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India's Second Five-Year Plan: A General Appraisal

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Conclusions

The examination of the significant economic variables which influenced the Indian second five-year plan reveals that much progress has been accomplished, despite the failure of the plan to live up to the expectations of its planners. Part of this failure must be attributed to the planners themselves.

The responsiveness of income to increases in investment was exaggerated; the extent of private investment was considerably underestimated, while the volume of public investment was overestimated; insufficient emphasis was assigned to agriculture; the volume of planned deficit financing was unrealistic; and the level of planned exports was insufficient, given the country's needs for imports. The domestic economy failed to provide the anticipated volume of tax revenues for financing the plan, while the volume of imports was much more than originally expected.

Once internal deficiencies are recognized and corrected, the Indian economy will have a firm foundation for the achieving of planned economic development.

The effort to push investment beyond the limits imposed by the availability of savings has had serious consequences for India that are not fully appreciated to this day. The balance of payments crisis that ensued was met by the imposition of rigid controls over imports, with the result that the Indian industrial development is now proceeding behind a substantial protective wall, stimulated by inflated domestic demand. This has resulted in the emergence of a high cost structure in Indian industry that is a serious barrier to the development of exports.

To achieve sustained industrial activity and economic growth, it is imperative that there be a large scale increase in exports. Such an expansion can only occur if import restrictions are not used to provide protection in the local market and to inflate the cost structure of the economy. The more import restrictions distort economic activity, the harder it will be for India to escape dependence on external aid.

Introduction

India embarked on her third five year plan in April 1961. Economic discussion on India is now focused on the objectives, priorities and targets of the plan, as well as the source of funds for financing its proposed expenditures. As the new plan has been considerably influenced by the progress of the previous five-year plan, which covered the period from April 1956 to March 1961, an assessment of the actual workings of the second plan will give greater understanding to the objectives and priorities of the third plan as well as to the strategic factors upon which the success of the plan may depend.

An appraisal of a comprehensive economic plan is complicated by a number of important considerations. First, the plan is not always designed solely to attain set physical targets, but also to help further the achievement of non-quantifiable goals. India's second five-year plan was intended "to provide the environment in which there is scope for the expression and application of diverse faculties and urges,--to mould and refashion (the existing framework of economic and social institutions) so that they contribute effectively to the realization of wider and deeper social values--(and to help achieve) a socialist pattern of society." 1/ While the progress towards these basic ogjectives cannot be included in this economic examination of the plan, they are significant in any total evaluation of the plan's impact on Indian life.

Secondly, even an examination of the economic and quantifiable targets is subject to the limitations of adequate statistical data. Moreover some of the conceptual problems of national income analysis, such as whether educational and medical expenditures should be included in consumption or investment, appear to be of greater inportance in the underdeveloped than the developed countries. Thirdly, it is not always correct to assume that a country's progress toward economic development is positively correlated with the extent to which the country achieved the planned targets. The attainment of the targets of a modest plan may not bring as much economic progress as might an ambitious plan in which targets were not achieved. Also, the targets themselves may be so inappropriate in relation to the economic structure of the country that their attainment might represent the reverse of progress. Fourthly, the success or failure of the country to achieve planned targets may be due to external factors so that it would be incorrect to praise or blame the plan for the results.

While it has been common practice to criticize the Indian plans by suggesting alternative ones with different priorities and targets which might quicken the eventual attainment of economic development, this paper will be limited to analyzing how successful were the Indians in accomplishing what they themselves had planned.

National income

One of the principal economic objectives of the second five year plan was "a sizeable increase in national income so as to raise the level of living in the country." 2/ Income was expected to expand to Rs. 131 billion at the end of the five year period. Actually, as Table 1 indicates, national income expanded by less than the planned rate.

1/ Government of India, Planning Commission, Second Five Year Plan, 1956, p. 22.

2/ Government of India, Planning Commission, Second Five Year Plan, 1956, p. 24.

