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EAST AND WEST IN INDIA'S ECONOMIC DEVELOPMENT

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Chapter I

Competition between East and West in India

India today is well into her second five-year plan period. Over the past decade, from the very creation of an independent India in 1947, top priority has been given by government to the formulation and implementation of plans for accelerating India's economic development. For generations economic stagnation was the norm in Indian economic life. Prime Minister Nehru and his Congress Party have determined to pursue a conscious and planned course to build the habit of economic growth into the static structure. In this respect, India is far ahead of most other low-income countries in Asia, Africa and even Latin America. While some of these, especially in South America, are experiencing dynamic forces in their economies and may even have entered upon a long-run path of economic expansion, few have yet formulated an explicit and comprehensive program for inducing systematic growth. For the economically underdeveloped lands of Asia and Africa in particular, program formulation is now in process, or still in prospect. Inevitably, Indian experience serves as a possible model.

The sole relevant alternative model is provided by the Chinese experience. Communist China has also been engaged over the past seven to eight years in program formulation and implementation, again for the task of converting stagnation at a low level of living into a dynamic process of economic

expansion. The parallels in the two pre-plan positions are striking. Equally striking is the contrast between the totalitarian schemes in China and the democratic programs in India. Given today's world, third countries, especially in Africa and Asia will be influenced in their own programs by what seems to be happening in these two lands. However much India and China disavow a state of competition between alternative paths for the transformation to growth, comparisons will be made everywhere, and lessons put into practice.

The leaders of India's independence movement, some of whom are key leaders of India today, were devoted to democratic forms and processes. These ideas are incorporated in the Indian Constitution; their hold is clearly visible today in the conduct of political life in India. Court procedures, the process of popular elections, the methods of plan formulation--to list but a few important activities--reveal how deeply convinced are Indian leaders of the importance of respecting the rights and privileges of each Indian. An important part of India's leadership was educated in England at a time when interest in Fabian socialism was high. Small islands of tremendous wealth in India stand out in striking contrast to the broad sea of extreme poverty. Gandhi was concerned about social as against private objectives, about cooperation rather than competition in the social organization; he considered socialism "a beautiful word." In these circumstances, it is not surprising to find that Indian democracy tends readily to acquire a mild and gentle socialistic veneer.

India's goal--a socialistic pattern of society--has been well publicized.

There has been much talk of a growing public sector especially in industry, of income equality within India, of large-scale cooperative movements and similar attributes that might be associated with such a social order. On the whole, however, Indian performance in this direction has been limited. Cooperatives are still of relatively small importance--Income equalization is still for the future. The private big industry sector has continued its rapid expansion into the Second Plan. India's record on servicing foreign investment and on capital repatriation finds few peers anywhere. To date, at any rate, India's Socialistic actions have not matched India's Socialistic words.

In a world of growing military strength, polarized in two groups under the U. S. and the USSR, India has chosen nonalignment. A neutral position has permitted those Indian leaders who command a world audience, Nehru and Krishna Menon particularly, to condemn power blocs and armament races generally and to side with either group on the merits of specific questions. With a socialistic tinge, with a tendency to give more attention to the word than to performance, Indian nonalignment has occasionally struck the West as being somewhat less than neutral. Again, however, this is a show in words. In deeds, the government of India, has taken unequivocal action against all manifestations of foreign interference with India's domestic communist party. It continues to demonstrate its attachment to the content and method of democracy.

Finally, India's development aims are beyond what India's domestic resources can accomplish. The development plans will long require a net import surplus. There is scope for large amounts of technical assistance in many fields. India needs sympathetic, flexible and continuous encouragement and cooperation from nations able to provide significant amounts of

goods and services of varied kinds. The U. S. is able to do this; the USSR has indicated that it is prepared to do so also.

All the factors summarized above serve to provide in India a unique setting for competition between the West and the East. In no other non-committed underdeveloped land is there comparable determination and action for economic expansion. Assistance by Russia and the communist nations, or by the United States and the democratic nations, might well be reflected in recognizable contributions to the growth India seeks. Inevitably these actions and contributions will have important influences upon the course of action of other nations seeking to transform their economies into modern forms. It would not be realistic to assume that these respective contributions will alter India's international posture in any direct way. Yet, India's present economic situation and prospects justify careful consideration, on the part of the U. S. and the USSR, of the possible roles which West and East should be playing there. To appraise these one needs first to examine the scope for such efforts as presented in India's development plans.

On the eve of the First Plan in 1951, national income per capita was about $55, near the bottom of the range of available national observations. Population density was one of the highest among the poor countries, while the percentage of population directly dependent upon the land for livelihood was a high 70 per cent. From this resource point of view, therefore, Indian prospects for accelerating growth might not be as favorable as those in economically underdeveloped lands, even in Asia and Africa, to say naught of Latin America. But unlike most others, India has had a long history of modern industrial development. While modern industry by 1951 had not become

very
a/ important contributor to total national product, it has given India significant groups of people skilled in modern business enterprise. Indeed, India's intellectual leadership, including the top ranks of an outstanding civil service, finds few equals in the underdeveloped countries of the world. Such leadership may perhaps explain the Indian head-start among the nations newly aspiring to improved economic conditions.

Domestic savings, generally estimated at 5 per cent of the net product prior to the 1951, have served only to maintain the level and composition of per capita income over the preceding two or three decades. The low level of income seemed to provide but a limited base for the additional savings needed to step up the rates of capital creation. Moreover, at these low levels of per capita income, India was an essentially self-sufficient country. There was small opportunity for any large unexpected saving through favorable shifts in the terms of foreign trade. One component of a plan for accelerating development therefore had to be a sizeable increase in investible resources through net imports from abroad. In addition to increased savings from domestic product, India did plan for significant deficits in her current international accounts.

For the first plan, domestic savings were originally viewed as providing only 75 per cent of total net investment, private as well as public. Net imports of some $1.7 billion were anticipated, and only $610 million of these, it was felt, could be paid for through a reduction in India's foreign exchange reserves. The remaining $1.1 billion was never explicitly mentioned as the target for foreign grants, loans and other investments. Rather it was always anticipated that some part of this could be met through additional savings that would be generated domestically. In the present plan, domestic

resources, estimated more generously than in the above figures for the 1951-1956 plan, were counted upon for 82.5 per cent of the (much larger) total net investment. Net imports of some $2.3 billion were thus implied, of which India's own foreign reserves could be counted upon for only $420 million. The residual $1.9 billion was set as a target for new resources from abroad: about $1.7 billion was designated as the "resources to be raised externally" for the public sector, while account was taken of net foreign investment on private account of some $200 million.

These were India's estimates of net needs from abroad--in terms of over-all financial magnitudes--for her development plans. While there was considerable detail on probable imports over the plan periods, especially for second plan years, the Plans did not request assistance in the form of a specific bill of commodities and services from abroad.[1] Indeed, the First Plan specifically stated that the balance of payments concept of the program required "that external assistance is received in a form which allows flexibility in the use of the foreign exchange resources provided by it." (p. 63) The absence of a specific estimate of the external assistance required, and of any list of items, can probably be attributed to two major facts.

First is the obvious point that, however carefully the estimates were made, they involved use of data on domestic savings which are not systematically collected in India. They involved guesses of the effectiveness of procedures for mobilizing domestic resources never before tried by Indian institutions. Moreover, the Indians were well aware that payments for any particular import could be met in a number of ways--ranging from export receipts to foreign loans or grants. In neither plan did India anticipate any

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[1] Such particulars were of course provided later in the course of specific negotiations for loans and other forms of net transfers to India.

problems of the convertibility of the currencies of different countries. For the first plan, at any rate, there was also the belief that the imported capital goods essential for development could really be financed through India's own resources. Additional requirements (for food, for example) could then be met either through further expansions in domestic resources or through net imports.[1] For these reasons, therefore, and they were sound ones from an economic point of view, the planners did not particularize a bill of specific import goods that foreign sources were being requested to finance.

This reason complemented the second: India did not wish to adopt the posture of a nation seeking essential assistance from other lands. Both plans indicated the level of development India could achieve primarily with its own resources. This floor was preferred to a higher level which might in any way impinge upon the independence of India as a sovereign nation.[2] Thus, loans were generally preferred to grants, despite the interest and repayment obligations which would seem to make the grant a much more helpful measure of foreign assistance. The lender-borrower relationship was accepted as one in which the privileges and responsibilities of each party were broadly recognized, and could be legally defined. In addition, India was most anxious to keep the door for foreign finance open to anyone willing to assist on these terms. An artificial definition of a particular list of imports that were

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[1]Actually, the developments from 1951 to date were far different from those foreseen in the Plan. See Chap. III, pp. 5-7.

[2]". . . external assistance is acceptable only if it carries with it no conditions, explicit or implicit, which might affect even remotely the country's ability to take an independent line in international affairs." First Five Year Plan, p. 26.

needed, above and beyond India's current ability to pay, might seem to preclude some nations as possible contributors. India, nonaligned politically, was not prepared to seek aid only from the West, or the East.

Yet, given the certainty that Indian development programs, as planned, would require external assistance, the request for such aid in the two plans does appear casual--however defensible India's formulation on technical economic grounds. While the Indian request implied the provision of resources from abroad in "un-tied form," i.e., essentially as foreign exchange to be spent as India's development needs dictate, the logic of the presentation might also permit a different interpretation. Capital exporting countries able or anxious to provide only specific services and commodities--whether food, technology, or steel mills--could make them available against their own interpretation of the requirements of the Indian plans. The requests for assistance, in other words, might be considered an invitation to foreign countries to see for themselves in what way their net exports could play a role in Indian development. And this is in keeping with the openness of the entire Indian scheme of planning. There was an implicit and explicit desire to have the problems of and possibilities for Indian economic growth discussed and improved not only through domestic efforts, but also through the interest of competent foreigners. The process of accelerating the rate of development--from stagnation to the point where economic growth was self-sustaining at a politically acceptable level--was scarcely an obvious one. India's planners were well aware that India's effort, pioneer among 20th century democracies, might need improvement. Moreover, the first Plan appeared early in the period when the nations of the world had decided that the

acceleration of the rate of economic growth in the poorer lands was a matter of the highest international policy. There was broad interest everywhere in the problems, and a growing awareness of the possibilities of international assistance in their solution.

About $625 million of foreign assistance for the public sector was in fact made available to India over the period of the First Plan, two thirds of which India actually used in those years. Some new investment in India also was financed by private foreign companies.[1] All this assistance came from the west, including in small measure (about 4 per cent) the International Bank. The United States alone provided about 80 per cent of the total. The USSR and other communist lands provided no assistance whatsoever.

Very little of the assistance to India took the form of foreign currency to be used as and how the Indians determined. Rather, a very large part was made available as foodstuffs, following statements by India of specific needs for grain imports. The bulk of U. S. assistance excluding the food components was allocated to a relatively large number of specific projects, worked out with Indian officials and institutions but reflecting U. S. views on priorities for Indian development. The emphasis was clearly toward an expansion in Indian agricultural output, and in production in rural areas generally. The U. S. became closely identified with India's path-breaking program for community development. Assistance was specifically marked for the

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[1] GOI Planning Commission, Review of the First Five Year Plan, May 1957, p. 31. In considerable measure, these "net" imports were offset by capital outflows on private account; India's current accounts were almost in balance over the first plan period. See Chap, III, p. 2-4.

tube-well program, fertilizers, and various goods and equipment for rural areas. Admittedly, the First Five Year Plan was a plan for agriculture and irrigation; there was little question but that this emphasis made good sense to the U. S. Government and its officials involved in aid in this region.

The USSR did not provide assistance during this period,[1] but it did make amply clear its development emphasis for India. In August and September, 1954, as the first plan began to show signs of life, the Soviet Government let the Indian Government know (through a Bombay businessman!) that it was agreeable to supplying "machinery and equipment as well as technical assistance in the setting up of a steel plant. . . ."[2] Russian steel experts arrived in India in late November, 1954 and submitted a report within eight weeks. On February 2, 1955, the two Governments signed an agreement in Delhi for the construction of a steel plant of one million ingot ton capacity at a total cost of $210 million, almost half of which would need to be spent abroad. The agreement included a Soviet loan, on very favorable terms, for meeting foreign exchange costs. The East thus dramatically entered upon the Indian development scene; it made unmistakably clear its views on the importance of rapid and heavy industrialization in Indian economic growth. Well before the formulation of India's Second Plan, the USSR was attempting to identify itself with the inevitable emphasis of that program. The official and the public reaction in India to this entrance of the East into India's development efforts was extensive and enthusiastic. The Russian steel

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[1]Russian wheat did come to India in the near-panic years from 1949 into late 1951 and 1952. What came was paid for, and usually at higher prices than other purchases. Russian offers of additional shipments were unacceptable in price terms. See Raghavan, G. N. S., India and Russia (A report prepared in India for the Center for International Studies, 1957.) pp. 4-5.

