60	31,439	99
1969-70	54,280	132
				410	567
				<i>Compound Growth Rates</i>	
1949-50 to 1959-60	2.5	2.3
1959-60 to 1969-70	5.6	3.0
1949-50 to 1969-70	4.1	2.6
				1.4	4.1

4. The structure of production has changed considerably since 1950. In relation to the 4.1 per cent growth rate in GNP, value added in agriculture grew at 2.6 per cent, in manufacturing at 7.9 per cent, in construction at 13.0 per cent and in the other sectors at 4.7 per cent. Concentration of production on agriculture was reduced as the economy industrialized and urbanized. Agriculture continues to be the dominant sector but its share has declined from 60 to 45 per cent of GNP. The share of manufacturing has doubled from 6 to 12 per cent. The increase in the share of large-scale manufacturing, from 1.4 to 8.8 per cent, is even more impressive. The sharpest acceleration took place in construction activity reflecting the development efforts and the urbanization trend. Value added in construction accounts for over 5 per cent of GNP now compared with less than 1 per cent in 1949-50. The share of transport, trade and public administration also showed an increase.

TABLE 2
Structural Change in GNP

Sector	Value added as a percentage of GNP in		Growth rate in value added
	1949-50	1969-70	
Agriculture	60	45	2.6
Manufacturing	6	12	7.9
Construction	1	5	13.0
Others	33	38	4.7
Total	100	100	4.1

Agriculture

5. - The sharpest contrast in the performance of the two decades was visible in the agricultural sector. Whereas in the first decade, the increase in agricultural output was considerably lower than the increase in population, the yields either fell or increased modestly and the *per capita* availability of foodgrains declined in spite of large imports; the increase in output in the second decade was well ahead of the population growth, there was a noticeable increase in yields and the *per capita* availability of foodgrains in the end years increased despite a reduction in imports.

6. Value added in agriculture increased at a rate of 3.9 per cent in the second decade compared to 1.4 per cent in the first decade or at an annual rate of 2.6 per cent over the entire twenty year period, more or less at the rate of population growth. Value added in major crops increased at 3.0 per cent per annum and in view of the heavier use of inputs in relation to output of major crops, the production of major crops actually increased at a faster rate. The relatively better performance of major crops reflects a shift in consumption patterns associated with increases in income as well as the concentrated effort in the Third Plan to achieve self-sufficiency in foodgrains.

TABLE 3

Growth of Value added in Agriculture.
(Compound growth rates)

Sub-sector	First decade (1950-60)	Second decade (1960-70)	Overall (1950-70)
Major Crops	1.5	4.4	3.0
Minor Crops	-1.2	4.9	1.8
Other Agriculture	2.4	2.3	2.4
Total Agriculture	1.4	3.9	2.6

7. The production of principal crops, presented in Table 4 below, highlights once again the improved performance during the second decade. Apart from tea, the increase in output is far more pronounced in the sixties, especially in respect of the two principal foodgrains, rice and wheat. The figures also indicate that the expansion in the output of rice and wheat since 1949-50 even though impressive has been only slightly larger than the 65 per cent increase in population. The production of jute, which has not really shown a noticeable increasing trend since 1950 and in which Pakistan has traditionally held a comparative advantage, is quite distressing. Pakistan's share in world exports has fallen considerably only partly due to a shift towards manufacturing and export of jute products. Similarly, the increase in the output of tea has been over-compensated by an increase in domestic demand, with the result that one of the country's principal exports has virtually disappeared. On the positive side, there has been a big expansion in the output of sugarcane (three-fold) and cotton (230 per cent).

TABLE 4

Output of Principal Crops

Period	Rice	Wheat	Sugarcane	Tea	Jute	Cotton
	—(Million tons)—			(Million lbs.)	(Million bales)	
1949-50	8.2	3.9	10.0	38.9	6.0*	1.3
1959-60	9.5	3.9	15.0	57.0	5.6	1.7
1969-70	13.8	7.1	29.9	70.0	7.0	3.0
1949-50 to 1959-60 (Indices)	116	100	150	147	93	130
1959-60 to 1969-70 (Indices)	145	182	199	123	125	176
1949-50 to 1969-70 (Indices)	168	182	299	180	117	231

*This was the output in 1950-51 which is more representative of normal output during 1947-50.

