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BERNARD R. BELL FILES

Woods Correspondence
1965-1966

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Bernard R. Bell Files: Woods Correspondence - Correspondence

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WBG Archives

Lindblom and Ben King meet frequently and exchange documents freely. King recently received two complete sets of the preliminary Long-Range Assistance Strategy papers which have just been finished by our AID staff here. One of these sets will undoubtedly cross your desk soon. The preliminary LAS papers, some of which you may find useful, reflect the present state of our knowledge of the Indian economy as well as offering proposals which, when winnowed, will be the basis for our assistance effort in India for the next several years.

In none of this material will you find proof of my assertion that the Indian GNP is higher than the statistics would indicate. However, I know of no one who has been close to Indian development over the past ten years who does not agree that the Indian people in spite of the rapid increase of population are much better clothed, better fed, and in the rural areas at least more hopeful than they were a decade ago. The GNP, whatever it is, is not an adequate reflection of the significant progress that has been made.

None of the material I am enclosing is classified. However, some of the information it contains has been provided privately by GOI officials and none of the papers represent official U.S. policy. Therefore I would suggest that you use them for your own information and for the information of your staff, but above all that you not quote them to the GOI.

I shall keep an eye out for additional material which might be useful to you. Meanwhile I am very much looking forward to your return to Delhi in late June. Please let me know your schedule so that we can arrange to meet and continue our discussion.

Wish best wishes,

Sincerely yours,



Chester Bowles

*I am writing
Chester Bowles
to say I have
Enclosures: ~~none~~ as
as stated ~~enclosed~~ my
note.*

May 19/64.

STRICTLY CONFIDENTIAL

OFFICE MEMORANDUM

TO: FILES

DATE: October 7, 1964

FROM: Bernard R. Bell

BRB

DECLASSIFIED

MAY 17 2016

WBG ARCHIVES

SUBJECT: Conversation with Mr. Savkar, Asia Department, IMF

I had a conversation this afternoon with Mr. Savkar following Mr. Schweitzer's departure from New Delhi. The following emerged:

1. Mr. Schweitzer and he gained the impression in their conversations with the Prime Minister, the Finance Minister and the Deputy Chairman of the Planning Commission that in these quarters there was what they regarded as a realistic appreciation of the necessity for restraining the size of the Fourth Plan in the light of the resources which might actually be available, even at the expense of a less rapid rate of development than might be desired. At the same time the individuals concerned had indicated that for both political and economic reasons the Fourth Plan had to be significantly larger than the Third and in their view could be.
2. They also gained the impression that serious thought was being given to reduction of the size of the Government deficit and that means were being explored both for reducing expenditure and for increasing revenue.
3. Mr. Schweitzer and Mr. Savkar welcomed and applauded the almost unprecedented monetary measures taken by the Reserve Bank just prior to their arrival in India (but not without benefit of prior unpublicized discussion with them). Mr. Savkar said that this was only the third time in history that the bank rate had been increased in India. The measures taken also included for the first time restriction of bank credit by indirect means, namely, progressively higher interest rates on Reserve Bank loans to commercial banks as the liquidity of the latter declines. Mr. Savkar expressed the view that this action was a recognition of the fact that the recent sharp price rises resulted not only from food supply shortfalls, but also general demand pressure arising from the combination of a larger government deficit and a large expansion of credit to the private sector.
4. The Government and the Fund have agreed that each will undertake a secret and serious examination in the coming months of the question of the exchange rate. They plan to discuss the matter, although secretly rather than in plenary sessions, at the time of the next consultation. This consultation will be deferred from December 1964 to probably about March 1965, partly to permit adequate study of the matter and partly to permit advance in thinking about the Fourth Plan.
5. Mr. Savkar said that he had no judgements at this time on the appropriateness of devaluation or any other aspect of the matter - no adequate assembly or analysis of the facts had been made. Obviously in this case also consideration would need to be given to the repercussions outside the Indian economy.

TO: FILES

- 2 -

October 7, 1964

6. In the light of all this and the conversation between Mr. Schweitzer and Mr. Woods, Mr. Savkar and I agreed that the Bank mission should not specifically address itself to or enter into discussions with the GOI of the appropriateness of the exchange rate or of possible devaluation. We would, as we have planned, pursue an examination of the export problem, of the obstacles to export including those involved in cost-price relations, and of elasticities on the supply side, particularly in the case of new industries and their present and potential exports. We agreed that we would exchange information and ideas during the coming months and would for the purpose consult as frequently as possible. Mr. Savkar indicated that a small special unit in his office would be studying the problem but that the existence of this unit and the fact of the study would be known only to a few people even within the IMF itself. He stressed the necessity for avoiding wider circulation of the information.

BRBell:vmc

cc: Mr. Kerig
Escott Reed

May 28, 1965

Dear T.T.:

As you know, I have asked Mr. Andre de Lattre and Mr. Bernard Bell to go to New Delhi for a series of meetings with you and the other authorities of the Government of India. The purpose of this letter is to underline the very high importance which I attach to this mission.

Mr. Andre de Lattre will be my personal representative in this circumstance. I have asked him to speak to you with friendly frankness on all issues, however delicate, and as I would myself. I have no doubt that he will faithfully and completely report to me your reactions on these matters. Mr. Bernard Bell, who has reported to me on the findings of the mission he has led in India, will assist Mr. de Lattre. They expect to spend two to three weeks in New Delhi.

India has made very great progress during the period of the three plans but, like other observers, I cannot help thinking that considerably greater progress could have been made if policies and practices of the Government of India in certain respects had been different and that change in these respects is essential to significant future progress.

As you know, and as I emphasized in our discussions in New Delhi in August last year, the Bank regards Indian Government policies and plans as the responsibility of the Government of India. However, in the interest of the end we both so much desire, namely, the economic progress of India, it seems to me desirable before the Government of India embarks on the Fourth Plan to review with you, through Mr. de Lattre, various points which seem to me essential. After a meeting of minds on these matters, I am sure that you can define the broad outlines of a plan and policies which while requiring the greatest effort on the part of the Government and the people of India, can also attract the sustained goodwill of the countries which have taken part in helping the process of Indian economic development.

This is to say how important I consider these talks and how sincerely I hope that they will lead to a common view of the decisions to be taken. It should then not be difficult to agree on the appropriate lines of action when you are in Washington for the Bank's Annual Meeting.

With warm personal regards,

Sincerely,

(Signed) George D. Woods

George D. Woods

The Honorable T. T. Krishnamachari
Minister of Finance
New Delhi, India

cc: Mr. Rajan

BBell/AdeLattre/GDWoods/s

cc: Messrs. Bell, de Lattre, Knapp,
Wilson, Stevenson

May 28, 1965

My dear Mr. Prime Minister:

I am today writing to Mr. T. T. Krishnamachari, the Minister of Finance, to introduce to him Mr. Andre de Lattre, whom I have asked to be my personal representative in discussing with the Indian authorities the views of the IBRD regarding Indian economic development. Mr. de Lattre will be accompanied by Mr. Bernard Bell, who led the Bank's recent mission in India. I am sure the Minister of Finance will organize the talks of Mr. de Lattre and Mr. Bell in the most efficient way.

The purpose of this letter is to underline to you the very high importance which I attach to these talks. They are a direct follow-up of the conversation I had the honor to have with you last August. I spoke to you at that time with complete frankness on the problems and decisions which in my view confront the Government of India in the near future. I have asked Mr. de Lattre to speak in the same manner at the present time.

I thank you in advance for all the Government of India can do to make these conversations contribute constructively towards India's economic progress.

With respect and high regard, I am

Sincerely yours,

(Signed) George D. Woods

George D. Woods

His Excellency
Lal Bahadur Shastri
Prime Minister of India
New Delhi, India

BBell/AdeLattre/GDWoods/s

cc: Messrs. Bell, de Lattre, Knapp, Wilson, Stevenson

cc: Mr. Rajan

List of questions

Main questions

1. Priority to agriculture (to be detailed).
2. Imports, Exports and related balance of payments problems.
3. Public expenditure and defence.
4. Population (to be detailed).

Other items

1. Organisation of Planning and periodic review of performance in economic policy.
2. Project appraisal and performance control.
3. Management of public sector enterprises.
4. Deterrents to foreign investment.
5. Taxation of rural and urban land income and pricing of public services, etc.
6. Measures to increase flow of savings to equity investment and related capital market problems.
7. Relaxation of certain material and price controls.
8. Improvement in flow of information required for planning and conduct of Government operations.
9. Improvement of highway transport facilities and other questions related to transport.
10. Tourism and other invisibles.

Agriculture

- A. Necessity for acceleration in rate of growth of agricultural output.
- B. Factors involved in failure of growth to achieve targeted rate.
- C. Factors critical to acceleration of growth of output
 - 1. Incentive prices (and buffer stocks)
 - 2. Adequate supply of physical inputs
 - a) Fertilizers (priority for imports and for expansion of domestic production)
 - b) Irrigation (completion of schemes underway - accelerated development - more intensive use of water - investigation of ground water resources - land consolidation - integration of engineering and agricultural planning)
 - c) More adequate supplies of other inputs (plant protection materials - improved seed - more power equipment - etc.)
 - 3. More adequate credit
 - 4. Improvements in research (land, water, plant varieties, plant protection, farm practices)
 - 5. Improvements in extension services
 - 6. Improvements in transportation
 - 7. Greater security of tenure and enforcement of fair rents
 - 8. The role of cooperatives.
- D. Impact on other sectors of additional emphasis on agriculture
 - 1. Effect on level and composition of investment in other sectors
 - 2. Balance of payments implications.

June 22, 1965

Agriculture

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 - 8. The role of cooperatives.
- D. Impact on other sectors of additional emphasis on agriculture
 - 1. Effect on level and composition of investment in other sectors
 - 2. Balance of payments implications.

June 22, 1965

Population Control

- A. Necessity for reduction in rate of population growth.
- B. Prospects for success in reducing population growth.
- C. Requirements for successful program of action
 - 1. Strengthening of administrative posture of Central Family Planning Directorate
 - 2. Public support by political leadership
 - 3. Immediate widespread start on IUD programs
 - 4. Immediate widescale training of physicians
 - 5. Central government financing
 - 6. Use of private as well as government medical personnel
 - 7. Encouragement of vasectomy program
 - 8. Enlargement of production and distribution of condoms
 - 9. Operational research.

June 22, 1965

The staff discussions this morning have come forward with the following alternative proposal for your consideration:

- (1) On the import side there should be an exchange surcharge to be collected at the time when exchange is sold, of 50 per cent in respect of all exchange sold for imports and invisibles other than for (a) foodgrains, (b) fertilizers, and (c) repayment of government debt.
- (2) On the export side there should be a premium paid of 50 per cent in respect of all purchases of foreign exchange including invisibles but excluding proceeds of exports of manufactured jute and tea. An appropriate premium will be established as needed on exports of the latter in order to maintain their position in world markets.
- (3) Export entitlement schemes and the recent 10 per cent regulatory duty should be abolished. The proposed tax credit schemes should not be put into effect. Other existing import duties remain unchanged.

Is 50% enough on all export side? 10% for tea
30% bonus for tea scheme
2% trade entitlement 33 1/3 for tea
Tea & jute already exempt

7/1/65

Mr. Woods.

I. G. Patel left this with me today. T.T.K. made his broadcast because of the gossip and speculation in Delhi arising from the visit of de Latho and Bell. The text of the statement, according to Patel, was given over him by him by the Cabinet in Delhi on Saturday morning.

I will report in Paris on the rest of my talk with Patel.

GMLW
20/7



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Robert Bell

André de Lattre

August 6, 1965

Dear Mr. Woods:

You have asked me to act as your personal representative in the course of your present discussions with the Government of India regarding the policies to be followed during the period of the Fourth Five-Year Plan.

I have the honor to ask you to find hereunder the report of my mission.

Yours sincerely,

André de Lattre

Mr. George D. Woods
President
International Bank for Reconstruction
and Development

ADL:sb22 OCT 12 1965

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André de Lattre

August 6, 1965

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Yours sincerely,

André de Lattre

Mr. George D. Woods
President
International Bank for Reconstruction
and Development

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There are various and important reasons why the President of the World Bank is at the present moment concerned with the future of India.

(a) India has become the main debtor of the IBRD. As of June 30, 1965, 34 loans totalling \$918 million have been granted, on which the amount outstanding after repayments is \$763 million. This figure, of \$918 million will rise to approximately 1 billion dollars in early 1966. The burden of the capital amortization and interest on those loans is quite substantial, and reaches an order of magnitude of \$80 million per year as early as 1966-67.

(b) IDA, through which are channeled resources of budgetary origin supplied by the industrialized countries, devotes nearly half (45%) of its resources to India alone (66% for India and Pakistan together). IDA loans to India are now close to \$500 million.

(c) You are acting as Chairman of the Consortium of industrialized countries (more or less the same countries as contribute to IDA, with different percentages) which have been contributing to the financing of the first three Indian development plans. The total resources which those countries and the Bank-IDA have put at the disposal of India since 1950 is approximately \$10 billion (5 billion from the United States alone). As a large part of these resources has been supplied on a loan basis (this is equally true of most of the contributions of the USSR) the total of India's external foreign debt as of June 30, 1965 reaches more than \$5 billion dollars which implies yearly payments (amortization of capital plus interest) which amount to more than \$300 million in 1965-66, more than \$350 million in 1966-67, and rise to more than \$400 million in 1970-71.

On the other hand, the Government of India, in April 1966, will initiate its Fourth Five-Year Plan, covering the period 1966-71, which will require new recourse to external financing.

It was therefore logical that before convening, in January 1966, the members of the Consortium, you should take a thorough view of the economic situation of India and that you should discuss with the GOI the main policy decisions which would, in your view, be appropriate to hasten the economic development of India and make this country, as early as possible, less dependent upon foreign aid.

You have entrusted the work of analysis to a survey mission headed by Mr. Bernard Bell. This Mission, the members of which spent varying periods of from 3 weeks to almost 6 months in India between September 1964 and March 1965, reviewed the major sectors of India's economy, and has produced a series of reports of outstanding value. I shall come back later in this memorandum to the need for discussing the conclusions of these reports with the Indian authorities. May I only mention here that in my opinion it would be desirable, if you find it possible, that the general report of Mr. Bell be handed to the GOI, and that in due course, if the GOI has no objection, this report and the technical reports be made available in an appropriate form to the Governments of the member countries of the Consortium.

After taking account of these reports, you formed your own judgment on the policy actions that, in your opinion, the GOI should and could undertake at the start of the Fourth Plan. You then asked me to be your personal representative to present your views to the GOI, to receive its reactions and bring them back to you, and finally to give you my personal advice on the line of action to be taken.

To this end, I have had, between June 15 and July 15, a series of talks with the Prime Minister of India, Mr. Lal Bahadur Shastri; the Union Finance Minister, Mr. T.T. Krishnamachari, the Deputy Chairman of the Planning Commission, Mr. Asoka Mehta, the Secretaries of the Ministries of Finance, Food and Agriculture, Health, Commerce, Industry, Transportation, Steel, Mines, etc., and other high officials in the GOI.

In the present memorandum I shall:

(a) recall briefly why the problem of India is today raised in particularly serious terms (Chapter I),

(b) expose the main policy questions which have been discussed and the recommendations I would take the liberty to suggest (Chapter II),

(c) briefly touch upon the conclusions which, owing to the attitude adopted by the GOI, the World Bank could, in my opinion, draw as regards its own line of conduct vis-a-vis the Governments of the member countries of the Consortium (Chapter III).

Very briefly summarized, the present negotiation seems to me to amount to this. If the GOI does not decide upon the appropriate changes in its present policies, the chances for a sound economic development seem fairly reduced, and the industrialized countries would have no good reason to carry on the heavy burden which the present level of their contributions entails. By the simple effect of the debt reimbursement the net value of their aid to India would then decrease, and, in my mind, rightly so. On the contrary, if the GOI makes the appropriate changes in its policy, I sincerely believe that very serious chances exist for India to attain a substantial rate of growth without external aid in the foreseeable future. The industrialized countries should then be ready to help India to attain this objective, even at the price of an increase, substantial but temporary, and given under various forms, of their present contributions.

Chapter I: The Importance of the Problem

More than in any other developing country, the problem of growth in India is one of a race, in which the growth of aggregate GNP must be faster than the growth in population, so as to permit a substantial rate of growth per capita which is the only true measure of economic progress and of better human living. Contrary to what many believe, India is today in this respect in a situation no doubt critical but slightly positive. During the 14-year period of the first three Five-Year Plans, i.e. from 1950/51 to 1964/65 the aggregate GNP has increased at an average of 3.7 percent per year in volume and the population 2.1 percent per year. So the growth of GNP per head, though very weak, has been 1.5 percent per year. If no action were taken now the situation would not in itself improve in the years ahead. Owing to the progress in hygiene and medical techniques, the mortality rate has been and should normally go on decreasing; and the population would increase between now and 1975 by something like 2.5% per year - a figure significantly higher than the 2.1% average of the past 14 years. One must underline at this point, - and this is a rather encouraging element - that this figure does not result from an increase in the birth rate. This rate, though very high (42 per thousand), has been stable for some years. It has, moreover, been noticed that in the most favored regions in India, where the standard of living has been substantially improving, the birth rate has decreased to figures well below 30 per thousand. Nevertheless, if nothing were done to alter the present trend, the population of India, which was 360 million in 1951 and reaches 480 million this year, would be 495 million next year, 600 million in 1975, and well over 1 billion in the year 2000.

Such prospects could lead to a depressing feeling which other findings could re-enforce. In spite of certain progress in its agriculture, India continues to depend importantly upon external aid for its daily food. In the last five years imports of foodgrains, under PL 480, have averaged approximately \$350 million a year and in 1964/65 exceeded \$500 million. On top of that, following the recent years of bad crops like 1962/63 and 1963/64, imports of wheat and rice, paid for with free foreign exchange, have reached the very high level of \$120 million a year. Imports of food still account for a much too big part in the overall balance of payments, while imports of development projects remain at a high level, and imports of maintenance goods (raw materials, spare parts, components, etc.) inevitably increase very fast in relation with the development of India's industrial capacity.

The progress in exports has been very slow. Although exports increased by almost \$400 million per year between the first year and the fourth year of the Third Five-Year Plan, they have stagnated in the last two years in the neighborhood of \$1.7 billion, and the progress of 6% a year contemplated for the Fourth Plan is not sure to be achieved. Exports of tea and jute, which account for almost 40% of the total trade receipts, have not increased substantially in recent years and much of the progress in the case of jute in the last two years has been due to the development of new jute-using techniques in the production of rugs in the United States, and not to market research or development effort by the Indian exporters.

lastly, exports of new industries remain at an extremely low level, this being due to the difficulty of getting the needed inputs for export production, to the very complex and unstable schemes of aid to exporters and to an inappropriate rate of exchange.

This series of pessimistic views has no doubt accounted for the feeling of uneasiness amongst the best friends of India. Rightly or wrongly various countries judge that India does not make sufficient efforts to help itself to warrant a sustained effort on the part of the foreign countries.

Such an analysis would neglect quite a number of encouraging factors which have also to be taken into consideration. In absolute figures the GNP has increased quite substantially; particularly industrial production, which has recorded a rate of progress of more than 7% per year and more than 20% in many sectors - a rate which could very well increase even more if industrial capacity were more fully utilized. India now ranks seventh among the world steel producing countries and can do better, due to the physical availability of coal and iron ore.

Agricultural output too has been increasing at an average rate of 3% per year, which compares well with experience in other countries, even though it is inadequate to India's needs.

On social and political grounds the achievements of Indian democracy are also very impressive. With all the difficulties arising from the federal structure and the fairly large degree of independence of the States, India has been able, for instance, to build up an efficient system of direct taxation, which has raised savings, even at very low levels of income.

Similarly, although the money supply in the country is to a large extent channeled in a way which evades the control of the Reserve Bank, the Indian authorities have been able since the end of 1963 to embark upon a severe credit policy, although one not quite as selective as it should be, which has been effective as a means of restraining the increase in global demand that has followed the Chinese aggression, at the end of 1962, and the so-called "State of emergency".

To give another example, India has managed to live on a level of austerity with much more determination than many other countries. Most consumer goods are subject to heavy excise taxes. Virtually no consumer durable goods are permitted to be imported. With a population of nearly 500 million inhabitants the number of passenger cars manufactured each year is still at the same low level as ten years ago, 30,000 cars, in two rather old models of small automobiles. Although it could be an important element in the political life of the country, India has up to now not engaged in the building of a television network, quite contrary to many newly independent and less important nations. Examples of the same nature could easily be multiplied.

Generally speaking one can say that the most important achievement is that economic progress, although insufficient, has been made under the functioning of a really democratic system. Freedom of speech and thought does exist in India, and the opposition can fully explain its view, as it actually did recently as regards the settlement of the Indo-Pakistan dispute. The present Prime Minister, very different as he is from his predecessor, seems to be progressively building up his own stature, both domestically and internationally, and appears to be quite conscious of the importance of the economic problems now confronting India and the necessity of solving them very rapidly.

In other words, I believe that the encouraging signs and the willingness for a change, which I have clearly perceived during my talks with the Indian authorities, do warrant further and substantial support by the aid-giving countries, provided the necessary steps are taken immediately by the GOI in the field of economic policy. Let us turn now in some more detail to these various actions.

Chapter II: The Economic Policy Actions of the GOI

Whereas the Bell Mission has covered major economic policy issues as well as a variety of technical questions which should be the subject of continuing discussion between the Bank and the GOI, I have concentrated the substance of my talks with the Indian authorities on four point of general economic policy in which actions are, in my opinion, both urgently needed and possible. I may recapitulate them under the four headings of Population Control, Priority to Agriculture, Role of Public Finance, and Use of Existing Industrial Capacity. These questions are closely interrelated, and failure to act on one of the points would clearly jeopardize hopes of results in the others. In brief, the line of reasoning can be described as this.

Being conscious of the difficulty of balancing its external accounts in the near future the GOI should:

- (a) make all necessary efforts to achieve in the not too distant future, a substantial reduction of the net growth in population from the present figure of 2.5% to something like 1.0 to 1.5%.
- (b) This being said for the population of the future, make important efforts in the field of agriculture, namely to supply more food to the population of today, with a view to saving foreign exchange expenditures now incurred for food imports, and to produce agricultural surplus for exports.
- (c) Do its best to minimize the inflationary effect of public finance which arises to a considerable extent from the importance of defense costs. Actions on these lines should imply strict control over expenditures as well as development in sources of income.
- (d) Be ready to modify substantially the present mechanism of control of the economy; this major move towards liberalization being accompanied by a wide re-appraisal of prices and procedures in the field of external finance, and by greater use of existing production capacity, which might require temporary shifts from capital equipment to "maintenance" imports.

In these four fields, as well as in the more technical sectors, the GOI should create, for its own use and benefit, the appropriate mechanisms for a constant review of progress and performance.

Let us cover in detail those lines of action.

I. Population Control

There seems to be a very significant change in the attitude of the GOI regarding population control. While in the past no significant action has been undertaken in this respect, my discussions in India,

particularly with the Prime Minister and the Minister of Finance, have led me to the conclusion that the need is recognized for immediate and strong decisions and there is confidence that appropriate actions can succeed.

It is indeed a very essential element, in the presentation to the aid-giving countries of any request for maintaining - let alone increasing - the level of aid, that there would be ultimately a serious chance for India to manage its population problem, i.e., to reduce the birth rate.

Even if the forecasts are still too optimistic and if the objective of a reduction to a rate substantially below 30 per thousand cannot be attained in 1972, as the GOI says it can, but only a few years later, I believe that the simple fact that a date can be in sight for this reduction is an utterly important factor in the decisions of the Consortium countries. With the "end of the tunnel" in sight for the first time they will find a full significance for their contributions.

It is gratifying also to note that the very frank and vigorous public statements recently and for the first time made on the subject by the Prime Minister, the Minister of Finance and other Ministers seem to have received quite favorable support from public opinion, particularly among women. There does not seem to be any moral or religious obstacle in way of progress in this direction.

Speaking more technically the action of the GOI would develop on the following lines.

The legalization of abortion, which is currently being discussed in India (the Union Minister for Home Affairs, Mr. Nanda, has issued a statement favorable to legalization), would not be an element of the proposed campaign and in my opinion rightly so. While it implies quite serious moral problems, it is not anyhow a practice on which any major action for family planning can be based. The techniques taken into consideration would be those of sterilization, use of conventional contraceptive devices and IUD.

- (a) The programs of sterilization now underway will be continued. But one should not expect, in my opinion, any significant result in this direction. As Indian officials pointed out to us, it is a technique to which families have most frequent recourse after they have had quite a number of children. On the other hand, it is morally controversial as it implies full renunciation to having children in the future. Furthermore, it is a costly and delicate operation which can only be performed by surgeons or trained doctors and could not significantly be used for a mass program.
- (b) The use of conventional contraceptive techniques is to be developed. As regards supply, there is to be a wider program of imports as well as the development of domestic production. A State owned plant is being established in Kerala. As far as the distribution is concerned, the intention of the GOI

is to subsidize it, and to use all available means to supply them in the villages (possibly through the Post Office or other depositories).

- (c) Nevertheless, the main element will be the generalized use of the IUD. This technique, which has been used apparently with great success in Korea and Taiwan, seems to have the full backing of the GOI which is preparing for large-scale manufacturing and distribution to a rapidly increasing number of women of childbearing age. The figures quoted to us were fairly impressive. In Delhi alone 3,000 devices had been fitted in the last two months. Six hundred thousand devices had been supplied by, or were coming from the Population Council and a further 600,000 had been requested. The hope was to fit 1 million IUD in 1965-66, 2.5 million in 1966-67 - a figure which should cumulatively rise to more than 20 million in 1971-72.

Details have been given to us on the ways in which the GOI visualizes the organization of the campaign. After a year or so in which the States would be left free to organize their action as they like, an assessment would be made by the Center of the results then attained, and new steps would be decided in due time. The Minister of Finance himself has been appointed head of a special cabinet committee, interested and responsible for action in this field. The Committee includes the Union Minister for Health, Mrs. Nayar, and the Union Minister for Information, Mrs. Ghandi, who have both issued official statements in support of the campaign.

Action for population control is vitally important to success in the achievement of any result in economic growth in India. Even with the full success of the measures described above one should not forget that the Population of India would still amount to 650 to 700 million people by 1981. Conceivably it may be then possible to stabilize it at that level although at present this is a matter of speculation.

