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Financing India's Third Plan 14 pages

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Financing India's Third Plan

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India is now approaching the end of the second of the series of five-year economic development plans. The third plan in the series is scheduled to start in April 1961. It calls upon the Indian people to provide resources for investment on a far greater scale than in the past. Implementation of the plan along the lines that have been proposed will tax to the utmost the ingenuity of those who must secure the requisite funds through inducement or compulsion. The United States and other capital-exporting countries, far from being mere observers of this effort, will in all probability be directly and heavily involved.. It is the contention of the Indians that fulfillment of the plan will necessitate external assistance in the amount of $6.5 billion. Aid in such an amount would be on a much vaster scale than has hitherto been made available to India.

The main features of India's five-year plans have been large-scale public investment and state direction of the use of external resources to achieve predetermined production targets, with funds obtained mainly through internal and external loans. The record since independence is mixed. Fair progress has been made in raising the level of national output, but insufficient attention has been given to the problem of assuring an adequate food supply. Plan outlays have accorded reasonably well with expectations, but during the second plan, which began in 1956, India has failed to refrain from inflationary financing and prices have advanced considerably. The foreign exchange cost of the second plan was seriously underestimated. India heavily depleted her international reserves in the first two years of that plan, and was rescued from an acute crisis in 1958 by extension of foreign aid in amounts much greater than the planners had initially believed would be required.

The third plan is half again as great as the second. In the light of the experience with the second plan, it appears that a program as ambitious as this may be fraught with difficulties. There is no assurance that resources will be forthcoming in amounts sufficient to avoid further inflation and another balance of payments crisis.

The third plan draft has not yet been released and only the broad outlines of the plan have been made public in the form of press reports. The magnitudes involved are still tentative, and the figures relating to the third plan which appear below are subject to revision.

Plan outlay

The third plan outlay for the full five years is set at Rs. 110 billion ($23.1 billion), or about 55 per cent greater than is expected for the second plan when completed at the end of next March. The third plan total includes Rs. 59.5 billion of public investment, Rs. 10.5 billion of government current expenditure, and Rs. 40 billion of private investment. 1/ In comparison, the second plan probably will show public outlays of around Rs. 45.5 billion, of which nearly Rs. 38 billion of investment, and private investment of Rs. 24 billion or somewhat more.

Combined public and private investment in the third plan, which comes to nearly Rs. 100 billion, is about 65 per cent more than the investment component of the second plan. The private sector share in the third plan, amounting to 36 per cent of the total outlay, is approximately the same as in the second plan. Public outlays by major categories under the two plans are shown below.

Public Outlays

(Billions of rupees) 1/

	Second Plan 2/	Third Plan 3/
Agriculture and Community Development	5.3	10.0
Irrigation	4.0	6.5
Power	4.1	9.0
Village and small industries	1.8	2.5
Industry and minerals	8.2	13.0
Transport and communications	13.3	14.5
Social services and allied headings	8.8	12.5
Inventories	Nil	2.0
Totals	45.5	70.0

1/ One rupee equals approximately 21 U.S. cents.
2/ Estimated by the Indian Government in March 1960.
3/ Tentative.

1/ Government spending on the plans themselves is, of course, only part of total government expenditure. In 1959-60, public outlays on the plan approximated Rs. 10.3 billion, while non-plan current expenditures appear to have exceeded Rs. 12 billion.

The second plan has been criticized for giving too little attention to agriculture and its failure to insure against a shortage of food. The third plan will nearly double the allocation of government funds to agriculture and the community development program, those going to the latter to be spent mostly for the promotion of agricultural activities. Agriculture alone will reportedly get close to Rs. 6.5 billion. Agriculture will also be aided by a 63 per cent increase in government outlays for irrigation. Agricultural production is expected to rise by 28 per cent over the plan period, or at no slower a rate than national income. The foodgrains production target for 1965-66, the final year of the plan, is 105 million tons. 2/ Attainment of this goal from the 1958-59 level of 73.5 million tons implies an average annual growth rate of 5.2 per cent, or slightly more than the planned 5 per cent annual increase in real national income over the plan period. The near equality of these two planned growth rates contrasts with the situation which has prevailed since 1953-54 in which foodgrains production has tended to lag behind the growth of real income.

