OBJECTIVES, THRUSTS AND MACRO-DIMENSIONS OF THE EIGHTH PLAN—1992–97

(DIRECTIONAL PAPER)

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PLANNING COMMISSION
NEW DELHI
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I

OBJECTIVES, THRUSTS AND MACRO DIMENSIONS OF THE EIGHTH PLAN

The Eighth Five Year Plan is being launched against the backdrop of momentous changes taking place in the world. The end of the cold war, the transformations in Eastern Europe and the Soviet Union and the imminent emergence of a common market in Western Europe are events of truly historic significance. These changes will have a profound impact on both the structure of international relations and the world economy. Simultaneously, most developing countries have embarked on bold measures of reform in restructuring their economies and opening up to forces of competition, both domestic and foreign. The wave of economic reforms that is sweeping the developing world and the hitherto centrally planned economies has important implications for India in the 90's.

2. India's development efforts in the past have given us the strength to deal with the challenges that lie ahead of us. Our agricultural economy is robust and resilient. We have a large pool of skilled manpower and ample entrepreneurial resources. We have built a diversified industrial structure that will hold us in good stead. Now almost for a whole decade the economy has grown at the rate of about 5.5 per cent per annum which should be considered a reasonably good step-up over the performance of the previous three decades when the growth averaged 3.5 per cent per annum. This performance was accompanied with a perceptible rise in the growth in the agricultural incomes, a significant increase in the rate of growth of per capita consumption and a decline in capital output ratio resulting from better utilisation of capacities and improvement in operational efficiencies and a very significant reduction of the percentage of people below poverty line. The Sixth and the Seventh Plans also paid particular attention to the strengthening and modernisation of infrastructure and provided more incentives to private sector investments by making provision for selective delicencing, broadbanding and more liberal imports of capital goods. Export performance in the latter four years of the Seventh Plan was good.

3. The Eighth Plan will, at the same time, have to contend with certain serious economic concerns which have surfaced in recent years. These concerns mainly emanate from fiscal imbalances. The growth was financed in a manner which was neither envisaged nor healthy for the economy. In spite of the advantage of a decline in the capital-output ratio requiring somewhat a lower level of investment than was projected in the plans, financing of the plan became very difficult. Even this lower level of capital formation was financed by a much lower than the envisaged level of domestic savings and a much higher than the envisaged level of foreign savings, which is reflected in the gap in the current account of balance of payments. This gap in the current account added to external debt and debt servicing at a higher pace raised the share of short term loans resulting in a funding problem and caused a severe depletion of foreign exchange reserves leading to a crisis which has not yet been overcome. Internally also financing of the public sector plan depended increasingly more on high cost borrowing and deficit finance. Part of the borrowings have gone to meet the current expenditure of the Government. There has been a mounting burden of subsidies and interest payments on the non-plan side of the Government budget. Pressure on prices could be avoided in the initial years of the Seventh Plan simply because of liberal imports and by somewhat a better management of the food economy. However, soon the pressure on balance of payment mounted making it necessary to curtail imports. Adding to the difficulties was the severe drought of 1987-88. The prices after this event went on spiralling, and since 1988-89 the rate of inflation has been at a much higher level getting now into double digits.

4. In spite of a cumulative build up of a diversified infrastructural base, industrial capacities, technological capabilities, initiatives and entrepreneurship, the growth process stands threatened by fiscal im-

balances and BoP crises. Adding to the weaknesses is the drag of mounting inefficiencies in public sector enterprises and fast diminishing marginal returns from public sector outlays even in social sectors like health, education, family welfare and employment generation. In order to restore the stability and the sustainability of the growth process, it is not only necessary to overcome this crisis but to take measures that such a crisis never occurs. This is the task for planning and planning requires a new orientation.

5. The new government has initiated a series of policy measures to revitalise the economy. These include correction of fiscal imbalances, a downward adjustment of the external value of the rupee, the enlargement and liberalisation of replenishment licencing system, the new industrial policy and various other developmental measures. These policies are expected to make a significant impact on fiscal health, export growth, prices and private initiative in industrial development, though it may take some time before the impact becomes visible. These policy measures will also have a bearing on priorities, projects and programmes. This requires a fresh look at the preparatory work which has already been done for the 8th Plan. Added to this is also the requirement of recasting the plan to account for the shift in the plan period which starts now from April, 1992.

6. The imperatives of growth in the face of the challenges outlined above demand an innovative approach to development which is based on a re-examination and reorientation of the role of the government, harnessing the latent energies of the people through people's involvement in the process of nation building, creating an environment which encourages and builds up people's initiatives rather than their dependence on the government and which sets free the forces of growth and modernisation. The State has to play more of a facilitating role and has to concentrate on protecting the interests of the poor and the under-privileged. In more specific terms, it means the following:

(a) People's initiative and participation should be made a key element in the process of development. Over years of government's participation in developmental work, people have largely become passive observers of such activities. Also an attitude has developed that every target must be related to and made proportional to the financial outlays that the plan promises to put into it. In fact, even the effectiveness of the outlays in achieving results has been declining over the years, and the cost of development at the margin has been increasing in real terms. This must change. A lot in the area of education, literacy, health, family planning, land improvement, minor irrigation, recovery of waste land and afforestation can be achieved by creating a people's movement for these activities with much less financial outlays.

(b) The role of the government should be to facilitate the process of people's involvement in developmental activities by creating the right type of institutional infrastructure, particularly in rural areas. These institutions are very weak particularly in those States where they are needed the most for bringing about an improvement in the socio-demographic indicators. Encouraging voluntary agencies as well as schools, colleges and universities, to get them involved in social tasks and social mobilisation, strengthening of panchayat raj institutions, re-orientation and integration of all the village level programmes under the charge of panchayat raj institutions, and helping cooperatives to come up in the organisation and support of local economic activities, for example, are some of the steps which the government must earnestly initiate. A genuine push towards decentralisation and people's participation has become necessary.

(c) The public sector plan will have to become very selective in the coverage of activities and in making investments and should clearly define its objective principles. The following principles will have to be followed:—

(i) The public sector should make investments only in those areas where investment is of an infrastructural nature which is necessary for facilitating growth and development as a whole and where private sector participation is not likely to come forth to an adequate extent within a reasonable time perspective.

(ii) The public sector may also withdraw from areas where no public purpose is served by its presence. The public sector should come in where the investment is essentially for preservation and augmentation of basic resources of the country like land, forest, water and ecology, science and technology. The public sector will have responsibility for meeting social needs or for regulating long-term interests of the society like population control, health, education etc.

(iii) In large parts of public sector operations where commodities or services are produced and distributed unless it is necessary for protecting the poorest in the society, the principle of market economy should be accepted as the main operative principle. It means charging as per cost and costing with full efficiency in operations.

7. The Planning Commission will now work on building a long-term strategic vision of the future. The concentration will be on anticipating future trends and evolving integrated strategies for achieving highest possible level of development of the country in keeping with the competitive international standards. The role of Planning will largely be indicative. The endeavour will be to develop the Core Sector through allocation and optimal utilisation of funds, ensure growth of economy through appropriate policy packages and giving greater responsibility to the States for the development of the social sector.

8. Planning Commission will play an integrative role and help in the development of a holistic approach to the policy formulation in critical areas like Energy, Human Resources Development, Backward Areas Development, Management of BoP etc. It will play a mediatory and facilitating role for managing the change smoothly and creating a culture of high productivity and efficiency in the Government.

9. In addition to the resource allocation role, in the present environment of severe resource constraint, Planning Commission will also concern itself with the resource mobilisation for development as well as with the efficient utilisation of the funds.

10. The key to efficient utilisation of resources lies in the creation of appropriate self-managed organisations at all levels. In this area, Planning Commission will play a systems change role and provide consultancy within the government for developing better systems. In order to spread the gains of experience more widely, Planning Commission will also play an information dissemination role.

11. The Approach to the Eighth Plan will have four-fold focus:—

(i) Clear prioritisation of sectors projects for intensive investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sectors and human development;

(ii) Making available the resources for these priority sectors and to ensure effective utilisation of these resources;

(iii) Creation of a social security net through employment generation, improved health care and provision of extensive education facilities throughout the country; and

(iv) Creation of appropriate organisations and delivery systems to ensure that the benefits of investment in the social sectors reach the intended beneficiaries.

Objectives

12. The Eighth Plan will give priority to the following objectives:—

(i) generating adequate employment to achieve near full employment level by the turn of the century;

(ii) containing population growth through active people's cooperation and an effective scheme of incentives and disincentives;

(iii) universalisation of elementary education and complete eradication of illiteracy among the people in the age group of 15 to 35 years;

(iv) provision of safe drinking water and primary health facilities including immunisation so as to be accessible to all villages and entire population, and complete elimination of scavenging;

(v) growth and diversification of agriculture to achieve self-sufficiency in food and generate surpluses for exports;

(vi) strengthening the infrastructure (energy, transport, communication, irrigation) in order to support the growth process on a sustainable basis.

13. The 8th plan will focus on these objectives keeping in view the need for (a) continued reliance

on domestic resources for financing investment, (b) increasing the technical capabilities for the development of science and technology, (c) modernisation and competitive efficiency so that the Indian economy can keep pace with and take advantage of global developments.