TABLE 1

National Income Estimates

(1948/49 prices)

Period	National Income (Rs. billion)		Per capita Income (Rs.)	
	Planned	Actual	Planned	Actual
1955/56		104.8		267.8
1956/57		110.0		275.6
1957/58		108.9		267.4
1958/59		116.5		280.2
1959/60		117.6 a/		276.9 a/
1960/61	131 b/	125.3 c/	316 d/	288.8 c/

a/ Preliminary.
b/ Calculated as the planned 25 per cent increase over the actual 1955/56 income level.
c/ Provisional.
d/ Calculated as the planned 18 per cent increase over the actual 1955/56 per capita income level.

Source: Government of India, Central Statistical Organization, Estimates of National Income 1948-49 to 1959-60, March 1961, Table 1, p. 1; and Economic Weekly, August 26, 1961, p. 1358.

Actual national income in 1960/61 is estimated at Rs. 125.3 billion, or at about 95 per cent of the planned level. During the plan period, national income expanded by 20 per cent or by 3.6 per cent per annum, as compared with the targets of 25 per cent and 4.6 per cent per annum. Thus there was a 20 per cent shortfall in the total rate of increase of national income, and a 26 per cent shortfall in the annual rate of increase.

This meant that per capita income, which was expected to reach Rs. 316, actually reached only Rs. 289--a rise of 8 per cent rather than the planned increase of 18 per cent.

During the plan period, the Indian population rose by 45 million, over 20 million more than the planners had anticipated. The annual rate of population increase was estimated at 1.7 per cent annually, and it has since been proven by census data to be over 2 per cent. The higher rate of population growth has no doubt contributed to the expansion of national income, and the increase in total income would have fallen shorter of the target had not the population estimates been off by a substantial amount. On the other hand, the larger population growth was a drag on the rate of increase of per capita income since the amount of capital available per capita was presumably less than it would otherwise have been. This would tend to result in smaller gains in productivity per worker.

Per capita income was expected to increase by 18 per cent during the second plan, or by 3.3 per cent per annum, but it actually increased by 7.8 per cent during the plan period, or by 1.5 per cent per annum.

Public sector

The public sector was expected to be the main initiator of development during the second five year plan. The developmental expenditures of this sector during the plan period were expected to total Rs. 48 billion ($10.08 billion), averaging Rs. 960 million per annum. This was revised downward to Rs. 45 billion in 1958. The actual total outlay is now believed to have reached Rs. 46 billion, Rs. 2 billion less than originally planned but Rs. 1 billion more than the 1958 revised estimate. The yearly distribution of this outlay is indicated in Table 2.

TABLE 2

(Billions of rupees)

Public Sector Outlays

Year	Outlay	Percentage of total
1956/57	6.34	13.7
1957/58	8.82	19.1
1958/59	9.98	21.6
1959/60 a/	10.06	21.8
1960/61 a/	11.00	23.8
TOTAL	46.20	100.0

a/ Preliminary.

Source: Reserve Bank of India, Report on Currency and Finance 1959-60, p. 63; Report on Currency and Finance 1960-61, p. 79.

While there was only a slight decline in the monetary size of the public sector's outlays, there was a striking shift in its composition in favor of heavy industry, as the following table indicates.

TABLE 3

Allocation of Public Sector Outlays

Sector	Planned allocation: Billion rupees	Planned allocation: Per cent	Likely actuals: Billion rupees	Likely actuals: Per cent	Likely actual as per cent of planned allocation
Agriculture and community development	5.68	11.8	5.30	11.5	93.3
Irrigation and power	9.13	19.0	8.60	18.7	94.2
Village and small industries	2.00	4.2	1.80	3.9	90.0
Organized industry and mineral development	6.90	14.4	8.80	19.1	127.5
Transportation and communications	13.85	28.9	12.90	28.1	93.1
Social services	9.45	19.7	8.60	18.7	91.0
Miscellaneous	0.99	2.0	--	--	--
TOTAL	48.00	100.0	46.00	100.0	95.8

Source: Government of India, Planning Commission, Appraisals and Prospects of the Second Five Year Plan, May 1958, p. 23; Third Five Year Plan, a Draft Outline, June 1960, p. 27.

