Chapter 4

PLAN ALLOCATION AND EXPENDITURE UNDER THE STATE PLANS
IN KERALA - A TEMPORAL AND SECTORAL OVERVIEW

Owing to the immensity of problems and the scarcity of investment resources, the choices involved in investment planning in a developing economy are numerous as well as complex. The choices are to be made at each of the following major levels, viz., (i) the level of investment, (ii) sectoral allocation of resources, (iii) project selection and (iv) spatial location of projects. These four types of choices cannot be made successively, each in isolation from the others; rather, they will have to be made simultaneously. In this chapter, we intend to briefly look into the forces underlying sectoral allocation of resources under the State Plans in Kerala while postponing a discussion on the other aspects to a later stage.

The question of sectoral allocation of investment resources assumes great significance due to sectoral interdependence. Sectoral disproportionalities can distort the course of development envisaged in the perspective as well as the medium plan.
The concept of sector connotes different things in different contexts. The conventional categories based on the nature and origin of the products consist of the primary sector (i. agriculture and allied services, and ii. irrigation, flood control and anti-sea erosion); secondary sector (i. power, and ii. industry and minerals); tertiary sector (i. transport and communications, ii. social services, and iii. others). The peculiarity of this categorisation is that the various items included under the same category do not play the same role in the development process; some may relate to the production of goods and services which are meant for direct and immediate consumption; some relate to the production of capital goods for the production of consumer goods; and still others relate to the production of capital goods for the further production of capital goods. These various items have different implications for development. An investment programme assigning the highest weightage to the production of capital goods for the further production of capital goods may entail a present shortage of consumption goods but ensures sustained
future development while another placing accent on the production of consumption goods may eliminate immediate shortage but retards future growth.2

A U.N. study classifies investment into (i) "physical infrastructure" or "overhead capital for the economy as a whole" (such as transport, power etc.) and (ii) "directly productive activities" (such as agriculture, manufacturing, industries, etc.)3

From the point of view of analysing development, the U.N. classification appears to be more suitable. However, there is a serious gap in this scheme, viz., the omission of the investment in what Hla Myint calls the "Social Infrastructure",4 i.e., investment especially in education and health. In our treatment of the problem of sectoral allocation we adopt the UN classification along with "social infrastructure". The operational difficulty5 that arises here must be borne in mind. In the context of resource allocation, while everybody invariably speaks of the necessity for an optimum allocation, nobody tries to answer the important practical questions such as (1) what is this optimum allocation? and (2) how is it attained?6 However, as a rule of thumb, it can be postulated that
the question as to which sector should play the leading role in the development process cannot be decided independently of the level and structure of development attained by the economy in question, the relative strength of the private sector, and the objective sought to be realised through the plans. For instance, a country, whose people are illiterate, ignorant, superstitious and of ill-health, must accord the first priority to the development of social infrastructure. Notwithstanding this fact, it is generally agreed that in an economy committed to the attainment of rapid development, the first priority should go to the development of physical infrastructure so that the productive capacity of the economy is enhanced on a sustained basis. This is all the more so in a mixed economy where the private sector is expected to respond to the incentives provided by the public sector mainly, in this context, through the provision of facilities which tend to effect a downward shift in the cost curves. Thus, the chief determinants of the investment priorities in a planned economy are the objectives sought to be achieved through the plans.
In the light of the above general considerations, we propose to look into the sectoral allocation of resources under the various plans in Kerala.

Before we make such an attempt, however, a few preliminary observations seem to be in order so that the problem can be placed in its proper setting. Kerala is both typical of other underdeveloped Indian states in some respects and unique in some other respects. Hence, it provides an interesting case for the study of sectoral allocation of resource under State plans in India.