Human Development

14. Human development will be the main focus of the Eighth Plan. It is towards this ultimate goal that employment generation, population control, literacy, education, health, drinking water and provision of adequate food and basic infrastructure are listed as the priorities of the Eighth Plan. Provisions of the basic elements which help development of human capital will remain the primary responsibility of the Government.

Employment

15. The phenomenon of growing unemployment has of late, emerged as a major problem and therefore expansion of employment opportunities have to be central objective of the planning effort. An accelerated expansion of employment opportunities is necessary both for poverty alleviation and effective utilisation of human resources for economic and social development of the country. During the past two decades, employment has grown at a rate of about 2.2 per cent per annum, but due to a faster increase of labour force at about 2.5 per cent, the backlog of unemployment has been rising. A declining trend in the employment elasticity with respect to GDP growth in recent years has made the task of accelerating the growth of employment more difficult. A deliberate and conscious effort in the direction of employment orientation of the growth process is therefore essential.

16. It is considered necessary and reasonable to set the goal of employment for all, in a time span of the next ten years. Assessment of the present backlog of unemployment and likely additions to the labour force suggest that this goal would require generation of additional ten million employment opportunities per year on an average, or about a three per cent average annual growth of employment. A relatively high rate of economic growth combined with a pattern of sectoral growth yielding a higher aggregate employment elasticity would be necessary for achieving the rate of employment growth envisaged. Raising employment elasticity in aggregate would require faster growth of the sectors, sub sectors and areas which have relatively high employment potential. A geographically and crop wise diversified agriculture, wasteland development for crop cultivation and forestry, rural non-farm sector, small scale manufacturing, urban informal sector, rural infrastructure, housing and services, have been identified as sectors and areas as constituting the basic elements of an employment oriented growth strategy.

17. It also needs to be recognised that in addition to the generation of new stable employment opportunities of the order of 10 million per year, which will take care of the open employment, it would need to be ensured that those underemployed and employed at very low levels of earnings, are able to raise their productivity and income levels. Upgradation of technologies of the self-employment in the traditional and unorganised sectors and improved access to credit and markets would need to be ensured. Also it would be necessary, in the meantime, to continue programmes for providing supplementary work to the underemployed poor in infrastructure building and other activities.

Population and Family Welfare

18. A sustained high growth rate has taken the Indian population to new heights. The 1991 census revealed a population of 844 million. The rate of population growth during eighties, though marginally slower than what it was during the seventies is still around 2.1 per cent per annum, which translates to an addition of around 18 million to the nation's population every year. The country will cross 1000 million mark by the year 2000. If this trend is not halted, it will never be possible to render social and economic justice to millions of our masses. The 8th plan will make vigorous efforts to contain the population growth.

19. To give a major thrust in this priority area, which constitutes the pivotal point for the success of all developmental efforts, a National Population Policy needs to be enunciated and adopted by the Parliament. Given the political commitment at all levels, it must generate a cascading effect to become a people's movement. Social determinants such as female literacy, age at marriage, employment opportunities for women, and their status in society are as important as achieving a reduction in infant mortality, improving health and nutrition of pre-school child, and providing a comprehensive package of maternal health care services. Such an intersectoral interaction, supported by political commitment and a

popular mass movement, should constitute the approach to strategic interventions.

Literacy and Education

20. Expansion and utilisation of employment opportunities and increase in productivity are strongly influenced by education. In the process of development, education is, therefore, an investment. And this investment has to be made well in time to derive full benefits from the overall developmental efforts.

21. Recent efforts made in the State of Kerala, and in some districts of Tamil Nadu and West Bengal to achieve 100 per cent or near 100 per cent literacy are an example of what can be achieved through determination and people's involvement. There are wide variations in literacy rates across the States. Eighth Plan sets the target of achieving 100 per cent literacy among the people of age group 15 to 35 years in all the States. This will involve changing the literacy status of about 110 million people. Students in colleges and universities, teachers and other motivated people will have to be mobilised for this mission. Far more vigorous efforts in this respect are needed in the States of Rajasthan, Haryana, Uttar Pradesh, Bihar, Madhya Pradesh and Orissa.

22. The intensity of the problems of education and population growth corresponds with the degree of lack of development in the rural areas, inequitous distribution of assets in terms of land and water-supply in a given rural community, and educational deprivation of women. The broad priorities, therefore, are to prepare the ground for the spread of literacy and primary education through socio-economic justice and to remove the traditional constraints on the status and education of rural women, in particular. A demand for education, modernization and efficiency has to be stimulated through a general awakening and mobilisation of the rural communities especially in the educationally backward States.

23. The Eighth Plan will aim at universal primary education, both through full-time formal schools and part-time, non formal arrangements for working children and girls in particular. Special programmes will be launched for tribal education with due regard to tribal culture, economic problems, and removal of disparities between tribal and non-tribal population groups, with substantial inputs of Science and Technology leading towards the reduction of tribal isolation from the rest of society.

Health

24. Health facilities should reach the entire population by the end of the Eighth Plan. The 'Health for All' (HFA) paradigm must take into account not only high risk vulnerable groups, i.e., mother and child (as done so far) but must also focus sharply on the underprivileged segments within the vulnerable groups. 'Towards Health for the Underprivileged' may be the key strategy for the H.F.A. by year 2000, a declaration to which India is a signatory.

25. The structural framework for the delivery of health programmes must undergo a meaningful reorientation in a way that the underprivileged themselves become the subjects of the process and not merely its objects. This can only be done through emphasising the community-based systems. Such systems must provide the base and basis of health planning, recognising health and education as the key entry points for harnessing community development efforts. These systems must be reflected in our planning of infrastructure, with about 30,000 population as the unit.

26. By providing valid information and by associating the pre-defined segments of population with not only the health planning process but also with the methods for the evaluation of programmes, the process of suggested reorientation can be initiated. In more than one way, it must be reflected in the planning process for the social sectors, and especially health, so that the people constitute the solution and not the problem.

27. The ethos and culture of the communities must provide the scaffolding for such community-based systems. In this context, the traditional systems of preventive medicines, including meditation, yoga and other health practices may find a better acceptability amongst communities, with distinct advantage of their cost-effectiveness. The practitioners of Indian systems of medicines can play a major role in this direction.

28. The oft-repeated pattern of providing for health needs in terms of curative services for those who are ill must now give way to an approach in terms of positive health, with emphasis on disease prevention and health promotion. At the other end of the spectrum, a responsiveness of the services towards rehabilitation of those with physical or other handicaps, would contribute to development of a system of comprehensive health care.

29. Major efforts shall be initiated to expand educational facilities for those categories of health care providers where the existing numbers and the annual turnout are far below the desired level. Incorporation of health related courses as part of vocationalisation of general education, shall be pursued vigorously. Reorientation or retargeting of the process of education for all categories of health professionals, is of the essence. The quality of services is directly related to the content and type of education of the health professionals, and their sense of commitment to respond with sensitivity to the needs of the people.

Drinking Water

30. The country has not yet been able to provide sustainable source of clean drinking water to all the people, particularly in rural areas. Based on an identification done in 1980 and updated in 1985, the number of 'No Source Problem Villages' was estimated at 1.62 lakhs as on April, 1985. During the Seventh Plan period (1985—90), 1.54 lakh 'No Source Problem Villages' were provided with a source of drinking water supply, thus reducing the number of such villages to 8365 by the end of the Seventh Plan. At the commencement of the Eighth Plan period, there will be 2824 no source problem villages. However, there are a large number of villages which are only partially covered and a large number of habitations which have no source at all or have highly inadequate supply. While the norms which are presently adopted envisage a source within a distance of 1.6 kms., for a population of 250 persons, the accessibility of drinking water supply to the people will have to be progressively improved upon. Special and specific measures are also needed to tackle quality problems, such as, guineaworm, excess fluoride, high iron content and salinity. Water quality monitoring is to be streamlined and given proper emphasis to ensure safe drinking water. Simultaneously, steps will have to be taken for replacement and rejuvenation of drinking water sources. Measures for conservation of water and recharge of aquifers have to be implemented on a larger scale to provide for sustained supply of water. Much greater efforts are, therefore, needed to provide adequate quantity and quality of water and to make the sources sustainable.

Protecting the Weak and the Left-behind

31. Scavenging is a scourge which must not exist any more. It is the most undignified work offered to the weakest in the society. Its elimination will require a two pronged effort (i) making provisions of flush latrines mandatory in every house in urban areas, and (ii) providing alternative work opportunities to those presently engaged in scavenging. This has to be a time bound programme to be completed within the period of the 8th plan.

32. Making it possible for the economy to achieve a high growth rate and to sustain it over the decade will be an important goal of the 8th plan. Employment generation and poverty alleviation objectives are ultimately related to growth. However, the growth has to be accompanied with a sharper regional focus of reduced disparity and more dispersed benefits. The lagging regions and the weaker sections of the society if not protected fully, are more likely to be left behind in the natural process of growth. Adequate protection will have to be continued to be provided to the poor and the weaker sections of the society. Adequate food supply, control on inflation, effective working of public distribution system and developmental programmes which generate adequate employment are among the main components of the strategy to take care of the poor. Similarly children and particularly the girl child need to be paid particular attention. One of the targets in this context would be to equalise the enrolment and retention rate of the girl child with that of the boy child through the elementary education period.

