

UNIT 16 PLANNING STRATEGIES - II

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16.0 OBJECTIVES

The objective of this unit is to relate planning strategies to the main sectors and levels of the economy. On going through this you will be able to:

Indicate the interdependence between agriculture and industry

Explain the sectoral classification and analysis of India's industrialisation and the role of the public sector

Describe the Public Distribution System (PDS) and Social Welfare

Understand why it is necessary to undertake planning for different levels - Multi-level Planning.

16.1 INTRODUCTION

Some of the major aspects of the planning strategies are the sectoral composition of the overall growth targets, the allocations and linkages across the sectors, such as, agriculture, capital goods and consumer goods industries, the roles of the public sector and the public distribution system, etc. The planning goals and allocations have also to be resolved in terms of the various regional levels, from the Centre to the States, to the Districts and, finally, to the Blocks and Panchayats. These aspects are discussed below.

16.2 AGRICULTURE - INDUSTRY INTERDEPENDENCE

Agriculture and industry are not two mutually exclusive sectors. There are numerous linkages between them. The plan strategy recognises this. If you go to the village 'Monday' (or bazar), you can see peasants bringing loads of rice and wheat to the market. They sell their produce to the traders who in turn may sell them in the urban areas to the consumers working in the non-agricultural sector, consisting of industrial and services sectors. In most of the developing countries while about two thirds of the agricultural produce is consumed within the agricultural sector, one third of it is marketed to the non-agricultural sector. This later amount constitutes what is called the 'marketed surplus' of the agricultural sector for the non-agricultural sector. Since the people involved in non-agricultural activities do not produce food, they naturally have to depend on the agricultural sector for food. Again, there are certain industries, known as agro-based industries, which buy inputs from the agricultural sector. Thus, cotton-textile industry, requires cotton and sugar industry requires sugarcane as raw materials.

You may have heard about the Green Revolution of India which sought to usher in a new era in its agriculture since the mid-60s by improving agricultural productivity. Such method of crop production involved increased dependence on pesticides, chemical fertilizers, pump sets, tractors, etc. which are manufactured by the industrial sector. Thus, we see that agriculture is a supplier of wage-goods (food grains) and raw materials to the industrial sector. While wage-goods are meant for final consumption by the workers in the non-agricultural sector, raw materials are intermediate goods in the sense that, they are used in the production process for the manufacture of final output like refined sugar, vegetable oils, tea, cotton textiles, gunny bags etc. On the other hand, the industrial sector supplies goods for final consumption to the agricultural sector (tea, textiles, sugar, transistors, bicycles, soap, etc.) it also supplies inputs (intermediate goods) like fertilizer, pesticides, etc. to agriculture to facilitate production of grains. We shall now discuss some other linkages between agriculture and industry.

You may have noted the stark and grim poverty in the countryside of most of the third world countries and have asked yourself why it is so. One important problem with agriculture is that it suffers from severe shortage of land. When the rural population increases very rapidly, for a greater part of the year people do not have any work to do even if they want to work. These people are said to be seasonally unemployed. Again there are cultivators who are working in their family farm round the year. But, often, the work that 3 persons could have done, is engaging say, 5 people. When five are doing the work of three, we say that two are under-employed. These unemployed and underemployed people constitute surplus labour. Therefore, a planning strategy involves steps towards rapid industrialisation involving a shift in the labour force from agriculture to industry. Thus the agricultural sector can operate as a huge reservoir of surplus manpower to be employed in industry. Unfortunately, not much success has been attained in this direction. The percentage of population depending on agriculture has hardly undergone a change in the planning era.

Now we shall discuss the linkages between agriculture and industry from the stand point of mobilisation of financial resources. Here we shall specifically discuss the issues of savings and taxation. You must have noted the commercial banks operate with a huge network of branches in the rural areas to mobilise deposits from the rural areas. This has resulted, at least partially, in the transformation of 'unproductive' saving (in general non-financial saving) in the form of land, hoarding of gold, jewellery, and money to 'productive' financial assets which can be easily channelised for planned investment in industry and infrastructure. While savings are of a voluntary nature, taxes are not. The government imposes taxes on commodities individuals to mobilise financial resources for meeting its expenditure which is partly of a developmental nature. The agricultural sector may be taxed and real resources mobilised for industrialisation.