While these plans for agriculture are encouraging, it is disquieting to learn that the Indian Minister of Food and Agriculture had asked for Rs. 10.9 billion for agriculture, compared with the Rs. 6.5 billion tentatively allocated, in order to reach the physical targets which he recommended and which the Planning Commission has accepted as necessary. The Planning Commission maintains that the request for funds was scaled down "without affecting the schemes directly promoting production." However, some non-official Indian observers doubt that such a cut is possible without jeopardizing the attainment of the production goals. 3/

Industry and minerals will receive 19 per cent of public outlays under the third plan, or virtually the same percentage as under the second plan. The public sector allocation for transport and communications has been slashed from 29 per cent of the total in the second plan to 21 per cent in the third, reportedly as a result of the less pressing need for development of the railroads.

The projected increase in real national income between 1960-61 and 1965-66 is 28 per cent. Population is expected to increase by 2.1 per cent a year over this period, so that the anticipated rise in per-capita real income is 14 per cent. Attainment of the national income goal would mean an annual average growth of 5 per cent. This rate is one and two-thirds times as fast as the 3 per cent yearly rate of growth that is shown by the trend of India's real national income over the period from 1948-49 through 1958-59. The Indian planners

2/ The Ford Foundation team which visited India in 1959 recommended a 1965-66 production level of 110 million tons. However, this recommendation apparently assumed no imports of foodgrains, whereas India will import 17 million tons of foodgrains under PL 480 between 1960 and 1963 and will also make some commercial imports during the third plan.

3/ "Agriculture in the Third Plan", The Eastern Economist, March 11, 1960 p. 630.

probably believe that the much higher targeted rate of growth is achievable because investment in the third plan is to be about one and two-thirds times as much as under the second plan and still greater in relation to pre-second plan investment. Of course, it remains to be seen not only whether investment itself is as great as is planned but also what fruits it yields during the third plan period and whether agriculture will benefit from at least average climatic conditions. In view of the obstacles which lie in the way of raising the level of investment, it does not seem unlikely that the actual growth will fall below the targeted rate.

Foreign aid

To help obtain the external resources required by the third plan, India is counting on much more foreign aid than she has received in the past. Total foreign assistance (i.e., to both the public and private sectors) is set at $6.5 billion (Rs. 31 billion), or at annual average level of $1.3 billion (Rs. 6.2 billion). (These figures appear to exclude any private foreign investment.) This compares with an estimated $761 million utilized in the year ended June 1959, of which $319 million from the United States. In recent years, there has been a steady build-up of external assistance to India from the level of $141 million utilized in the year ending June 1956. For the public sector alone, the third plan calls for foreign aid in an average yearly amount of $920 million (Rs. 4.4 billion), in comparison with the $562 million (Rs. 2.7 billion) utilized in the Indian fiscal year ending March 31, 1960, and an annual average of $381 million (Rs. 1.8 billion) in the first four years of the second plan. A beginning has already been made in the procurement of foreign aid funds for the third plan. Under the PL 480 agreement, signed in May 1960, the United States will ship to India, over a four-year period, $1,276 million of wheat and rice. The United States will use 15 per cent of the rupee counterpart for its own purposes and the remainder (equivalent to $1,076 million) will be made available to India, half in loans and half in grants. Of these purchases, four million tons of wheat and one million tons of rice are scheduled to go into a foodgrain reserve, and twelve million tons of wheat are slated for current consumption.

At this stage, it is impossible to judge how accurately the Indian planners have estimated the gap between foreign exchange earnings and expenditures during the third plan. The second plan foreign exchange gap was estimated by the Indians in 1956 at $2.3 billion. Recent estimates now place it at $4.4 billion, even after the plan had been scaled down 5 per cent from its original size. The third plan gap, which India hopes to see filled by foreign assistance, is proportionately larger than the gap during the second plan, which has been filled by a combination of foreign aid and the drawdown of foreign exchange reserves. The Indians are counting on external assistance to provide an amount equal to 29 per cent of the total cost of the third plan. In comparison, it is estimated that foreign aid will provide 22 per cent of the cost of the second plan and that another 8 per cent will have been financed by drawing down reserves. The drawdown of reserves between the end of March 1956 (when the first plan came to a close) and the end of May 1960 came to $1.2 billion. 4/ It appears that no further drain on reserves is envisioned for the third plan period.