Agriculture

33. The strategy for agricultural development in the Eighth Plan must aim at not only achieving self-sufficiency in food but also generating surpluses of specific agricultural commodities for export. Though the progress of agriculture in the recent period has been satisfactory, there are striking regional and crop imbalances. Productivity varies considerably from one region to another. The benefits of Green Revolution which remain confined at present to the north and north-west must spread to other parts, more particularly to the eastern region, which has adequate rainfall, fertile soil and unlimited scope for stepping up agricultural production. Since two-third of the cultivated area is still unirrigated and largely rainfed, a more balanced regional development would call for a greater emphasis on dry land farming. Even though the progress in oilseeds production has been

significant, the country is far from reaching self-sufficiency with valuable foreign exchange being spent on the import of edible oils. A concerted effort towards increasing oilseeds production is essential. Agriculture and allied activities on which two-thirds of the workforce are still dependent must continue to receive a major emphasis in our planning effort.

Infrastructure

34. The physical infrastructure, particularly in the areas of energy, transport, communication and irrigation, has traditionally been provided by the public sector. Since the scale of construction in these areas is very large and these are of direct and indirect benefit to large sections of the society, the public sector will continue to play a dominant role in this area and will have the ultimate responsibility of meeting the demands. However, if private initiative comes forward to participate in creating such infrastructure like energy, roads, bridges, medium and minor irrigation projects, social housing, industrial estates on reasonable terms and with full protection of people's interests, such initiative must be positively encouraged.

35. Among the main components of infrastructure, energy needs particular attention during the 8th plan mainly because of the fast growing demand, the limits of our internal sources of energy and implications for balances of payments. The medium term energy plan has to be seen only as a component of a long term plan where the strategies of fuel substitution and shifts from non commercial sources of energy to commercial sources is clearly spelt out. It is only in the perspective of such a long term plan that view about priorities and relative emphasis on use of petroleum based energy vis-a-vis coal and hydro based energy will emerge and will have to be pursued right from now through the 8th five year plan.

Science and Technology

36. Science and Technology efforts would have to be deployed widely to cover all the basic areas of development. The constraints of basic resources like land, water, minerals and sources of energy can only be overcome by productivity-raising innovations. The strategy for S&T development for the Eighth Plan would be as follows:

(i) Laying greater emphasis on scientific and technological content of all programmes in the socio-economic sectors;

(ii) Giving priority to implementation of programmes having most direct impact on society;

(iii) Identifying and implementing national technology missions and S&T projects in a mission mode in selected areas;

(iv) Aiming at improving the quality of S&T education and training at all levels;

(v) Providing for a significant thrust in selected areas of advanced research to reach international levels;

(vi) Ensuring, through fiscal incentives, that research is carried out by and within the production and service sectors;

(vii) Accelerating the process of commercialisation of research to induce greater degree of purposiveness and better links between research and industry;

(viii) Taking appropriate steps, all round, for moving into the age of information/telematics.

(ix) Encouraging research and innovation in the tools and techniques of traditional occupations (i.e. agriculture and rural artisanship) and inducing its widespread adaptation.

Environment and Forests

37. Environment, ecology and development must be balanced to constitute the needs of the society. In the interest of sustainable development it would be necessary to take measures to preserve, conserve and nurture, the fragile and critical eco systems. There is a need for decentralised approach in this area as well, so that the environmental considerations are taken note of in every sector with a definition of the appropriate technology and environmental options while formulating programmes and projects.

38. Environmental management principally includes planning for sustainable use of resources, protection and conservation of ecological system by education, training and awareness. Cooperation of both governmental and non-governmental organisations should be called for at all stages if environmental movement is to achieve success. It can only be accomplished with the fullest cooperation of the people. Cleaning of important rivers such as the Ganga will have to be accelerated.

39. Forest conservation and development must aim at preservation of biological and genetic diversity in

terms of fauna and flora and protection of forest cover from further degradation. At the same time meaningful projects are to be developed to utilize wastelands and to make them productive.

Housing

40. The overall magnitude of the housing problem confronting the country, viewed over a span of 20 years from 1981 to 2001 is estimated to be 23.3 million dwelling units in terms of backlog and 63.8 million new dwelling units comprising of 32.6 million in rural areas and the balance 31.2 million in urban areas to meet incremental housing needs.

41. The role of the Government in this area would be to create an enabling environment, to remove constraints to housing activity of various sections of the population, to promote a substantial increase in the supply of housing and basic services, to support standardisation and upgradation of the housing stock and to stimulate rental housing. The State would address specifically to the needs of the houseless, poorer households, SC|ST, women and other vulnerable groups. The long term objective is provision of "Shelter for All". Given the competing demands on available resources, however, the achievement on this score will inevitably need to be spread over a reasonable span of time.

Urban Development

42. The present urban pattern, its form, composition and distribution is such that, unless positive public interventions are made, the present differential and disparities cannot be mitigated. A well-coordinated strategy for promoting development of the small and medium (S&M) towns, together with a strategy for a sustainable and self-supporting nature of development of metropolitan cities, should form the focus of urban development strategy for the 8th Plan. An Action Plan to operationalise the development strategy for S&M towns should consist both in strengthening regulatory/organisational base of urban local bodies and providing an appropriate investment package on related infrastructure and employment promoting activities. This may require pooling of programmes of different sectors.

43. Financing of metropolitan development should, in principle, be through internal resources and self-sustaining in nature. However, significant efforts are required in terms of institutional strengthening, resource mobilisation and also legislative support.

Structural Reforms

44. The need to restructure our systems of economic management has become imperative if India is to emerge as a vibrant and internationally competitive economy in the 90's. Systems of control and regulation, developed for good reasons in the past have outlived their utility and some positively stand in the way of further progress. Such dysfunctional systems have to be overhauled in the light of emerging realities.

45. The industrial regulatory environment of the past has led to certain unintended outcomes which lie behind the weaknesses in our industry. Domestic competition has often been restricted leading to lack of quality and cost consciousness in segments of industry. The level of protection to Indian industry from quantitative import restrictions and our tariffs is also too high leading to high costs of production and inadequate technological dynamism. These weaknesses have to be removed in the context of the scarcity of resources, which puts a premium on efficiency, and also in the context of global economic trends which require a high degree of competitiveness. Indian industry is now ready to face the full pressure of domestic competition and the measures already taken in industrial policy help to achieve this objective. Indian industry must also be readied to face international competition in a phased manner.

46. Steps have already been taken to reduce the degree of quantitative licensing in trade policy and it is proposed to do away with quantitative restrictions altogether over a period of about three years. We have also made a start with reducing tariff levels. Indian tariff rates must be reduced in a phased manner so that they become comparable with those in other industrializing developing countries within a few years. This is essential to make India's industry internationally competitive.

47. The public sector has numerous achievements to its credit. The development of our crucial infrastructure sector has been pioneered by PSUs. Other vital segments of the industrial sector have been built up by public enterprises. The public sector has contributed richly to the widening and diversification of our industrial structure. The public sector will continue to perform a key role in the coming years. However, certain critical weaknesses that are now apparent will have to be addressed. The public sector,

as envisaged by Pandit Jawaharlal Nehru, was to contribute to the growth and development of the nation by providing surplus reinvestible resources. This has not happened as it should have. Many PSUs make substantial losses and have become a continuing drain on the exchequer, absorbing resources which are desperately needed to achieve other developmental goals. Apart from the fact that the fiscal situation does not permit accumulation of unsustainable losses, there is also the fact that many loss making PSUs do not serve the goal for which they were set up.

48. It is clear that a strong and vibrant public sector cannot be one with financially weak foundations. For the public sector to perform the role expected of it in the 90s, the issue of loss making public sector enterprises will have to be squarely addressed. Efforts must be made to restructure and revitalise public sector units which are potentially viable through infusion of new technology, rationalisation of labour and even infusion of resources. Equally patently unviable PSUs may have to be closed down with suitable social safety net mechanisms being devised to protect the interests of workers. We also have to recognise that in many cases the very rationale of the public sector entering certain industrial areas needs to be re-examined. There may have been very good reasons in the past for the public sector to take the initiatives in industrial areas where the private sector would either not enter or would hesitate to do so. This may not be the case today and the restructuring of the public sector would essentially entail vacating such areas for private sector initiatives in coming years. Recent Government policies have already vacated large areas for private sector initiatives and this process of restructuring and reform would need to be carried further.

49. The process of adjustment and restructuring in Indian industry is bound to create some apprehension because of its implication for labour. The social cost of adjustment cannot be borne by labour alone. We must create institutions which provide a suitable safety net to mitigate the burden of adjustment. Efforts must be made to avoid retrenchment wherever possible through mergers and suitable redeployment. Where retrenchment is unavoidable, it is essential to explore all possibilities of reabsorbing labour productively by effective re-training schemes and schemes to promote self-employment. All this must be accompanied by suitable mechanism for providing generous compensations.

II

EMERGING ISSUE OF PLANNING AND THE NEEDED POLICY CORRECTIVES

50. This section attempts to probe certain basic issues which call for corrective policy action if the Eighth Plan, more particularly its public sector component, has to be evolved as an integral part of the Government's new initiatives in macro economic management.

