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Mr. William M. Gilmartin

August 11, 1967

Bernard R. Bell

Two Draft Reports - India

As I have threatened several times, I am passing on to you two draft reports which grow out of the work of our October 1966 mission to India but which were not completed in time for reproduction along with the other volumes of the report of that mission: (1) Transport; (2) "Manpower, Education, and Training".

In the case of both of these reports I went over the first drafts rather carefully and the present drafts are revisions by the authors which, in the case of the Transport report, take into account some of the comments I made and also comments and suggestions made by people in the Transportation Division and, in the case of the Education report, presumably take into account comments I made plus some by John Crawford and also by Duncan Ballantine. Although I had hoped to, I have not had time to read the present drafts of either of the reports. In any case at this point I think you should decide whether and in what form and for what distribution either or both of these should be reproduced. I think there is useful material in both and especially in the Transport report and at least some limited reproduction would be worthwhile and useful for internal staff purposes even if there is no wider distribution.

BBell:emcc
BANK

Supreme Effort Needed, Gen. Draper Declares

To Ease India's Food and Population Crisis

FOR RELEASE ON DELIVERY
(Wednesday, September 6, 1967
12:00 P.M., D.S.T.)

WASHINGTON, D. C.

"India must mobilize both its manpower and its national resources in a supreme effort if it is to control its ever-increasing population and conquer the famine that is sapping its vitals", General William H. Draper, Jr., National Chairman of the Population Crisis Committee, declared today in an address at a luncheon at the Madison Hotel here.

General Draper, a former U. S. Ambassador, Under Secretary of the Army, and Chairman of President Eisenhower's Committee to Study the Foreign Aid Program, has just returned from a month's fact-finding trip to Asia.

"Korea, Singapore and Pakistan are all making slow but steady progress in their governmentally sponsored programs," General Draper said. "But India faces unbelievable difficulties."

"More than a decade ago", the General pointed out, "Prime Minister Nehru initiated India's policy rstricting population growth. The Family Planning Association of India, founded by Lady Rama Rau and Margaret Sanger, provided the initial inspiration and impetus. During the past two years, very high priority has been given to family planning by Indira Ghandi, the present Prime Minister. Her present Minister of Health and Family Planning, Dr. S. Chandrasekhar, is a dynamic and dedicated advocate of family planning."

Excerpts from General Draper's remarks follow:

"India's population is probably 550 million people, rather than the 500 million officially estimated. The rate of population growth is almost surely 3% each year, rather than the 2½% reported. So this troubled country, already beset with famine, must find food for nearly a million and a half additional Indians each month. Only by drastic action to bring its present high birth rates back into some sort of balance with today's lowered death rates can India possibly feed, house or educate its rapidly increasing flood of human beings.

"People are starving in India today. Only the many millions of tons of Food for Peace grain from the United States have prevented a major catastrophe during the past two years of drought.

"Fortunately, the monsoon this year is favorable - although floods in some areas are taking their reverse toll. The Indian Government expects a record 1967 grain crop, if only the monsoon rains are favorable the rest of this month. But even the hoped for grain crop of between 90 and 100 million tons will still require large grain imports from the United States and other Western countries next year to maintain even a minimum feeding level.

"Many thousands of tons of Mexican wheat for seed, and many improved rice varieties from the Rice Institute in the Philippines give promise of greatly increased yields on many thousands of Indian Farms. Fertilizer production and fertilizer imports are being greatly increased. But this war for survival - India's fight to grow enough food to feed itself - can only be won if the present birth rate of over 4% is cut in half. This means setting up family planning facilities in nearly 600,000 villages throughout rural India. It means making birth control pills available on a large scale to supplement the IUD and the condom.

"So far India's greatest outside benefactors in the effort to increase food supply have been the Rockefeller Foundation and the Ford Foundation. In family planning, the Ford Foundation has also provided funds and advisors.

"Our own government can give India substantial assistance in its difficult fight to control its own population. Fortunately, both the Senate and the House of Representatives have stepped up by many millions of dollars the authorization for voluntary family planning programs to foreign countries. Our AID program can soon go into high gear in helping India's fight to limit population growth."

General Draper, who in addition to heading the Population Crisis Committee is Honorary Vice Chairman of Planned Parenthood/World Population, paid tribute to Senator J. William Fulbright, Chairman of the Senate Foreign Relations Committee, and Dr. Thomas Morgan, Chairman of the House Committee on Foreign Affairs, for their strong support of family planning amendments to the recent Aid Legislation.

In spite of the difficulties outlined, General Draper concluded on an optimistic note:

"I was encouraged to see the high priority which the Indian Government gives its food and population problems. Only recently the Prime Minister and her Minister of Health and Family Planning met with the Chief Ministers of the Indian states, all of whom pledged their strongest efforts on a priority basis, to curb India's runaway population. As the Chief Minister of Andhra Pradesh observed, 'There is no resistance from any quarter including the poorest people to family planning. Therefore the obligation is on the government to provide the necessary facilities'.

"Other countries with much the same culture and conditions as India are making progress in these areas. India today has the understanding, motivation, and the will power to avert mass starvation. With the help of her many friends and well wishers, India can surely succeed."

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

BRB

OFFICE MEMORANDUM

TO: Mr. Bernard R. Bell

DATE: November 20, 1967

FROM: E.K. Hawkins EKH.

SUBJECT: The Use of Models in Indian Planning

I understand that you have already seen a previous draft of Mr. Elsaas' study of Indian planning models. We propose to issue a revised and edited version of this study as a blue cover economic report. This new version will contain an expanded concluding chapter, a copy of which is attached.

Mr. de Vries has suggested that I send a copy of this chapter to you before the full report is circulated amongst the members of the Economics Committee. In drawing up this chapter, Mr. Elsaas has, in effect, commented on certain aspects of Indian planning. We would like your views as to whether you see any possible reaction from such comments on the planning procedures of a member country, bearing in mind that blue cover reports are sent to the Executive Directors.

EKHawkins/w

cc: Mr. de Vries

DRAFT
A. Elsaas
November 17, 1967

The Use of Models in Indian Planning

We have tried to give a summary of some of the economic models which have been used for the discussion of development problems in India. Some of them, such as the Mahalanobis model, gave a very broad framework for a discussion of alternatives, and the framework which was ultimately chosen was subsequently filled out with more detailed plans and forecasts. Later on, more detailed multisectoral models were used. Some were "demonstration models" for the discussion of principles or methodology (R. Frisch, J.A. Sandee), while others were designed for planning purposes, as with the consistency model of A. Manne and the balanced growth model by Ashok Rudra. Some of the models were prepared in cooperation with Indian Planning authorities, while others were contributions from observers not directly engaged in the planning process. While the official plan at one stage was directly related to the framework of a specific economic model, the situation was less clear later on. Long term forecasts, expressing a specific development strategy and covering 15 to 20 years, are prepared and published in course of the planning process, and the more detailed five year plans which are ultimately adopted are framed with a view to these long term plans. Some elements of model-building were extensively used in the preparation of the plans but the development plans as adopted by the political authorities were not derived from a master-model for the Indian economy. The plan was supported by substantial work along the lines of model building, and it is perhaps in the final analysis a question of semantics whether the plan could be said to be based on a model or not. Some of the material which was used in the preparation of the most recent of the five-year plans, The Fourth Plan, covering the 5 years up to 1970-71, may be illuminating. It included:

(a) A 77 sector table of interindustry transactions with estimates for 1964/65, 1970/71 and 1975/76 (the latter in two alternatives). This table has 10 subsectors for agriculture. The forecasts include changes due to estimated technological change and targets for import-substitution. There are 5 sectors for investment goods, and a relatively detailed breakdown of the complex machinery industries is planned.

(b) Material balances for 31 industrial and 5 major agricultural commodities.

(c) Expenditure elasticities derived from family budgets for 29 consumer goods, and for rural and urban population.

(d) Forecasts and programs for the government sector, indluding the growth of tax revenues due to "automatism" in the budget and required additional taxation.

The plan is supported by this material, and also by estimates of the capital required for an increase in the capacity of the different sectors, although apparently not in the form of a complete capital-output matrix with specifications of the investment required by each sector according to the 5 sectors supplying investment goods. This is one of the shortcomings for the purpose of a simultaneous analyses of alternatives. It has, however, to be remembered that this material is used mainly for the discussion of a five-year plan, i.e., a plan with a relatively short time horizon, although detailed estimates for 10 years are also given for some fields. Within a period of five years quite a substantial amount of the investments would be for completion of projects started before the plan, and for projects started during the plan, but to be completed after the plan. The capital-output relations may be satisfactory for a relatively general discussion of long-term perspectives, while detailed knowledge of projects under implementation, their completion time, the requirements for their future operations, and the capacities which might become critical in the immediate future would preoccupy the medium-term planning. Problems of this nature might call for some kind of dynamic system analyses; such methods are being studied and have been applied within limited fields. Even a detailed planning model, in the sense that it has many sectors and, therefore, also a high degree of complexity, is not designed for a selection or discussion of the specific projects which would be the final content of a development plan. The model can be used for a discussion of the implications of different projects, or combination of projects, for the economy as a whole, both in the implementation period and when they subsequently come into operation. Special techniques and when they subsequently come into operation. Special techniques[1/] have been developed for such analyses, and they have to some extent been used in India. But the plan is initially not built up on a project basis and specific sector studies with project analyses, preparation and requirement estimates are in this respect more of a distinct disciple. In India these are the responsibility of the different specialized agencies and committees in the planning system, centrally and at a state level. The relatively large framework we have referred to above is used more for the purpose of coordination and as a consistency check of the different sector plans and major projects, but also to some extent for analytical purposes. It could perhaps be said that the planning has been supported on guided by the use of models, that the long-term perspectives presented by the Perspective Planning Division relies heavily on models, while the substance of the five-year plan finally adopted is the outcome of the numerous separate studies whose consistency has been checked on the framework of the model. // We have above tried to describe the use of models in Indian planning. The next question is what this use of models represent from a methodological point of view. The main question is whether the use of models in the planning process is such that it can ensure an efficient allocation of resources, or if the scope is limited only to consistency.

It has then to be recalled that the use of models is linked to three stages in the planning, namely:

(a) the perspective plan
(b) the 5-year plan frame
(c) the elaboration and implementation of the 5-year plan

The third stage represents a continuous process. The main function is to initiate and draw up a more detailed investment program for the coming five years in accordance with the long-term strategy and priorities which have already been adopted, to undertake current revisions, and to iron out differences of opinion with respect to specific priorities, project selection, timing and financing.

1/ Professor R. Frisch: "A Method of Working Out a Macroeconomic Plan Frame with Particular Reference to the Evaluation of Development Projects, Foreign Trade and Employment, "mimeographed memorandum from the Institute of Economics at the University of Oslo, and memorandum No.16 to the National Planning Committee, Cairo.

The planners are checking the consistency of separate plans, programs and their modifications within the previously mentioned framework, taking into account inter-industry dependencies, investment and import requirements for a large number of activities and commodities. The model framework is used both to locate potential bottlenecks and gaps and also for a discussion of how such a gap should be closed. The alternatives are often either to increase current imports of the commodity, or to expand domestic capacity through additional investments which may in turn require imports, directly or via their demand on other domestic sectors where new bottlenecks and similar problems may develop in turn. This is a recurrent problem on which decisions have to be made.

The procedure outlined above can ensure consistency in the planning, but it can be argued that it does not necessarily result in an efficient or optimal allocation of resources. The decisions are based on a step-wise use of the model in a chain of sequential and often irreversible decisions. The choices open at each cross-road are restricted by previous decisions, and a bottleneck under discussion may be the result of previous decisions which should not have been made in the first place, if the consequences had been foreseen. The administrative process has, of course, to be based on a chain of decisions, and a step-wise analyses. However, a sequential use of a planning model for an <u>isolated</u> discussion of particular problems at each crossroad may not lead to the most effective combination of choices. The final plan as it emerges from such a procedure may not be optimal. The procedure has not led to the most effective combination of decisions, quite simply because they have not been analyzed in combination, but in a step-wise fashion. This is one of the arguments which are used in favor of <u>advance</u> and <u>simultaneous</u> analyses of the important alternatives on which a decision has ultimately to be made. This is, of course, quite a tall order, which in practice would require an analytical model based on up-to-date information to be available at certain intervals for combined analyses of the different problems under consideration.

An optimizing model of this type should permit not only a consistent, but also an efficient allocation of resources for the achievement of the general policy targets.

The development and use of such a model raises, of course, many practical problems, but it may not even seem evident, in principle, that much could be gained from such a procedure in the Indian context. A frequent argument in India is that the country needs in the long run, and even in the relatively short run, an expansion of production capacity in nearly every conceivable field. The problem in investment allocation is not so much what to do, as when to do it, and often within a time-span of 2-3 years. Everything is needed in the long run, and accepting the main policy targets there is, according to this argument, not a very large scope for alternatives nor a large margin for error in the investment allocation at any point of time. The plans are based on calculated requirements for steel, cement, fertilizers, tractors, automobiles and bicycles 10-15 years hence. The broad implications and an indicative time-phasing has been discussed, and accepting these targets there is not so many ways to proceed. There are problems of project efficiency, timing and coordination in order to ensure a relatively balanced and smooth expansion in the future, but the realistic alternatives are so limited that it would not make much of a difference. From this point of view there would not be much to gain from a discussion of alternatives, by an optimizing model or otherwise, since they are so limited. The essential problem is to ensure consistency in the planning, and model techniques are used for this purpose.

Convincing as these arguments may appear, they nevertheless leave some doubts. It seems strange that it should be such a narrow range for alternatives. One would tend to believe that there would be many different possibilities for long-term development, which are all of them satisfactory in a general sense, while they are different in other respects, e.g., with respect to the composition of consumption, investment requirements and so on. The Indian planners often seem to imply that there is not much of a choice to talk about, when the long-term targets are taken for granted.

This is probably the crucial point: the long-term targets. A supporter of the optimizing school would be opposed to an a priori determination of rigid long-term targets. The planning and the economic analyses should continuously be concerned about the implications of alternatives within a general formulation of long-term policy objectives. He would argue that there are probably many possibilities within such a general policy objective, some of which are better than others in some respects perhaps less preferable with respect to other. It should be the primary responsibility of the planners to explore these alternatives. A premature decision on specific long-term targets may prevent the decision makers from selecting other strategies which they might have found preferable, if they had been presented with them in the first place. Secondly, the different ways of achieving more precisely defined targets should also be analyzed. Thirdly, while also such a procedure must result in more precisely defined targets and time-phasing, they should nevertheless be subject to frequent reconsideration in order to ensure manoeuvreability in the economic policy under changing circumstances. New decisions should be made as the actual situation changes, and the optimizing model should be used for an analytical "tour de horizon" for decision-making purposes.

Indian planning is certainly forward looking, but the optimizing school would probably claim that it suffers from too rigid "targetism". The planning becomes firmly locked to specific targets at quite an early stage, and looks backward from these targets in order to decide what should be done in the immediate future. The danger is that the targets are adopted without sufficient analyses of the implications of feasible alternatives. An optimizing procedure would reduce this danger by directing attention towards alternative possibilities, and the implications of different choices for relevant problems such as investment and import requirements ("costs and benefits"). The argument in favor of such a procedure rests upon the assumption that there are some "realistic" alternatives to choose between in the first place, and that their technical and economic feasibility should be explored.

It is not certain that there is any wide spectrum of "realistic" alternatives within the technically possible extremes, neither is it certain that the alternatives that may exist, would represent much of a difference in terms of e.g., foreign exchange requirements. What is "realistic" is also a matter of judgment or taste with respect to what is acceptable, desirable and politically feasible. This is evident if, e.g., the composition of prigate consumption is an issue. The alternatives would have implications for relative prices, tax policies, investment allocation and priorities in the economic development in general; the extremes might imply important differences in the general development of the society. The planner on the administrative level cannot decide what is "realistic" as a policy target in this respect. What he can do, and should be encouraged to do, is to provide indicative analyses of the technical and economic feasibility of such alternatives, their differences in costs and so on. This may mean that he should discuss alternatives which are or have been controversial on the political scene, but not subject to anything resembling a systematic investigation. Such an exploration is an important element in planning, a planning which has, however, also the ultimate objective of creating a general understanding and support for adopted policy objectives, and to ensure continuity in their implementation.

These are factors which do not always encourage a search for alternatives to adopted policies. The result may be that both the planners and the decision-makers are deprived of the alternatives and choices that they should be entitled to, and economic development may incur costs, which are not warranted in relation to the gains. The use of an impessive model framework in the discussion of chosen policies, may unintentionally create the feeling that there are no feasible alternatives, quite simply because no alternative has been explored along similar lines. These are problems which the planners are familiar with. They present a dilemma because the use of planning models for a discussion of a broad spectrum of alternatives raise many difficult questions compared with the more limited use of such models in analyzing the consequences and requirements of given policy targets. The models used in Indian planning have been developed gradually; they have been established as auxiliary tools for the planning process, they are not perfect, and it is perhaps more for practical reasons and out of a recognition of the limitations of many of the data and assumptions, that a "bolder" approach has not been chosen. It is possible that it will be found practical in the future to bring together the mass of data and estimates on which the plan rests in a large formalized model which takes care of the complexity of a large number of simultaneous relationships, eventually through the use of more detailed "sub-models" for specific fields, linked to a more simple general framework. The use of models in planning may logically point in this direction, although there are many obstacles in the way.

Another point which should be mentioned is that economic development in India is to a large extent a question of improvement in technique, by adopting already known methods especially in agriculture. The present low level of efficiency represents a vast development potential, a kind of hidden economic resource. Utilization of this potential requires capital both in agriculture and related sectors (supplying sectors, processing sectors, transportation, storage facilities, marketing). The rate at which the better techniques can be absorbed is also a question of organization and incentives. The planning models which have so far been used can in principle cope with the physical requirements, both in terms of current inputs, capital and intersectoral interrelationships, but not with the host of "other factors". This is not a serious problem when such models are used in more developed countries, because the organizational set-up is already adapted to the existing advanced techniques. A climate has been created in which a gradual improvement in techniques should be relatively easily absorbed. There may still be quite a distance between the "average" and the "best", indicating that what is normal is not very good, and that there are hidden resources to exploit, but it is not felt as an urgent problem for economic policy to promote or "impose" revolutionary changes in the techniques used by a vast number of people in their daily work. The incentive mechanism and likely responses are well known, and it is not so difficult to find out what to do or how to proceed in order to influence the developments in a certain direction. All this is different in countries where a large gap has been permitted to develop between the techniques people are using, and the better techniques it is felt that they should use. A corresponding gap exists on the institutional side. This gap has also to be closed; much has been done in this field in India, but organization may still be a "scarce factor" in an ambitious program for change, both on the administrative side and within the rural society. These are problems that Indian planners are taking into account in the development plans, but they cannot be dealt with in an explicit way in the planning models.

The organizational limitations are taken into account as constraints, e.g., in the form of upper boundaries for certain of the target variables. But these boundaries are to a certain extent arbitrary, if for no other reason that it is possible to solve organizational problems and expand organizational capacity to a varying degree, depending on priorities and efforts. It should not be excluded that some kind of quantitative formulation of the problems can be found, but so far the problem of organization is not covered in an explicit way in planning models.

The models we have discussed above are planning models looking into the future, and they are to a large extent concerned with resource allocation. We have, on the other hand, models for the analysis of past developments. Such models have been used to a very limited extent in India. This may seem surprising, as the ability of a model to explain and analyze past experience might be considered as a test of its reliability in planning for the future. It has, however, to be observed that there are few continuous statistical series with the type of information which has more recently been established for planning purposes. The Indian planner is, therefore, in the awkward situation that he cannot test the methods he uses on data from the past. Some attempts have been made in analyzing past developments by means of models, but these models are then in important respects quite different from the planning models, exactly because the available data are more limited. Another observation is that short-term models for the analysis of recent developments and the likely prospects for the immediate future have not been established. The current policy making is rendered difficult by insufficient up-to-date information and the absence of a systmmatic short-term foreasting. This is in contrast to the situation in the developed countries, where there is a streng emphasis on up-to-date information with an intense preoccupation with short-term trends and a substantial use of short-term models for forecasting and policy-making purposes, where indicative 4-5 year plans are called long-term plans, and where the possible course of development over 15-20 years has not been a subject for serious discussion by economists and policy-makers. We shall not try to theorize about this difference in emphasis. It seems evident that the discussion of long-term perspectives and the use of 5-year plans as a basis for economic policy is very relevant in India. But good maps and reliable instruments for short-term navigation are important also on a voyage towards more distant goals. The shortcomings in this field are surprising considering all the statistics that are collected in India, and the deep interest the authorities have in the economic developments.