At the time of the formation of the State in 1956, Kerala was a backward agrarian economy with a very low per capita income, (the lowest in the country) and vast regional diversities in the levels of socio-economic development and institutional arrangements. Both economically and socially, Malabar was more backward than the Travancore-Cochin State. There were considerable variations between the three constituents of the present state in the matter of agrarian relations. These are shown in the Table below:
Table 4.1: Composition of Agricultural Population

by Relationship to land — 1951

<table>
<thead>
<tr>
<th>Category</th>
<th>Travancore State</th>
<th>Cochin State</th>
<th>Malabar District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivating Landowners</td>
<td>53.3</td>
<td>19.0</td>
<td>12.7</td>
</tr>
<tr>
<td>Tenants</td>
<td>10.2</td>
<td>28.1</td>
<td>39.3</td>
</tr>
<tr>
<td>Agricultural Labourers</td>
<td>34.6</td>
<td>48.9</td>
<td>44.0</td>
</tr>
<tr>
<td>Rent-receivers</td>
<td>1.9</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


With the coming into power of a Communist Ministry through popular elections (a unique experience in the history of the whole world), the agrarian movements of the pre-Reorganisation period culminated into an "outlook for more radical and effective land reforms" which, thereafter, became "the centrepiece of the programme for social and economic progress in the State". Accordingly, "a comprehensive set of land reform (was) embodied in the Kerala Agrarian Relations Bill introduced towards the end of 1957."
The two major problems continuing to evade solution were food-shortage and unemployment; while the State had the lowest per capita food production, it had the highest unemployment level in the country. The land-man ratio being the lowest, the scope for the extension of the area under cultivation was limited and any increase in the production of foodgrains was possible, given the cropping pattern in the State, only through intensive cultivation. Further, since the agricultural sector was already overburdened, industrialisation was considered to be the only solution for the intractable problem of massive unemployment. Hence, the elements of an appropriate development strategy were clear, viz., rapid industrialisation and intensive agriculture. An ideal climate for the pursuit of such a strategy was already in existence in the form of a well developed social services sector inherited from the past and a brilliant and hard-working labour-force remaining ready for productive employment.

The major features of the Kerala economy we enumerated above so as to better appreciate the objectives that are set to be realised through the plans,
for, as was already observed, it is the plan objectives which are the major determinants of the investment priorities in a planned economy.

The major objectives sought to be achieved under the Five Year Plans of Kerala are (1) rapid growth, (2) maximisation of foodgrains production, (3) creation of employment opportunities, and (4) reduction of regional disparities. As is well known, many of these objectives are mutually conflicting. Nevertheless, they have to be pursued simultaneously due to the compulsions of planning in a democratic society in which various socio-economic groups have conflicting interests whose accommodation in some manner is an essential precondition for any planning at all.

Let us examine what kind of investment priorities the State fixed for the realisation of the above objectives. It may be mentioned in this context that all the Five Year Plan documents of Kerala do not mention the order of investment priorities envisaged; it is mentioned only in the case of the Third, Fourth and Fifth Plans. In the Third Plan, the first priority was envisaged to be given to Agriculture and Irrigation;
the second priority to Power, and Industry and Minerals; and the third priority to Social Services. Let us see to what extent these priorities were observed in the allocation of the actual plan expenditure.

As is seen from the table below, in contrast to the priorities determined, in the case of actual expenditure, the highest proportion was incurred on Power, and Industry and Minerals, the next on Social Services and the lowest proportion went to Agriculture and Irrigation. Similarly, in the Fourth Plan, though the first priority was sought to be assigned to the directly productive activities,
in the actual expenditure such activities occupied only the third position (See Table 4.3 below).

Again, as against the first priority (nearly 40 per cent) for industry envisaged in the Fourth Plan, the actual expenditure constituted only 7.5 per cent of the total plan expenditure. Thus, the pattern of plan expenditure actually undertaken does not have any relation to the priorities stipulated in the plans. It is then pertinent to know the factors determining that pattern. Let us, therefore, take a close look at the expenditure pattern under the various plans so that we may get an integrated view of the allocation process. The relevant data are set out in Table 4.3 below.
### Table 4.3: Sector-wise Distribution of Plan Allocation and Expenditure in Kerala (Rs. in crores)