While five of the seven sectors shared almost equally the burden of the reduced allocations, the heavy industry and mining sector received 27 per cent more public expenditures than had originally been planned. The share of this sector in total public outlays correspondingly jumped from an anticipated 14 per cent to 19 per cent. The enlarged allocations to heavy industry reflect the May 1958 decision of the Government to concentrate on the development of "core" projects, since it became evident that the second plan would not accomplish all that its framers had expected. The transportation and communications sector received, as had been planned, more public expenditures than any other sector, followed by heavy industry and mining, which in the original plan were to have received less public expenditures than the social services and irrigation and power sectors.

Of the total planned outlay of Rs. 48 billion, Rs. 38 billion (79 per cent) was designated for investment and Rs. 10 billion (21 per cent) for current developmental expenditures such as subsidy and salary payments. Actual public investment is expected to total Rs. 36.5 billion, 96 per cent of the planned figure, and the other developmental expenditures are expected to equal Rs. 9.5 billion, 95 per cent of the planned level. The allocation of public investment by sector in India's first and second plans is given in the following table.

TABLE 4

Allocation of Public Sector Investment
(Per cent)

Sector	First Plan (Actual)	Second Plan (Planned)	Second Plan (Actual)
Agriculture, irrigation, community development a/	41	28	21
Industry and mining	7	24	29
Electric power a/	17	11	12
Transport and communications	35	37	39
TOTAL	100	100	100

a/ Outlays on multi-purpose projects have been divided and added to irrigation and power according to the proportion of investment allocation to both sectors.

Source: ECAFE, A Decade of Development Planning and Implementation in the ECAFE Region, August 1961, Table 4, p. 27.

This table clearly indicates a shift in priorities from agriculture to industry between the two plans. The share of agriculture in public investment fell steeply from 41 per cent to 21 per cent while that of industry expanded from 7 per cent to 29 per cent. The decline in investment in electric power was almost counterbalanced by increased investment in transport and communications. While the first plan stressed increased agricultural production and better utilization of existing capacity, the second plan emphasized the expansion of heavy industry, especially iron and steel and engineering industries.

Private sector

The planning authorities had expected private investment of Rs. 24 billion during the second plan, but actual private investment soared to Rs. 31 billion, 29 per cent higher than the planned level. It is clear that the vitality of private enterprise was considerably underestimated in the second plan. The allocation of private investment during the plan period is indicated in Table 5.

TABLE 5

Allocation of Private Sector Investment

Sector	Planned allocation: Billion rupees	Planned allocation: Per cent	Likely actuals: Billion rupees	Likely actuals: Per cent	Likely actuals as per cent of planned allocation
Agriculture, irrigation	2.75	11.5	6.75	20.5	245.5
Village and small industries	1.00	4.2	2.25	6.8	225.0
Large and medium industries and minerals	5.75	24.0	7.00 a/	21.2	121.7
Power	.40	1.7	.40	1.2	100.0
Transport	.85	3.5	1.35	4.1	158.8
Housing & other construction	9.25	38.5	10.00	30.3	108.1
Inventories	4.00	16.7	5.25	15.9	131.3
TOTAL	24.00	100.0	33.00 b/	100.0	137.5

a/ Not including investment by way of modernization and replacement.
b/ In July 1961, this estimate of actual private investment was reduced to Rs. 31.00, but data are lacking on the sectoral breakdown of the reduced estimate.

Source: Government of India, Planning Commission, Third Five Year Plan, a Draft Outline, June 1960, Table 2, p. 51.