The recent development in India has in several respects not been encouraging, and it is natural that some observers have been inclined to blame the past approach in economic planning for this. An observer of any economy will certainly find things he feels qualified to disagree with, especially when the development has not met the expectations, and India is no exception. We will not voice any opinion on this. What we have tried to do is to give a survey of the discussion and analyses of development problems and perspectives as they have been described by economists by means of economic models. These models have the advantage that they express ideas and relationships relatively precisely, and in quantitative terms. The models are not perfect, their authors would probably be the first to admit that. If they are imperfect, this may be part of their realism in describing our present insight in development problems. The models represent consistent analyses where the assumptions of the line of thought they represent can be brought out clearly. Any planning model of the kind we have discussed represents, nevertheless, only a framework, and the economic development depends as much on the content which the implementation of the plan gives to this framework. Faulty plumbing can create problems in a well-designed house, while good plumbing cannot improve on structural faults. This is self-evident, but appears nevertheless to be worth mentioning with respect to development models. They are concerned with the ambitious taks of finding a good design for economic development, but they are neither a substitute nor an alternative to the other functions in planning.

Mr. E. K. Hawkins November 27, 1967

Bernard R. Bell (Signed) Bernard R. Bell

Draft of Concluding Chapter of Mr. Elsaas' Study of Indian Planning Models

I am not quite sure what question you are addressing to me in your memorandum of November 20. I see no problem in principle in comments on planning processes in any member country. We make or should make comments at any time in economic reports which go to the Executive Directors.

If your question is whether, in my judgement, the comments are liable to be offensive, then I believe the answer is no provided that they are not inaccurate or misleading.

If your question is whether, in my judgement, the comments represent in a fair and accurate way the strengths and weaknesses of Indian planning, then I must confess that I am not entirely sure. I believe that I understand what Mr. Elsaas is saying and that, in general, I agree. However, I believe the statement needs to be clarified. I have some difficulty in following the argument and the course of the comment despite the fact that I have some familiarity with Indian planning and with some other models used. I suspect that those who have less familiarity may find the discussion rather unclear and, perhaps, even mystifying.

It is a long time since I read the earlier draft of the entire report but my recollection is that its substance had considerable merit but that rewriting by someone more at home in English would improve it considerably.

BBell:emcc
BANK

M E M O R A N D U M

November 30, 1967

TO: DISTRIBUTION BELOW

FROM: Clarence S. Gulick, Assistant Director
Office of Development Policy
USAID/New Delhi

SUBJECT: Economic Indicators

Attached is the latest issue of the Economic Indicators for your information.

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P R I C E S

	FYs			FY 1966/67		1967/68						% Increase over	
	1964/65	1965/66	1966/67	1st Qr	2nd Qr	1st Qr	2nd Qr	July	Aug.	Sept.	Oct.	Year ago	Last Month
I. Wholesale Price Index (1952/53 = 100)													
1. All Commodities Seasonally adj.)	152.7	165.1	191.3	182.2	186.1	210.0	215.9	216.4	214.6	216.7	219.0	16.3	1.1
a. Food articles of which:	159.9	168.8	199.9	185.2	196.9	230.6	257.4	254.5	257.7	260.0	259.4	30.1	-0.2
Foodgrains	144.0	150.5	178.4	161.8	198.8	209.5	239.9	238.7	241.9	240.6	238.3	36.5	-1.0
b. Industrial Raw Materials	162.7	189.1	228.7	220.4	231.9	234.0	220.4	231.4	217.0	212.7	215.6	- 3.1	+1.4
c. Manufactures	137.3	149.2	163.0	159.5	161.3	167.6	165.4	166.3	165.2	164.8	165.7	+ 2.2	+0.5
II. Consumer Price Index													
a. Working Class (1949=100)	157	169	191	180	190	206	214	213	215	214		12.0	-0.5
b. Middle Class (1960=100)	124	132	146	140	145	155						11.3	2.6

11/30/1967

INDUSTRIAL INDICATORS

	FYs			FY 1966/67			FY 1967/68					% increase over	
	1964/65	1965/66	1966/67	1st Qr	IV Qr	March	1st Qr	May	June	July	Aug.	Year Ago	Last Month
I. Production Index (1956 = 100)													
Overall Index, Crude	180.3	187.4	192.6	188.4	194.6	199.2	192.5	194.3	193.9	196.2	198.5	2.4	1.2
Seasonally adj.	180.3	187.4	192.6	191.6	194.5	197.0	190.8	192.1	199.1	192.1	195.7	2.4	1.9
Manufacturing	176.1	181.3	185.7	181.7	187.2	191.5	181.2	182.4	186.1	189.2	191.2	1.9	1.1
of which:													
Cotton Textiles	124.1	118.8	119.9	121.2	111.0	117.7	116.6	119.8	118.4	123.8	120.9	-6.8	-2.3
Jute Textiles	122.5	122.4	108.2	99.6	112.3	120.3	113.8	117.1	113.9	109.3	105.8	9.1	-1.2
Food Manufacturing	139.3	148.0	137.2	151.2	127.6	104.8	113.5	104.4	143.2	125.3	140.9	0.5	12.4
Other Manufacturing	242.8	255.8	273.1	257.8	287.0	298.0	270.9	276.2	272.9	281.8	283.8	5.4	0.7
II. Production (Monthly avg. '000 MT)													
Finished steel	362	369	370	369	382	412		317					
Steel Ingots	503	544	564	592	566	586		534					
Cement	808	902	922	871	922	997	966	1012	953				
III. Inventories (end of period; in '000)													
Jute Manf. (Hessian & sacking) (MT)	90	97	104	95	104	104	96	94	96				
Cotton, raw (bales)	1856	1772	1211	1899	1211	1211	1427	1415	1427				
Cotton Yarn (MT)	15	11	8	9	8	8	11	10	11				
Cotton Cloth ('000 Meters)	267	206	175	180	175	175		168					
Cement	143	133	197	177	197	197	236	213	236				
IV. Transport (Monthly avg. in '000)													
Railway Wagons Loaded	943	1011	1000	999	1036	1061	982	996	945	960	774		

FINANCIAL INDICATORS

	FYs			FY 1966/67		FY 1967/68						% increase over	
	1964/65	1965/66	1966/67	Ist Qr	II Qr	Ist Qr	II Qr	July	Aug.	Sept.	Oct.	Year Ago	Last Month
I. Bank Credit, Total (end of period; Rs. Cr.)	2034	2288	2692	2271	2242	2631	2533	2547	2521	2533	2565	14.4	1.3
II. Variations in Factors Affecting Money Supply a/ (during period; Rs. Cr.)													
Net Bank Credit to Govt.	+268	+488	+313	+211	- 82	+201	+ 13	+ 43	- 41	+ 11	+ 61		
Net Bank Credit to Private Sector	+ 56	+ 79	+206	-100	-114	-160	-132	- 98	- 44	+ 10	- 5		
Other Factors	+ 4	-118	- 92	+ 30	+ 35	- 35	+ 9	- 12	+ 33	- 12	- 30		
Total Money Supply (end of period; Rs. Cr.)													
Unadjusted	4080	4529	4950	4613	4459	4962	4853	4896	4844	4853	4879	8.2	0.5
Seasonally adjusted	3979	4417	4833	4549	4597	4893	5003	4941	4928	5003	5009	8.2	0.1
III. Reserve Bank Lending to State Governments (end of period; Rs. Cr.)	74	211	71	156	37	55	55	73	63	55	121		

a/ Revised data. Net bank credit to government and to private sector data adjusted for PL 480 and PL 665 deposits with commercial banks. The impact of revaluation of foreign assets of RBI due to June 1966 devaluation included in "Other Factors".

11/30/1967

EXTERNAL SECTOR

	FYs			FY 1966/67		FY 1967/68						% increase over	
	1964/65	1965/66	1966/67	1st Qr	4th Qr	1st Qr	May	June	July	Aug.	Sept.	Year Ago	Last Month
I. EXPORTS (monthly avg., $ million equiv.)													
Total Exports	143	141	129	123	137	120	108	129	136	119	149	14.6	25.2
Tea	21	18	18	9	18	7	5	8	24	21			
Jute Manufactures	29	32	28	27	26	27	25	28	33	26			
II. IMPORTS (monthly avg. $ million equiv.)													
Total Imports	237	244	226	212	237	234	255	218	226	201	228	-10.2	13.4
Cereals	50	55	68	62	56	58	70	57	61				
Machinery & Transport Equipment	84	86	63	68	70	60	63	61	55				
III. FOREIGN EXCHANGE RESERVES (end of period, $ million)													
Gold	281	243	243	243	243	243	243	243	243	243	243		
Exchange	243	382	395	532	395	372	391	372	350	346	336		
Gross IMF Position	419	535	394	345	394	391	391	391	39[illegible]	387			
IV. U.S. AID UTILIZATION ($ million)													
Dollar Loan Disbursements (DLF & AID)	371	329	246	58	83	54	35	27	29	27	27		
V. P.L. 480 ('000 MT)													
Grain Imports	5688	6769	7556	2544	1313	1764	694	662	742				

STATISTICAL NOTES

1. General Note: The columns showing percentage increase over year ago/last month relate to the latest month reported under each head in FY 1967/68.

2. PRICES: Sources: (a) Economic Advisor to GOI; Index Numbers of Wholesale Prices in India (weekly); (b) Central Statistical Organization: Monthly Abstract of Statistics.

   The indices of foodgrains, food articles and all commodities have an under-estimation bias because of inclusion of controlled price qutations. The number of controlled price quotations (especially of foodgrains) have been steadily increasing since October, 1963.

3. INDUSTRIAL INDICATORS:

   Production Index - Source: Monthly Production of Selected Industries in India. The index is based on production figures for 201 items, which accounted for 90 percent of income originating from factory establishments in CY 1956. The weights are based on the income contribution by industrial groups in CY 1956. The production coverage varies from industry to industry but covers most of the large industrial establishments employing more than 50 persons.

   Production/Inventories - Source: Monthly publications or press releases from Industry Associations.

4. FINANCIAL INDICATORS - Source: Reserve Bank of India Bulletin. The data relate to last Friday of the year/quarter/month. The figures under "Variations in Factors Affecting Money Supply" have been adjusted for PL 480 transfers of State Bank of India.

   Government Finance: The figures do not exactly tally with those reported in the budget document.

5. EXTERNAL SECTOR: Export/Import data are based on customs information. The export data is fairly reliable as the preliminary figures involve minor revisions later. The import data is often subject to considerable revisions due to partial inclusion of Government imports. Thus, PL 480 imports are not fully covered. FYs 1964/65 and 1965/66 are revised data, while figures for 1966/67 and 1967/68 are subject to revision.

   The U.S. Aid Utilization and PL 480 arrivals figures are supplied by the Controller's Office, AID, and Agricultural Attache's Office respectively.

M E M O R A N D U M

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October 31, 1967

FROM: Clarence S. Gulick, Assistant Director
Office of Development Policy
USAID/New Delhi

SUBJECT: Economic Indicators

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PRICES

	FYs 1964/65	FYs 1965/66	FYs 1966/67	FY 1966/67 1st Qr	FY 1966/67 2nd Qr	1967/68 1st Qr	1967/68 2nd Qr	1967/68 June	1967/68 July	1967/68 Aug.	1967/68 Sept.	% Increase over Year Ago	% Increase over Last Month
I. Wholesale Price Index (1952/53 = 100)													
1. All Commodities Seasonally adj.	152.7	165.1	191.2	182.2	186.1	210.0	215.8	213.4	216.3	214.6	216.6	17.3	0.9
a. Food articles	159.9	168.8	199.8	185.2	196.9	230.4	257.3	240.6	254.3	257.7	259.9	32.7	0.9
of which: Foodgrains	144.0	150.5	178.4	161.8	198.8	208.5	239.9	220.5	237.1	241.9	240.6	40.4	-0.5
b. Industrial Raw Materials	162.7	189.1	228.7	220.4	231.9	233.9	220.4	233.2	231.4	217.0	212.7	- 5.3	-1.9
c. Manufactures	137.3	149.2	163.0	159.5	161.3	167.6	165.4	167.4	166.3	165.2	164.8	20.8	-0.2
II. Consumer Price Index													
a. Working Class (1949=100)	157	169	191	180	190	206		211	213			13.3	0.9
b. Middle Class (1960=100)	124	132	145	140	145	155		158				11.3	2.6

10/31/67

INDUSTRIAL INDICATORS

	FYs			FY 1966/67			FY 1967/68					% Increase over	
	1964/65	1965/66	1966/67	I Qr.	IV Qr.	March	I Qr.	April	May	June	July	Year ago	Last Month
I. Production Index (1956 = 100)													
Overall Index, Crude	180.3	187.4	192.6	188.4	194.6	199.2	192.5	183.8	194.3	199.5	199.3	3.3	- 0.1
Seasonally adj.	180.3	187.4	192.6	191.6	194.5	197.0	190.8	186.2	192.1	194.2	195.1	333	0.5
Manufacturing	176.1	181.3	185.7	181.7	187.2	191.5	181.2	174.6	182.4	186.6	192.3	3.0	3.0
Of which:													
Cotton Textiles	124.1	118.8	119.9	121.2	111.0	117.7	116.6	111.5	119.8	118.4	123.8	-2.2	4.6
Jute Textiles	122.5	122.4	105.2	99.6	112.3	120.3	113.8	110.5	117.1	113.9	109.3	1.5	-4.0
Food Manufacturing	139.3	148.0	137.2	151.2	127.6	104.8	113.5	93.0	104.4	143.2	149.4	14.5	4.3
Other Manufacturing	242.8	255.8	273.1	257.8	287.0	298.0	270.9	270.3	276.2	272.9	280.2	3.2	2.7
II. Production (Monthly avg. '000 MT)													
Finished Steel	362	369	370	369	382	412		331	317				
Steel Ingots	503	544	564	592	566	586		531	534				
Cement	808	902	922	871	935	995		930	1003				
III. Inventories (end of period; in '000)													
Jute Manf. (Hessian & Sacking) (MT)	90	97	104	95	104	104	96	98	94	96			
Cotton, raw (bales)	1856	1772	1211	1899	1211	1211		1379	1415				
Cotton Yarn (MT)	15	11	8	9	8	8		10	10				
Cotton Cloth ('000 Meters)	267	206	175	180	175	175		169	168				
Cement	143	133	197	177	197	197		192	208				
IV. Transport (Monthly avg. in '000)													
Railway Wagons Loaded	943	1011	1000	999	1036	1061		1005	996	945	960		

10/31/67

FINANCIAL INDICATORS

	FYs 1964/65	FYs 1965/66	FYs 1966/67	FY 1966/67 I Qr	FY 1966/67 II Qr	FY 1967/68 I Qr	FY 1967/68 II Qr	FY 1967/68 July	FY 1967/68 Aug.	FY 1967/68 Sept.	% Increase Over Year ago	% Increase Over Last Month
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Net Bank Credit to Govt.	+268	+488	+313	+211	-82	+201	+ 11	+ 43	- 44	+ 12		
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Other Factors	+ 4	-118	- 92	+ 30	+ 35	- 35	+ 15	- 12	+ 13	+ 14		
Total Money Supply (end of period; Rs. Cr.)												
Unadjusted	4080	4529	4956	4601	4913	4962	4459	4895	4834	4844	8.6	0.2
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a/Revised data. Net bank credit to government and to private sector data adjusted for PL 480 and PL 665 deposits with commercial banks. The impact of revaluation of foreign assets of RBI due to June '66 devaluation included in "Other Factors".

10/31/67

EXTERNAL SECTOR

	FYs			FY 1966/67		FY 1967/68						% increase over	
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Jute Manufactures	29	32	28	27	26	27	29	25	28	33			
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Gross IMF Position	419	535	394	345	394	391	394	391	391	391	387		
IV. U.S. AID UTILIZATION ($ million)													
Dollar Loan Disbursements (DLF & AID)	321	328	246	58	83	54	21	6	27	29	27		
V. P.L. 480 ('000 MT)													
Grain Imports	5688	6769	7556	2544	1313	1764	408	694	662	742			

10/31/67

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   The U.S. Aid Utilization and PL 480 arrivals figures are supplied by the Controller's Office, AID, and Agricultural Attache's Office respectively.

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BRB

January 18, 1968

Mr. Bernard R. Bell
Deputy Director
Projects Department
Room 340
The World Bank
1818 H Street, N.W.
Washington, D. C. 20433

Dear Bernie:

As I said by telephone, I think you will be interested to see my reply to H. L. Verma on the question of whether the Indian Railways make any net contribution to general revenues.

Sincerely,

Ralph J. Watkins

RJW/emc

January 11, 1968

Mr. H. L. Verma
1, Godfrey Mansions
S.E. Railway Colony
Garden Reach
Calcutta 43, INDIA

Dear H. L.:

Following my reply of December 26, 1967, to your letter of December 14th, we have now had an opportunity to review your revised "Supplementary Observations:.

We concede, of course, your right to insert what is in effect a dissent. By the same token, we claim the right to have inserted after your dissent our comment thereon. Before coming, however, to the revisions in language of our comment, there is a logical point to make which we believe calls for some rearrangement of your materials.

The logical point is that your discussion of the Calcutta State Transport Corporation and the role of Transport Cooperatives relates to Gabe Roth's treatment of those topics in his chapter and not to the summary sections which your observations follow. You will see that the Calcutta State Transport Corporation is not even mentioned in the Summary, and the only reference there to transport cooperatives is entirely facutal and non-controversial. The reader, therefore, will be puzzled to know what you are dissenting from, or what are the views and conclusions agaihst which you offer "room for another view" and "a somewhat different set of conclusions". We feel that it would be not only puzzling to thereader but distinctly unfair to the staff member to submit a dissent before the reader has had a chance to see what the staff member has had to say on the subject in dissent.

There are two alternative solutions. The first is to shift your paragraphs on the Calcutta State Transport Corporation and on the Role of Transport Cooperatives to the report proper, to follow Gabe Roth's chapter in which he discussed these topics and expressed the views and conclusions to which you are dissenting.

The second solution is to repeat in the preceding summary Roth's full treatment of the two topics as presented in his chapter.

Of the two solutions, we think the first would be the better one as it would not clutter up the summary with material unnecessary to its purposes. In any case, I hope you will see the point of logic and fairness involved and will adopt one or the other of the two indicatdd solutions.

On that assumption, we will forego any comment on your dissent on those two topics and confine our comments to the much more important question of Incidence of Tax Payments.

Our revised comments are attached. We have not numbered the paragraphs since your choice of a solution to the point of logic and fairness will affect the numbering.

Please keep me informed on the disposition of the matter by JTG, and likewise on the publication program.

Sincerely yours,

Ralph J. Watkins

RJW/emc

January 16, 1968

Mr. Warren C. Baum
Assistant Director—Transportation
The World Bank
Room 410
1818 H Street, N.W.
Washington, D.C. 24033

Dear Warren:

Enclosed are copies of my latest—and hopefully the last—exchange with H. L. Verma concerning his "Supplementary Observations".

I had very helpful discussions of the matter with Wilfried Thalwitz and Gabriel Roth (before his departure for Pakistan on the 9th); and I received from Martin Karcher from Colmar a very perceptive and helpful letter of comment on Verma's letter and enclosure of December 14th. See the enclosed copy of my letter of thanks to Martin.

I am indebted particularly to Wilfried Thalwitz for urging a completely impersonal response.

I have sent copies of the exchange to my former Bank colleagues on the Survey, and copies also to Hans Adler as a matter of possible interest to him.