[2]From a statement in Parliament on September 24, 1954, by Mr. K. C. Reddy, Minister of Production, as quoted by Raghavan, G. N. S., op. cit., p. 9.

offer appeared to compare most favorably with an agreement for the establishment of a steel plant reached about one year earlier by the Government of India and the West German firms of Krupps and Demag.

Since then, Russian schemes for aiding the Indian program have multiplied. They retain the big-industry emphasis which Indians so clearly associate with the achievement of the Russian economy. As of present writing, Russian commitments of assistance for the Second Five Year Plan period are of an order of magnitude about one-third that of the United States.[1] East and West are actively involved in the Indian development effort. There is reason to believe that both will continue to provide assistance--perhaps even to expand their roles. However much both appear to be directed toward a common end--growth in the Indian economy--the activities of the U. S. and USSR in India must still be considered as competitive rather than complementary. Their joint role is more apparent than real.

Yet, it would seem that the policy gains to the East and to the West from participation in the Indian development effort are asymmetrical.[2] Whatever the relative contributions--in amount or in kind--U. S. interests would be enhanced, not those of the USSR, as a consequence of success in India's development effort. For India today is a democracy, with top political leadership and top bureaucracy basically devoted to such organization of political life. There is as yet little direct evidence of any desire for a shift away from democracy on the part of this leadership. Indeed, India-Soviet cooperation is explicit with

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[1] See Chap. IV, pp. 10-12.

[2] The discussion in this paper on possible Indian views of action by the U. S. and the USSR is confined essentially to action more or less directed to problems of economic development. It is simply assumed that international actions of the two major powers with respect to other countries--Hungary or Egypt, for example--or with respect to major international issues such as disarmament are not sufficiently world-shaking to force a basic political rethinking in India, and elsewhere.

respect to the firm intent of India to proceed without recourse to the totalitarian or authoritarian methods of Russia and her satellites. One must therefore ask about the conditions which could alter present policy orientations. What could bring new kinds of leaders, or new views to present leadership?

Today there is room for considerable optimism, if not complacency, with respect to the possibility for such a change in leadership forced from below, whether by parliamentary or revolutionary processes. The Congress party habit is so ingrained, and the strength of other groups, including Communist, so limited, that such shifts in response to popular pressures seem unlikely for the next five to ten years, at any rate. This may be questioned if economic events affecting the bulk of India's people take a marked and obviously persistent turn for the worse beginning in the very near future. Still, so long as per capita incomes remain essentially as they are or even if they decline somewhat, these political prospects do remain favorable--the "promise" of the Plans and stepped-up domestic communist activity notwithstanding. In India, the link between levels of living for the mass of people and political activity is a tenuous one at best. Decades of subsisting dim expectations in this regard.

On the other hand, really significant reversals in the prospect for economic growth may well bring important changes in the Congress leadership's attitude toward the functioning of the Indian economy and toward the role of the private citizen in the economy. One can anticipate a break in the continuity of past policy and action in this regard should it become clear that the Second Plan will fall significantly short of its objectives. Indian leadership will find it difficult to accept obvious failure, or even lack of

appreciable success, before a watching world. India will not enjoy being a poor second beside China--however much Mr. Nehru disapproves of Chinese methods for achieving economic expansion. It seems fair to assume that the possibilities for a shift toward more authoritarian and totalitarian methods in the conduct of economic and political life in India are more allied to this leadership view than to any broad popular pressures.

Through this route, faltering progress on the economic front--whatever the major contributory causes--can result in significant changes, in form or in practice, in Indian political institutions with which we are familiar today. One might then appropriately ask whether there will be popular elections in the '60's, in which state and national legislatures are actually chosen by all the people of voting age in India. Governmental processes which respect and protect the democratic prerog tives of individual citizens may become less virile. Governmental development policies will seek other ends than the improvement year by year and as rapidly as possible, in the standards of living of all the people of India. Clearly, it is in the preservation of these characteristics of Indian society that the Western and American policy interests lie. While the prospects for their preservation are favorable, the risk lies in the growth of a conviction on the part of Indian leadership that present methods and associations are not sufficient to India's needs.

Acceptance of this challenge by the United States and western democracy still leaves the basic problem of what role on the part of foreign countries can best contribute to Indian economic development. First, however, there is need for some remarks on USSR objectives and possibilities in India. If

the above discussion is relevant, Russia has little to gain politically from attempting to assure a successful Indian development effort. The benefit will probably be the West's even if the U. S. were to play a minor role in India's development activities, and perhaps even if the East played a very large one.[1] In other economically underdeveloped lands, where governmental orientation or tradition is not so clearly committed to democracy, the situation would probably not be the same. There, the scale and nature of foreign cooperation, particularly where one country (the USSR) is economically so much less capable than the other (the U. S.), might well be of decisive importance in influencing attitudes toward the recipient country and its political philosophy.[2] In India, perhaps in contrast, the Russian program serves Russia best if it serves to deter or to limit western assistance.

Assistance from the USSR is large and significant enough to leave a distinct impression of Russian sincerity and cooperation with respect to India's efforts. Russian aid may not fill priority development needs; it does induce popular interest and support in India for Russia's role. A neutralist India which seems to enjoy Russian assistance so fully may not elicit adequate cooperation from the West and especially from the United States. Whether or not this has been the explicit objectives of Soviet action, it is certainly true that these attitudes in India have served to

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[1] This last presents problems in that a large eastern role must inevitably be accompanied by institutional developments in India which would render more difficult the maintenance of the present trend of social evolution. Thus, state trading might have to become large enough to interfere considerably with freedom of individual action. More Russian-built machinery will tie more parts of the Indian economy to the Soviet way of doing business, etc. Still, the generalization remains that it is the end-product, over-all achievement on the development program which will be decisive rather than the specific means by which this product was obtained.

[2] In fact, the quantitative aspect of the programs in India might have precisely this kind of influence in other countries of Asia and Africa.

aggravate the prospects for establishing a broad basis for cooperative action by the United States with India. In these circumstances, Russia stands to gain: without significant foreign assistance, the Indian development progress so important to American policy interest will not succeed.

Of course, it is not enough that a United States program simply continues in the face of the apparent unattractiveness of some Indian policies and actions to important groups in America. The program must also be larger than in the past. It must concern itself with the Indian development effort in the broad, rather than focus on any specific part of the program in which the U. S. is involved through financial, technical, and other assistance. The U. S. role must be flexible enough to shift its emphasis and intensity. The process of economic growth is relatively smooth only in the economists' models. In countries where much of the product is dependent upon man and climate rather than machine, annual fluctuations can be large; essential tasks to facilitate growth will vary. In sum, the U. S. needs to formulate a program whose objectives are to complement Indian effort in order to achieve given development goals.

The specific possibilities for U. S. action to help assure economic achievement in India needs to be assayed against the specific problems there, and the extent to which they are being dealt with by India and by other cooperating nations. This last is a major task of this study. Here, however, it needs to be made clear that this problem of U. S. assistance is an immediate and critical one. While the economy of India during the First Plan years, 1951-1956, evolved quite differently from the way the Plan anticipated, development goals were essentially achieved. In fact, the over-all growth

far exceeded what was planned. Comparable results cannot now be anticipated for the current plan. Rather, it is becoming increasingly clear that significant and basic changes in the Indian program will be required if anything like the Plan's general targets are to be achieved. The Government and the people of India face major tasks if there is to be success or even if there is not to be failure. In the Indian context, the role for a cooperating capital-exporting nation has undoubtedly become even larger as a result of these unhappy developments. The U. S. has to define this role with the Indians; it has then to implement it.

Chapter II

The Plans for Economic Growth

The role which countries of the east and the west play on the Indian development scene depends initially, of course, upon their desire to become associated with the Indian effort, as well as their capacity to provide assistance. Inevitably, however, the help these countries do give and the effectiveness of their roles rest upon the political, the philosophical and the technical framework which has been established for the economic development of the country. The First and Second Five Year Plans do provide such a framework for development, even though relatively little is said explicitly with respect to the roles that foreign countries could play in the program. Presumably each would-be donor nation interested in the development of the Indian economy would want to assess the purely technical feasibility of the effort with which it will become associated. This would raise questions about the relationship envisaged in the Plan between new investment and new output. Thus, an incorrect or unreal relationship might indicate that cooperation to assure that the program of investment were fully implemented might still yield a significant short-fall in the output targets, fundamental measures of the success of the program.

The prospective donor might not respond instinctively to the philosophical approach to the problem of accelerating economic growth in India, as presented by the planners and officialdom. An obvious illustration concerns the relative roles of the private and public sectors. Countries

could be expected to feel quite differently about the appropriateness of heavy public ownership of industry, for example. This reaction would be apart from problems of the economic implications of this policy; could a rapid shift to a large public sector actually be accomplished, for example? In this category too, are such aspects of the Plan as the extent to which India expects to emerge in a decade or so as a land able to be self-sufficient with respect to the products of heavy industry. Here, there is both the question of an approach which reflects the conviction that only a country with such a heavy industry sector can be "truly independent," and the more familiar question as to whether the implicit level of output of these capital goods can be economic.

Actually, there may be important limits as to what is apt to happen, or could be made to happen over a five-year period in a long-static economy like India's. Does the Plan adhere to the laws of behaviour of the Indian economy; does it assume that these change gradually as people and institutions can be encouraged to alter them under the Plan; or does it take a new course from the very beginning? Answers here throw further light on the realism of the plans and upon the extent to which the program postulates achieving development within a democratic framework.

To appraise the possible influence of the United States, the Soviet, or other countries upon Indian achievement with respect to economic growth, the present chapter will set forth the technical aspects of the Plans, while subsequent chapters will be concerned with the degree of realism in the schemes and the attitudes underlying Indian planning. Such examination is essential if we are to assess the possible range and effectiveness of countries of the East and the West in the Indian development schemes.

Both the First and the Second Plan volumes present projections of India's national income and consumption over a twenty to thirty year period. These can be derived mathematically from a simple Keynesian aggregative model for the economy as a whole. Net national income is divided between consumption and net investment. It grows both because the net investment in any year expands capacity and because progressively larger proportions of the increased income are allocated to investment. The two models differ simply on account of revisions in the estimating parameters as between the First and Second Plans. In the latter, calculations are on the whole more favorable, with national income at twice the 1950/51 level by 1967/68, as against the 1971/72 of the First Plan; per capita income is doubled by 1973/74 in comparison with the earlier 1977/78.[1]

Complete and detailed statements of the Indian plans are fully available, primarily in Government of India publications. For present purposes therefore it will suffice to describe only some outstanding characteristics of the current program. The objectives of the Plan were explicit--and bold. National income was to show a "sizable increase"--about 5 per cent annually, or, on a per capita basis, at least 3 per cent each year. This is clearly an impressive target, not only when compared to the favorable performance in the First Plan (to say nothing of the stagnant situation which prevailed earlier), but also when compared with achievement over a period of years of other countries--as the United Kingdom, the United States, and even the USSR.

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[1]These points are developed in my forthcoming study, "The Prospects for Indian Development," Center for International Studies, Chapter 2.

Moreover, this increase was to be reflected in improvements in living standards. Perhaps 70% to 80% of the growth in per capita national income would, according to Plan, go for an improvement in individual consumption. Indeed, the major theme underlying this Plan was that the program constitute a conscious governmental step toward achieving the objective of a "socialist pattern of society." The Hindu religion, the Indian rural tradition, and the Fabian doctrine to which the leaders of independent India were exposed in their English education and experience--all combine in their dedication to relatively small, essentially equal units of social organization, with emphasis upon cooperative effort and equalized returns.