II. Priority to Agriculture

The concept of priority to agriculture is one which is both easy to agree upon in the abstract and quite difficult to translate into concrete facts. It has indeed been frequently repeated by the Prime Minister himself in recent months, that this was the basic guideline of the GOI in its approach to the Fourth Plan; but the difficulty begins when one has to explain what it means in terms of policy action, of use of available domestic resources or of foreign exchange.

With what I believe is the agreement of the GOI, I have pointed out that it implies at least two broad categories of decisions; one in terms of general strategy of the Plan, and one in terms of more specific and technical actions.

A. General Strategy

If any hope is to be kept of India achieving a balanced growth by the end of the Fourth Plan, agricultural production must increase over the five years ahead by something like 5% a year in volume, a trend which would be substantially higher than the 3% figure likely to be achieved in the Third Plan. More precisely this means that the production of foodgrains must increase from the present (1964/65) level of 87 million tons to 120 million tons by 1970/71. It means also that only so could India, even with a maintained level of PL 480, avoid spending hundreds of millions of dollars each year for imports of rice and wheat. It would finally make possible a substantial development of savings in the agricultural community. Although Indian farmers as a whole are far from being rich, it must be pointed out that presently some 70% of the land is owned by about 25% of the farmers and that a good part of them are already much better off than some years ago. It is the opinion of the experts of the Bell Mission, as well as, for instance, of the Governor of the Reserve Bank, that substantial savings are today developing in these communities. While a good part of it could be diverted to spending in consumer goods (transistor radios, scooters, etc.) the opinion is that a large part could indeed be either directly or indirectly invested in agricultural production. There seems, for instance, to be a ready cash demand for a number of tractors in the order of 30-40,000 whereas the present level of production is no more than 5 or 6,000.

Although this line of action is a highly sensible one, and one which could appeal to the aid-giving countries, it is not an easy one to follow in terms of Indian internal policy. No doubt it will imply a basic revision of the whole policy of planning, to the extent that it may entail a deferment or at least a slowing down in the start of big new industrial development projects (other than those highly needed for agriculture, such as fertilizer plants, etc.) in the first one or two years of the Plan. It is indeed, or at least it may be, a kind of "TEP", and I think that the Prime Minister understands it so. He has actually issued recently several statements mentioning the idea of a "pause" for a year or two, in precisely the terms used above.

Whether the GOI will choose to dramatize this revision in concepts, or on the contrary to make it with discretion and silence, is not yet clear to me. I would personally think that the more frank line of action, making it clear to public opinion that this is now the policy line, would probably be more efficient, and, for that matter, much more convincing for the outside world and the aid-giving countries. But it might be difficult, specially as it might seem to give up, at least for some time, the hopes and ambitions of India in some fields in which it is well endowed and has obtained some success, such as the production of steel.

In my opinion, the relevant point is that the GOI really acts in conformity with priority to agriculture, whether or not it chooses to publicize it to the widest extent.

Regarding the financing of the Plan in terms of foreign exchange, the concept of priority to agriculture does imply a decision that no cut

whatsoever would be made in the amounts needed for agriculture itself and "industry for agriculture" (tractors, fertilizers, etc.); this means that if the required amounts of foreign exchange should not be available, the needed cuts would have to fall on something else. The Deputy Chairman of the Planning Commission, Mr. Asoka Mehta, made the point that the cuts could not fall on power or transportation projects - owing specially to the relatively small amounts involved - and that they would have to fall then on industry, which would indeed be very painful. While agreeing upon the difficulty of such a choice, I have asked him to prepare calculations showing what such cuts would actually mean, in physical terms, in the industries concerned. I have underlined, and he has agreed, that if the figures showed that the damage of such action would really be very great for the future of India's industrial development, it would be, pro tanto, a better and more convincing presentation to the Consortium countries of the need to maintain or increase, but in any case not reduce, the present level of aid. I hope that these calculations will come soon and be really convincing.

In addition to this shift in general strategy more specific actions are needed in terms of inputs in agricultural production.

B. More Specific Actions

Specific policy decisions have to be taken in the field of fertilizers, use of water resources, intensive cultivation, rural works and policies of price support and buffer stocks.

1. Fertilizers

Although some experts in the Ministry of Finance have voiced doubts about it, there seems to be in India a growing demand for fertilizers among the farmers. This demand may be in the neighborhood of 1 million tons of nitrogenous fertilizers next year - a figure which would rise to 2 million tons in 1971. Indeed, calculations by the U.S. AID point out to a larger figure of some 2.5 million tons in 1970/71 and 3.2 million tons in 1972/73.

While leaving aside for the moment such wide and ambitious figures, the problem is to face the need for something like 1.5 million tons in 1968-69 and 2 million tons in 1970/71 with a level of domestic production presently not exceeding 300,000 tons and a level of imports in the order of 350,000 tons in 1965-66.

As far as domestic production is concerned the GOI says it hopes to reach 1.1 million tons in 1968/69; this implies not only completion of plants now under construction but also of plants which are still in project; so it is clearly an optimistic figure, which in all likelihood will not be reached. The first recommendation in this respect is that the GOI should do everything it could to conclude negotiations now under way for the building of new plants. During my stay in India I avoided being involved in the delicate talks which

were going on between the GOI and the representatives of Bechtel. These talks have not succeeded as far as the large and ambitious project of building five plants was concerned. I hope that a more modest project of building two plants, on modified conditions of majority ownership by the GOI, will soon succeed.

As far as imports are concerned, the GOI plans for an increase from the figure of 350 million tons a year to a peak of 725 million tons in 1967/68 - a figure which would decrease as early as 1968/69 as soon as domestic production increases.

One can have many doubts about this schedule. First, the need for imports at a high level will certainly last later than 1967/68. Second, even if the Indians had enough foreign exchange to buy as much as they like and the will to do it, it is not assured that they could find easily the amounts required unless they were able to enter quite soon into long-term contracts. As Mr. Asoka Mehta pointed out to us, by the years 1967/68 India will be buying about one-fifth of the world trade of sulphur and rock phosphate. While officially agreeing that import of fertilizers should be given high priority, the Ministry of Finance officials are not really anxious to behave accordingly. Increasing import figures by 100,000 tons means spending \$20 million of free foreign exchange, a figure which they say they have been unable to include in their plans for 1965/66.

It would also be appropriate that on the side of the aid-givers every obstacle should be removed in the way of using aid for imports of fertilizers. This should be true for U.S. AID and also for the World Bank and IDA. In this respect I would suggest that you give your attention to the possibility for the World Bank to reconsider - or at least to explain in more detail - the negative reply it gave last winter to a request by the GOI for a loan for imports of fertilizers, for I believe one should avoid giving the Indians the slightest chance of delaying those very essential imports.

2. Water

On major irrigation schemes the GOI agrees with the Bell Mission judgment that it is essential to concentrate on completing projects under way if choices must be made between this and starting new projects. It is less clear that the Irrigation authorities are in agreement with both the Bell Mission and the Ministry of Agriculture that irrigation projects should generally be so designed and operated as to permit more intensive water use rather than merely drought relief. This question requires further continuing discussion.

In addition there seems to be room for further discussion at the technical level between the Bank and the experts of the GOI as far as minor irrigation schemes are concerned. For instance, there seems

to be disagreement on whether there is enough money and enough human resources devoted to underground water research and whether the content of this research is at all appropriate. I would recommend that these discussions take place as early as possible.

3. Intensive Cultivation

This question of water inputs is linked to the next one, which relates to the choice between extensive and intensive cultivation. Whereas the GOI says it does not intend to exclude an effort toward progress in production in Indian agriculture as a whole, it aims at achieving really substantial gains by way of concentrating efforts in a few areas specially suited to intensive cultivation. In these areas new seeds would be used, particularly a variety of rice from the Philippines, and a variety of wheat from Mexico, which could yield larger and faster crops, provided they received the required large amounts of water and fertilizers. If they actually did not receive them, the yields would be even inferior to those of the present standard varieties. While not disputing the right of the experts of the GOI to make whatever technical choice they deem appropriate, we have felt some concern in seeing them "put all their eggs in the same basket" and take a chance on seeds which do not seem to have been quite completely tested and which may involve serious disease and pest risks. I would recommend that the experts of the Bank enter as early as possible into further discussions with the GOI on this subject.

4. Rural Works

We have not discussed in detail the possibility of using manpower, possibly from the Army, for appropriate development of public works in the rural areas. Although one can be skeptical about the results, I feel that this should be more thoroughly explored between now and the publication of the Plan in March 1966.

5. Price Support and Buffer Stock

Although some experts inside and outside the GOI point to the difficulty of building up buffer stocks, in a country where the population is so poor and short of food that there would always be a marginal consumer who could eat the grains used to build the stock, it is the established policy of the GOI to act through a policy of price support and purchasing programs in order to build up a buffer stock of foodgrains which would ultimately be something like 4 or 5 million tons, and which would reach, to start with, 1 million tons of rice and 2 million tons of wheat by the end of 1966. There seem to be adequate storage facilities for such a stock. The Government facilities alone will be able to accommodate some 2.6/2.7 million tons as early as next year. It is to be noted also that in 1964-65 the Government purchased some 3 million tons of grains which it was obliged to sell, later on, to the deficit States. At the same time the existence of buffer stock will help the GOI to control excessive price rises and to suppress the social restrictions

on grain movement which, although very harmful, would probably be difficult to abolish right now.

6. Credit Facilities

Attention should be given to the development of credit facilities to the farmers including seasonal production credit as well as longer-term credit needed for farm equipment. The Governor of the Reserve Bank of India seems fully aware of that need, and the credit squeeze has been designed to avoid bearing on credit to agriculture. Nevertheless, progress has to be achieved in channeling more of the existing savings of the rural community through the cooperatives for these in turn to be able to lend more to the farmers and also through other banking mechanisms where the cooperatives are weak. This whole set of actions is highly essential to the success of the Plan and should be followed closely and immediately by the Bank.

III. Public Finance

Although one may admit that in the past the net effect of the budget on the economy has not really been excessively inflationary, I have concentrated a good part of our discussions with the GOI on the prospects of public finance during the Fourth Plan, both because the budget is itself a major source of increase in internal demand and because it is essential that the budget act as a balancing factor against other sources of increases in the internal global demand; furthermore, any convincing presentation of these matters by the GOI would be of great value vis-a-vis the aid-giving countries. Our discussions covered the two sides of expenditure and income.

(a) Expenditure

A major problem here is the cost of defense, in the context of the Chinese threat, and of the disputes between India and Pakistan and now possibly India and Indonesia. Before the Chinese aggression at the end of 1962 the figure of defense expenditures in India was relatively very low (some 335 crores, i.e. \$0.7 billion or some 2% of GNP). This figure of 335 crores in 1961/62 rose to more than 800 crores (\$1.7 billion) in 1963/64, to almost 900 crores (\$1.9 billion) in 1964/65 and is projected at about the same level in 1965/66. So the supplementary effort of defense expenditures during the Third Plan will have been approximately 1,700 crores, out of the 2,500 crores of supplementary income raised during the Third Plan. This figure of 1,700 crores (\$3.5 billion) gives the measure of the amount of resources diverted from economic development to defense during the Third Plan - a fact otherwise illustrated by the increase of defense costs from 2% to 4½% of GNP.

After discussing this problem extensively with the Minister of Finance and Mr. Asoka Mehta, I came to the conclusion that this figure of 875 to 900 crores for defense costs per year was not likely to decrease very much in the years immediately ahead. The northern

borders of India in the Himalayas are actually much less difficult to invade than it seems at first glance, and China could at any time, in Kashmir, in Assam or through Nepal, invade the northern part of India as it did in 1962. I am not sure that at the cost of the amounts now being spent, the Indian Army would be able to stop them; but probably it would be able to carry on fighting for some time with the emotional effect, inside and outside India, that this could create.

Anyway I think we must live with this figure of 900 crores, and try to make it as little harmful to the economy as possible.

First, attention should be given to preventing India, under the cover of building up strength against the Chinese threat, to use most of its armed resources actually against Pakistan or even other countries. There was talk during my stay in India about the purchase of a submarine, possibly of Russian origin, to prevent the threat of invasion of an offshore island by Indonesia, and recent press reports indicate that a mission might be going to Moscow for purchasing negotiations, possibly for more than one submarine.

Secondly, efforts should be made to lower, as much as possible, the foreign exchange costs of defense expenditures. Although it is difficult to give precise figures, it seems that those costs, including current payments on debt to the US and others, contracted for the purpose, amount approximately to some \$150 to \$200 million a year.

Thirdly, one should try to make sure that defense costs imply as little diversion as possible of economic resources from the productive capacity of the economy. Although it is clear that the effect of the global 900 crores spending on internal demand is a net inflationary one, this effect would be even worse if a large part of the spending were directed to industrial sectors which would otherwise meet domestic economy needs or export needs. It is encouraging to note that, at present, only some 140 crores out of the 900 crores are now devoted to capital expenditures and so have a direct impact on industrial capacity. The GOI believes this figure should not rise in the future.

(b) Income

The GOI intends to raise internal resources by very high figures during the Fourth Plan and for the purposes of the Plan, i.e., over and above the normal growth of its revenues for normal administrative budget needs. As far as the resources of the Center are concerned the proceeds of supplementary taxation would be of the order of 1800 to 2300 crores, a figure which compares with 2,000 crores during the Third Plan (of which, as has been seen above, the largest part, i.e., 1,700 crores has been diverted to defense expenditures). As regards the States, the amount raised would be 1,200 crores - a figure which compares to that of 570 crores raised for the same purpose during the Third Plan.

This increase in incomes would be produced, as regards the Center, by raises in indirect and direct taxation - the level of which is already very high in India - and increases in the prices of goods and services sold by Government enterprises, including the railways. As regards the States, it would come mainly from increases in land taxation and electric power rates. During my stay in India very frank and encouraging statements to the effect that such amounts would have to be raised, have been made before the Finance Commission, to the Ministers of Finance of the States and in public, by the Deputy Chairman of the Planning Commission, Mr. Asoka Mehta.

I think that there is a good case for the Bank to tell the aid-giving countries its sincere belief that the GOI is acting in this respect as a responsible Government, and in a way which is not so easy, given the present political structure of India.

I would add that in this field of controlling internal global demand, there seems to be a clear need for a more active and more selective credit policy. It is true that the efficiency of any action by the Reserve Bank is limited by the fact that it applies only to the so-called "regular" money market and has no bearing on the so-called "gray" market (mainly the village moneylenders) or the really "black" market (money illegally earned and lent under the counter, without paying taxes, etc.); the money supply coming from these two parallel circuits tends to counteract whatever restrictive action is taken by the Reserve Bank. Nevertheless, and although it relied mainly on global weapons, the credit squeeze operated by the Central Bank since March 1965 was probably the best that could be done in the circumstances. But it has not been successful enough, particularly as it does not seem to have prevented firms from maintaining a high level of inventories.

The first thing for the World Bank to do in this respect would be, in cooperation with the IMF, to ensure that appropriate selective techniques are being used by the Reserve Bank, to know better the credit situation of each big firm as regards its various debt commitments, the level of inventories, etc. While aware of the necessity for such action, the Governor of the Reserve Bank agrees that the technical means still need much improvement.

IV. Wider Use of Existing Capacity - Decontrols and the Balance of Payments

We come here to the most difficult part of the policy program which the Bank would like to see India embark upon, and indeed the part to which I devoted most of the time in our discussions in India.

1. Your instructions

Your views on the subject, as expressed before I left for India, were clearly that this chapter was an essential one; one that the Bank could not agree to see bypassed or not clearly accepted, in any general agreement with the GOI.

In substance your judgment was that India should devote more of its foreign exchange resources to so-called "maintenance imports" (raw

materials, components and spare parts, etc.) in order to use more fully its existing industrial capacity, which in many cases is not used to more than 50 or 60% due to a lack of essential imports. This move should be achieved by way of liberalization of imports, a move which should obviously be accompanied by a rise in the presently much too low price of imports. As there was room also for change in the price of exports of many products, and for a simplification of the export aid system, it was indeed a very big reshuffle of Indian payment relations with the outside (in other words the exchange rate) that was called for. You had come to this conclusion by a line of reasoning bearing both on imports and exports, with the accent mainly on imports.

A. Imports

You started with the idea that the present extensive, very direct administrative controls on the economy, and mainly import controls, were acting contrary to economic truth especially in the demand for imports. In the present situation, the system of licensing has many unhappy effects.

First, it gives the firms an incentive to import owing to the relatively low price of foreign exchange (even with the relatively high custom duties) as compared to internal prices.

Secondly, it gives an undue profit margin to the importing enterprises. The less efficient ones are able to produce and sell profitably even at high cost as they are assured of getting their foreign exchange quota for scarce imports. The most efficient firms, instead of making the cuts in prices which their productivity would permit them to do, enjoy the benefit of the high prices quoted by the less efficient ones. None feel any competitive pressure to increase efficiency. (This situation is well illustrated by the case of trucks.)

Thirdly, as the scarcity-induced rise in internal prices has not been matched by a parallel increase in the price of imported goods, the incentives to import substitution and export production have been greatly weakened.

So, the Bank would like to see India completely free imports of the so-called "maintenance" goods. In the balance of payments for 1964-65 these imports amounted to approximately \$1.2 billion, a figure which is in itself misleading as, according to the judgment of both the Bell Mission and the GOI, needed imports of that category should have been much higher even without liberalization.

It would be made clear to the GOI that, partly contrary to what has happened for instance in Pakistan, such liberalization would not bear, on the one hand, on imports of big equipment for projects which are to a large extent realized by the GOI itself, nor on the imports of finished consumer goods or goods which would be mainly used for the production of less essential consumer goods, such as nylon fibers, etc.

It would be made clear also that this liberalization should be accompanied by a substantial rise in the price of imports, to be realized either by increasing custom duties proper, or by acting more frankly in the monetary field, by way of direct change in the exchange rate or indirectly by introduction of an exchange tax, etc.

B. Exports

To a lesser degree a parallel need for a change in the price of foreign exchange was visualized in the field of exports.

Let it be quite clear that if there is a great need for simplification in the present system of Indian export aid, there is not a comparable need for increase in the present price of export proceeds in all the sectors.

1. There seems to be general agreement that no change in the price of exports is needed in the case of tea and jute, which together now account for almost 40% of Indian export proceeds. This is not to say that no progress has to be made in these two sectors. As has already been pointed out, serious efforts should be made, especially in the field of market research in the case of jute in which recent progress has been due to new industrial developments in the United States and not to efforts of the jute exporters. It is true also in the case of tea. But in both cases the efforts are to be made in the field of production and marketing and not in the price of exchange. If any general move was decided - such as, for instance, a formal devaluation - its benefit would have to be wiped out for the tea and jute exporters by way of some compensatory export tax. And, for the time being, it seems that one can accept as a satisfactory measure, the introduction on July 17, 1965 of a 2% tax credit for tea and jute exporters.

2. Nor is there any absolute or certain need for a change in the price of foreign exchange in the case of goods presently exported by the State Trading Corporation, such as iron ore, oilseeds, and cotton textiles which together account for 20% of India's export proceeds. The Corporation sells for whatever price it can get and any losses are covered by budgetary appropriations. Indeed, the amount of aid which they get today may be larger than whatever amount could result from, for instance, a formal devaluation. And any change in the price of foreign exchange might leave there the necessity for supplementary aid as it is given today.

3. The situation is not very different in the case of the products of those industries which operate under and receive export premiums via the so-called "import entitlement account" and which constitute some 10% of India's export proceeds. What is open to criticism in this case is especially the somewhat capricious system of granting privileged import licenses, a system for giving premiums which

might automatically disappear if the contemplated liberalization of imports of maintenance goods were made effective.

4. So it is principally in the case of other exports which today get no help at all that there is absolute need for a change in the price of export proceeds. These exports today account for some 30% of export receipts, a figure which is misleading since one should add to it the obviously unknown amount of exports of products which are not exported today and which could be exported under more favorable domestic-external price relationship. In this category there is agreement between the GOI on the one side, and the Bank and IMF on the other side, that something has to be done. The divergence begins when figures are quoted. The GOI is contemplating a rise in the order of magnitude of 30% (by way of granting a tax credit of 15%, which, being tax free, would amount in practice to 30% - the level of corporate taxation in India being on the average 50%) whereas the Fund and Bank experts would judge that a figure of 50% would be an absolute minimum.

As one can see, the problem is clearly less difficult in the case of exports than in the case of imports.

2. My Discussions in India

On the basis of these instructions we discussed the problem of how best to realize these major changes in policy as regards imports accompanied by whatever appropriate change was needed in the case of exports.

A. Imports

As far as imports are concerned I judge that three conditions have to be fulfilled - a substantial rise in the price of exchange, a wide liberalization and a large allocation of resources to "Maintenance" imports.

1. A Substantial Rise in the Price of Imports

It is difficult to say what the order of magnitude of this change will be. The idea clearly is not to raise the price of these imports to a level where they would be stopped, but on the contrary to find a level where the price comparison with internal costs would be a sensible one. While allowing an increase, and not a decrease, in the present level of imports, this price rise might be selective and in many cases realized through a change in the level of custom duties. But basically in the case of most goods there seems to be a need for a change of some 50% minimum over and above the level of January 1, 1965. Some IMF and World Bank experts would suggest a figure of 60% or even more rather than 50%, whereas the GOI would not like to go over 30%. There is clearly room for further detailed and thorough discussions between the two sides on this matter.

2. Wide Liberalization

To be of any significance, the liberalization should include a large majority of the goods presently classified under the heading "maintenance imports", including production materials, spare parts and components; and excluding finished consumer goods, capital goods, oil, and food. We have discussed this in some detail with the GOI officials and I believe we have come to an agreement on this point to the effect that a meaningful minimum liberalization would exclude only a limited list of maintenance imports (perhaps including paper pulp, rubber, some alloy steels, etc.) which would be left under the administratively controlled licensing system. The rest would be imported freely, even if, for reasons of better statistical knowledge and keeping the situation under control, this liberalization would be in practice realized through the so-called "free license system", that is granting of all licenses requested.

3. Use of more Foreign Exchange for Maintenance Imports

As will be seen below the GOI has made preliminary estimates of the level of imports - both of capital goods and maintenance - and of foreign aid required in the Fourth Plan. These are substantially higher than those in the Third Plan. With liberalization of maintenance imports that category of imports would be larger than the GOI has projected. It hopes therefore that liberalization would be accompanied by further increase in aid specifically to cover the additional cost of liberalization. Whether this objective can be achieved is a matter for negotiation. If it turned out to be impossible, it would mean that the supplementary needs for liberalization of maintenance imports would have to be provided for inside the level of aid presently contemplated by the GOI, i.e., by cuts in other imports, mainly finished capital equipment development projects. But whatever way is chosen, it is clear that liberalization of maintenance imports, even with a rise in the cost of foreign exchange, would call for an increased allocation of foreign exchange of something in the neighborhood of \$300-500 million a year over and above the level which the GOI itself proposes to devote to this category of imports.

Moreover, provision would have to be made so that this supplementary amount could be assured for at least three years in order for the move to liberalization to be credible, and not prompt a rush on the newly liberalized import goods in the fear that liberalization would stop soon.

B. Exports

On the export side the problem is first to assess what must be the appropriate increase above the existing effective exchange rate for those exports which presently receive nothing, and second to decide whether this increase should be provided through straightforward devaluation or export premium or through the present rather complex system of selective aid.

On the first point I made it clear to the GOI that in the judgement of the Fund and the Bank, the level of 30% was clearly insufficient and that 50% would constitute a minimum. On the second point, I think the Fund and Bank should not insist too much on a straightforward premium or devaluation. The case for a large move applying for instance to the invisible transactions is not in my mind a quite convincing one, and the important point is to achieve the result of a good percentage rather than being too far involved in a dispute about the technical means.

C. The Immediate Situation

As you know, during the course of my stay in India it turned out that the GOI contemplated immediate action, both on the import and export sides, because of the deterioration in its current balance of payments and the plans it had developed for a new drawing on the IMF. This move would have taken the form of:

- On the export side - making effective the 15% tax credit (i.e. 30%) for which Parliamentary authorization had been granted in the 1965 budget. Tea, jute and coffee would have received tax credits of perhaps 2%; cotton textiles none, since they would remain under their present industry-operated premium system; items exported by the State Trading Corporation none, on the theory that budgetary subsidization was available as required. Furthermore the existing import entitlement system would have been altered to reduce the premiums it provides for selected industrial commodities.
- On the import side - raising from 10% to 30% (25% was contemplated first) the special import surcharge introduced in February 1965.

I then made it clear to the GOI that such a move could not in my mind be the basis for the needed action of liberalization of imports. Nor would it be understood outside as a convincing move restoring confidence in the value of the rupee and genuinely stimulating export. As far as I could judge, the Fund would make the same judgment, and in all likelihood would not be ready to give India the benefit of a further drawing in the second credit tranche, on the basis of such a program. When this program was unofficially submitted to the Fund on June 30-July 1, the answer of the Fund was what was expected, and the GOI then gave up the idea of such a move accompanying a request by drawing from the Fund.

Since then there has been, as you know, considerable thinking and, I believe, difference of opinion in the GOI about this problem and a public broadcast has been made by the Union Minister of Finance, on July 17, to the effect that formal devaluation was clearly ruled out, and that the appropriate selectivity should be respected in any move that could take place in the future. At the same time the Prime Minister issued a statement hinting very clearly at a very substantial rise in import duties. The question of what will be the move decided

by the GOI, and when it will be decided, is still an open one; but I made it clear to the GOI that whatever approach they decided to take, by way of a straightforward exchange tax and premium requiring the approval of the Fund, or by way of custom duties increases and export subsidies not requiring the approval of the Fund, but on which you had views, they should not lose sight of the fundamental objective, which is that the move should be big enough to permit liberalization, decontrol and rational export stimulation. I prompted them also to enter into discussions at the earliest possible date either with the Fund or with the Bank, or with both, in order to prepare the move in time for it to take place early enough before the beginning of the Plan. The Prime Minister most particularly seemed to me to be fully aware of that need.

I sincerely hope that the GOI will in due course make its decision, realizing that it is on your side an essential requisite of any support by the Bank, specially vis-a-vis the Consortium countries.

V. Other Economic policy problems

In addition to the four main points covered above (Population, Agriculture, Public Finance and Decontrols) I discussed in some detail with the GOI other economic policy matters which, in my opinion, require more thinking on the side of the GOI and further detailed discussions with the Bank. I shall mention: project appraisal, management of State enterprises, coordination of transport, tourism and other invisible transactions and encouragement to foreign investment.