Sincerely yours,

Ralph J. Watkins

RJW/emc

COMMENT ON THE 'SUPPLEMENTARY OBSERVATIONS"*

The "Supplementary Observations" relate to three topics dealt with in the chapter on the road transport industry, namely: the Calcutta State Transport Corporation; the role of transport cooperatives; and incidence of tax payments by the railways, the road transport industry, and other industries. As for the first two topics, the reader is referred to what was said concerning them in Chapter V in the report. The observations on the incidence of tax payments, however, call for some comment.

Incidence of Tax Payments

It is important to make clear that the discussion and analysis under this heading in the "Supplementary Observations" relates only to the question of the respective contributions to the general revenues of the Indian Government by the Indian Railways and the road transport industry. That discussion impinges in no way on the analysis in the Eastern Region Survey of the incidence of indirect taxation on the incremental costs of rail and road transport; and the comparative data as presented in Chapter VIII of the Report stand as the authentic figures developed by the Survey in accordance with the Guidelines to reflect the incidence of indirect taxes on those incremental costs as a percentage of the respective economic costs, as follows:

	Length of Haul	
Rail transport	100 kms.	1,000 kms.
Diesel Traction - bulk	2.5%	6.6%
Diesel Traction - smalls	2.0%	7.4%
Electric traction	0.5%	1.4%
Road transport		
8-Ton truck	19.3%	22.8%

*By Dr. Ralph J. Watkins after consultation with his former colleagues chiefly involved, Messrs. Gabriel J. Roth and Martin Karcher.

Contribution to General Revenues

In Chapter V on the Road Transport Industry it is stated that the industry through its tax payments covers the full cost of road construction and maintenance and in addition makes a net contribution to general revenues through taxation of approximately 22 percent of its turnover; and that by contrast the Indian Railways make no net contribution to the general revenues. The analysis in the "Supplementary Observations" seeks to demonstrate that the Indian Railways did make in 1965-66 a positive contribution of 3.7 percent of their turnover. That result was achieved through the following calculations for the year 1965-66:

		In Millions of Rupees
1. Tax contributions of Indian Railways		730
2. Dividend payments by Indian Railways to general revenues		1,040
Sub-total of contributions		1,770
3. Less interest at 12% on 2/3 of the Indian Railways' Capital-at-charge		1,948
4. Deficit or negative contribution		- 178
5. Offset by expenditures by the Indian Railways for medical, health, and welfare services to the staff and for the education of children of the staff		313
6. Balance		135
7. Plus expenditures for:		
a) Railway Protection Force	93	
b) Passenger amenities	43	
Sub-total		136
8. Net assumed contribution to general revenues		271
9. Total earnings of Indian Railways		7,240
10. Percentage ratio of (8) to (9)		3.7%

The foregoing analysis rests on several assumptions which must be called in question. These are the assumption that interest should be computed on only two-thirds of Capital-at-charge; the assumption that fringe benefits paid to the Railway's staff may be construed as a contribution to general revenues; and the assumption that expenditures for the Railway Protection Force and for passenger amenities may similarly be construed as contributions to general revenues.

If Capital-at-charge is properly defined as an accounting category which represents at least approximately the funds borrowed from the Government, then it would appear there is no warrant for using as a base for interest calculations anything less than 100 percent of Capital-at-charge. It is stated in the "Observations" that the use of two-thirds of Capital-at-charge was "following the ad hoc procedure adopted in the Survey", but the only reference to the subject in the Survey is the statement in Chapter V and in the Summary that, "even if" the 12 percent interest rate is applied to only two-thirds of the Capital-at-charge, the amount would be in excess of the total of dividends and taxes paid by the railways, as can be seen from line 4 of the above tabulation. That "even if" statement did not imply acceptance of the proposition or adoption of any procedure.

The question involved here is a complex one, and it is evident from the efforts of others over the past several years that definitive results that can be accepted generally have eluded the search. If the calculation must be made, then the full reported Capital-at-charge is the safer base, since there is no clear justification for either decreasing or increasing that base.

Interest at 12 percent on the full base as it is stated in the "Observations" would amount to Rs. 2,922 millions in contrast to Rs. 1,948 million on the base of two-thirds of Capital-at-charge.

It is customary to consider fringe benefits to employees as part of the necessary wage costs, and they were so considered in the Eastern Region Survey. The Rs. 313 million in such benefits paid by the Indian Railways in 1965-66 must be considered as part of the labor costs in attracting and retaining the better personnel which their complex operations require. Labor costs can not be construed as contributions to the general revenues.

Similarly, the Indian Railways' expenditures of Rs. 93 million for the Railway Protection Force and Rs. 43 million for passenger amenities are considered to be necessary costs essential to the operation of the Railways, the one as essential to the security of passengers and property and the other as essential to the improvement of service to the Railways' clientele. If they are necessary costs they cannot be construed as contributions to the general revenues; if they were not necessary costs, it can be assumed they would not have been incurred by the Indian Railways.

Passing comment is called for at this point concerning the third from the last sentence in paragraph 4.161, reading "In respect of other transport services, especially road transport, the cost of such facilities as law and order, traffic police, housing and medical facilities and the like, are borne by the State, and is a charge on general revenues." The chief highway specialist on the Eastern Region Survey uncovered no housing costs so borne and relating to road transport; notes that State expenditures for law and order and for medical services are for the populace at large and not specifically directed at road transport; that the railways certainly could not operate without those same general (non-railway) law and order forces; and that traffic police outside the cities of the region were non-existent.

One further and minor point must be made. The tabulation of taxes paid by the Indian Railways in paragraph 4.163, includes what is apparently the full excise duty on diesel oil of Rs. 162 million without deduction of the accounting price adjustment required by the Survey's Guidelines and which procedure was followed in computing the net contribution of road transport. The accounting price adjustment on HSD oil amounts to approximately 28 percent of the excise tax. If the Rs. 162 million was in fact the full excise duty, then it should be reduced by 28 percent, or by Rs. 45 million.

In paragraph 4.166 of the "Observations," it is concluded that the income taxes (direct taxes) assumed in Chapter V to be paid by the road transport industry are too high. Given the nature of the available data, that may be true, but even if the much lower figures cited there are accepted, they would have no significant effect on the cost comparisons since the income tax payments assumed account for only 11 percent of the total indirect and direct tax burden of the road transport industry. This small item, therefore, can be dismissed as having no bearing of consequence either way on the issue of the comparative net contribution to general revenues by rail transport and road transport. Rejection of the item entirely—clearly not justified—would still leave the road transport industry's contribution to general revenues in excess of 20 percent of its turnover.

It is now possible to summarize this critique concerning the figures taken from the 'Observations" by setting up a similar tabulation to that presented above but through substitution of the figures arrived at in the critique. The tabulation follows:

		In Millions of Rupees
a) Tax contribution by Indian Railways	730	
Less apparent error in HSD oil excise tax	45	
Net tax contribution		685
b) Dividend payments by Indian Railways		1,040

Tabulation continued-	In Millions of Rupees
Sub-total of contributions	1,725
c) Less interest at 12% on Indian Railways Capital-at-charge	2,922
d) Deficit or negative contribution	1,197

It will be noted it is still true that "even if" interest at 12 percent is computed on only two-thirds of Capital-at-charge, the interest charge exceeds the tax and dividend contributions; substituting the interest figure of Rs. 1,948 million from the earlier tabulation for the Rs. 2,922 million tax figure above, would yield a deficit of Rs. 223 million.

It seems clear that the record shows a negative contribution to general revenues by the Indian Railways. This is not said in derogation of the Indian Railways, for it must be noted that the position is not unique among the world's railway systems and indeed that negative contributions are much more common than positive ones. Moreover, as pointed out in Chapter V and in paragraph 4.44 of the Summary: "The railways did of course contribute to the economy in other ways; they subsidised the carriage of coal over long distances to assist the relocation of industry; they helped exports by moving cargoes at special rates; they carried almost all their passengers at fares that were quite unrelated to the pressure of demand. But their direct contribution to public funds does not appear to have been a positive one."

Fo'м No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date Feb. 28/68

NAME	ROOM NO.
~~Mr. Bell~~	340

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

REMARKS

From BENJAMIN B. KING

Mr. I. P. M. Cargill

February 28, 1968

Benjamin B. King

India - Consortium Meeting

At a meeting with the Projects Department on the difficulties of doing business with India, we raised the question of having the Indian Government's representatives speak at the consortium meeting on agriculture and transportation. It was my impression, first, that we would ask the Indians to speak to particular points raised by us and, secondly, that a preliminary draft of these points would be prepared by the Projects Department. As to the second of these, Mr. Waide reports that Mr. Bell has the contrary impression.

BBKing:gg

cc. Messrs. Goodman
Votaw (Paris)
Bell
Waide

SRC
SURVEYS & RESEARCH CORPORATION
1030 FIFTEENTH STREET, N.W., WASHINGTON, D.C. 20005 TELEPHONE: 296-1935 CABLE: SURVCORP

March 4, 1968

Mr. Bernard R. Bell
Deputy Director
Projects Department, Room 340
The World Bank
1818 H Street, N. W.
Washington, D. C. 20433

Dear Bernie:

You'll see from the enclosure that H. L. Verma accepted my letter of January 11th and my "Comments" for inclusion in the report—on the question of whether the Indian Railways make any contribution to the general revenues in comparison with the road transport contribution of around 22 percent of their turnover in addition to covering the total cost of road construction and maintenance.

Sincerely,

Ralph

Ralph J. Watkins

RJW/emc

1, Godfrey Mansion,
S.E.Railway Colony,
Garden Reach,
Calcutta - 43.

D.O.No.ERTS/68/1.
Dt. February 1, 1968.

My dear Krishnan,

Please find enclosed herewith a copy of Dr.Ralph J.Watkin's D.O.letter dated 15th January,1968, together with its enclosure entitled "Comments on the Supplementary Observations". I received this letter last evening, and am hastening to despatch it to you together with the enclosure in order that the required action may be taken in time before the release of the final draft of the Report for general circulation.

2. In his above quoted letter, Dr.Watkins has made two points, namely,

(i) that since full implications of Mr.Roth's observations on Calcutta State Transport Corporation and the Transport Co-operatives have not been mentioned in Chapter 4 of Volume I, the detailed observations of the Director might puzzle the readers; and that observations on these topics may be shifted to some proper place in Volume IV of the Report; and

(ii) that his "comment" on Supplementary Observations be inserted in Volume I immediately following the Director's observations, and be listed in the contents.

These are perfectly valid requests, and I have no objection to accept them. I am sure, it would involve some extra work at your end in re-arranging the material in Volumes I and IV. But I am equally confident that you will not spare any effort in meeting the wishes of Dr.Watkins in this respect. This slight re-arrangement of material is likely to improve the presentation of the Report.

3. Accordingly, I would request you to kindly make the following alterations/re-arrangement of paragraphs in Volume I and IV :

(a) <u>Volume I</u> (Summary and Recommendations)

(i) In para 4.145 delete the last sentence "It is intended ... ... to the general revenues" and substitute the following:

..2

" Some further background information on issues like the losses suffered by the Calcutta State Transport Corporation, the role of Transport Co-operatives, and the Incidence of "tax" contribution of transport modes to the general revenues have already been dealt with in Chapter 23 of Volume IV of the Report. It may serve here to reiterate the observations regarding the incidence of "tax" contribution of railways and road transport to the general revenue."

ok

ok (ii) Delete paras 4.146 to 4.159;

ok (iii) Re-number paras 4.160 to 4.167 as paras 4.146 to 4.153;

ok (iv) Introduce Dr.Watkin's "Comment" immediately after my "Supplementary Observations", numbering the paras of this "Comment" from 4.154 onward;

ok (v) List this "Comment" in the Contents List of the Volume I immediately after the "Observations".

(b) <u>Volume IV</u> (Highways & Highway Transport Industry)

ok (i) Introduce the complete text of my "Supplementary Observations" including all the three items (Calcutta State Transport Corporation, Transport Co-operatives and "Incidence" of Tax Contribution) as Chapter 23 of Volume IV, ensuring that the revised text of Incidence of "Tax" contribution as appearing in "Supplementary Observations" of Volume I finds its place in this Chapter.

ok (iii) In the same Chapter, after my "Supplementary Observations", introduce Dr.Watkin's "Comments" and number its paragraphs in continuation.

4. Since I will be away from India for sometime in connection with my training abroad, kindly advise Dr.Watkins of the action taken in this respect. You may also intimate him about the programme regarding publication of the Report.

5. I feel very sorry for giving you this trouble. But it cannot be helped since the whole work in connection with the final printing and disposal of the Eastern Region Transport Survey Report has been entrusted to the care of the Joint Technical Group, Planning Commission.

With warm personal regards and all best wishes,

DA:As above.

Yours sincerely,

Sd/-

(H. L. Verma)

Shri K.N.Krishnan,
Director,Rail Co-ordination, &
Chairman, Joint Technical Group,
Planning Commission,
Ministry of Railways,
RAIL BHAVAN, NEW DELHI - 1.

Copy to:

Dr.Ralph J.Watkins,
Surveys & Research Corporation,
1030 Fifteenth Street, N.W., Washington,D.C.20005,

for information, in reference to his D.O.letter dated January 15, 1968.

(H. L. Verma) 1/2/68.

Record Removal Notice

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File Title	Barcode No.
Bernard R. Bell Files: India General - Correspondence	1850797

Document Date	Document Type
3/8/1968	Board Paper

Correspondents / Participants
From: The President

Subject / Title
India - Participation in Indian Debt Relief Action

Exception(s)
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Additional Comments

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Document Date 3/20/1968	**Document Type** Speech	

Correspondents / Participants
From: K. S. Sundara, Executive Director for India

Subject / Title
Some Thoughts on the Indian Economy

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.

Withdrawn by	**Date**
Bertha F. Wilson	17-May-16

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IND 68-8

FROM: The Secretary

March 27, 1968

INDIA CONSORTIUM: QUARTERLY REPORT ON THE UTILIZATION OF AID

A report on the utilization of consortium financial assistance to India, covering the quarter ending December 31, 1967 is attached. This report, prepared by the Asia Department, follows the format approved at the consortium meeting in March 1964. The information presented in Tables A-1 and A-2 of the report relates to aid pledged during the Third Plan period (April 1, 1961 - March 31, 1966). Tables A-3, A-4 and the agreements described in Part B relate to aid since the end of the Third Plan.

Members receiving this report are asked to notify this office immediately of any errors or omissions.

Members are also reminded that their reports for the quarter ending March 31, 1968 will be due no later than May 10, 1968.

Distribution:

Executive Directors for:

Austria	Italy
Belgium	Japan
Canada	Netherlands
France	United Kingdom
Germany	United States

Embassy of Japan
Managing Director, IMF

Director, Asia Department

For information:

President
President's Council
Executive Vice President (IFC)
Executive Director for India
Department Heads (Other)
Resident Representative, India
European Office
Development Assistance Committee, OECD
President, Asian Development Bank

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I N D I A C O N S O R T I U M

QUARTERLY REPORT

ON THE

UTILIZATION OF AID

(October 1 - December 31, 1967)

Asia Department
March 25, 1968

CONTENTS AND TABLES

PART A

THE VALUE OF AGREEMENTS SIGNED, ORDERS PLACED AND DISBURSEMENTS AGAINST CONSORTIUM PLEDGES

Table A-1 summarizes agreements signed, orders placed and amounts disbursed against each consortium member's pledge of aid in support of the Indian Third Five Year Plan.

Table A-2 presents a detailed breakdown of orders placed and disbursements as of December 31, 1967.

Tables A-3 and A-4 summarize agreements signed, orders placed, and disbursements against aid offered by consortium members since March 31, 1966.

A comparison with IND 68-1, which was circulated on January 8, 1968 indicates that during the October/December period agreements have been signed for an additional $198 million, orders were placed for $283 million and disbursements were $271 million. Aid offered since March 31, 1966 accounted for $230 million of the orders and $182 of the disbursements. In other words, even though at the beginning of the quarter there were in Third Plan aid agreements $341 million against which no orders had been placed, only $53 million of the $283 million of new orders during the quarter were placed against them; and only $89 million of the $271 million disbursed during the quarter were made against the amount of $881 million of Third Plan aid that was undisbursed at the beginning of the quarter. For the last four quarters, both the volume of order placements and disbursements made were greater than the volume of agreements signed. Against the $1,155 million of non-project aid signed since March 31, 1966, there were at the end of the quarter $823 million of orders placed and $508 million of disbursements. At the October to December order placement rate of about $215 million for non-project aid, the $322 million of non-project aid against which no orders had been placed at the end of the quarter would be fully utilized in slightly more than four months.

The table below summarizes the value of these items as reported for the present quarter and the 10 preceding quarters (US $ million):

Quarter Ending	Agreements Signed	Orders Placed	Disbursements
December 31, 1967	198	283	271
September 30, 1967	144	262	266
June 30, 1967	178	234	197
March 31, 1967	84	165	249
December 31, 1966	207	222	214
September 30, 1966	506	207	159
June 30, 1966	136	134	188
March 31, 1966	72	128	211
December 31, 1965	135	124	229
September 30, 1965	109	317	249
June 30, 1965	509	183	220

TABLE A-1

SUMMARY OF THIRD PLAN AID TO INDIA:
PLEDGES, AGREEMENTS SIGNED, ORDERS PLACED AND AMOUNTS
DISBURSED, BY CONSORTIUM MEMBERS, AS OF DECEMBER 31, 1967

(US $ Million)

Members	Pledges	Amounts for which agreements have been signed	Value of orders placed	Amount dis-bursed	Amount undis-bursed[a/]
Total, all pledges 1961/62-1965/66	5,397.9[b/]	4,614.5	4,321.1	3,820.3	794.2
Austria	17.9	17.9	17.2	16.1	1.8
Belgium	24.0	24.0	22.5	10.3	13.7
Canada	173.5	115.4[b/]	105.6	95.3	20.1
France	120.0	120.0	101.4	75.1	44.9
Germany	644.5	644.3	601.2	547.9	96.4
Italy	170.0	170.8	144.8	24.7	146.1
Japan	290.0	290.0	286.8	225.2	64.8
Netherlands	44.0	44.0	44.0	40.2	3.8
United Kingdom[c/]	444.0	444.0	437.3	380.5	63.5
United States	2,285.0[d/]	1,768.3	1,676.8	1,608.1	160.2
IBRD & IDA	1,185.0	975.8[e/]	883.5	796.9	178.7

a/ Amount for which agreements have been signed less amount disbursed.
b/ Authorizations reported by Canada are substantially higher and this entry is being reviewed by India and Canada. Present indications are that this figure could be adjusted upwards to make it comparable to amounts described as "commitments" by other members of the consortium.
c/ In order to maintain a consistent set of figures, all U.K. aid figures have been converted at the new rate of $2.40 per pound sterling. As of September 30, 1967 the U.K. consortium aid status at the former exchange rate was as follows (all figures in US $ million): Third Plan aid - 518.0 pledged, 518.0 signed, 506.1 value of orders placed, 435.6 amount disbursed; Non-project aid since the end of the Third Plan period - 142.8 signed, 107.8 value of orders placed, 100.0 amount disbursed; there was no Project Aid signed since the end of the Third Plan.
d/ May be adjusted to reflect difference of approximately $500 million between original pledges and amount for which agreements have been signed.
e/ Net of cancellations.

Source: Government of India.