In most ways, the social goals of this pattern were those of a democracy, with its stress upon equalizing the opportunities for the social and economic progress of all citizens. The socialistic pattern was "not rooted in any doctrine or dogma." It was simply a pleasant way of advancing the objective: a conscious expansion in the relative status of the vast bulk of the Indian people. The new emphasis may have differed from the democratic pattern as practiced in the United States, for example, primarily in the deliberate effort to expand the capacity and activities of government in India--a step taken with great concern and fear of the dangers of large bureaucracy. Nonetheless, the Planning Commission felt that this was a justifiable risk as the only means, in present-day India, of countering and combatting the existing concentrations of economic and social power. Only the actions of a powerful state could assure a reasonably rapid shift of income and wealth in favor of the mass of Indians, now so limited in means and opportunities.

While the socialistic emphasis speaks of a broader scope "for the expression and application of diverse faculties and urges," the Second Plan focused most

immediately upon the broadening of economic opportunity. The Plan specifically seeks reductions in the existing inequalities of private income and wealth, not only among people but among the regions of India. It recognizes growing unemployment in India as counter to these aims, and sets as a goal a large expansion in employment opportunities.[1] Finally, the Plan is to achieve rapid industrialization, with particular emphasis on basic and heavy industries.

This group of objectives raises problems of mutual compatability. More employment, at least above a calculable level, may compete with more national income. Regional equality of income may be economically less efficient than concentration. A society in which income is more evenly distributed may consume more and invest less than one with greater inequalities. On the whole, therefore, these additional objectives may have made India's over-all output targets more difficult to achieve.

In some measure, this difficulty was "met" by Planning Commission optimism in its calculations on the costs of and the gains from new investment.[2] Still, high output targets were essential if there was to be both an improvement in the levels of personal well-being and reasonably rapid achievement of a steady rate of economic growth based essentially upon India's own investment. The Planning Commission felt that the process of continuous growth should be self-sustaining sometime in the 'seventies--in the period of the

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[1]More specifically, the Plan suggests that this new expansion will at least match the natural growth in the labor force. There is optimism with regard to possible reductions in the degree of underemployment, and hope for the removal of some unemployment.

[2]Developments during 1951-56 may have facilitated this optimism. See Chap. II, pp. 6-7.

fifth plan, more or less. This accounted in considerable part for the heavy industry emphasis of the Plan. The plight of the bulk of the population, however inured to privation, justified the high priority given to a schedule of continuous improvement, however small each year, in the average level of living of the poorer people. This also provided justification for the emphasis upon employment and upon income equalization. Finally, the Government of India recognized that Indian and Chinese economic progress would inevitably be contrasted--by its people, by other countries in Asia, and generally throughout the world.

These reasons, plus the fact that India's national income over the first plan period grew by about 18%, really meant that over-all targets for 1961 could not have been significantly smaller than the 25% actually established. Furthermore, with the drive and excitement of a transformation from stagnation to growth, with the resource potential of India and especially the knowledge and ability of Indian business and governmental leadership, it seemed sound judgment that such targets were essentially attainable. It was important only that the plan for their achievement take full and realistic account of how Indian material and human resources could be marshalled for this effort and how these could best be in augmented from abroad.

To accomplish the over-all income targets, the Second Plan envisaged a net investment of about $13 billion--about twice the level actually achieved in the First Plan (and the $7.5 billion planned for 1951-56). Implied in the Second Plan was a capital-output ratio of 2.3:1, as against the 3:1 assumed for the First Plan. However, actual developments in the earlier period yielded a much more favorable relationship between additional investment and

additional income--better than 2:1. That period was featured by two years of favorable monsoons, which were responsible, by Planning Commission estimate, for at least half the increase in agricultural output. Moreover, a significant percentage of India's installed industrial capacity was not in use in the period prior to 1953. Both these factors provided an unusual opportunity for favorable returns in income, granting even some short-falls in investment.

The Second Plan's use of the 2.3:1 ratio reflected two beliefs. First, these underlying conditions of the First Plan could to some extent be expected to continue to prevail; and second, that allowance had to be made for a deliberate shift to industry and to heavy industry with its large requirements of initial investment relative to output. Indeed, the Planning Commission visualized a further trend in this direction, so that its rough calculations for the third, fourth, and fifth plans respectively were made with capital coefficients of 2.62, 3.36, and 3.70. These arguments on trend are reasonable; but it still remains true that, for planning, a ratio significantly below 3:1 must be considered rather optimistic.

Comparison with figures of historical experience suggests strongly that a program with the orientation industry-wise of the Second Plan might more appropriately plan for a ratio in the neighborhood of 3.5:1 (i.e., about 50 per cent more investment would be required to achieve the output target the Plan anticipated.) Indeed even with a significant reformulation of the investment priorities, it seems hard to find support in experience elsewhere for a ratio as low as the figure in the Second Plan. This is of course not an area in which one can be too categoric, especially with reference

to countries with large underemployed resources, and where year-to-year weather fluctuations bear importantly upon the level of the total national product. Yet, such evidence as there is does suggest a wishful component in the Indian estimates.

With respect to the pattern of this investment, two aspects are particularly noteworthy. First is the shift of investment to the public sector; second is the greater emphasis placed upon transportation and industry. These are revealed clearly in the accompanying Table I which compares the estimated actual figures for the last pre-plan year, 1950-51, with certain allocation figures for the two Plans. The very difficulty of presenting such comparisons is a reflection of the problem of accelerating growth in India: too little is yet known about what is invested, and where.[1]

All the figures shown are approximations to monetized investment only. For the private sector, the totals are more official than the breakdowns by sectors. Indeed, the allocation pattern of private investment for the 1951-56 period is essentially that for 1950/51. In the Second Plan, some official estimates permit the approximations given for (monetized) private investment by sectors. The Table represents the allocation picture for all monetized investment as envisaged at the time each plan was initiated. Actually, as will be seen in the next chapter, the separation of private monetized investment from all private investment is not meaningful at least for

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[1]The figures of Table I embody all official material available. The Plans give "development outlays" for the public sector, and either a general total or a rough breakdown of private investment. Neither can be used directly. The data of the tables are not inconsistent with these official materials. For a discussion of these data and their problems, see my CENIS study, op. cit. See also Chap. III, pp. 1-5.

some important sectors of the economy. Private investment--in 1950-51, in 1951-56, and without doubt for 1956-61--has different totals and emphases than those in Table I.

Table I shows the striking growth envisaged for net investment, from about $900 million in 1950/51, to an average of $1.5 billion for the First Plan, and $2.6 billion for the current program. Relative to the figures of total net income (actual for 1950/51 and projected for the two plans) monetized investment increased from less than 5 per cent , to 7.5 per cent and more than 10 per cent.[1] Equally striking is the essential doubling of public investment on the average for 1951-56 as compared with 1950/51, and again for 1956-61 as compared to the First Plan. The public sector accounted for some 45 per cent of net monetized investment before the plans. It was scheduled to increase to about 52.5 per cent and further to more than 60 per cent in the two successive plans.

With respect to the allocation by industries, it must again be made clear that available plan data refer primarily to the public sector. To this, the government commits itself. Private investment can be measured with reasonable precision only in a few parts of the economy, notably large industry. As was indicated above, the allocation of private investment planned (as in Table I) is clearly arbitrary, and especially for the 1951-56 period. Not only do the plans not provide these estimates, but there is little in official documents to clarify the quantitative relationships assumed between

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[1]India was a net investor abroad in 1950/51. In the two plans, India was supposed to be a net importer; nearly 20 per cent of all investment was to be provided through net imports financed abroad.

TABLE I: Net Investment, 1950/51, 1951-56, 1956-61
(Monetized Investment Only)
(Millions of Dollars)

	1950/51 (Actual)			1951-56 (Planned)			1956-61 (Planned)		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
	1	2	3	4	5	6	7	8	9
Agriculture				413.7					
Commun. Dev.	126.0	42.0	168.0	84.0	367.5	1,642.2	709.8	587.5	1,297.3
Irrigation				777.0			957.6	210.0	1,167.6
Large Industry (incl. mining)	21.0	178.5	199.5	228.9	1,554.0	1,782.9	1,407.0	1,417.5	2,824.5
Power	35.7	10.5	46.2	506.1	94.5	600.6	854.7	52.5	907.2
Small Industry	6.3	6.3	12.6	42.0	52.5	94.5	252.0	420.0	672.0
Transp. and Communication	94.5	52.5	147.0	1,117.2	451.5	1,568.7	2,803.5	310.0	3,113.5
Social Services									
Residential Construction	511.5	109.2	224.7	716.1	945.0	1,661.1	995.4	2,052.5	3,047.9
Miscellaneous									
Net Investment Abroad		94.5	94.5						
TOTAL	399.0	493.5	892.5	3,885.0	3,465.0	7,350.0	7,980.0	5,050.0*	13,030.0*
Annual Average	399.0	493.5	892.5	777.0	693.0	1,470.0	1,596.0	1,010.0*	2,606.0*

*Includes $850 million ($170 million p. a.) for a growth in stocks. These are allocated very roughly by sectors above.

SOURCES:

1950/51: Based on M. Mukherjee and A. K. Ghosh, "The Pattern of Income and Expenditure in the Indian Union: A Tentative Study," Bulletin of the International Statistical Institute,

Vol. XXXIII, Pt. III, pp. 64-65; GOI Planning Commission First Five Year Plan, pp. 105-107.

1951-56: Based on GOI Planning Commission, The Second Five Year Plan, Delhi, 1956, pp. 51-52. Data there are for "outlays" in public sector; these have been adjusted to a net investment basis (cf. First Plan, p. 48). Private investment total is from official estimates (First Plan, p. 48) that total investment 1951-56 would aggregate $7.35 billion (Rs. 3500 crores). Sectoral patterns for private investment are based on 1950/51 ratios.

1956-61: GOI Second Plan, pp. 56-57. Private investment allocations are estimates in part.

public and private investment. Traditionally, of course, the public sector was predominant in such overhead activities as transportation, irrigation, and social services. Private investment generally complemented this, and was in some measure induced by public activity. As the essentially traditional types of government investment expanded, growth might therefore be expected in private investment. At any rate, so it would be in a society which is motivated toward economic improvement and expansion. Limitations to such complementary expansion in the private sector would not ordinarily arise from a shortfall in resources, at least in sectors which could avail themselves of bank credit. Actually, any "shortfall" would in fact be expected generally to inhibit the public sector in first instance, due to its concern about the price rises which would threaten where investment desires began to encroach upon what the economy preferred to consume. Where government expanded its investment not only in the traditional fields, but also moved increasingly into industry and trade, the effects upon private investment activity would of course be different, notably in the directly competitive sectors. These apart, however, each expansion in the public sector should still serve to encourage some degree of private activity.

For India, the sequence was different, partly because motivations for growth are less straightforward, especially in the small-scale sectors. However, these relationships are not developed in the plans;[1] nor can they be deduced from plan figures. Thus, it is not at all clear why the ratios of

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[1]The GOI has of course issued explicit statements on industrial policy; these are not helpful for other sectors. See

public and private investment by industrial categories should be expected to work out over the years as to yield the marked over-all change in ratios of Table I. Wherever there is some complementarity, as in public and private investment in agriculture and irrigation, for example, the ratios between the two investor groups should tend to remain the same. But this is not likely to be consistent with the Plan, given the over-all increase planned in the level of public investment.[1]

In the public sector, agriculture and irrigation accounted for 31 per cent of the governmental investment of 1950/51. It was projected at about 33 per cent for the First Plan, and only 21 per cent in the Second. On the other hand, the comparable figures for public industry (and mining) are 5, 6, and 18 per cent; and for transportation and communications of 29, and 35 per cent, respectively. The government's changing emphases are perfectly clear. These, however, are altered significantly when private investment is also taken into account. On the basis of the private allocations assumed in Table I, these time patterns in the public sector are less striking for the economy as a whole. For all modern industry and mining, for example, the three ratios are 22%, 24%, and 22%, respectively. There is no comparable increase in industrial concentration in the economy; only in the public sector.

