V. Adjustments in the Plan

45. The strain on resources, both internal and external, that became evident soon after the Second Five Year Plan commenced has raised the question as to the adjustments necessary and feasible in the Plan. The cost estimates for some of the projects in the Plan have gone up; in a few cases, the initial financial provisions in the Plan were, admittedly, on the low side. The experience of the last two years has shown that the impact of the Plan on the balance of payments was under-assessed when the Plan was formulated. The emergence of inflationary pressures at a time when plan outlay for the year was still about one-sixth of the five-year target (and even less in terms of the revised cost figures) has highlighted the relative shortage of internal resources as well. The annual plans worked out by the Planning Commission in consultation with the Central Ministries and the States involve some adjustments in regard to the selection of projects to be commenced immediately as well as the scale of expenditure to be incurred on them. Some adjustments have also had to be made in the light of the foreign exchange situation.

46. It is necessary now to take stock of the progress of the Plan so far, to note the difficulties that have been encountered and to take a view of what is likely to be achieved and what can be achieved in the different sectors and in terms of the overall increases in output, employment and the like. A memorandum on the subject is being prepared in the Planning Commission and will be released shortly. Only a brief review of the progress of plan expenditure, the resources position and the adjustments being made in the Plan is therefore attempted here.

47. Two major decisions regarding adjustments in the Plan have been taken. Firstly, it has been decided that the ceiling for financial outlays by the Central and State Governments will remain unchanged at Rs. 4,800 crores. As there have been increases in the cost estimates of some of the projects in the Plan, there would be need for consequential adjustments in expenditure ceilings for some of the development programmes. Secondly, in view of the foreign exchange difficulties, it has been decided that fresh foreign exchange commitments are to be made only for the 'core' projects and for projects which are already in an advanced stage of execution—with some flexibility in respect of other important projects for which foreign assistance on favourable terms becomes available. Since even for the 'core' projects, substantial external assistance is required, the

other projects may get delayed. Steel and coal mining programmes in the private sector are being treated as in the 'core'. For the rest, the course of private investment hereafter will depend mainly upon the availability of foreign investment or satisfactory deferred payment terms. There are thus uncertainties in the situation, and it will be necessary, to an extent, to proceed pragmatically in the matter of adjustments in the Plan.

48. As against the ceiling outlay of Rs. 4,800 crores over the five-year period, outlay for the first two years is estimated at about Rs. 1515 crores: Rs. 670 crores in 1956-57 and Rs. 845 crores in 1957-58. Financing of this outlay is estimated to have involved deficit financing by the Centre and the States aggregating to about Rs. 600 crores. The deficits in the balance of payments are related, of course, to the investment and consumption trends relatively to production in the economy as a whole rather than to the public sector plan as such. It is clear, however, that the progress on mobilising domestic resources for the plan has been inadequate.

49. The large tax effort that has been made at the Centre, coupled with a satisfactory level of contributions by the railways, has assisted the financing of the plan substantially. But, the yield of public loans amounting to Rs. 213 crores in the first two years is below the plan expectation of Rs. 140 crores a year. Small savings which were estimated to yield Rs. 100 crores a year on an average will barely reach a total of Rs. 120 crores in the first two years. The tax effort in the States has so far been below the estimates worked out for the plan. While the initial plan estimates of committed expenditures are being substantially exceeded, some of the States have not succeeded in raising resources sufficient for financing their annual plans in spite of the sizeable transfer of resources to them from the Centre under the Finance Commission's award.

50. The relative inelasticity of food production over the last two or three years is also responsible for some of the difficulties that have arisen in the course of the implementation of the plan. Food prices hold a key position in the Indian price structure. To the extent that food prices are higher, the saving capacity of the urban middle-class diminishes. Even a small rise in food prices is apt further to induce withholding of supplies. The task of limiting well in time and to the requisite degree the claims of consumption in a

low-income economy presents difficulties. It is particularly important, therefore, that in the adjustments being made in the Plan, there should be greater stress on increased food production.

51. For 1958-59, the Centre and the States are to allocate about Rs. 1,000 crores by way of plan expenditure. This means a step-up of about Rs. 155 crores as compared to the estimated outlay in 1957-58. The bulk of this step-up is in the Centre's plan expenditure, mainly for the railways and the industrial projects. The provisions in the State plans for agricultural programmes have been strengthened with a view to increasing agricultural production. The allocations for other programmes are in many cases not significantly above those of last year's.

52. The outlook on foreign exchange resources for the plan is now a little better than it appeared to be about a year ago, and it is hoped that it will be possible to complete the 'core' projects more or less according to schedule. Investment on industries in the public sector will be larger than was initially estimated, and although private industrial investment may recede somewhat from present levels because of the shortage of foreign exchange and the strain on the capital market, total investment in industry will probably be fairly close to the original estimates. Altogether, the adjustments being made in the Plan will, on present indications, safeguard the growth potential of the economy. There will, however, be a shortage of power in certain areas, and some of the larger irrigation projects which have not yet started may have to be delayed. There will probably be some reallocation of resources within the group "Agriculture and Community Development"; and expenditure on some items in the field of social services is likely to fall below the plan targets.