TABLE A-2

DETAILS OF CONSORTIUM ASSISTANCE DURING THE THIRD PLAN: VALUE OF ORDERS PLACED AND AMOUNTS DISBURSED UNDER AID AGREEMENTS WITH CONSORTIUM MEMBERS, AS OF DECEMBER 31, 1967

(US $ Million)

Member and Agreement	Amount of Agreement	Orders Placed	Disburse-ments
Grand Total	4,614.5	4,321.1	3,820.3
Austria	17.9	17.2	16.1
1962/63 Capital goods	5.0	5.0	4.7
1963/64 Capital goods	7.0	7.0	6.9
1964/65 Capital goods and commodities	0.9	0.9	0.9
1965/66 Capital goods	4.0	3.7	3.6
Suppliers credit	1.0	0.6	-
Belgium	24.0	22.5	10.3[a]
1962/63 Suppliers credit	10.0	10.0	10.0
1963/64 Suppliers credit	10.0	10.0	0.3
1965/66 Suppliers credit	4.0	2.5	-
Canada	115.4	105.6	95.3
Loans	36.4	33.8	31.9
1961/63 R.P.S. Hydro project	7.4	7.2	7.1
Indian Aluminium Co.-Expansion I	0.9	0.9	0.9
Diesel Locos-Railways	7.1	7.1	7.1
Binani Zinc Smelter	1.5	1.5	1.5
Indian Aluminium Co.-Expansion II	0.8	0.7	0.7
Wind Tunnel project	3.9	3.7	3.2
Amco Furnace, Durgapur Alloy Steel project	1.8	1.8	1.6
1963/64 Kotah Hydro project	7.4	5.3	4.4
1964/65 Candu Atomic Power project	0.6[b]	0.6	0.6
1965/66 Diesel Locos-Calcutta Port	2.0	2.0	1.5
Candu Atomic Power project	3.0[b]	3.0	3.0
Grants	79.0	71.8	63.4
1961/63	35.4	35.4	33.5
1963/64	16.1	13.0	11.9
1964/65	15.9	12.1	8.8
1965/66	11.6	11.3	9.2

(continued)

Member and Agreement	Amount of Agreement	Orders Placed	Disburse-ments
France	120.0	101.4	75.1
1961/63 First and Second credit	50.0	44.9[c/]	44.9[d/]
IFC credit	10.0	0.2	0.2
1963/64 Third credit	20.0	20.0	20.0[e/]
1964/65 Fourth credit	20.0	20.0	10.0[e/]
1965/66 Fifth credit	20.0	16.3	-
Germany	644.3	601.2	547.9
1961/62 Rourkela refinancing (DM 230 Million) and two balance of payments credits (DM 270 million)	125.0	125.0	125.0
1962/63 Rourkela (DM 85 million) and maintenance imports for Indo-German firms (DM 100 million)	46.3	46.3	46.3
Rourkela services and maintenance	14.0	14.0	11.1
ICICI	5.0	4.8	4.8
IFC	6.2	6.0	5.8
NSIC	1.3	1.2	0.9
Projects, infrastructure, and commodities credits	66.1	66.1	66.1
Rourkela expansion	100.0	100.0	86.7
1963/64 Rourkela refinancing	15.4	15.4	15.4
Commodities	10.0	10.0	10.0
Continuing projects-I	10.0	9.5	7.4
Alloy Steel Plant	15.0	15.0	13.8
Rourkela expansion	3.5	3.5	-
Commodities	5.9	5.9	5.0
Down payment for ships	7.0	7.0	7.0
ICICI	2.5	2.4	2.3
NSIC	1.2	1.2	0.5
Suppliers credit for ships	29.0	29.0	29.0
1964/65 Rourkela refinancing	22.5	22.5	22.5
Commodities	13.8	13.8	13.8
Continuing Projects-II	10.0[f/]	10.0	6.9
Neyveli Mining Scheme	2.5	2.5	2.2
Sawang Coal Washery	1.6	1.6	0.9
MISL electric arc furnace	3.3	3.3	1.7
Railways	4.5	4.5	3.6
TELCO	1.8	1.5	1.3
Projects	1.3	1.3	-
IFC	3.8	2.6	2.0

(continued)

Member and Agreement	Amount of Agreement	Orders Placed	Disburse-ments
ICICI	1.2	0.2	0.2
NSIC	1.2	1.0	0.1
Suppliers credit for ships	20.5	20.5	20.5
Suppliers credit	7.0	5.9	2.0
1965/66 Rourkela refinancing	23.4	23.4	23.4
Commodities	15.0	12.0	8.2
New projects	1.8g/	-	-
Railways	5.7	4.7	-
Rourkela	2.5	-	-
IFC	5.0	1.4	1.2
ICICI	5.0	0.3	0.3
NSIC	2.5	-	-
Suppliers credit	25.0	5.9	-
Italy	170.8	144.8	24.7
1962/63 ENI credit for petroleum projects	45.0	28.0	16.7a/
Montecatini credit for Madras Aluminium	8.8	8.8	8.0
1963/64 Suppliers credit	45.0	45.0	-
1964/65 Suppliers credit	36.0	36.0	-
1965/66 Suppliers credit	36.0	27.0	-
Japan	290.0	286.8	225.2
1961/63 Second credit for capital goods	95.0	95.0	94.7
Suppliers credit for textile machinery	10.0	10.0	10.0
1963/64 Third credit	65.0	61.9	57.2
1964/65 Fourth credit	60.0	60.0	35.3
1965/66 Fifth credit	60.0	59.9	28.0
Netherlands	44.0	44.0	40.2
1962/63 General purpose credit	7.2	7.2	7.2
Export credit	3.8	3.8	3.8
1963/64 General purpose credit	7.2	7.2	7.2
Export credit	3.8	3.8	3.8
1964/65 General purpose credit	7.2	7.2	7.2
Export credit	3.8	3.8	3.8
1965/66 General purpose credit	7.2	7.2	7.2
Export credit	3.8	3.8	-

(continued)

Member and Agreement	Amount of Agreement	Orders Placed	Disbursements
United Kingdom[h]	444.0[i]	437.3	380.5
1961/63 Credit (1961)	72.0	72.0	72.0
First and second general credits (1961)	36.0	36.0	36.0
First general credit (1962)	24.0	24.0	24.0
Durgapur expansion credit (1962)	52.8	52.8	52.8
Credit (1962)	31.2	30.0	24.5
Second general credit (1962)	12.0	12.0	12.0
1963/64 Steel purchase (1963)	8.4	8.4	8.3
General credit (1963)	24.0	24.0	24.0
Kipping loan (1963)	9.6	9.6	5.8
First general credit (1964)	12.0	12.0	12.0
Bhopal HE Project (1964)	6.0	6.0	5.9
First general credit (1964)	12.0	12.0	7.1
1964/65 Second general credit (1964)	24.0	24.0	24.0
Second credit (1964) Oil India	3.6	3.6	2.8
Third credit (1964) (Capital goods for private sector)	3.7	2.6	0.9
Fourth credit (1964) Components for British-oriented industries	2.4	1.7	0.7
Fifth credit (1964) (Singareni)	3.0	2.9	2.3
Sixth credit (1964) (Turbines for Power Station)	7.7	7.7	4.0
Second credit (1964) (Bhopal)	4.8	4.8	4.0
Third general credit (1964) (Kipping II)	9.6	9.6	4.5
First general credit (1965)	12.0	12.0	11.6
Credit (1965)	1.2	1.2	0.3
1965/66 Second and Third general credits (1965)	36.0	36.0	36.0
Kipping Loan III	9.6	9.6	6.4
Food Emergency Loan (1966)	14.4	14.4	13.3
Bhopal (1966)	11.6	8.0	3.2
Sindri (1966)	0.4	0.4	-

(continued)

Member and Agreement		Amount of Agreement	Orders Placed	Disburse-ments
United States		1,768.3	1,676.8	1,608.1
Export-Import Bank		187.3	185.5	178.8
1961/63	Air India-I	4.1	4.1	4.1
	Orient Paper Mills	18.5	18.5	18.5
	Air India-II	8.1	8.1	8.1
	East Indian Hotels	0.7	0.7	0.7
	Capital Goods III	25.0	25.0	25.0
	Union Carbide	7.6	7.3	7.0
	Diesel Locomotive Works I	19.0	19.0	19.0
	Hindustan Aluminium II	5.0	5.0	5.0
	Bharat Forge	3.9	3.8	3.6
1963/64	Coromandel Fertilizers	27.0	27.0	26.5
	Capital goods IV	25.0	24.0	20.1
	Mysore Acetate & Chemicals	2.1	2.1	2.1
	Chemicals & Plastics	3.2	3.1	3.1
1964/65	Diesel Locomotive Works II	17.0	17.0	17.0
	Hindustan Aluminium III	11.0	11.0	10.6
	Central Pulp Mills	6.8	6.5	6.1
1965/66	Herdilla Chemicals Ltd.	3.3	3.3	2.3
DLF/AID		1,581.0	1,491.3	1,429.3
1961/63	ICICI	5.0	4.5	4.5
	NSIC	10.0	9.8	8.8
	Talchar Power	33.0	32.6	26.6
	Sharavathi Power II	18.4	15.7	14.4
	Birsinghpur Power	8.4	8.4	6.7
	Premier Automobiles I	7.2	7.1	7.1
	Non-ferrous metals	20.0	20.0	20.0
	Bandel Power	38.0	38.0	36.0
	Cambay Power	33.6	32.8	32.7
	Non-project loan I	200.0	200.0	199.8
	Patherdih Coal Washery	4.2	4.2	3.6
	Fourth Railway loan	43.0	43.0	42.9
	Pamba-Kakki Power	20.2	20.2	18.0
	IFC II	20.0	14.9	13.1
	Premier Automobiles II	3.0	3.0	2.9

(continued)

Table A-2 (cont'd)

Member and Agreement		Amount of Agreement	Orders Placed	Disburse-ments
	Trombay Power	17.9	17.9	17.6
	DCM Rayon Tire Cord	9.8	9.8	8.0
	Nepco Bevel Gear	2.3	2.3	2.3
	TELCO I	13.7	13.7	13.7
	Hindustan Motors	15.8	15.8	15.6
	Non-project loan II	240.0	240.0	238.6
	Delhi Thermal Power	16.0	16.0	12.9
	Satpura Thermal Power	25.1	20.7	17.8
	Ramagundam Power	8.4	6.6	5.2
	Chandrapura Thermal Power II	16.0	13.1	11.0
	Railways V	15.9	15.9	15.5
	Central Ropeways	7.7	7.5	6.8
	Dugda Coal Washery	5.1	5.1	4.6
1963/64	Tarapore Atomic Power	80.0	75.8	60.3
	Non-project loan III	225.0	225.0	224.8
	Trombay Fertilizer II	7.8	7.8	7.1
	National Engineering Industries	4.3	4.2	3.8
	Sharavathi Hydro project III	3.1	1.9	0.7
1964/65	Commodity assistance program (I)	50.0	50.0	50.0
	Railways VI	7.2	7.2	7.1
	TELCO II	11.8	10.8	9.6
	Consultancy services	2.0	0.3	0.3
	IFC III	10.0	1.9	-
	Hindustan Motors (trucks)	23.0	18.3	16.5
	Hindustan Motors (shovels)	3.0	1.9	1.2
	Commodity assistance program II	190.0	190.0	188.1
	Railways VII	3.8	3.8	3.1
1965/66	Operation Hardrock	3.5	3.5	-
	Dhuvaran Thermal Power II	32.3	0.3	-
	Durgapur Projects Ltd.	16.5	-	-
	Fertilizer commodities loan	50.0	50.0	50.0

(continued)

Table A-2 (cont'd)

Member and Agreement	Amount of Agreement	Orders Placed	Disburse-ments
IBRD AND IDA	975.8	883.5	796.9
IBRD	324.6	241.7	188.7
Private Sector Coal	28.8k/	28.8	28.8
Calcutta Port II	19.2k/	19.2	18.0
IISCO III	19.5	13.3	11.3
Railways VI	50.0	50.0	50.0
ICICI IV	19.5k/	19.5	19.0
ICICI V	29.6k/	29.0	26.9
ICICI VI	50.0	13.8	10.3
Power Transmission Schemes	64.0	53.3	13.7
Kothagudem Power	14.0	13.5	10.6
IISCO IV	30.0	1.3	0.1
IDA	651.2	641.8	608.2
Roads	59.5k/	59.5	59.5
U.P. Tubewells	6.0	6.0l/	6.0
Shetrunji Irrigation	3.4k/	3.4l/	3.4
Salandi Irrigation	8.0	6.7l/	4.8
Punjab Drainage	10.0	10.0l/	10.0
DVC IV	18.5	16.9	15.2
Sone Irrigation	15.0	15.0l/	15.0
Purna Irrigation	13.0	13.0l/	12.9
Koyna II	17.5	13.0l/	11.5
Bombay Port I	18.0	16.0	9.3
Telecommunications I	41.8k/	41.8	41.8
Kothagudem Power I	20.0	20.0l/	17.8
Railways VII	67.5	67.5	67.5
Industrial Imports I	90.0	90.0	90.0
Telecommunications II	33.0	33.0	33.0
Railways VIII	62.0	62.0	62.0
Railways IX	68.0	68.0	47.7
Industrial Imports II	100.0	100.0	100.0

(continued)

Footnotes:

a/ Provisional.
b/ The total amount to be lend for the project is \$34.2 million. According to the terms of the agreement the amount disbursed during the year will be adjusted against the consortium pledge for that year. An amount of \$0.6 million will be adjusted against the Canadian pledge for 1964/65, \$3.0 million against the pledge for 1965/66 (up to March 31, 1966), \$9.5 million against pledges for 1966/67 (up to March 31, 1967), and \$9.2 million against pledges for 1967/68.
c/ Estimated.
d/ Combined estimate for First and Second Credits in Third Plan.
e/ Combined estimate for Third, Fourth and Fifth French Credits in Third Plan.
f/ Final loan agreement with Kreditanstalt not yet signed for \$3.0 million of this amount.
g/ Final loan agreement not yet signed.
h/ See footnote c/ on page 2.
i/ Excludes £1.5 million (\$3.6 million) of the Food Emergency Loan signed in February 1966 which was subsequently included in the pledge for 1966/67.
j/ Total amount of loan is £7.5 million (\$18 million). £6.0 million (\$14.4 million) is counted toward the U.K. Third Plan pledge; the balance is reported in Table A-3. See footnote (i) above.
k/ Net of cancellation.
l/ Includes that portion of value of contracts awarded locally which is reimbursable from IDA on percentage basis.

Source: Government of India.

TABLE A-3

NON-PROJECT AID TO INDIA SINCE THE THIRD PLAN:
AGREEMENTS SIGNED, ORDERS PLACED AND AMOUNTS DISBURSED,
BY CONSORTIUM MEMBERS, AS OF DECEMBER 31, 1967

(US $ Million)

Member and Agreement	Amounts for which agreements have been signed	Value of orders placed	Amount Disbursed
Grand Total	1,154.9	823.0	507.6
Subtotal, 1966/67	879.1	758.3	464.4
Austria, subtotal	4.7	3.2	3.0
Credit for capital goods	4.7	3.2	3.0
Belgium, subtotal	1.2	0.6	0.1
Suppliers credits	1.2	0.6	0.1
Canada, subtotal	29.4a/	22.4	19.4
M.G. Diesel Locos for Railways	6.5	6.5	4.9
Material Assistance Loan	10.9	4.0	3.7
Grants	12.0	11.9	10.8
France, subtotal	17.0	6.7	2.3
1966/67 Suppliers credits	17.0	6.7	2.3
Germany, subtotal	63.0	48.0	23.0
Credits	55.0b/	45.0	20.0
Fertilizers	3.0	3.0	3.0
IFC, ICICI, NSIC	5.1c/	-	-
Italy, subtotal	34.0	6.6	1.5
Fertilizers	2.0	2.0	1.5
Suppliers credits	32.0	4.6	-
Japan, subtotal	45.0	33.1	26.3
Sixth Yen Credit	45.0d/	33.1	26.3
Netherlands, subtotal	11.0	7.2	2.5
General purpose credit	7.2	7.2	2.5
Financial (Export) credit	3.8	-	-

(continued)

Member and Agreement	Amounts for which agreements have been signed	Value of orders placed	Amount Disbursed
United Kingdom, subtotal e/	76.8	65.5	57.3
Food Emergency Loan	3.6 f/	3.6	-
U.K. General Purpose	24.0	24.0	24.0
Kipping (IV)	9.6	5.4	0.9
Second U.K. (Bhopal)	7.2	0.1	-
U.K. Non-Project Loan	32.4	32.4	32.4
United States, subtotal	382.0	350.0	180.9
AID-Commodity Assistance 1966 (I)	100.0	100.0	95.7
AID-Commodity Assistance 1966 (II)	150.0	150.0	80.5
AID-Commodity Program 1967	132.0	100.0	4.7
IDA, subtotal	215.0	215.0	148.1
Industrial Imports III	150.0	150.0	142.5
Industrial Imports IV	65.0	65.0	5.6
Subtotal, 1967/68	275.7	64.7	43.2
Austria, subtotal	5.0	-	-
Sixth Austrian Commodity Credit	3.0	-	-
Food Aid	1.0	-	-
Suppliers Credit	1.0	-	-
Belgium, subtotal	2.5	-	-
Second Credit for Capital Goods	2.5	-	-
Canada, subtotal	18.6	1.3	1.3
Fertilizers	9.3	1.3	1.3
Development Assistance	9.3	-	-
France, subtotal	-	-	-
Germany, subtotal	62.5	27.2	10.0
Commodities	35.0	20.0	5.0
Corporation credits g/	3.8	-	-
Agreed Purposes g/	16.5	-	-
Rourkela Refinancing	7.2	7.2	5.0
Italy, subtotal	-	-	-
Japan, subtotal	51.7	5.9	3.1
Food production aid	7.0	-	-
Seventh Yen Credit	38.8	-	-
Debt Rescheduling	5.9	5.9	3.1

(Continued)

Member and Agreement	Amounts for which agreements have been signed	Value of orders placed	Amount Disbursed
Netherlands, subtotal	11.0	1.5	-
General Purpose Credit	7.2	1.5	-
Financial (Export) Credit	3.8	-	-
United Kingdom, subtotal e/	74.4	28.8	28.8
Kipping V	16.8	-	-
UK-India Debt Refinancing	28.8	28.8	28.8
UK General Purpose	28.8	-	-
United States, subtotal	50.0	-	-
Commodity Assistance Program	50.0	-	-
IDA, subtotal	-	-	-

a/ Against $38.7 million pledged for 1966/67; agreements on the balance of amounts pledged are pending signature.
b/ Final agreement not yet signed with Kreditanstalt for $10.0 million of this amount.
c/ Final agreement not yet signed with Kreditanstalt for $1.3 million of this amount.
d/ A sum of $2.5 million relates to rescheduling of principal payment due under the First Yen Credit and is shown as disbursed.
e/ See footnote c/ on page 2.
f/ Total amount of loan is £7.5 million ($18 million); £6.0 million ($14.4 million) is counted towards U.K. 1965/66 pledge (see Table A-2), and the balance of £1.5 million ($3.6 million) is counted towards U.K. aid for 1966/67.
g/ Final agreement not yet signed.

Source: Government of India.

TABLE A-4

PROJECT AID TO INDIA SINCE THE THIRD PLAN:
AGREEMENTS SIGNED, ORDERS PLACED AND AMOUNTS DISBURSED
BY CONSORTIUM MEMBERS AS OF DECEMBER 31, 1967

(US $ Million)

Member and Agreement	Amount for which agreements have been signed	Value of orders placed	Amount Disbursed
Grand Total	112.6	29.2	25.6
Subtotal, 1966/67	22.0	20.0	16.4
Canada, subtotal	9.2	9.2	9.2
Candu Atomic Power Station a/	9.2	9.2	9.2
United States, subtotal	12.8	10.8	7.2
Exim-Varanasi III	12.8	10.8	7.2
Subtotal, 1967/68	90.6	9.2	9.2
Canada, subtotal	40.6	9.2	9.2
Candu Atomic Power Station a/	9.2	9.2	9.2
Indalco	5.1	-	-
Idikki	18.0	-	-
Geological Survey of India	8.3	-	-
France, subtotal	13.0	-	-
Project Assistance Loans	13.0	-	-
United States, subtotal	12.0	-	-
Indian Higher Education	12.0	-	-
IBRD, subtotal	25.0	-	-
ICICI	25.0	-	-

a/ The total amount of the project is $34.2 million for the first stage and $35 million for the second stage. According to the terms of the agreement, the amount disbursed during the year will be adjusted against the consortium pledge for that year. An amount of $0.6 million was adjusted against the Canadian pledge for 1964/65, $3.0 million against the pledge for 1965/66, $9.2 million against the pledge for 1966/67 and $9.2 million against the pledges for 1967/68.