As has already been stated, the Plans were not explicit on the industrial sectors where assistance from abroad would be needed. The case for foreign financing rests upon an over-all assessment of India's resources for investment, and only to a limited extent upon the particular patterns of foreign trade that are projected. For the total of some $5 billion of net investment

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[1]The logical temptation is to assume the public program cannot be fulfilled. See Chapter III, pp. 7-9.

involved in the private sector, direct investment is of basic importance. The saver (or his friends and relatives) invests in his own enterprise without benefit of any financial intermediary. However, for the big private concerns, expected to make net investments of almost $1.5 billion over the five years, the Plan does give a rough breakdown of the sources of investment funds. Relevant here is an estimate of some $210 million for "foreign capital including supplier's credit." Since this is a net inflow over the five years, suppliers credit can be assumed to exclude short-term trade financing. This, therefore, is the official judgment on the level of new foreign investment in private Indian industry. Actually the sources of finance suggested by the Commission for these big business enterprises did not balance. Some $100-$200 million more will be needed to achieve the investment targets, either from domestic sources (perhaps through delayed replacement) or from abroad. In any event, little of these amounts could be expected from the USSR and other communist countries where large enterprise tends to be in the public sector. Presumably, therefore, the Planning Commission did envisage that a number of foreign firms, in the U. S. and the U. K. primarily, would be investing in Indian steel, heavy engineering metals, chemical, jute, petroleum refining, and other industries.[1]

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[1]In the first plan, there were roughly similar expectations, and in a sense these were essentially fulfilled, since some $150 million of new foreign private investment may actually have been made. "In a sense" refers to the fact that these were more or less offset by the (diminishing) return flow of foreign investment, largely British, which has been taking place during the past decade or so. As is pointed out below, some of the private investment opportunities mentioned are being met in part through the contribution of public funds. Thus, there was a Russian offer to finance some pharmaceutical manufacturers.

There is also an uncovered gap in the program for the public sector which involves about $8 billion of new investment. Despite an expansion in tax revenues averaging about $335 million annually (an amount equal to 21% of total tax receipts in 1955/56) public authorities were not expected to have a net surplus above current expenditures. Essentially all domestic financing was to be dependent upon borrowing internally--to a total of about $5 billion over the Plan period. Half of this was expected to come from voluntary investment of real savings by the people of India; the other half was to be raised through Reserve Bank note issures. The "resources to be raised externally" aggregated less than $2 billion, after allowance for a reduction in foreign reserves of about $400 million. However, some $800-900 million more would still be needed in order to balance the public investment accounts of the Plan. These are listed with the designation: a "gap to be covered by additional measures to raise domestic resources." Given the obvious difficulties in this respect, one might consider that the government would be happy to have foreign loans, and grants in excess of the level specifically indicated. Both on private and on public account, therefore, the Planning Commission left ample scope for foreign participation--by international institutions, by governments, or by private firms--in India's development effort. Neither the specific bill of goods was defined nor the precise total of net imports needed.

It should perhaps be noted here that, however difficult the expansion in domestic savings appeared in the light of the specific channels for mobilization used in the Plan, the levels seem less high when placed against the growth anticipated in national income. In 1955/56, net investment was

about 7% of net income; by 1960/61 it was to expand to 11%. Given the investment to be financed from abroad, these figures imply an average domestic savings rate of 8.2%, with some 16% of the annual increase in net income after 1955/56 going to savings. An average savings rate of 8-9% is actually quite general in the countries of the area. The marginal increases in savings are in line with what was actually achieved in the 1951-56 period. The seeming inability of the Planning Commission to program a balanced investment account stems actually from an unwillingness to take adequate measures for resource mobilization--in the rural sector, for example.

It should be possible to relate foreign needs as discussed above to a difference between a projected flow of imports of goods and services, and the corresponding export flows, as anticipated for the period of the plan. This exercise comes somewhat closer to the problem of specific types of assistance from abroad.

Indian exports from 1956-61 were estimated at an annual average of $1.25 billion, or a total $6.25 billion (f.o.b.). Comparable import estimates were $1.82 billion and $9.10 billion (c.i.f.). From this trade deficit of $2.85 billion was subtracted the anticipated net earnings on service account over the five years--some $535 million. There was thus a current deficit of about $2.3 billion, which does correspond essentially with the stated foreign resources gap and the estimated reductions in foreign exchange reserves.

The export estimate is based primarily upon the level actually attained in 1955 with but a small increase projected over the five years--from $1.2 billion in 1956/57 to less than $1.3 billion in 1960/61. The bulk of India's exports receipts is derived from a few commodities, the three most important

of which are confronted with increasing competition in world markets. Thus tea, jute manufactures and cotton goods comprise about half of all exports, the remainder being a broad miscellany of goods--from sporting goods to iron ore. Of the three main products, prospects for tea alone may be termed those of normal growth; for jute and cotton, maintenance of even the 1955/56 levels promises to be difficult. There will of course be some expansion in Indian mineral exports, notably iron ore, but this cannot bring about a marked change in total receipts. On the whole, the scope for significant expansion of exports must await the general expansion and diversification of the economy. While this is true, some expansion can be visualized which would bare special significance to the Indian economy over this period, even though they could not alter appreciably the above projections. Thus, special programs could result in handloom fabrics finding a larger foreign market--notably in the United States. Similarly, special programs could expand Indian export of handmade shoes--as in a recent Russian agreement. Foreign cooperation for these kinds of purchases in India are particularly important since expanded exports would presumably mean expanded output from existing capacity and from indigenous materials--resources which might otherwise remain unutilized or less importantly used.

On the import side, the average level projected ($1.8 billion) is significantly above the high 1955 estimate of $1.5 billion, the latest figures available at the time the Plan was formulated. The expansion is concentrated in the three categories which include most of the imported capital goods, as Table II makes clear. Thus, the increase in the average of all imports, 1956-61,

TABLE II: Merchandise Imports
(Millions of Dollars)

	1954	1955	Annual average Second Plan 1956 - 1961
1. Machinery and vehicles	254.1	333.9	630.0
2. Iron and steel	56.7	105.0	180.6
3. Other metals	50.4	52.5	92.4
4. Grains, pulses and flour	102.9	73.5	100.8
5. Sugar	65.1	42.0	14.7
6. Oils	197.4	132.3	172.2
7. Chemicals, drugs and medicines	65.1	71.4	67.2
8. Dyes and colors	39.9	37.8	35.7
9. Paper, paste-board, and stationery	27.3	29.4	23.1
10. Cutlery, hardware, electrical goods and apparatus	58.8	75.6	60.9
11. Raw cotton	121.8	113.4	113.4
12. Raw jute	25.2	35.7	37.8
13. Others	237.3	273.0	294.0
TOTAL	1,302.0	1,375.5	1,822.8

Source: GOI Planning Commission, Second Five Year Plan, New Delhi, 1956, p. 99.

over the 1955 figure was $448 million; the comparable increase for the three capital goods categories was $412 million, or some $2.1 billion over the five year period. Over 90% of the total net import surplus anticipated in the Second Plan arises from this planned expansion in capital imports.[1]

In fact, with the possible exception of the smaller increases shown for grains, there were no other expansions anticipated in broad categories of import over the Second Plan period. The Planning Commission expected domestic demand for consumer good particularly to be met principally through an increase in domestic production; indeed import controls were to prevent any appreciable expansion in the level of such imports.

About 75% of all the capital goods imported were expected to be on government account. Since the private sector would need much larger amounts of capital goods, an even larger share of the capital goods for new investment were to be on behalf of government. This again corresponds roughly with the fact that most of the over-all deficit on current international account was due to development activities in the public sector.

Finally, imports and exports were phased in the Plan so that the total deficit reached a peak in 1958/59. Two thirds of the deficit was to be incurred in the first three years of the program. It was made clear that this lump was attributable to the steel, machinery and equipment needed to "develop industries which make machines to make the machines needed for further development." India's new program was formulated at a time when world demand for steel and for capital goods generally was high; many items, particularly heavy electrical goods produced to specification, could become available only after long delays. Government procurement agents did not have long-standing

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[1]Indeed, the 1955 imports already involved, it was estimated, s current account deficit of some $50 million, also attributable to an expansion in capital good imports (above the increase in all exports) over those of 1954. This might attribute some $250 million more of over-all deficit to the capital goods sector.

connections with major suppliers. In these circumstances, assistance in the form of an assured rate of delivery, even for imports purchased with India's own exchange earnings, would have been helpful.

Indeed, it is clear from this summary account that the Plan--admittedly not explicit with respect to the form and even level of foreign assistance--provided ample guide to the types of assistance which the Indians felt would be more helpful. The new, relatively unchartered areas for the Indian economy were to be in industry and especially heavy industry, principally in the public sector. It certainly is true that India's own exchange resources released through the provision from abroad of assistance in the form of raw cotton, or food, or other items listed in Table II, become available for the increase in capital goods imported. Nonetheless, the Indian formulation of the development program does suggest that provision of assistance in India's capital goods programs--or government account and in the early years of the Plan--would fit most readily into India's development activities. Certainly, it is this pattern of assistance which is most comprehensible to the people of India familiar with the Plan.

This does not of course mean that such assistance necessarily contributes most to India's development aspirations and activities. The Plan, as will be seen below, seems to have underrated the critical need for assistance in other regards--especially with respect to the lighter industries and to consumption requirements. Indeed, the possible underestimation of foreign aid suggested earlier places an important premium upon total level of assistance as well as the pattern. All this notwithstanding, popular reaction, and perhaps official reaction too, would probably respond to early contributions on the industrial side.

The essential numbers of the Second Plan have been presented. But an economic development program is much more than a total of interrelated projects and of the resources for their implementation. The program must specify the machinery which will make these savings, these borrowings, these imports, these investments, and the like, actually take place. Will the people and institutions of the society simply respond to the announcement of the program, both because they are motivated to the objectives of the program and because the particulars of the program were in fact worked out on the basis of the specific response patterns of Indian society? Or will new action primarily be needed by government to assure the fulfillment of the Plan? Clearly, these are the two extremes. To some extent, the Plan will require direct action by public authorities, including perhaps direct restraints upon popular action; on the other hand, there will also be a broad response from the people. Given decades without progress in India, there is ample justification for considerable attention in the Plan to the underlying mechanism which is to assure the implementation of the specific programs.

The Second Plan treats the problem primarily as one involving the supply and the training of people involved in the program. It recognizes the need to attract able people into governmental roles--administrative and development--at all pertinent echelons, to provide adequate training and to systematize a scheme of advancement for effective performance. Particular attention is given to the problem of meeting the developments needs of the rural and small-scale components of the economy, where schemes are evolved for different forms of extension and cooperation. Here there is clear recognition that land reforms, joint organized activity in rural areas, among other things, may spur people to greater efforts on their own behalf.

Actually, this matter of motivation to necessary action requires a fuller treatment--for the rural sectors especially but also for the rest of the economy including the expanding new industrial fields.[1] One essential ingredient of such treatment, however, is a clear understanding of the structure and dynamics of Indian economic life. These are only beginning to become known, partly from the research activities initiated through the Planning Commission itself. Without this knowledge as to how the economy will react to government programs aimed at accelerating growth, the scope and nature of the governmental administrative and development tasks must involve important unknowns. This is particularly true with regard to such basic matters as the determinants of savings, of consumption, and of private investment. The fact that use must be made of hypotheses rather than knowledge as to what can be expected in these areas, given a variety of different actions which government might initiate, demands much more flexibility in the program. There needs to be scope for changing such unknowns as the place reserved for the private sector, as well as the range of controls government will need to have ready and to implement. Unaccompanied by this kind of flexibility, the original numbers of the Plan become unreal bases for determining and assessing India's progress to economic expansion. Increasingly, it is a changing "plan" which provides the setting for the role of East and West in India's economic growth.

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[1] In this regard, see the discussion by D. R. Gadgil, in "Prospects for the Second Five Year Plan" India Quarterly, 1957, pp. 13-15 especially.

Chapter III

The Prospects for Economic Growth

India began to industrialize in the middle of the nineteenth century. Barring Japan, India is still the most industrialized country in Asia--although China may soon be able to claim this distinction. The path of modernization of India's economy has not been a smooth one. While industry did grow, it did not increase its relative importance in the economy, at least until the very recent plan years. Indeed, past decades of faltering growth have hardened the deterrents to the ready transmission of gains from one sector of the economy to the others. There are important regional distinctions, accentuated by community and occasionally caste lines; the rural-urban barrier is not freely crossed; primitive hand and modern machine operations applied to the same product--textiles, shoes, bicycles, irrigation--can remain isolated from one another. In key respects, such as the flows of capital, labor and even products, some of these boundaries are still formidable enough that their existence becomes a factor which must influence the structure of a national development effort--especially in its early stages.

The flow of savings in the Indian economy provides a good illustration. The structure of India's capital markets, the habits of India's savers and the forms in which their savings materialize all add to a group of separate savings-investment problems, more than to a single one for the economy as a whole. The Second Plan projects savings of more than 8 per cent of national income over the five years, and devises schemes for diverting a large part

of the savings into public investment. It is this program which must be assessed against the background of the complex of savings flows in India.