Whether or not the foreign aid will be available in the amounts planned is another difficult question. The absolute amount is so much larger than the aid India has been receiving that there is some question whether the estimates are realistic in terms of what the aid-giving countries are likely to offer. This was pointed out in the report of the "Three Wise Men" who cautioned both India and Pakistan in these words,

> Finally, whatever may be the final program developed by the two countries both governments need to bear in mind that there can be no assurance that the governments of the more highly industrialized countries will be in a position to provide aid over the period of the plans to the full amount requested. 5/

There are dangers involved in "planning big." If foreign assistance does not come up to expectations and if the plan is not pared down accordingly, there will be insufficient foreign exchange for those imports which are used for purposes other than plan projects. On the other hand, a cut in the plan after it had been started could result in half-completed projects being idled through lack of funds. Even $6.5 billion of foreign aid may be inadequate to avert domestic price inflation if the planners have overestimated India's ability either to raise the required domestic financing in a non-inflationary manner or to obtain non-plan imports from the country's own foreign exchange earnings. Such possibilities would be reduced if India adopted a flexible plan under which projects were assigned differing priorities and were implemented on the basis of the volume of resources likely to become available.

Domestic financing

A substantial part of the second plan has been financed by the direct sale of treasury bills to the Reserve Bank. This type of financing averaged Rs. 2.7 billion a year in the first four years of the second plan. For the third plan, it is proposed to limit it to an average of Rs. 1.1 billion annually. (The Indians have contended in the past that, because non-monetized sectors of the economy are being monetized as India develops, a limited amount of such financing can be engaged in without producing inflation.) The ability to trim this form of financing, which for the most part has been highly inflationary, to the extent contemplated, depends very heavily on the accuracy of the estimates

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4/ At the end of March 1960, the gold and foreign exchange reserves of the Government and the Reserve Bank stood at $762 million.

5/ IBRD, Bankers' Mission to India and Pakistan, 1960, p. 13.

of revenue that can be obtained from other sources. Since such estimates are always subject to error, it is highly desirable, as the Bankers' Mission pointed out, that the plan be flexible so that cutbacks can be promptly made if revenues fall short of expectations. However, assuming expenditures of the magnitude proposed, what can be said of the possibilities of raising the needed revenue to finance them?

Income to the Government from sources other than foreign aid and direct borrowing from the Reserve Bank during the third plan is expected to be nearly double the annual average for the first four years of the second plan, as shown in the table below.

Comparison of Sources of Public Sector Plan Finance
(Annual averages in billions of rupees)

	Second Plan (First 4 years)	Third Plan (Proposed)
Small savings	0.72	1.10
Market loans	2.19	1.70
Provident funds, misc. capital receipts		1.86
Current account surplus a/	1.60	0.40
Railway profits	0.42	0.30
Public enterprise profits	--	0.94
New taxes	--	3.30
Sub-total	4.94	9.60
Central bank purchases of Treasury bills b/	2.69	1.10
Foreign aid	1.82	4.40
Total	8.75	14.00

a/ Excess of revenues from existing taxation over non-plan current expenditures; i.e., excluding new taxes, which are shown separately.
b/ Including a small amount of drawings on rupee cash balances.

Profits from public enterprises other than railroads are expected to bring in an average of Rs. 940 million annually, as compared with nil at present. We do not know what enterprises the planners have in mind--the answer may be the new public-sector steel mills. These mills are just coming into production and their profit-earning possibilities are still an unknown quantity. The small-savings goal of Rs. 1.1 billion a year is 53 per cent higher than the average level of small savings in the first four years of the second plan (Rs. 720 million), and its attainment appears doubtful. From market loans it is hoped to raise an average of Rs.1.70 billion annually. It is not known to what extent this includes anticipated sales of securities to the commercial banks. Net market borrowings amounted to Rs. 2.27 billion in 1958-59 and an estimated Rs. 1.76 billion in 1959-60, but in those years the banking system absorbed a sizeable fraction of the total by utilizing PL 480 rupee deposits to buy government securities. In 1958-59, non-bank investors probably purchased about Rs. 1.43 billion of new government issues (excluding conversions of maturing debt). The goal of Rs. 1.70 billion annually is only 19 per cent above this figure and does not seem unreasonable. However, if it proves necessary to rely on sales of securities to the commercial banks this will have inflationary implications unless the banks' other lending is sufficiently restricted.