(a) Project Appraisal

The view of the Mission was that the existing mechanisms for appraising projects are not satisfactory; technical studies were not conducted in a way that gives reasonable assurance that the GOI is embarking only upon projects of minimum economic and financial soundness.

The GOI officials have agreed with this judgment and indicated that they have decided on the creation, probably inside the Planning Commission, of a special bureau charged with the review and evaluation of all investment projects requiring Plan financing and for which technical studies had been made by Indian or foreign personnel and organizations. I would recommend that this question be carefully followed by the Bank, and I hope that the Bank will be able to offer its technical assistance, possibly by supplying experts of its own staff, to improve the work of this bureau.

At the same time, this bureau should be entrusted with the responsibility of looking at the projects after they have been completed in order to enquire about the results and draw the appropriate lessons for future study of new projects.

(b) Management of State Enterprise

Attention should be given by the GOI to the various problems of management of the public sector enterprises. To some extent those problems reflect the difficulty of striking proper balance between the necessary freedom of action of the Manager, and the appropriate power of control exercised by the owner, in this case the State, represented by the Ministry of Finance. More precisely, the problem seems to be the definition of the role of the "financial adviser" in the enterprise, a man who is both the financial adviser of the manager properly speaking, and the representative of the Government by whom he is appointed. There does not seem to be any clear-cut solution to this problem, the acuteness of which is likely to decrease in time, as the manager gains weight and self-confidence and as better human relations are established with the financial adviser.

Another problem is the progressive building up of a body of managers which would not be part of the civil service proper and would gain authority and independence. At the start quite a number of managers of State-owned enterprises were drawn from the civil service and the railway administration. I was told by the GOI that this period was now over, and that a body of about 60 high level managers of public enterprises was now being gathered - most of them having full qualifications for efficient management.

Still another is the development and use of cost accounting and control, and other management techniques familiar to western enterprises but now little used in India.

These problems should be closely followed by the Bank; lessons might be drawn by the GOI out of experience of some European countries, such as U.K., France and Italy, in which State enterprises do operate in the private competitive sector.

(c) Coordination of Transport

I discussed to some extent the problem of coordination of transport with the officials of the GOI. Although it was natural that great emphasis and priority be given in the previous plans to the railways, an efficient organization of established traditions, the highly restrictive regulations governing road transport seem to be in many cases hampering the normal development of Indian economy. I would not be convinced that the case exists for complete abolition of these regulations. Nevertheless, there is certainly room for relaxing them; I would suggest that the Bank enter into further discussion on this subject with the Indian Ministry of Transport.

(d) Tourism and other invisible transactions

The case for a serious development of tourist receipts does clearly exist. India today earns certainly no more than \$50 million on tourism, only part of which (some \$30 million) comes through official channels. It seems also that the need there is not for a change in the exchange rate. Even at the present obviously over-valued level of the rupee, tourism in India is already rather cheap.

What is obvious is the need for developing facilities, particularly new hotel projects, either in the private sector or if need be through State-owned enterprises. The aim should be to retain, if only for a few days, the many businessmen and tourists who fly through India on their way from Europe and the U.S.A. to the Far East. The GOI says it is aware of this necessity and sums tentatively provided for tourism in the Fourth Plan are not negligible, but it does not seem to behave presently as if it had great belief in the possibility of achieving good results in this field.

I would recommend that the Bank keep this matter under constant review with the GOI so as to achieve results at the earliest possible date.

I am sure India can also earn significant amounts of foreign exchange by trying to embark on programs of export of manpower to Europe. While realizing the difficulties of such programs I have underlined to the GOI the magnitude of the amounts earned in this field from the industrialized countries of Western Europe (U.K., Switzerland and the Common Market countries) by the countries of the Mediterranean belt such as Spain, Portugal, Greece, Turkey, Algeria, Morocco, Tunisia, etc. I sincerely believe that with a little effort and imagination, India could earn some \$10 to \$20 million a year in this field. I would recommend that this topic not be forgotten by the Bank in its future discussions with the GOI.

(e) Fostering Foreign Investments

The GOI said it was fully aware of the need for encouraging foreign investment in India and that it would devote all its efforts to facilitating such investment by simplifying and speeding the granting of licenses and other authorizations and by all other means. As a matter of principle the GOI is not insisting on any mandatory rule of majority for Indian capital in the case where it is to be associated with foreign capital, except when the Government itself has an ownership interest in the venture. In this case, the general rule is that the GOI should in principle hold at least 51% of the equity but the GOI is prepared to make exceptions to this rule in appropriate cases.

Clearly the best encouragement to foreign investment would be the putting in effect of the policies described earlier in this report which would enable India to attain a faster rate of growth, an appropriate price relationship of the rupee to foreign exchange and a serious reduction of the hampering administrative controls. But to a certain extent this new definition of the value of the rupee would make remittance of profits more costly. So it is not really in the field of monetary action that the happy consequence for foreign investment should be expected, but more generally in the progress of Indian economy which would derive from it.

VI. Control on Progress and Performance

As can be seen from the earlier parts of this report, there are

not many topics in which any substantial divergence of opinion leads to conflict between the judgements of the Bank and the GOI. The only matter of substance is the one concerning decontrols, and the rate of exchange, and the related issue of full use of capacity, a very essential one indeed. On other matters, the answer of the GOI to the suggestions of the Bank will not be one of disagreement but, on the contrary, of full concurrence in the objectives and even in the methods. Very often will the GOI take the attitude (indeed, it has been clear during my discussions in June-July) that it fully agrees with the Bank, had itself decided to act on the same line, and had just very recently appointed a high level committee to take care of the problem.

The question will then be, not to discuss objectives, but to make reasonably sure that in the course of time these objectives are really attained. This is partly a problem for the World Bank itself, which will be discussed below, but it is most of all a crucial matter for the GOI. In my judgement the Bank should insist that the GOI proceed immediately to establish the appropriate mechanism for assessing the progress and performance in economic policy.

There seem to be presently very great deficiencies in this field. The only comparison which is regularly but not adequately made each year, on the occasion of the annual Consortium meetings, is between the prospects and the achievements in the Plan itself, i.e., how many development projects have been carried out, etc... But no such comparison is really made in terms of policy measures, such as the one discussed above. Even in such fields as foreign exchange, there is no available document showing for the last two or three years the comparison between foreign exchange budgets and actual balance of payments results and explaining the reasons for the differences. This is something which should be improved at once.

The GOI officials seem to be aware of this necessity, although some of them have doubts on the possibility of drawing appropriate economic budgets and a posteriori economic accounts, owing to the great uncertainty in forecasting and measuring developments in Indian economy, particularly in agricultural production.

Nevertheless, they agree that such a review of the results of the previous year, the state of the economy in the current year, and the prospects for the coming year, as well as the progress in economic policy requirements, should be entrusted to a group of high level specialist economists. There might be discussion on where this group should be located, i.e., under the authority of the Prime Minister, the Finance Minister, or the Planning Commission. This question is not a very relevant one. Wherever the group is located the important point is that the work be done and that real use be made of the findings by the GOI to define its future action.

It is, of course, difficult to imagine that these periodical reports, which in many cases should be made more frequently than at yearly intervals, should be made to the World Bank. For political reasons this would probably

be unacceptable to the GOI. What could be foreseen is some mechanism in which the GOI would report, so to speak, to itself, or if appropriate to any committee in the Parliament, on the progress of economic policy. An understanding between the Bank and the GOI on the definition of such a mechanism is in my opinion an essential part of any agreement. (1)

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Chapter III: The Role of the Bank

The terms of reference of my mission were to discuss economic policies with the GOI; I was not directly concerned with the action of the World Bank in organizing its future cooperation with the GOI for carrying out these policies. Nevertheless, I would like to take the liberty of submitting hereunder some reflections on this subject. It seems to me the Bank has to prepare for its future action in two directions, one involving its relations with the GOI, the other its relations with the member countries of the Consortium.

1. Relations with the GOI

Three points may be considered in this respect: the discussion with the GOI of the technical parts of the Bell Mission's report, the assessment of the Fourth Plan proper, and other organizational matters.

A. Discussion of the Technical Parts of the Bell Mission's report

Apart from the general report of Mr. Bernard Bell to you, which deals mainly with matters of economic policy, the report of the Mission includes a series of high level detailed technical reports bearing on such matters as agriculture, transportation, population, exports, controls in the economy, State enterprises and industry, etc. Rightly or wrongly I got the feeling that some more discussion was needed in certain cases between the experts of the Mission and the officials of the GOI in order to ascertain facts and clearly settle the areas of agreement and disagreement in judgments and suggestions. This would be the case, for instance, in such technical matters as minor irrigation and underground water research, coordination of transport, etc. These discussions cannot be usefully held unless and until the interested officials in the GOI have been able to read the part of the Mission's report which concerns their activities. Furthermore, it seems to me hard to imagine that the GOI should not receive the benefit of the information contained in these reports. My suggestions then would be that you should agree to send those reports to the GOI as early as possible and inform them that as soon as the GOI officials have had time to read these reports you will be ready to send their authors to India for discussions. After these reports had been so discussed, you would judge, in agreement with the GOI, whether it is possible to make them available on a confidential basis to the member countries of the Consortium.

B. Assessment of the Fourth Plan

As you know, the original intention to the GOI was to produce the Draft Outline of the Fourth Plan sometime in the very beginning of August, 1965, so that the Planning Commission would approve it by August 1-2, the Cabinet by the 6-7th and the National Development Council by August 10. It was later decided that somehow this schedule should be deferred in order especially for the GOI to have received the recommendations of the Finance Commission (a special

Constitutional body which periodically recommends the basis for allocation to the States of revenues collected by the Center); these are expected in mid-August. It is now the intention that the Draft Outline of the Plan or its essence should be ready by the end of August and should be sent to you not later than that date. Work could then start immediately on the assessment of the Plan in order for the Bank to have this assessment completed by the end of the year, in time for a Consortium discussion in January and for the final draft of the Plan to be ready before March 1966. I would recommend that this work start as early as possible. To a certain extent it may possibly be done by the same people who would discuss the technical parts of the Bell Mission report. As underlined in the previous paragraph it is very important not to lose time in this respect.

C. Other Organizational Matters

Since the Consortium for Aid to India was established the Bank has had close relationships with the GOI. Nevertheless, I think the present reappraisal marks a new turn in these relations and calls for a new definition of the mechanisms which will go into the work during the period of the Fourth Plan. This relates both to organization inside the Bank in Washington and the structure and role of the Delhi office.

I would not regard it as proper to express any opinion concerning the matters of internal organization in the Bank. My only suggestion in this respect would be that the benefit of the very close and friendly relations established with the GOI during the work of the Bell Mission should not be lost, and that the person you would entrust with the task of looking after the Bank's relations with India should specially remain in close contact with yourself.

In this context the organization of the Delhi office is a very delicate problem. No serious difficulty arises as far as technical experts are concerned. The Delhi office should probably include a certain number of those experts who could help in the work of the GOI in appraising projects before and after their completion (see paragraph V, (a) in Chapter II above). But the problem is more serious so far as it concerns the need for a staff of economists, as well as the stature of the head of the Mission in India. The need clearly exists for a team of two or three relatively senior economists to be stationed in Delhi and follow closely from day to day the progress in economic policy. The Bank's representative in India should be of a high level, in order to be able to speak easily with the Ministers, and in case of need with the Prime Minister, with appropriate authority. On the other hand, the Bank must not give the GOI the uneasy feeling that it is, so to speak, "ruling the country from outside" a feeling which a too important man in India might easily give.

In any case, I think this extremely important matter of organization, and to a certain extent of personal choice, deserves your best and early attention and would, if you judge it advisable, justify some discussion in September between yourself and the Minister of Finance of India.

2. Relations with the Consortium countries

If, as we both hope, the GOI really decides to move along the lines suggested in this report, the President of the World Bank will then have to approach the members of the Consortium in order to evoke its support for the Indian program and gather the appropriate resources in foreign exchange for the Fourth Plan. While this move could formally take place only after you have come to some kind of agreement with the GOI, it is clear that at least the major aid giving countries have to be more or less officially informed of the progress and your own thinking in this respect.

Since the beginning of May 1965, I have acted as your personal representative, in no way responsible for reporting to the Consortium countries. Nevertheless, you have agreed that it was appropriate that, on a purely personal basis, I would let officials in the administration of the three major creditor countries, U.S.A., U.K., and Germany, know about the main topics which I discussed in June-July with the GOI. After my return from India you found it appropriate yourself to inform those three countries, still on a personal and unofficial basis, of the preliminary results of my mission and of the prospects of their possible future cooperation in the financing of the Fourth Plan. No doubt the week of the IMF and World Bank annual meeting, from September 27 to October 2, will be another occasion for Ministers of Finance of other member countries of the Consortium, to enquire from you about the results of your discussions with the GOI.

I hope that by that time things will be clear enough with the GOI for you to be able to give a sufficiently detailed answer to those questions, in advance of the Consortium meeting which is scheduled for some time between December 15, 1965 and January 15, 1966. Even if it were not the case I think you should at that time, inform the countries, on a confidential and still unofficial basis regarding what are likely to be the efforts you would expect them to make, if the GOI on its side makes the appropriate moves.

Although this is a matter for further clarification and no doubt negotiation, I think the picture can well be summarized already under the three following headings: possible increase in the level of aid, granting of untied money to permit liberalization, and debt consolidation.

(a) Possible Increase in Level of Aid

The present gross level of aid from all sources (excluding PL 480) is in the neighborhood of \$1 to \$1.1 billion a year. On the basis of the preliminary and very approximate calculations of the GOI, the amount of similar aid they believe they will need during the five years of the Fourth Plan is in the neighborhood of \$8 to \$8.5 billion, i.e. an average of \$1.6 to \$1.7 billion a year. No one can be sure of the validity of these figures at the present time, but the Bank would no doubt be on the safe side if it informed the aid giving countries about the need for an increase of 30-40% minimum, and possibly 50% to 60%, above the level of aid now given to India. Whether this amount of aid can be obtained will be seen during the Consortium discussion but I sincerely believe that, if the objective of liberalizing maintenance

imports and giving priority to agriculture are really to be respected, the global amount of aid could not be kept at its present level, without implying cuts in new industrial development projects so big that they would seriously impair the prospects of further Indian economic development.

One can agree, as a starting negotiating basis, that the Bank should try to persuade the GOI of the need to achieve liberalization of maintenance imports and priority to agriculture at the present level of aid. But I have great doubts on the chances of an agreement on that basis, and I am not sure of the wisdom of such an arrangement.

(b) Granting of untied money

To permit liberalization of maintenance imports and fuller utilization of existing production capacity, whether at an increased level of aid or, if it proves possible, at the present level, provision would have to be made for India to be able to liberalize such imports. This would mean that the countries should be able to provide, at least in part, a larger proportion or amount of aid on a non-tied-to-projects and non-tied-to-country basis. If, as is likely, the increase in annual maintenance imports which would need to be provided for is in the order of \$300 to \$500 million, the GOI should be provided, during at least three years, with an adequate amount of money (from aid and export receipts) that it could freely spend wherever it needs it for those kinds of imports.

This prospect may very well be unpleasant for some countries, insofar as the money they would supply would be spent by the GOI in other aid-giving countries, or possibly in other non-aid-giving countries (this being specially true of imports of certain raw materials including copper, some other non-ferrous metals, rock phosphate, etc.) It may be the case for the U.S. and to a lesser extent for other countries.

Nevertheless, I believe that this is an essential condition of the success of Indian economy during the Fourth Plan, and that you should make it a very clear requisite in the nature of the aid to be given by the countries.

To a certain extent the IMF itself may be of help in this respect. If the GOI so desired, it may be that the IMF could agree upon India drawing a certain amount of its credit tranches to build up to a certain level its presently very low foreign exchange reserves; a move which would enhance confidence in the rupee, at the same time where fresh free money would be supplied by the aid giving countries. But it is clear that the GOI does not contemplate a drawing on the IMF as a means to provide money for liberalization of maintenance imports, as it wants to keep its right of access to the Fund free for covering its needs in case of some emergency crisis.

(c) Debt Consolidation

Although some part of the aid given to India in the past has been in the form of grants, most of it has been in the form of loans - some of them on relatively short terms. Accordingly the total amount of external debt is now approximately \$5 billion and its service in capital and interest will require some \$2.5 billion during the five years of the Fourth Plan (\$1.4 capital, \$1.1 interest). It is, therefore, not surprising that the GOI has raised the question of a debt consolidation, on which it approached unofficially the Bank and the creditor countries during last winter. Most creditor countries have advised India, and in my mind rightly so, that they were not ready to consider such a possibility separately outside the context of the financing of the Fourth Plan, if only because of the great danger of contagion for other countries which have to be considered in the same picture (Brazil, Argentina, Chile, etc).

On the other hand, as long as the purpose of the Bank and the Consortium countries is to help India with amounts of "free money" which it could use for liberalizing maintenance imports (see preceding section (b) above) the debt consolidation technique is one which can clearly help as it would provide India with free foreign exchange resources to the extent of the deferment.

I would then recommend that the matter of the debt consolidation be frankly put to the Consortium countries as one of the best ways and means of helping India at the present moment, and that consideration be given to the possibility of a very large deferment calling, if possible, for no payment during the five years ahead on either capital or interest.

Deferment of capital alone would not be quite sufficient as it would provide relief of some \$100 million a year only (assuming the World Bank does not participate in deferment of debt service payments for its own loans) or a somewhat bigger amount if the U.S.S.R. can agree to similar postponement. Deferment of interest, although it has happened in some cases (one of the consolidations for Brazil) has not been customary and may raise special problems in some countries. Although a difficult one, I think this question should be put early to the aid-giving countries with all the relevant information that the Bank can have on this subject.

A further complication is introduced in this problem by the fact that loans have been granted by the aid giving countries on substantially divergent terms, some of them being rather hard (mainly the "suppliers credits") and others quite soft (recent U.S. Aid or British loans). A deferment of all interest and amortization maturities due in the next five years could then result in an unequal share of the burden amongst the various aid-giving countries. The Bank would have to give careful attention to this problem and prepare whatever material was relevant in helping the Consortium countries to solve it. Prima facie, it seems, however, that the loans of which repayment is due to the United States during the next five years are mainly loans granted by the Export-Import Bank on a relatively hard basis, and, as such, comparable to most European loans. It may turn out though that the simplest line of action, i.e. deferment of all payments on capital and interest due

to all creditors during the five years of the Plan might after all be relatively fair and should then be adopted.

Whatever technique is chosen it should be clear that the objective is to maintain a net level of aid to India which would at least compare favorably with the gross level of aid presently granted.

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I come now to a very brief concluding remark.

Although one always has a tendency to judge that the present moment is of particular importance, I really think that the economy of India is now reaching a turning point. Changes in attitudes are perceptible, from the Prime Minister down to the farmers. For the first time the possibility of a "take off", while not around the corner, is in sight. To achieve it, action by the GOI is clearly needed, mainly on the lines discussed above. But an increased level of aid by the aid-giving countries is also necessary, at least for the period of the Fourth Plan and very likely for that of the Fifth Plan. It would be very sad if the Consortium countries were unable to be persuaded that such an increase in their contributions would probably be the best investment they could make in India, provided there is a response on the side of the GOI, whereas the mere maintaining of the present level of gross aid - decreasing as it will be in its net effect - would not permit the GOI to make the appropriate moves, would not permit a substantial rate of growth, and would ultimately mean the need for help for many more years.

I sincerely hope that you will be in a position to make the Consortium countries concur with you in this judgment and that my mission will have helped you to obtain that result.



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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL MONETARY FUND

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Statement by the Hon. S. BHOOHALINGAM, Secretary,
Ministry of Finance, and Alternate Governor of the
Bank and Temporary Alternate Governor of the Fund
for INDIA, at the Fund's Annual Discussion

May I, at the outset, express the appreciation of my delegation and of the Government of India for the excellent work done during the last year by the management and the staff of the Fund and of the Bank and its affiliates. Their work and their steadfast devotion to the tasks for which these institutions have been created is reflected not only in the Annual Reports but also in the addresses of Mr. Woods and Mr. Schweitzer.

For the Fund, the most important practical issue is that of giving definite shape and content to the various proposals that have been made on the problem of international liquidity. First and foremost, I would underline what Mr. Schweitzer has so aptly said in his address, namely, that international liquidity is the business of the Fund and that any solution of the problem should meet the requirements of all its members. Undoubtedly there is room for initiative by any group of countries, rich or poor--and indeed by individual scholars. But, ultimately, the solution to this problem has to be found by consensus in the forum of the Fund; nor can the Fund, without stultifying itself, accept the position of merely registering decisions taken elsewhere. Whether a special monetary conference is needed to take us out of the various circles within which we seem to be moving is a matter on which I have no strong views. But, clearly, no conference without adequate representation of the developing countries can call itself international.

We in the developing world are also vitally interested in the problem of international liquidity. The poorer nations cannot, obviously, afford to hold large reserves of their own, and even such reserves as they have are held largely in the form of key currencies. It is important for us, therefore, as indeed for the international payments system as a whole, that these key currencies remain strong. What is even more important, our undeniable needs for liquidity must be

satisfied, essentially, by created rather than owned reserves. In this context we welcome the increase in quotas now in process.

We ought further to review the desirability and feasibility of more liberal lending policies by the Fund in the credit tranches. We are also interested in ensuring as liberal a solution of the international liquidity problem as possible, because that is the surest safeguard against reduction in aid and greater restrictions on trade and private foreign investment. We are somewhat disturbed by some of the recent attempts to put the clock back in these respects. There can be no doubt that we have to move more and more toward an international payments system based on deliberate and rational creation of unconditional international liquidity so that the present hold of gold on our affairs is diminished, if not eliminated.

Equally, we firmly believe that, if international reserves are to be created, it is not only legitimate but positively wise to create them in a way that would place the initial additions of purchasing power in the hands of the poorer countries who can use them most profitably. We recognize that international liquidity and development finance are in a sense separate and distinct problems. But that should not prevent us from seeking solutions to international monetary problems which would at the same time contribute, at least partially, to the even more important problem of augmenting development finance.

In this connection I must refer to a major gap in the structure of international financial institutions, namely, that we have at present no satisfactory arrangement for providing to the developing countries even medium-term finance in what I might call a truly liquid form. By medium-term finance I mean funds repayable over ten to fifteen years. Before the First World War, developing countries could obtain liquid funds repayable over a long period by borrowing in the capital markets of the world. The amounts so borrowed were truly liquid in the sense that they could be used for any purpose anywhere, for buying things, for repaying debts or even for adding to owned reserves. Today, most developmental aid is tied to purchases, and such liquid finance as the developing countries can get, for example from the Fund, is essentially short-term in character. And yet the need for at least medium-term liquid funds is even greater today in the developing world than in the 19th century.

Mr. Schweitzer referred, for example, to the growing problem of debt servicing and to the role of the Fund in meeting this by studies, consultations, and occasional consortia for the refinancing or postponement of debt obligations. While these activities are undoubtedly useful, it would be far more rational and conducive to greater confidence all round to recognize squarely that from time to time there arises a genuine need for medium-term and perhaps even longer-term liquid funds and that there should be arrangements for meeting this need directly. I, for one, do not see why the Fund should not emulate its neighbor and enlarge the family of international financial institutions by setting up at least a separate International Stabilization Fund for meeting the genuine need for medium-term liquid finance.

The fact of the matter is that things do not always look the same when viewed from different ends of the world. The progress toward convertibility and freedom of capital movements among the richer countries in recent years, for example, has been rightly acclaimed. But for some of us, all this has resulted in tied aid--which is only another word for inconvertibility. Some might say it denotes also a depreciation in the value of the currencies concerned; it certainly reduces the real value of the finance we obtain by aid and repay in convertible currencies. It is for reasons like these that we harp on the importance of international monetary problems being discussed in a truly international and comprehensive sense. We are very happy that the United Nations Conference on Trade and Development has appointed a group of experts, drawn both from the richer and the poorer countries, to study these problems. And we hope that the International Monetary Fund will extend full cooperation to this group. In the end, of course, as I have already mentioned, the problem must return for a final solution to where it belongs, namely, to the International Monetary Fund.

I turn now to the Bank and its affiliates. Let me begin by saying that I agree wholeheartedly with Mr. Woods that no amount of external assistance can be a substitute for the mobilization and right allocation of internal resources by the developing countries themselves. We in India have always kept this in the forefront of our plans and policies. Like Mr. Woods I am an optimist, and I have no doubt that in the foreseeable future the developing countries will overcome their formidable problems of poverty, hunger and want. The real question is, will the solution of these problems come about within the framework of the social and political values that we cherish or will these countries be compelled, for one reason or another, to inflict greater harshness upon themselves? After all, it is this which is the governing factor in our concern for an adequate flow of developmental finance from the richer to the poorer countries. The same concern has to be reflected in the manner in which internal resources are mobilized and allocated among different uses. It would be a sad irony indeed if the developing countries are helped in their formidable task by external aid and are at the same time forced to take internal measures which would virtually cut at the very root of the social and political values that we are seeking to safeguard.

Irrespective of our own optimism or pessimism, however, we cannot overlook the fact that the experience during the first half of the Development Decade has been far from encouraging. Even the modest goal of a 5 per cent per annum increase in real national income has not been achieved in the developing world as a whole. Economic progress among the poorer nations during the coming years will, therefore, have to be substantially faster. The major impetus in this respect must naturally come from the efforts of the countries concerned. But equally, the world cannot rest content either with the present level of foreign aid or with the over-all terms and conditions on which such aid is available. That is why we welcome the proposals of the Bank and others to increase bilateral aid as well as the resources of IDA, both by transfer from the net income of the Bank and by new subscription.

We welcome equally the enlargement of the area of activity of the Bank and IDA, both geographically and in the sphere of education and agriculture. The problems of development in agriculture, education and the like are somewhat different from those in the fields of transport, power and industry. Here, it is not primarily a question of building structures or installing equipment. It is more a matter of introducing and developing more modern and more productive techniques and of making this possible by a greater flow of the appropriate inputs. The right use and the increased use of fertilizers and pesticides, for instance, is a good example. The provision of these essential materials is no less developmental than the provision of hard capital goods in other spheres. Surely it is not consistent to recognize the need for a higher priority to agriculture and to regard aid for the purchase of fertilizers and the like as somehow not so developmental as aid for financing the requirements of machinery and equipment. In fields such as education and agriculture it may also be appropriate, as many speakers have pointed out, to meet a part of the local cost. The Bank and IDA, in particular, have, therefore, considerable scope for further development of more flexible policies in keeping with the integrated nature of the developmental process as a whole.