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Directly Productive Activities</th>
<th>Physical Infrastructure</th>
<th>Social Infrastructure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allocation</td>
<td>Expenditure</td>
<td>Allocation</td>
<td>Expenditure</td>
</tr>
<tr>
<td>I Plan</td>
<td>7.0 (23.3)</td>
<td>3.0 (11.5)</td>
<td>21.0 (70.0)</td>
<td>19.0 (73.1)</td>
</tr>
<tr>
<td>II Plan</td>
<td>23.0 (64.4)</td>
<td>19.0 (23.8)</td>
<td>40.0 (46.0)</td>
<td>40.0 (50.0)</td>
</tr>
<tr>
<td>III Plan</td>
<td>60.0 (35.3)</td>
<td>51.0 (28.0)</td>
<td>70.0 (41.2)</td>
<td>88.0 (48.4)</td>
</tr>
<tr>
<td>Annual Plans</td>
<td>48.0 (33.8)</td>
<td>51.0 (35.4)</td>
<td>69.0 (48.6)</td>
<td>65.0 (45.1)</td>
</tr>
<tr>
<td>IV Plan</td>
<td>78.0 (30.2)</td>
<td>81.0 (24.3)</td>
<td>130.0 (50.4)</td>
<td>174.0 (52.3)</td>
</tr>
<tr>
<td>V Plan</td>
<td>177.0 (31.1)</td>
<td>135.0 (27.8)</td>
<td>263.0 (46.2)</td>
<td>232.0 (47.7)</td>
</tr>
<tr>
<td>Annual Plans</td>
<td>117.0 (29.8)</td>
<td>137.0 (31.9)</td>
<td>187.0 (47.6)</td>
<td>183.0 (42.7)</td>
</tr>
<tr>
<td>VI Plan</td>
<td>518.0 (31.4)</td>
<td>500.0 (31.6)</td>
<td>701.0 (45.2)</td>
<td>699.0 (44.2)</td>
</tr>
<tr>
<td>Total</td>
<td>1028.0 (32.1)</td>
<td>977.0 (30.0)</td>
<td>1481.0 (46.2)</td>
<td>1500.0 (46.0)</td>
</tr>
</tbody>
</table>

Source: As for Table 4.2

Figures in brackets: percentages.
An important feature of the sectoral allocation of plan resources as presented in Table 4.3 above is the highest proportion going to the development of physical infrastructure. As high as 46 per cent of the aggregate plan expenditure over the period 1951-52 to 1984-85 has been incurred for that purpose. 30 per cent of the aggregate expenditure was on directly productive activities and 24 per cent on social infrastructure. The share of physical infrastructure had been consistently the highest in all the plans. In the first plan, it was as high as 73 per cent. This fact needs to be noted against the background of the observations made in Chapter 3, viz., (1) that the first plan was nothing but a compendium of the projects under execution in 1951 (i.e. the allocations were in accordance with the existing inter-and intra-sectoral balances); (2) that among such projects, power and irrigation (constituents of the physical infrastructure) had the overwhelming importance; and (3) that since many of the projects spilled into the successive plans, their priority for resources had to be conceded. Thus, it appears that the prominence of physical infrastructure in the matter of expenditure
over the successive plan periods has been the result
of the temporal extension of a certain historical
pattern rather than a planned one.\textsuperscript{16} As will be seen
later, it is a cruel irony that the overwhelming
weightage attached to the expansion of physical infra-
structure, instead of strengthening the productive base
of the economy, acts as a fetter on the scope for
planning, and instead of generating more resources,
has become a vampire sucker of the available resources.

Another point which emerges from the Table is
that while in the case of directly productive activities,
the actual expenditure fell short of the allocation in
various plans, in the case of physical infrastructure
and social infrastructure, it is the other way round.

Having seen the pattern of sectoral allocation
of plan resources, let us now turn to a brief exami-
nation of our financial progress under the plans.
The position in this regard is discernible from
Table 4.4 below.
TABLE 4.4: Percentage Sectoral Distribution of Plan Allocation and Expenditure in Kerala