Shortfalls in public enterprise profits and borrowing from the public could, of course, result in inflationary financing on a larger scale than is now envisaged. There is also a possibility that the estimates of the financing that will be available from new taxes and from the current account surplus from existing taxes are overly optimistic. The magnitudes involved here are such that even a small miscalculation could upset the applecart.

The plan envisages the imposition of new taxes to raise Rs. 16.5 billion, or an average of Rs. 3.3 billion a year. The central government will raise Rs. 11.5 billion of this total (mostly from new excise taxes, according to one report), and the states will raise Rs. 5 billion. This plan is certainly ambitious, and would clearly mean a big increase in the total tax burden. Consolidated current revenues of the central and state governments in 1959-60 may be placed at about Rs. 14.4 billion. If the tax increases were all made in one fell swoop at the beginning of the third plan, the total tax burden would be raised about 23 per cent. The increase might be a little more or a little less, depending on how much the government estimated the natural increase in revenue from the new taxes would be over the course of the plan. It seems doubtful that the central and state governments would undertake the imposition of such a large tax increase in a single year. Smaller increases spread out over the plan period would appear more feasible. Raising taxes to the level planned would probably result in a ratio of taxes to national income of from 15 to 20 per cent in the last year of the plan, depending on the rate of growth of the national income, taking into account the likely increase in yields from existing taxation. This compares with a ratio of 11 per cent in 1957-59 and 8.4 per cent in 1951-54. Whether or not this can be done will, of course, depend largely on political considerations. It would be foolish to pretend that it will be easy, and there is always the danger that those who must vote the higher taxes will prefer to close their eyes to painful necessity and seek an easier road. Some shortfall here is possible.

The Indians are counting on a relatively small contribution to plan financing in the form of a budgetary current account surplus--only Rs. 400 million a year. 6/ However, there are possibilities for much greater miscalculation here than the small size of this item would indicate. Estimates of the current account surplus depend on estimates of revenue and expenditure of very large magnitude. If revenues from existing taxes do not expand as much as planned, or if non-plan expenditures grow at a more rapid rate than the planners estimate, the current account may end up not with a surplus of Rs. 400 million, but with a substantial deficit. 7/ This might completely upset the financing of the plan. Therefore the trend of non-plan revenues and expenditures is of vital significance in plan financing. This is an area in which past experience may cast light on the future. The analysis which is attached and which is summarized below attempts to determine the margin of error that exists in the estimates of the Indian current account surplus over the period of the third plan. It appears that there is a good possibility that the budget will be in deficit rather than surplus unless taxes are increased by even more than the amount scheduled for the plan.

The table below presents the writer's high and low estimates (as derived in the appendix) of revenue from existing taxation and of non-plan current expenditures in 1965-66 (figures in billions of rupees).

Revenue	High	Low
Total central government	13.9	12.7
Customs duties	2.0	1.8
Income taxes	3.1	2.8
Excise taxes	5.6	4.9
Other taxes	0.4	0.4
Other revenue	2.9	2.9
Total state governments	6.7	6.0
Total revenue	20.7	18.7
Expenditures	22.2	18.7

6/ This is the excess of revenue from existing taxation over non-plan current expenditures, i.e., it excludes receipts from new taxes and plan outlays.

7/ There can occur a slightly greater percentage increase in expenditures than in revenues without producing this result. The surplus from current revenue in 1959-60 is estimated at around Rs. 2.1 billion compared with the aforementioned figure of Rs. 400 million.

If India were to combine the minimum revenue with the maximum expenditures, she would suffer a current account deficit of Rs. 3.5 billion in the final year of the third plan. On the other hand, if minimum expenditures were combined with maximum revenues she would enjoy a surplus of Rs. 2.0 billion. The variation possible is not so great as this in the earlier years of the plan, but on the basis of the most pessimistic assumption it is possible that India would in the last four years of the plan incur a deficit on current account of nearly Rs. 7 billion instead of the Rs. 1.6 billion surplus contemplated in the plan. This would clearly throw the plan finances badly askew and would produce serious inflation if prompt measures were not taken to adjust either expenditures or revenues.

Since the plan will in any case require increased taxation of a magnitude that will certainly strain the courage of those who will be called upon to vote the higher levies, there will probably be little scope for correcting any defects in the estimates by imposing additional taxes. This, together with uncertanties about the amount of foreign aid that may be forthcoming, gives meaning to the warning of the Bankers' Mission that India must be prepared to cut back expenditures under the plan promptly if financial resources prove to be inadequate.