Three aspects of this problem are relevant. One stems from the fact that the private investment of Table I above is only part of the total investment on private account. Indeed, there is considerable arbitrariness in any separation of a monetized investment component from the total. In India a large part of the value of national output--40 per cent, at least, has to be imputed simply because it never goes to market. Inevitably, savings here must take the form of consumer and other goods produced; they are saved and invested if they subsequently are used directly, perhaps as payments in kind, in capital creation. Rough estimates, from sample surveys, suggest that between 20 and 25 per cent of all savings and investment was non-monetized in the pre-plan years--before government sought, through its development schemes, to influence the pattern of investment. In contrast to the figure of less than $900 million given earlier, total investment in India in 1950/51 may have aggregated to about $1,175 million--almost 6.5 per cent of national income.

Second, the monetized and non-monetized components of private savings tend to be allocated quite differently. This is clear from Tables I and III. Essentially all non-monetized investment is concentrated in agriculture and in small-scale enterprises of various kinds, especially construction. It is direct investment, made by or on account of the saver in his own enterprise or household. Actually, however, much of the monetized savings in India also has this direct investment attribute. It is true that banks, insurance companies, stock exchanges, cooperative societies, etc., do facilitate the flow

TABLE III: Net Investment 1950/51, 1951-1956 (Including Nonmonetized)
(Millions of Dollars)

	1950/51			1951-56		
	Public	Private	Total	Public	Private	Total
Agriculture				357.0		
Commun. Dev.	126.0	224.7	350.7	21.0	682.5	1,060.5
Irrigation				808.5	535.5	1,344.0
Large Industry (incl. mining)	21.0	189.0	210.0	126.0	1,165.5	1,291.5
Power	35.7	10.5	46.2	420.0	52.5	472.5
Small Industry	6.3	27.3	33.6	10.5	157.5	168.8
Transp. and Commun.	94.5	52.5	147.0	945.0	315.0	1,260.0
Social Services and Residential Construction Miscellaneous	115.5	178.5	294.0	462.0	1,144.5	1,606.5
Net Investment Abroad	____	94.5	94.5	-420.0[1]	420.0[2]	____
Total Domestic Investment (a)	399.0	682.5	1,081.5	3,150.0	4,053.0	7,203.0
Total Investment from domestic resources (b)	399.0	777.0	1,176.0	2,730.0	4,473.0	7,203.0
Annual Average (a)	399.0	682.5	1,081.5	630.0	810.6	1,440.6
Annual Average (b)	399.0	777.0	1,176.0	546.0	894.6	1,440.6

[1] Foreign loans, grants, etc.

[2] Primarily repatriation of capital

SOURCE: Derived from preliminary data of Central Statistical Office, cf. GOI, Papers Relating to the Formulation of the Second Five Year Plan, Delhi, 1955, pp. 157-159.

of private savings from individuals into public investment, and perhaps a few of the larger industrial enterprises. In 1950/51, the transfer to government may have involved about one fourth of total monetized savings; the transfer to big enterprise about half this amount.[1] Thus before the Plans, at least, about 50 per cent of all investment was invested directly by the private saver. For investment in the private sector alone perhaps as much as 75 per cent was direct.

Third is the important question of the rate of shift to monetization, and away from direct investment to allocation through the capital markets. Given the growth of industry and of urban centers and the spread of communication facilities, India's economy is becoming more monetized. But this trend is not pronounced yet. Such detailed evidence as is available shows little year to year fluctuations in the degree of monetization of investment. There is some evidence that farmers hold back more of their produce in large crop years--for later commercial marketing or for direct use. It is not safe to assume that increases in savings in the small enterprise sectors over any recent five-year interval will automatically tend to be more heavily monetized. The same generalizations probably pertain to the increased shift of monetized flows through capital markets. Even in economically advanced countries, direct investment ratios are not too responsive to the usual economic stimuli.

These points deserve some elaboration. They add to the fact that major revisions in the patterns of savings flows, and perhaps even in the use of increments in their savings, will require special appeals and other measures

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[1] See for example, the rough estimates presented by the Planning Commission, First Five Year Plan, pp. 107-108.

on the part of government. Private savings as a whole need to be considered, rather than the monetized component alone. In particular, there is the suggestion that the very magnitude of nonmonetized investment warrants special concern as to its role in an economy which is short of capital.

The significance of these considerations may be appraised from the investment experience of the First Plan years. Total net investment over the 1951-56 period was about $7.2 billion as compared with the planned figure of $7.35 billion--for monetized investment only. There was an appreciable shortfall of total investment, although its magnitude cannot be measured exactly. The Planning Commission states that the monetized component may have reached $6.5 billion, but it presents no adequate basis for this estimate, nor any sectoral breakdown. The figures of Table III are based upon estimates prepared in the Central Statistical Office of the Government of India. The difference of $700 million between the two totals is simply too small to be an approximation to non-monetized investment, since there is little evidence to suggest that this component has declined importantly during the period--an increase being more likely. For present purposes, therefore, the data of Table III will be used as more relevant for a discussion of the actual course of Indian investment over the First Plan period.[1]

As compared with the pre-Plan year, average investment (1951-1956) was up 22 per cent, as against the 65 per cent planned for monetized investment

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[1]The close correspondence between planned monetized investment ($7.35 billion) and actual total investment ($7.2 billion) warrants the observation that the first total might have been too optimistic, at least insofar as its domestic savings component is concerned. Similarly, the domestic savings component of the Second Plan investment total of some $1.3 billion may well turn out to be excessive--not as savings, but as savings in monetized form. See Chap. III, pp. 11, 12.

only. The essential doubling planned for public investment is matched by an actual increase of 58 per cent. In 1950/51, public investment was 34 per cent of all investment from domestic savings. In the first plan period, the comparable ratio is 38 per cent. The Plan expected, taking into account monetized savings and investment only, that the 45 per cent ratio of 1950/51 might be increased to over 50 per cent. Taking into account only the domestic savings contribution to the monetized investment, this increase implies that about 52 per cent of the increase in these savings would become available to the public sector. Actual performance shows a higher increase--about 60 per cent. However, the more realistic picture must take into account all domestic savings, not the monetized alone. Here, about half the expansion did go to the public sector.[1]

Most striking, however, is the fact that, Plan notwithstanding, the broad pattern of total domestic investment (including the non-monetized) closely resembles that of 1950/51. Thus 33 per cent of this total went to agriculture and irrigation in both periods; large industry accounted for 19 per cent before the plan and 18 per cent during it. Important shifts during 1951-56 appear only for transport and communication (17 per cent as against the earlier 14 per cent) and for social services, which here include residential housing (down to 22 per cent from the 27 per cent of 1950/51).

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[1]These relationships are more relevant for their Second Plan significance than in the First. (See III, 7-8) In the circumstances of the early plan years, especially 1951-53, government savings were very high due to the high yields from import and export duties. Slack economic conditions deterred private investment.

The Second Plan aims at a significantly expanded public sector. Based on official projections, no less than 75 per cent of the anticipated growth in domestic monetized savings would need to move to the public sector to accomplish this shift. But there is already substantial evidence that this is an optimistic expectation for 1956-61. Indeed, one might question whether it may still be possible for government to mobilized as large a ratio of the expansion in domestic savings as was channelled through that sector during 1951-56. There are certain complementaries between public and private investment in agriculture, for example, which make the rationing of private investment very difficult. With so large a ratio of total investment made directly by savers, the favorable state of business, especially big business since 1954, can be expected to nurture an increasing share of capital creation in the private sector.

The first eighteen months of the Second Plan have already given some evidence of this tendency to larger retention of savings in the private sector, with a resultant pattern of investment quite different from what the Plan might have led one to expect. Preliminary figures suggest that imports of capital goods on private account were taking place at a multiple of the rate (perhaps four times in real terms) visualized. While the facts need a careful interpretation not yet possible on the basis of firm records, it seems certain that total net investment in India was appreciably higher in 1956/57 than planned, and that the increase was due to activity in the private sector. Indeed, public investment was below Plan, due primarily to the difficulties in attracting private savings into this sector.

The implications of these developments upon the investment requirements and allocations of the Second Plan become clearer when account is also taken

of the Plan's capital coefficient of 2.3. This ratio excludes nonmonetized savings and investment and hence understates the technological ratio between new investment and additional product. Indeed, more realistic estimates which take all savings and investment into account do yield an over-all ratio of about 2.8--a more realistic level. But this does not suffice to make the Plan's 2.3 figure more acceptable as a basis for anticipating future output. For the nonmonetized investment will be concentrated in a few sectors only--in agriculture and various forms of rural social service investment, including rural construction and in other small-scale sectors. It will not affect the Plan's level of investment in the modern industry sector, for example. In this capital-intensive area the over-all 2.3 ratio implies a figure of 2.9, which is again low for the type of enterprise anticipated. This means again that the actual investment allocation pattern can be expected to differ from the Plan's. The private sector will invest more, at least on a relative basis; output targets, especially in the organized sector, will require more investment than the Plan suggests.

However understandable may thus be a path of economic activity which differs from the Plan's, it does not necessarily follow that this path will even lead to economic expansion, to say nothing of the targets of the Plan. It became clear within the first year of the Second Plan period that important changes would need to be made in current developments or in the Plan, or both. Development in the public sector was faltering. Moreover, the drain on India's foreign exchange reserves was so much greater than was anticipated (and than India seemed able to maintain) that the need for adjustment acquired the utmost urgency. In the Plan's first year, for example, India utilized some $630 million of these reserves (including drawings from the IMF

which might need to be repaid before 1961)--about 50 per cent more than was contemplated for the entire five-year period. While the record is still not fully clear the major contributor to this heavier-than-expected drain was the high level of capital imports on account of the private sector.

Foreign exchange controls and regulations were made more stringent, with inevitable consequences for private investment activity. Greater efforts were initiated to attract foreign capital to India--on public and private account; and to enlarge the flow of domestic savings for public investment. Reconsiderations of essential minimum public investment were made, with the emergence of a "hard core" as an absolute and basic investment goal. At this time, the effectiveness or the net result of these measures is not clear. In particular, it is far from certain that the rate of private investment has been curtailed appreciably if at all.

In these circumstances, what can be said about the development prospects for 1961? Given the foreign exchange shortages, the determining factor will be the policy and action of government. The alternatives are in the directions of attempting to assure as much as possible of the Second Plan, especially in its public targets which were reasonably articulated. Or, the recent movement in the private sector could be allowed to retain all or much of its momentum. The former course would require the actual implementation of much stronger policies than yet formulated to direct domestic resources to public investment. At best, success here can be bought at considerable cost in the actual level of total savings. There would need to be a corresponding increase in the level of net foreign assistance on an intergovernmental basis. While some increase in net imports above level of the Plan appears inevitable,

it will clearly be a smaller increase if the most effective use is made of the facts of savings flows patterns in India and of the energy and enterprise of Indian businessmen.

The following section outlines prospects for Indian development for 1956-61 on the assumption that policy and action in India tend toward the second alternative. Indeed, this is in keeping with the tradition and practice of Indian government on economic matters: strict controls are not readily implemented. It is certainly the more promising and the less expensive alternative; leadership in India can be expected to adopt it on all these accounts. Finally, this alternative promises so much for western policy with respect to the neutralist areas of the world that it is reasonable to assume that U. S. loans and grants will be more amply available under this type of program. While the earlier alternative might appeal more to countries of the East, it is not likely that India would obtain larger net imports from the USSR even were the first alternative route pursued.[1]

To achieve the Plan's 25 per cent increase in real net income over the five-year period will require a total net investment of about $15.8 billion. This contrasts with the Second Plan figure of $13 billion in monetary investment only, which may in turn have implied a total figure of roughly the $15 - $16 billion order of magnitude. This means a capital coefficient of 2.8, a low ratio, which can be considered reasonable for planning only on the assumption that a large part of the total investment goes into relatively small-scale, labor-intensive activities. Given the importance of nonmonetized savings out of direct investment on the one hand, and the gains from actions

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[1] See Chap. I, P. 14.

(below) of government on the other, this assumption could be a justifiable one in India.

On the basis of a 25 per cent increase in net income, savings habits in India, and government fiscal policy, total savings in the economy can be expected to provide $10.5 billion, an average savings of 8.3 per cent (and an average marginal increment over the five years of about 16 per cent). This figure includes nonmonetized savings; it is considerably smaller, and more realistic, than the Plan's $10.5 billion for monetized savings only. Moreover, it seems reasonable to assume that a large part of this (70 per cent) will continue to be invested by the saver, and hence in the private sector. Actually, all private investment is taken at $7.4 billion, less than half total investment. Net imports are expected to be almost entirely upon government account.