<table>
<thead>
<tr>
<th>Sector</th>
<th>I Plan</th>
<th>II Plan</th>
<th>III Plan</th>
<th>Annual</th>
<th>IV Plan</th>
<th>V Plan</th>
<th>VI Plan</th>
<th>I to VI Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%)</td>
<td>All.</td>
<td>All.</td>
<td>All.</td>
<td>(%)</td>
<td>All.</td>
<td>(%)</td>
<td>All.</td>
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<td></td>
</tr>
<tr>
<td>1. Agriculture and Allied Services</td>
<td>19</td>
<td>44</td>
<td>18</td>
<td>87</td>
<td>24</td>
<td>85</td>
<td>25</td>
<td>103</td>
</tr>
<tr>
<td>2. Co-operation</td>
<td>1</td>
<td>46</td>
<td>1</td>
<td>53</td>
<td>1</td>
<td>84</td>
<td>1</td>
<td>87</td>
</tr>
<tr>
<td>3. Irrigation and Flood Control</td>
<td>18</td>
<td>88</td>
<td>12</td>
<td>103</td>
<td>9</td>
<td>99</td>
<td>9</td>
<td>99</td>
</tr>
<tr>
<td>4. Power</td>
<td>39</td>
<td>89</td>
<td>27</td>
<td>93</td>
<td>26</td>
<td>140</td>
<td>33</td>
<td>89</td>
</tr>
<tr>
<td>5. Industries and Minerals</td>
<td>4</td>
<td>45</td>
<td>8</td>
<td>88</td>
<td>10</td>
<td>84</td>
<td>6</td>
<td>132</td>
</tr>
<tr>
<td>6. Transport and Communications</td>
<td>9</td>
<td>130</td>
<td>5</td>
<td>129</td>
<td>6</td>
<td>110</td>
<td>6</td>
<td>117</td>
</tr>
<tr>
<td>7. Social and Community Services</td>
<td>10</td>
<td>128</td>
<td>27</td>
<td>85</td>
<td>22</td>
<td>109</td>
<td>18</td>
<td>105</td>
</tr>
<tr>
<td>8. Economic Services</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>35</td>
<td>1</td>
<td>104</td>
<td>1</td>
<td>51</td>
</tr>
<tr>
<td>9. General Services</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>78</td>
<td>1</td>
<td>113</td>
<td>1</td>
<td>133</td>
</tr>
<tr>
<td>10. Grand Total</td>
<td>100</td>
<td>86</td>
<td>100</td>
<td>92</td>
<td>100</td>
<td>107</td>
<td>100</td>
<td>101</td>
</tr>
</tbody>
</table>

Source: As for Table 4.1.
As is seen from Table 4.4, the aggregate plan expenditure during the entire plan period (I to VI Plan) has been Rs.3,300 crores as against an aggregate allocation of Rs.3,200 crores, showing that the expenditure has more or less conformed to the allocation. However, there have been wide inter-plan and inter-sectoral variations.

In the First Plan, the financial progress fell short of the plan provision by 14 per centage. This is quite understandable, considering the fact that we were quite new to the concept of planning and the administrative machinery of the State Government was not fully equipped to take up the new challenge thrown up by the introduction of development planning.

In the Second Plan, the situation improved significantly. None-the-less, there was a shortfall of 8 per cent in the State's plan expenditure. Various factors were responsible for this. State's reorganisation, frequent changes of Government, the problem in the wake of reorganisation like integration of laws, administrative reorganisation and integration of personnel, and the slow growth of implementing capacity were the most important among them. However,
the significant deviation of plan expenditure from
the allocation during the Fourth and Fifth Plans may
also be noted; the Fourth Plan witnessed an excess of
expenditure to the tune of 29 per cent, while in the
Fifth, there was a shortfall by 15 per centage.
Obviously, lack of experience in planning cannot
account for the deviations in the Fourth and Fifth
Plans. However, at this juncture, we do not propose
to go into this question in great detail. It will be
considered in a later chapter on financial performance
under the plans.

Now, coming to the inter-sectoral variations in
the financial progress, considering the major items,
it is seen that, in general, the expenditure on agricul-
ture and power fell short of, whereas that on social
services exceeded, the plan provisions. Perhaps the
most striking is the fact that the actual expenditure
on power upto the end of the Sixth Plan is only
88 per cent of the plan provision. This fact is in
sharp contrast to the general impression that in the
case of power projects, there is an eternal tendency
for actual expenditure to exceed the plan provision..
However, at this juncture, we do not propose to go into
the detailed aspects of this. These will be considered
in Chapter 5.
The excess of expenditure over the plan provision is the highest in the case of social services. Within the social services sector, education accounts for the largest excess, viz., 37 per cent of the allocation over the plan period. The case of education is unique in this regard, in that in every Plan, excepting the First, the actual expenditure far exceeded the plan provision. In the Fourth Plan, the excess was as high as 63 per cent. Thus, one can make the assertion that in terms of financial progress, whereas the 'education sector' had a taut plan, the other 'sectors', especially power and agriculture had a 'slack plan'.

In conclusion, we can say that the sectoral allocation of expenditure under the State plans in Kerala has not conformed to the investment priorities envisaged in the plans. Instead, it has proceeded along a pattern which has been historically set and from which a deviation, given our approach to planning, seems to be rather impossible.