However, sometimes, as in case of India, agricultural income-taxation has been almost ruled out in practice on socio-political rather than economic grounds. The share of land revenue which could have been a major component of state revenues has declined to insignificant levels. On the one hand, agriculture receives subsidies from the government when it buys fertilizers and uses irrigation-water and electricity. There is an element of inequity within the agricultural sector as it is the well-to-do sections among the peasantry and

the comparatively more developed rural areas of a country which appropriated a sizeable chunk of the subsidies. On the other hand, mass consumption goods constitute the major portion of the budget of the poor. These goods provide a major tax base. Hence, the indirect tax structure when relied on become regressive for the agricultural population. However, as far as direct taxes are concerned, the rural-urban differential is more than for indirect taxes.

Taxation may be regarded as a direct instrument of resource mobilisation. The index of relative prices between agricultural produce and non-agricultural produce is termed the 'Net Baker Terms' of trade between agriculture and non-agriculture. Resources can be transferred from agriculture to non-agriculture by turning the relative prices against agriculture. This resource transfer occurs as, in order to obtain the same amount of nonagricultural goods than it had to before. However, if the net barter terms of trade continue to move against agriculture in the long run, this may operate as a disincentive against agriculture with the consequent upward pressure on agricultural prices so that the transfer of agricultural resources in real terms may decline. On the other hand, if the relative prices move in favour of agriculture, real income of non-agricultural workers will fall as the bulk of the budget of the industrial workers is spent on wage goods, such as food grains. If the workers are organised and can keep their real wages unchanged, industrial profits fall with an adverse effect on industrialisation. So, perhaps, it is judicious to strike a balance between agriculture and industry-in terms of both relative prices and quantities-so that an inflation free and steady growth of agriculture and industry is possible in other words, it is important to maintain a sectoral balance between agriculture and industry. A planning strategy must recognise this problem.

Check Your Progress I

Note: i) Use the space given below for your answer.
ii) Check your answer with that at the end of the unit.

- 1) In what ways are agriculture and industry mutually interdependent? (in six lines)
- 2) Why is a sectoral balance between agriculture and industry necessary ? (in six lines)
- 3) Cite three examples for each of the following: i) agro-based industries, ii) non-agro-based industries.
- 4) Point out the correct answer:

a) Marketed surplus from agriculture is i) the produce marketed by agriculture to the non-agricultural sector, ii) the agricultural produce consumed within the agricultural sector, iii) non agricultural produce marketed to the agricultural sector.

- 4) Which is voluntary taxes or saving ?

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Why are certain taxes called 'direct' and certain others indirect? (in six lines)

16.3 INDUSTRIES

The importance of industrialisation as a means for achieving self-sustained growth and development has been a recognised development strategy in the planning era. The industrialisation strategy in general has had the following objectives:

- i) To increase production and productivity;
- ii) To pursue self-reliance through establishing a broad-based industrial production structure;
- iii) To encourage small-scale industries with a view to generating employment and fostering entrepreneurial development. We shall discuss some of these objectives in the context of small scale industries and capital consumer goods industries.

16.3.1 Small Scale industries

We have noted in the last section that, in the planning era, the percentage of population dependent on agriculture has remained more or less unchanged in absolute terms, the number of agriculture dependent population has increased leading to wide-spread unemployment and under-employment, causing mass poverty.

It has been argued that, small scale industries which can be established even in remote rural areas, can absorb the surplus manpower from agriculture. Given the structural features of an economy e.g. surplus of labour, scarcity of capital and underdeveloped infrastructure, village and small scale industries can play a significant role in the industrialisation endeavour.