The very rough projections shown in Table IV bring together all the considerations already mentioned. Heavy reliance is placed upon actual developments in the period to date. Comparison with the official estimates must take into account the fact that nonmonetized savings and investment are excluded. The most striking divergencies--in private agriculture and in small-scale enterprise--are primarily on this account. In addition, the private sector is assumed to continue its rapid progress into modern industry (although at a somewhat lower rate than is indicated by investment figures of the past year or two). This is the most significant change in the private sector; it assumes that public policy will not seek the largest possible fulfillment of the particular investment patterns of the Second Plan.

Indeed, the public role will need to be much more one of providing the complementary facilities to the private sector than was true in the original

Plan, where the importance of government enterprise as such was stressed. Particularly pressing in this regard is the role which government must assume in order to deal head-on with India's unemployment problem. Industrial emphasis in the years ahead notwithstanding--and there is such emphasis in both projections in Table IV--far less job opportunities will be provided than are needed in the economy today. As of the beginning of the Second Plan, total factory employment did not exceed 4 million. The total working force in urban areas numbered about 25 million, some 10 per cent of which was unemployed and at least an equal number employed to but a very limited extent. In the Indian economic situation today, employment multipliers tend to be low. Such information as is available suggests a figure of 2 (1 additional job for each new job established), but this level is attained only after a period of years. Much of the urban labor force is already in distributive trades, where the output per man is very small. Moreover, in established industries there is still an excess of employees which tends to be brought down during the initial period of expansion.

For all these reasons, it is not likely that even the continuation of buoyant industry during the years 1956-1961 can absorb existing unemployment in urban areas, to say naught of the continuing streams of migrants--perhaps 700,000 to 1 million in the working ages--which is annually leaving the rural areas for the cities. There is a real prospect therefore for increasing urban unemployment in the cities. Housing and civic amenities are already inadequate for the existing population. Additional population will require either very heavy expenditures on social overhead items--sanitation, public health, schools, etc.--and housing, or the level of living will be further depressed. Given, finally, the concentration of educated unemployment in the

TABLE IV: Projected Investment pattern, 1956-1961, with Plan Comparison

(Millions of Dollars, Percentages in Brackets)

	Projected Estimates[1]			Second Plan		
	Public	Private	Total	Public	Private	Total
Agriculture and Irrigation	2000 (24)	2100 (29)	4100 (26)	1700 (21)	800 (16)	2500 (19)
Manufacturing and Mining	950 (11)	2100 (29)	3050 (13)	1400 (18)	1400 (28)	2800 (22)
Power	900 (11)	50 -	950 (6)	850 (11)	50 -	900 (7)
Small Enterprises (Excluding Construction)	400 (5)	850 (11)	1250 (8)	250 (3)	400 (8)	650 (5)
Railways, Other Transportation, Trade, etc.	2600 (31)	300 (4)	2900 (18)	2800 (35)	300 (6)	3100 (24)
Services (including Government, residential housing, etc.)	1550 (18)	1950 (27)	3500 (23)	1000 (12)	2050 (41)	3050 (23)
TOTAL	8400 (100)	7350 (100)	15750 (100)	8000 (100)	5000[2] (100)	13000 (100)

[1]Figures include nonmonetary investment, which may aggregate some $3500-$4000 million, about half of all the private investment. Second Plan data are said to include only monetized investment.

[2]The Second Plan specifically mentions that $850 million of the new private investment will constitute an increase in working stocks. These have been allocated very roughly to the specific sectors. In fact, this column for private investment is actually a constructed one since data are given in official documents by only the roughest categories.

large cities, marked deterioration in the level of living can be expected to have adverse political effects. The economic waste and the political dangers of the unemployment prospect in India today place a high premium upon more governmental efforts to complement the necessary move toward big industry, and its limited labor demands, with major effort to help absorb more of the would-be employed. There are two broad lines of action, both given greater stress in the projected estimates than in the Plan itself.

There is complementarity as well as competitiveness between small and large industry. The Plan tends to emphasize the latter with attention to common programs in which a market is reserved for the traditional small-scale and handicraft industries tending to be pushed out by factory production. In general, the retention of hand-pressing of oil, of hand-polishing of rice, of charkha spinning, of handloom weaving, etc., in all cases where these activities are in fact threatened by factory competition, would seem to be an economic regression which interferes with efficient resource use. On the other hand, there may well be considerable scope for these very activities in order to expand consumption levels of these items among persons not yet able financially to purchase factory products in regions where the commercial market has not yet penetrated. A mutual exchange of hand-products can be an overall gain in these circumstances.

Much more important, however, is the broad scope for an expansion in different types of small hand industry where output both aids and is dependent upon growth in factory enterprise. Thus, the Plan would seem to understate the employment potential of small engineering shops and the like, and of the expanding construction activity. To achieve the largest possible output and employment gain from these small-scale sectors requires programs of

financial and technical assistance beyond those presently planned. These are included in the projected estimates, with a significant addition to private investment from nonmonetized savings.

The second line of action concentrates upon rural India. By stepping up community development activities of various sorts, there will be less pressure for migration from rural India. A smaller net outflow over the next 5 to 10 years would contribute to a better balance in urban employment. The rural population can gain significantly through the provision of better health and educational facilities. Improved rural transportation and irrigation are essential adjuncts of the expansion in agricultural output needed and to which community development techniques also contribute. Here, the requirements are less more investment of financial resources by government than the allocation of top administration and leadership talents.

The reduction in the public investment program in manufacturing and mining reflects stretch-out more than elimination. Indeed, unless government actually cuts off the flow of capital goods to the private sector and is able, however indirectly, to route the flow into public channels, the lower public investment figure is believed to reflect the actual position today. The three public steel mills will be available gradually from 1960, rather than in full by April 1961. Heavy machinery plants to use this steel will come later. On the other hand, there will be more light industry by that date than had been anticipated. Again, this is a reflection of what the economy and society, under the controls established, are choosing. Fuller implementation of the specifics of the Plan will require new and more far-reaching action by government.

On the other hand, the projected program will still require major additional steps by government. In contrast to the unfilled deficit of the

original Plan--some $2.3 billion of which Indian reserves might provide some $400 million--the present estimates are in excess of $5 billion over the five years. Reserves have already been drawn down more heavily. Significantly also, more foreign assistance than anticipated has already been obtained. The residual requirements therefore are for some $3 billion[1] over the rest of the Plan period. Government needs in some way to assure the availability of foreign resources of this order of magnitude at least.

The development prospects here still have as an end-product in 1961 essentially the same over-all income goals as did the Second Plan. Sectoral output would differ; notably agriculture would contribute just under 40 per cent to this product (as against the Plan's 35 per cent) and a large variety of small-scale enterprises would provide 15 per cent, instead of 9 per cent. While the country itself would be producing somewhat less capital goods than the Plan indicated, it will be in a better position to finance economic expansion for the post-1961 period than if an attempt had been made to implement the Second Plan fully. The present position and the present prospects build upon Indian habits of saving, as well as upon the capacities and desires of the Indian economy and society.

It is important to stress, however, that governmental action is key,

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[1] A rough calculation suggests that this figure would need to be increased by some $1.5 billion more were the GOI to seek to fulfill its original targets in the public sector by 1961.

whether the present prospects more nearly guide the path to 1961, or whether as much as possible of the original Plan's route is still followed. The latter course will require more radical action and greater financial outlays, particularly in foreign exchange. Neither is a course of government inaction. Certainly, without the major emphasis which the government in India has consistently placed upon economic growth, without its major efforts to expand government resources for development, and without the major expenditures of government in agriculture, irrigation and power, transport and social services, there may well not have been today that buoyant private sector which permits a prospect for over-all achievement by 1961. But even this alternative will require large resources from abroad plus key investment and leadership action by government at home.

This combination of needs provides an unusual opportunity for the countries of the West and notably the United States. There is here a prospect for achieving India's 1961 target of a 25 per cent growth in over-all income--along with a greater degree of employment and broad popular involvement and sharing in the effort. Achievement of this prospect, it was argued earlier, is essential to U. S. foreign policy. Moreover, there is a need for greater Indian governmental participation in rural and small-scale programs--directions in which the U. S. has already established familiar channels for foreign assistance. There will also be need for agricultural products which we are well able to provide. However, the fullest measure of assistance here will be incomplete without the provision of a large variety of capital goods. It is true that growth along the lines indicated here means a continuation of an active effective private sector in the Indian

economy. The close identification of the West with the Government of India in assuring the achievement of India's development targets should also stimulate the flow of private investment into India.

India's economic objectives can fall prey to inaction, as well as to the larger requirements of the specifics of a Plan. Either of these courses will serve the interests of the USSR. To assure action by the Government of India along the most hopeful lines will certainly require a persuasive effort on the part of the democratic countries. There must be a clear indication of western interest in India's progress, and of western willingness to cooperate fully, over a long period, to help India achieve its own economic goals.

CHAPTER IV

Aid from East and West

The official Indian recapitulation on external assistance to the public sector over the First Plan years shows total aid authorizations of $622.4 million; $487.4 million (78%) was authorized by the United States Congress. Most of the remainder came from other Colombo Plan countries, primarily Canada and Australia. There was also an International Bank Loan of about $26.5 million. No funds had been made available by the USSR or other countries of the Soviet Bloc.[1]

Actually, the Russians made efforts during the early Plan years to provide assistance which would serve to enhance the power of communist groups in India.[2] Even during food crisis periods in India, the USSR offered grain only at prohibitive prices. Indeed the Stalin government did not respond to specific Indian proposals for a barter arrangement which might involve significant imports (perhaps 1,000,000 tons) of Russian wheat during the Plan Years. This record stands in clear contrast to that of the West. On June 15, 1951, Congress authorized the $190 million wheat loan to India.

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[1] GOI Planning Commission, Review of the First Five Year Plan, May, 1957, p. 30. Of the total authorization, $395.0 million were actually used over the Plan period.

[2] In September 1952, the Central Council of Trade Unions of the USSR despatched a significant amount of relief supplies for distribution by a communist-sponsored relief committee in India. The Ministry of External Affairs intervened; it welcomed the gift for distribution through the Government or the Indian Red Cross. "After several days of suspense, when it appeared as if the aid might be withdrawn, Russia agreed. . . .", G. N. S. Raghavan, India and Russia, op. cit., p. 1.

The Indian case is one of a general pattern. In Stalin's day, the Soviets talked foreign aid at international conferences, but took no action. With Stalin's death, there was a reversal not only in India but elsewhere.

Even during our fiscal year, 1951/52, there were actual expenditures in India under the Indo-American Technical Cooperation Program, the arm through which the United States provided assistance for India's development program. Aid from Australia and New Zealand was already being utilized during the first plan year.

In the post-Stalin period, however, the Russian position changed markedly, and rapidly. By the end of 1953, there was signed in Delhi Russia's first trade agreement with any major noncommunist country. Here (as in two earlier 1953 agreements with Bulgaria and Czechoslovakia) there was provided rupee payment for goods imported from Russia.[1] There was also an exchange of letters offering technical assistance in manufacturing enterprise and foreshadowing Russian participation in development projects in India. During September 1954, the Soviets made clear their willingness to supply machinery and equipment as well as technical assistance in setting up a steel mill. Within five months Russia had sent a survey team, selected a site, prepared and negotiated an interim report, and signed the agreement for the Bhilai steel mill. The USSR thus made abundantly clear that it wanted to help in India's Second Plan. Its activities have expanded and diversified from then on.

Civic construction work at Bhilai was initiated in December 1955. The plans call for one million ton capacity to start, although it is expected

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[1]Actually, the more relevant fact--since India remained a net exporter to the USSR through early 1955--was that all settlements did in fact take place in sterling eventually.

to enlarge output to that volume of finished steel, with some 300,000 tons of pig iron for sale. The entire project, including rolling mill facilities, is estimated to cost $250 million, with a foreign exchange component of about $115 to $130 million. This the Russians have undertaken to finance on credit.[1] Repayment for the loan will be in 12 annual installments for each piece of equipment from date of delivery. The interest rate is 2 1/2 per cent per year on outstanding obligations. Some output is scheduled for December 1958, with full production by the end of 1959. While there have been some delays in site preparation, it is still hoped to meet this schedule.