51. The most glaring problem that faces planning is that the essence of the planning process has been eroded. If planning is to be a prioritised application of resources—human, material and financial—to the needs of development, the process has to keep enough operational efficiency to make adequate and timely investments in priority programmes and to have reserves to take up new initiatives in short, medium and long term development. This means that every new project or programme taken up has to fit into a well coordinated over all strategy for the concerned sector. The present scenario is of plans (State, Centre and PSEs) too clogged with schemes/projects taken up from time to time, most of these underfunded and new ones jostling to get in, not on claims of merit by prioritisation but by the force of pressure group support. While both in Central and State plans this ultimately shows up as projects delayed and critical imbalances generated, in financial terms, there are overshooting deficits in the Centre and shortfall in plan expenditure in States. Underfunding of the projects also shows up in underutilisation of the precious concessional aid tied to externally aided projects, since the disbursements are linked with financial and physical progress. This alongwith weak project preparation and management resulting into shortfalls in performance creates a situation where scarce foreign exchange resources cannot be fully availed of, and there is adverse impact on future projects of concessional aid.

52. Annual Plan, which is really the operational instrument of the Public Sector Plan, is very often reduced to the task of fixing the percentage increase, the percentage itself getting fixed as a residuary item after the Finance Ministry satisfies the powerful claims of the non-Plan sector. However, even these inadequate outlays sometimes remain underspent, though the Ministries, States and even the Planning Commission plead for higher plan provision in Central budget.

53. Consistent with the Government's commitment to tackle the imbalances in the overall economic management, the process of planning has to change, broadly in three ways. The first is to weed out plan schemes/projects which do not make economic sense. The second is to rationalise plan, expenditure by a process of consolidation and coordination of schemes now scattered as a number of more or less similar half-hearted 'thrusts' at the same target. The third is to ensure that (i) sectors which clamour for increased plan outlays try to generate net additional resources to the extent possible through non-inflationary measures and (ii) those who, by virtue of Government policies, have surpluses in excess of their approved investment divert them to sectors which need higher outlays but cannot raise financial resources from within their own sectors. A real effort in these directions would meet with very stiff resistance, but that has to be faced.

54. The first phase of this effort is to define the critical goals in the Eighth Plan. Though the strategy of a higher role for private sector is essential in the current context of planning, the minimum investment in the infrastructural sector by the public sector has to be met. But with the experience of Government sector dissavings, the levels of public sector outlay now obtaining cannot accommodate the reasonable requirements of this type even in the crucial sector. Therefore, it becomes necessary to go in for an innovative approach that would generate enough net resources within the public sector which can, besides carrying the current levels of

outlays and performance generally, provide for a substantial increase in outlay and operational support for the critical goals which should form the core of the public sector plan. Such goals in respect of priority sectors are briefly enumerated below.

55. Energy

(i) To eliminate power shortages in different parts of the country by the end of the 8th Plan and take such advance measures that may be necessary thereafter for maintaining self-sufficiency in power.

(ii) To achieve a minimum hydel share of 40 per cent in the total installed capacity by the end of the 9th Plan.

(iii) To restrain the growth in consumption of petroleum products without hampering economic development, a critical analysis of the uses of petroleum products is necessary. For instance, rather than replacing steam locomotives by diesel locomotives the railways should shift directly to electric locomotives.

(iv) To eliminate the flaring of associated natural gas by the end of the 8th Plan.

(v) To step up the levels of production of coal and lignite so as to ensure supply of these resources in adequate quantity and quality for meeting the needs of the different sectors of the economy in the 8th Plan and thereafter.

(vi) To promote cost effective technologies for the development of renewable energy resources to the maximum extent.

(vii) To extend the coverage of Integrated Rural Energy Project to at least one block in every district of the country by the end of the Plan.

56. **Physical Infrastructure**

(i) To strengthen the road network, undertake a major 'renovation' effort under the plan for improving the condition of roads of all categories; build rural roads to all weather standards.

(ii) To liberalise the entry of private sector in road transport and to privatise road transport, wherever possible.

(iii) To remove all potential bottlenecks which may hinder smooth flow of railway traffic on trunk routes.

(iv) To step up the pace of electrification of the railways in view of the likely decline in the availability of hydro carbon based energy.

(v) In the context of efforts for boosting exports, to create adequate air cargo and shipping capacity and strengthen container network.

(vi) To improve and develop inland waterways, wherever potentials exist.

57. **Irrigation**

(i) To reduce time and cost overruns in all major and medium irrigation projects.

(ii) To step up irrigation efficiency from its current low levels of around 40 per cent.

(iii) To reduce the losses on irrigation projects by recovering costs through higher irrigation rates and collection of arrears, and linking, wherever possible, the availability of power with water rate realisation.

(iv) To expand the installation of modern irrigation devices such as drip, etc.

58. **Agriculture**

(i) *To improve agricultural productivity in the dryland belt*:

Watershed should be the unit of planning and great stress should be given on soil conservation programmes.

(ii) *To accelerate agricultural growth in the eastern region*:

The productivity of agricultural land would be greatly improved by tapping the underground water by construction of large number of tubewells. Flood control measures in the eastern region are equally important.

(iii) To implement effective programmes of diversification of cropping pattern through cultivation of vegetables and exotic crops, horticulture etc.

(iv) To promote scientific post-harvest management of horticulture produce and other perishables.

(v) To aim at accelerating agricultural and plantation exports and at import substitution in oilseeds, rubber, etc.

(vi) To diversify and accelerate agro-based rural activities like sericulture, fish farming, poultry, animal husbandry and silvipasture systems.

(vii) To improve the delivery system for meeting farmer's requirements of agricultural inputs and credit.

59. **Social Services**

(i) To aim at reduction of birth rate from 30.5 per thousand (in 1989) to 26 at the end of 8th Plan with a view to bring about a deceleration in the rate of growth of population.

(ii) To aim at reduction of Infant Mortality Rate (IMR) from 91 per thousand live births (in 1989) to 70 in 1997.

(iii) To improve nutritional status of the pre-school children.

(iv) To aim at universalization (in the sense of 80—90 per cent coverage) of elementary education in the three fold dimension of enrolment, participation and achievement, with special emphasis on girls of weaker sections and to eradicate adult illiteracy (in the age group 15—35) by the end of the 8th Plan.

(v) To aim at substantial diversification by way of vocational programmes and modernisation by way of computer literacy programmes at secondary/higher secondary level, and; to consolidate and improve higher/technical education subject to the need of mobilisation of resources within this sub-sector.

(vi) To encourage private initiative through voluntary organisations, trusts or consortium of industries in supplementing government efforts in higher and technical education keeping full control in the hand of the Government on standard and quality of education and making adequate provision for freeships, scholarships and such other support to the meritorious and the poor students.

(vii) To provide drinking water in adequate quantity to all villages including small towns below 20,000 population.

(viii) To provide a convenient form of cooking to all households below poverty line in the rural areas.

(ix) To provide 10 million households in rural areas with at least one electric light connection.

(x) To enlist people's cooperation in Plan implementation by creating a wide awareness of Plan objectives.

Poverty Alleviation

60. To promote an integrated programmes of local area development of selected villages for poverty alleviation through increase in employment, appropriate land reforms and meeting housing needs.

Strategy

61. The strategy for achieving the aforesaid goals would be a mix of new investments, correction of imbalances in different sectors, enhancement of investment efficiency, and appropriate policies. The basic policy initiatives for investment directions and cost effectiveness which have to be taken through the planning process in respect of various critical goals are indicated in what follows.

62. Achieving the critical goals indicated earlier for the energy sector will call for substantial investments which will be far in excess of what can be allocated in the normal course for this sector. Similarly, the investments required for the petroleum and coal sectors will also exceed the normal magnitude of public sector outlays for the 8th Plan. Such a large gap can perhaps be bridged to some extent by taking the following measures:

(a) An overall improvement in the technical and financial performance of the energy industry in the Central and State sectors,

(b) An overall improvement in the efficiency of all forms of energy in different end uses, and

(c) Implementation of energy demand management measures.

In addition, the pressure on public sector financing can be reduced to some extent through a greater involvement of the private sector.

63. Besides substantially stepping up the outlays on roads, the Central Road Fund alongwith a matching contribution from the Central and State budgets should be treated as a 'Renovation Fund' for the Eighth Plan to renovate the national and state highways and major district roads. The organisational set-up for this purpose at the Centre and the States should be adequately strengthened besides setting up a suitable monitoring mechanism. Specific capacity works to ease potential bottlenecks on the trunk routes of the railways should be identified and sanctioned/executed on a priority basis. The existing norms of electrification of railways will need to be suitably modified and a larger share of the Railways Plan should be kept apart for electrification. Privatisation of existing ship yards, streamlining the ship acquisition procedures of the Shipping Corporation of India (if necessary by converting the Government company into a Joint Stock Company and thus freeing it from Government control) and strengthening the resource base of Shipping Credit and Investment Company of India so that it can extend larger financial assistance to the private sector for purchase of ships, are necessary measures for enhancing the shipping capacity in the country.