8. With the exception of jute, there has been a fairly significant increase in the yields of principal crops. For rice, wheat, sugarcane and cotton, the performance during the sixties is a great improvement over the previous decade. This is clearly indicated by Table 5 :—

TABLE 5
Yield of Principal Crops

Crops	(Maunds per acre)		
	1949-50	1959-60	1968-69
1. Rice	10.2	10.7	12.8
(a) East Pakistan	(10.3)	(10.9)	(12.6)
(b) West Pakistan	9.4	(9.0)	(14.2)
2. Wheat	10.2	8.7	11.6
3. Sugarcane	381.3	304.5	453.2
4. Tea	6.3	8.9	7.4
5. Jute	17.1*	19.6	12.9
6. Cotton	2.1	2.3	3.3

*1950-51.

In the first decade, the yields of sugarcane and of rice and wheat in West Pakistan had fallen markedly; in the next nine years the yields of these crops increased from over 33 per cent for wheat to almost 60 per cent for rice in West Pakistan. The yields of rice in East and cotton in West Pakistan also displayed an appreciable improvement over the gains in the fifties. Conversely, the yields of tea and jute, which had risen in the first decade, declined sharply in the next.

9. The tables on production and yields of principal crops also explain at least partly, the imbalance in regional growth in agricultural output. The improvements in the sixties in both production and yields are marked in wheat, cotton, sugarcane, and rice grown in West Pakistan. By contrast, the yields of jute and tea fell during this period and the yields of rice grown in East Pakistan showed a comparatively moderate improvement. This has largely been the result of less favourable conditions for modernization in East Pakistan. Smaller farm holdings and low income levels created severe problems of financing and of institutional organization of heavy investment; floods were destructive as well as deterrent; and, unlike West Pakistan, irrigation was virtually unknown. Finally, high yielding varieties of wheat and even rice gave better results in West Pakistan.

10. The increase in production and yields has come partly from larger area and partly from modernization in farm practices. In West Pakistan, cultivated area expanded by around 30 per cent. Agricultural output on the other hand has nearly doubled. The consumption of chemical fertilizers has shot up from 17,600 to 300,000 nutrient tons between 1954-55 in 1969-70. Despite this increase, the use of fertilizers, still much below average use in more developed

countries, is on a sharply increasing trend. An upsurge in the installation and use of tubewells, which commenced in the late fifties, has not only added to the scarce water availability but assured its timing. The growth in private tubewells, so far confined to West Pakistan, continues to take place at the rate of over 8,000 tubewells installed each year. More recently, within the last few years, high yielding varieties of seeds have been a prominent source of growth. These three highly complementary factors have had a strong impact in West Pakistan where prospects of a prospering agriculture are now emerging. The extension and pesticide services provided by the government also played an important role. The cultivated area in East Pakistan is roughly the same now as it was in 1950. There has been some increase in the area sown to winter rice crop but its impact on total production is still not substantial. A combination of government irrigation and extension programmes, of generous credits and of cooperatives is necessary to achieve a break-through.

11. Notwithstanding the handsome expansion in agricultural output, the *per capita* availability of foodgrains has not increased materially due to a rapid increase in population. This can be seen in Table 6 below :—

TABLE 6
Per capita Availability of Foodgrains

	1949-50	1959-60	1969-70
1. Domestic production (Million tons)	13.3	14.5	22.5
2. Deductions for seed, feed and wastage (10%) (Million tons)	1.3	1.4	2.3
3. Net imports (Million tons)	—	1.2	0.9
4. Total availability (Million tons)	12.0	14.3	21.1
5. Population (Million)	78.8	98.9	132.3
6. <i>Per capita</i> net domestic production (oz. per day) ..	14.9	13.0	15.0
7. Total <i>per capita</i> availability	14.9	14.2	15.7

In 1949-50, the country was self-sufficient in foodgrains and had a *per capita* consumption of 14.9 ounces per day. By 1959-60, the country was importing 1.2 million tons of foodgrains, approaching 10 per cent of domestic availability; at the same time *per capita* availability fell to 14.2 ounces per day. By 1969-70, imports have declined to less than 5 per cent of domestic availability and *per capita* availability has risen to 15.7 ounces per day. Nevertheless, *per capita* availability has risen by less than 6 per cent in the last twenty years. Besides, most of the increase has occurred in one region in the last couple of years and a substantial portion of it has been consumed at the farm. The urban consumer, especially in East Pakistan, has not felt the benefits of the increase in output.