Source: Government of India.

PART B

NEW COMMITMENTS DURING THE QUARTER ENDED DECEMBER 31, 1967

Reports on 21 new agreements signed or authorized by Austria, Belgium, Canada, France, Germany, Netherlands, United Kingdom, and IBRD are reproduced on the following pages. Several members reported authorizations or commitments for which agreements are expected shortly, and these are reported in Part C.

The total amount for which new agreements have been committed during the quarter, as reported in Part B, is approximately $143 million, compared with $198 million shown in Part A (page 1). The discrepancy arises partly because, in Part B, some countries report details on specific loan agreements within previously signed agreements, whereas the figure in Part A includes only newly-signed frame agreements; and partly because some agreements are reported in Part A or Part B which have not been formally signed.

AUSTRIAN COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) Sixth Credit Agreement for Austrian goods

   (b) Borrower: India
   Lender: Austria
   Date of Agreement: December 15, 1967

   (c) Amount: US $3 million

   (d) Purpose: Credit for purchase of Austrian goods

   (e) Interest rate: 5.5% p.a.

   (f) Amortization Terms: 20 years with 7 years grace period

2. (a) Food Aid

   (b) Borrower: India
   Lender: Austria
   Date of Agreement: December 15, 1967

   (c) Amount: US $1 million

   (d) Purpose: For procurement of foodstuffs

   (e) Interest Rate: 3% p.a.

   (f) Amortization Terms: 25 years with 7 years grace period

PART B-BE

BELGIAN COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) Suppliers Credit

(b) Borrower: Andhra Sugars Ltd.
Lender: Belgium
Date of Agreement: Not available

(c) Amount: 13.7 million Belgian Francs (US $0.274 million)

(d) Purpose: Purchase of a sugar cane diffusion plant

(e) Interest rate: Not reported

(f) Amortization Terms: 15 percent of the credit payable in cash and 85 percent payable in equal installments over a maximum period of 10 years after delivery or assembly, provided that the total duration of the credit does not exceed 12 years.

2. (a) Suppliers Credit

(b) Borrower: Anglo-French Textiles Ltd.
Lender: Belgium
Date of Agreement: Not available

(c) Amount: 52.8 million Belgian francs (US $1.056 million)

(d) Purpose: Purchase of textile looms

(e) Interest Rate: Not reported

(f) Amortization Terms: 15 percent of the credit payable in cash and 85 percent payable in equal installments over a maximum period of 10 years after delivery or assembly, provided that the total duration of the credit does not exceed 12 years.

PART B-CA

CANADIAN COMMITMENTS DURING THE QUARTER ENDED DECEMBER 31, 1967

1. (a) Idikki Hydro-electric Project

   (b) Borrower: India
   Lender: Government of Canada
   Date of Agreement: October 27, 1967

   (c) Amount: $19,500,000 Canadian (US $18.2 million)

   (d) Purpose: For the supply of power generating equipment and services

   (e) Interest rate: Nil

   (f) Amortization Terms: 10 years grace period, principal repayable over next 40 years by 80 semi-annual installments.

2. (a) Industrial Commodities

   (b) Borrower: India
   Lender: Government of Canada
   Date of Agreement: October 27, 1967

   (c) Amount: $Cdn 10 million (US $9.25 million)

   (d) Purpose: For the supply of industrial commodities - viz:

Copper	$1.0 million	Zinc or Zinc Concentrates	$1.0 million
Asbestos	1.0	Newsprint	2.0
Sulphur	3.0	Aluminum	.5
Lead	.5	Synthetic Rubber	.5
Woodpulp	.5		

   (e) Interest rate: Nil

   (f) Amortization Terms: 10 years grace period, principal repayable over next 40 years by 80 semi-annual installments.

PART B-FR

FRENCH COMMITMENTS DURING THE QUARTER ENDED DECEMBER 31, 1967

1. (a) Equipment for Cement Factories

   (b) Borrower: K.C.P. for M.S.I.D.C.
   Lender: Alsthom
   Date of notification: October 20, 1967

   (c) Amount: FF. 529,642 (US $.11 million)

   (d) Purpose: Credit for import of engines and electric equipments for the cement factory of Tanilnad

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

2. (a) Equipment for Cement Factories

   (b) Borrower: K.C.P. for Cement Corporation
   Lender: Alsthom
   Date of notification: October 21, 1967

   (c) Amount: FF. 191,703 (US $.04 million)

   (d) Purpose: Credit for import of engines and electric equipments for the cement factory of Tanilnad

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

3. (a) Material for Cable Factory

   (b) Borrower: Power Cables Ltd.
   Lender: Stephanoise de Constructions Mecaniques
   Date of notification: November 8, 1967

   (c) Amount: FF. 1,367,890 (US $.28 million)

   (d) Purpose: Credit for import of materials for the equipment of a cable factory

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

4. (a) Parts for Paper Factory

   (b) Borrower: A.P.P.M.
   Lender: Escher - Wyss
   Date of notification: November 16, 1967

   (c) Amount: FF. 3,070,000 (US \$.62 million)

   (d) Purpose: Credit for import of parts for the paper factory of Rajahmundry

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

5. (a) Potassium Chloride

   (b) Borrower: State Trading Corporation
   Lender: Potasse D'alsace
   Date of notification: October 30, 1967

   (c) Amount: FF. 7,825,200 (US \$1.58 million)

   (d) Purpose: Credit for import of 30,000 tons of potassium chloride

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

6. (a) Watch and Clock Parts

   (b) Borrower: S.I.F.C.O.
   Lender: JAZ
   Date of notification: October 30, 1967

   (c) Amount: FF. 340,490 (US \$.07 million)

   (d) Purpose: Credit for import of watch and clock parts

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

PART B-FR (Cont'd)

7. (a) Supplies for Lamp Factory

   (b) Borrower: Hind Lamps Ltd.
   Lender: Philips
   Date of notification: November 21, 1967

   (c) Amount: FF. 749,493 (US $.36 million)

   (d) Purpose: Credit for import of parts and primary products for a lamp factory

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

8. (a) Dodecylbenzene

   (b) Borrower: Hindustan Lever
   Lender: Progil
   Date of notification: November 23, 1967

   (c) Amount: FF. 1,126,950 (US $.23 million)

   (d) Purpose: Credit for import of 1,000 tons of Dodecylbenzene

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

9. (a) Pharmaceutic Products

   (b) Borrower: May & Baker
   Lender: Rhone Poulenc
   Date of notification: November 23, 1967

   (c) Amount: FF. 972,290 (US $.20 million)

   (d) Purpose: Credit for import of pharmaceutic products

   (e) Interest rate: 5.25 % p.a.

   (f) Amortization terms: 10 years

GERMAN COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) Commodity Loan IX (K)

(b) Borrower: India
Lender: Kreditanstalt fur Wiederaufbau
Date of Agreement: December 22, 1967

(c) Amount: DM 140 million (US $35 million)

(d) Purpose: Purchase of goods and services for India's currently needed civil import requirements.

(e) Interest Rate: 3% p.a. on balance outstanding; commitment charge of 1/4% p.a. on undisbursed amounts beginning 3 months after agreement date.

(f) Amortization Terms: Seven years grace period, repayments over next 18 years in equal semi-annual installments.

(g) Forecast of Disbursements from date of Agreement:

First year	20 million DM
Second year	80 million DM
Third year	40 million DM

2. (a) Development Bank Loan (K)

(b) Borrower: Industrial Credit and Investment Corporation of India
Lender: Kreditanstalt fur Wiederaufbau
Date of Agreement: November 3, 1967

(c) Amount: DM 5 million (US $1.25 million)

(d) Purpose: Financing of investments of small and medium size private enterprises of the manufacturing and processing industries for civil requirements through ICICI.

(e) Interest Rate: 3% p.a. on balance outstanding; commitment charge of 3/8% p.a. on all undisbursed amounts under individual sub-loans from date of approval.

(f) Amortization Terms: Seven years grace period, repayments over the next 18 years in equal semi-annual installments.

(g) Forecast of Disbursements from date of Agreement:

Second year	1.0 million DM
Third year	2.0 million DM
Fourth year	2.0 million DM

3. (a) Development Bank Loan (K)

(b) Borrower:	Industrial Finance Corporation of India
Lender:	Kreditanstalt fur Wiederaufbau
Date of Agreement:	October 16, 1967
(c) Amount:	DM 10.0 million (US $2.5 million)
(d) Purpose:	Financing of investments of small and medium size private enterprises of the manufacturing and processing industries for civil requirements through Industrial Finance Corporation of India.
(e) Interest Rate:	3% p.a. on balance outstanding; commitment charge of 3/8% p.a. on all undisbursed loans under individual sub-loans from the date of approval.
(f) Amortization Terms:	Seven years of grace period, repayments over the next 18 years in equal semi-annual installments.

(g) Forecast of Disbursements from date of Agreement:

Second year	3.0 million DM
Third year	3.0 million DM
Fourth year	4.0 million DM

4. (a) Additional Agreement (Conversion)

(b) Borrower:	India
Lender:	Kreditanstalt fur Wiederaufbau
Date of Agreement:	December 22, 1967
(c) Amount:	DM 28.974 million (US $7.2 million)
(d) Purpose:	Refinancing of repayments on various Rourkela Loan Agreements.
(e) Interest Rate:	5.5% p.a. on balance outstanding.
(f) Amortization Terms:	First principal repayment to start in September 1974 and final repayment in June 1982.

(g) Forecast of Disbursements: Not applicable.

NETHERLANDS COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) General Loan for 1967/68

(b) Borrower:	Government of India
Lender:	Netherlands Government through the Netherlands Investeringsbank voor Ontwikkelingslanden N.V.
Date of Agreement:	November 21, 1967
(c) Amount:	26 million Netherland guilders (US $72 million)
(d) Purpose:	To finance the foreign exchange costs of importing goods
(e) Interest rate:	3% per annum
(f) Amortization Terms:	19 yearly installments beginning Nov. 1, 1975

(g) Forecast of Disbursements: Up until end of 1969

UNITED KINGDOM COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) General Purpose Loan for 1967

(b) Borrower:	Government of India
Lender:	United Kingdom Government
Date of Agreement:	December 16, 1967
(c) Amount:	12 million pounds sterling (US $28.8 million)
(d) Purpose:	To provide foreign exchange for the import of goods and services from the U.K. in support of Indian development efforts
(e) Interest rate:	Nil
(f) Amortization Terms:	Seven years grace period, principal repayable in equal half-yearly installments over the next eighteen years
(g) Forecast of Disbursements:	Expected to be fully disbursed by March 31, 1968

IBRD COMMITMENTS DURING THE QUARTER
ENDED DECEMBER 31, 1967

1. (a) ICICI Seventh Loan

(b) Borrower:	Industrial Credit and Investment Corp. of India
Lender:	IBRD
Date of Agreement:	September 19, 1967
(c) Amount:	US $25.0 million
(d) Purpose:	For loans to private industries
(e) Interest rate:	About 6.25% per annum
(f) Amortization Terms:	To be disbursed against each individual sub-loan

PART C

ADDITIONAL PROJECTS OR PROGRAMS UNDER ACTIVE CONSIDERATION

Consortium members were asked to indicate any additional projects or programs for which assistance is under active consideration but for which no firm commitment has yet been made. Several members responded and their answers are summarized below.

Purpose	Approximate Amount (US $ million)
1. Belgium	
These items are the so-called "promises", i.e. the authorities in Belgium have promised to guarantee the supplier's credit subject to the transactions taking place within the period of validity of the promise. Credit transactions for some of the items eventually may not take place.	2.2
2. United States	
Ex-Im Bank:	
(a) Air-India Corporation	25.0
(b) Government of India for import of capital equipment	20.0
A.I.D.:	
(a) Government of India program loan. (The total application was for $400 million of which $50 million was signed by A.I.D. on October 20, 1967, $20 million is being considered by the Ex-Im Bank (above), and the balance is being considered by A.I.D.)	330.0
3. IBRD and IDA	
(a) Punjab Flood Control II a/	10.0 - 15.0
(b) Tarai Seeds Development a/	To be determined
(c) Telecommunications III a/	To be determined
(d) Industrial Imports V a/	To be determined

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a/ Further consideration held in abeyance pending IDA replenishment.

PART D

CORRECTIONS IN THE QUARTERLY REPORTS FOR APRIL/JUNE (IND 67-31) AND JULY/SEPTEMBER (IND 68-1)

A. Quarterly Report: April/June 1967 (IND 67-31), Part A:

1. The U.K. loan of $5 million in 1966 for SINDRI on page 6 had been described incorrectly as SCINDIA.

2. The Government of India noted the following corrections:

   (a) The Fertilizer Loan on page 13 was signed on July 28, 1967.

   (b) The title, Commodity Loan, on page 14 should be corrected to Industrial Commodities Loan.

   (c) The forecast of disbursements for Loans 3 and 4 on pages 13 and 14 are not determined.

   (d) The date of notification for the Transformer Credit on page 15 should be April 17, 1967 instead of April 12, 1967.

   (e) The date of notification for the Cement Factory Equipment Credit (9.) on page 17 should be May 24, 1967 instead of May 22, 1967.

   (f) The amount shown for the Mining Equipment Credit (15.) on page 19 should be 936,719 Francs instead of 1,338,455 Francs.

   (g) The amount shown for the Mining Equipment Credit (16.) on page 20 should be 695,970 Francs instead of 294,234 Francs.

   (h) The Non-Project Loan on page 23 was signed on October 20, 1967 and the official title should be, India: Commodity Program Assistance.

   (i) The Program Loan on page 24 should be changed to Non-Project Loan.

B. Quarterly Report: July/September 1967 (IND 68-1):

1. The U.K. loan of $5 million in 1966 for SINDRI on page 6 had been described incorrectly as SCINDIA.

2. The amount shown in the United States section of Part C, under loan application for Trombay, should be $32.9 million.

Mr. Bell

Orig file on India Debt

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

RESTRICTED

IND 68-9

April 3, 1968

FROM: The Secretary

INDIA CONSORTIUM

Attached is a paper from the Bank's Asia Department requesting members of the India Consortium to provide certain information on supplier credit indebtedness. Please send this information to the Secretary of the Bank in Washington by May 15, 1968.

Distribution:

Executive Directors for:

Austria
Belgium
Canada
Denmark
France
Germany
Italy
Japan
Netherlands
United Kingdom
United States

Embassy of Japan
Managing Director, IMF

Director, Asia Department

For information:

President
President's Council
Executive Vice President, IFC
Executive Director for India
Department Heads (Other)
Resident Representative, India
European Office
Development Assistance Committee, OECD
President, Asian Development Bank

INDIA CONSORTIUM: REQUEST FOR INFORMATION ON SUPPLIER CREDIT INDEBTEDNESS

1. Several times in the last two years we have had occasion to request the cooperation of member countries in collecting certain information essential to the consortium's consideration of the long-term problem of India's debt. We are sure that members will appreciate how essential it is to maintain accurate and current statistics on India's debt. In the past the segment of these statistics which has involved the greatest uncertainty was that pertaining to suppliers' credits. The Government of India has recently implemented a new system for the collection of comprehensive information on this type of indebtedness. This system, which has been discussed by the Bank staff with representatives of the Government, should produce accurate information, once it is fully operative; for the moment, however, data reported under this system remain incomplete. Accurate information must then continue to be provided by the creditor countries. It may be pointed out that such information, in addition to being helpful to the consortium in its considerations of the Indian debt problem, would also be helpful to the Government of India as a means of double checking and improving upon its own data collection system.

2. In collaboration with the Organization for Economic Cooperation and Development the Bank recently implemented a new system of collecting information from creditor countries on their external lending. This system which has been approved by all member countries of the consortium, is outlined in OECD Document C(66)100 (Expanded Reporting System on External Lending), dated October 20, 1966. Unfortunately, reporting under this system, which would provide the Bank with much of the data needed on suppliers' credits extended to India, is not yet uniform or complete. So we must once more make a special request for information on suppliers' credits to India, as of December 31, 1967. We made a similar request on May 31, 1967, in which member governments were asked to prepare the required data on a rearranged version of Form 3 of Document C(66)100. For your convenience we attach a copy of this Form 3, slightly revised as to the additional data required by the Bank (estimated disbursements in the future; a breakdown of credits as to those falling inside or outside consortium pledges; and information on an annual basis up to the end of calendar year 1975). We call your attention to paragraph 7 of the covering sheet, which concerns separation of data between official and private borrowers in India, and request that this breakdown be supplied to the extent possible.

3. It would be appreciated if members would send us this information as soon as possible, but certainly no later than May 15.

Asia Department
April 2, 1968

REPORT ON PRIVATE LOANS AND CREDITS TO INDIA
UNDER OFFICIAL GUARANTEE OR INSURANCE 1/

Definition of Debt to be Reported

1. The total of external private lending to India which is officially guaranteed or insured in the reporting country should be reported on the attached form. This classification includes credits granted by exporters, private banks and financing institutions which are guaranteed or insured by the government or an official agency of the latter.

2. Only the amount of credit actually extended should be recorded. The non-guaranteed portion of all transactions should be included but down payments should be excluded, even though receipt of such payments may be delayed or deferred. In all cases, data reported should include the total amount of interest associated with the transaction. Where precise data as described above are not available, the reporting authorities should provide estimates on the basis of the best information available to them.

3. All credits with an original or extended term of repayment of more than one year should be reported. Credits should not be reported if the contract calls for liquidations within one year from the date of the original contract, but if in such cases the term is extended contractually to more than one year, the debt should be reported. Maturities should be calculated on the basis of the recognized starting points of the Berne Union 2/ as follows:

(1) In the case of capital goods consisting of individual items usable in themselves (e.g. locomotives), the mean date, or actual dates, when the buyer is to take physical possession of goods in his own country;

(2) In the case of capital equipment for complete plants or factories, the date when the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract;

(3) In the case of construction or installation contracts, either the date when the seller will have respectively constructed or installed the plant or twelve months after the date when the entire equipment (excluding spare parts) to be supplied under the contract will have been delivered on site, whichever is the earlier.

1/ Adapted from Form 3, O.E.C.D. Document C(66)100 dated October 20, 1966.

2/ See the Annex to Part I of the "Report by the Trade Committee's Group on Export Credits and Credit Guarantees on an O.E.C.D. Information System and on an O.E.C.D. Standard for Local Costs" [C(65)112].

Directions for Preparing the Form

4. This form summarizes in aggregate the status of private loans and credits officially guaranteed or insured in the reporting country, and outstanding as of December 31, 1967, and shows total new guarantees extended ("commitments") and utilization ("shipments" or "disbursements") and service payments made during the period. In addition it shows the service payments due annually in each of the calendar years 1968 to 1978, and a lump sum thereafter. Finally, it shows the total of estimated utilization of credits each year for those same years.

5. Only guaranteed or insured private credits, regardless of the original source of funds, should be included. Officially guaranteed loans and credits extended by the government or official agencies of the reporting country should be excluded as they are reported to the Bank by India under the regular debt reporting procedures. Where the precise amounts involved are not known to the authorities of the reporting country, estimates should be made on the basis of the best information available.

6. For the purposes of this report, all amounts shown for officially guaranteed loans and credits, including service payments due, are understood to include interest as well as principal, and should cover the guaranteed as well as the non-guaranteed portions of the transactions reported. The amounts shown should thus correspond to the amounts of credit actually extended, as described in paragraph 2 above. Where the data reported do not conform to this definition, this should be stated and the variation described in a footnote.

7. Data should be broken down to show loans and credits to official borrowers or officially guaranteed borrowers in India, and to private (non-guaranteed) borrowers in India. "Officially guaranteed in India" means that the central government of India or any of the official bodies or institutions listed below has guaranteed repayment of the loan or credit. Official bodies or institutions are:

a. Central governments or their departments;

b. Political subdivisions such as states, provinces, department, municipalities;

c. Autonomous institutions (such as corporations, development banks, railways, utilities, etc.) where

(1) The budget of the institution is subject to the approval of the government of the recipient country; or where

(2) The government owns more than 50 percent of the voting stock or more than half of the members of the Board of Directors are government representatives; or where

(3) In case of default the state would become liable for the debt of the institution.