64. There has to be a strict prioritisation in funding for completion of ongoing projects and substantial increases in programmes for modernisation and improvement of old systems to increase irrigation efficiency upto 60 per cent. The water rates have to be revised. Emphasis has to be placed on conjunctive use of surface and ground water. Equitable delivery of irrigation water has to be ensured through systemic reforms and by involvement of local people through water users' cooperatives and non-governmental organisations in water management. Flood Control Master Plans and flood plain zoning have to be prepared through use of remote sensing technique.

65. Since all the sub-sectors of social infrastructure are inter-related, the package approach on a decentralised basis should be adopted to help improve the delivery of these services. This would apply, in particular, to integration/convergence of schemes relating to literacy, minimum health care, child development and women development with special reference to the age group (12—19). Steps would be taken to improve the efficiency and functioning of the governmental social service systems by way of tackling the problems of staff absenteeism in schools/health centres, increasing the number of working hours and working days of teachers, fuller (double shift) utilisation of existing buildings and equipments etc. Non-governmental organisations would be involved in a big way to improve the delivery of social services. The energy of youth can be fruitfully mobilised for delivery of the services in a cost effective manner, for example, in literacy drive, in population control, spread of education, etc. The Rural Water Supply Programme should be linked with the Rural Sanitation Programme and adequate thrust needs to be given to maintenance and conservation of water. These programmes should be concurrently evaluated. The various social concerns relating to literacy, child survival, nutritional status of pre-school children and women's status should be monitored in terms of outcomes and not merely in terms of inputs such as coverage and expenditure.

66. The past practice of retaining physical targets of crucial social sector goals but reducing the financial outlays on the ground of financial stringency needs to be reviewed. There has to be a determination to implement national commitment to reach specific social goals in a time-bound manner at the end of the 8th Plan and for this purpose to make adequate financial allocations. The size of financial burden can, however, be reduced by (i) measures for cost recovery, (ii) involvement of private sector, (iii) attracting institutional finance and (iv) introduction of the principle of insurance in providing services like health. A beginning needs to be made in the direction of cost recovery of social services in the areas of higher education, technical education, medical education, management education, and medical services in the urban hospitals (through charging full cost to the rich and cross subsidising the poor) as this would reduce the financial burden on the public sector outlay for these services. The private sector may be encouraged to open technical and higher education institutions, hospitals and nursing homes on a cost recovery basis coupled with (a) concessions for people below poverty line (b) provisions of insurance and credit markets for such services and (c) strict quality control of standards and facilities.

67. An amount of about Rs. 6,500 to Rs. 7,000 crores per year is being spent on different employ-

ment generation poverty alleviation and similar other programmes. It is felt that a better impact on the problem of poverty could be made by decentralising the planning and implementation of these programmes at the local area level. Funds under the various heads can be pooled together and allotted to the villages on the basis of certain criteria which can be evolved at the Centre. Every Block will be required to prepare a detailed and integrated development plan with emphasis on infrastructural development. This will lead to a better utilisation of existing resources with creation of assets locally required. Adequate funds and co-ordination role should be retained at district level for inter-Block level programmes and schemes. It is also possible to dovetail basic social services of education, literacy, family planning, health, sanitation, water supply and epidemic disease control for the poor, in this framework of local development plan.

Policy Support

68. In order to implement the strategy outlined above and ensure investment in the effort to reach the critical goals, Planning Commission has to have policy support from the Government on the specific suggestions given below:

(i) Each Ministry will be requested to undertake and complete an exercise to identify Plan schemes which should be discontinued from 1992-93. The Ministry's Eighth Plan proposals should show the results of this exercise both as programmes discontinued and savings resulting from that.

(ii) After the Eighth Plan is formulated, no new scheme will be processed by any Ministry and even on very rare occasions when it becomes really necessary, the processing will be only as part of Annual Plan proposals. The present practice of taking projects and programmes on ad-hoc basis to Committee of Secretaries will be discontinued.

(iii) Annual Plan provisions made in the budget will not be enhanced on ad-hoc basis. All Ministries who want such enhancement should process the case in consultation with the Planning Commission and the Commission should, alongwith budget estimates for next year's plan, send the revised estimates for the current year plan also to Finance Ministry, subject to the overall figure of revised budget support indicated by Finance Ministry.

(iv) Rural Development Ministry may be advised to change their plan provisions as provisions for an integrated local area development programme. Planning Commission will be asked to identify programmes of other Ministries and State Plans which can go into this integrated programme which, while continuing with the emphasis on employment will ensure creation of rural infrastructure of a minimum standard quality. The programme will be designed in a manner that gives optimum operational flexibility to the District and Block levels.

(v) Department of Energy should review the performance of each Electricity Board and before 1-4-1992 lay down targets for each Board for 1992-93 and subsequent years in terms of improvement of PLF, reduction of T & D losses and minimum realisation of revenue per unit generated. The Plan allocation for the sector will depend on the performance of achieving these goals.

(vi) Profit making public sector units of the Centre will be directed to give a fixed percentage of their profit as dividend (or contribution where the structure is not that of company) to Government. If necessary, the public sector enterprises concerned can be given budget support for their plan. But the utilisation of the surpluses generated by a PSE has to be subject to the priorities of Government in terms of planning.

(vii) State Governments will be requested to work towards correcting the imbalance in their budgets and to improve the financial performance of their Electricity Boards. Their plan outlays for the ensuing year will be approved keeping in view the actual performance of the previous year and not on the basis of the approved outlay of the previous year.

III

QUANTITATIVE MACRO DIMENSIONS OF THE PLAN

69. This section deals with broad quantitative dimensions of the Eighth Plan. The 8th Five Year Plan will now commence from 1-4-1992 and will cover the five year period of 1992-93 to 1996-97. Thus, the base year of the 8th plan will be 1991-92. All the 8th plan calculations will be done at prices as in 1991-92. National Accounts data are available upto the year 1989-90. Hence projections are required to be made for the years 1990-91 and 1991-92 in respect of prices, GDP and its main components. GDP growth is assessed at 5 per cent for 1990-91 and projected at 4 per cent for 1991-92. Similarly, GDP deflator is assessed at 10.5 per cent for 1990-91 and assessed at 9 per cent for 1991-92.

70. The average growth achieved during the Seventh Plan (in terms of GDP at factor cost) was 5.6 per cent per annum while that for the decade of eighties as a whole works out to 5.5 per cent. The growth in the seventh plan was supported by an investment rate of 22.9 per cent of GDP and this investment in turn was financed by domestic saving of 20.5 per cent of GDP and foreign saving (i.e., current account deficit) at 2.4 per cent of GDP on an average over the plan period. The implicit incremental capital-output ratio (ICOR) was 4.1. Looking to the trends of growth in the economy and also keeping in view the requirement of generating employment at a certain minimum rate, there has been a view that the eighth plan should aim at a minimum of 6 per cent growth per annum. However, in view of the resource crunch which the public sector is facing and the need for correcting the fiscal imbalances, the other view is that it would be quite an achievement if the 8th plan is able to maintain the pace of growth in income and investment which has been achieved during the seventh plan. Macro economic and sectoral implications of both the alternatives have been worked out and presented here. Certain policy implications have also been made explicit.

71. Table 1 presents savings and investment implications of alternative growth scenarios, i.e., 5.6 per cent growth and 6 per cent growth. Incremental capital output ratio is assumed to remain, more or less, the same as in the seventh plan. Capacity utilisation improved during the seventh plan and also there were good gains in operational efficiencies in a number of sectors. While there is still large potential of improving operational efficiencies, gains from further utilisation of existing capacities may not be available in the 8th plan to the same extent as during the 7th plan. On balance, the assumption of incremental capital output ratios remaining the same appears to be reasonable.

72. In the 5.6 per cent growth scenario the average rate of domestic savings required during the 8th plan will be 21.6 per cent of GDP, the rate which has been reached during the last two years and which is higher than the average realised rate during the seventh plan period. The corresponding investment rate will be 23 per cent of GDP, more or less, the same as the average realised rate during the seventh plan. The significant difference will be in respect of the current account deficit, i.e., external resources (CAD). In the seventh plan CAD, on an average, was 2.4 per cent of GDP while in the proposed scenario for the 8th plan it is only 1.4 per cent of GDP. It is also assumed that the dissavings of the Government sector can be 1.43 per cent of GDP which itself would be difficult to maintain, given the recent trends in the dissavings of the government. The 6 per cent growth scenario requires 23 per cent savings, 1.6 per cent of GDP as CAD and 24.6 per cent investment. A projection of the sectoral components of savings corresponding to the two scenarios is presented in table 2. It may be noted that both the scenarios expect a beginning of an improvement in government savings (which at present is negative), slightly less than the historical improvements in

household sector savings, but good expectations from public sector enterprizes savings. In particular, the six per cent scenario largely depends on extra mobilisation by public sector enterprises. The savings of this sector is expected to increase by 1 percentage point over the level assumed in the lower scenario. It is possible but it requires very determined efforts, and a large investment in the public sector will depend crucially upon the public sector enterprises achieving the larger savings.

73. The size of the national investment (public and private sectors together) will be Rs. 792 thousand crores in the 5.6 per cent scenario and Rs. 856 thousand crores in the 6 per cent scenario. Size of the current account deficit will be about Rs. 49 thousand crores in the lower and Rs. 56 thousand crores in the higher scenario. Both the scenarios imply 13.6 per cent per annum growth in exports (volumes).