Manufacturing

12. Twenty years ago Pakistan possessed very few manufacturing establishments. The value added in large-scale manufacturing accounted for a mere 1.4 per cent of GNP. In 1968-69 this ratio had risen to 8.8 per cent. The average growth rate of 14 per cent achieved in large-scale manufacturing over the two decades is one of the highest in the developing world. This reflects only partially the low base from which Pakistan started. Even in the sixties the growth rate, over a substantially enlarged base, was 12 per cent per annum.

TABLE 7
Large-scale Manufacturing

Period							Value added 1959-60 factor cost	Share of GNP	Index of production
							(Rs. million)	(%)	
1949-50	..	..	..	..	..	..	346	1.4	23
1959-60	..	..	..	..	..	..	1,565	5.0	100
1969-70	..	..	..	..	..	..	4,760	8.8	304

13. The stages of industrialization have passed from the initial concentration on cotton and jute textile, to sugar, vegetable ghee and cement and later on to more sophisticated chemical and engineering industries. By now Pakistan has substantial capacity in textiles, vegetable ghee, sugar, cement, paper, fertilizers and other chemicals and some progress has been made in engineering industries. The country's dependence on imports of basic consumer goods has diminished markedly and manufactures have contributed substantially to the growth in exports. The output of these industries is presented in the following Table :—

TABLE 8
Selected Industrial Production

Product				Unit	1949-50	1959-60	1969-70†
<i>Cotton Textiles :</i>							
(a) Yarn	..	..	..	Million lbs.	43*	403	720
(b) Cloth	..	..	..	Million yds.	99	606	810
Jute Textiles	..	..	..	'000' tons	—	256	600
Paper	..	..	..	'000' tons	—	39	80
Cigarettes	..	..	..	Thousand Million	0.3	9	40
Vegetable ghee	..	..	..	'000' tons	3	30	105
Sugar	..	..	..	'000' tons	36	144	460‡
Tea	..	..	..	Million lbs.	50	51	65
Fertilizers**	..	..	..	'000' tons	—	51	370
Soda ash	..	..	..	'000' tons	—	27	45
Caustic soda	..	..	..	'000' tons	—	6	30
Cement	..	..	..	'000' tons	417	1,027	2,680

*1950.

**Excludes ammonium nitrate.

† Extrapolation of 9 months output.

‡ 1968-69.

14. The sizeable build-up in industrial capacity has occurred largely because of the strong incentives provided to the private sector with a wide range of promotional activities by the government: Fiscal concessions were strengthened by a sizeable allocation of foreign exchange resources at subsidized prices to the industrial sector which also gained through beneficial terms of trade *vis-a-vis* the agriculture sector and a gradual decline in real wage. The results achieved are impressive but excessive protection and extra liberal concessions have also led to the establishment of many inefficient industries and neglect of productivity in general. Cost consciousness has not developed. Labour productivity has risen only marginally over the years and is amongst the lowest in the world. While import substitution has occurred in consumer goods, there has been little headway in the production of capital goods; growth in output of capital goods was further inhibited during the Third Plan period by the shortage of raw materials and spare parts resulting in substantial underutilized capacity. The country has yet to develop managerial and technical personnel necessary to conduct industrial operations in a modern scientific manner. While a great deal has been accomplished in building up an industrial sector from scratch, the more complex and challenging tasks of creating a balanced, efficient and modern industrial sector have not been tackled satisfactorily.