16.3.2 Capital Goods and Consumer Goods Industries

A diversified and large-scale capital goods sector often is perceived as a proper route to realise the object of attaining economic self-reliance. This type of industrialisation is referred to as 'Import-Substitution Led Industrialization'. industrial goods manufactured domestically - were to replace their imported counterparts. Mobilisation of a huge amount of financial and physical resources as well as creation of a large reservoir of skilled and technical manpower becomes necessary for this purpose. While the ultimate objective presumes attainment of economic and technological self-reliance, in the initial stages, however, a large volume of imports of capital goods, raw materials and technology is necessary as these are not available domestically. The experience of former USSR and India may be remembered in this kind of a plan strategy.

Take the case of India, as an example. The industrial policy announced by the Government of India in 1956 stimulated the expansion of the capital goods sector consisting of iron, steel, chemicals, heavy engineering and machine building industries, aluminium, cement, etc. Capital goods industry broadly produces machines for either consumer goods sector or for capital goods sector. Thus a heavy engineering unit may produce textile machinery (a capital good) which can be used in manufacturing textiles (a consumer good). Again, an iron and steel industries unit may produce what can be used in a heavy engineering unit to manufacture machinery to be used as an input in another capital goods industry (say, in a cement industrial unit). The capital goods sector produces machinery for agricultural development-tractors, harvesters, threshers as well as inputs for establishing multi-purpose irrigation projects (like cement, steel, etc.) and a network of transport and communication. Also, it facilitates export of machinery and enables the country, to earn scarce foreign exchange. Unlike the capital goods sector, which produces intermediate goods to be used up in the production process, the consumer goods sector produces final goods for consumption. These include non-durable goods like pulses, edible oil, sugar and salt, semi-durable goods like clothes, soaps and

shoes, and durable goods like passenger cars and houses. While some of these goods are necessities or essential consumer goods and satisfy the minimum basic needs of an individual (rice, salt, cheap cloth, low cost housing, etc.) some are luxuries (passenger car, airconditioner, cosmetics, etc.) and are non-essential consumer goods it is imperative to maintain a balance between the production of the capital and consumer goods sectors. If the balance is not maintained, the principles of equity and equilibrium get affected. This may have an adverse impact on productivity and, therefore, on growth. An inflationary situation may develop if the capital goods sector grows at a faster rate than that of the consumer goods sector.

Check Your Progress 2

Note: i) Use the space given below for your answer.
ii) Check your answer with that given at the end of the unit.

1) How will you distinguish (in one sentence each):

- i) capital goods from consumer goods
- ii) durable consumer goods from non-durable consumer goods;
- iii) luxuries from necessities; and
- iv) large scale industries from small scale industries?

2) Cite three examples for each of the following:

- i) small scale industries located in urban areas.
- ii) capital goods industries
- iii) village and handicraft industries.
- iv) consumer goods industries.

3) Which is likely to generate more employment in general, given that each of these industries has identical amount of capital:

- i) a capital goods industry or a consumer goods industry?
- ii) a large scale industry- or a small scale industry?

16.4 PUBLIC DISTRIBUTION SYSTEM (PDS) AND SOCIAL WELFARE

If you live in a town, you may have come across people in a queue waiting eagerly for the ration in front of a shop (i.e. fair price shop as it is called) to open. Each individual can buy a fixed quantity of some of the essential items one needs for one's basic consumption-rice, wheat, sugar, kerosene, etc. at a fixed price which is below the price prevailing in the open market i.e. in shops which you do not call ration shops. Now what is rationing all about? Why do we need it? What are its economic implications?

16.4.1 Historical Background

The Second World War (1939-45) witnessed a massive shortage of food grains because of a thriving black market, so that prices skyrocketed. This resulted in a famine or near-famine condition as the poor could not afford to buy from the open market. This implies a failure of the market mechanism (refer to unit 15). The

Government introduced public distribution system through which a minimum amount of essential consumer goods would be distributed among specific social groups at a fixed price-lower than that prevailing in the open market. Fair price shops were opened for this purpose. Ever since, the PDS has been strengthened and its coverage widened. But, the rural areas are covered much less than the urban areas. The PDS was to ensure economic and social justice by satisfying the basic minimum needs even during the period of shortages. It was to ensure stabilisation of the variation in agricultural prices--prone to seasonal fluctuations well as to serve as an effective instrument against hoarding, speculation and black marketing by unscrupulous traders.