The other major resource contribution from the USSR came in an offer made to India's Minister for Production (Public Sector) in Moscow in October 1956. This spoke of a loan of comparable magnitude and terms to the steel loan for purchase of Russian machinery and equipment over a three-year period beginning in 1958/59, the three last years of the Second Plan. The offer was accepted the following month; field investigations and negotiations were begun immediately; specific agreements have been finalized over the past months and an agreement signed on November 7, 1957. The most exciting proposal, and now included in the final agreement, arose from a Russian expert survey report submitted in February 1957. It called for a "giant heavy machine building project" of 45,000 tons initially, and eventually of 165,000 tons.

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[1]The offer was to finance the requisite machinery and equipment which could not be fabricated within India. Originally, this was expected to involve some $90 million, but estimates have been increased. There may also be direct foreign exchange elements in the cost of the township of Bhilai, not covered by the agreement.

The project would produce about 3/4 of the machines needed for India's growing steel mills--and the scale visualized by the Russians assumed an increase in steel output of about 2 million tons each year over the five years of the Third Plan (to about 16 million tons). This project was approved by the Indian Government on the basis of an appraisal[1] of the Russian proposal and an alternative British scheme (for a much smaller plant). The decision to go ahead meant that the Government was restoring to the Second Plan a large item which had been dropped from the 1955 Draft Frame, on account of resource limitations, especially foreign exchange.[2]

The steel machinery plant near Hatia in Bihar will take about $56 million of the new credit; a thermal power plant of 250,000 kw., some $32 million; a coal mining machinery plant, about $21 million; the development of the Korba coal field near Bhilai, about $16 million; and an optical glass factory some $2 million. The Soviet commitment is for all the foreign exchange requirements of these enterprises, including technical assistance required from Russian organizations and any training facilities in the USSR for the Indian technical people associated with the projects. Provision has also been made for additional foreign exchange should the present amounts turn out to be inadequate as the projects proceed.

The list of projects agreed upon gives some indication of the broad range of industrial areas into which expert Russian teams have probed--and

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[1]This was made by a distinguished technical group headed by Sir Jehangir Ghandy, operating head of the Tata Iron and Steel Works. The British proposals came from the expert mission sponsored by the Colombo Plan and the Federation of British Industries jointly. It was headed by Sir Eric Coates and also submitted its report in February 1957.

[2]The Government of India has also decided to proceed on a forge foundry as recommended by both Russian and British teams. However, this is not to be established beside the heavy machinery plant as suggested by the Russians. It is not being financed from the Russian credit.

recommended substantial Russo-Indian cooperation. Thus, in coal, traditionally in India's private sector, the USSR is clearly seeking to make the government operation at Korba a showpiece of Soviet coal-mining. In addition to the loan, Russian experts are already at work in Korba. India is operating a number of recently purchased Soviet coal drilling rigs, and is arranging purchase of additional equipment under the trade agreement (below).

Special mention needs also to be made of Russian participation in other mineral development and in pharmaceuticals. Expert groups from the USSR came to India for six months (November 1955-April 1956) and urged concentration of/oil exploration in the Punjab and Rajasthan, along with an extended program of geophysical and geologic work in various other areas "to constitute a reserve for extending the exploration during following years . . . ." This report provided the occasion for the formulation of the comprehensive Government program for systematic oil exploration promised in the Second Five Year Plan. A large (45 ton) Rumanian oil rig has been working in the Punjab since April 1957; it has been set up by 20-odd Rumanian experts who still assist in its operation and in training Indians to take over. Three Russian rigs have been purchased and have already begun to be set up with the aid of a large group of Russian technicians provided gratis by the Soviets. Finally, the technical assistance, under the UN program, is being extended through training in Russia; also a large group (174) of seismic and gravity-cum-magnetic experts from the USSR has been contracted for in a bilateral program adopted late in 1956. These will come to India over a period of years.[1]

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[1]The Russians have also expressed interest in collaboration of some sort on oil refining. Nothing has yet been finalized here.

Soviet advice on the expansion of diamond mining in Central India led to the nationalization of the existing (small) private interests in the area and to a shift into mechanized processes for deep mining which were clearly beyond the capacity of the private owners. The same expert group conducted a nation-wide survey of nonferrous mineral resources, which led to the decision by government to open a new copper mine during the 1956-61 period.

In pharmaceuticals, an area of primarily private enterprise (and where large British and American interests have long "processed" drugs imported from abroad) a joint Russian and Indian team of experts urged a vast expansion in output based on indigenous raw materials. With Soviet technical assistance and training of Indian workers, the prospect was opened for the manufacture of penicillin, streptomycin, and other antibiotics; important vitamins; anti-malarials; as well as basic chemicals and intermediaries of industrial significance. In this context, mention might also be made of discussions with East Germany for the construction of a plant to produce raw film based on cellulose-acetate. This would involve some arrangement with the Agfa firm in Germany; the product would serve India's movie industry, one of the world's largest, and which now depends primarily upon foreign film manufacturers.

As is suggested in the above, Russian capital and technical assistance are integrated in the accomplishment of specific projects. Currently there are 100 to 125 Russian technicians in India. About 35 of these are part of the program at Bhilai; 30 more (the first batch of a total of 174 contracted) are geophysicists concerned primarily with petroleum development in the Punjab; there are five mining engineers at the Korba coal fields. The numbers of others and their composition change, but, to date at any rate, the total keeps

growing. They mostly comprise members of expert teams on specific investigations--usually associated with new projects in which some basis for effective Soviet-Indian collaboration will be found. The flow to the Soviet Union will also increase, at least for a short period. The program of training Indian engineers to take over at Bhilai is still expanding. This may also be true for technologists in the petroleum field. A number of Russian scientists are already engaged in teaching advanced technology, especially in these fields in India, in order eventually to render foreign training less necessary. Russian experts on most of the specific missions mentioned above did urge a closer relationship between industry and university. Consistent with these recommendations, Russian cooperation has been arranged (through UNESCO's technical assistance program) in estsblishing the Western Higher Technological Institute at Powai (near Bombay). Over one million dollars will go for 15 Russian professors, translators (for Russian texts), labaratory equipment, training of Indian Science teachers in the USSR, and the like. This Institute is one of four regional organizations called for in the Plan. One (the Eastern) has been established at the Indian Institute of Technology at Kharagpur. It is here where the Russian professors have been assigned pending completion of facilities of the new Institute near Bombay.

As a result of these various programs and of other efforts, India's trade with the Soviet bloc has expanded significantly, although for 1956/57 this trade still accounted for less than 4 per cent of all Indian imports and 3 per cent of exports.[1] There has been a net import surplus from Russia since early 1955, as distinct from the positive balance which tended to prevail

[1] In contrast to the 81 per cent (exports) and 86 per cent (imports) with the dollar and sterling areas plus OEEC countries.

in earlier years. For the bloc as a whole, small net exports by India in 1955 were converted to an import surplus of $18.5 million in 1956. These figures are the results of a 2.4-fold increase in Indian exports and a 3.9-fold increase in imports.[1] This trade is expanding within the framework of a system of bilateral agreements--with Bulgaria, Czechoslovakia and the USSR in 1953 and subsequently with Communist China, Eastern Germany, Hungary and Poland. To date, the official data do not encompass most of 1957, the first year in which the capital goods in specific project agreements would be reflected in the import figures.

In general the exchange features agricultural products, ores, and consumer goods from India for imports of hard goods. India has suggested the importance of Soviet participation in the expansion of Indian exports, rather than in diversion from other markets. There is some evidence that the growth in purchases by the Communist Bloc, and especially the USSR, has in fact been rather heavily in such expanded exports. Thus, Russia did contract for $2.5 million worth of shoes, for Indian tobacco and handicrafts--all of which needed export markets. Sizeable purchases of such products as pepper and raw cashew nuts were also timed to influence a depressed Indian market.

On the import side, the expansion observed through 1956 is due principally to steel imports and to a smaller extent to cement. Pending the expansion of India's own steel capacity, requirements during the Second Plan period had to depend on imports, in volume about equal to a domestic output now running at some 1.3 million tons annually. The Soviets committed themselves in December 1955 (during a period of some stringency in the international market

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[1] In contrast, imports from the West increased 45 per cent in that year. Total Indian exports to the West remained essentially unchanged.

to sell to India a million tons of steel in the years 1956-58 in addition to other capital goods; Russia also hoped to be able to buy an equivalent value of India's products. Some 300,000 tons of steel were in fact provided in 1956 (with about 100,000 more from Poland and Czechoslovakia plus token amounts from Communist China), and 350,000 were to come from the USSR in 1957. The Communist bloc (especially Poland and Rumania) has been providing India with about one half the total cement imports, one quarter million tons of cement in 1956.

The trade agreements have encompassed transportation services. Direct air and shipping arrangements are becoming increasingly available between India and countries of the Communist Bloc. The bulk transactions involved in purchases and sales to these countries spurred the creation by India of a State Trading Corporation in May 1956.[1] By the end of 1956, the Corporation had transacted more than $15 million in value of trade with Communist countries. This Corporation has in turn facilitated the creation of a second shipping corporation in the public sector, to do business primarily with the Bloc. Finally, there is one general point on the transactions with the eastern countries and especially the USSR. Prices and arrangements are usually quoted at official exchange rates for the ruble. (5 rubles, approximately 6 rupees, approximately $1.25) In the actual transactions, however, supplies are negotiated at world prices in nonruble currency, generally sterling. The ruble overvaluation in the official rate is thus corrected.

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[1]In November 1955, the Minister for Commerce and Industry stated that government did not intend to enter export trade since the normal private channels were better able to deal with foreign markets.

Without exception, the Russian and Communist Bloc assistance discussed above has involved repayment by India--whether more or less directly as in the trade arrangements, or by drawings upon Soviet credits, or by allocations from UN and Specialized Agency technical assistance funds. Free installation of Soviet equipment, as in the case of the oil rigs purchased, may properly be considered in the category of normal business services provided by sellers to new customers. The Russians take the position that nonbusiness operations are both suspect and condescending. True aid lies in "the comprehensive expansion of normal economic links based on mutual benefit and equality."[1] The sole role for grants in international dealings is as gifts reflecting mutual esteem among heads of state or other senior officials. In this category is the Ilyushin-14, a personal gift from Bulganin and Krushchev to Nehru, which is now part of the V. I. P. Squadron of the Indian Air Force. In this category also is the sole direct aid provided by Russia to India's agriculture. The Soviet leaders provided the equipment for a modern mechanized farm. The gift, some $1.5 million worth of machinery--including 66 tractors with accompanying machines, a small power station, automatic telephone system, five mobile workshops and a number of transport vehicles--has been installed since August 1956 in what is now called the Central Mechanized Farm at Suratgarh in Rajasthan. Government hopes to extend the present 5,000 acres to 30,000 and to make the venture a model farm in the public sector.

In total, the Eastern Bloc has already committed itself for net imports into India of about $250 million. It is not unreasonable to expect further

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[1] Quoted from Russian sources by C. H. Pimlott, Jr., Communist Aid to Underdeveloped Countries Term paper, M. I. T., 1956.

commitments of $100 to 200 million in the near future, so that there would be some $400 million from the Communist country as an offset to an Indian foreign trade deficit during the Second Plan period. Essentially these are loans requiring some service charges currently; capital will be repaid beginning in the late '60's. Comparable figures for the western world on public and private account and including the loans of the International Bank, indicate a commitment since April 1, 1956, the beginning date of the Second Plan, for net imports into India of about $900 million. Without any important changes in present policies, the western countries can be expected to make further commitments of at least $1100 million more in the next few years--to provide an offset of some $2 billion against an Indian foreign trade deficit in the Second Plan period.[1] About one quarter of these might be grants, the remainder requiring service charges and eventual repayment.

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[1]These figures are most approximate. The $900 million already bespoken are exclusive of the $622.4 million authorized for the First Plan period. I believe the $1100 million will be exceeded because I think Western efforts to cooperate in the Indian development effort will be stepped up (see Chapter V). Obviously, these projected figures contain an important subjective margin. The component totals are shown in the following (millions of dollars):

	Announced by 1/1/58	Possible additions before 1/4/61	Total
IBRD	120	300	420
U. S. Gov't. PL480	290	} 200 (min.)	} 620
ICA	130		
Colombo Plan (ex-U. S.)	110	225	335
Germany	--	250	250
Private (incl. steel mills)	225	125	350
TOTAL	875	1100	1975

Quantitatively, the western countries have already committed to the Indian development program of 1956-61, three to four times as much foreign assistance as have the Communists. The ratio can be expected to increase to at least five before the end of the period.