Before I conclude, I would like to refer once again to the role of the large and increasing body of international civil servants created by the Fund, the Bank and its affiliates. We have reason to be proud of their caliber, of their competence, and of their devotion to the ideals which these institutions embody. In the true service of this noble cause, intelligence and competence are not enough. Humility and understanding are even more important. In my fairly long experience as an economic administrator, I have constantly been impressed by two fundamental requirements. First, is the need to go back and ask oneself the fundamental questions, why and what for. Second, is the need to realize that the richness and the diversity of life around us cannot be contained within the framework of a few fixed and rigid principles. Even when as experts or administrators we are fully convinced of the validity of a particular course of action, the pursuit of it in the spirit of an all-knowing crusader is often not the best way of winning acceptance for it. It is within everyone's experience that beliefs strongly held yesterday sound rather hollow in the conditions of today. This alone requires that the international civil servant, even more than the national, should approach the far more complicated problems of a diverse world in a spirit of self-questioning comprehension. On past form, I, for one, have no doubt that the staff of the Bank and the Fund will rise to the occasion.



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Mr. George D. Woods

November 5, 1965

B.R. Bell

I appreciate seeing both the enclosed sets of letters. Quite aside from the specific argument that each of the letters from India advances, they share one characteristic: they both tend to overlook the fact that the US must be concerned with Pakistan as well as India, that Pakistan is here to stay, and that some kind of accommodation will have to be worked out between India and Pakistan. I do not doubt that US insistence on this and US efforts to get some kind of negotiating process under way which will minimize the chance of excessive defense expenditures and further outbreaks of active fighting will have certain costs. The costs will be hostility on the part of the Indians at least, and possibly, as one of the letters suggests, temporary adoption by India of policies we consider unwise. The costs of an exclusive preoccupation with Indian feelings may be even higher, however.

At the same time I am myself for other reasons worried about US policy in this situation. I have not seen the internal papers which have been and are being prepared and have not talked with the people who are responsible for advice and recommendations to the President in anticipation of the visits of the two Prime Ministers. I am troubled, however, by the fact that on the surface at least there is no indication that a carrot has been offered or contemplated comparable to the stick ~~is~~ now being used. I am also troubled by the fact that there seems to be thought of a resumption of aid commitments at close to recent past levels following the meetings, but no thought of possible increase above those levels whatever progress toward settlement of the Kashmir issue should occur as a result of the meetings.

This suggests to me the possibility that even after the Presidential meetings we may still not be in a position to deal with a Fourth Five-Year Plan and its financing in the way we had been anticipating. We may face the problem of a one year Plan and period in which there is little movement on policy by the GOI, and restricted US aid. The situation may be further complicated by somewhat increased defense expenditure. This may mean a general holding action for that period. This may not be very damaging in the long run, but will require a different approach to next year's financing and a next Consortium meeting.

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BB:rh

AID Paper

November 23, 1965

K.M. Kauffman, USAID India:
Balance of Payments - Plan IV

K.M. Kauffman, USAID India:
India Imports

K.M. Kauffman, USAID India:
Note on Maintenance Import Data

Spangler-Pfouts Paper Addendum

Planning Commission, International Economics Section:
Preliminary Evaluation of the Import Liberalization Programme

Memorandum from Times/Stern to Sartaj Aziz:
Projected Import Requirements for 1965/66

Richard V. Gilbert:
Next Steps on Import Liberalization

Richard V. Gilbert:
Appendix to Next Steps on Import Liberalization

Planning Commission, International Economics Section:
An Estimate of Import Requirements for 1964/65 on the Basis of Input-
Output Analysis

A Case Study of Import Liberalizations in Pakistan

K.M. Kauffman:
Notes on Some Aggregative Assumptions for Indian Economic Development

K.M. Kauffman:
Annex: Per Capita vs. Aggregate Marginal Savings

K.M. Kauffman:
Note on Plan Structure, Sets of Tables on Plan Investments and Investment
cost Indexes

J. Bergsman and A. Manne:
Preliminary and Almost Consistent Intertemporal Model for India's
Fourth and Fifth Plans (May 22, 1965)

Note on Public Sector Finance for Fourth Plan

Note on the Government of India's Supplementary Budget of August 1965

Copies of Tables: (12 sheets)

1. Development Outlay, Plan IV
2. Plan IV Investment
3. Notes on Plan IV Investment
4. Fourth Plan Projections (2 sheets)
5. Total Imports (including PL 480)
6. Plan IV: Additional Maintenance Imports for Better Utilization of Capacity
7. Foreign Aid Requirements, Plan IV, Estimated by USAID (2 sheets)
8. Third Plan Estimates
9. Balance of Payments
10. Total Imports (including PL 480)

Photographed Material:

1. Note on Plan IV Power Project Foreign Exchange Requirements - # 20 (2 sheets)
2. Note on Plan IV Project Foreign Exchange Requirements - # 20 (3 sheets)
3. Fourth Plan Power Targets and Foreign Exchange Requirements - #17 (3 sheets)
4. A Report on Non-Ferrous Metals by E. Carter, June 1965,
Appendix A - 15 (15 sheets)
5. The Paper Industry - E. Carter - Appendix B - 15 (13 sheets)

OFFICE MEMORANDUM

TO: Mr. Bernard R. Bell

FROM: Atle Elsaas

SUBJECT: Introducing foreign trade in the Mahalanobis Model

DATE: November 30, 1965

1. I have introduced foreign trade in the Mahalanobis model, cfr. your memo of November 16, 1965. In my examples I have as far as possible used the same assumptions as Mahalanobis used for the frame of the Second Plan. Indian Planners used the model to demonstrate the advantages of a concentration of investments in heavy industries as compared with consumers industries in a closed economy. I have now used their technique to demonstrate the advantages of a partial reallocation of investments from heavy industries to export industries - granted of course that the export markets are there. I do not mean to have "proved" that the one policy is right, the other wrong. But to the extent the Mahalanobis model has influenced economic thinking and strategies it has probably been with a built-in bias. Their theoretical discussion excluded the export industries, and emphasized heavy industries, while the technique they used is well suited to demonstrate the advantage of export industries over heavy industries. In afterthought it is strange that the Indian Planners did not themselves introduce foreign trade in the model; it is easy to do so, and the model has apparently had a quite predominant place in Indian thinking.

2. It should also be observed that a reallocation of investments from heavy industries to exports can probably be done in such a way that the total capacity of the heavy industries at a future date would be greater than if no such reallocation were made. The share is smaller, but - with a gain through foreign trade - there would be more to share.

1) Applies to two of my alternatives

cc: Messrs. Baneth, Bohr, King and Please

Introduction of Foreign Trade in the Mahalanobis Model

1. The Mahalanobis model is a model for a closed economy, i.e., without foreign trade. It assumes that capacity is fully utilized and that the investments depend upon the capacity to produce investment goods. The allocation of investments between, on the one hand, investment producing activities, and, on the other hand, consumer goods industries is a crucial parameter in the model. The larger the share allocated to investment industries, the stronger is the future growth, although the immediate growth may be slower. A discussion of this model is given in my paper of September 9, 1965: "Models for Economic Planning in India".
2. The Mahalanobis model focuses attention on the allocation of investments between investment industries and consumer industries. Introducing foreign trade there is also a third alternative: investment in export industries; the allocation of imports between consumer goods and investment goods has also to be decided. The purpose of this paper is to discuss how the introduction of forcing trade in the Mahalanobis model may influence the perspective for economic growth. We use one of the alternatives presented by Mahalanobis as a basis for comparison: Alternative II, page 7, in my paper on Models for Economic Planning in India. This alternative is quite close to the plan frame finally chosen for the Second Plan, and we will as far as possible maintain the assumptions of this example. The assumptions of this example are:

	Allocation of investments	Incremental capital output ratio
	(e)	(k)
Investment (j)	30%	5.0
Consumption (c)	70%	2.0

Initial investment and savings rate: (j) : 7 per cent.

3. We maintain the assumption that 70 per cent of the investments are to be allocated to the consumer industries. The remaining 30 per cent has to be allocated to investment industries or export industries.

4. We also maintain the capital output ratio of 5 for investments in capital-producing industries. For export industries we will however use several alternatives. Services has the highest capital-output ratio, therefore it might be justified to use a lower capital-output ratio than 2; this appears also justified by breakdowns given by Mahalanobis.

5. Mahalanobis assumed an initial investment rate of 7 per cent (of national income). By introducing exports initially corresponding to 5 per cent of national income, it is technically possible to increase the initial investment rate to the extent these imports include consumers goods. But this would also mean an increase in the initial savings rate, which would of course give an a priori growth advantage to the open model, independently of the techno-economical advantages of foreign trade. Therefore, we have maintained the initial savings rate, which could also be interpreted as a historical savings rate which we cannot change.

6. Furthermore, we assume that imports are equal to exports, as we want to discuss the allocation and trade problem only, and not the effects of a net supply of capital from abroad.

7. Finally, we have also put an upper limit on the import content in investments. It is not possible to import roads and mud-huts, and the trade transport and installation cost of machinery must also be taken into account. Domestic inputs are to some extent complementary to imported capital goods. We assume that the import-content in investments should not exceed 60 per cent in the 15th year. This gives also upper limits for the share of investments that can be allocated to export industries for the purpose of acquiring investment

goods abroad. The share of total investments available for investment industries and export industries is 30 per cent, and granted that the domestic input in investments have to be at least 60 per cent, the highest possible share which can be allocated to competitive export industries is 18 per cent. We have calculated the import content in investments in the fifteenth year under different assumptions with respect to capital output ratios and investment allocations.

Table : Import Content in Investments in the Fifteenth Year

		<u>Alternative</u>	
		<u>1</u>	<u>2</u>
Allocation of investments:			
Investment industries,		0.20	0.15
Export industries		0.10	0.15
Capital output ratio in export industries:			
Alternative a :	1.5	58 %	(72%)
Alternative b :	2.0	52 %	(65%)
Alternative c :	3.0	46 %	57%

8. Alternative 2a and 2b are not feasible, as the import content in investments exceeds 60 per cent. With a 50-50 distribution of investments between export industries and heavy industries, the capital output ratio in export industries has to be close to 3 to give a feasible solution (alternative 2c). Even when the distribution is 1:3 the import content is quite high. The results after a period of fifteen years (from the last year of the Second Plan to the last year of the Fourth Plan) for the feasible alternatives are given in table 2. The symbols are:

Production	R,	$R_0 = 100$
Consumption	C	
Savings	S	
= Investment	J	
Exports	A	
= Imports	B	
Average savings rate	s	
Marginal savings rate	s'	
Exports in per cent of GNP	a	
Import content in investments	i_j	

Table 2: Calculated Development over the Fifteen Years up to the End of the Fourth Plan

	R	C	I = S	A=B	s %	s' %	a %	i %
Year 0 :	100.0	93.0	7.0	5.0	7.0	-	5.0	43
Year 15 :								
Closed economy:	166.1	148.9	16.3	-	9.8	14.0	-	-
Open economy:								
Alternative 1c:	183.0	162.7	20.3	11.1	11.2	16.0	6.1	46
" 1b	200.0	174.6	25.4	15.3	12.7	18.4	7.7	52
" 2c	206.0	183.8	22.2	14.5	10.8	14.3	7.1	57
" 1a	220.0	188.3	31.7	20.4	14.4	20.6	9.3	58
Percentage increase from closed economy to alternative 1a:	33	27	95	-	-	-	-	-
Growth rates ^{1/} ; per cent:								
Closed economy:	3.4	3.2	6.0	-				
Alternative: 1c	4.1	3.8	7.3	5.5				
1b	4.7	4.3	9.0	7.8				
2c	4.9	4.6	8.0	7.3				
1a	5.4	4.8	10.6	9.8				

^{1/} Compound interest rates, average for the period. Only investments have a stable growth rate.

9. None of the results appear to be completely unrealistic. The marginal savings rate is quite high in Alternative 1a compared with a closed economy, but so is also the growth rate. Exports in per cent of GNP does not exceed 10 per cent. National income in India is at present at the same order of magnitude in Rs. billion, as our calculated index numbers for the national income (Rs. 180-200 billion). Exports in the order of 15-20 billion may seem high compared with the country is actually exporting now and estimates for 1970-71 (11 billion). The problem is if India could find markets for such an expansion of exports.

10. It could be claimed that dependency on foreign countries for capital involves risks and is a disadvantage, as are also the uncertainties of foreign trade. It should be observed, however, that the domestic heavy industries are not suffering so much as the allocation shares may indicate. The reason is that there is more to allocate when foreign trade is developed. E.g., in Alternative 1a the investments in heavy industry at the end of the Fourth Plan would amount to ^{6.34}~~3.33~~, compared with 4.89 in the case of a closed economy, although 30 per cent is allocated to heavy industries in the latter case compared with ²~~10~~ per cent in the first case.

For Dr. B. Bell.
With kind regards.

Hand

PLANNING FOR ECONOMIC DEVELOPMENT:
THE INDIAN EXPERIMENT

A series of five Articles

by

Pitambar Pant

A. Vaidyanathan

August 1965

PLANNING FOR ECONOMIC DEVELOPMENT:
THE INDIAN EXPERIMENT

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The Need for Planning for Economic Development

During the last twenty years since the end of the World War II, a remarkable change has come about in the world. Many countries which had been under the yoke of imperialism have regained their freedom. A new awakening has come that poverty and ignorance and disease are not inevitable and can be wiped away from the face of the earth by purposeful effort. The accumulated store of knowledge and techniques and the continuing advance in science and technology provides the basis for a rapid transformation of the material conditions. The valuable experience of many countries in evolving political and economic organizations required to deal with such problems and an atmosphere of international cooperation have made the task easier. With greater awareness of the possibilities of desirable change and realization of the vast and growing gulf separating the living standards of the people in advanced countries from that of the developing countries, there is increasing popular demand and pressure for rapid economic development in poor countries of Asia, Africa and Latin America.

The emergence of India as a free, democratic country in 1947, after many years of non-violent struggle under the leadership of Mahatma Gandhi and Jawaharlal Nehru, was a significant event in many ways. It struck the death knell of colonialism and one after another new nations emerged, freed from colonial bondage. Political

freedom had been considered as a necessary condition in India for launching on a course of rapid transformation of a backward, foudal socio-economic order into a dynamic, progressive society. Soon after independence was achieved, India decided to deal with this vast and complex task boldly, in a planned manner, within the framework of its democratic institutions. The aim was nothing less than a peaceful revolution brought about with maximum consensus of people. This was an undertaking for which there was no clear precedent. It was a bold experiment, sustained by faith in rationality and trust in democracy. Fifteen years of this living, vital experiment has yielded many lessons. It has shown our weaknesses and mistakes, and brought to light our hidden potentials and capabilities. The experience gained has given us new insights. Our failures have shown that there is long way to go and many deficiencies to overcome. Achievements have added to self-confidence. Bigger tasks are undertaken in each successive Plan; bigger results are demanded and expected. The old stagnation has been broken; in its place are new challenges, accomplishments and disappointments.

The problems we face are problems in many ways common to other developing countries. In this series of articles we seek to present a part of India's experience in the hope that this silent struggle against poverty waged openly and defiantly by one-seventh of the world's population will evoke the interest, sympathy and support of the common people everywhere.

Why Planning?

The distinguishing features of India's approach to economic development are : (1) a commitment to planning as an instrument for a purposive and radical transformation of the socio-economic structure; (2) a belief in the value of human dignity and freedom and a conscious effort to achieve a dynamic, progressive society within the framework of representative institutions; and (3) a desire to so regulate the process of development that it promotes a maximum equality of opportunity to all sections of the population.

To lift the poor countries from a state of deprivation to one of reasonable comfort involves a transformation of the fabric of the social and economic life. What is more, this transformation has to be achieved at a pace far more rapid than was experienced by advanced countries during a comparable phase of their development, partly because of the rapid rate of growth of population and partly because of the need for bridging the yawning gap between the living standards of the people of industrialised countries and those of the developing ones. The average rate of growth over the long-term in most advanced countries of the West was only 3-4 per cent a year. The tremendous technological progress in the meanwhile should enable this growth rate to be doubled in the technologically backward countries now launching on a course of economic development.

Technically there is no basic difficulty in achieving such a rapid rate of development after an initial period of preparation. This does not mean that the task is easy or the change can be brought about without determined and strenuous effort. Difficulties are overwhelming. They are: primitive and outmoded techniques of production, inadequacy of existing infrastructure (transportation and communication, energy and power facilities, major irrigation), shortage of investment capital, the lack of integrated and efficient markets, the limited supply of managerial and technical skill, scarcity and low level of administrative and entrepreneurial abilities, and the very lack of knowledge of how to engineer development, inadequate incentives and institutions for stimulating productive investments and increasing productivity, and lastly the heavy dependence on foreign aid for obtaining the capital goods required for development. These and other impediments provide a mirror to the deep seated rigidities in the social and economic structure. They will not disappear spontaneously; they have to be overcome by careful and deliberate measures by stable governments. The precise nature of these measures and the instrumentality for carrying them out will depend on the circumstances and context of specific countries.

The argument for centralized planning by the State in the context of developing economies is that changes in the pattern of resource use and in methods of production and organisation which are essential to the process of development can be brought about speedily and smoothly only through a coordinated programme of action on several fronts. Fragmented, short-term approaches, basing largely on market mechanism for the allocation of resources, are altogether inadequate to deal with the problem.

The necessity for some kind of central planning as a corrective to booms and slumps, and as a means of ensuring a steady growth of the economy is widely accepted even in developed countries. The need for planning in the sense of coordinated and simultaneous attack on various bottlenecks and impediments to development is greater in the emerging nations.

In these countries large structural changes are needed before they can reach a stage of progressive and sustained development. They imply a break with traditional practices and introduction of scientific methods and institutional changes in agriculture, and in industry very rapid rates of growth in certain sectors. The rate of savings to begin with is far too low to support a high enough rate of capital formation to yield a satisfactory rate of development. The capital market is too small to channel the savings into uses most conducive to development; the existing markets are not large enough for profitable investment; entrepreneurs are too few to undertake the tasks of rapid development and risks are too high. A weak capital goods industry and the difficulty of stepping up the country's exports makes even the task of translating the savings into investment more difficult. These bottlenecks, including the one of balance of payments cannot be broken except as part of a long term strategy. In these conditions, coordinated planning has an important role.

A programme of development, backed up by an assurance that it will be pursued seriously, enhances the possibilities of growth in many ways. Development requires large investments. Higher capital formation requires higher rate of savings. A substantial increase in the overall rate of savings is unlikely to happen automatically, and government intervention will be necessary to raise the rate through taxation or other measures. Many of the investments take a relatively long time to yield results. In the absence of a coordinated programme with clear objectives, each enterprise acting in isolation faces enormous uncertainties both regarding the prospective market as well as the supply of raw materials and other inputs. A coordinated programme reduces these uncertainties. It makes entrepreneurs more willing to invest than they would be otherwise. Irrespective of the agency which may be responsible for implementing the programmes, the existence of an accepted plan promotes a much higher level of economic and industrial activity.

Even if the State were to confine its activities to building economic and social overheads, such as power, transport and educational facilities, a comprehensive view of the development of the economy provides the necessary rational basis for deciding where and on what scale the different elements in economic overheads should be developed. Planning the development of these overheads, without relating them to growth of other related sectors, gives rise to a real danger that these facilities will be available either too much in excess of demand or too short of requirements. The ensuing economic waste due to surplus capacity or the loss of

production arising due to the bottlenecks created by inadequate capacity are both costly, but unavoidable in the absence of planning with a proper time horizon.

With a population approaching 500 millions and growing at nearly $2\frac{1}{2}$ per cent per year, India must give very high priority to the development of agriculture. The very tight balance of payment position which does not leave any margin for large food imports to cover any deficit makes the task even more important and urgent. The transformation of backward agriculture in a vast and old country is again a long-range process, requiring development of high yielding seed strains, extensive irrigation, propagation of better farm practices including much greater use of fertilizers, pesticides, machinery etc. The development of agriculture and industry have to go side by side.

Continuing shortage of foreign exchange is a serious impediment to rapid industrial development in India. The domestic production of machinery and raw materials needed in the process is inadequate to meet the demand even at current low levels of investment. Export earnings are too small to pay for imports even though strictest control is exercised. Though exports are rising, the gap will grow if steps are not taken to develop indigenous production of raw materials and capital goods at a fast pace. The rationale for development of these industries and the scale on which they need to be planned cannot be fully appreciated except as part of an integrated, long-term plan of development.

It is for those and related reasons that a comprehensive plan of development with specifically oriented attainment of basic social objectives is desirable. Such a plan enables us to follow the inter-relations between various sectors of the economy, to identify the critical constraints which impede development in the near and distant future, and to take appropriate and timely action to remove these constraints. It is this ability to anticipate future needs and the inter-relations between activities in time and space, which makes a coordinated long term plan a powerful instrument for shaping a country's economic future. Public discussion of the consideration which it brings forward, the implications it sets out in precise and quantitative terms of alternative courses serve to influence national attitudes and perspectives and conditions are created for harmonization of public and private interest upon which the success or failure of national programmes of development depend.

The Plan is also a commitment of the government and the dominant political party. It gives a basis for testing the current decisions of government and the views and pronouncements of political leaders against objectives and results aimed in the plan. There is thus a tangible yardstick to measure performance against promise. The temptation to avoid irksome obligations is all too natural and any slide back can be justified in terms of expediency. The existence of a plan is a valuable safeguard to hold men in authority to their good intentions.

II

Philosophy of Indian Planning

India has adopted a democratic constitution which guarantees to all citizens freedom of conscience and religious belief, the right to free association and speech and the rule of the law. The Constitution has also laid down certain Directive Principles which seek to direct State policy to secure a social order in which social, economic and political justice shall inform the institutions of national life. Purposive reconstruction of society requires careful planning followed by determined implementation of the tasks set. Indian planning is based on the belief that a bold and deliberate programme of development can be carried through with the willing cooperation of the people. Although there may be some gain in speed in the initial stages in an authoritarian set up, over the longer run, the performance of a democracy must be comparable if not better. It is this combination of democratic planning and revolutionary aims that makes the Indian experiment so unique.

The argument is advanced that centralised planning is inconsistent with individual freedom and inimical to democracy. This may be true in specific cases. But in general there is inherently no basic antagonism between planning and freedom, properly

interpreted. Indeed, planning is for the enlargement of freedom rather than for its restriction. There are impediments to the exercise of freedom by the individual and to the better functioning of the economy which planning seeks to overcome. Even the restraints and controls in the shorter run are meant only to remove greater constraints anticipated in the future. For the mass of the people freedom becomes meaningful only when there is better life and wider opportunities for fruitful endeavour, which is the central aim of planning for economic development. Political democracy is incomplete, and indeed vulnerable without democracy in the economic and social sphere.

Free and open discussion of the Plans by various interested groups, the people in general and their elected representatives is a distinctive feature of the Indian Plans. The formulation of the Plans is preceded by extensive discussions and consultations; and the performance of the Plans is open to close and constant scrutiny. Openness is a vital feature of Indian planning, and deliberately encouraged not only as a protection against misjudgement and abuse of power but as a means of exposing, and hence checking, waste and inefficiency. Facts are made known even if the revelation is embarrassing. Frequent criticism, widely publicised in the press, may give an exaggerated impression of inadequacies, but on the whole the advantage of open discussion of faults and failures is regarded as being greater than the imagined benefits of suppression of information, resorted to by some other countries.

In order that a meaningful consensus might emerge, it is important to ensure that people take a wide view of the problem, understand the total implications of the inter-connected and complex processes of development, giving due attention to their long range aspects. They must also have a clear idea of their own role in the scheme. Discussion must therefore focus around coherent and consistent programmes with the implications of possible alternative strategies fully spelt out in terms of gains and losses, expectations and obligations. Unless this is done, there is a serious danger of people losing sight of the overall problems and allowing fragmented approaches, reflecting the narrow interests of particular groups, to distort the picture. This would vitiate the possibility of bringing about popular understanding of rational policies and programmes and jeopardise the chance of securing the enlightened cooperation and participation of the people. As it happens, India's five year plans are prepared in the pre-election year. Consequently the general election campaign provides an excellent opportunity for the people to know the achievements and mistakes of previous plans and understand the implications of the programmes for the future.

Comprehensive plans of development are useful to create the necessary understanding and public support for a pattern of economic and social development, spelt out quantitatively over a period of time and for different regions, which aims at articulating as well as satisfying the needs and aspirations of the society to the limit of realistic possibility. This is a complex task, requiring a combination of technical, economic and administrative expertise and political judgment.

The translation of the overall programmes into reality requires a large number of specialized organisations both for detailed planning of projects and for their efficient implementation. The reality and success of planning are intimately connected with the existence and competence of such organizations, irrespective of the political framework in which development takes place.

A proper Plan, embodying objectives and outlining programmes and laying down targets must also indicate the instruments required to carry out the tasks. The nature of these instruments is governed partly by the objective conditions of the society and partly by its wider social philosophy. In India the mobilisation of resources on the required scale, the proper use of scarce resources to accord with the plan priorities, and the attainment of targets in certain key areas call for a considerable degree of state intervention. This need arises in many ways: The required increase in the rate of savings will not be realized automatically. So the state has to use taxation and other deliberate measures to coax a higher rate of savings and mobilize them for productive investment. Similarly, a satisfactory rate of growth of agriculture and rapid industrial development in India calls for a very rapid expansion of such key sectors as chemical fertilizers, metals and machinery, oil and electricity, besides the development of transport, irrigation, education and public health facilities. They involve large investments in complex projects for which private investment is either inherently unsuitable or private entrepreneurs are not forthcoming for lack of will or of means. Since they are crucial for the country's development, the state has to take direct responsibility

for investments in these areas. Even in the wide area left to private enterprise, the Government has to regulate the pattern of resource allocation to make it conform to the plan. Otherwise there is a danger of market imperfections and distortions in prices leading to misdirection of scarce resources.

There are also larger social considerations which have impelled India to accord a dominant role to the State in regulating the economy. India seeks to build a social order which offers equality of opportunity and in which excessive concentration of wealth in a few hands is not allowed to develop. A higher rate of growth, providing increasing opportunities for fuller and more productive employment to large numbers of people is the major means of reducing inequalities of income. Taxation is another, and it has to play a significant part in reducing to some extent the inequalities in the distribution of expenditure and getting larger savings from the richer classes to support larger investment and public outlays on education and health for the greater benefit of the poorer people. Increase in undue concentration of wealth in private hands is sought to be prevented by assigning a major part of new investments to the public sector. In this way, without recourse to nationalization of existing enterprises in the private sector, the share of publicly owned capital is progressively raised. These are measures designed to reduce inequalities of income and wealth in course of time.