74. Growth in private consumption is what affects the standard of living of the people. The private consumption is projected to grow at the rate of 5.3 per cent per annum in the lower growth scenario and at 5.0 per cent in the higher growth scenario. Thus the growth is lower in the higher growth scenario simply because higher growth requires higher saving efforts. However, a growth rate of 5.0 per cent to 5.3 per cent in consumption expenditure would amount to a growth of 3.2 per cent to 3.5 per cent per annum in per capita consumption (assuming a population growth of 1.8 per cent per annum). In the 7th plan, the growth in per capita private consumption was 2.9 per cent per annum, compared to which, a growth rate of 3.2 to 3.5 per cent would be a significant step up in consumption growth and will have considerable impact on levels of living and also on overall growth through consumption multipliers.

Balance of Payments

75. The balance of payments situation has been continuously under strain for the past several years. During the 7th plan period, the ratio of current deficit to GDP averaged 2.4 per cent, far above the figure of 1.6 per cent projected for this period in the plan document. This deterioration in the balance of payments occurred despite a robust growth in exports in the last three years of the plan. The already difficult balance of payments situation was accentuated in 1990-91 by a sharp rise in oil prices and by other effects of gulf war. With access to commercial borrowings going down and with non-resident deposits showing no improvement, it has been found difficult in 1991-92 to finance the current account deficit. Exceptional financing of the order of $ 4.66 billion from donors and from multilateral institutions such as IMF had to be resorted to. It is imperative that during the Eighth Plan, steps are taken to correct the fundamental weaknesses in India's external situation so that the external imbalance does not cause serious disruption to the economy. It is, therefore, necessary to plan on a drastically reduced inflow of resources from outside. It is assumed in the higher growth scenario, that foreign savings would be 1.6 per cent of the GDP in the eighth plan and that too, alongwith very high expectations about export. In absolute terms the foreign savings requirements are projected at Rs. 56,000 crores. Exports are expected to grow at 13.6 per cent per annum in volume terms. There may be difficulties even in financing this order of current account deficit unless the sentiment towards India changes. Also there are repayment obligations bunched towards the last two years of the plan period.

76. In the lower growth scenario foreign savings are projected at 1.4 per cent of GDP amounting to Rs. 49,000 crores. But this again goes alongwith the same high expectations about the export performance, i.e., its growth at 13.6 per cent per annum. Even if the foreign savings in the lower growth scenario was to be raised a little, say to 1.5 per cent of GDP, the required growth in exports will remain high at 13.3 per cent per annum. The lesson is that without a very high growth in exports, say between 13 to 14 per cent per annum, we cannot have a feasible plan for the growth of the economy.

Public Sector Outlay

77. Perhaps the most important element of the macro-dimension of the plan is the size of the public sector outlay. Public sector outlay has two components: (a) investment and (b) current outlay. The current outlay corresponds to plan expenditure of a recurring and non-investment nature which is needed to initiate the accrual of benefits from the investment. In previous plan periods current outlay has been roughly of the order of 17 per cent of the plan investment.

78. The position in regard to public sector investment during the last three plan periods has been as follows :—

	Public Sector Investment (as % of total investment)	
	Projected	*Realised*
Fifth Plan (1974—79)	57.6	43.3
Sixth Plan (1980—85)	52.9	47.8
Seventh Plan (1985—90)	47.8	45.7

79. In the new situation, the public sector may not be expected to maintain its conventional share in investment. However, even accepting the most selective role for public sector, there is the 'requirement' side which has to be looked at. Since the projects have long gestation period in the infrastructure sector, the investments in the immediate future determine the longer term growth possibilities for the economy. In the recent, two annual plans (1990—92), the investment in oil, coal, power, railways and irrigation has been confined generally to the already approved ongoing projects, and new projects for the future needs, in general, could not be provided for. Infrastructural bottlenecks can lead to a situation of the kind that prevailed in mid-seventies when shortages of cement, steel, coal and power were severe, and the annual rates of inflation had crossed 20 per cent. Private sector initiative can reduce the need for public sector investment. But some lag between policy changes and actual investment is inevitable. Though, power sector has been opened up for private sector, it will take sometime before adequate response materialises.

80. An assessment of the sectoral profile of investment in the public sector was made in 1990 after a detailed exercise in consultation with the Central Ministries. The availability of resources being limited, the requirements projected by the ministries had to be reduced by almost 60 per cent. This assessment was based at 1989-90 prices. After allowing for price rise, and the normal expansion in demand for services from public sector in the two years 1990—92, the 1990 assessment of public sector plan is equivalent to Rs. 441000 crores at 1991-92 prices. The resource position of public sector has further deteriorated in this period. Hence, the programmes and projects in public sector plan may have to be curtailed further. At this stage perceptions of the Central ministries for 1995-96 and 1996-97 are not available. However, on the basis of existing assessment of the requirements of infrastructure projects—irrigation, oil, power, coal, railways and other transport, together with the investment for social development, it is indicated that it will be difficult to reduce the public sector plan outlay below Rs. 421000 crores during the five year 1992—97. This comprises Rs. 360000 crores of investment and a current outlay component of Rs. 61,000 crores. The public sector investment on this basis, will amount to 42 per cent of the total domestic investment. Since the requirement of investment in public sector is linked with longer term objectives, a lower growth of economy in the immediate future does not substantially reduce the demand for investment.

81. If the requirement for a certain minimum size of public sector investments is to be treated as given, as discussed in the foregoing para, then in the lower growth scenario, a public sector investment of Rs. 360 thousand crores (with an outlay of Rs. 421 thousand crores) amounts to 45.5 per cent of the total domestic investment, which is nearly the same ratio as realised in the 7th plan. This will leave only as much for private investment, in relative terms, as has been given in the last decade and a half. To allow for more space for the private sector, public sector investment and outlays will have to be further curtailed in the lower growth scenario. Tentatively, say, an outlay of Rs. 400 thousand crores will have investment component of Rs. 342 thousand crores and a current outlay component of Rs. 58 thousand crores. The investment then will amount to 43.2 per cent of the total domestic investment, allowing for a much larger space for the private sector than has hitherto been given. But, curtailing the investment and outlays to this level may require further harsher decisions in respect of sectoral allocations. Proportional adjustment in sectoral allocations is not the principle to be followed, cuts will have to be confined to a few sectors only. Selectivity is the key to the new approach.

82. To finance its outlay, the public sector has to borrow capital. The public sector and the private sector both borrow from the same kitty of national savings. The magnitude of resources in the economy is linked with the growth of output. If the

economy grows at 5.6 per cent the borrowings of public sector (*i.e.* the borrowings of government as well as those of public sector enterprises) will amount to nearly 8 per cent of GDP. In the 6 per cent GDP growth case, the resource generation is assumed to be higher and hence, the borrowings of public sector will reduce to about 7.3 per cent of GDP, and those of private sector will increase correspondingly. (Tables 4A & 4B).

83. There is also another problem to reckon with. Under both scenarios to support the public sector investment of the order envisaged, nearly 80 per cent of the Household Sector's savings in financial assets will have to be transferred to the public sector. This is going to be a difficult task. In the context of the liberalisation of the financial system and, in particular, the interest rate structure, the public sector will have to compete with others for the household savings. This implies a higher cost and this can be borne only if the public sector earns a higher return.

Pattern of Growth

84. The pattern of growth by broad sectoral divisions of the economy as consistent with the overall growth scenarios in GDP is described in Tables 6A and 6B. The growth rate in value added in agriculture is 3 per cent in the lower growth scenario and 3.3 per cent in the higher growth scenario. The pattern is consistent with the growth in consumption brought about by income growth and its distribution. The projections of commodity balances (*i.e.* production, consumption, exports and imports) for principal commodities are presented in Table-7.

85. The suggested electricity generation target needs commissioning of around 31000 megawatt of power capacity during 1992—97. Since the existing projects can contribute 22000 MW, additional new projects of 9000 MW capacity that can yield benefits by 1992—97 will be needed. Gas based projects have the shortest gestation period. The demand for petroleum products will have to be managed with 81 million tonnes by 1996-97. Through substitution, and better efficiency in usage, the rise in consumption of petroleum products will need to be moderated.

Price Stability

86. Maintaining a reasonable degree of price stability is essential for the smooth functioning of the economic system. In the context of the Eighth Plan, price stability is essential not only to protect the interests of the poor but also to prevent any deterioration in the mobilisation of resources. In the past it has been found that while any increase in prices leads to corresponding increases in government expenditure, a corresponding increase in revenues does not occur. As a consequence, the resource gap widens. Price stability is essential to reverse the trend of dissavings in government sector. It is, therefore, necessary that deficit financing in terms of the Central Government borrowings from the Reserve Bank is kept at a level consistent with a reasonable degree of price stability.