APPENDIX

Revenue and Expenditure Projections

Revenue from existing taxation

The revenues raised by the central government in 1959-60 were as follows: 1) Rs. 1.60 billion from customs duties, of which Rs. 1.38 billion from duties on imports; 2) Rs. 2.30 billion from income taxes (on individuals, non-incorporated business, and corporations); 3) Rs. 3.51 billion from excises on more than thirty different commodities; 4) Rs. 0.29 billion from wealth, expenditure, estate and gift taxes and the tax on railway fares; 5) Rs. 1.64 billion of non-tax revenues. The budget estimates of the states in 1959-60 called for revenues of Rs. 5.03 billion exclusive of grants and shared taxes received from the central government.

Customs--The amount of customs duties collected will depend principally on the level of imports, which in turn will depend upon the level of foreign exchange earnings and the amount of foreign aid received. The trend of the volume of exports over the period from 1950 to 1959 shows an annual average rate of increase of 1.7 per cent. 8/ While the rate may be faster in the future, it would not be prudent to count on it. With a 1.7 per cent growth in volume and value, exports would increase from Rs. 6.2 billion in 1959 to Rs. 7.0 billion in 1965. In 1956-58 India had a surplus on current invisibles (excluding freight and insurance on imports) averaging Rs. 1.1 billion a year. India is reportedly going to ask for foreign aid in the amount of Rs. 6.2 billion per year during the third plan, of which Rs. 5.2 billion will be used for imports and Rs. 1.0 billion for debt repayment. On the basis of export earnings of Rs. 7.0 billion, an invisibles surplus of Rs. 1.1 billion, and aid available for imports of Rs. 5.2 billion, imports c.i.f. in 1965-66 might come to Rs. 13.3 billion. Customs duties from imports by sea in 1958-59 equalled 13.5 per cent of imports in 1958. Applying this percentage to the figure of Rs. 13.3 billion we obtain an estimate of Rs. 1.8 billion for customs duties on imports in 1965-66, on the assumption of no changes in the composition of imports or in the levels of the duties. However, if aid for imports in 1965-66 were only Rs. 3.6 billion, the amount of aid received in U.S. fiscal 1959, and if exports and invisibles were as given above, imports might be only 11.7 billion and customs duties on imports only Rs. 1.6 billion.

8/ The trend of the value of exports is distorted by the high prices received in 1951 and early 1952. Since that time, the index of export prices has shown very little variation.

Customs duties on exports by sea, together with a negligible amount of duties on trade by land and air, amounted to Rs. 0.20 billion in 1959-60, almost all from the duty on tea exports. In view of the past sluggishness in the volume of tea exports, these duties in 1965-66 will probably not be significantly different from the Rs. 0.20 billion raised in 1959-60. Thus, the high and low estimates for customs duties in 1965-66 resulting from these calculations are Rs. 2.0 billion and Rs. 1.8 billion.

Income taxes--The trend of income tax receipts over the period from 1948-49 to 1957-58 shows an annual average increase of 2.9 per cent. The data used in getting this trend exclude the receipts from two special business income taxes which have been repealed, and they have been adjusted to exclude the estimated additional revenue to be raised from two changes in the corporate tax in 1956-57 and 1957-58. (Other changes in income taxation in this period were apparently of a very minor nature, to judge by the estimates of the revenues to be gained or lost from the changes.) This average rate of increase of 2.9 per cent per year applied to a period when the trend of national income at current prices rose by 2.6 per cent a year. If national income at both current and constant prices grows at 3 per cent a year between 1959-60 and 1965-66 9/, income tax receipts seem likely to grow at about the same rate so that receipts of Rs. 2.3 billion in 1959-60 would expand to around Rs. 2.8 billion in 1965-66. The third plan calls for a growth of national income averaging 5 per cent a year. At this rate, income tax receipts would expand to Rs. 3.08 billion in 1965-66. Assuming that the actual rate of increase of national income (at current and constant prices) falls somewhere between 3 per cent and 5 per cent, high and low estimates for income tax receipts in 1965-66 come to Rs. 3.1 billion and Rs. 2.8 billion.