REPORTING COUNTRY

PRIVATE LOANS AND CREDITS (UNDER OFFICIAL GUARANTEE OR INSURANCE) TO INDIA

Current Status of Loans and Credits Outstanding and Transactions During Year Ended December 31, 1967

(Amounts in thousands of currency of reporting country)

	Official 1/		Private 2/	
	Inside Consortium	Outside Consortium	Inside Consortium	Outside Consortium
Transactions during year ended December 31, 1967				
New credits guaranteed				
Estimated utilization (shipments or disbursements)				
Service payments received				
Credits outstanding December 31, 1967				
Future service payments due in calendar year:				
1968				
1969				
1970				
1971				
1972				
1973				
1974				
1975				
1976 and thereafter				
Unspecified				
Estimated utilization (shipments or disbursements during calendar year)				
1968				
1969				
1970				
1971				
1972				
1973				
1974				
1975				
1976 and thereafter				

1/ Official or officially guaranteed in India.
2/ Private non-guaranteed in India.

Mr. R. Picciotto April 25, 1968

Bernard R. Bell (Signed) Bernard R. Bell

INDIA - Nitrogen Production Prospects

forwarded to Takahashi

I have read your interesting memorandum of April 22 on Nitrogen Production Prospects in India which was in response to the comment that paragraph 32 of the India updating memorandum sounded somewhat over-sanguine. I do not have time unfortunately to check all the facts myself, but your memorandum seems to me to confirm that paragraph 32 was over-sanguine.

In paragraph 2 of your memorandum you indicate that taking into account plants now under construction, nitrogen production capacity by 1970-71 will be almost 1.9 million tons and actual production may be 1.3 million tons. This is, as I recall, exactly what we estimated in the report of the October 1966 Mission.

In paragraphs 3 and 4 of your memorandum and in the table which you attached you list a series of projects under consideration. I find it difficult to extract much joy from this list. Most of these projects, plus a number of others, were also under consideration in October 1966, a year and a half ago. I do not find it encouraging that, so far as I could tell, none or virtually none of those that were under consideration at that time have advanced from that status to the status of under construction. It is in the light of this that I find it difficult to accept the confident statement that some of these projects "are sure to be started by the end of 1968 and most of the rest are likely starters by the end of 1969." Equally I find it difficult to share the confidence about 1973 capacity, which was expressed in the last sentence of paragraph 32.

My memory of facts may be wrong. My suggestion is that you supplement your April 22 memorandum with an examination of all of the projects that were under consideration in October 1966 (and which were tabulated by Ken Bohr) and see which, if any of these, have in the eighteen months moved from that status to the actual construction status.

BRBell:lfb
IBRD
cc: Mr. Takahashi
Mr. Waide

Mr. Michael L. Hoffman July 8, 1968

Bernard R. Bell (Signed) Bernard R. Bell

David Hopper

I was interested in your memorandum of May 28 to the Files in which you reported on Mr. David Hopper's remarks on Indian agriculture at a Council on Foreign Relations luncheon. I assume you know that Hopper was a member of my 1964-65 India mission, when we borrowed him for the purpose from the Ford Foundation in India, and also my 1966 mission when we borrowed him from the Rockefeller Foundation. I am at the moment trying to arrange for Hopper to be a member of the Indonesian Resident Staff, but I do not yet know whether this will be possible.

BRBell:lfb
IBRD

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

BRB

OFFICE MEMORANDUM

TO: Files

DATE: May 28, 1968

FROM: Michael L. Hoffman

SUBJECT: Indian Food Problems

On May 27th 1968 I attended a small luncheon at the Council on Foreign Relations in New York at which W. David Hopper of the Rockefeller Foundation addressed a group on Indian Agricultural problems. (Hopper's credentials on agriculture and India need no underlining, but I was not aware that he actually farmed in an Indian village for about two years at one stage of his career). Among those present were Willem Holst, Dave Bell, Frosty Hill (all Ford Foundation) Roger Revelle and Willard Thorpe.

The gist of Hopper's message was that the agricultural revolution, sparked by the new varieties of wheat, rice and sorghum plus a run of good prices, is real but that it has given us only five or six years of comparative ease on the food front. Unless there is a drastic change in government attitudes towards agriculture and corresponding action, Hopper believes that in five or six years we will be right back where we were. There is still, as he put it, no vision about agriculture in the higher civil service. There is no sense that agriculture is to be treated as a system which one technical change (e.g. seeds) can affect, but which cannot really progress without appropriate changes all through the system. He fears that the civil service will be complacent and go right back to starving agriculture in favour of what it regards as the modern sector (I was somewhat surprised that he cited G. Patel particularly as exemplifying this tendency) - feeling that the new seeds, plus fertilizer, have solved all their problems and therefore they can forget about agriculture. There is still no strategy for agricultural development in the Government.

Hopper cited irrigation, particularly tube-well irrigation, the establishment of research institutes of the quality and scale of the IRRI in the Philippines, the analysis of the new pest problem created by the new strains of plants and pest control, as critical areas where action now is needed but not being taken. He also suspects that there will be a tendency to permit, or encourage, grain prices to revert to former levels. He was strongly critical of the apparent intention to bring in six or seven tons of PL480 grain this year, feeling that it would lead to price declines and a corresponding loss of momentum. He emphatically rejected the notion that the Indian farmer is any less responsive to price incentive than the farmer anywhere else. Mr. Hopper commented on what he called the illogicality of Indian irrigation officials," who are the best in the world with the

techniques/...

techniques of the 1930's" but indifferent, or even hostile, to the development of ground water resources. He said that there is considerable evidence of the existence of a huge aquifer under the Ganges plain - Revelle questioned this. What is needed is a full-scale hydrological survey. This has been repeatedly proposed to the Indian Government and US (AID) has offered to finance it, but the Government is still resisting the idea. Evidently this resistence is particularly against having United States engineers in large numbers working in the Ganges basin and Hopper suspects that the Indians feel that the United States is pro-Pakistan on water issues - such as the Ganges barrages. He said that each year the hydrological survey is postponed moves the possibility of exploiting whatever water resources are there three to four years into the future.

cc: Mr. McNamara
Mr. Demuth
Mr. Aldewereld
Mr. Kamarck
Mr. Chadenet

Record Removal Notice

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File Title	Barcode No.
Bernard R. Bell Files: India General - Correspondence	1850797

Document Date	Document Type
9/30/1966	Letter Report

Correspondents / Participants

To: AID

From: Department of State

Subject / Title

Review of India's Fourth Five Year Plan Outline

Exception(s)

Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

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.

Withdrawn by	Date
Bertha F. Wilson	17-May-16

Please File "India"

A CRITICAL EXAMINATION OF INDIA'S THIRD FIVE-YEAR PLAN

By I. M. D. LITTLE

I. The Size of the Plan in General Perspective

1. The Size of the Plan in Relation to Previous Plans

THE Third Plan document[1] itself makes no such comparison except in money terms which mean little. In real terms it looks as though total investment in the Second Plan period was about 80 per cent. greater than in the First Plan period. The Third Plan provides for it to rise again by about 37 per cent.[2]

The large increase shown for the Second Plan has limited significance. The figures for private investment may be very wide of the mark, while the public sector in the First Plan was being built up from a low level. Until the end of the First Plan period it was working well within the limits of resources both domestic and foreign, and of administration.

Even when comparing the Third Plan with the Second, it is very doubtful whether the official figures for total investment make the most valid comparison. Very little indeed is known about private investment in agriculture, housing, and small-scale industry. Although the government has some influence over such investment in indirect ways it does not know what it is influencing. But investment in private 'organized' industry is closely controlled and fairly well known, and the most valid comparison is probably to take the total of public investment and private investment in organized industry. The total of these in the Third Plan is roughly 50 per cent. greater in real terms than the *out-turn* of the Second Plan: nevertheless, the Third Plan is, in respect of these items, less than 30 per cent. bigger than the Second Plan. The explanation of this divergence is that, in real terms, Second Plan investment was deficient by about 15 per cent. The short-fall of real public plan expenditure[3] was even greater.[4]

[1] The document will be referred to henceforward as I.T.F.Y.P.

[2] In discussing plan magnitudes I have used the wholesale price index as a deflator. See n. 4 below.

[3] Plan expenditure includes, in addition to investment, those additions to current public expenditure which are the direct result of the plan. Thus in principle the salaries of teachers in new public sector schools are included in the current plan, but drop out of plan expenditure in the subsequent plan.

[4] It is crude to deflate either investment or plan expenditure by the wholesale price index, but it sets a good example to give even a very rough idea of the real value of plan expenditure. But it should be noted that no price deflator will record short-falls in anticipated real investment which are due to under-estimations of construction and other project costs which are not attributable to price rises. Such under-estimation has certainly been common, indeed the rule. But I suppose that it has probably been the rule in all countries

Annual deflated figures of public plan expenditure are given in Fig. 1.[1] The broken line in the Second Plan period shows the growth of expenditure (in 1952/3 prices) which would have occurred if the Second Plan had been fulfilled at a steady rate of progress. The broken line in the Third Plan period projects Third Plan expenditure (in 1952/3 prices) at a constant

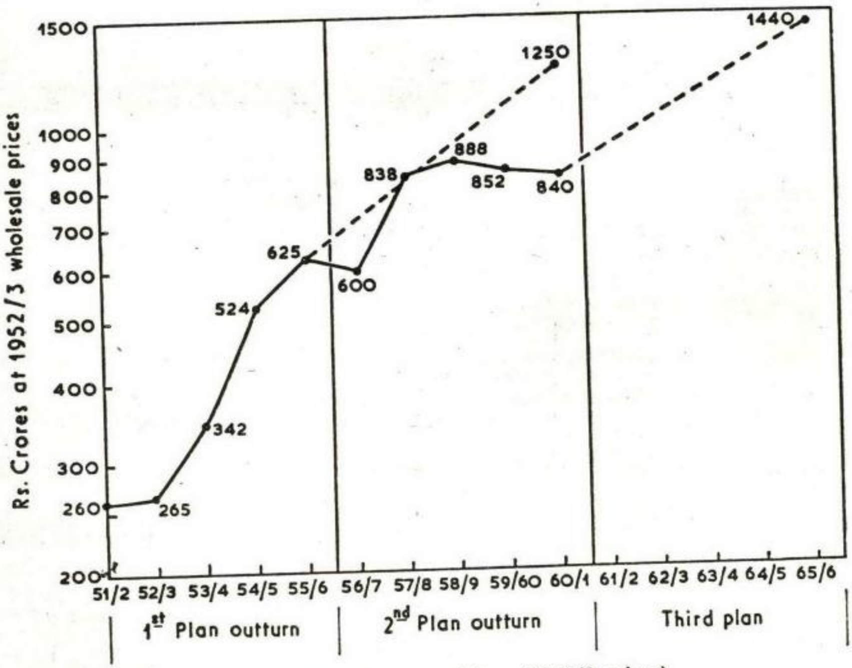

FIG. 1. Public plan expenditure (1952/3 prices).

rate. The disappointing progress of the Second Plan, and the great acceleration of effort needed to fulfil the Third Plan, emerges clearly.

Figure 1 also provokes an important aside, which it is convenient to deal with at this point. It clearly shows that expenditure was relatively too low at the beginning of the Second Plan. Further, the preoccupation of the authorities with cutting back the plan in 1958/9, and the controversy over the size of the Third Plan makes it probable that expenditure will be relatively too low in 1961/2 and perhaps 1962/3 for the total Third Plan expenditure to be achievable at a steady rate of progress. This is likely to be true in spite of the number of delayed Second Plan projects in the pipeline, and already could be seen as a danger in 1958. Any exceptional burst later on in the quinquennium will store up difficulties for the Fourth

at all times. The Great Western Railway is said to have cost well over double I. K. Brunel's estimate. More recently, Blue Streak should warn us against condescension.

[1] Fig. 1 and all other monetary magnitudes in this paper are expressed in crores of rupees. A crore equals ten million. A crore of rupees equals £750,000.

Plan. Five-year plans should, of course, be merely 5-year slices cut for the purpose of education and information, out of a longer-term and constantly revised stream. They should not be an operational part of the planning process. If they are, then hiccups are bound to result. In India the plans are partly operational, and this results in a maelstrom of official activity about 2 years before the end of one plan, which is too late for the early years of the next. I was told by two very senior officials in 1959 that it was too early to be thinking about the size of the Third Plan!

To return to our main theme, the Third Plan public investment, so far referred to, is that for which financial provision has been made. But I.T.F.Y.P. contains a second and larger plan. The divergences between the two raise a number of questions which will be discussed below. On the one hand, it is hoped that further financial provision may be made so that more of the larger 'physical' plan can be realized. On the other hand, there are frequently repeated warnings that expenditure on many of the projects for which financial provision *has* been made will probably spill over into the next quinquennium. Thus, unless further projects for which financial provision is not yet made are authorized, the financial provision of Rs.7,500 crores of public expenditure (in real terms) must be regarded as an upper limit which is most unlikely to be realized.

2. The Size of the Plan in Relation to Needs

(*a*) **Employment.** At the beginning of planning in the early 1950's, India suffered from very severe underemployment. There is general agreement, and I.T.F.Y.P. supports this, that the plans have been inadequate to provide employment, directly or indirectly and however generously estimated, even for new additions to the potential labour force. This view is supported by direct evidence of increasing underemployment and increasing registered urban unemployment (cf. I.T.F.Y.P., ch. x, para. 3).

I.T.F.Y.P.'s own estimate is that 'unemployment' rose from 5·3 millions to 9 millions in the Second Plan period. 'Underemployment' is reckoned at a further 15–18 millions (the labour force may be around 170 millions). For conceptual and other reasons, such figures mean little. All one needs to know is that the problem is massive and growing: and there is no doubt about this. Even if the Second Plan had been fulfilled, unemployment would have risen, for not only was it based on too low a rate of growth of the population and labour force, but also the estimates of employment created were probably stretched to fit the expected growth in the labour force.

The Third Plan, like the Second, makes no pretence of achieving the impossible. One cannot plan for reasonably full employment in India. But it is not reckoned to be adequate to give increased employment equal to the increase in the labour force. The estimated increase in employment is 14 millions, and that in the labour force 17 millions. Although it is not made at all clear, it seems that the estimate of increased employment is probably based on the 'physical' plan of Rs. 8,300 crores of government expenditure (including inventories), and not on the financial plan of Rs. 7,500 crores. However this is a rather academic point. The estimate of increased employment is so much a guess that the same estimate could be produced for widely different totals of government expenditure. There is also a promise of organizing rural public works to give employment amounting to about 900,000 man years by the last year of the plan.[1] But, although such increased employment is said to be an 'essential objective', it is also said that 'limited financial provision for the early phases of the programme has been made in the Third Plan'.

Although actual unemployment, which applies most clearly to urban workers and landless rural labourers, will continue to increase even if the Third Plan is fulfilled, it does not necessarily follow that underemployment will increase. The gap between additions to the labour force and new employment opportunities will, of course, swell underemployment. As against this, the increased employment from improved agricultural practices (which usually require more labour) and from increased yields (which should require more labour to harvest) is not included. If agricultural output actually rises at the target rate of 5 per cent. per annum, it seems reasonable to hope that productivity will not rise fast enough to prevent some improvement in the rural employment picture. In general, it is true, and will be true for decades, that any reduction in rural underemployment can come about only by fairly rapidly increasing agricultural output combined with the retention of labour-intensive methods. A glance at the occupational distribution of the Indian population is sufficient to show that the direct and indirect employment due to industrialization, however rapid, cannot possibly keep pace with the increase in the Indian labour force—let alone make any impact on the backlog of underemployment. This is not always realized.

(*b*) **Income per Head.** In the first decade of planning the Indian national income rose by about $3\frac{1}{2}$ per cent. p.a., and population rose by 2 per cent. p.a. The increase in national income per head has thus been $1\frac{1}{2}$ per cent. p.a., and that of consumption per head rather less. Although almost certainly a notable improvement compared with the previous half-century,[2] when it is doubtful whether income per head rose at all, it is

[1] This scheme is for essentially local works in agricultural lulls. Apart from its small size it does not meet the case of those who believe that more permanent rural employment on public works is needed, and would be much more productive. This is not to say that the former kind is not also desirable.

[2] See, for example, K. N. Raj, 'The Growth Rate of the Indian Economy 1900–1960', *Yojana* (Oct. 1961).

certain that such a slow rate of growth is inconsistent with what has been called the 'revolution of rising expectations'. It is quite consistent with further impoverishment for large segments of the population—an impoverishment from levels of poverty which are not easy to imagine.

The expected increase of national income under the Third Plan is 30 per cent.—just under $5\frac{1}{2}$ per cent. p.a.[1] This, if realized, would give an increase in income per head of 3 per cent. p.a.—since population is now probably growing at about $2\frac{1}{2}$ per cent. p.a. The rate of growth of Indian national income cannot diverge much from that of agricultural production. The increase in agricultural production is only loosely tied to past investment, more loosely than in most other sectors. Also little is known about private investment in agriculture, and widely varying views are possible as to the effects of community development, agricultural extension, and land reform. In the light of past progress, the growth estimate is obviously optimistic. Nevertheless, there has been increased expenditure on agriculture in the past few years which cannot yet have borne fruit, and there is increased expenditure to come. It is not unreasonable to project some acceleration from $3\frac{1}{2}$ per cent. p.a.—but $5\frac{1}{2}$ per cent. is a lot to hope for.

Even if *per capita* consumption could grow at 3 per cent. p.a., the bulk of the Indian population would still be desperately poor by Western standards at the end of this century. By any standard of need—whether this is taken to be the prevention of mass unemployment, the provision of adequate food or clothing, or a rate of rise of living standards sufficient to give hope to the majority of people—the Third Five-year Plan is desperately inadequate. This, of course, brings one to the subject of resources.

3. The Size of the Plan in Relation to Resources

Physical and human resources for development in India are not lacking. The resources which may put some restraint on the size and effectiveness of the plan are (*a*) domestic savings, (*b*) foreign exchange, (*c*) administration. Domestic savings will first be discussed at length. Foreign exchange is then treated more briefly, since reference can be made to other recent work.[2] Administration is not separately considered (since I have little to say).

(*a*) **Domestic Savings.** Table I shows the contribution of domestic savings to investment in the First and Second Five-year Plans, and the proportion of domestic savings to national income. It also shows the

[1] This corresponds to the 'financial' plan. It is suggested that the larger 'physical plan' would yield a 6 per cent. rate of growth.

[2] See Sir G. D. A. McDougall, 'India's Balance of Payments', *Bull. inst. Stat.*, vol. 23, No. 2, p. 153 (May 1961).

implicit assumptions of the Third Plan as to their magnitudes. Since both national income and investment figures are exceedingly rough in India, the table can be taken to indicate only rough orders of magnitude. The savings figures shown in Table I are derived from I.T.F.Y.P. figures. They are certainly not good enough to show whether there is currently any trend towards an increased savings ratio.

TABLE I

Rs. crores—Current Prices except where otherwise noted

	National income	*Net Invest-ment*	*Current foreign savings**	*Domestic savings*	*Domestic savings as % of invest-ment*	*Net in-vestment as % of national income*	*Domestic savings as % of national income*
1st Plan Out-turn	49,860	3,360	133	3,227	96	6·7	6·4
2nd Plan Plan (55/56 prices)	57,200	6,200	1,120	5,080	82	10·8	8·9
2nd Plan Out-turn	62,300	6,750	1,887	4,863	72	10·8	7·8
3rd Plan Plan (60/61 prices)	85,350	10,400	2,650	7,750	75	12·2	9·1
Last Year 1st Plan	9,980	850	33	817	96	8·5	8·2
Last Year 2nd Plan	14,500	1,600	395	1,205	75	11·0	8·3
Last Year 3rd Plan Plan	19,000	2,700	515	2,185	81	14·2	11·5

* i.e. balance of payments deficit on current account, excluding official donations. This neglects retained earnings of foreign-owned companies, and is thus a somewhat low estimate of the inflow of foreign capital.