Employment

87. Employment implications of growth are presented in Table 8. The labour force is expected to grow at the rate of 2.2 per cent per annum during the 8th Plan. With the planned pattern of investment and production, the employment potential will grow at 2.8 per cent per annum in the higher growth scenario and at the rate of 2.6 per cent per annum in the lower growth scenario. In absolute terms, a growth rate of 2.8 per cent per annum implies generation of 9 million jobs per annum doing the first half of the 8th plan and about 10 million jobs per annum towards the later half of the plan. Thus, it may just about meet the target of 100 million jobs in a decade. Growth at the rate of 2.6 per cent per annum as implicit in the lower growth scenario will mean about 8 million jobs per annum during the first half of the 8th plan and 9 million jobs per year during the later half of the plan, approaching a rate of 10 million jobs a year towards the end of the decade. It may be pointed out that even these employment projections are based on a set of assumptions, which, though feasible, would require an effort to realise, and therefore, the projections are optimistic. The employment elasticity in agriculture, for example, will have to rise to the same level as observed during the period 1977—83. This is possible only if a major effort is made to bring about very significant increases in agricultural intensity and agricultural productivity in the eastern region and in dry agricultural belt. These regions have lagged behind in agricultural growth and hence, a new spurt in growth will bring about additional labour absorption of a similar nature as was experienced in Punjab,

Haryana and Western U.P. during the seventies. Export-oriented intensive cropping (vegetables, flowers, plantation crops, fruits, spices, etc.) offer further scope for employment.

88. Similarly the pattern of industrialisation and choice of technique, where possible without sacrificing productivity, have to be such as to increase the possibility of labour absorption in manufacturing and other sectors. Increasing employment in unproductive jobs will ultimately limit the possibility of expansion of employment and will curtail the growth potential of the economy. Services have to play a major role in generating employment. Expansion of productive services raises the production efficiency of the economy as a whole. The thrust of the next round of liberalisation has to be on the services sector. Entry into the services and the "informal" sectors has to be made free of innumerable rules, regulations and bureaucratic hurdles. Road transport sector needs to be particularly liberated from such strangleholds. With sustained efforts in a number of directions only it will be possible to achieve employment targets.

Summing up

89. Given a fixed ICOR, a higher growth rate will imply a larger investment and, therefore, larger savings. The ability to sustain a higher growth rate rests on the feasibility of mobilising the necessary resources. This is particularly relevant for public sector investment. Public sector savings and in particular government savings in the recent years have not been that encouraging. It is also becoming more costly to transfer resources from the Household sector to public sector. Planning for a higher level of investment and then cutting it as the Plan proceeds because of inadequacy of resources will result in a less than optimal utilisation of resources. The Eighth Plan may, therefore, specify a minimum level of investment and its sectoral allocations consistent with a 5.6 per cent growth rate. It may also indicate what the order of additional investment and its sectoral allocations could be if there is a greater mobilisation of resources. At the same time all efforts should be made to bring down the ICOR from the assumed level of 4.1 which will also result in a higher growth rate. Speedy completion of projects and a more effective utilisation of the capital assets already created particularly in the sectors of power and irrigation are some of the steps that may be required in this regard.

90. Fulfilling the target set for public sector outlay of Rs. 400,000 crores in the Eighth Plan calls for a determined effort on the part of governments and public sector enterprises to save more. The observed trends in government savings and balances from current revenues are extremely disquieting. The savings of the government, Centre and States taken together which was positive in the Sixth Plan turned negative during the Seventh Plan. Government dissavings amounted to 1.48 per cent of GDP in 1988-89, rose to 2.05 per cent of GDP in 1989-90 and is estimated to have reached 2.2 per cent in 1990-91. The situation is not likely to be any better in 1991-92. For example, in the case of the States, the assessment of financial resources made jointly with them as also the Budgets presented so far show that balances from current revenues in 1991-92 would be about (—) Rs. 2500 crores. This assessment also shows that the State Electricity Boards would show a deficit of Rs. 1600 crores. Looking at the trends in additional resource mobilisation by the States in recent years these deficits are likely to turn out to be higher. The savings of the public sector which includes both government and public sector enterprises are such that the bulk of the public sector investment is being financed by borrowing. Even in the changed context, there is a certain minimum investment which needs to be made in the public sector and unless government savings show a distinct improvement, this task will become almost impossible. However, the challenge must be met and the fiscal management both at the Centre and in the States must move in the desired direction of generating more savings so that the minimal level of investment envisaged in the public sector can be realised.

91. Improved fiscal management by the States and Centre must aim both at increasing revenue and restricting expenditures. With regard to revenue some of the areas which may need increased attention are: increasing the direct taxes as a proportion of GDP, minimising exemptions and concessions in the computation of taxable income and widening the tax net through such measures as presumptive taxes and bringing agricultural income under the tax net. Besides the disinvestment of shares of public

sector enterprises to an extent larger than contemplated in the recent Budget, the sale of public sector enterprises which are not in the essential core sector may form part of an overall strategy to raise receipts. Rationalisation of subsidies and a more appropriate pricing of certain products and services such as electricity, water and transport are also relevant. As for expenditures, besides the containment of growth in staff strength, some thought will have to be given whether in some areas the duplication of functions by the Centre and the States can be avoided leading to a more rational distribution of staff. Pruning of defence expenditures is also needed, if the effort to contain the overall expenditures is to succeed.

TABLE—1 *Implications of Alternative Rates of Growth during the Eighth Plan* (1992—97)

Alternative Scenarios for Eighth Plan	GDP Growth Rate	ICOR	Average Rate of Domestic Savings	Current Account Deficit	Average Rate of investment
(1)	(2)	(3)	(4)	(5)	(6)
	(% per annum)		(Per cent of GDP at market Price)		
(I)	5.6	4.1	21.6	1.4	23.0
(II)	6.0	4.1	23.0	1.6	24.6

Notes: (1) The saving rate realised in 1989-90 is 21.66 per cent of GDP. Nearly the same rate of saving is estimated for 1990-91 also.

(2) Abbreviations
ICOR—Incremental Capital Output Ratio.
GDP—Gross Domestic Product

TABLE 2—*Rates of Savings*

(As Percentage of GDP)

		Sixth Plan	Seventh Plan	1988-89	1989-90	1990-91 (a)	Eighth Plan (Projected) (1992—97) 5.6%	6%
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Public Sector	3.66	2.32	1.96	1.72	1.70	2.00	3.00
	1.1 Govt. Sector	1.20	—1.58	—1.48	—2.05	—2.20	—1.43	—1.40
	1.2 Public Enterprises	2.46	3.90	3.44	3.77	3.90	3.43	4.40
2.	Private Corporate Sector	1.62	1.92	2.05	2.12	2.40	2.00	2.00
3.	Household Sector	14.28	16.08	17.07	17.82	17.50	17.60	18.00
4.	Gross Domestic Savings	19.56	20.32	21.09	21.66	21.60	21.60	23.00

Note:
(a) Tentative Estimates.

TABLE—3 *Macro Aggregates for the Eighth Plan* (1992—97)

(Rs. Crores at 1991-92 Prices)

S. No.		Eighth Plan 1991-92	5.6% Growth 1996-97	5.6% Growth Total 8th Plan	6% Growth 1996-97	6% Growth Total 8th Plan
(0)	(1)	(2)	(3)	(4)	(5)	(6)
1.	GDP at Factor Cost	519716	682473	3069138	695497	3105469
2.	GDP at Market Prices	582356	764730	3439053	779324	3479763
3.	Gross Domestic Savings	125789	165182	742835	186047	800300
4.	Private Consumption	389211	504000	2266530	495905	2244688
5.	Gross Domestic Capital Formation	140348	170039	791698	193428	855966
6.	Foreign Savings	14559	4857	48863	7381	55666
7.	Exports of Goods.	44292	83869	330153	83869	330153
8.	Exports of Goods and Non factor services	55762	102366	407342	102366	407342
9.	Imports of Goods	62345	93314	399650	95926	406698
10.	Imports of Goods and Non Factor services	72848	110541	471128	113129	478107

Rates/Ratios	Seventh Plan	Eighth Plan	
		Scenario I	Scenario II
1. Rate of Growth in GDP (% per annum)	5.6	5.6	6.0
2. Domestic Saving (% of GDP.)	20.3	21.6	23.0
3. Marginal Rate of Saving		23.0	26.2
4. Investment (% of GDP)	22.7	23.0	24.6
5. Current Account Deficit (% of GDP)	2.4	1.4(a)	1.6
6. ICOR	4.1	4.1	4.1
7. Growth Rate in			
Exports of Goods (% per annum)	8.1	13.6(a)	13.6
Imports of Goods (% per annum)	10.0	8.4	9.0

Note:

(a) If the growth rate of exports is lower at 13.3 per cent in this lower GDP growth scenario then the current account deficit will rise to 1.5 per cent of GDP.

TABLE 4A—*Domestic Investment and Intersectoral Flow of Funds During the Eighth Plan (1992—97)—Growth Rate 5.6%*

(Rs. Crores at 1991-92 Prices)

Item	Public Sector	Private Corporate Sector	Household Sector	All Sector
(1)	(2)	(3)	(4)	(5)
Gross Investment	342000 (9.94)	148000 (4.30)	302000 (8.78)	792000 (23.03)
Financed by:				
(1) Own Savings	68900 (2.00)	68930 (2.00)	605170 (17.59)	743000 (21.60)
(2) Borrowings				
2.1 From Households	239400 (6.96)	63770 (1.85)	—303170 (—8.81)	0 (0.00)
2.2 From Rest of the World	33700 (0.98)	15300 (0.44)	0 (0.00)	49000 (1.42)

Note:—

1. Figures in round brackets are percentage to GDP at market Prices projected for the Eighth Plan.
2. For the Eighth Plan financial savings of household sector as a percentage of total Household savings is projected at about 50%.
3. These projections imply an ICOR of 4.1 for the Eighth Plan.