All sectors experienced higher private investment than had been anticipated, with the largest divergences being in the sectors of agriculture and irrigation, and village and small industries. As had been expected, the most important sector for private investment was housing and construction, which constituted about 30 per cent of the total, a somewhat smaller share than had been anticipated.

Total investment

Combining the public and private sector, it is seen that total investment was planned to be Rs. 62 billion, but actually reached Rs. 67.5 billion, an increase of 9 per cent. We are thus faced with a seeming paradox of a higher than planned level of investment and a lower than expected increase in national income. However, it would appear that the planning authorities, enthused by the success of expanding production in the first five year plan, based their calculation on an overly optimistic capital-output ratio of 2.3. Secondly, the actual level of investment is overstated since prices expanded considerably during the second plan. Between March 1956 and March 1961, the Index of Wholesale Prices (1952=100) increased by 30 per cent and the Consumer Price Index for the working class (1949=100) rose by 22 per cent. While these indices cannot be taken as an accurate measure of changes in the prices of investment goods, it is safe to assume that real investment was less than the planned amount because of price rises.

The planning authorities had expected 61 per cent of total investment during the second plan to be achieved by the public sector, and 39 per cent by the private sector. The actual breakdown was 54:46 in favor of the public sector.

Resources for financing the public sector outlays

The level of public investment and current developmental expenditures was conditioned by the value of the resources which the authorities were able to obtain from internal and external sources. Table 6 indicates a breakdown of the planned and actual level of resources during the plan period.

TABLE 6

Financial Resources of the Public Sector 3/

	Expected level		Actual level		Actual level as per cent of expected level
	Rs. Billion	Per cent	Rs. Billion	Per cent	
Revenue and borrowing from public	28.00	58.3	21.97	47.8	78.5
Deficit financing	12.00	25.0	9.48	20.6	79.0
Foreign assistance	8.00	16.7	14.55	31.6	181.8
Total Resources = Total Outlay	48.00	100.0	46.00	100.0	95.8

Source: Government of India, Planning Commission, Second Five Year Plan, 1956, pp. 77-78; Reserve Bank of India, Report on Currency and Finance, 1960-61, p. 79 and Table 90.

3/ The figures on domestic revenue and borrowing and on foreign assistance differ from those presented in official Indian publications. This is because the Indian Government has treated the funds which have been made available to it as a result of the sale of United States surplus agricultural commodities under P.L. 480 as domestic resources rather than foreign aid. While this treatment can be justified on technical grounds, it leads in incorrect analysis, since it conceals the important role played by P.L. 480 assistance.

India received Rs. 5.4 billion in surplus agricultural commodities for which no payment in foreign exchange was made. The local currency payments to the United States for these commodities are supposed to be lent to the Indian Government on a long term basis at low rates of interest, but India has been very slow to negotiate these loans. In the meantime most of the funds have been kept as time-deposits with the State Bank of India. The State Bank has invested these funds in Government securities, and the Government has therefore actually acquired these funds for its own use by borrowing from the State Bank. However, it is more accurate for analytical purposes to treat the United States Government deposits in the State Bank as a type of loan to the Indian Government. This produces the results shown above, whereas the official Indian treatment shows revenue and borrowing from the public as Rs. 25.62 billion and foreign assistance as only Rs. 10.9 billion.

While domestic revenue and borrowing were expected to comprise over 58 per cent of total financial resources, they in fact accounted for less than half the total resources. The value of deficit financing was at a considerably lower level than originally planned, and it accounted for only about a fifth of the total resources. On the other hand, foreign assistance was 82 per cent more than planned and accounted for nearly a third of total resources, in contrast to the one-sixth originally expected.

Revenue and public borrowing

The decline in the predicted level of domestic resources was due primarily to a shortfall in the revenue from those taxes already in existence at the start of the second plan and in the amount which the Government expected to obtain by borrowing from the public.