Foreign Trade and Aid

15. In the first few years after Independence, Pakistan's exports relied very heavily on raw jute and raw cotton with inevitable and sharp fluctuations in earnings. Exports surged for the duration of the Korean boom in the early fifties and collapsed when it was over. In 1954-55 the country's exports reached their lowest level. At this point the currency was devalued and a minor recovery ensued. Nevertheless, at the turn of the decade there was gloom regarding export prospects and the Second Plan suggested a mere 2.9 per cent rate of growth in exports. Export earnings however, experienced a growth rate of about 7 per cent during the period (1960-65). The innovation of the export bonus scheme was largely responsible for the change. Combined with the rapid growth of the industrial sector, manufactured exports have been increasing at an average rate of 20 per cent per annum in the sixties. As a result, total exports over the second decade have increased by a healthy rate of 7 per cent per annum. Manufactured exports now account for over 60 per cent of merchandize exports.

TABLE 9

Merchandize Imports and Exports

	1954-55	1959-60	1964-65	1969-70
<i>Value in current prices : (Rs. Million)</i>				
Exports	1,223	1,843	2,408	3,250
Imports	1,103	2,461	5,374	5,310
<i>Quantum index :</i>				
Exports	100	143	189	243*
Imports	100	153	427	247*

Source : C.S.O. except 1969-70 which is Planning Commission estimate.

*Relates to 1968-69, the last year for which the index is available.

16. The turning points in imports occurred in the sixties. Owing to a sharp increase in aid flows, the level of imports doubled over the Second Five-Year Plan. The Second Plan period also witnessed a major change in import policies. Two big measures were taken towards decontrolling imports. The export bonus scheme placed many imports on bonus which were free from licensing. Secondly, with the increasing availability of commodity aid, rigidities of licensing system were relaxed from raw materials and several essential capital goods. The government continued with this policy during the Third Plan even though the level of aid had fallen since 1965-66. The effective price of imports was raised gradually. This more or less balanced the potential demand for these goods with the reduced availability of resources but the actual flow of intermediate goods and spare parts has been considerably lower than the needs of industries for optimum production. This has thwarted the planned growth rates in industrial output.

17. Though on the eve of the Second Plan period external assistance had increased from about 1 per cent of GNP in 1954-55 to 3 per cent in 1959-60, by 1964-65, the level had increased to over 6 per cent of GNP. Excluding PL-480 and Indus Basin, aid commitment increased from Rs. 4,800 million to Rs. 9,500 million from the First to the Second Plan. During the Third Plan a further Rs. 11,350 million was committed. There was a continuous shift in the pattern of aid throughout the last fifteen years, away from grants and towards loans. Excluding PL-480 and Indus Basin, loans as a percentage of commitments increased from 37 in the First, to 85 in the Second and over 96 in the Third Plan. Consequently, the debt servicing liability increased sharply during the Third Plan. Contractual payments on this account have grown at a rate of about 14 per cent per annum during the sixties. The ratio of debt service to exchange earnings moved up from 4 per cent in 1960-61 to 11 per cent in 1964-65 and to 19 per cent in 1969-70.

Investment and Savings

18. The investment and savings effort over the last twenty years has been fairly impressive. Each of the three plans sought to more than double development expenditures over the preceding Plan. Thus, the proposed expenditure of the Third Plan was five times the size of the First Plan (1955-60) and twenty times that of the more limited six year Colombo Development Programme (1950-56). Even after allowing for the shortfall in the Third Plan, the investment and savings performance has been quite encouraging.

19. It will be seen from Table 10 that investment as a proportion of GNP rose from less than 4 per cent in 1949-50 to 8.9 per cent in 1959-60 and 18.3 per cent in 1964-65. To a considerable extent the large aid inflows, especially during the Second Plan, facilitated this remarkable escalation of investment ratios. With lower aid levels during the Third Plan, the investment ratio fell sharply.