In a mixed economy like that of India the State must assume a major responsibility for raising the rate of capital formation, determining its broad pattern, and mobilising and directing the resources to the extent

required. This does not, however, mean that private initiative and enterprise are sought to be curbed. In fact the bulk of the economic activity and a substantial part of new investment continue to be in the private sector. The very existence of a coherent programme of development and the evidence of determined pursuit of its objectives helps to create a climate of confidence in the private sector. But, in view of the scarcity of resources and several bottlenecks which take time to remove, certain controls and regulations become inevitable in the larger interests of development. One of the major problems confronting planners in India is to evolve a minimum set of strategic controls and regulations which will ensure the best use of scarce resources, safeguard the priorities of the Plan and its social content and yet provide the maximum scope for decentralised initiative. The nature and extent of the State's role in general, and the specific policies and procedures for regulating private sector activities continues to be among the most widely debated issues in India.

III

Machinery for Planning in India

A natural starting point for a description of India's planning machinery is to outline the functions and role of the Planning Commission - the focal point for evolving the overall strategy as well as for formulating concrete programmes and policies for development.

The Planning Commission, set up in March 1950, was required to assess the country's resources, formulate programmes for their effective utilisation, determine priorities and indicate allocation of resources at different stages of development. The functions of the Commission also include periodic evaluation and review of programmes, assessment of factors ~~impeding~~ development and recommendation of remedial measures.

The Prime Minister is the Chairman of the Commission. Jawaharlal Nehru was the first Chairman and he held this position, and lent it great prestige, from the inception of the Planning Commission till his death last year. The executive responsibilities vest with the Deputy Chairman, who is usually an outstanding public figure. The full time members of the Commission are drawn from eminent administrators, scientists and technicians. The membership also includes a number of senior ministers of the Central Cabinet. This fact together with the keen interest taken by the Prime Minister in the work of

the Commission ensures that the Commission has adequate authority and status to discharge its responsibilities.

The Commission's organisation and modes of work have been so designed that it can play an effective role in shaping India's development programme. It has a composite staff of about 200 trained economists, scientists and technical experts in various fields organized in a number of specialized Divisions and Sections such as agriculture, industry, transport etc. functioning singly or in groups under the guidance of individual Members of the Commission. They provide objective analysis of the needs and possibilities of particular sectors. There are other Divisions such as the Plan Coordination, Programme Administration, Economic Policy and Finance, Perspective Planning, Natural Resources etc. which deal with interrelationship of sectors and of overall, integrated approach to the problems of the economy and its possibilities in the short run as well as in the long run. Needless to say there is close consultation between the different Divisions. At the level of Members, there are frequent meetings where joint consideration is given to the matters before the Commission. The Chairman attends the meetings where important decisions are required to be taken.

In addition the Commission draws heavily on the detailed work of specialised groups and Panels, including outside experts, and representatives of industries where necessary. These are set up from time to time to investigate particular problems. There are also regular arrangements for

discussion with representatives of State Governments issues connected with their plans. All these discussions and studies form the basis for formulating detailed programmes and policies for different sectors by the concerned executive departments of the Central and the State Governments. The Planning Commission maintains continuous working relations with the executive agencies in respect of more important projects and reviews their progress from time to time. The Commission is consulted on all important matters of policy bearing on economic development.

The Planning Commission is thus able to exercise a considerable influence in giving form and content to development programmes. However, the Commission is by no means the final authority on these matters. Its formal status is that of an advisory body, functioning as part of the Cabinet Secretariat. While the Commission is responsible for the formulation of the Plan after many stages of discussion, the final decisions are made by the elected representatives of the people. The general practice is for Parliament to give its formal approval to the Plan, but the Plan does not carry any legal sanction. It is expected that the Government would give effect to the Plan through the device of annual budgets in regard to outlays in the public sector.

The Planning Commission initiates work on each five year plan about two years ahead of the time when it has to be launched. On the basis of the careful study of needs, possibilities and past performance, the implications of alternative rates and pattern of

development and other relevant considerations, it prepares a broad outline of the development over the next 10-15 years and a more detailed projection for the next five years. Even though tentative at this stage, the framework of the Plan aims to provide for maximum growth with financial stability, and maintaining viability on balance of payments and internal consistency of different related aspects. The "Notes on Perspective of Development, India 1960-61 to 1975-76" issued by the Planning Commission for its internal work in April 1964 is an example of the work at this stage.

These proposals are examined in detail by a number of working groups consisting of experts from the Planning Commission, concerned Ministries and enterprises and sometimes also of State Governments and the private sector. Working on the basis of the recommendations of the working groups and integrating the various programmes into a consistent and comprehensive framework, the Planning Commission presents a tentative programme to the Central Cabinet. After approval by the Cabinet, the Memorandum is considered by the National Development Council which is made up of the Members of the Planning Commission and the Chief Ministers of all the State Governments. Though this body, like the Planning Commission, does not have any formal constitutional or statutory status, it has over the years emerged as an effective instrument for consulting the State Governments and evolving a generally agreed approach at all important stages of planning.

New considerations might emerge and emphasis might shift as a result of these extensive consultations and further studies. These are taken into account in preparing a detailed

draft outline of the Plan to be placed before the Parliament and the public after approval by the Cabinet and the National Development Council. In the meanwhile discussions take place with the concerned Ministries as well as the State Governments in respect of the detailed sectoral programmes and concrete projects, their phasing, their requirements of material, men, foreign exchange as well as the measures for resource mobilisation. The final draft plan incorporating the results of all this work is again discussed by the Central Cabinet, the National Development Council and ultimately by Parliament. It is only after the Parliament has discussed and adopted the Plan that it becomes operative. The three five year Plans so far published are voluminous documents providing a detailed discussion of the state of the economy, progress so far recorded, problems to be tackled, the targets to be achieved, the policies to be followed and the organizational and institutional changes required. They constitute a significant addition to planning literature.

There is no pause in planning when the Plan is published. Only the nature of work changes, with much more stress on details of execution. Parliament continues to be interested. It has numerous opportunities to discuss the specific programmes and policies and to review the progress of both individual projects and of the Plan as a whole. Apart from the occasion provided by the debate on the annual budget, the Public Accounts Committee and the Estimates Committee provide a forum for searching and critical scrutiny of the implementation of the programme.

Besides there is a Consultative Committee of Parliament and a number of sectoral sub-committees to enable its members to keep in constant touch with the progress and performance of the plan projects. In addition to the Parliament and State Legislature, there are a number of Consultative Bodies consisting of non officials to give continuing advice on problems relating to particular sectors.

The Plan attempts to identify specific tasks in the various sectors, assign clear responsibilities to different agencies; and suggest measures required to carry out the tasks on schedule. About 60 per cent of the new investments are channelled through the public sector. Much of it goes into building social and economic overheads, including educational facilities, public health services, irrigation, power and transport. In addition, the Government has taken direct responsibility for investment in some key sectors of industry which are crucial to the country's development, but which are beyond the means of private enterprise. Exploration and production of oil, development of atomic, hydro and conventional thermal energy, coal, steel, heavy machinery and machine tools, chemical fertilizers and petro-chemicals are some of the notable sectors of manufacturing industry where public initiative has been strong and successful.

Of the public sector investments again, a part falls within the purview of the Central Government and another part is the responsibility of the States. This division is determined by the allocation of functions between the Centre and the States as defined in the federal Constitution of India. Broadly speaking, the States are

responsible for agriculture, power, small industries, roads, education and health; and the Centre for industries, mining and railways.

The Ministries and State Governments prepare concrete projects within the framework of the Plan, which have to be approved by the Ministry of Finance and the Planning Commission. The proposed expenditures on these projects form an integral part of the annual budget proposals and have to be approved by Parliament before they can be incurred. The annual budget is thus the instrument through which the programme is given effect after due parliamentary scrutiny. Since the plan schemes account for a large part of the Government's expenditure, the budgetary policies not only influence but also are significantly influenced by the Plan.

Although the States enjoy a high degree of autonomy in spheres allotted to them, fairly effective instruments have been forged to make them conform to the agreed priorities of the plan. This is facilitated as the plan proposals are the product of joint consultation to a large extent. The Plan specifies the targets to be achieved by each State both in physical and financial terms. This is further reinforced by annual reviews of the State Plans and a system of grants and loans tied to specific programmes. Since the Centre provides the major part of the finances for State Plans, it is able to ensure that the commonly agreed priorities are observed and a measure of consideration is given to enable the states which are relatively backward to overcome their disabilities faster.

The bulk of the economic activity and about 40 per cent of the new investments is in the private sector. Much of the activity, particularly in agriculture, trade and services, is so scattered and unorganised that no direct control is possible. The government has, therefore, to rely largely on such indirect instruments, as monetary and fiscal policy, guaranteed minimum prices and subsidised supply of inputs. In agriculture and small scale industry, the efforts of the State to provide extension services, credit, irrigation facilities, marketing etc., are themselves a potent instrument for stimulating development. The development of organised mining and manufacturing is governed by a system of licensing of new capacity and controlled distribution of essential raw materials and foreign exchange. These controls have on the whole proved to be a useful instrument for regulating the pattern of development to accord with the Plan.

IV

Achievement of Indian Planning

When India achieved Independence in August 1947, she inherited an economy which had not fully recovered from the ravages and dislocation caused by the Second World War. The Partition of the country aggravated the problems further. While undivided India was more or less self-sufficient in respect of agricultural commodities, India after partition was faced with a rather large deficit in foodgrains, and in jute and cotton, the raw materials for her principal manufacturing industries.

Independence brought with it many new problems. There was the urgent and immense task of rehabilitating more than 5 million refugees from Pakistan. There was the need for integrating within the Indian Union peacefully and with tact more than 500 princely states. These challenges were successfully met. The establishment of the Planning Commission in 1950 marked the beginning of a systematic effort at dealing with the basic problems of economic development. The first five year plan (1951-56), though it set out some broad long term goals of income and investment, was but a modest effort in planning. It was largely a collation of public investment projects in the field of agriculture, irrigation, power and transport, which had been prepared earlier as part of a post-war reconstruction programme. The growth of income aimed at over the 5 year period was only 10 per cent. The actual performance of the economy turned out to be far better. This created a feeling of confidence and popularised the

concept of planning in the country.

The Second Five Year Plan was a serious effort at a fuller articulation of the country's long term objectives and strategy, and at formulating a comprehensive programme for the five year period, 1956-61, covering all branches of the economy, both in the public and the private sectors. The programmes were designed to yield an increase in national income of 25 per cent over the 5 year period as the first phase of a long term goal of doubling aggregate income in 15 years and per capita income in a little over 20 years.

During the Second Plan period, national income rose by about 20 per cent. However, during this period, it became apparent that population was growing much faster than had been assumed earlier - more than 2 per cent compared to $1\frac{1}{2}$ per cent assumed earlier. Consequently, the overall rate of growth needed to fulfil the target of doubling per capita income in about 20 years had to be higher than originally planned. Another important development of this period was the emergence of balance of payments difficulties. The need for external resources increased sharply with growing investments and industrial production; exports could not be raised correspondingly. The foreign exchange gap had to be bridged with foreign aid. Towards the end of the Second Plan inflow of foreign capital from all sources amounted to about \$ 2 per capita of Indian population. This amount, though much smaller compared to per capita aid received by many other developing countries was nevertheless of

critical value and acted as a catalytic agent in mobilising additional national effort. It also became apparent that in view of the longer time lags in establishing complex plants and facilities detailed planning was necessary to cover a period of 10-15 years.

These considerations weighed heavily in the formulation of the approach and in setting the targets for the Third Plan. The target of income growth was raised to 6 per cent a year so that the objective of doubling per capita income in 20 years could still be achieved. There was a greater appreciation of the need and urgency of planned effort at developing indigenous production of metals, machinery, oil and chemical fertilizers as a crucial element of a long term strategy for achieving a viable balance of payments. The idea of fitting the five year plan into the framework of a long-term plan worked out in sufficient detail was given concrete shape. The Plan was worked out in greater detail and incorporated more sophisticated analysis, establishing the various physical and financial balances appropriate for a development plan. Its basic strategy and detailed proposals received general acclaim nationally and internationally.

The period of the Third Plan (1961-66) has been one of considerable strain. Agricultural production remained virtually stagnant in the first three years. The general price level, which had remained fairly stable over several years, went up because of a spurt in food prices. Despite sizeable foreign aid for plan projects,

the balance of payments difficulties continued, hampering production and construction in many fields. The massive armed aggression by China in October 1962 posed a dangerous threat to the security and sovereignty of the country to counter which the Government greatly increased defence spending, without curtailing developmental outlay. Progress was however maintained in industry, power, transport and in education and health. Mainly because of the failure of agriculture, which accounts for nearly half of the national income, in the first three years national income registered a rise of only 10 per cent. But there was a notable upsurge last year, agriculture showed great improvement and national income rose by more than 7.5 per cent compared to the previous year. Notwithstanding the many difficulties, the picture is still one of all round progress. Though some of the important targets of the Third Plan will be realized only after a delay of one or two years, the achievements of the Third Plan will be better than of the previous Plans. More than the direct increase in incomes, the Third Plan will have created the basis for a faster progress in the future by strengthening the capabilities of the country for increased capital formation.

The progress achieved by India during the first fifteen years of planned development taken as a whole constitutes an enviable record.

There has been a sizeable and all round increase in economic activity : Production of food grains has risen from 20 million tons in 1951 to 89 million tons in 1964-65. Over the same period the output of sugarcane and cotton has nearly doubled.

The overall index of agricultural production at the end of the Third Plan is expected to be about 60 per cent higher than 15 years ago. The average annual increase in crop production ($3\frac{1}{2}$ per cent) compares favourably with the rates achieved in other countries over long periods of time. In the neighbouring country of Pakistan, official claims are for about 1 per cent per year growth during the decade of the fifties, followed by a vastly improved performance of 3.5 per cent per year during the last five years.

Industrial output, produced in modern factory establishments, has nearly trebled since 1951. What is more significant, this expansion has been accompanied by rapid diversification of the industrial base.

The production of traditional industries such as cotton and jute textiles, sugar etc., has recorded a significant rise since 1951. More notable developments have been in the metal, chemicals and engineering industries. Steel production in 1965-66 is expected to be 7.1 million tonnes (ingot) compared to 1.4 million tonnes in 1950-51. Output of aluminium will have risen from 3700 tonnes to 80,000 tonnes; cement from 2.7 million tonnes to 11.5 million tonnes; chemical fertilisers from 9000 tonnes (in terms of nitrogen) to 300,000 tonnes; paper and paper board from 116,000 tonnes to 530,000 tonnes. In 1951, India had hardly any machine building industry; the value of machine tools production was about Rs. 3.4 million per year. Annual production of machine tools is now 90 times greater and it is expanding at the rate of 20 per cent per year. Capital equipment valued at nearly

Rs. 6 billion is expected to be produced this year ranging from ball bearings and motors to boilers and heavy turbines and generators, transport equipment including railway locomotives, wagons and coaches and automobiles, ships and aeroplanes; industrial machinery for textile, sugar, cement, paper, tea etc; metallurgical and mining equipment, instruments etc. Other important industries which have shown notable progress include rayon, chemicals, light engineering, coal, petroleum refining as well as crude oil production.

Industrial expansion was accompanied by a rapid growth in the output of electricity and in the volume of transport activity; electricity generated has increased six fold (from 6.6 billion kw hrs. to 38 billion kw hrs.); and Railways, which carried 93 million tonnes originating of freight traffic in 1951, are expected to handle nearly 205 million tonnes this year.

The last 15 years have also witnessed a remarkable improvement in public health service and education facilities. Malaria and small-pox which were widespread in India 15 year ago, have been practically wiped out. A network of primary health centres, which forms the base for providing integrated health services to the rural population, has been created. The number of hospital beds has more than doubled and that of doctors has risen by about 50 per cent during the last 15 years. The average mortality rate has fallen from 25 per 1000 in 1951 to 13 in 1966. Over the same period, average expectation of life at birth has risen from 35 years to 50 years.

Total enrolment in educational institutions rose from 24 million in 1951 to 68 million in 1966. The proportion of children between the ages of 6 and 11 years attending school has increased from about 43 per cent at the beginning of the First Plan to about 78 per cent at present. The comparable proportion for the age group 6-14 years has nearly doubled from about a third in 1950-51 to about three fifths in 1965-66. The number of students in secondary classes has risen nearly four and a half times (from 1.22 million to 5.24 million). Enrolment in universities has increased from 0.32 million to 1.08 million. Facilities for professional and technical education have expanded even faster. The annual admission to medical colleges and to engineering institutions (degree and diploma) is now about 89,500 compared to 12,500 in 1951.

Aggregate national income has risen by about 75 per cent between 1951 and 1966. Though population grew by 40 per cent, per capita income at the end of the Third Plan will be about 30 per cent higher than in 1951. Average living standards have risen appreciably, per capita consumption of foodgrains is higher by 22 per cent, sugar by 40 per cent, and clothing 75 per cent, compared to 15 years ago. There has been a very large increase in the per capita availability of mass consumer goods like bicycles and radios. The improvement in health services and educational facilities have also significantly contributed to the betterment of general living standards.

Not only have the plans resulted in a substantial increase in per capita income and consumption, but, what is even more significant for future development, they have infused a new dynamism into the economy, and a capacity for accelerated growth. The steady rise in the rate of investment from about 5 per cent of national income in 1950-51 to about 14 per cent in 1965-66 is an index of it. The diversification of industrial structure and in particular the rapid expansion of industries producing basic raw materials and capital goods have strengthened India's capacity for sustained development in the future.

While foreign aid has played and continues to play an important role in India's development, primarily as balance of payment support, her own efforts at mobilising resources have been substantial. The rate of domestic savings has nearly doubled - from 5 per cent of national income in 1950-51 to over 10 per cent in 1955-56. During the last fifteen years, 80 per cent of total investment has been financed from internal savings. Tax revenues have been raised substantially to finance the rapidly growing programmes of developmental and social services. Total tax revenues have risen four and a half times over the last 15 years and the proportion of national income absorbed as taxes has risen from 7.8 per cent to about 13 per cent. The country is poised for more rapid advance. The Fourth Plan covering the period 1966-71 is now on the anvil. [Table A gives selected indicators of progress and Table B gives figures of production since 1950-51 with provisional estimates for 1965-66 and preliminary plan targets for 1970-71].

Table A: Selected indicators of growth: India 1950-51 to 1970-71

(1)	unit	1950-51	1955-56	1960-61	estimated	
					1965-66*	1970-71**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1 population	million	361	392	439	495	560
2 per capita income	rupees (1960-1 prices)	284	306	326	354	429
3 index of national income	base 1950-51	100	118.4	143.8	178	244
4 index of agricultural production	base 1950-51	100	122.2	146.1	160	210
5 index of industrial production	base 1950-51	100	133.8	189.5	280	472
6 index of export earnings	base 1950-51	100	100	143	143	186
7 index of commodity imports	base 1950-51	100	104	175	215	243
8 investment as per cent of national income	at current prices	5.2	9	11.3	13.4	16.4
9 domestic savings as per cent of national income	at current prices	5.2	8.6	8.1	10	14.5
10 tax revenue as per cent of national income	at current prices	6.6	7.7	9.5	13	16.7
11 current development expenditure of government	Rs. billion	2.3	3.9	7.7	12	18.7
12 expectation of life at birth	years	35.3	41.3	45.8	50.3	54.8
13 primary health centres	thous. nos.	-	0.53	2.8	5.22	5.22
14 students in schools	million	23.5	31.3	41.7	67.3	92.5
15 annual intake in engg. institutions	thous. no.	10	16.4	39.6	78	107.5
16 of which degree level	thous. no.	1.1	3.9	13.8	27	38.9
17 diploma level	thous. no.	5.9	13.5	25.8	51	68.6
18 admission to medical colleges	thous. no.	2.5	3.5	5.8	11.5	20
19 villages covered by national extension services	thous. nos.	-	143	364	565	565
communications						
20 post offices	thous. no.	36	55	77	100	115
21 telephones	thous. no.	168	230	463	813	1500
transport						
22 roads (surfaced)	thous. kilometres	157	196	233	275	325
23 railway freight carried	bill. tonnes	-	-	-	-	-
	kilometres	44	60	88	115	185
24 commercial vehicles on roads	thous. nos.	116	166	228	335	590
25 shipping	mill. G.R.T.	0.4	0.5	0.9	1.5	3
26 electricity (installed capacity)	mill. kw.	2.3	3.4	5.6	10.3	22
27 towns and villages electrified	thous. no.	3.7	10.4	26	43	109

* Provisional estimates

** The targets and other implied indices for 1970-71 are based on proposals outlined in the Planning Commission Memorandum on the Fourth Five Year Plan, published in October 1964. These proposals are preliminary and are under discussion. They are subject to revision.

Table B: Production of selected commodities - India 1950-51 to 1970-71

1.	unit	2.	3.	4.	5.	estimated	
						6.	7.
		1950-51	1955-56	1960-61	1965-66*	1970-71**	
1. foodgrains	mill. tonnes	53	67	81	92	120	
2. sugarcane (in sugar equivalent)	"	5.7	6.1	10.6	12	13.5	
3. oil seeds	"	5.2	5.7	6.6	7.5	10	
4. cotton lint	thou. tonnes	516	711	960	1120	1510	
5. cotton textiles	mill. metres	4312	6268	6623	8300	10050	
6. rayon and staple fibre	thou. tonnes	0.2	13.5	44	74	102	
7. paper and paper board	"	116	190	347	530	1200	
8. sugar	"	1120	1860	3050	3200	4500	
9. nitrogenous fertilisers (in terms of N)	thou. tonnes	9	80	99	300	2000	
10. sulphuric acid	"	101	167	360	900	3500	
11. caustic soda	"	11	36	99	250	550	
12. cement	"	2740	4700	8000	11500	23000	
13. steel ingots	thou. tonnes	1461	1731	3300	7100	14500	
14. aluminium	"	3.7	7.3	19	80	240	
15. machine tools	Rs. million	3.4	7.8	72	300	900	
16. cotton textile machinery	"	negl.	54	104	280	500	
17. sugar machinery	"	-	2	42	90	250	
18. mining machinery	"	-	-	0.6	55	198	
19. metallurgical equipment	thou. tonnes	-	-	-	15	70	
20. diesel engines	thou. nos.	5.5	10	43	80	140	
21. power driven pumps	thou. nos.	34	37	105	180	300	
22. generators and turbines	mill. kw.	-	-	-	-	2.7	
23. electric transformers	mill. kva	0.18	0.63	1.4	6.3	12.5	
24. electric motors	thou. kw	80	201	540	1600	4750	
25. A.C.S.R. conductors	thou. tonnes	1.7	8.7	23.6	55	125	
26. commercial vehicles	thou. nos.	9	10	28	40	100	
27. cars and jeeps	"	7.5	15	27	37	80	
28. railway wagons	"	2.9	15	12	38	40	
29. locomotives - diesel	nos.	-	-	-	58	265	
30. " - electrical	nos.	-	-	-	64	150	
31. " - steam	nos.	7	179	272	203	47	
32. bicycles	thou. nos.	100	510	1050	1700	3500	
33. electric fans	"	199	287	1060	1500	3500	
34. sewing machines	"	33	111	297	450	1000	
35. radio receivers	"	49	102	280	450	1500	
36. electricity generated	bill. kwh	6.6	10.8	20	38	88	
37. coal	mill. tonnes	33	39	52	75	120	
38. petroleum refining	thou. tonnes	400	3658	5800	10000	25000	
39. crude oil	thou. tonnes	260	340	450	6000	12000	

* Provisional estimates.

** The targets and other implied indices for 1970-71 are based on proposals outlined in the Planning Commissions Memorandum on the Fourth Five Year Plan, Published in October 1964. These proposals are preliminary and are under discussion. They are subject to revision.

V

Prospects and Problems

The years since Independence have been marked by all round progress. The record of achievements in the sphere of economic and social development has been significant. But in relation to the magnitude of India's problem they are far from adequate. A large proportion of the country's population still do not have the minimum requirements for a tolerable, not to speak of a comfortable life. Population is growing rapidly and at the present rate of economic development, the pace of improvement in living standards is far too slow. Economic development is being accelerated but it has not reached a point where a sufficiently high rate of growth (6-7 per cent per year) can be achieved on a self sustaining basis. The rate of capital formation is not yet adequate to achieve a satisfactory growth of income and employment, progress in agricultural development is still slow and uncertain and exports are not rising fast enough. Balance of payments difficulties persist and India continues to depend on sizeable foreign aid, though its ratio to domestic resources mobilized for development has been steadily falling.

The Planning Commission is now engaged in preparing a long term programme of development designed to achieve a stage of self sustaining growth in the course of the next 10 years. The aim is to ensure that by the end of the period, the economy will be capable of providing most, if not all, people a specified minimum level of living, providing for a reasonable amount of food, clothing, housing and other

essentials of life, a satisfactory standard of public health and education facilities, and at the same time mobilize a level of capital formation which will sustain a satisfactory rate of improvement in living standards in the period beyond, without recourse to net foreign aid.

Preliminary studies show that in order to reach these objectives an all out effort is needed to reduce population growth and simultaneously to accelerate the tempo of development. National income will have to rise at a minimum of 6-7 per cent a year, compared to the average of 4 or $4\frac{1}{2}$ per cent during the last 5 years (1959-64). Such an acceleration in income growth in turn will require among other things, capital formation to be raised from about 14 per cent to more than 20 per cent of national income in the course of the next decade. To achieve all this with a progressive reduction in foreign aid calls for a doubling of the rate of savings, intensive efforts at increasing exports, and a massive drive for substituting imports with domestic production.

India's Fourth Five Year Plan, now under preparation, has been formulated in the light of these long-term objectives. The target is to increase, in the course of the next 5 years, agricultural production by 30 per cent and industrial production by about 70 per cent. Aggregate income in 1970-71 is projected to be about 35 per cent larger than in 1965-66. In view of the growth of population by $2\frac{1}{2}$ per cent per year and the need of raising the rate of savings, the improvement in per capita consumption is planned at 3 to $3\frac{1}{2}$ per cent a year.