Excises--To obtain the low estimates, the 1959-60 duties on matches, tobacco, vegetable products, coffee, coal, and tires and tubes were each projected in accordance with the trends shown by the yields over periods of nearly 10 years when the tax rates or bases were not changed at all or not altered appreciably. To the duty on cotton cloth, which has undergone a great many changes in the past decade, there is assigned a growth rate equal to the growth trend of cotton cloth production between 1948 and 1959. No change is envisioned in the yield from the duty on tea, which has shown a nearly flat trend in the postwar years. The 1959-60 duties on cement, paper, and vegetable oils, all imposed in recent years, as well as the duty on sugar, were projected on the basis of average rates of increase in the production of those commodities over a number of years in the past. To several minor duties an arbitrary but conservative growth rate of 3 per cent was given. Weighting the above growth rates by the estimated yields from the various taxes in 1960-61, a weighted average growth rate for the above group as a whole of 5.1 per cent a year is obtained. 10/ The combined duties on motor spirit,

9/ This rate being equal to that shown by the trend of real income in the decade ending 1958-59.

10/ As is apparent, production of most of the commodities subject to excise taxation has been increasing appreciably faster than has total output of goods and services.

kerosene, refined diesel oils, vaporizing oils, and industrial fuel oils, in 1965-66 are placed at 170 per cent of the 1960-61 level, since the third plan reportedly calls for a 70 per cent increase in India's petroleum refining capacity between 1960 and 1965-66 and it appears that the existing capacity is being fully utilized. On the basis of the foregoing procedures, receipts from excises are estimated to rise from Rs. 3.5 billion in 1959-60 to Rs. 4.9 billion in 1965-66. 11/

The growth rates assigned to the commodities exclusive of petroleum products are based on developments occurring in a period when real national income was increasing at 3 per cent a year and money national income at little less than that rate. The 5 per cent growth rate called for by the third plan is 1.667 times this 3 per cent growth rate. Applying the coefficient of 1.667 to the growth rate for excises (excluding those on petroleum products) of 5.1 per cent gives a higher growth rate of 8.5 per cent. At this rate of growth, total receipts from excises would be Rs. 5.6 billion in 1965-66. The high and low estimates for excise tax receipts are thus Rs. 5.6 billion and Rs. 4.9 billion.

Other taxes--These taxes, imposed only in the last few years, brought in Rs. 290 million in 1959-60. The high and low estimates for 1965-66 of Rs. 39 million and Rs. 35 million are the result of applying growth rates of 5 per cent and 3 per cent, on the assumption that yields from these taxes will change in accordance with changes in national income.

Other revenues of the central government--These are mostly non-tax revenues obtained from the profits of the Reserve Bank, interest, the operations of the mint, railways, posts and telegraph service, the sale of opium, civil works, stamps, sales and excise taxes in the Union territories, and a great variety of other sources. The movement of these receipts since 1948-49, adjusted to eliminate the surcharge on iron and steel first imposed in 1957-58, shows an annual average increase of about 10 per cent. It appears impossible to make any projections of the particular factors which will determine the future levels of these receipts. For this reason, and because these receipts, as a group, have moved persistently upward for ten years, the 1959-60 receipts were projected on the basis of the growth rate exhibited in the past. This procedure shows an increase in these receipts from Rs. 1.6 billion in 1959-60 to Rs. 2.9 billion in 1965-66.

State revenues--The budgets of the 14 states for 1959-60 called for revenues of Rs. 5.03 billion exclusive of grants and shared taxes received from the central government. Revenues had grown to this level from Rs. 3.18 billion in 1951-52 as a result of both a "natural" increase in the yields and the imposition of new taxation. The available data on the new taxation do not permit

11/ An important assumption made here is that the new excises will not affect the yields from the existing excises.

an accurate assessment of the degree to which the new taxation contributed to the growth in receipts from each type of tax. It would appear that their future growth should correspond approximately to the growth in national income.