TABLE 10

Investment and Savings

	1949-50	1959-60	1964-65	1969-70
Current prices (Rs. Million) :				
Gross Investment	705	2,900	8,890	10,600
Gross Savings	440	2,000	5,700	7,610
Per Cent of GNP :				
Gross Investment	3.5	8.9	18.3	13.5
Gross Savings	2.2	6.1	11.7	9.7

20. The movement of savings paralleled that of investment. The average rate of savings rose from 2.2 per cent in 1949-50 to 6.1 per cent in 1959-60 and to 11.7 per cent in 1964-65. During this fifteen year period there was evidence of a strong complementarity between savings and external resources inflow. This was a natural reflection of the import intensity of investment. Decline in the flow of aid after 1964-65 had an adverse effect on savings and investment. The impact was, compounded by the unavoidable increase in defence expenditures. The average rate of saving fell below 10 per cent in 1969-70 and the marginal rate of saving was halved from about 15 per cent in the first fifteen years to 7.5 per cent in the next five years, but this deterioration was accompanied by increasing self-reliance. Domestic savings financed 72 per cent of investment in 1969-70 against 69 per cent in 1959-60 and 64 per cent in 1964-65. Moreover, the mobilization of resources by the Government was heartening. Taxes as a proportion of GNP rose from 6.1 per cent in 1959-60 to 8.2 per cent in 1964-65 and to 9.4 per cent in 1969-70.

Social Sectors

21. One of the main inadequacies of our development process is the neglect of social sectors. It is true that the provision of social services have not fulfilled the needs or aspirations of the people; and the shortfall in resources during the Third Plan was accompanied by severe cuts in social sector programmes. It will, however, be clear from the table below that substantial progress has been made in this sphere as well. Since the coverage of social services at Independence was minimal and since the population has expanded rapidly afterwards, the expansion in social services has been insufficient and sizeable portion of the population is bereft of those necessities. Steps have already been taken to attach higher priority to the social sectors. But with our resources, deficiencies are likely to remain for some time and a satisfactory, comprehensive solution can only be achieved in the long run.

TABLE 11

Education and Health

(Thousands)

Item	1949-50	1959-60	1969-70
Educational Enrolment			
Primary Schools	3,400	5,200	10,500
Secondary Schools	700	980	2,710
Colleges and Universities	40	210	490
Health Facilities			
Doctors	3	12	21
Nurses	1	3	5
Hospital Beds	17	27	39

Other indicators.

22. There are many other indicators of progress. Bicycles, transistor radios, watches, cars, telephones and other consumer durables which figure prominently in the standard of living, once scarce are now visibly numerous. Supply of hygienic drinking water has considerably replaced the all purposes wells or ponds. Telephone connections have multiplied. Modern diesel locomotives have replaced the slow steam engine and the first attempt at electrification of railways is nearing completion. Road transport has flourished in West Pakistan and an inter-city road network has been initiated in East Pakistan. An

efficient, modern national airline has been successfully developed and it continues to widen its network and increase the frequency of its operations each year. These are some of the typical elements in a nation's progress and in the improvement in the living conditions of its people.

Development during Third Five-Year Plan

23. Various developments have taken place during the Third Plan period which have implications for the strategy of the Fourth Plan. During the Third Plan the economy had to operate within a tremendous squeeze on resources. The combined impact of reduced aid flows and increased defence expenditures introduced a scarcity of development funds notwithstanding a doubling of the proposed Plan target of additional taxation. Investment and savings rate declined significantly and intermediate industrial imports were cut sharply. The revised strategy of concentration on agriculture did recompense somewhat for the fall in industrial growth rate but here too recurrent floods in East Pakistan and droughts for two successive years in West Pakistan led to foodgrain shortages in some years. The scarcity of development funds hurt social sector programmes most. These sectors bore the brunt of the squeeze since attempts to safeguard growth impulses were given first priority. The disparity in *per capita* income of East and West Pakistan also increased during the period because the agricultural break-through was limited to West Pakistan. The growing imbalances in personal and regional incomes, the cut in social sector programmes and the rising cost of living underlined the need for greater attention to social objectives. These compulsions can no longer be ignored in the Fourth Plan.

Conclusion

24. The economy has gone through various phases of development. The second decade saw the beginnings of a deep commitment to planning for development; the end of stagnation in agricultural output and in exports; the upsurge in foreign aid and investment expenditures; the diversification of the economy in industrial output and exports. It also saw the emergence of acute problems especially during the Third Plan period when aid inflows were frozen at the 1964-65 level, the debt servicing burden mounted, defence expenditures doubled, investment and saving rates declined, droughts and floods in 1966 and 1967 created new problems, prices shot up, real wages fell and imbalances in regional and personal income widened. The justification of an inequitable, aid-absorbing process of development was questioned. At the end of the period a decision to reset priorities was taken and measures adopted to reflect these priorities. Minimum wages, substantially above prevailing wage rates, were laid down for the organized private sector. Monopoly and cartel laws were framed. The expenditure on social sectors was raised sharply. It was, however, becoming obvious that a completely new look was necessary on the qualitative aspects of development. This has inevitably led to the evolution of a new development strategy. The Fourth Plan must seek to integrate social change with economic progress.