The Reserve Bank of India has also published savings estimates from 1950/1 to 1958/9. While no significance is attached to year-to-year movements, it is tentatively suggested that 3-year aggregates may mean something. These are given in Table II, absolutely and as percentages of national income. All that these figures can be confidently said to show is that the public and corporate sectors are disappointing. Reference to the articles explaining the estimates will show how extraordinarily shaky they are for the household sector.[1]

While the public sector has been disappointing—taxation and profits having barely kept pace with current expenditure—a different story is promised for the Third Plan. The estimated rise in domestic savings from 7·8 per cent. to 9·1 per cent. as between the Second and Third Plan is more than fully accounted for by the rise in projected public savings.

[1] *Reserve Bank of India Bulletin* (Mar. 1960 and Aug. 1961).

This is shown by Table III. Public saving is supposed to rise from Rs. 240 crores to Rs. 1,715 crores,[1] that is from less than $\frac{1}{2}$ to 2 per cent. of the national income. The private sector is thus expected to save 7·1 per cent. of the national income during the Third Plan. It seems that this is quite probably significantly less than during the Second Plan (though, as usual of course, one cannot maintain this confidently).

TABLE II

Domestic Savings

Rs. crores—Current Prices, and percentages of National Income

	1950/1 *to* 1952/3	1953/4 *to* 1955/6	1956/7 *to* 1958/9
Public sector . .	348 (1·3)	229 (0·7)	329 (1·0)
Corporate sector .	85 (0·3)	121 (0·4)	101 (0·3)
Household sector .	1,182 (4·3)	1,909 (6·2)	2,220 (6·6)

TABLE III*

The Finance of Public Investment

Rs. crores—Current Prices

	Second Plan Plan	*Second Plan Out-turn*	*Third Plan*
Public saving . . .	−50	240	1,715
Internal public borrowing	2,650	1,820	2,385
External public borrowing	800	1,590	2,200
The 'gap' . . .	400	..	..
Public investment . .	3,800	3,650	6,300

* This table is compiled by subtracting current expenditure under the plan from line 1 of table II, chap. vi of I.T.F.Y.P., and otherwise by rearrangement of the table, except that for the Second Plan Out-turn Rs. 500 crores have been subtracted from internal borrowing and added to external borrowing—this being an estimate of the counterpart funds arising from P.L. 480 supplies. (P.L. 480 is the United States Public Law under which goods are supplied against payment in the recipient's currency, most of which is re-lent to the recipient government.)

The increase in public saving to Rs. 1,715 crores is estimated to involve extra taxation, including measures to increase the surpluses of public enterprise, of Rs. 1,710 crores (the closeness of these figures is, presumably, a coincidence). The preceding paragraph seems to suggest that this estimate is too high. In its defence one can say that the Second Plan was certainly inflationary in 1957/8 and 1958/9, and that some of the savings called forth in the past were the result of the forcing process of

[1] The figure of Rs. 240 crores for public savings is probably quite inconsistent with the Reserve Bank's estimate which shows Rs. 329 crores for the first 3 years of the plan. The former is an uncorrected balance on current account, and the Reserve Bank's estimates should be better. Nevertheless the figure of Rs. 240 crores should be comparable with that of Rs. 1,715 crores in Table III, and it is this comparison that matters.

inflation. One can also argue that a higher public savings rate will, *ceteris paribus*, depress the private savings rate. But as against this, there is the assumption that real private disposable incomes will be higher. Finally, the unreliability of the figures casts a general cloud of obscurity. Probably the most one can fairly say is that the figure for extra taxation looks high in relation to such poor evidence as is available, always assuming that the projections of other magnitudes, such as current government expenditure and tax yields, are correct.

It may be asked what significance attaches to this estimate of the extra taxation needed. The Finance Minister does not have to budget 5 years in advance, and each year's extra taxation must in fact be judged in relation to the current state of the economy at that time, and such short-term estimates as can be made for the year to come.[1] The answer is that the rough order of magnitude of the extra taxes which he may have to impose determines the Finance Minister's attitude to the size of the plan. If, for instance, the supporters of a larger plan could convince the Finance Ministry that existing tax revenues or small savings receipts would be more buoyant, then the plan would probably be bigger. So the figure of Rs. 1,710 crores of extra taxation is crucial (this assumes that other constraints do not limit the plan size—which is further discussed below).

Thus far we have dealt with the problem of internal resources in a Keynesian manner. Whatever goes on behind the scenes, the overt manner of the Planning Commission is different. The figures for savings given in Tables I and III are merely implicit in I.T.F.Y.P. They are nowhere presented in this form, nor is there any attempt to strike a savings/investment balance. The quantity theory of money still plays the major part in the Planning Commission public performance. The estimate of extra taxation needed seems to be arrived at as follows. First, a limit to deficit finance is agreed.[2] I believe this to be arrived at by assuming a normal relation to hold between increased government borrowing from the Reserve Bank and an increase in money supply.[3] A desirable rate of increase in the money supply is taken to be slightly greater than the rate of increase of real national income to allow for some increased monetization of the economy. Thus I.T.F.Y.P. states, 'it is proposed to limit deficit financing in the Third Plan to the minimum warranted by the genuine monetary

[1] It may be noted that with the investment and import controls that exist in India, but without consumer rationing, the budget has much the same function as it did in England in the years, say, 1947–51—the main function being that of equating the supply and demand for consumption goods.

[2] Deficit finance in India is not equated with total borrowing, but only with borrowing from the Reserve Bank.

[3] This normal ratio is arrived at by assuming both a normal reserve ratio for the commercial banks, and also a normal ratio of reserves to total money supply (see *Reserve Bank of India Bulletin*, Aug. 1961).

needs of the economy' (p. 29, para. 23). Secondly, the net cash flow of the governments (central and state) from all revenues and expenditures is estimated. Then the net undistributed profits of public enterprise are estimated. The total requirement for increased taxation emerges as a residual after allowance has been made for the expected cash flow from all forms of government borrowing other than deficit finance: i.e. governmental borrowing from abroad, from the public, and from the commercial banks. In determining these latter amounts, some, probably notional, thought may be given to the amount which the private sector may need to borrow to finance its part of the plan, and how much new savings will be available to be lent to the government. This is the tenuous link with the Keynesian approach. Nevertheless, the manner in which this central problem of monetary equilibrium is approached gives too much emphasis to 'deficit finance', and much too little to the logic of the more important decision between total borrowing and taxation. Furthermore, the discussion of deficit finance, and other borrowing, is not linked to any discussion of interest rate policy. This is another consequence of thinking in terms of the quantity theory. Apart from the weaknesses inherent in the quantity theory, the Planning Commission's apparent approach has a further weakness peculiar to itself—that a given amount of deficit finance must always cause the same increase in the amount of money. If the authorities are so worried about the quantity of money, why do they not take steps to reduce the multiplicative effect on the money supply of deficit finance? There are plenty of ways of imposing this result on the banking system.

There are many officials in India, especially in the Ministry of Finance, who are perfectly aware that the Quantity Theory approach is inadequate.[1] To some extent it is undoubtedly an antique façade hiding more realistic thought. On the other hand, there are certainly some influential officials who know no better. It is admittedly difficult to argue with any force that a savings/investment approach would yield better estimates of the taxation effort needed, because knowledge of the volume and sources of savings in India is abysmal. Nevertheless, the retention of the quantity theory façade is harmful for two reasons. First, it lends a specious precision to the estimates, and gives a conservative bias. It helps the Finance Minister to argue that he cannot find the money, and an unreal picture

[1] The figure of Rs. 2,200 crores for government external borrowing in Table III conceals an absurdity typical of the quantity theory approach. It excludes 'agreed retentions by the U.S. Authorities and additions to buffer stocks from P.L. 480 imports'. So far as additions to stocks goes this is all right, for such investment is evidently not included in the plan. But so far as 'agreed retentions' goes, it is not all right. Whether the U.S. Ambassador hoards counterpart funds, or hands them over, is of no consequence. Yet if he handed more over the resources available for the plan would rise! Of course, economic logic would require an offsetting reduction in the figure for internal borrowing—but the plan's presentation gives one no confidence that this would be the result.

is created of the size of the plan being determined by the financial resources which the economy somehow naturally exudes. Secondly, the financial approach to estimating real resources for the plan is itself a barrier to the improved knowledge of savings and investment which is urgently needed. In spite of much lip-service paid to the need for better statistics, the Planning Commission by its own overt approach to public finance fails to point the need. It is thus a disappointment that in I.T.F.Y.P. the chapter called 'Financial Resources for the Plan' is no advance on the corresponding chapters in the earlier plan documents.

Even if the estimate of Rs.1,710 crores of extra taxation is about right, there is the further important question as to whether still more taxation would not be desirable in order to permit a larger plan, and the chance of a greater rate of growth. This can be answered with greater confidence. When in India, nearly 3 years ago, I formulated a scheme for raising an additional Rs.3,000 crores of taxation within the Third Plan period. This assumed a plan which was rather larger in real terms, which aimed at a 6 per cent. rate of growth of income with a 5 per cent. rate of growth of consumption, and which relied on foreign savings to a much smaller extent (the extra taxation aimed to keep the growth of consumption one percentage point below the growth of income). This paper is to be published, so here it need only be briefly said that the task seemed quite possible without taxing food, and without raising either direct or indirect tax rates, or public profits, to levels which look high by the standards of many other countries.[1]

The official target of Rs. 1,710 crores is split as to Rs. 1,100 crores for the Centre, and Rs. 610 crores for the States. The Centre has already made a good start towards its target, since the 1961/2 Central Budget, designed to raise Rs. 61 crores in 1961/2, should add about Rs. 350 crores in the whole 5-year period. Similar budgets in each subsequent year would hit the target—and this is quite apart from any measures taken to increase the profitability of public enterprise. Although the task may seem formidable to Mr. Morarji Desai, it cannot be called herculean, nor the measures needed draconian.

While the Planning Commission seems to use the quantity theory of money to approach the question of domestic resources, we have tried to approach it in a more Keynesian manner. But there is another approach, of which the most eloquent but not sole advocate is Mr. Shonfield,[2] and with

[1] The official target of Rs. 1,710 crores is after the 1960/1 Budget, while mine was before it. The 1960/1 Central Budget should add about Rs. 140 crores in the Third Plan period. So the official tax effort which is comparable with my Rs. 3,000 crores is Rs. 1,850 crores (or a little more assuming that the State Budgets also increased taxation in 1960/1).

[2] A. Shonfield, *Economic Growth and Inflation*, Bombay, 1961. Also in *The Listener*, 24 and 31 Aug., and 14 Sept. 1961.

which I have much sympathy in the Indian context. It may be described thus. The only inflation which is dangerous and harmful in India is that of foodgrain prices (and possibly a few other food items, and cloth). Excess demand for other things does not matter much from a welfare point of view, and may well be beneficial in some respects. If prices do not rise (some price controls are possible), some disappointed purchasers will save rather than eat more, and some extra use may be made of facilities available at almost zero marginal cost. If prices do rise, some extra production will result (for some goods excess production capacity of an antiquated type exists which it is not profitable to use at present), and some income will be shifted into the hands of corporations and others with a relatively high savings propensity. Import controls prevent the excess demand from spilling over too much into imports, either directly or indirectly via imported materials. Low substitutability prevents it from spilling over too much into foodgrains. On this approach, the best thing to do is just to look at the supply and demand for foodgrains, and a few other 'necessities', these being defined in an extremely austere manner. To my mind the only thing really wrong with this approach is that it ignores the home demand for exportables. India could certainly have increased her exports of several commodities in the past decade if home demand for them had been less strong. Since, as we shall see, foreign exchange will be a major planning limitation, it will certainly be important to restrain home demand, not merely for traditional exportables but for new industrial products as well, whenever an export market can be carved out or enlarged. Nevertheless, if increased taxation can primarily be designed to restrain demand for items other than foodgrains, the political difficulties of increased taxation should be less severe. Let us therefore examine the supply of and demand for foodgrains (cereals and pulses).

During the first half of 1961, the index of foodgrain prices was back to, or even below, the level of 1952/3. There was a severe fall from 1952/3 to 1954/5 followed by an equally sharp rise to 1958/9, since when foodgrain prices have been roughly stable. During the Second Plan period (1955/6 to 1960/1) the price rise was 15 per cent. Other food prices rose more, so that the food price index rose 25 per cent. (but the weight of foodgrains in this index is only 47 per cent., whereas for the poorest sections of the population they constitute almost the entire diet). During this period foodgrain production rose by 18 per cent., and 'availability' by 20 per cent.[1] A rough calculation (not reproduced here) suggests that total personal consumption rose by about 18 per cent., while the population rose by rather more than 10 per cent. It is surprising that even in India

[1] 'Availability' allows for imports, uses other than food, and government stock movements.

the consumption of foodgrains should apparently keep pace with total consumption. But it should be noted that during the Second Plan, their price fell by 13 per cent. relative to other foods, and by about 6 per cent. relative to cloth. The relative fall in food prices is more like 25–30 per cent. if one goes back to 1952/3. It follows that expenditure on foodgrains has almost certainly risen less fast than total consumption expenditure, as one would expect.[1]

For the Third Plan period it is hoped that production will rise by 28 per cent. This will imply an increase in 'availability' of 24 per cent., assuming that P.L. 480 imports fall to zero or go into stock.[2] This increase is just about equal to the general increase in consumption implied by the plan. Population is expected to rise by rather over 12 per cent. It seems clear that the target for foodgrain production is as high as is reasonable, and probably too high. One could surely only get foodgrain consumption rising as fast as total consumption as a result of a very considerable redistribution of incomes, either resulting from a massive attack on the problem of underemployment, or resulting from a further relative fall in foodgrain prices (together, in the latter case, with some substitution effect). One is tempted to predict that relative foodgrain prices must fall further if the target is achieved. Of course, it must be recognized that the target increases in agricultural production are optimistic—but if the growth rate is lower, income growth will also be reduced by very nearly as much.

The much greater rises in the price of other foods, and of raw materials produced from the land—primarily jute and cotton—certainly suggest that still greater emphasis might be placed on at least some agricultural products other than foodgrains. The targets imply that this will be done, for the outputs of oilseeds, fruit and vegetables, coffee, cotton, jute, and rubber, are all planned to rise much faster. No mention is made, however, of active steps which will be taken to encourage such a switch of agricultural production towards higher quality foods, and materials.

This very brief survey suggests that the provision for the more basic necessities is ample, and may be more than enough, for a rise in general consumption of 24 per cent.; and may imply a further fall in their relative prices. If this is the case, the taxation problem with the present-sized plan is one of keeping the rise in consumption to about this figure, when national income rises by about 30 per cent. Furthermore, the increases in taxation by which this is achieved can be designed primarily to reduce demand for comparative inessentials, especially those which are exportable, and there should be no worry if indirect taxes raise the price of such

[1] This expectation is supported by the Indian Statistical Institute's sample surveys of consumption expenditure.

[2] These figures assume a production of 78 million tons in 1960/1 as suggested by later information—not the figure of 76 million tons given in I.T.F.Y.P.

goods—this is probably the most desirable way to reduce the relative price of foodgrains. But it also suggests that greater risks might be taken by way of creating more employment, a large part of which would inevitably be on rural public works which would, with a comparatively short lag, themselves assist in raising agricultural output. *Ceteris paribus*, such programmes are admittedly inflationary, even if there were no time-lag—for the resultant extra output would increase peasant incomes rather than tending to offset the wage payments to those employed on the works. But not only is there the chance that the supply of necessities will be ample, but also there is the great anti-inflationary potential of commodity-aid—for which no allowance has been made in 1965/6.[1] If advantage is to be taken of this potentiality, of which Mr. Schonfield has spoken and written so persuasively,[2] the Indian Government should be planning to spend much more.

From the world's point of view, as well as India's, it is surely foolish for her not to take some risks, given a large surplus of food in the world, when this would not merely help to solve the urgent problem of underemployment, but is indeed the only way of solving it—and foolish of the West not to urge her to do so, and not to promise to meet any food deficiencies which may arise. In this respect I am in complete agreement with Mr. Shonfield. Finally, there is the remaining safety-valve of increased taxation, to which I have already alluded. Some argue that increased taxation cannot be expected to impinge on the demand for foodgrains and other necessities.[3] This I do not believe, for indirect taxation can extend in its incidence quite far down the income scale. In conclusion, it seems to me, whichever way one looks at the problem, that the Indian Government should have planned to spend more. The ways in which it could usefully spend more, will be briefly considered after discussing the problem of foreign exchange.

(*b*) **Foreign Exchange.**[4] The budget for foreign exchange in the Third Plan seems to be excessively tight. Export earnings are estimated to rise from Rs. 3,053 crores during the Second to Rs. 3,700 during the Third Plan. A rise of about 6 per cent. p.a. from present levels will be required to achieve this. Prima facie, this appears most optimistic, export earnings having fallen over the last decade.[5] Admittedly, brave words are spoken

[1] If the Indian plan works out, the Rs. 600 crores of P.L. 480 aid will go into increased consumption in the next year or two, or into stocks—but not into current consumption by 1965/6.

[2] Cf. A. Shonfield, loc. cit.

[3] Idem.

[4] This is very briefly considered. The reader may also refer to Sir G. D. A. MacDougall, 'India's Balance of Payments', *Bull. inst. Stat.* (May 1961).

[5] The sluggishness of Indian exports has been analysed and emphasized in S. J. Patel, 'Export Prospects and Economic Growth: India', *Economic Journal* (Sept. 1959).

in the plan about the need for an export drive: but there is no sign of decisions having been taken which are commensurate with the task, although the need has been fully recognized for some years now.[1]

Imports may also have been again underestimated as they were in the Second Plan. Assuming that the direct foreign exchange component of new plan projects is correct (Rs. 1,900 crores), there remains an allowance on current account of Rs. 4,450 crores for the rest, including Rs. 600 crores of P.L. 480 imports. If P.L. 480 imports are excluded, imports not relating to new capital projects ('maintenance' imports in plan terminology) are Rs. 3,850 crores for the Third Plan. This amount includes 'essential' consumption goods (these have been reduced to a very low level, probably less than Rs. 100 crores p.a.), and raw materials, intermediate goods, spare parts, and capital goods for replacement. The task of estimating these is one of almost impossible difficulty, and I.T.F.Y.P. itself gives no basis for judging how well it has been done (a lot depends on the progress of the import saving industries already established). No comparable figure is given for the Second Plan period, but it would be of rather little relevance in any case, because parts of industry in India have, for at least 3 years, been operating below capacity because of a shortage of materials and intermediates. But the Third Plan itself states that its estimate of 'maintenance' imports is an underestimate. It plans to accept some undercapacity working for lack of materials or components. It may seem foolish to import capital goods when existing capacity is to be left underused. This would certainly be the case if no mistakes had been made earlier. But in fact some capacity to produce rather inessential consumption goods was permitted in 1956/7 and 1957/8, before controls were tightened to meet the severe foreign exchange deficit which then emerged, and which has continued ever since—and will, one hopes, continue for decades.

Taking account also of the current invisible account, which is rapidly deteriorating owing to increased interest payments, and of the need to repay some of the loans already received, and of other capital transactions, the upshot is an estimate of Rs. 3,200 crores of aid required (equal to about $6\frac{3}{4}$ billion dollars), including P.L. 480 imports—of which Rs. 2,600 crores (about $5\frac{1}{2}$ billion dollars) would be net aid after allowing for capital repayments. Of the $6\frac{3}{4}$ billion dollars, 5 billion was promised at the time of publication, and a little more has been given since. The donors, and their contributions, as stated in I.T.F.Y.P., are given in Table IV. The near certainty of a short-fall in exports, the probable underestimation of imports, the risks of a short-fall of aid and of a further deterioration of the terms of

[1] The magnitude of the task, and some possible measures, are outlined by Sir G. D. A. MacDougall, loc. cit.

trade, make it all too likely that it will be impossible to carry out the plan as formulated. If foreign exchange is such a bottleneck, does it make sense to argue for a larger plan?