TABLE 7

Domestic Resources of Public Sector

	Expected level		Actual level		Actual as per cent of expected level
	Rs. Billion	Per cent	Rs. Billion	Per cent	
1. Budgetary surplus on basis of 1955-56 rates of taxation	3.50	12.5	-0.50	--	--
2. Additional taxation	8.50	30.4	10.52	47.9	123.8
1+2 Total taxation a/	12.00	42.9	10.02	45.6	83.5
3. Loans from public, net	7.00	25.0	4.15	18.9	60.7
4. Small savings, net	5.00	17.9	4.00	18.2	80.0
5. Railways' contribution	1.50	5.4	1.50	6.8	100.0
6. Provident funds and other receipts	2.50	8.9	2.30	10.5	92.0
TOTAL	28.00	100.0	21.97	100.0	78.5

a/ Includes income from public enterprises.

Source: Government of India, Second Five Year Plan, pp. 77-78; Reserve Bank of India: Report on Currency and Finance, 1959-60, p. 63; Report on Currency and Finance, 1960-61, pp. 77-102; Bulletin, September 1961, p. 1398.

Existing taxes were expected to yield a revenue of Rs. 3.5 billion in excess of current account expenditures which would comprise 12.5 per cent of total domestic receipts for financing the plan. In fact, however, the large expenditures in long-range projects and a large unanticipated increase in non-development expenditures turned the expected budgetary surplus into a deficit of Rs. 500 million. To some extent, the reduced revenues were offset by the more than expected revenues from additional taxes, but in total, budgetary resources were 16.5 per cent below their anticipated level.

There was a shortfall of Rs. 2.85 billion or almost 40 per cent in the Government's anticipated borrowing from the public. By including PL 480 funds in this category--funds which were not anticipated during the drafting of the second plan, the Indian statistics imply that the actual level of 'loans from public' exceeded the expected level by 11.4 per cent. 4/ Small savings, which include postal savings and savings deposit certificates, also declined markedly from the predicted level, and would have fallen even further had not a 'prize bond' scheme been introduced in the spring of 1960 which netted the Government Rs. 125 million in the last year of the plan.

Deficit financing

The reduction in total domestic resources could not be offset by an increase in deficit financing because of the inability of the economy to swallow the dose of deficit financing which the planners had already prescribed without seriously endangering its over-all economic condition. The impact of deficit financing during the second plan on the monetary situation in India is indicated in Table 8.

TABLE 8

Monetary Developments
(Rs. million)

	1956/57	1957/58	1958/59	1959/60	1960/61 (estimate)	Variations during the second plan
1. Deficit financing in second plan a/	2,530	4,960	1,360	630		9,480
2. Variations in net bank credit to government sector	3,096	5,020	3,325	2,639	- 75	14,005
a. adjusted for PL-480 funds	n.a.	4,050	2,450	1,740	1,090	
3. Variations in net foreign exchange assets of banking sector	-2,617	-2,822	- 597	27	- 637	-6,646
4. Variations in net bank credit to private sector	1,700	908	544	1,548	2,431	7,091
5. Variations in non-monetary liabilities of banks. b/	890	2,335	2,172	2,165	- 296	7,226
6. Variations in money supply (2+3+4-5) c/	1,289	771	1,100	2,049	2,015	7,224
7. Wholesale price index (1955/56=100)	113.8	117.2	122.1	126.6	134.9	
8. Cost of living index (1955/56=100)	111.5	116.7	122.9	128.1	129.2	

(Footnotes to Table on next page)

4/ See footnote 3.

Footnotes to Table 8

a/ Comprises the issuance of Treasury Bills and the reduction of cash balances.
b/ Composed mainly of PL-480 counterpart deposits with the State Bank. The 1960/61 figure is not comparable with the others, since on May 12, 1960, the PL-480 funds were withdrawn from the State Bank and placed with the Reserve Bank of India.
c/ Including variations in the non-identifiable net non-monetary liabilities of the banking sector.