16.4.2 Functions

The PDS is supposed to provide two-sided shield to protect the poor: on the one hand, it protects the interests of the poor producers by ensuring a certain minimum price for their produce. On the other hand, it protects the poor consumers by supplying essential commodities at reasonable prices. The Government announces procurement prices and minimum support prices before the commencement of agricultural production. These administered prices act as signals to the producers which help them take decision as to which crop to produce and in what quantity. The minimum support prices operate as a floor below which the market price - determined by the forces of demand and supply- should not fall. Whenever there is a tendency for the food price to fall below the minimum support price, the government's agents purchase the commodities at the specified minimum support price. The procurement price is the price at which the government actually procures food grains from the agricultural sector. This procurement price may be either equal to or greater than the minimum support price. The government also fixes the issue price at which the fair price shops sell food grains to the consumers (ration card holders), which is lower than the price prevailing in the open market. Apart from these price control measures, the government's buffer stock operation aims at stabilising the quantity of food grains available for consumption. In the year of good harvests the government's agencies buy food grains or raw jute from the producers and stores them in the godowns and in years of poor harvest, when prices are running high, the government releases the stocks through the fair price shops to keep the paces in check. For certain commodities like sugar, the PDS in India works on a dual pricing mechanism. A certain proportion of, say, sugar is procured by public agencies. This is distributed by the government through the ration shops at a fixed price in specified quantities per head to the consumers possessing ration cards. The producers sell the rest in the open market at whatever price the market can fetch them. In this way the interests of both producers and the consumers are served: the former can recover their cost of production of sugar and earn profits; while for the latter, basic minimum needs are satisfied through the public distribution network.

16.4.3 Suggestions For Improvement

The PDS can play a better role in distributing essential commodities if

- i) Interruptions in the supply line which create great hardships for the people can be prevented and supplies made adequate, regular and of standard quality;
- ii) It is revamped, strengthened and expanded further to cover all areas in the country, particularly the backward, remote and inaccessible areas;
- iii) It reaches the deprived social groups especially those living below the poverty line, such as landless rural labour;

- iv) Buffer stocks with the government can be increased;
- v) Storage and transport problems, which result in large losses, can be overcome;
- vi) Management and distribution of ration cards and malpractices in the operation of the PDS at procurement, stocking, distribution etc. levels can be done away with; and
- vii) It is not used as an instrument of political patronage. Besides, it would be necessary to revamp and strengthen the existing arrangements. In the states where a strong cooperative movement exists, the apex Consumer Cooperative and Marketing Societies may take up the responsibility of procurement, storage, movement and distribution of essential commodities. Civil Supplies Corporations are being established by the State Governments to make the essential items available to the weaker sections of the community in remote areas. Further, efficient and socially-oriented marketing techniques should be utilised to reduce the cost of distribution. Mobile fair price shops need be organised at centres where development of construction works are in progress. Under the plan projects, in tribal areas, arrangements may have to be made to supply goods to the tribals on barter. As long as poverty persists and there are problems of scarcity, the PDS is bound to play a significant role in ensuring social and economic justice, especially for the weaker sections.

Check Your Progress 3

- Note:**
- i) Use the space given below for your answer.
 - ii) Check your answer with that given at the end of the unit.
- 1) Explain, in one sentence, each the following terms:
 - i) minimum support price
 - ii) procurement price
 - iii) issue price.
 - 2) How will you relate the public distribution system with the concept of economic justice?
 - 3) What is dual pricing system? How does it protect the interest of both producers and consumers?
 - 4) Suggest five important measures for further strengthening the public distribution system.