The family planning programme is being taken up on a massive scale and with a heightened sense of urgency. With birth and death rates brought down to half in the course of the next 15 years, the rate of population growth is expected to be reduced to about 1 per cent a year at the end of the period. But even with conspicuous success attending the campaign, the size of the labour force and the number of children of school going age will not be affected in the next 5 or even 10 years. The gains will come in later years.

By 1970-71, about 15 per cent of India's national income is expected to be saved compared to about 10 per cent in 1965-66. The proportion of investment financed by domestic savings is planned to rise from 75 per cent at present to about 90 per cent by the end of the Fourth Plan.

Measures to raise the rate of savings will be buttressed by a sizeable increase in exports (from Rs.8.5 billion in 1965-66 to about Rs.11 billion in 1970-71), and in import substitution by rapid expansion of metal, machinery and chemical industries. By 1970-71, India plans to produce 11 million tonnes of finished steel and 240,000 tonnes of aluminium, compared to 7.1 million tonnes and 36,000 tonnes respectively in 1965-66. Fertilizer production is to be raised from 300,000 tonnes of nitrogen to 2,000,000 tonnes; and cement from 11.5 million to 23 million tonnes. The target for indigenous production of finished machinery by the end of the Fourth Plan (Rs.16 billion) is more than two and a half times the present level (Rs.6 billion). A doubling of electricity generation and a two and half times rise in petroleum refining capacity are other important features of the proposed industrial development programme.

India plans to invest Rs. 190 billion in the course of the next 5 years. This represents an increase of 90 per cent over the net investment made during the Third Plan, and nearly equals the total investments in the first, second and third plans taken together. This is no doubt a strenuous effort, but inescapable both from the point of view of needs to be met and the possibilities offered by India's potentially large resources and her growing capacity to use them for the good of her people. Its successful completion would mean another big step forward towards the fulfilment of India's basic objectives of making her economy strong, dynamic and self-reliant. It will also be a convincing demonstration of the capacity of a democratic society to achieve rapidly economic development and desirable social change.

As on previous occasions, a keen debate is now going on in India about the size, priorities and feasibility of the Fourth Plan on the basis of a Memorandum on the Fourth Plan issued for discussion by the Planning Commission in October 1964. There is naturally a concern that while bigger developmental effort is desirable, planning and implementation should be regarded so inseparable aspect of the same reality, and performance should match closely with promise increasingly in future.

The overall plan, however superficially logical and sophisticated in its concept and design derives its character and quality from the data and analysis which underlie it. The more comprehensive the Plan, the greater the need for detailed information about the existing state of the economy, the social and institutional factors at work, and for data detailed enough to reveal and measure the large variety of inter-sectoral relationship which will not only furnish a picture of what is happening but also provide the basis and insight for planning the future. The need for additional and continuing flow of information is even greater at the stage of implementation. The establishment of an efficient and alert machinery for collection, collation and timely publication of properly oriented data and information relevant for planning is an imperative need. Whatever the progress made in this direction in India where many pioneering developments have taken place, much still remains to be done.

Again a National Plan, if it is not to remain on paper, must have the backing of efficient technical and administrative organisations and agencies well equipped to give effect to the targets of the Plan in concrete terms. The lack of such organisations in practically every branch of activity in sufficient numbers and strength for undertaking different tasks involved, such as investigations, feasibility studies, designing and engineering of projects, construction and operation and maintenance of executed works, has been another lacuna in Indian Planning. This is a task which must be

solved as development proceeds and makes claims in regard to new organizational structures and patterns. The temptation to evade the responsibility for rapidly building or encouraging the emergence of such organizations by continuing to place reliance on foreign agencies to do the work is natural, but must be eschewed as being profoundly inimical to the generation of a spirit of self-reliance. Inadequate appreciation of the need for timely action because of the long time lags involved has also been a source of inefficiency and delay. The state of preparation and arrangements for detailed planning in regard to the programmes in the Fourth Plan, though by no means wholly satisfactory, are much better than a few years back.

A major problem of planning in a mixed economy is the combination of centralized decision making with decentralized implementation. In agriculture, for instance, while the Plan sets the targets of production, the government's role is limited to creating conditions conducive to expansion of output. There is an extension organisation to educate farmers in the use of improved techniques. The State attempts to provide adequate supplies of all necessary inputs and seeks through a policy of cooperative credit, price support and subsidies, to make it economically attractive for farmers to use improved techniques. Past experience has shown that much more can be, and has to be done in all these directions to accelerate the growth of agriculture. Ultimately it is the interest and energy of the individual farmer and his capacity to learn and apply new techniques which will prove decisive.

In the field of private industry, the issue arises in the form of the illogicality of decision making at the enterprise level and the inefficiencies of centralized decision making. A right criterion has to be found to demarcate the area which might be left for unhampered initiative as detailed direction from the Centre would be neither feasible nor desirable. Government control and direction may be necessary in some areas for various reasons as outlined earlier so far the government has been using a combination of direct controls and indirect instruments. Over the years, it has become apparent that the system of controls has grown somewhat cumbersome and there have been complaints that controls concerned with too many details and caused needless delays and inefficiencies. One of the critical problems of planning is to identify clearly and rationally the valid role of direct controls and the usefulness of a modified market mechanism adapted to the needs of a planned economy.

There is no more important issue of planning than to strike a right balance between the demands of the present and the claims of the future. This balance, always difficult to strike, is particularly so in a democracy. There is a normal tendency in people to attach disproportionate importance to immediate issues, to view matters in isolation and from a limited perspective. The only way to overcome this difficulty is through creating an enlightened and educated public opinion. People must have access to facts and must have opportunity and freedom to express their views - whether in support or in opposition of particular aspects of policy and programmes of development.

Criticism of delays and inefficiencies is the very life blood of democracy. The widespread discussion of such matters in the Indian Parliament and Press, far from being a sign of weakness, as sometimes interpreted by superficial observers, is a measure of the strength and vitality of the democratic process in India.

New Delhi,
21 August, 1965.

kka.

Robert D. Callins, PRESIDENT Kermit Gordon, VICE PRESIDENT Robert W. Hartley, VICE PRESIDENT FOR ADMINISTRATION

Mildred Maroney, TREASURER Edna M. Birkel, SECRETARY Felix B. Gorrell, BUSINESS MANAGER

November 8, 1965

Mr. Bernard Bell
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D. C.

Dear Bernie:

Edgar Owens, who is here at Brookings for a year writing a book on political aspects of development, has had a number of conversations with Dave Hopper about the way to get a rural works program going in India. Here is a memo he has written on the subject. I think it would be useful for you to read it and perhaps pass it along to others concerned with these problems.

It seems to me that the establishment of a viable local government unit is essential and that the East Pakistan experience has provided some good testimony of this.

Sincerely,



Wilfred Owen

Enclosure

November 5, 1965

Memorandum on Indian Local Government for Mr. Wilfred Owen,
Brookings Institution

From: Edgar Owens, A.I.D.

Following our recent conversation I have prepared this note on how India might transform her existing local government institutions into development institutions, beginning, perhaps, with one of the problems of special concern to you, farm-to-market roads. There is much about the detail of existing Indian local government and the community development program which I do not know and therefore I cannot be as specific as I would like. But I shall try to give a general outline of the matter.

Rather than beginning in India, I would like to begin in Britain, for it is in Britain that the formula of modern local government was invented, in 1834. The invention turned out to be one of the most important constitutional events of the nineteenth century for both democracy and development, for it solved a problem that developing countries must solve, but nearly all of them have not, and solved it by combining democracy and development in the same institutions. Without this invention I think one is entitled to speculate that democracy might not have endured. It was clear in 19th century Britain, just as it is clear in the developing countries of today, that more and more people were demanding a share of the fruits of economic progress. Apart from

higher incomes, they wanted education, better health, better housing, and many other things--matters which require government action.

Either governments must engage in new activities to satisfy public wants or else governments must authorize private persons or private institutions to satisfy them. Governments that do not respond to these pressures are likely to be overthrown, as our century testifies, for the twentieth century is littered with the wreckage of more governments than any other century in history.

The problem of using technology to create wealth which Britain faced and solved, democratically, a century ago is the problem of creating unity from diversity, of stimulating local initiative, which implies diversity, within the limits of national policy, which implies uniformity. On the face of it, diversity and uniformity appear to be in conflict, but the important point is that none of the rich countries have become rich without achieving a fusion of diverse local initiative with a single national interest. This is true even in Russia and other authoritarian states where we find that the scientist, the engineer, the factory manager, the skilled worker, the doctor, and the institutions in which they work are very nearly as free to use technology as their equivalents in the Western democracies. And they possess very nearly as much authority to make operational decisions on their use of technology as their equivalents in the West. It cannot be otherwise, for technology possesses its own

discipline which even the most tyrannical government cannot ignore without a serious loss in technological efficiency. There is no political doctrine which instructs the engineer how to design a bridge or the factory manager how to solve an immediate problem on the production line. Authoritarian governments do not control technology, as such. They dictate the branches of technology which will be developed and the uses of the fruits of technology. They deny the existence of free, political man, but they do grant sufficient freedom to allow technology to be exploited.

Thus, in the rich countries, both democratic and authoritarian, a very large measure of the operational control of technology is decentralized to the people who are actually using it. Judging by the excess of centralization in the governments of the developing countries, including India, either these governments do not understand the essentiality of local initiative and local diversity in the use of technology, or else somehow they fear that too much diversity will undermine rather than strengthen national policy.

Britain solved this apparent conflict by writing national policy in general terms, delegating the responsibility for implementation to local self-governments and supporting this delegation with substantial investment funds. In order to supervise the local units London established minimum technical standards which the local units were required to

follow as a condition of financial support, provided technical staff and information, audited the accounts to assure honesty, and established numerous training institutions in order to increase the number of skilled people to work on these problems. But London did not, and I would repeat the word 'not,' interfere with the day-to-day decisions of the local councils.

The people who were the beneficiaries of this formula believed they were being given opportunities they had never known; that the national policy, even though binding on them, yet offered wide latitude to adjust local solutions to local circumstances; and that the intervention of the central government was intended to keep the system working properly, a reversal of the traditional stifling centralist approach of minute control over individual local activities. Thus, London did not approve a particular farm-to-market road, which might have been only two or three miles long and might have cost only several hundred pounds. London tried rather to assure that the local council adhered to the approved procedures for planning and constructing rural road networks. So long as the procedures were followed, funds were transferred each year en bloc for the purpose of building more roads, not for the purpose of building particular roads each of which had been approved by central civil servants.

For those who believe in freedom the political results were perhaps more important than the economic results. The spread of democracy throughout Britain is closely linked to the development of modern local government simply because most people live out their lives at the "local" level. They do not personally participate in provincial or national affairs, except at election time, but only in the affairs of the community in which they live. If democracy is to seem a part of their personal lives, then democracy must first of all be local, though not only local. There must seem to be a relationship between community affairs and national policy. Britain was already a relatively sophisticated country when modern local government was introduced, and the people very quickly realized that there was a direct link between local school board and national education policy, around whose activities many local elections were fought. Thus, the people understood that the quality of their children's education depended very much on the local board, but that only Parliament could raise the school-leaving age from 11 to 14. Parents who wanted their children to receive more than five years schooling knew they had to influence Parliament. This they did through the local parties and voluntary groups of several sorts that eventually partly persuaded and partly forced Parliament to enact the Education Act of 1902. Is not that peculiar combination of "satisfaction and impatience," to use Sir Henry Maine's phrase, the source of the Britisher's faith in evolution, that they would rather endure the social

injustices of the 19th century, while striving to abolish or ameliorate them through democratic processes, than to destroy their institutions in the hope (or is it illusion?) that revolution is a panacea for profound forms of discontent?

I think India could adapt the modern local government formula very easily. The structure of existing local government and the community development program are similar to the structure of modern local government. But the real question is whether India is willing to delegate the power of decision to locally elected councils. India has gone far, further than most of the developing countries, in decentralizing administration, but decentralization of administration is only a small step toward allowing people to make and implement their own development decisions within the framework of a generalized national (or provincial) policy.

First, as to structure, from local to central. The basic units of local self-government in the Western democracies are counties, townships and towns, and a higher level service tier.

India has 3155 Panchayat Samitis, or, as we could call them, counties. In size and population they are similar to counties in the European democracies. There are rather more than 200,000 panchayats, there being an average of two and a half villages per Panchayat. This unit is too small. The smallest effective unit in the West is the township. The English Parish Council, which is about the same size as a Panchayat,

is a welfare and an amenities (e.g., libraries or footpaths) institution, but it is too small to be a development institution and never has been used by the British for major development programs. The township is by no means new to India. Here I must admit ignorance about the exact role of the township in the history of Indian local government, but I do know that at various times and places townships have existed. Two of the names are tehsil and union. I would recommend the conversion of the panchayats into townships by reducing the number to around 40-50,000. This would make the average population of a township around 12,000-15,000 and the average number of townships per county around 12-15. Admittedly this recommendation is drawn from Western, not Indian, experience. But the Western democracies have experimented with a variety of types and sizes of local government units. From the experience of a dozen countries the county and the township have emerged as the most viable units. To the extent that Russia (pre-Revolution), Japan, and Taiwan can be drawn upon for guidance on the matter of structure, their experience supports the county-township arrangement.

The higher service tier is of crucial importance for technical and logistical services and also for supervision of the system. In Britain this tier is either London itself or else the regional offices of the Central ministries. In America this tier is either the executive portion of Federal government in Washington or of each of the state governments, and the

regional offices of each. In India the District seems the logical level. These levels possess no power of decision over general policy. They often possess the power to define both technical and administrative standards. They are staffed with the people who are needed to provide technical services to the local councils, to supervise the local councils, and, possibly, according to each country's decision, with people who could train those working at the local level, including the local councilors.

Finally, at the provincial and central level there needs to be a ministry which finances and supervises the local units as institutions. More important than the administration of such a policy, however, is the adoption of a local government policy which is binding on all departments, that is, technical departments would be required to work through the local councils, not the local offices of their ministries. India may not, however, want to move so far so fast but prefer instead to test out a local government policy for several years. There can be no objections to this, for modern local government will not succeed in any country unless people persuade themselves that it should succeed.

If we assume that India might be willing to adopt the modern local government formula, at least experimentally in a few areas, a program for building farm-to-market roads (and I would add land improvement or protection) might be worked out along the following lines.

The panchayats would need to be reorganized into townships and the legal authorities of the local units would need to be defined if this

has not already been done. I do not know the legal position of the existing local units. The panchayat councilors should be elected. The Samiti councilors could be elected or could be, ex officio, the chairman of the panchayat councils. The counties and townships, or Samitis and the Panchayats, would be authorized to begin preparing network and system plans, for which simple instructions would be needed on the location, technical details, work plan, and cost estimates. The plans should be reviewed for technical soundness by staff assigned to the District, or better still, the technical staff could provide advice in the preparation of the plans. I would imagine that the main technical problem would be drainage. However, these technical personnel must not be allowed to interfere with the decisions of the local councils. A system for village discussion should be prepared and adhered to in order to assure participation by the villagers in the preparation of the plans. Once the requirements for popular discussion have been met and the plans approved for technical soundness, the councils should be allowed to proceed with implementation. Funds could be transferred in 3 or 4 parts, the first depending upon satisfactory completion of planning, the second on satisfactory completion of the first portion of the work, etc. The word "satisfactory" refers to the process, not government approval of each individual local action. The councils should schedule the work, not any government employee. One way of organizing the work would be through

project committees. This has the advantage of involving large numbers of people as leaders and doers. Complete, written records should be kept in order to assure honesty and the records should be open for inspection at the local council office. There needs to be built up in India the tradition of the public record, and this is a way to begin at the local level.

In this system the county probably should be thought of as the level of coordination of planning and supervision and the township as the generator of ideas for the plans and for operations. Or at least in the Western democracies this distinction between the county and township is sometimes found. And it has worked well in practice. One advantage of using the township as the main operational level at the beginning of such a program is that it is small and close to the villager.

This is a very brief description of how Indian local government might be converted into a modern democratic development institution along the lines of modern local government in all the Western democracies. I hope it is sufficient for your purposes.

OFFICE MEMORANDUM

TO: Mr. Bernard R. Bell

FROM: Stanley Please

SUBJECT: Development Rebate

DATE: November 22, 1965

1. In commenting on the initial draft of my report, both Ken Bohr and yourself questioned the validity of the argument and conclusions which I presented relating to the Development Rebate concession under the Indian tax legislation. In view of the fact that very significant changes have been made in this legislation under the August Supplementary Budget and particularly of the fact that these changes run counter to my own conclusions, I wonder whether it would not be desirable to achieve a broader agreement amongst ourselves on this issue. If you agree, the following notes and comments might serve as the basis for a short discussion at some stage.

2. Recapitulation of facts re development rebate

(a) Until March 1965 a uniform rate of rebate of 20 percent was granted for all companies with the exception of those purchasing new ships and new coal mining machinery for which the rates were 40 percent and 35 percent respectively.

(b) Under the February 1965 budget proposals these two exceptional rates were maintained and in addition the 40 percent rate was extended to expenditure on the planting of tea bushes in new plantation areas. Furthermore the basic concession itself was made selective by the introduction of a higher rate of 25 per cent for companies in certain priority industries and a lower rate of 15 percent for all other companies. This lower rate was not to become effective until 1967 and so until then the dual rates were to be 25 percent and 20 percent.

(c) The supplementary budget measures introduced in August increased the 25 percent rate for priority industries to 35 percent for investment undertaken between April 1965 and March 1970 after which the 25 percent rate proposed in February will become effective. Moreover for the non-priority sectors the introduction of the 15 percent rate has been postponed from March 1967 to March 1970.

3. The argument which I used in my Report to question the desirability of this tax concession was the general one that by cheapening one input in relation to other inputs in a productive process the technology chosen will be distorted towards one which uses more of the relatively cheaper input. In the Indian context a distortion which encourages a greater use of capital seems particularly foolish. The situation which has arisen as a result of the August measures seems to have aggravated this situation in two respects. Firstly, the rate for priority industries has been increased from 25 percent to 35 percent. Secondly, to the extent that the time

schedule is taken seriously (though the rapidity of recent changes in policy in this field might throw doubt on this assumption), there is a positive incentive to undertake investment in the next five years rather than subsequent to 1970. Whilst this incentive already existed for non-priority industries under the February legislation it probably was not important because the concession expired in March 1967 and could, therefore, only really apply to disbursements on investment plans already finalized. Its extension to 1970 obviously makes it relevant to decisions to be made in the next year or so on investment plans.

4. If I recall correctly, both you and Ken suggested that I was overstating this matter. You asked if there was evidence of this "distortion" of input coefficients and Ken stated, in effect, that the coefficients are technically given. On your own point, whilst there is certainly no evidence to my knowledge to support the argument, this seems to me to be true of many conclusions in the field of economic policy. These conclusions must often arise out of a priori analysis rather than be confirmed by evidence. Is this not also true, for instance, of the mission's contention that foreign exchange is misallocated because of its cheapness and the consequent need to allocate it through administrative arrangements rather than through a price system? Have we empirical evidence that one is a less optimum allocation than the other?

5. I think Ken's point raises the same issues. Government administrators in effect claim they know the investment requirements for achieving these targets. They have, therefore, come to regard the development rebate as a convenient means for making more equity finance available to investing firms without questioning whether this particular means of doing so might not inflate investment demand. We are convinced as a mission that the ability of administrators to determine the desirable import content of a project or productive operation might be at fault unless the user is confronted with the true economic cost of foreign exchange. Can we assume that the substitutability of inputs other than imports is less than the substitutability of imports for all other inputs and in the extreme, as I believe Ken would argue, that it is zero?

6. The changes in development rebate introduced in August arose specifically out of the increase in the import duties imposed on machinery and equipment in the supplementary budget. The justification was that the changes would "in part offset the increased cost of machinery, while retaining the incentive for the greater use of indigenous equipment". This raises two questions. Firstly, is any offsetting of such increased costs desirable? - this gets us back to the general issue raised above. Secondly, is the amount of the concession not unduly excessive? Despite what is said to the contrary in the budget announcement, simple examples (as in the attached Annex) suggest that in many cases increased import duty will be more than offset by the reduced tax payment. If we assume that the marginal rate of tax on company profits is 50 percent and that the import content in an investment project is not affected by the change in the relative prices of imported to domestic machinery and equipment, then it is only when this ratio is in excess of 40 percent that the extra cost implied in the increased import duties is not completely offset by reduced

profits tax payment. When the ratio is 40 percent or less then the August measures result in a net reduction in investment cost and a net loss of revenue to the government. A lower marginal tax rate on corporate profits reduces the amount of offsetting for the simple reason that the value of the development rebate is reduced. For instance with a marginal rate of tax of 33 1/3 percent, the import content has to be below 25 percent before the increased import duty is offset by the reduction in profits tax liability.

7. One further point needs to be noted. Because of the nature of the development rebate which is computed in terms of actual investment outlay, part of the inducement to switch from imported to domestically produced capital goods is offset by a decline in the rebate to which a firm becomes entitled as a result of the switch. For instance in Case III in the Annex, investment outlay by a firm is assumed to move up from 100 to 105.2 as a result of the increased import duties on the assumption that the import content of its project(s) remains unaltered. If it finds that it can in fact reduce its costs to 102 by switching domestic goods for imports (this figure will be above 100 for otherwise it could be assumed to have switched to a lower cost opportunity irrespective of the changed price ratio), the development rebate to which it is entitled falls from 36.8 to 35.7 which at a 50 percent marginal rate of tax represents a 0.5 increase in tax liability. Thus the assumed gain of 3.2 (difference between 105.2 and 102) is reduced to 2.7 by the operation of the development rebate.

cc: Messrs. Baneth, Bohr, Elsaas and Katz

Annex

Illustrative examples of the net effect on cost of an investment project resulting from the increase in important duties introduced in the August Supplementary Budget from 15 percent to 35 percent and the complementary increase in development rebate from 25 percent to 35 percent for priority industries

	<u>Case I</u>		<u>Case II</u>		<u>Case III</u>		<u>Case IV</u>		<u>Case V</u>	
	<u>Pre-August Position</u>	<u>Post-August Position</u>	<u>Pre-August Position</u>	<u>Post-August Position</u>	<u>Pre-August Position</u>	<u>Post-August Position</u>	<u>Pre-August Position</u>	<u>Post-August Position</u>	<u>Pre-August Position</u>	<u>Post-August Position</u>
Import Content	20	23.5	25	29.4	30	35.2	40	46	50	58.7
Domestic Content	80	80	75	75.0	70	70	60	60	50	50
Total Cost of Investment	100	103.5	100	104.4	100	105.2	100	106.0	100	108.7
Development Rebate	25	36.2	25	36.5	25	36.8	25	37.1	25	38.0
Value of Rebate in terms of reduced tax payments at following marginal rates of tax:										
(a) 33 1/3%	8.3	12.1	8.3	12.2	8.3	12.3	8.3	12.4	8.3	12.7
(b) 50%	12.5	18.1	12.5	18.3	12.5	18.4	12.5	18.6	12.5	19.0
Increase in investment cost as percentage of decrease in tax payment at following marginal rates of tax:										
(a) 33 1/3%		92%		113%		130%		146%		198%
(b) 50%		63%		76%		88%		99%		134%

H. I. Parekh

referred
#90 Roudela 160/61

"Development of the Labor Surplus Economy" "Theory and Policy"
John C.H. Flee and Gustav Ranis
Economic Growth Center, Yale University

Fact

- 1- Redundant labor in agric.
- 2- Surplus food produced by agric
- 3- Transfer of these workers to industry does not reduce agric output
- 4- Thus the labor & the food for that labor is present
- 5- Problem is: how to transfer that surplus of food to the agric labor which is shifted
- 6- Also how to provide the capital stock in industry needed for utilization of the labor

India is not using its greatest asset (surplus labor)

- 1- Greatest deficiency in Indian economy is:
 - 1- that a large part of its real resources is not used (redundant labor in the agricultural sector)
- 2- What does it take to put it to use?
- 3- The Plan answer is industrial capital
- 4- But this ignores the fund need: food and the serious question of the type of capital and its mix with ^{the} labor available
- 5- Either the (a) market or (b) Govt ^{direct} Control system as the device for organization of the use and allocation of resources. Now, does the control system work?
- 6- Simply shift of surplus workers from agric by putting industry nearby (also avoiding heavy social overhead expenditures) (I'm cludea big big units defeat this last purpose at least
- 7- Establish industrial estates in small rural towns to mobilize rural savings & entrepreneurship.
- 8- Raising of agric incentives also requires capture of agric. savings. (Land tax?)

From I.M.D. Little

With compliments

NUFFIELD COLLEGE
OXFORD

AID TO PAKISTAN AND INDIA

The following is part of a chapter on the world distribution of aid in a forthcoming book by I.M.D. Little and J. Clifford on International Aid. I.M.D. Little had hoped to write a pamphlet on aid to India. But, as time prevents this, he is instead circulating this extract to some potential readers. It has been considerably altered from an earlier draft which some may have seen.

I.M.D. Little

Nuffield College,
Oxford.

Pakistan alone in the area /South Asia/ is now receiving a high level of aid per head from the West. In 1962 it was \$2.8, excluding the Indus Waters Scheme: including the scheme it was \$4.0.¹ Since 1962, Western aid to Pakistan has increased very rapidly. In 1963 it was about \$4.2, excluding the Indus Waters (\$4.9, including it). In 1964 there will be a further rise.² A very high proportion of Pakistan's investment is financed by aid. Thus in 1963, of a gross investment level of 17 per cent of GNP, gross domestic savings accounted for only 9.6 per cent.

After a long period of very slow growth in the 1950's, Pakistan has begun to grow rapidly - by rather over 5 per cent per annum since 1959/60. Agriculture, which grew by

¹The Indus Waters Scheme (organized by the IBRD, and one of the most shining examples of aid, since it contributed not only to development but also to the solution of a international dispute) compensates Pakistan for the diversion of certain river waters to Indian usage, which prior to partition irrigated parts of what is now West Pakistan. It is, primarily, as things now stand, aid to Pakistan: but for the Pakistanis it is not development aid, but replacement aid following one of the exigencies of partition. Thus, on the one hand, excluding it from the figures of aid to Pakistan, has a certain justification: indeed Pakistanis may claim it is aid to India. On the other hand, if one attempted throughout the world to exclude items counted as aid to a particular country, which there was some justification for excluding, one would have to exclude far more than the Indus Waters Scheme (some examples have been given in Chapter). The reader is left to make his own choice. In the text we give aid to Pakistan figures, both excluding and including the Indus Waters Scheme.