TABLE 4B—*Domestic Investment and Intersectoral Flow of Funds During the Eighth Plan (1992—97)—Growth Rate 6%*

(Rs. Crores at 1991-92 Prices)

Item	Public Sector	Private Corporate Sector	Household Sector	All Sector
(1)	(2)	(3)	(4)	(5)
Gross Investment	360000 (10.34)	182830 (5.26)	313170 (9.00)	856000 (24.60)
Financed by:				
(1) Own Savings	104400 (3.00)	69530 (2.00)	626370 (18.00)	800300 (23.00)
(2) Borrowings	255600 (7.34)	113300 (3.26)	—313200 (—9.00)	55700 (1.60)
2.1 From Households	216600 (6.22)	96600 (2.78)	—313200 (—9.00)	0 (0.00)
2.2 From Rest of the World	39000 (1.12)	16700 (0.48)	0 (0.00)	55700 (1.60)

Note:

1. Figures in round brackets are percentages to GDP at market prices projected for the Eighth Plan.
2. For the Eighth Plan financial savings of household sector as a percentage of total household savings is projected at about 50%.
3. These projections imply an ICOR of 4.1 for the Eighth Plan.

TABLE 5—*Sectoral Pattern of Financing of Aggregate Outlay in Eighth Plan* (1992—97)

A. GDP Growth Rate 5.6 % (Rs. Crores at 1991-92 Prices)

S. No.	Sector	Own Saving	Transfer from Domestic Sectors: Public Sector	Transfer from Domestic Sectors: Private Corporate Sector	Transfer from Domestic Sectors: Household Sector	Rest of the World	Invest-ment	Current Outlay	Aggregate Outlay
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Public Sector	68900	..	..	239400	33700	342000 (43.18)	58000*	400000
2.	Private Corporate Sector	68930	..	..	63770	15300	148000 (18.69)		
3.	Household Sector	605170	..	..	—303170	..	302000 (38.13)		
		743000	..	..	..	49000	792000 (100.00)		

B. GDP Growth Rate 6.0 % (Rs. Crores at 1991-92 Prices)

S. No.	Sector	Own Saving	Transfer from Domestic Sectors: Public Sector	Transfer from Domestic Sectors: Private Corporate Sector	Transfer from Domestic Sectors: Household Sector	Rest of the World	Investment	Current Outlay	Aggregate Outlay
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Public Sector	104400	..	..	216600	39000	360000 (42.06)	61000*	421000
2.	Private Corporate Sector	69530	..	..	96600	16700	182830 (21.36)		
3.	Household Sector	626370	..	..	—313200	..	313170 (36.59)		
		800300	..	..	..	55700	856000 (100.00)		

*17.0 % of Public Investment as compared to 17.4% in Seventh Plan.

TABLE 6—*Sectoral Growth Rates and Shares of Gross Value Added at Factor Cost*

Sector	Gross Value Added: 1980-81 to 1989-90 (Trend Growth)	Gross Value Added: 1992-93 to 1996-97 (Projected) Scenario I	Gross Value Added: 1992-93 to 1996-97 (Projected) Scenario II	Sector Share (Percent): 1991-92	Sector Share (Percent): 1996-97 Scenario I	Sector Share (Percent): 1996-97 Scenario II
1. Agriculture	2.9	3.0	3.3	27.66	24.42	24.31
2. Mining and Quarrying	6.8	7.5	8.0	2.04	2.23	2.24
3. Manufacturing	7.0	7.3	7.7	21.50	23.29	23.28
4. Electricity etc.	9.1	8.2	8.8	2.40	2.71	2.74
5. Construction	3.6	4.3	4.6	5.13	4.82	4.80
6. Transport	7.6	7.2	7.7	5.94	6.40	6.43
7. Communication	6.1	6.3	6.6	1.17	1.21	1.20
8. Other services	6.4	6.1	6.5	34.16	34.92	35.00
Overall Growth Rate	5.5	5.6	6.0	100.00	100.00	100.00

TABLE 7—*Material Balance for Selected Commodities*

COMMODITY	UNIT	1991-92	1996-97
1. Foodgrains	Mill. Tonnes		
Production		175·50	210·00
Export / Stock		—1·50	2·00
Consumption		177·00	208·00
2. Oilseeds	Mill. Tonnes		
Production		17·00	23·00
Consumption		17·00	23·00
3. Sugarcane	Mill. Tonnes		
Production		228·00	275·00
Consumption		228·00	275·00
4. Cotton	Mill. Bales		
Production		12·00	15·50
Export		0·13	0·30
Consumption		11·87	15·20
5. Milk	Mill. Tonnes		
Production		57·00	73·00
Consumption		57·00	73·00
6. Coal	Mill. Tonnes		
Production		220·22	308·00
Import		4·00	3·00
Export		1·00	1·00
Change in Stock		—8·00	—
Consumption		231·22	310·00
7. Crude Oil	Mill. Tonnes		
Production		33·00	55·00
Import		19·35	14·55
Consumption		52·35	69·55
8. Iron Ore	Mill. Tonnes		
Production		56·50	72·00
Export		35·00	36·00
Consumption		21·50	36·00
9. Sugar	Mill. Tonnes		
Production		12·00	15·50
Export		0·50	2·00
Consumption		11·50	13·50
10. Cloth	Bill. Mtrs.		
Production		18·26	24·70
Export (Net)	Rs. Crores	10085·00	25100·00
Consumption		16·68	22·80
11. Petroleum Products	Mill. Tonnes		
Production		50·21*	67·52*
Import		10·69	16·91
Export		2·70	3·30
Consumption		58·20	81·13
12. Nitrogenous Fertilizers	Mill. Tonnes		
Production		7·35	9·60
Import		0·90	1·95
Consumption		8·25	11·55

*Includes production of LPG from natural gas one million tonnes and 1·8 million tonnes for 1991-92 and 1996-97 respectively.

TABLE 7—(*Contd.*)

COMMODITY	UNIT	1991-92	1996-97
13. Phosphatic Fertilizers	Mill. Tonnes		
Production		2·45	3·80
Import		0·95	1·05
Consumption		3·40	4·85
14. Potassic Fertilizers	Mill. Tonnes		
Import		1·35	1·60
Consumption		1·35	1·60
Total Fertilizer nutrients	Mill. Tonnes		
Production		9·80	13·40
Import		3·20	4·60
Consumption		13·00	18·00
15. Cement	Mill. Tonnes		
Production		52·50	76·00
Export		1·00	5·00
Consumption		51·50	71·00
16. Finished Steel (Main+mini)	Mill. Tonnes		
Production		14·60	20·90
Import (canalised)		1·00	1·50
Export		0·30	1·40
Consumption		15·30	21·00
17. Aluminium	Th. Tonnes		
Production		521·00	656·00
Import		4·00	16·00
Export		68·00	..
Consumption		457·00	672·00
18. Copper (refined)	Th. Tonnes		
Production		43·00	55·00
Import (Incld. non-canalised)		107·00	145·00
Consumption		150·00	200·00
19. Zinc (Primary Metal)	Th. Tonnes		
Production		120·00	154·00
Import		10·00	26·00
Consumption		*130·00	180·00
20. Lead (Primary Metal)	Th. Tonnes		
Production		60·00	96·00
Import (Incld. non-canalised)		20·00	4·00
Consumption		80·00	100·00
21. Electricity	Bill. KWH		
Generation (Incl. non-utilities)		303·17	448·00
Import		2·00	2·00
Consumption		305·17	450·00
22. Railways	Mill. Tonnes		
(Originating traffic)		356·10	443·40

*Abnormally Low Consumption.

TABLE 8—*Sectoral Value Added and Employment Growth During Eighth Plan* (1992—97)

S. No.	Sector	Sectoral Growth (Value added) Scenario I	Sectoral Growth (Value added) Scenario II	Employment Elasticity (a) Achieved 1977-78 to 1983	Employment Elasticity (b) Achieved 1983 to 1987-88	Employment Elasticity (c) Possible Targets for 8th plan	Employment Growth Scenario I Using Elasticity as in (c)	Employment Growth Scenario II Using Elasticity as in (c)
(0)	(1)	(2)	(3)	(4)			(5)	(6)
1.	AGRICULTURE	3·0	3·3	0·49	0·36	0·50	1·50	1·65
2.	MINING AND QUARRYING . . .	7·5	8·0	0·67	0·85	0·85	6·38	6·80
3.	MANUFACTURING	7·3	7·7	0·68	0·26	0·50	3·65	3·85
4.	CONSTRUCTION	4.3	4·6	1·00	1·00	1·00	4·30	4·60
5.	ELECTRICITY	8·2	8·8	0·74	0·48	0·50	4·10	4·40
6.	TRANSPORT & COMMUNICATION . .	7·0	7·5	0·92	0·35	0·60	4·20	4·50
7.	OTHER SERVICES	6·1	6·5	0·99	0·42	0·70	4·27	4·55
	TOTAL	5·60	6·00	0·54	0·30	0·46	2·59	2·79

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