Regarding financial progress under the plans, it is seen that though the aggregate expenditure has more or less conformed to the allocation over the period 1951-1985, there have been wide inter-plan and inter-sectoral divergences between the two.

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Notes and References


2. "...In Paul Baran's treatment of economic development and its problems in his influential work, The Political Economy of Growth, this 'heterodox' principle is virtually treated as an axiom of economic growth" -- Maurice Dobb "The Question of Investment Priority for Heavy Industry" in Dobb Papers on Capitalism, Development and Planning, Allied Publishers, Private Ltd., 1967. "Large investment in producers' goods industries is tantamount to high rates of growth sustained during the entire planning period and correspondingly a programme directed towards economic development via consumers' goods industries implies automatically not only smaller initial investment but also much lower rates of ensuing growth" -- Paul Baran, The Political Economy of Growth, p.284.

The first economist to focus attention on the relationship between consumer goods and producer goods industries in a plan for rapid economic growth was the Soviet economist Feldman whose model was published in the USSR in 1928. His conclusion was that to begin a process of rapid economic growth, it was necessary to expand rapidly the capacity of the producer goods industries. This capacity is one of the constraints limiting the rate of growth of an economy. As economic planning is largely concerned with the removal of constraints to rapid economic growth, in its early stages, a prominent role is often played by the rapid development of the producer goods sector. This was recognised by the Indian economist Mahalanobis (1953) at the start of Indian Planning, Michael Ellman, Socialist Planning, Cambridge University Press, 1979, pp.122-127.

4. Hla Myint, "Investment in the Social Infrastructure", in Shanti S. Tangri and H. Peter Gray, **op. cit.**

5. "It is easier for economists to agree on the shortcomings of the private marginal product as a proper criterion for investment for society than on an alternative criterion" -- Tangri and Gray, **op. cit.** Part IV, The Allocation of Capital; Introduction, p.103. According to Harvey Leibenstein, "Given the present imperfect State of our knowledge with respect to the factors that are significant in economic development, it is impossible to come to a definite conclusion on this matter (of the correct investment policy for the economic development of underdeveloped areas)" "......it is still.....very much an unsettled matter...... It would be foolish to make a specific investment allocation without taking into account the specific economic situation that the country finds itself in......Given different views of economic development processes, we may (but need not always) arrive at different investment criteria". H. Leibenstein, "Why do we Disagree on Investment Policies for Development?", The Indian Economic Journal, Vol.V, No.4, April 1958. "..........there is no unique criterion for sectoral allocation which can be a guide to decision-making in underdeveloped countries" Samuel Paul, "Sectoral Allocation in Development Planning", The Indian Economic Journal, Vol.VIII, 1960-61. The difficulty is further reinforced by the fact that "economic reasoning cannot by itself offer criteria for choice between alternative patterns of economic development. Social and political considerations" are equally important" -- K.N. Raj, "Application of Investment Criteria in the Choice between Projects", The Indian Economic Review, No.2, Vol.III, August 1956.

6. Tangri and Gray, **op. cit.** Conclusion, p.144.

7. Government of India, **Third Five Year Plan Draft Outline**, p.29

8. GOK, **Third Five Year Plan Draft Outline**, p.29


11. Ibid.

12. Reduction of regional disparities had been envisaged as an objective only from the Third Plan onwards.

13. GOK, Planning and Development Department, Third Five Year Plan Draft Outline, p.94.

14. GOK, Planning Department, Fourth Five Year Plan, pp.2-6.

15. GOK, SPB, Fifth Five Year Plan 1974-78 A Draft Outline, p.15.

16. This fact seems to lend credence to the view expressed by Hirschman that "....the principal areas of needed development are usually fairly obvious and the economist does not invent an investment pattern, but merely extrapolates the existing one...underdeveloped countries are characterised not only by a low rate of investment, but also by the low efficiency of much of the investment that is actually undertaken. This is due in part to the many false starts that will necessarily be made before an economy is really launched on a secure course". A.O. Hirschman, "Economics and Investment Planning: Reflections Based on the Experience of Colombia", in Jan Tinbergen, etal (ed), Investment Criteria and Economic Growth, Asia Publishing House, 1961.

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