²Pakistani figures give an estimate of \$660 million gross for 1964/5, excluding Indus Waters aid (see Preliminary Evaluation of Progress during the Second Five Year Plan, Planning Commission, Karachi, March, 1965), i.e. \$6.5 per head gross, and probably about \$6.0 net. This includes a small amount of 'bloc' aid.

only 1.3 per cent per annum in the 1950's, shows a rate of increase of 3.5 per cent since 1959/60 (about the average rate of growth of Indian agriculture), and higher rates still are confidently expected.

Pakistan's improved performance has been accompanied by considerable liberalization, especially of imports of materials and components, which has permitted more use of existing capacity, and of agricultural inputs, especially fertilizers and tubewells. Her willingness to learn and accept advice, and her recent pragmatic economic policies, especially greater use of the price mechanism, have pleased donor governments and her Western advisers. Such policies have been greatly facilitated by increased aid, but have also been a cause of that increase. There is no doubt that increased aid has made a major contribution.

It is early to say whether a solid foundation has been laid for a continuance of the recent good growth rates, and for a gradually increased reliance on domestic resources, for some part of the recent growth is of a once-and-for-all character. But confidence is now high in planning circles, and it is plain that at least present levels of aid should be continued for some time. Pakistan is still a very poor country, and still has very difficult problems to face.

India is a very different case, and is the major enigma, and anomaly, of world aid giving. The people of India are among the poorest in the world - only Pakistan and a few other countries are comparable. At the same time, and exceptionally for so poor a country, India has one of the most competent administrations in the underdeveloped world, and also has a very considerable endowment of technical skills of all kinds. Her macro-economic planning is among the most sophisticated in the underdeveloped world. She has a considerable industrial base, and an unusual amount of entrepreneurial talent.

Capital is austere used for economic development, with little or no emphasis on the prestige projects which are so common elsewhere. India 'helps herself' more than most underdeveloped countries. She has raised taxation considerably in a number of courageous recent budgets. She has reasonably effective exchange control. There is not much capital flight, and virtually no inessential consumption good imports. If any country has a structural balance of payments problem, India has a strong claim to membership of this category. Corruption exists of course, but it is less than in other more aid-favoured areas, and does less to distort economic planning. Of undeniable political importance, and the subject of a recent Communist attack, India should prima facie be the darling and not the Cinderella of world aid. What is the explanation? Has India, despite all this, a remarkably low absorptive capacity? Or, is there something very wrong with donors' aid policies?

Let us look at some figures. The Indian Third Five-Year Plan's own calculation (for a projected growth rate of $5\frac{1}{2}$ per cent per annum) was for an average of \$1.3 billion per annum grows, this being based on balance of payments estimates rather than on savings/investment estimates. Many foreign observers believed this to be an underestimate, if the investment programme was to be achieved.¹ OECD sources suggest that India actually received \$664, \$736, and \$973 million net aid from OECD countries and multilateral

¹E.g., P.N. Rosenstein-Rodan (loc. cit.) estimated \$1.6 billion on a savings/investment basis. G.D.A. MacDougall wrote "Even if foreign aid is forthcoming on the large scale envisaged in the Draft Outline of the Third Plan, this may not be enough; for the import needs seem to have been substantially underestimated, as they were in the Second Plan." loc. cit.

institutions in 1961, 1962, and 1963.¹ (These figures represent per caput aid levels of \$1.5, \$1.7, and \$2.1.) According to Indian sources,² total gross aid use in the first three years of the Third Plan (1961/2, 1962/3, 1963/4) was \$712, \$941, and \$1,235.- of which non-OECD aid (almost entirely 'bloc') was \$52 million, \$69 million, and \$105 million respectively.

The shortfall of aid below estimated requirements was thus large in the first two years. This was probably more because the Plan got off to a slow start (as did the Second Plan) than because aid was not available. India entered the period of the Third Five-Year Plan (April 1st, 1961) with about \$1.4 billion of undisbursed foreign official loans (excluding commodity-aid, and grants which, in India's case, are confined to technical assistance). In the first three years of the Plan another \$3.0 billion was authorized by all lenders (the Consortium committed \$3.4 billion in this period), but utilization was only about \$2.0 billion, so that the amount of undisbursed but authorized loans had grown to \$2½ billion. The ratio of utilization of loans to the balance of funds whose use had been authorized at the beginning of the year has remained at 35-38 per cent, as shown in Table 21.

¹OECD, Flow of Financial Resources, 1956-63.

²Government of India, Economic Survey, New Delhi, 1964-5.

Table 21
The Use of Loans to India,¹ 1961-64 (\$m)

<u>Date</u>	Authorized and undisbursed (carry over)	Used in following year	(3) as % of (2)	Total gross aid used (i.e. including commodity-aid and grants)
31 March 61	1,384	483	35	712
" " 62	1,751	652	38	941
" " 63	2,333	822	35	1,235
" " 64	2,465	468 (half year)	19 (half year)	716 (half year)
1 October 64	2,432			

Can one infer from the apparently low ratio of utilization, and the excess of authorization over disbursements, that India's use of aid has been governed by her own absorptive capacity? No such simple influence is possible. Until recently, most loans have been tied to projects, and this makes a high carry-over of aid inevitable. For instance, if all loans were tied to projects which take ^{five} ~~four~~ years to finish after the expenditure is authorized, the ratio of use to carry-over would settle down to 40 per cent, but it would be much lower during any period in which authorizations were increasing. ~~The period of usage of loans is thus around 4½ years on the average.~~

It was only in 1963/4 that India began to get considerable amounts of non-project assistance (apart from PL 480), which can be more rapidly spent. For 1964/5 about half the aid committed by the Consortium is on a non-project basis, which is a great improvement. Even so, some of the non-project aid available is still limited to capital goods. Thus,

¹Source: Government of India, ibid.

although India by 1963/4 had built up to a total aid usage of \$1 $\frac{1}{4}$ billion, which by 1964/5 probably reached \$1 $\frac{1}{2}$ billion, the use of loans did not catch up with authorizations until 1964/5. A large part of the rise in total aid use was due to heavy PL 480 imports, which amounted to \$227 million in the first half of 1964/5, and was consequent on poor harvests in the previous two years.

Despite the higher aid level in 1964/5, India, at the beginning of 1965/6 was suffering one of her worst balance of payments crises, and there was at the same time considerable excess capacity in some industrial sectors, for lack of imported raw materials and components. The inference is plain: that aid, and planning, was still too much devoted to the creation of output capacity, and not enough to promoting current output, and to as rapid completion as possible of the schemes started. India has been asking for more non-project aid for some time, and many donors have responded: but the process has not gone far enough yet.

The low level of aid to India is partly a mere function of her size:¹ but it is also partly because India herself has consistently underestimated the amount of aid needed for her plans. The other side of this coin is that she has consistently overestimated the amount of industrial and infrastructural investment which she could undertake with the foreign exchange resources available. This tendency has been buttressed by planning to do without aid in too short a time: with the consequent determination to build more capacity for import-substitution, in a somewhat indiscriminate manner, than was possible with the aid available in the period. This has resulted in costly interruptions to schemes initiated, and a low productivity of capital.

Recently the IBRD and AID have started to probe sectoral

¹See p.

and project planning in more detail than previously, and have become discontented with what they have found. Previously aid had been given very much in support of the Plan, and several missions of eminent persons had blessed the Plans. But 'vetting' a central macro-economic plan in a federation of India's size does not take one very far. As much or more depends on the coherence of sectoral planning, on project design and selection, on the execution of the plan, and on general economic policies. One cannot ignore the fact that Central and State Administrations are overstrained, and the management of public enterprise inadequate, both lacking the numbers of skilled staff required to carry out, with speed and efficiency, the heavy burden of public control and ownership which has been assumed.¹

Having said all this, we still believe that India can effectively absorb much larger quantities of aid.² So far as industrial and infrastructural projects go, no rapid increase of aid disbursement in the near future should be looked for. There is certainly a need in some sectors for improved planning and execution, and donors should in our view concern themselves with this, despite the resistance that is inevitably to be expected in certain quarters, and despite the fact that such concern may temporarily slow up aid disbursements.

But much more money could be quickly and effectively spent on imports of materials and components, especially inputs for agriculture - most notably fertilizers. Insufficiency of general purpose aid, which can be used for such things, not only means that the economy operates below capacity, but also increases the amount of control and

¹See A.H. Hanson, op. cit., especially Ch.

²It should perhaps be said at this point that I.M.D. Little alone takes responsibility for what is said about Pakistan and India.

administration required. India is, at present, forced to keep stringent investment and import controls in operation. This is something of a vicious circle. Some of the controls, as operated, undoubtedly reduce the efficiency of the economy, without helping to achieve any basic objective of policy.¹ This in turn slows up the usage of aid (sometimes even when the money is earmarked for a particular project), and is a heavy burden on the over-extended administration. If general purpose aid were increased, India could relax some controls over investment and machinery imports; and, still more important, import controls on some high-priority current inputs. There is little doubt that much more aid could then be absorbed, and that output would respond. Even if there was a once-and-for-all element in this, we believe that more rapid growth for a few years would greatly help morale, and itself leads to improvements in policy and planning. It would also lead to more aid later, because nothing succeeds like success when it comes to eliciting aid.

The Indian Government will probably ask for aid for the Fourth Plan at about the level of the Third Plan, \$1.3 billion gross per annum.² This is below the level which will be reached in the last year of the Third Five-Year Plan (probably \$1.5 billion), and not much above the average level of aid during the Third Plan period. In net terms, it would constitute an aid level of \$1.1 billion per annum, against approximately \$1.0 billion during the Second Plan period. Since the

¹ See, e.g., K.N. Raj, *Government of India, Report of Steel Control, Oct. 1963, Ch. II.*

² The first adumbration of the Fourth Plan is the Memorandum on the Fourth Five-Year Plan, Government of India, Planning Commission, October, 1964. This document suggests a balance of payments deficit of Rs 3,200 crores for the Fourth Plan period, after meeting amortization payments of Rs 500 crores. . . If we allow, say, Rs 200 crores for an . . . inflow of private capital, this leaves Rs 3,000 crores, i.e., \$6.3 billion, or about \$1.3 billion per annum, which is much the same as the estimated requirement for the much smaller Second Five-Year Plan.

Indian population is growing at $2\frac{1}{2}$ per cent per annum, this would constitute no increase in the extraordinary low level of aid per head which India has been receiving. Furthermore, without doing any elaborate calculations, one can say that there is nothing in the history of Indian development to date which would suggest that they can mount a much larger Plan without more foreign assistance.

We believe that the Consortium should pay little attention to the Indians' own estimates of aid requirements for the Fourth Plan period. Having regard to the present level of aid absorption, and to the fact that, undoubtedly, \$300-400 millions of extra imports of materials and components, especially fertilizers, would be highly desirable, we believe that India can absorb an average level of net aid over the next five years of \$2.0 billion gross per annum (including commodity and technical assistance), or \$1.8 billion net, at the very least. It would, indeed, be incredible if she could not. Since India's population will average 500 million people during the Fourth Plan, this would represent an aid level of \$3.6 per head, still far below the current level of aid to Pakistan.

If we allow \$300-400 million for non-Consortium aid, this implies that Consortium commitments should now rise to something over \$1 $\frac{1}{2}$ billion per annum (since some increase in the pipeline of aid is inevitable if the disbursement rate is to be stepped up). We would regard this as the bare minimum target. Even so, such an increase in aid may require some change in Indian policies. But, in the context of a really significant increase in the aid level, these should be negotiable. Without such an increase, it is questionable whether very much influence can be exercised. The general policy of Western donors should be to satisfy themselves about project and sectoral planning (while offering

all possible assistance towards improving such planning), and at the same time to ensure that the economy can be provided with the intermediate goods required to increase current production, together with the miscellaneous capital goods needed for 'balancing' capital structures and completing projects.¹

India has absorbed a lot of space - although probably not more than 30 per cent of this chapter. But India is 30 per cent of the developing world. Even this does not sufficiently underline the full measure of her importance. This vast and poverty stricken country, troubled with internal problems of a grave and potentially divisive character, but nevertheless maintaining one of the most democratic systems of government in the world, is proudly struggling to transmute her traditional culture into a progressive economic system. Many developing countries will be influenced by the outcome. The rest of the world is watching India, but it does little to help her. In the context of world aid, the low level of aid to India is a disgrace. The fault lies both with the Indian Government, and with donors. It should be a challenge to both parties to set this matter right - a challenge set by the poverty of the Indian people.

¹There is still some feeling in India that it is imprudent to use loans for importing goods which are currently used, and do not increase capacity. We do not believe this is justified. But the cost of aid to India is relatively high. There remains an urgent need for donors so to improve terms, especially by reducing interest rates, that this consideration is seen to be unimportant.

INDIA ECONOMIC MISSION OF 1964/65

List Major Policy Summary of Recommendations

presents a simple listing
This aide-memoire ~~is a succinct statement~~ of certain of the major recommendations of the "Bell Mission" with respect to Government of India economic development policy in the Fourth Plan period. *It is intended to serve merely as an agenda,* (BRD)

does present list of
The statement ~~is not~~ a complete ~~summary~~ of the recommendations with regard to policy or action on the part of either the Government of India or the ~~Bank~~ and other aid-givers. It lists only ~~these~~ *certain of the* major points which the President of the Bank regards as critically important to the continuing development of the Indian economy and to the continuing cooperation of the Bank in the economic development effort.

These recommendations are presented for the consideration of the Government of India in confidence. They are the personal recommendations of the President of the Bank acting as banker, as advisor and as friend, and are directed toward achievement of the goals of the Government of India. It is hoped that they will be received and considered in this spirit.

Recommended Action by the Government of India

The following are the major actions which are recommended to the Government of India:

1. Devaluation of the rupee. The most effective means of accomplishing this would be by formal devaluation to a new unitary fixed rate modified by export taxes on jute and tea, and selected differential import duties and export aids. Alternative means are also available although less effective.
2. Removal of direct quantitative import controls on all production materials (raw materials, intermediate goods, spare parts, certain components). Existing bans on imports of most finished consumer goods and use of selective import duties and excise taxes on consumer goods and materials for their production to be retained.
3. Allocation of more resources to the expansion of agricultural output by
 - (a) Absolute priority for fertilizer imports in the allocation of foreign exchange
 - (b) Vigorous effort to negotiate arrangements for rapid establishment of fertilizer production facilities
 - (c) Allocation of funds and materials required for accelerated development and distribution of irrigation water supplies
 - (d) Provision of stable incentive prices for agricultural products via Government purchasing at support prices for buffer stocks
 - (e) Provision of adequate credit to farm tenants and owners

- (f) Improvement in security of tenure
- (g) Augmentation of supplies of power equipment, plant protection materials and services
- (h) Improvement in research directed toward development of improved seed varieties, effective disease and pest control materials and techniques, etc.
- (i) Improved and more free distribution of materials and supplies required for agriculture and irrigation.

- 4. Reduction in defense expenditure, and continued eschewing of effort to develop nuclear weapons.
- 5. Organization and conduct of a rural works program to improve village road connections, irrigation and flood control works, etc.
- 6. Encouragement of foreign private investment (by removal of deterrents).
- 7. Vigorous conduct of a massive population reduction program, centering on the use of the IUD.
- 8. Improvement in the Planning Process Organization for planning.
- 9. Improvement in the Management of Public Sector enterprises.
- 10. Allocation of foreign exchange resources to increase current output.
- 11. Improvement in information flow required for planning and conduct of Government operations.

Files

Alexander Stevenson

Mr. Woods' Meeting with Mr. Said Hassan

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January 12, 1966

Mr. Chadwick
Mr. R. H. R. R.
Mr. B. B. B.

CONFIDENTIAL

Mr. Said Hassan came to see Mr. Woods this morning. Mr. Knapp and I were present for part of the time.

Mr. Said Hassan discussed two topics, the future of the Pakistan Consortium and the dispute with India over the Indus waters.

1. The Future of the Pakistan Consortium.

Mr. Woods summarized the discussion by saying that while he personally had reservations about the consortium technique, the Bank would run the consortium if the recipient and donor countries wanted it. The U.S. Government had indicated that for the time being at least they would want to see it continue. Perhaps in a year or two, when there had been further experience with the operation of consultative groups, the matter could be looked at again. Mr. Woods went on to say that in the operation of the consortium he was interested in seeing that it concentrated its attention on matters such as the appropriateness of development programs and policies, the priority of projects, the breaking of bottlenecks in execution, and in general that it focussed on matters relating to economic performance rather than on the "numbers game" connected with pledges.

The Bank and IDA were continuing to process projects which had already been submitted for our consideration. In this connection the education project in East and West Pakistan, the engineering credit for roads in West Pakistan, and possibly the Ghorasal fertilizer project were mentioned as those which could reach the final stage in the next few months. (Mr. Said Hassan indicated dissatisfaction with the arrangements under discussion with the Japanese regarding the Ghorasal project.)

As for the longer term, Mr. Woods said an economic mission would be going out to Pakistan in February, including a team to look into the industrial sector in detail. It would be the job of this mission to look over the economic situation carefully and to see what effect the recent hostilities and their consequences, such as increased defense expenditures, had had and would have on the economy and the Plan. The Bank would await the mission's report, in the meantime not taking up new business.

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January 12, 1966

2. Indus Waters.

As regards the Pakistani complaints that they had not been receiving from India their due share of the waters of the Indus and its tributaries, Mr. Woods reiterated that the two parties should get together and discuss their problems as provided in the Treaty. The Tashkent communique indicated their agreement to take such steps. He mentioned that before the Indian Ambassador to Washington had left for Delhi he, Mr. Woods, had asked him to explore the possibility of a meeting of the Water Commissioners being arranged in Beirut or Bangkok rather than in Delhi. In this connection he had recently asked Mr. Rajan to see if Delhi had any reaction to this proposal.

cc: Mr. Woods
Mr. Knapp
Mr. Wilson
Mr. Aldewereld
Mr. Mason
Mr. Friedman
Mr. von Hoffmann
Sir Ernest Vasey

Cleared with Mr. Knapp

AS/us

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Special Instructions by Sender
 out "Ront", "Reply Paid", etc.

TO (Name)

(Address)

(Telegraph Office)

* (Country)

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[T.E.-34/08]

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YOUR TWO RECEIVED SLIGHTLY GARBLED AWAITING CLARIFICATIONS STOP
REF. YOUR SEVENTH POINT AS ADVICE RATHER THAN INSTRUCTIONS I
FEEL IN VIEW RECENT DEVELOPMENTS DRASTIC SOFTENING OF LANGUAGE
IN PARA ~~17~~ EIGHT FIVE (A) AND IN PARA THREE FOUR etc.
IN YOUR SUMMARY DATED SEPT. THREE MIGHT BE WISE STOP
ALSO PROBABLY HELPFUL IN *obtaining consent for dest. entire*
Report to Gossit & others

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

OUTGOING WIRE

TO: INTBAPRAD
WASHINGTON DC

DATE: MARCH 18, 1966

CLASS OF
SERVICE: FULL RATE

COUNTRY: (USA)

TEXT: BELL NINE FOR WOODS REUR ELEVEN LEAVING DELHI LATE SATURDAY NIGHT
Cable No.: SCHEDULED ARRIVE WASHINGTON LATE AFTERNOON SUNDAY TWENTIETH STOP
ANXIOUS TALK TO YOU ANYTIME THEREAFTER STOP NUMBER TEN NOT YET
RECEIVED STOP PATEL AND PITAMBER PANT WILL BOTH BE ARRIVING WASHINGTON
PROBABLY TWENTYTHIRD

BELL

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME Bernard R. Bell

DEPT. World Bank, New Delhi

SIGNATURE _____

TRANSMITTAL COPY

No. 9

FURTHER REFERENCE YOUR TWO WHICH NOW CLARIFIED. POINT THIRDLY
HAVE HAD INITIAL EXPLORATORY CONVERSATION WITH YOUR NAMESAKE
WHO WAS PLEASED WITH WHAT WE BOTH CONSIDER GOOD PROGRESS YOU
MAY REPORT THAT NECESSARY EXPLORATIONS HAVE BEGUN. IF YOU
START RETURN JOURNEY ABOUT FIFTEENTH WOULD HOPE YOU COULD
BRING SOME FURTHER INDICATION OF WHAT PRIME MINISTER'S
POSITION WILL BE ON TWENTY-EIGHTH. I ASSUME YOU UNDERSTAND
MY PREVIOUS WIRE INTENDED SOLELY SOFTENING OF LANGUAGE NOT
OF OUR BASIC POSITION.

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*COUNTRY

(USA)

SPACE FOR STAMPS
(ADDITIONAL SPACE ON REVERSE)

WOODS

BELL FOUR REFERENCE YOURCAB PLEASE CLARIFY EVERYTHING FROM

OKNPN TO END

FROM { TO BE TELEGRAPHED }

BELL

I request that the above Telegram may be forwarded subject to the conditions which are printed on the back hereof and by which I agree to be bound, and I certify that the words in this Telegram comply with the requirements of the Telegraph Rules.

thereby declare that the message contained in the above Telegram originated here, and is not intended to be refiled at destination:

NOT TO BE
TELEGRAPHED { SIGNATURE, NAME
AND FULL ADDRESS
OF SENDER

B.R. Bell, World Bank, New Delhi.

TELEPHONE No.

* Not to be Telegraphed unless necessary to prevent mistakes.

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4. In writing this telegram, the rules in respect of admissibility of the language used and combination of characters, or words as laid down in the Telegraph Guide must be adhered to.

ADDITIONAL SPACE
FOR STAMPS

FIVE

RE YOUR NINE FURTHER DISCUSSIONS ESPECIALLY PLANNING MINISTER
CONTINUE TO INDICATE AFFIRMATIVE DECISIONS MAJOR POLICY RECOMMENDATIONS
VIRTUALLY AND POSSIBLY DEFINITELY MADE STOP HE STATES LATTER IS THE
CASE SUBJECT OF COURSE TO TWO CONDITIONS SPECIFIED IN MY CABLE TWO.
NOW PLANNING LEAVE EIGHTEENTH OR NINETEENTH AND MINISTER STATES
I WILL THEN HAVE FULL INDICATION OF PRIME MINISTER'S POSITION
ECONOMIC ISSUES 28TH. BELIEVE THAT IF POSSIBLE FURTHER INDICATION
FROM YOU OF ENCOURAGING RESULTS EXPLORATIONS WOULD BE HELPFUL IN
ENSURING DESIRED DECISIONS. YOUR ASSUMPTION LAST SENTENCE YOUR CABLE
CORRECT.

SIX

FIRSTLY PLANNING MINISTER HAS ASKED I INFORM YOU PRIME MINISTER WISHES
SEE YOU IN WASHINGTON STOP ASKS THAT YOU TALK AMBASSADOR NEHRU ABOUT THIS
SECONDLY BIRLA INFORMED ME HIS VISIT INTENDED PREPARE FOR TWENTY-EIGHTH
VISIT AND ASKED ME ACCORDINGLY TELL HIM OUR RECOMMENDATIONS STOP I FELT
OBLIGED TO AND DID EVADE QUESTION

SEVEN

ALTHOUGH THIS SEEMS STRANGE PRIME MINISTER'S SECRETARY ASKED LAST NIGHT
WHAT SPECIFIC ARRANGEMENTS WERE MADE FOR MEETING PRIME MINISTER WITH YOU
AS RESULT YOUR DISCUSSION THIS MATTER WITH AMBASSADOR STOP WOULD LIKE
BE ABLE RESPOND HIS ENQUIRY



Record Removal Notice



File Title Bernard R. Bell Files: Woods Correspondence - Correspondence		Barcode No. 1850786		
Document Date 5/16/1968	Document Type Memorandum			
Correspondents / Participants To: George W. Woods From: K. S. Sundara Rajan				
Subject / Title Ratio of defence expenditure to GNP				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date 17-May-16</td></tr></table>	Withdrawn by Bertha F. Wilson	Date 17-May-16
Withdrawn by Bertha F. Wilson	Date 17-May-16			

62/63 17,430

63/64 19,480

64/65 22,800

65/66 23,475

66/67 25,850

Real

-3%

+4%

Current
Price

+3%

+10%

1810

1650

810

100

800

280
3900

N. d. Se

WT + 13.596

	<u>Def Expend</u>			
	<u>Cur Prices</u>	<u>Const Prices</u>	<u>GNP (cur. prices)</u>	<u>GNP</u> <u>Const prices</u>
62/63	474	474	17,430	
63/64	816	762	19,480	
64/65	806	710	22,800	
65/66	888	735	23,475	
66/67	918	710	25,850	

June 64 Memo of Underst

For Ex caling — 682 cows (5 yr plan 64/65 to 68/69)

This includes West

Actual pay 1st 2 yrs. (64/65 and 65/66) = 210 cr {90

add to this West deliveries of grant aid

plus delivered but not paid for West credit sales (50 cr)

Total = 260 cr

E. Bloc purchases counted on delivery basis bring figure to 325 cr.

~~Bottom St~~

Explan Memo to Budget
(Cross)

<u>Defense Exp met from Rev</u>	<u>India</u>	<u>Abroad</u>	<u>Total</u>
Budg 1964/65	656	79	736
Revised " ✓	651	87	739
Budg 65/66	672	100	772
Revised 63/64	623	91	714
Budg	657	69	726
<u>Cst Outlay</u>			
B 64/65	121	15	136
R " ✓	110	8	118
B 65/66	113	17	130
Rev 63/64	183 157	54 61	237 175
Budg "	139	19	159

Secret

Statement showing foreign exchange allocations for
Defence imports from 1961-62 to-date

Period	(In Rs. crores)
	Allocation Free resources
<u>1961-62</u>	
I. April-September 1961	18.00
II. October 1961-March 1962	20.50
<u>Total 1961-62</u>	<u>38.50</u>
<u>1962-63</u>	
I. April-September 1962	22.00
II. October 1962-March 1963	21.51
<u>Total 1962-63</u>	<u>43.51</u>
<u>1963-64</u>	
(Allocations made for the year as a whole. Half yearly break-up notional.)	
I. April-September 1963	45.89
II. October 1963-March 1964	45.89
<u>Total 1963-64</u>	<u>91.78</u>
<u>1964-65</u>	
I. April-September 1964	42.70*
II. October 1964-March 1965	30.75*
<u>Total 1964-65</u>	<u>73.45</u>

*(Including indirect requirements of raw materials,
components etc. for supplies met through private
sector.)