The present plan certainly seems to be the maximum size that could sensibly be formulated if the plan has to be roughly of the present shape. But this does not at all mean that more investment could not be undertaken without reaching the limit set by foreign exchange. The direct

TABLE IV

Aid for the Third Plan—Million Dollars

U.S.A.	2,345
U.S.S.R.	500
Western Germany	425
I.B.R.D. and I.D.A.	400
U.K.	250
Japan	80
Others*	227
Carry-forward of past aid	776
	5,003

* Canada, France, Czechoslovakia, Yugoslavia, Poland, and Switzerland.

foreign exchange component of industrial investment is estimated at over 40 per cent., of power and transport at about 25 per cent., and of all the rest about 4 per cent. To put it in another way, industrial investment accounts for 28 per cent. of total fixed investment, and 58 per cent. of the direct foreign exchange requirement of investment. At the other end of the scale, agricultural, handicraft, housing, educational, and social service investment account for 48 per cent. of all investment but only 10 per cent. of the direct foreign exchange component.[1] The power and communication sector investment is also much more closely tied to industrial output than to agricultural and service output. These estimates should not be taken too seriously, especially as there is always some indirect foreign exchange component (quite apart from the food the workers eat), but nevertheless they give strong support to the crude view that the pace of industrial investment is limited by foreign exchange, while that of other investment is limited principally by domestic savings (or, if this limit is reached, by imports of surplus food). This separation is valid over a short and medium period, because domestic savings cannot be easily turned into foreign exchange in view of the already low level of consumption good imports, and the impossibility of increasing export earnings very fast.

The only directions in which investment can thus be expanded are those which use almost entirely labour, and materials that can in turn be got

[1] These figures are given in I.T.F.Y.P.

almost entirely by labour—that is, processes which are both directly and indirectly labour-intensive. It is no coincidence that such investments, while making the most immediate contribution to the welfare of the poor, also cause the greater concern to a Finance Minister. But this, the food and inflation aspect of the problem, has already been dealt with above. Such investments include most forms of rural public works: minor irrigation, levelling, contour-bunding, drainage, road-building (in general, moving earth about), and also low-quality housing, and investment in education and health, including birth-control.

It may be objected that it is lop-sided to increase the labour intensity of the plan by expanding the highly labour-intensive investments, while retaining as much as possible of the highly capital-intensive investments. I believe this objection is valid only to a limited extent, because the difficulties of making industrial investments (which are largely foreign planned) less capital-intensive are, for many well-known reasons, in practice formidable. This is not to say that more effort should not be made to lower capital/output ratios in industry. Certainly the arguments of those who have advocated keeping output low and profits high have no relevance in India. Savings could be raised as high as most people would think desirable in the light of present poverty without resort to such inegalitarian and inefficient expediencies.

It is also sometimes objected that the capital/output ratio of labour-intensive investment may be high. Very little capital is employed per man, but the output is also very low. In fact no one has any real idea what the capital/output of such investments would be. But even if it is high, this is no strong objection, because the usage of scarce resources would be extremely small (in other words the price of labour does not reflect its scarcity). The most plausible objection might be that they would in fact use a lot of administration, which is certainly a scarce resource. This, at most, should only be a short-run objection—for the training of administrators itself uses little by way of scarce resources, and there is in any case a problem of 'educated unemployment' in India. The extent to which administration is in fact a barrier in the short run is doubtful. It is known that State Governments have been keen to spend more money in these labour-intensive ways, and that the Planning Commission has held them back. It is conceivable that one of the reasons for this is that the Planning Commission believes that State Administrations are so loaded that more expenditure would actually produce less results, or at least extremely little in the way of positive results.

To conclude this section, it may be said that it is most unfortunate that many of those, both in India and the West, who would like to see more emphasis on labour-intensive agricultural and social service investment are also those who would like to see small plans, and who are distrustful of the pressure to industrialize. The main exceptions to this are to be found among academics. Also, unfortunately, those who want large plans in India tend to have relatively little interest or expertise in the agricultural sphere (though this does not hold so much for social service investment). But, in truth, these kinds of investment are only to a very limited extent competitive with each other. A large increase in non-industrial investment should be possible with only a very small reduction in industrial investment, given a limited pool of non-P.L. 480 foreign exchange. Where such a choice is open, it would be right to reduce industrial investment.

In the present stage of Indian development, industrial investment is primarily valuable not for the immediate contribution it makes to output and employment, but for building up the supply of industrial materials, intermediate goods, machinery, and exportables, so that India can look forward later on to a situation in which she can transform a higher rate of domestic saving into investment goods, without a permanently insoluble balance of payments problem. This presupposes the need to do without aid within, say, a decade. Why the hurry to achieve self-sustaining growth? From the Indian point of view it is understandable—who knows what the climate of world opinion about aid will be then? But from a humanistic point of view it is certain that massive world aid in the form of grants to India to support her balance of payments, and not project loans, should continue for the rest of this century. Professor Rostow does no good service if his 'stages of growth' make people think otherwise. If such a long-term view were taken, there need be slightly less urgent pressure for industrialization in India. But, finally, it should be noted that the choice may not exist between a little less industrial investment and more non-industrial investment, because the elimination of an industrial project often reduces the aid forthcoming. The same may be true of attempts to reduce the capital intensity of industrial investment, e.g. by buying second-hand equipment.

II. The Balance of the Plan

To some extent, I have already dealt with this problem elsewhere,[1] and shall be brief. It should be obvious that the best development plan depends both upon what is wanted (or can be sold abroad), and what resources are available. The more extreme views about Indian development arise from excessive emphasis on either supply or demand—to the exclusion of the other.

[1] *National Institute Economic Review* (May 1960).

1. Agriculture and Industry

The resources side of the problem has already been partly discussed. The excess supply of labour indicates greater emphasis on agricultural investment: but targetwise at least, the emphasis on agriculture looks sufficient (we here leave aside particular products, and the balance of agricultural output itself). There is no real problem here. If a drive for labour-intensive agricultural investment looks like being too successful in terms of output, there would be no difficulty in temporarily slowing up the most capital-intensive form of agricultural investment—major irrigation projects and fertilizer plants. But although the targets are high enough, this does not necessarily mean that the emphasis is sufficient. However, it is considerably greater than in the Second Plan. In money terms, government plan expenditure on agriculture (including irrigation) is to double as compared with the Second Plan out-turn, as against a general increase of plan expenditure of 63 per cent.[1] Moreover, even with the benefit of hindsight, one cannot say that agriculture was much under-emphasized in the Second Plan. Two bad years, 1957/8 and 1959/60, made it seem so. But the 1960/1 target of 80 million tons of foodgrains will very nearly have been reached, and this target was high enough (most foodgrain imports under P.L. 480 are probably going into stock at present). More of most other agricultural outputs, except sugar, would however have been beneficial.

2. Light and Heavy Industry

Apart from agriculture versus industry, the main 'balance' debate, especially in the West, has run in terms of light versus heavy industry. Most of those who are opposed to the relative emphasis on heavy industry neglect demand. India already makes most of the products of light industry: leaving possible export markets aside, it is not surprising that it is the heavy side (steel, chemicals, machinery, oil; and in general materials, intermediate products, and capital goods) that is planned to grow fastest. It is the demand for these products that is putting the major strain on India's balance of payments. Of course, there is in theory the alternative of conquering export markets with light products, and of orientating Indian industrial investment in this direction. Even taking account of the fact that such industries may be less capital intensive, it seems to me bold, even foolish, to suggest that any large switch away from the present policy of import substitution would be right. On this subject, the real issues were clouded by some bogus arguments in favour of heavy

[1] This figure understates the shift in emphasis, since fertilizer plants are to be as much a feature of the Third Plan as steel plants were of the Second.

industry advanced by some Indians before the Second Plan. Fortunately, the conclusions were probably sounder than the arguments.

In the above respect, the Third Plan does not appear to contain any significant switch in emphasis. The division of fixed investment in organized industry and minerals between the public and private sectors can be taken as a rough indicator of the balance between heavy and light industry. The public share of investment in this sector was 56 per cent. in the Second Plan out-turn, and is 59 per cent. in the Third Plan. But within heavy industry the product-mix is rather different—less steel and more fertilizers and more machinery. For organized industry and minerals as a whole, public expenditure is planned to increase by 69 per cent. in money terms (against 63 per cent. for all public plan expenditure).

A special category of light industry is that dealt with in I.T.F.Y.P. under the heading 'Village and Small Scale Industry'. Public plan expenditure on such industry is partly direct capital investment, e.g. the construction of industrial estates, partly the provision of loans and advisory services, and partly subsidization. Such expenditure is planned to rise by about 50 per cent., rather less than the plan average. In view of the greater labour intensity of such industry, this may seem disappointing. But it is less so if one subdivides the category into traditional (mainly hand-spinning and weaving) and new industries, since expenditure on the latter is planned to double. While it seems to be correct to subsidize and protect the traditional village industries with the present degree of under-employment, it is more difficult to make a case for any large expansion.

3. Power, Transport, and Communications

Power has the largest increase of emphasis in the Third Plan, and transport and communications the smallest. Public expenditure on power is planned to rise by 127 per cent. (private expenditure is negligible), and that on transport and communications by only 14 per cent. This low figure is mainly accounted for by a very small rise in monetary investment in the railways (in real terms there is a fall). But investment in roads also shows a relatively small increase (23 per cent.).

Proper provision for these sectors is theoretically rather more simple than for goods which may be imported or exported. Given a proper price policy, the aim must be that of satisfying the domestic demand. Demand for both power and transport has previously been underestimated, with undoubted repercussions on the production of other goods. The large increase in the power provision is a reflection of this. The relatively low investment in the railways does not imply any neglect, for investment in the last decade was peculiarly heavy as a result of the war-time running-down of capital.

4. Social Service and Miscellaneous Investment

Social service plan expenditure is to increase by 57 per cent.—rather less than the average. Education, health, and research account for about two-thirds of the total under this heading, and housing, relief, and rehabilitation for most of the rest.

Within the total of Rs. 1,300 crores for this sector, there is an item of Rs. 50 crores for family planning (against Rs. 5 crores in the Second Plan). It is stated that 'clearly, the limitations of a programme of the nature of family planning arise not from finance, but essentially from considerations of organization, and personnel, which affect the scale and intensity at which the programme can be implemented' (I.T.F.Y.P., p. 676, para. 61).

Rs. 50 crores is a small item out of a total of Rs. 1,300 crores, to be singled out for exclusive discussion. But its predominant importance justifies this. The author has no specialized knowledge of this subject, but nevertheless proposes to tread where angels fear.

A great deal of research clearly remains to be done to determine the best methods of exposing uneducated people to contraception, and to finding cheap methods which are both acceptable and will have a statistical impact. But whatever the methods, a country-wide organization will be required which will serve both family planning and minor health needs. To cover the country with 'family planning' nurses by 1966 (with a minimal training not only in family planning, but also in such things as hygiene, child-care, first aid, and minor medical attention) at the density of one per 2,500 heads (equal to about one per 500 women of child-bearing age) would cost about Rs. 30 crores p.a. in salaries. In addition there would be some considerable expenditure on supplies, training, and research. Provided the attempt is not made to teach them too much (they could be more highly trained later) it would be possible to train such an army of women by then[1]—if real urgency were felt. This suggests to me that, whatever is said, Rs. 50 crores for 5 years does not begin to add up to a really determined effort.[2]

[1] The use of women presupposes that the main effort will be aimed at getting women to use contraceptive methods. I believe it is widely agreed that considerations of cost and response together make this the best hope.

[2] Some of the expenditure which I am proposing might admittedly appear in the plan under other headings, e.g. 'primary health centres' and 'auxiliary nurse-midwives'. There is, however, no indication that the latter are intended to have family planning as one of their roles. In any case the planned number of these in 1965/6 is 48,500, against a needed total of about 250,000 to cover the country at the density suggested. The training period of 2 years is also excessive for what I have in mind. The number of 'primary health centres' which could provide local bases for family planning work is also planned to rise only to 5,000 by 1965/6—one to every 100,000 persons. The number of family planning clinics to be established is 8,200, one to every 13,500 women of child-bearing age. It is thus clear that there is to be no really major effort to provide the country-wide organization needed to educate people in family planning.

I.T.F.Y.P. also makes little allowance for success in family planning. The latest estimates are for a rate of growth of about 2½ per cent. p.a. for the next 15 years, with little sign of any slackening. This is double the rate of growth expected only a few years ago. The lack of an adequate response to this fairly recent realization that a population explosion is already taking place seems to proceed not from any religious distaste or lack of intellectual conviction, but from a normal governmental tendency to do too little too late and hope for the best. One can conclude with a sentence taken from I.T.F.Y.P. itself—'The programmes which have been drawn up are likely to be inadequate and should be considered further' (p. 179, para. 27).

5. Summary of Changes in the Balance of the Plan

There has been a large shift of emphasis in favour of power and agriculture, and a slight shift in favour of organized industry. This has been made possible by a levelling-off of expenditure on transport, and by a slight relative reduction of social service expenditure. Otherwise the balance of the Third Plan is similar to the Second.

6. The Divergence Between the Physical and Financial Plans

From I.T.F.Y.P., it appears that it is the physical plans rather than the financial allocations which are properly interlocked, in so far as this is possible. For instance, the physical railway programme (Rs. 940 crores) is fairly elaborately based on specific demand estimates, in turn based on other targets in the case of the heavy materials (steel, coal, coke, cement, and iron ore). But there is no indication given of the logic of the reduction of Rs. 50 crores, to Rs. 890 crores, in the financial allocation. Again, the industrial output targets relate to the physical not the financial plan. One suspects, therefore, that the financial allocations are in the nature of a quick adjustment to produce a total of Rs. 7,500 crores which was agreed rather late in the day.

Both for this reason, and because, presumably, an enlargement of the financial provisions may tend to be in the direction of the physical plan, it is interesting to look at the divergencies between the two. The total divergence of Rs. 800 crores is very largely accounted for by three sectors—organized industry and minerals (Rs. 362 crores), transport and communications (Rs. 169 crores), and social services (Rs. 226 crores). So far as industry is concerned, there is little indication of which of the physical projects will suffer, and it seems doubtful whether this is decided. It may well be governed partly by the available aid, and partly by unplanned delays. The divergence in transport and communications is well spread between the railways, roads, shipping, post office, and miscellaneous. It does not, therefore, appear that this divergence is consequential on the industrial divergence. One might perhaps have thought that a reduction of industry would reduce the demand for electricity: but the power programme is retained intact. The other major divergence, in the social service and miscellaneous sector (Rs. 226 crores), falls largely to the account of the Central Government where the financial provision is only Rs. 350 crores against 'physical' plans of Rs. 525 crores, the corresponding figure for the States being Rs. 863 and Rs. 914 crores. Since health and education are predominantly State matters, it can be presumed that these programmes are not meant to suffer seriously. The Central Government's physical programmes in this sector are a very mixed bag, and their cost is stated in very rounded terms—so perhaps neither they nor the divergence should be taken very seriously.

This discussion suggests (*a*) that even the physical plan must be regarded as a very loose-jointed affair, and (*b*) that there is little reason to suppose that any subsequent enlargement of the plan need or should be towards a fulfilment of the 'physical' plan. It is most unlikely that the industrial programmes can be fulfilled in view of the foreign exchange shortage. Nor does it appear that the larger physical transport and social service programmes would do much to meet the case for a larger and more labour-intensive plan.

7. Investment Criteria and Project Selection

Much has been written about investment criteria in academic journals. I.T.F.Y.P. does not mention the subject. Nor do I believe that the formal application of investment criteria can be useful in determining the division of investment between the broadly defined sectors discussed in the plan. For instance, it is impossible to set the returns from a little more investment in agriculture against those from a little more investment in education. Furthermore, the 'investment criterion' discussion has usually run in terms of pairwise project comparison, which is useless where projects are essentially linked together. Nevertheless, investment criteria should be applicable to the extent that the possibility of imports breaks the otherwise essential interlocking of a development programme, and to the extent that replacing one project by another has little effect on other industrial outputs. Since the benefits of projects are often exceedingly difficult to estimate, investment criteria are easiest to apply where the choice is between different ways of doing the same thing (atomic versus thermal power, minor versus major irrigation, &c., and generally in project design) or between different methods of providing essentially the same thing (road versus rail).

If one rejects the Galenson–Liebenstein thesis,[1] the correct investment criterion boils down to choosing from any pair of projects that one with the greater return on capital, having accounted for all present and future inputs and outputs at prices which equal or will equal social costs and values (external economies are implicit in this statement).

It is on the input side that actual prices in India most manifestly fail to reflect social costs, although sometimes external economies may be dominant on the output side (e.g. receipts from an irrigation project may bear little relation to benefits). The best approach to a more rational project selection may be to try to get prices right (by devaluation, by trying to make the interest-rate structure more rational, and by proper pricing policies in public undertakings). Even if this were done, however, the price of labour would remain higher than its social cost.

Thus the practicability of using shadow prices is, or rather should be, a burning question in India. It would be impossible to use shadow prices in an optimal manner because (*a*) one cannot get projects designed with hypothetical prices in mind, especially in the private sector, and (*b*) it is in any case theoretically sub-optimal to use, say, a shadow exchange rate and wage to evaluate a project when wages and foreign exchange enter indirectly as well as directly on the cost side. Nevertheless, it might still pay to use shadow prices at the level of the Planning Commission and Ministry of Commerce. It seems to be true that, in some sectors at least, preference is given to labour-intensive methods, and to projects with a low import content (whether in construction cost or material usage) or high potential exports. Shadow prices would at least systematize this proper bias, and the attempt to apply them would ensure that more adequate information about costs, and expected output and sales, was available to the licensing committees.

Although little of it finds its way into I.T.F.Y.P., a lot of work is done on particular commodity balances. This work is very useful. Nevertheless, in an open economy, except for non-tradable goods, it provides more of an insurance that too much is not produced of particular goods, than a means of selecting how much of what to produce, and how to produce it. In short, there is nothing very scientific about the way in which the detailed structure of industrial development programmes is arrived at—and this is especially true of the licensing of private-sector projects.

[1] That is, I reject it within the present context, because I believe that the Indian tax system is at present by no means stretched to the limit, and that its fuller use is a much better way of increasing overall savings than always choosing the most profitable projects regardless of whether prices reflect costs or benefits. I have elsewhere examined the proper shadow price of labour where the tax system cannot prevent extra employment giving rise to socially excessive consumption, which implicitly determines the optimum investment criterion under such conditions ('The Real Cost of Labour and the Choice between Consumption and Investment', *Quarterly Journal of Economics* (Feb. 1961).

III. Conclusions

For reasons of space and personal ignorance, much that is important has not been discussed, in particular, education, co-operation, community development, land reform, and the execution of the plan. What I have tried to do is to probe a little into some of the limitations of Indian planning, and to see in broad outline how well adapted the plan is to India's needs and resources. My main conclusion is that the plan is insufficiently bold in its attack on underemployment, which is at the same time India's greatest problem and her greatest unused asset. I also believe that the problem of her explosively high birth-rate is not being faced with a sufficient sense of its extreme urgency. But while one may be in certain respects critical, there is also much to admire. And no criticism is complete without reminding other countries that India can still use much more aid, especially in the form of general grants in aid of her balance of payments, and that one can scarcely overstate the magnitude of her needs.

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The following were sent to(as indicated)

The Agricultural Development of Colombia, IBRD, May 1956, by Sir Herbert Stewart (Reports Desk)

Economic & Engineering Feasibility Report, Dacca-Chittagong cum Narayanganj Road, Volume I, by Ammann & Whitney International Ltd., Zafar Associates, Government of East Pakistan Works - (Operational Files)

The following sent to Betty Kinsey - Op. Files

Report on Currency and Finance for the year 1964-65 Reserve Bank of India

Explanatory Memorandum on the Budget of the Central Government for 1967-68 (as laid before Parliament)

Explanatory Memorandum on the Budget of the Central Government for 1966-67 (as laid before Parliament)

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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The following given to Betty Kinsey :

Estimates of National Income, 1948-49 to 1962-63
February 1964, issued by Central Statistical Organisation
Department of Statistics, Cabinet Secretariat, Govt. of India

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