CHAPTER 2

TOWARDS A NEW DEVELOPMENT STRATEGY

In the last two decades, the basic objective of national economic policy was to seek maximum possible economic growth through encouragement of private enterprise backed by provision of social, physical and institutional infrastructure by government. This, no doubt, led to a relentless pursuit of economic growth but was necessitated by the low level of development in the country and its thin margin of resources. The desired goal of equitable distribution of incomes had to wait till the level of production had risen sufficiently to make such distribution possible.

2. During the 1950s, the economy was virtually stagnant. Increase in production barely kept pace with the increase in population and there was some decline in *per capita* incomes. The major challenge for the 1960s, therefore, was to break this stagnation and demonstrate that economic growth was possible, given the national will to mobilise the country's human and material resources and channel them into productive effort.

3. It was for the first time during the Second Plan period (1960—65) that the growth rate in production significantly exceeded that in population and the *per capita* income increased at the rate of nearly 3 per cent per annum. But even after this improvement, the average annual *per capita* income increased from Rs. 318 in 1960 to a little over Rs. 400 by 1965 or about Rs. 135 per month for an average family. This underlines the level of poverty from which the country had started and the difficulties inherent in the development process in the context of the meagre natural resources at that the nation possessed. These difficulties were compounded by the fact that savings were required for future growth and these had to come out of the nation's current income. The entire increase in the GNP, therefore, could not be consumed; a substantial part of it had to be saved and reinvested if the prospects of future growth had to be kept alive.

4. Throughout the last two decades, the economy has been operating on a precarious margin of resources. Even though gross domestic savings increased from a mere 2 per cent in 1950 to a level of around 10 per cent in the early 1960s, more than half of it was required just to replace capital stock which was getting depreciated. Thus, despite the progress made in the Second Plan period, the country required foreign assistance to supplement its own efforts. The level of foreign assistance kept accelerating till 1965. In particular, the availability of foodgrains under PL-480 assistance permitted some increase in the level of domestic consumption which would have otherwise been under pressure because of the increasing effort to mobilise resources for development.

5. Unfortunately, the climate for foreign assistance deteriorated suddenly after 1965 at a time when our requirements for development outlays had increased and when larger defence spending was also claiming a part of the resources previously available for development. The constraint of resources during the latter half of the 1960s, became so serious that it could have strangulated our development effort but for the adjustments which were made in development priorities, concentrating on more immediately productive sectors and projects. The nation, however, had to pay a heavy price for this. The genuine requirements of the social sectors, like education, health and housing, were badly neglected. The squeeze on the urban areas was particularly severe because of the burden of additional taxation which had to be imposed to rescue economic development and

because of the sad state of urban community facilities. The conflict between economic growth and social justice became fairly sharp during this period.

6. At the same time, the dimensions of development changed as did the climate of expectations. The masses started demanding a share in the economic progress achieved during the 1960s. The workers resented the decline in real wages at a time when industrial expansion was proceeding at a rapid rate. The small farmers felt that the initial gains of higher agricultural productivity were confined mostly to the large, commercial farmers. The less developed areas protested that economic growth was concentrated in a few urban centres and in a few growing areas while their genuine requirements for development were ignored. The stage was set, therefore, for the social and economic confrontations which took place in early 1969. This happened against the backdrop of a major political upheaval in the country but it should be recognised in any frank analysis of the past development strategy that they also represented a forceful articulation of the deeply felt aspirations of the masses.