Provided by CSK - Jan. 1965

India

95
141
137

The Factors on Defense Expenditures (Rs. crores)

A - Total Defense Expenditure Budget

	<u>Current Prices</u>	<u>GNP at Cur Prices</u>	<u>% Defense</u>
1961-62	313	16720	1.9
62-63	474	17430	
63-64	816	19480	4.2
64-65	806	21360	3.8
65-66	888 (Revised)	22930	3.9
66-67	918 (Est.)		

B - ~~Total~~ Expenditure as Reported in Explanatory Memo to Budget

	<u>Current Prices</u>		
	<u>Total</u>	<u>India</u>	<u>Abroad</u>
1961-62			
62-63			
	951	806	145
63-64	714	623	91
	857	761	
64-65	761	655	95
65-66	902	785	117
66-67			

C - Foreign Exchange Allocations for Defense (Statement of Jan 1965)

61-62	38.5
62/63	43.5
63/64	
63/64	91.8
64/65	73.5

$$\begin{array}{r}
 118 \\
 127.5 \overline{) 151000} \\
 \underline{1275} \\
 2350 \\
 \underline{1275} \\
 10750 \\
 \underline{10200} \\
 5500
 \end{array}$$

$$\begin{array}{r}
 122 \\
 124.9 \overline{) 152700} \\
 \underline{1249} \\
 2780 \\
 \underline{2498} \\
 282
 \end{array}$$

$$\begin{array}{r}
 1017 \\
 1455 \overline{) 1480000} \\
 \underline{1455} \\
 2500 \\
 \underline{1455} \\
 10450 \\
 \underline{10185} \\
 2650
 \end{array}$$

$$\begin{array}{r}
 147.3 \\
 1472 \overline{) 1726000} \\
 \underline{1472} \\
 2540 \\
 \underline{1472} \\
 10680 \\
 \underline{10304} \\
 3760 \\
 \underline{2944} \\
 816
 \end{array}$$

$$\begin{array}{r}
 11 \\
 151 \overline{) 1690} \\
 \underline{151} \\
 180
 \end{array}$$

$$\begin{array}{r}
 104 \\
 1391 \overline{) 149300} \\
 \underline{1391} \\
 10200 \\
 \underline{564}
 \end{array}$$

$$\begin{array}{r}
 109 \\
 1659 \overline{) 197000} \\
 \underline{1659} \\
 31100 \\
 \underline{1659} \\
 14510 \\
 \underline{14931}
 \end{array}$$

$$\begin{array}{r}
 109.8 \\
 1414 \overline{) 1552500} \\
 \underline{1414} \\
 13800 \\
 \underline{12726} \\
 10740 \\
 \underline{9898} \\
 842
 \end{array}$$

$$\begin{array}{r}
 104.5 \\
 1331 \overline{) 1391000} \\
 \underline{1331} \\
 6000 \\
 \underline{5324} \\
 6760
 \end{array}$$

$$\begin{array}{r}
 109.27 \\
 1273 \overline{) 13910000} \\
 \underline{1273} \\
 11800 \\
 \underline{11457} \\
 3430 \\
 \underline{2546} \\
 8840
 \end{array}$$

$$\begin{array}{r}
 125 \\
 1414 \overline{) 18000} \\
 \underline{1414} \\
 3460 \\
 \underline{2828} \\
 6320
 \end{array}$$

$$\begin{array}{r}
 104.5 \\
 1485 \overline{) 1552500} \\
 \underline{1485} \\
 6800 \\
 \underline{5940} \\
 8600 \\
 \underline{7425} \\
 1175
 \end{array}$$

$$\begin{array}{r}
 134 \\
 172 \overline{) 23000} \\
 \underline{172} \\
 580 \\
 \underline{516} \\
 640 \\
 \underline{688}
 \end{array}$$

$$\begin{array}{r}
 1414 \\
 117.3 \overline{) 4242} \\
 \underline{4242}
 \end{array}$$

$$\begin{array}{r}
 109.2 \\
 147.2 \overline{) 1608000} \\
 \underline{1472} \\
 13600 \\
 \underline{13248} \\
 3520 \\
 \underline{3520}
 \end{array}$$

$$\begin{array}{r}
 148 \\
 13.5 \overline{) 740} \\
 \underline{740}
 \end{array}$$

$$148$$

$$\begin{array}{r}
 148 \\
 13 \overline{) 444} \\
 \underline{444}
 \end{array}$$

$$\begin{array}{r}
 1414 \\
 1 \overline{) 1414} \\
 \underline{1414}
 \end{array}$$

$$\begin{array}{r}
 147.2 \\
 147.2 \overline{) 13600} \\
 \underline{1472} \\
 13248 \\
 \underline{13248}
 \end{array}$$

$$\begin{array}{r}
 148 \\
 19.9 \overline{) 8084.2} \\
 \underline{199} \\
 8084.2
 \end{array}$$

$$100$$

$$\begin{array}{r}
 147.2 \\
 147.2 \overline{) 13600} \\
 \underline{1472} \\
 13600
 \end{array}$$

$$\begin{array}{r}
 1480 \\
 1480 \overline{) 1455000} \\
 \underline{1480} \\
 12300 \\
 \underline{11840} \\
 4600
 \end{array}$$

GNP

	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>63/64</u>	<u>64/65</u>	<u>65/66</u>	<u>66/67</u>
Net Income ^{Current} Price	1414	1480	1540	1720	1970	2020	
Land Tax + Deprec	<u>176</u>	<u>192</u>	<u>203</u>			<u>273</u>	
GNP	1590	1672	1743	1948	2136	2293	
Net Inc (48/49 price)	1273	1306	1331	1391	1493		
Net Inc (60/61 price)	1414	1455	1485	1553	1659	1577	
GNP (60/61 ")	1590					1790	
Deflator	100.0	101.7			119.0	128.0	

$$\begin{array}{r}
 92 \\
 106.25 \overline{) 97.7600} \\
 \underline{95625} \\
 21350
 \end{array}$$

$$\begin{array}{r}
 12.1 \\
 3 \\
 \hline
 363
 \end{array}$$

$$12.1$$

$$\begin{array}{r}
 60.95 \\
 30.475 \\
 \hline
 54855 \\
 57902588 \\
 \hline
 560 \\
 528 \\
 \hline
 320
 \end{array}$$

$$\begin{array}{r}
 19.85 \\
 7 \\
 \hline
 5
 \end{array}$$

$$\begin{array}{r}
 19.85 \\
 6.5 \\
 \hline
 9925 \\
 11910 \\
 \hline
 129.025
 \end{array}$$

$$\begin{array}{r}
 11.85 \\
 3 \\
 \hline
 3555
 \end{array}$$

$$\begin{array}{r}
 11.85 \\
 35 \\
 \hline
 1220
 \end{array}$$

$$\begin{array}{r}
 74.3 \\
 86.3 \\
 \hline
 2229 \\
 4458 \\
 444 \\
 \hline
 5944 \\
 641209
 \end{array}$$

$$\begin{array}{r}
 19.85 \\
 1.29 \\
 \hline
 2114
 \end{array}$$

$$\begin{array}{r}
 11.85 \\
 355 \\
 \hline
 1540
 \end{array}$$

	<u>1964/65</u>	<u>1965/66</u>
Agave	24.30	64.12
Mango & Feet	19.85	21.14
Small Ent	<u>11.85</u>	<u>12.50</u>
	106.25	97.76
Services	58.60	58.60
Total	164.60	156.36

$$\begin{array}{r}
 950 \\
 1646 \overline{) 1564000} \\
 \underline{14814} \\
 8260 \\
 \underline{8230} \\
 30
 \end{array}$$

164.6

$$\begin{array}{r}
 1659 \\
 95.1 \\
 \hline
 1659 \\
 8295 \\
 \hline
 14931 \\
 \hline
 15777.09
 \end{array}$$

Issues in Forthcoming Discussions with Ayub Khan and Shastri

1. The United States, the Bank and the Consortium cannot and will not choose as between Pakistan and India. They reject the premise that the two countries are irreconcilable and that choice is inevitable. They assert, on the contrary, that choice would be extremely damaging and perhaps even disastrous for both India and Pakistan, whatever choice was made, as well as for the Western World.
 - (a) If the choice would be made in favor of India, the threatened alliance with China of Pakistan could well become a reality. This alliance would have potential for sufficient political and military action against India to disrupt any program of economic development in India and possibly to destroy any genuinely stable Government in India. Furthermore, the sympathies of at least a number of other countries would be with Pakistan, despite this alignment with China. It is incorrect to argue that Pakistan's potential for making trouble for India, the United States and others, is too limited to be significant.
 - (b) Almost but not quite the same statements can be made with reference to a choice in favor of Pakistan. An India/China alliance is perhaps more difficult but it would be a complete mistake to consider it impossible. The idea that such an alignment may represent desirable policy is in the backs of the minds of many leading officials of the Government of India. The possibility that such an alignment

could be directed in the first instance against Pakistan would facilitate the growth of this idea.

2. In the long run, both India and Pakistan can gain from a stable accommodation between them which might alternately mature into a deep and a full-fledged economic and political collaboration. The greatest military and political threat to both is China, and the economic advantages of collaboration between the two are sizable, even in the short run. A collaboration which would permit both to maintain a reasonable level of defense against China without excessive drain on their resources would be possible if they were to cease using substantial parts of their defense forces either passively or actively against each other.
3. The advantages to the US, the Bank and the Consortium of an India/Pakistan collaboration are so great that there should be no hesitation in making clear to both that a substantially higher level of aid would be provided to both to help facilitate and in response to this collaboration simultaneously there should be no hesitation in indicating that maintenance of the recent level of aid would be difficult in the face of continued conflict.
4. More specifically, both ought to be asked to agree to an immediate reduction of the military forces assigned to opposing each other. In the Indian case for example, there ought to be agreement that the five divisions which in 1962/63 were assigned in this way, would be illuminated in whole or in large part or transferred to other assignments. This step in itself would contribute to a reduction in the existing tensions. The two should be asked also to begin immediately process of direct negotiation either starting with or looking toward the earliest possible

announcement on both sides of a long-run collaboration phase. This negotiation should exclude no issue between the two countries, but at the same time should not focus exclusively on Kashmir. The latter should be put in its real rather than its emotional place and an effort should be made alternately to devise some means of handling the problem. No one should be disturbed if negotiation of specific questions as that of the status of Kashmir should go on for years, provided that there is early statement of the basic collaboration or alliance and provided immediate steps are taken on the defense expenditure and defense deployment issues.

5. No deviation from this course should be made on urgency of the arguments sometimes made against it. One of these is that if the US and the Bank hold to this position both countries will turn increasingly to the Soviet Union. The answer here is that the Soviet Union cannot and probably would not undertake to provide both countries with the military and economic aid they require. In any case, if it did, it might do so only on a basis very much the same as the basis on which the US would do so. A second deviation sometimes urged is that in the near future the level of aid should be kept either above where it is or lower, not matter what India and Pakistan agree to do because their performances are in some respects not satisfactory and are for the future uncertain. This course of action would seem likely to be self-defeating.



Record Removal Notice



File Title Bernard R. Bell Files: Woods Correspondence - Correspondence		Barcode No. 1850786		
Document Date 9/14/1966	Document Type Memorandum			
Correspondents / Participants To: K. S. Sundara Rajan From: B. R. Bell				
Subject / Title Your Memorandum of September 7 to Mr. Cargill on Bell Mission Report				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. <table border="1"><tr><td>Withdrawn by Bertha F. Wilson</td><td>Date 17-May-16</td></tr></table>	Withdrawn by Bertha F. Wilson	Date 17-May-16
Withdrawn by Bertha F. Wilson	Date 17-May-16			



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

October 10, 1966

Personal and Confidential

DECLASSIFIED

MAY 17 2016

WBG ARCHIVES

Dear Bernie:

One thing I neglected to say to you before you left --I would hope that sometime before you leave Delhi you will be able to meet with Asoka Mehta and go over with him, in a general way, the minutes of our discussions of last spring. I would like to learn from you, in due course, about the progress being made in what I have always had in mind as a 24-months' program. I do not expect great progress in the period between our discussions and next February. However, I would like to reaffirm, through you, the objectives set out in the minutes and perhaps the best way to do that is for you--as my representative--to have such a meeting with the Minister for Planning.

When you meet with the members of the Consortium in Paris early next month and acquaint them with your general, although tentative and preliminary, reactions to the size and substance of the Fourth Five-Year Plan; I am sure they also will be interested in learning of the atmosphere respecting the implementation of last spring's discussions, which after all were the basis for the very large program credit which is well under way.

Warm personal regards.

and best wishes.

Sincerely,

George D. Woods

Mr. Bernard Bell
P. O. Box 416
New Delhi, India

Copy to Mr. Cargill

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



4, AVENUE D'ÉNA, PARIS 16^e

TELEPHONE : 553.25-10

TELEX : 27.029 PARIS

PRESS RELEASE
FOR IMMEDIATE PUBLICATION

SUBJECT: India Consortium Meeting

April 6, 1967

The Consortium of governments and institutions interested in development assistance to India met in Paris on April 4 - 6, 1967, under the chairmanship of the World Bank. The meeting was attended by representatives of the Governments of Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States. The International Monetary Fund sent observers.

A delegation representing the Government of India, led by Mr. S. Jagannathan, Secretary, Ministry of Finance, and also including Mr. A.L. Dias and Mr. B. Sivaraman, Secretaries in the Ministry of Food and Agriculture, was present during part of the meeting in order to describe India's plans and aid requirements for the fiscal year which started April 1, 1967. Consortium members welcomed the Indian representatives' report that the Government planned to pursue vigorously the new programme to increase food and other agricultural production by providing ample supplies of new high-yielding seed varieties, fertilizers, plant protection materials and equipment for the installation of wells and other irrigation facilities. They also welcomed indications that the family planning programme would continue to be given high priority, that there would be continued emphasis on export promotion, on measures to encourage private foreign investment in priority sectors in India and on efficiency in Indian industry in general. Subject to the availability of adequate resources, it was understood that the liberal import policies for the raw material and component requirements of priority industries will be continued.

During its discussions the Consortium concentrated mainly on short-term problems of food and the pressing need for quick-disbursing aid.

The Consortium agreed on the urgency of enabling India to contract for food imports without reducing the flow of resources for other priority purposes. New aid for food, fertilizer and related agricultural production materials as well as

aid in a form which releases cash for the purchase of food was indicated by Consortium members during the meeting. In addition to 4.3 million tons of foodgrains already shipped, the three million tons of additional foodgrains offered by the United States and 700,000 tons offered by Canada, the new aid is believed to be adequate to enable India to import about 10 million tons of foodgrains during 1967. It was also reported that some countries and institutions outside the Consortium were considering contributions of foodstuffs to help meet the Indian requirement. Together with adequate total non-project assistance, India's immediate import requirement of food should therefore be met without jeopardizing other essential imports.

In reviewing India's overall aid requirements for the fiscal year April 1, 1967 - March 31, 1968, the Consortium was of the opinion that for planning purposes a target of approximately \$1,300 million (including foodstuffs) for new aid to be provided in non-project form was appropriate. While most members will not be able to make aid pledges until budget and related decisions have been made in capitals, some members did indicate contributions toward this target. Consortium members also agreed that they would so concert their efforts with the Government of India that a substantial portion of the new aid will be in a form that can be utilized quickly.

The Consortium agreed to meet again in order to keep in close touch with economic development in India and to review progress toward the total aid target.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

April 7, 1967

INDIA CONSORTIUM

STATEMENT BY THE CHAIRMAN

(Afternoon session, April 4, 1967)

DECLASSIFIED

MAY 17 2016

WBG ARCHIVES

1. Before calling on Sir Alan Dudley to speak, I would like to make a few remarks which arise out of the morning's session. As you know India's economic policies have been the subject of considerable concern to the Consortium over the years, and there has been much discussion of them at previous meetings. You also know that about a year ago the Government of India sent Mr. Asoka Mehta, the Minister of Planning, to have discussions with Mr. Woods in Washington about the new policies which were being adopted to accelerate economic growth. You have all had a report of these discussions, and we also talked about these matters at the meeting last November.
2. From the latest Bank report, which you received a month ago, and from the statements this morning, it is clear that India has in fact taken the first steps to implement these new directions in policy and that we in the Bank are encouraged by the start that has been made, especially in agriculture.
3. I understood from our discussions at the last meeting in November that members of the Consortium endorsed the approach which the Bank has taken in its discussions with the Government of India. Therefore, I think there is no need to review these matters again in any detail. However, I might just repeat what I said last November that, as far as the Bank is concerned, it will continue to serve as Chairman of the Consortium only as long as it is satisfied that conditions are present which will make it highly probable that the rate of economic growth in India will be satisfactory. You will also recall that we believe these conditions must include (a) continued implementation of the new policies by the Government, (b) an adequate amount of external aid, for several years, to support these changes in policies, and (c) a form of aid which is appropriate to India's needs.
4. It has been obvious from the start that we could not expect the new policies to have an immediate effect and that it would take some time for them to result in any significant improvement in production or in the Indian balance of payments. It is also clear that if during the next decade India is to be able to reach the point where her own resources are more or less sufficient to cover fully the costs of growth, then the amount of aid that will be adequate for her needs will be very substantial and this aid will have to come largely from countries and institutions represented around this table.
5. The situation this year has been much aggravated by the serious shortages of food caused by the droughts.

6. But food aid is only part of the total aid which India requires in non-project form if import de-control and the associated policy measures are to be sustained and further expanded during the next year. In our judgement total non-project requirements of India, including food, for which firm new commitments are needed is an amount of about \$1.3 billion. This figure takes into account food that must be delivered in the second half of 1967 as well as support for an adequate level of import licencing of non-food items through the current Indian fiscal year. If we take into account the U.S. and Canadian offers of food aid, to which Mr. Jagannathan referred this morning, there remains something under \$1.1 billion.
7. Our estimate is broadly consistent with the Government of India's assessment of its needs. Within this total the Bank and India agree that there is a cash gap of some \$400 million that must be met by a form of assistance which is equivalent to free foreign exchange and which can therefore be used to buy food or other imports not financed by aid.
8. Action on food is particularly urgent, and I would suggest therefore that members of the Consortium give priority to pledges which will enable the rest of the Consortium to match the U.S. offer of 3 million tons of food. Unless orders for food are placed in the next few weeks, there is no hope of importing the 10 million tons, which now appear to be the bare minimum required for 1967.
9. Closely related to this, of course, is the question of debt relief. I believe Mr. Rostow will confirm that any debt relief which increases India's free foreign exchange resources will be regarded as part of the matching for the U.S. offer of food. It is also related to the \$400 million cash gap. I had hoped that by this time we would have made more progress in dealing with India's debt problems and future terms of aid. But progress has been slow, and it was with this in mind that I recommended in a letter I wrote to the heads of the delegations that we accede to the Indian request for a debt standstill.
10. As I explained this morning, the Indian request is for a straightforward deferment of obligations falling due in this fiscal year. I prefer not to use the word standstill for the present discussion because in fact the Bank is not in a position to help in that particular way. I shall talk instead of "action to ease the burden of debt", if that is not too cumbersome a circumlocution. When I talk about taking action to ease the burden of debt, I mean some action on all obligations, including principal and interest and regardless of the terms of the original debt contract. For this purpose it seems to me inappropriate to make exceptions as the whole point of the proposal is to buy time to consider which of these distinctions can be considered appropriate in dealing with the long-term problem. It is precisely because we have not been able to resolve issues of this nature that the standstill now appears to be necessary.
11. The Bank is prepared to do its full share to achieve the objectives of the proposal. Some of you know that for the past three or four years the Bank has so ordered its lending in India that its net investment has remained at a level of about \$525 million, and apart from minor fluctuations, it has been our practice to lend new money so that disbursements would be at approximately the same level as amortization payments received from India. This year there will fall due to the Bank principal payments of between \$50 and \$55 million and interest payments of about

\$30 million. We are proposing therefore to make a loan, or loans, which would be fully disbursed in the period of the next twelve months and would therefore have the effect of increasing the Bank's investment during the year to the full extent of this \$80-85 million. The terms of this lending would be as generous as we can make them. It would certainly have a grace period extending beyond the Fourth Plan, and its term would be 25 to 30 years; interest charges would be at 6%, or whatever our standard lending rate is at the time we make one of these loans. To achieve the objectives of this whole proposal, quick disbursement of the entire \$80-85 million is essential. Accordingly, Mr. Woods is prepared to recommend to the Executive Directors a form of loan which would result in very quick disbursements but which might be different from anything we have done before.

12. However, the Bank is prepared to take this action, which for us might have to be out of the ordinary, only as part of a general cooperative effort to meet the needs of the Indian situation in this coming year. For the Bank to take this action there are really two conditions which need to be fulfilled. The first is that there should be general action to meet the 1967/68 "cash" problem. When we come down to details it is possible that there will be some minor exceptions to a standstill, but they will have to be minor if the President of the Bank is to be in a position to make recommendations of the kind I have outlined. The second condition is that members are agreed that we should work toward some effective action to deal with the long-term debt and terms of aid problem. The standstill, or any other action of the kind that we are talking about, is solving no problem whatsoever except that it is buying a little time, as I said this morning. This is the only purpose of this proposal and it is only worthwhile doing if, in the time that we buy, adequate action is taken to deal with the long-term problem. Accordingly, I expect to be hearing from each of you what action, if any, you propose to take about the debt falling due this year, and I would also like to hear whether you agree that we should continue the intensive discussions which started in Washington two or three weeks ago with the view to coming up with some agreed proposal to deal with the long-term problem of India's debt. Once agreement is reached on these points I have some suggestions I want to make about how to proceed with the discussions on debt. One suggestion I have in mind is that it would be appropriate if the Bank did not provide the chairman of the group which is discussing this problem. But we can come to that after we have reached agreement that some action is necessary and will have to be taken during the next few months.

13. It will of course be clear that if we agree to a standstill or equivalent action it would meet the estimated cash gap in 1967/68, including whatever may be required for financing food imports. However, as we have already stated, India's total external assistance requirements for 1967/68 are considerably higher than the so-called cash gap. I realize that many governments and, for that matter, IDA, will not be in a position to make firm pledges at this meeting. Despite this, if proper economic policies are to be pursued, we must find some means to assure India that an adequate level of total assistance will become available in due course during the coming months. I therefore believe that during the next day or so one of our more important objectives must be to reach agreement on the amount of total non-project aid which the Consortium should aim to make available in 1967/68.

14. Finally, we will have to consider what we can add in the form of project aid.

15. These problems, the total non-project requirements, including food, the immediate necessity to finance food imports this year, the cash gap, the debt problem, project aid, are to a great extent closely and inextricably intertwined. Yet I think we must make some effort to consider them separately, while realizing their relationships, if we are to make progress at this meeting.

16. Now, I shall ask Sir Alan Dudley to speak.

CROSS REFERENCE SHEET

1MUNICATION: List of Correspondence brought down for the SECRET FILES
BY Mr. Bernard Bell - September 1968

DATED:

TO: Filed under INDIA - (SECRET FILES)
BELL MISSION

FROM:

FILED UNDER: INDIA - General (in date order)

SUMMARY:

LETTER - Dec.1,1964 - Escott Reid to Bell re Bell Mission

MEMORANDUM - May 28,1965 - Woods to Bell re Bell Report already
" - June 11,1965 - Bell to Knapp - Schedule for India * removed(in Op. Files.)

CABLES - June 14 and July 21,1965 - Woods to Bell & Wishart to Karass re
arrangements.

LETTER - Aug.30,1965 - Sheldon J.Segal, C.Taeber & S.M.Keeny of The Population Council
(The Rockefeller Institute, N.Y.) to Bell
report on family Planning.

LETTER (Draft) - Sept.20,1965 from Krishnmachari to Woods re Economic Policy

LETTER - Oct.25,1965 - Woods to J.R.D.Tata re general negotiations (TISCO project)
& Bell Mission

LETTER - Nov.19,1965 - Bell to Bhoothalingam (Sec. Min. of Finance) re Bell Reports

MEMORANDUM - Dec.17,1965 - Bell to Woods " " "

MEMORANDUM - June 1,1966 - Sundara Rajan to Woods - " " "

EXCERPT of Testimony of Under Secretary Thomas C. Mann before the House Committee
on Agriculture on Friday, Feb.25,1966

CABLE - 17.3.66 - Woods to Bell - re arrangements

LETTER - March 30,1966 - Lloyd N.Cutler (of Wilmer Cutler & Pickering, Washington D.C.)
to Woods - re tax and control policies in India)

MEMORANDUM - April 20,1966 - Bell to ~~Smith~~ Woods re the Cutler letter of March 30,'66

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BELL MISSION

FROM:

LED UNDER:

SUMMARY:

MEMORANDUM - March 24, 1965 - G.C.Wishart to Files - Mr. Woods' Visit to Germany
and France - March 13-17, 1965

CABLE - June 22, 1965 - DeLattre Bell to Intbafrad Washington D.C.

" June 28 "

" July 12 " " " " "

MEMORANDUM - July 26, 1965 - Conversation with Mr Henkel and Mr. G.A.Sonnekol
from Mr. Bell to -

LETTER - November 5, 1965 - from Mr. de Lattre to Mr. Bell

LETTER - February 28, 1966 - from Mr. Woods to the Hon. C.Subramaniam re Fertilizer

MEMORANDUM - May 31, 1966 - Mr. Bell to Mr. Woods - Revised Estimates of New
Non-Project Aid Commitments 1966-68

CABLE - June 10, 1966 - Woods to Dr. Ludger Westrick (Minister of Special Tasks)
Bonn

LETTER - June 30, 1966 - de Lattre to Woods

CABLE - July 21, 1966 - Pantanali to Woods (#45)

CABLE - July 22 - Woods to Chaudhuri (Draft)

" July 25, 1966 - Woods to Intbafrad, New Delhi (Draft)

" July 26, 1966 - Pantanali to Woods (#48)

LETTER - EXCERPT - Aug. 23, 1966 from John Lewis to -
(Minister Director)

LETTER - July 28, 1966 from MORT to Bell

MEMORANDUM - September 14, 1966 from Irving S.Friedman to Woods re conversation with
Mr. Townsend Hoopes.

contd. overleaf

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AIDE-MEMOIRE dated February 25, 1966 re India's Fertilizer needs (sent with Feb. 28,
to Mr. Subramaniam by Mr. Woods.

MEMORANDUM - April 28, 1966 from Sundara Rajan to Woods re Fertilizer Needs

LETTER - April 26, 1966 " Subramaniam to Woods (reply to Feb. 28 letter)