16.5 MULTI-LEVEL PLANNING (MLP)

Planning in many countries in its initial stages was conceptualised on two levels only- (a) National and (b) State. As a result, though some of the fruits of planning have trickled down to the grass roots level, there has been no substantial change in the conditions of the masses. Hence, of late, there has been a growing realisation that there should be multi-level planning or planning at different levels-state, district, block and down to the village level.

If you are from (or have been to) a village, you may have noted that even neighbouring villages may not have identical soil, access to water and land-gradient. This may call for different techniques for cultivating different plots of land. So, if a planner - planning from a far away city and unaware of the differences in the optimum input requirements- prescribes uniform inputs for all plots of land, actual output will fall short of its potential resulting in a loss for the producers. Hence, in order to optimise production, it is necessary to

have planning at the grass roots level. This is, however, but only one example which shows the necessity, of having multi-level planning rather than planning only at National and States level. Decentralised planning enables a better perception of the needs of all areas, makes better informed decision making possible, gives people a greater voice in decisions concerning their development and welfare, serves to achieve better coordination and integration amongst programmes, enables the felt needs of the people to be taken into account and ensures effective participation of the people. It also serves to build up a measure of self reliance by mobilising resources of the community in kind or money, making development self-sustaining, helps in better exploitation of local resources for larger social good and facilitates productivity. Hence, it is imperative to decentralise planning so that fruits of progress reach all sections of the population. Microlevel planning in many countries has not received the desired attention and support, although its importance has been emphasised in various official reports. Planning at the grass-root level in regard to the programmes for rural development may show useful results. Nevertheless, it should be kept in view that the planning process is not free from complexities and problems. The important handicaps lacunae in the implementation of multi-level planning could broadly be grouped as follows: i) the decision making powers/ functions tend to be concentrated confined to the higher levels of the administration; ii) involvement of the local people with the activities of the development and welfare could be marginal; iii) district or block level developmental bodies may have little or no autonomy; iv) broad-basing of the institutional mechanism with the active involvement of local representatives is often ineffective; v) provision of effective infrastructure to assist the developmental process at various levels is inadequate; and vi) the objectives of planning as also the need of the national, state, district and local level are often not clearly understood by each. They fail to operate within the framework that has been allotted to them.

Check Your Progress 4

- Note:** i) Use the space given below for your answer.
 ii) Check your answer with that given at the end of the unit.

- 1) What is multi-level planning ? Do you think that it is superior to centralised planning? Give two reasons.

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- 2) What are the 'levels' that constitute multi-level planning ? Start from the apex.

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16.6 LET US SUM UP

The unit deals with planning strategies in the specific context of agriculture - industry interdependence, public distribution system, industrialisation strategy and multi-level planning. We have noted that India's planning strategy recognises the numerous linkages between agriculture and industry and stresses the importance of balanced sectoral growth and price stability. Problems encountered in Indian planning have been discussed. The public distribution system operates as an instrument of ensuring economic and social

justice although there is scope for further improvement. We also noted that India's industrialisation strategy aims at attaining economic self-reliance by establishing a large scale capital goods base. On the other hand, small scale industries are supposed to provide gainful employment and alleviate poverty. These can also facilitate rural industrialisation. We have noted that by bringing planning closer to the masses, a greater involvement of the people will result in a greater momentum in the planning process. Hence the rationale for multi-level planning.

16.7 KEY WORDS

Capital Goods Industries: Industries which manufacture goods facilitating further production of consumer and capital goods.

Consumer Goods Industries: Industries which manufacture goods for final consumption.

Direct Tax: A tax for which the burden cannot be shifted by an economic unit on whom the tax is imposed, e.g. income tax, corporation tax, etc.

Dual Pricing System: A system in which a commodity has two prices - one officially set price prevailing in the fair price shops and the other in the open market.

Foreign Exchange: Currencies of foreign countries, e. g. U. S. dollar, U.K.'s pound-sterling, Japanese yen, etc.