7. The development strategy for the 1970s, has to change fundamentally. While essentially protecting the growth rate already achieved, a greater regional and social balance is being attempted in its composition. With the margin of growth in income over and above the increase in population, a more aggressive social policy can be followed. There is a wide area over which the objectives of economic growth and social justice are not in conflict and dictate some common policies. For instance, anti-monopoly legislation would, in addition to creating a better social balance, enlist the support of a large class of potential entrepreneurs for the process of development. Similarly progressive withdrawals of incentives—which were regarded essential in the early stage of development—would now apply the needed pressures for greater efficiency. Taxation of large incomes would cut luxury consumption, releasing resources both for development and provision of social amenities for the poor.

8. The choices open before the nation do not always dictate a sacrifice of growth objectives in seeking greater social justice. The challenge for economic management during the Fourth Plan would be to identify and move along the path where these objectives coincide. However, when there is a conflict, much greater emphasis has to be placed on considerations of social justice. Economic growth is a means and not an end in itself. It should help and not hinder the evolution of a just society. People would rather have a slower a growth rate than tolerate a further growth in inequalities in income distribution.

9. Economic development in the final analysis means the transformation of the entire society and evolution of a new set of relationships among its various components. No plan can seek to define the shape of the society which is to be evolved as a result of the development effort. A national consensus must emerge on this basic issue through the political process. It is, therefore, too early to firm up a number of elements in the new strategy, in view of the impending political change. In the meantime, however, action has become imperative on a number of issues where a consensus is apparent and the need urgent. Socio-Economic Objectives of the Fourth Five Year Plan presented to the country in November 1968 identified the imbalances and distortions that had emerged over the past twenty years and some of the choices and options open to the nation in formulating a new development strategy for the 1970s. During the final fifteen months of the Third Plan, a number of policy changes and legislative measures were adopted by the Government in quick succession to give a new direction to the economy. The Fourth Five Year Plan seeks to consolidate this process and carry it further with a view to meeting urgent social needs and improving the qualitative content of growth. This is intended to continue the reform without foreclosing the options before the nation.

Income and Price Policy

10. Reliable indices about the distribution of income in the country are not available at present. The scattered information that can be put together reveals that income distribution has become fairly skewed in the process of economic development. Real wages declined by about one-third during the 1960s. The fixed income groups were hurt by an overall increase in prices of about 40 per cent over this decade. The landless labour increased and there was little gain in the real farm income per head for the small farmer. The inequalities between various income groups not only increased but also became more vivid by the growing awareness of the masses as a result of rapid urbanisation and the development of mass media of communication. The symbols of luxury consumption highlighted the gulf between the object poverty of the 'have-nots' and the ostentatious living of the 'haves'.

11. The fixation of minimum wages for unskilled workers during the final year of the Third Plan improved the situation to a certain extent. However, in order to contain inequalities in future within socially acceptable limits, it is imperative that a comprehensive income and price policy be formulated within the Fourth Plan period. The following elements would be relevant in devising such a policy :

- (i) The collective bargaining process should be allowed to improve the wages of workers not covered by minimum wage legislation. Alternatively, it may be necessary to extend the minimum wage to other sections of the society. For the Government employees, a Pay Commission has already been set up.
- (ii) The present enormous differentials in minimum and maximum incomes should be reduced by appropriate policy measures. It would be necessary to review all subsidies which are conferring windfall profits or unearned increments on various sectors of the society or various income groups. In particular the hidden subsidies in existing licensing system and the tax concessions and allowances would have to be critically examined with a view to their elimination.
- (iii) Greater equality of opportunity should be provided by the rapid spread of educational facilities and through competitive entry to jobs.
- (iv) Fiscal policy would have to be used to tax the rich and provide relief to the poor. This means that greater reliance will have to be placed in future on direct taxation. A Taxation Commission with comprehensive terms of reference is being set up to examine these issues and recommend concrete policy changes.
- (v) A Consumption Plan has been prepared which projects the annual requirements of essential commodities and gears the programmes of production and import to meeting these requirements. This must be combined with a definite price policy to protect the consumer from the rising cost of living and to establish a ceiling beyond which annual increases in prices should not be permitted.

Social Services

12. A comprehensive income and price policy will be an ambitious goal which has not been attempted elsewhere in the developing economies. In formulating such a programme, we must be realistic and take into account the present conditions in the country. It will not be wise to chase unattainable targets. It will be far better to draw up a realistic long-term programme, even