The major source of revenue in 1959-60, yielding Rs. 1.0 billion, was the general sales tax. This tax is levied by all states on the sale of the great majority of all commodities, the main exception being foodgrains. Over the next six years, these sales can be expected to move about in conformity with national income. The land revenue tax, levied on the net income of agricultural land, brought in Rs. 1.0 billion in 1959-60. Reports indicate that agricultural production in the third plan is expected to rise in exactly the same proportion as national income, i.e., at 5 per cent a year. However, if agricultural production continues to rise at the rate which prevailed over the period from 1949-50 to 1958-59 its growth will be at 3.3 per cent a year, or only slightly faster than the past rate of growth of real income. The yield of state excises on liquor and narcotics, amounting to Rs. 438 million in 1959-60, has been virtually invariant for many years and presumably will show no significant change in the next six years. However, the receipts from taxes on motor vehicles, motor spirit, electricity production, and entertainment, which came to Rs. 560 million in 1959-60, will almost certainly outpace the growth of national income, perhaps by enough to make up for the lag in excise tax receipts. The other main sources of revenue in 1959-60 were the net contribution of public enterprises (Rs. 399 million, mostly from forests and irrigation) and other non-tax revenues (Rs. 844 million) on which almost no detailed information is available. Projection of state revenues at rates of increase of 5 per cent and 3 per cent a year brings them to levels of Rs. 6.7 billion and Rs. 6.0 billion in 1965-66.

Non-Plan expenditures

Total non-plan expenditures of the central and state governments in 1959-60 may be put at around Rs. 12.2 billion. Of this sum, Rs. 2.4 billion went for defense and Rs. 9.8 billion for civil purposes. Of the civil expenditures, about Rs. 4.9 billion, or one-half, was for so-called "non-development expenditure", consisting of the cost of civil administration, the cost of tax collection, debt services, pensions, and other recurrent outlays. Between 1951-52 (the first year for which there are data for all the states) and 1959-60 these expenditures moved upward in a very steady manner, the trend showing an average annual increase of 5.4 per cent. The other civil expenditures were for economic and social improvement ("development expenditures" outside the plan). Many of these outlays constituted maintenance of completed plan projects. These non-plan development expenditures showed a highly irregular movement to which a trend cannot be fitted. Comparison of solely the initial and terminal years of the series (1951-52 and 1959-60) gives an annual average increase of 9.4 per cent. However, in the five years since 1954-55 the general upward movement has been more rapid, and comparison of that year with 1959-60 yields an annual average increase of 15.1 per cent. The growth of defense expenditure between 1951-52 and 1959-60 averaged 5.3 per cent a year. However, a large part of the increase between these two dates occurred in a single year (1957-58), and the /unknown/ factors responsible for the extraordinary rise in that one year may not be present during the next half-dozen years. Excluding the sudden jump in 1957-58, the average rate of increase would have been close to 2.5 per cent.

In considering the possible future levels of non-plan current outlays, we shall only indicate the levels that are suggested by a continuation of past experience. Projection of civil non-development expenditures at 5.4 per cent a year brings them to Rs. 7.4 billion in 1965-66. Application of rates of increase of 9.4 per cent and 15.1 per cent to development expenditures gives 1965-66 expenditures of, respectively, Rs. 8.4 billion and Rs. 11.4 billion. Expanding the defense outlays at 2.5 per cent and 5.3 per cent a year, their volume in 1965-66 would be, respectively, Rs. 2.8 billion and Rs. 3.4 billion. High and low "estimates" of combined civil and defense expenditures in 1965-66 are thus Rs. 22.2 billion and Rs. 18.7 billion. Actually, of course, these figures are not estimates but merely two possible alternative levels.

The balance from current revenue

Comparison of the projections for revenue from existing taxation and the projections for non-plan current expenditures gives a projected balance from current revenue. The projected figures for all of the years covered by the third plan are as follows:

	1961-62	1962-63	1963-64	1964-65	1965-66
Optimistic					
Revenue	16.3	17.2	18.3	19.5	20.7
Expenditures	14.1	15.1	16.2	17.4	18.7
Balance	+2.2	+2.1	+2.1	+2.1	+2.0
Pessimistic					
Revenue	15.7	16.4	17.1	17.9	18.7
Expenditures	14.9	16.5	18.2	20.1	22.2
Balance	+0.8	-0.1	-1.1	-2.2	-3.5

The optimistic assumptions yield a surplus in every one of the years, aggregating Rs. 10.5 billion, the surplus in 1965-66 being Rs. 2 billion. This is a much greater surplus than Rs. 2 billion over the entire five years that is called for in the proposed plan financing. However, the pessimistic projections give a cumulative deficit of Rs. 6.9 billion over the final four years of the plan, the deficit rising rapidly in each year and reaching Rs. 3.5 billion in the last year.