Source: Reserve Bank of India: Report on Currency and Finance, 1959-60, p. 63; Report on Currency and Finance, 1960-61, p. 35 and Table 23; Bulletin, September 1961, pp. 1551, 1554.

In the first two years of the plan, the authorities pursued a vigorous policy of reliance upon deficit financing and used up 62 per cent of their total planned target for such financing. Corresponding to the sizeable doses of deficit financing, there was a substantial extension of credit to the Government by the banking system, although a portion of the credit to the Governmental sector represented the investment of PL-480 funds by the State Bank in Government securities. The effect of these security purchases on the money supply was entirely counteracted by the increase in the United States PL-480 counterpart fund deposits with the State Bank (item 5), since these deposits were of a non-monetary character.

By the Spring of 1958, the authorities were deeply concerned by these monetary developments which were threatening to deplete the country's foreign assets and to accelerate domestic inflationary pressures. Realizing that it was economically dangerous to continue the high rate of deficit financing, and unable to obtain sufficient additional resources from the domestic or foreign sectors, the authorities were forced to reduce the public outlays to the "core projects and to rely less heavily upon deficit financing.

The monetary data on the last three years of the second plan reflect this change of policy. The volume of deficit financing was sharply reduced as were the rate of new bank credit to the government sector and the rate of decline of foreign exchange assets. Nevertheless money supply rose sharply in 1958-60, primarily because of the reduced rate of decline of foreign assets brought about by imposition of tight controls on foreign exchange. In the last two years of the plan, changes in the issuance of credit to the private sector have considerably affected the money supply. The expansion in domestic production was evidently not adequate to offset the demand generated by the monetary expansion, and prices continued to increase as the expansion of imports was curbed and money supply rose. The relatively small increase in the cost-of-living index during 1960-61 in comparison with that in the wholesale price index reflected the general stability in the price of food.

For the plan period as a whole, the money supply rose by 33 per cent, as compared with the expansion in real national income of 20 per cent. Net bank credit to the government sector increased by 114 per cent in comparison with an increase in bank credit to the private sector of 82 per cent. The net foreign exchange assets of the banking sector declined from Rs. 7,642 million ($1,605 million) to Rs. 996 million ($209 million). Prices rose by 30-35 per cent. Based on the average price level of the five-year plan, the rise during the second plan period is 22 per cent.

India's experience with deficit financing in the second plan has been incorporated in the formulation of the third five year plan, which states that

> "... inflationary financing of public outlays must be kept down to the barest minimum" and "... the scope of deficit financing in the third plan is very limited. There is no precise way of estimating the safe limits of deficit financing." 5/

Foreign assistance

As has been indicated, foreign assistance was 82 per cent above the planned level, and accounted for 32 per cent of total resources in comparison to an anticipated share of 17 per cent. Loans and credits accounted for about 75 per cent of total foreign aid, and grants, the remaining 25 per cent. The United States was the largest single donor of aid and its assistance accounted for about 30 per cent of the total. Loans by the World Bank accounted for a further 25 per cent of total foreign assistance. Other principal creditors and donors were the United Kingdom, West Germany, and Russia.

The significance of this foreign aid for India's balance of payments position is indicated in Table 9.

TABLE 9

Balance of Payments -- Second Plan
(Rs. million)

	Original estimates	Actuals (1960/61 prel.)	Actuals as per cent of original estimates
Imports, c.i.f	43,400	53,730	123.8
Exports, f.o.b.	29,650	30,600	103.2
Trade Balance	-13,750	-23,130	168.2
Invisibles, net (excl. official donations)	2,550	3,920	153.7
Current Account Balance	-11,200	-19,210	171.5
Capital transactions, net (incl. errors and omissions)	1,200	-1,510	---
Balance of Payments Deficit	-10,000	-20,720	207.2
Financing of Deficit:			
Foreign assistance	8,000	14,547	207.0
(PL-480 imports)	--	(5,422)	---
Draft on foreign exchange reserves	2,000	5,980	299.0

Source: Table 6 and Reserve Bank of India, Report on Currency and Finance, 1960-61, p. 111.