Green Revolution: A complete change in agricultural production technology to boost agricultural output with the help of high yielding variety seeds supported by fertilisers, pesticides and controlled irrigation.

Indirect Tax: A tax for which the burden can be shifted by an economic unit on whom the tax is imposed, e.g. excise duty, sales tax, etc.

Marketed Surplus: The amount of output sold by farming households after allowing for self-consumption and input requirements.

Multi-level Planning: Planning at different levels ensuring proper integration and co-ordination among them so that all sections of the population can participate in as well as receive fruits from the planning process.

Labour Surplus Economy: An economy where the people willing to work are more in proportion to other factors like land and capital, so that a segment of the labour force remains unemployed/under-employed.

Real Income: Money income corrected for changes in prices indicating an actual command over goods and services purchased from the market.

Under-employment: A situation between total unemployment (no job at all) and full employment.

Wage-goods: Goods for mass consumption or necessities like cereals, cheap clothes etc. comprising the subsistence need of the workers.

16.8 SOME USEFUL BOOKS

Chaudhury, Primit, 1978, *The Indian Economy*, Vani Publications, Delhi.

Chakraborty, Sukhomoy, 1987, *Development Planning*, Oxford University Press, New Delhi.

Kamta Prasad, 1984, *Scope and Functioning of the Public Distribution System in India*, in *Economic Policy and Planning in India* (ed.) Singh, A N, Papola, T.S., and Mathur, R.S., New Delhi, Sterling Publishers, pp. 207-30

Papola, T.S.. 1982, *Rural Industrialisation Approaches and Potential*, Himalaya Publishing, Bombay

Government of India, 1985, *The Seventh Five Year Plan, Planning Commission*, New Delhi.

Government of India, 1969, *Multi- Level Planning, Planning Commission*, New Delhi.

16.9 ANSWERS AND/ OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

- 1) **Hint:** In your answer you have to point out the goods that agriculture supplies to industry and vice-versa see paragraphs 2-6 of Section 16.2).
- 1) See the last paragraph of Section 16.2.
- 2) i) agro-based industries: cotton textiles, sugar industry, natural rubber industry.
ii) non-agro based industries: iron and steel industry, petrochemicals industry and cement industry
- 4) a) i
b) i
- 5) Saving is voluntary. .
- 6) If the burden of a tax cannot be forthwith shifted by an economic unit on whom the tax is imposed, that tax is called Direct Tax. Thus, an individual has to pay an income tax (a direct tax) if his income exceeds a minimum stipulated amount. If the tax-burden can be shifted, then that tax is called indirect Tax.

Examples of direct tax: Wealth Tax, Corporation Tax, Estate Duty.

Examples of indirect tax: Excise duty, Sales Tax, Customs Duty.

Check Your Progress 2

- 1) i) See section 16.3.2
ii) Durable consumer goods are those which can be used again and again over a period

of time e.g. houses, non-durable goods can be used only once, and/or get used up quickly

iii) Luxuries are those consumer goods which an individual can well do without e.g. cosmetics. Necessities satisfy the basic minimum needs of an individual e.g. rice cheap clothes, etc.

iv) **Hint:** The distinction is based on 'scale' or the volume of output manufactured by an industrial unit, besides the amount of capital and the number of labourers it employs.

- 2) See Sub-section 16.3.2. You are, however, most welcome to cite examples on your own
- 3)
 - i) A consumer goods industry
 - ii) A small scale industry

Check Your Progress 3

- 1) See Sub-section 16.4.2 (1st paragraph)
- 2) **Hint:** Stress the role of PDS in facilitating availability of foodgrains at a reasonable pace to a wide section of the population-especially the weaker sections. Also mention how it helps the producers of food grains (especially 1st and last paragraph)
- 3) See Sub-section 16.4.2 (4th paragraph)
- 4) See Sub-section 16.4.3

Check Your Progress 4

- 1) See section 16.5 (especially the first 3 paragraphs)
- 2) See section 16.5 (1st paragraph). Note that there are five levels which constitute multi-level planning.