5/ Government of India, Planning Commission, Third Five Year Plan, a Draft Outline, pp. 45, 49.

The actual balance of payments deficit during the second plan was more than twice the originally estimated deficit. Seventy per cent of the enlarged deficit was financed by foreign aid, including Pl-480 imports, and 30 per cent by the drawdown of reserves. While foreign aid was originally expected to finance 80 per cent of the total balance of payments deficit, the deficit doubled without a comparable expansion in foreign assistance, so that the country's international reserves had to absorb the difference. During the second plan, the Reserve Bank of India's holdings of gold and foreign exchange fell by $1,281 million, from $1,814 million on March 1956 to $533 million on March 1961, a decline three-times as steep as had been expected.

Had not increased foreign aid been available, India's reserves would have declined even further and it would have been necessary to curtail the supply of imports even more drastically. Indeed, the increased aid was partly a response to India's foreign exchange problems. In the first two years of the plan, the Reserve Bank's holdings of reserves had fallen by $1 billion, as compared with an originally estimated average yearly decline of only $84 million. In August 1958 and March 1959, a consortium of countries interested in helping India gathered and authorized additional credits to India. The foreign aid consortium, the reduction in the scope of the plan and the reduced reliance upon deficit financing all helped India to weather the crisis.

There still remains the question of why India's current account was in such a deficit as to be the principal factor behind the doubling of the anticipated balance of payments deficit.

Imports

The greater than planned expenditures on imports was to a considerable extent the result of an enlarged volume of imports, as is indicated in Table 10.

TABLE 10

Imports in the Second Plan

	Value		Import price index	Volume index
	Rs. million	1953=100	1953=100	1953=100 a/
1956	8,215	143	94	152
1957	10,683	186	103	181
1958	8,778	153	97	158
1959	9,460	164	95	173
1960	10,754	187	95	197

a/ Derived from indices of value and import prices.
SOURCE: International Monetary Fund

Since 1953, the volume of imports had been steadily increasing until, by 1957, it reached an amount 73 per cent higher than in 1953. Also in 1957, the price of imports increased considerably in comparison with both the previous year and with 1953. These two factors caused a sizeable increase in the value of imports which helped contribute to the 1958 foreign exchange crisis. As a consequence of the resulting reduction in the scope of the plan and the institution of restrictive fiscal measures, the volume of imports was significantly reduced in 1958. This, together with a sharp reversal in the price of imports, caused the value of imports to decline by almost 25 per cent. However, since 1958, the volume of imports has been steadily expanding, and so has the value, in spite of somewhat reduced import prices. High import prices, while contributing to the large value of imports in 1957, were not responsible for the increased value since 1958. Except for 1957, import prices were lower than the price level of 1953. However, the import prices throughout the period were higher than the prices prevailing in 1955 (import price index = 93) and it is the 1955 prices which the planning authorities used in calculating the country's foreign exchange requirements during the second plan. Had import prices remained at the low 1955 level throughout the period, the value of imports would have been reduced by about 4 per cent.

The composition of imports during the first four years of the plan is indicated below.

TABLE 11

Composition of Imports a/

	Consumption goods		Materials chiefly for consumption goods	Materials chiefly for capital goods	Capital goods
	Food	Others			
1952-55(av.)	1,256	894	1,730	584	1,983
1956 b/	1,017	814	2,204	779	3,883
1957	1,950	1,110	2,184	1,367	4,670
1958	1,786	614	1,577	1,124	3,541
1959	1,547	558	1,763	1,253	3,753
1960	1,562	600	2,493	1,070	4,346

a/ Totals do not correspond exactly to those in Table 10.
b/ Annual rate based on 9 months April-December; except food which is 12 months beginning April 1956.

SOURCE: United Nations, Economic Bulletin of Asia and the Far East, September 1961, Table 8, p. 63.

Food imports were considerably influenced by climatic conditions in India. The relatively low value of such imports in 1956 reflect the record production of foodgrains in India during the 1956/57 crop year (July-June). The subsequent failure of the monsoons greatly reduced India's 1957/58 crop, thereby necessitating large-scale food imports. The index of foodgrain production (July 1949/June 1950=100) rose from 115 in 1955/56 to 121 in 1956/57, and then fell sharply to 108 in 1957/58. The enlarged food imports were another factor responsible for the 1958 crisis. Relatively favorable weather conditions evoked a new record foodgrain production in 1958/59 and almost as good a crop in the following two years, so that the need for food imports was correspondingly less.

Imports of other consumption goods reached a peak level in 1957 and thereafter declined to a level which was less than that of 1952-55. Imports of materials for the domestic production of consumption goods were relatively high in 1956 and 1957, declined sharply in 1958, and recovered thereafter so that by 1960 they exceeded the 1952-55 average level. It would appear that the inflationary pressures were stimulating these two kinds of imports by expanding domestic imcomes and effective demand for consumer imports. To the extent that inflation made domestic products more costly, it augmented the demand for competing imports.

The imports of capital goods and materials for their domestic production both reached their peak levels in 1957. Capital goods imports in 1957 were nearly 2.4 times the 1952-55 average level. This considerable expansion was partly the result of poor timing--the lack of a mechanism whereby the planned imports would be equally spaced over the plan period--and partly the result of the same inflationary process which was encouraging consumer imports. Furthermore, it would appear that the planning authorities had underestimated the capital imports needed to effect the planned levels of investment and income. Also, the "overfulfillment" of the target for investment of private enterprise increased considerably the need for capital imports.

Exports

Although India's exports during the second plan slightly exceeded the original estimates, (Table 9), they have been a major disappointment considering the sizeable expansion in industrial production and the underestimation of India's import requirements. In fact, the value of exports in the second plan was Rs. 500 million less than their value during the first five-year plan. The lack of progress in exports during the second plan period is indicated below.

TABLE 12

Exports in the Second Plan

	Value		Volume	Export prices	Terms of
	Rs. million	1953=100	1953=100	1953=100	trade a/
1956	6,192	117	110	101	107
1957	6,565	124	120	101	98
1958	5,817	110	109	100	103
1959	6,207	117	120	98	103
1960	6,349	120	110	109	115

a/ Percentage of the unit value index of exports to the unit value index of imports.

Source: International Financial Statistics.

Between the first and last years of the second plan, the value of exports increased by only 2.5 per cent, while imports expanded by 23 per cent and the index of industrial production rose by 28 per cent. The value of India's major exports were widely short of the expected targets: jute yarn manufactures by 39 per cent, cotton yarn and manufactures by 17 per cent, raw cotton and cotton waste by 16 per cent. Tea exports were 2 per cent higher than the target level.

In the first four years of the plan, changes in the volume of exports were the main determinant of value changes. The sharp reduction of volume in 1958, reinforced by slightly lower export prices, caused a reduced export of 11 per cent as compared with the previous year, and helped to bring on foreign exchange crisis of that year. In 1959, the enlarged value of exports was the result solely of a larger volume of export goods. Export prices rose sufficiently in 1960 to offset a sizeable reduction in volume and thereby to effect on expansion in the value of the exports.

Except for 1957, the terms of trade for India have been favorable, especially in the first and last years of the plan. The favorable terms of trade are the result of both lower import prices and higher export prices in comparison with 1953 levels. However, the planning authorities based their calculations on the assumption that the terms of trade would be unchanged throughout the second plan at the 1955 level of 108. In the first four years of the plan, the terms of trade were below this level, mainly because in 1955 the index of import prices was at the lowest level since 1950.