Assistance from the East and the West also differs in ways other than magnitude. Two are fundamental. With occasional exceptions, the governmental programs of the western countries (i.e. excluding the International Bank and private investment) are dispersed among many activities, for few if any of which is there enough foreign participation to make it an "American project," for example, as steel at Bhilai is a "Russian project." Generally also, assistance from western countries touches very rapidly upon the lives of vast numbers of Indians--in agriculture, public health, small-scale irrigation and production, etc. The Communist country programs are essentially devoid of comparable contact. The operations tend to be in new fields where, apart from contact with construction workers, there is relatively little need for the foreign program to have to deal with attitudes, motivations, incentives, of very large numbers of the Indian population.

These characterizations of the Communist programs are clear enough from the earlier description. A brief account of the U. S. aid program during fiscal 1957 will serve to illustrate Western activities.

Of the total for development assistance,[1] 45 per cent was provided in the form of wheat and cotton. The Government of India sold these and used the rupee proceeds in its investment program. 19 per cent was used for

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[1]The total here is a figure of $69,328,900 given in an ICA memorandum of August 9, 1957. The figure is exclusive of funds used for technical assistance personnel and their equipment.

"industry and mining," which included in that year cables for rural electrification, some equipment and technical services for a thermal power plant in Delhi, and cement manufacturing equipment. Steel for railway rehabilitation took another 22 per cent. DDT and other supplies for malaria and filaria control absorbed 11 per cent of total program funds, while 3 per cent went for vehicles and other supplies used in India's community development programs.[2]

Some 175 technicians in India in late 1957 were spread among many specific programs in different parts of the country. More than half were allocated to various agricultural programs. Most technicians were assigned to Indian activities where capital assistance from the West was limited, if at all.

Of course the major U. S. commitment during that year was in the surplus agricultural products agreement of 1956 which was to provide India some 3.5 million tons of wheat, .5 million bales of cotton and .2 million tons of rice, among other commodities, with an aggregate value of $ $360 million over a three-year period. Actually, a relatively large part of these products was shipped in 1957. Part of the rupee proceeds was again invested in Indian development projects, presumably many of them.

The bulk ($90 million) of the IBRD commitment was to provide foreign exchange for the railway program of the Second Plan, which involved total expenditures for the railways of some million, per cent of these in foreign currencies. The Bank loaned $17.5 million to the Tata Iron and

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[1]A comparable set of figures for the fiscal 1952-56, essentially the First Plan period, shows not too different a picture. Agriculture , however, was relatively much more important (although the contribution to agriculture needs to be assessed against the use patterns of rupee proceeds, which have increased over the years with the expansion of U. S. agricultural surplus disposal activities.) See Indo-American Technical Cooperation 1952-56, pp. 52-53, U. S. Information Service, New Delhi.

Steel Company in November 1957, along with a sum of $15 million more raised by a consortium of nine commercial banks in the United States. The total expansion program (to raise output from 1.3 to 2.0 million tons) involves an outlay of about $135 million, the difference being raised in India. Given the practices of the International Bank, and the fact that the construction contract was awarded to the Kaiser Engineering Corporation, the Tata expansion program may be considered to acquire an "IBRD-U. S. project" designation. However, so Indian and indigenous is the (Parsi) Tata firm, that a better parallel with Russian projects should be looked for in the "German mill" at Rourkela and the "British mill" at Durgapur.

An agreement on a steel mill was reached in December 1953 with the West German firms of Krupps and Demag. This plant, the first of three which government planned to undertake in the public sector in order to assure the achievement of a significant expansion in Indian steel output, was originally scheduled to have a half-million ton capacity, with expansion possibilities to double this figure. Original cost estimates were $145 million, $60 million of which would need to be in foreign exchange. It was hoped to obtain an International Bank loan for $40 million of the foreign costs; the remaining $20 million was to be an equity participation by a German group to be arranged by the contractors. (The agreement gave the Indian government a right to reacquire these shares in ten years, at a premium of 20 per cent.) The plant was scheduled to be fully commissioned by February 1958, four years after its site was determined at Rourkela in Orissa.

Since then, plans for Rourkela were altered to a one-million ton plant. For this and other reasons, total costs are now estimated at $380 million, with a $200 million direct foreign exchange component. The hoped-for

external finance for this project did not materialize. Krupps-Demag continue to work for an engineering fee, but previous German financing arrangements have been canceled. At present, India bears all the costs for this plant although a government delegation is now in West Germany to investigate the possibility of a deferred-payment arrangement for equipment from Germany. Completion dates have been set back, with only about 10 per cent of all machinery yet on hand.

In April 1956, a consortium of British firms signed an agreement for the third steel mill in the public sector, to be constructed at Durgapur in West Bengal. The preliminary cost estimates for this million-ton plant have also been increased--from the $208 million figure to $276 million. Foreign exchange costs are now calculated at about $170. The British had agreed to provide credit of $70 million--$40 million as a government to government loan and $30 million as an export credit from a merchant firm. The revision of costs that was necessary meant that the Indian government had to raise more foreign exchange. The British plant will be the last of the three public mills to go into production.

Neither the Rourkela or the Durgapur mills has anything near the financing advantages of the Bhilai project. The Russians have undertaken to meet foreign costs, rather than any specific amount. There are now no German credits; the British credits are in part for a shorter term and at a higher rate of interest. Current costs estimates per ton of capacity also seem to be lowest in the Russian mill. Actually, surface comparisons are misleading since there are important differences in facilities and product. (The Durgapur complex will include a wheel, tire and axle plant; Rourkela will have a larger rolling mill than at Bhilai, as well as other costly equipment for the

manufacture of flat products. Nonetheless, the popular impression in India is that the Russian mill is the least costly; at the moment, there is reason to believe that Bhilai will also be the first to achieve a substantial part of its targets, despite the head-start at Rourkela.[1] There is the impression among some in India that more experienced Indian officials might have achieved a more attractive contract for Rourkela. And certainly the fact that the Germans are no longer associated with the financing of the mill enhances the Russian performance.

Whatever the contrast between the performance of the East and the West on major projects--and such an appraisal cannot yet be definitive--the picture of comparative emphasis is patent. Steel mills represent about one half of the East's financial assistance to date. More relevant, perhaps, this type of operation is typical of all assistance from the Communist Bloc to date; there is every reason to expect that future Soviet aid will follow the same pattern. On the other side, identifiable major projects may account for well under 25 per cent of all financial assistance from the West to date, and this primarily due to private foreign participation. The ratio bids fair to decline over the rest of the Plan period. Most significant is the fact that the large remaining assistance by western countries touches upon a wide range of development activities in India. Practically all of these are "projects" in which ultimate achievement--in new productive capacity and in additional output--depends upon the actions of the vast body of Indians.

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[1]The possible performance at the Tata steel works may result in the private sector's being the first. However, expansion, even a near-doubling of capacity, at Jamshedphur presents smaller problems than building anew, and at a new center.

What about the contributions which these foreign programs are making to India's economic growth during 1956-61? Jointly, East and West have already committed about $1.15 billion for net imports into India over the period. If to this are added the financial assistance carried over from 1951-56 and the unexpectedly large drawings made on India's foreign balances in 1956 and 1957, India has already been assured the foreign resources need for net imports of about $2.0 billion, more than 85 per cent of the Second Plan's estimate for net imports over the entire five-year period. With about two thirds of this period still ahead (and with additional assistance probable) it would appear that East and West have jointly taken care of India's net import requirements from abroad--with the West far and away the major contributor.

Comparisons with Plan estimates notwithstanding, neither the net exports already assurred, nor the additional $1.25 billion in clear prospect will provide even the minimum amount essential to the achievement of India's development goals for 1961. As was pointed out in the preceding chapter, the five-year requirements for this purpose are conservatively estimated today at $5 billion instead of the Plan's original $2.3 . Rather than the $1.25 billion in prospect, a total of some $3 billion needs to be made available.[1] Equally relevant is the investment allocation pattern to which this assistance contributes and in some measure makes possible. According to the earlier argument, the $5 billion total of net imports (or better, the additional net imports which $3 billion dollars more of foreign assistance can make possible) will suffice for the achievement of 1961 over-all targets only under special

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[1]Given the estimated composition of the projected $1.25 billion (see footnote p. 11 above), and assuming estimated assistance by other countries is reasonably inelastic, the statement implies a $2 billion level from the United States over the next three years, rather than the $200 million.

conditions. The pattern of investment for the 1956-61 period will need to have more emphasis upon labor intensive activity, especially in rural areas but in the cities also, than was explicitly indicated in the Plan. Moreover, while industrialization need not differ importantly from what was envisaged at that time, the remaining Plan period would continue emphasis on expansion of the types of industrial output in which India's private sector has already made important strides over the past years. Should the Government of India seek the original output targets it had specified, additional requirement from abroad will need to be well above the $3 billion figure. It is this projection which conditions the effectiveness of the role played in India by the U. S. and the West on the one hand and by Russia and the Communist Bloc on the other.

The larger magnitudes dwarf any probable (and perhaps even possible) contribution from the Communists. Indeed, sums of even $250 million are impressive from these countries. Given the high priority of alternative uses of such amounts for consumption or investment back home, their allocation to India for a decade or so betokens a real desire to play some role in that uncommitted and economically underdeveloped country. But it is truly inconceivable that Communist assistance be stepped up beyond the $400 million figure, to the magnitudes which the achievement of Indian economic goals requires. Given the pattern which Communist investment takes--the pattern in Russia, in China and other countries which have planned growth without regard to the desires and perogatives of the mass of their people--and the probability becomes even smaller of Communist aid adequate to permit India to accomplish its stated objectives.

The picture is quite different for the West. First, resources from the U. S., Colombo Plan countries, the International Bank, and private interests will in any case be sizeable relative to India's targets. With some additional efforts, particularly by the United States, the numerical requirements for foreign assistance can readily be achieved. At least as significant, the forms of assistance from the West can more readily be fitted into the requirements of the Indian position. This is in part a problem of scale: assistance from the West would be about twice its present probable size. Equally important, it is a problem of understanding with Indians and their Government. India's economic achievement will require the efforts of very many if not all the people of India. Only under Indian leadership can these efforts be mobilized. While the West can provide aid of a form and amount to make possible the 1961 goals, their attainment depends upon the actions of Indian officials, using Indian and foreign capital and technical assistance.

There is clearly needed some cooperative arrangement which hammers out the particulars of the program on the assumption that necessary resources abroad will be available. Without the democratic countries of the west, India cannot have a cooperative arrangement to achieve these goals. More significant for the U. S., however, is the related proposition. With such a cooperative structure, American policy interests in India can be achieved.

Development assistance does not necessarily make friends. Indeed, the reverse has frequently been noted, and for understandable reasons. It is not surprising therefore that the very different roles of the East and West are scarcely

matched by popular attitudes toward these countries and their assistance. Reliable information on these matters cannot of course be obtained. Nor should the traditional store of Indian goodwill and appreciation toward the United States be underrated. By and large we are recognized as a humane and generous people, albeit at times under short-sighted leadership. On the other hand, the East must have impressed most Indians as more interested in their economic aspirations. Whatever the relative sizes of the U. S. and Soviet activities, the latter probably strikes Indians as being the more relevant.

Soviet assistance--for steel, for heavy machinery, for petroleum, for coal--seems always to contribute a dramatic step toward industrialization. Strengthening the public sector, it is always a protest against colonialism and in favor of equality for the world's second class citizens. These characteristics make it attractive enough; they are augmented by publicity and propaganda which are explicit on these points. Thus, during the Bulganin-Krushchev visit to India in late 1955, Krushchev said in Bangalore "While the representatives of other countries come to India to use your poverty and backwardness for their own benefit, our wishes are very different. We wish you to build up your country. We shall do everything in our power to assist you and facilitate such development." Indians are of course pleased to have visits from the two highest officials of one of the world's great powers. Indeed, Communist aid is invariably accompanied at critical stages by a top governmental official, whose very presence in India is suggestive of the "equal status" so important to an aid-receiving, ex-colonial country.

Soviet aid is provided more or less according to the Plan. It is thus designed to fulfill the purposes set forth by the Government of India, rather

than to charter a new path. Nor is it accompanied by agreements on development principles or the appropriate scope for a private sector. There does not appear to be any philosophy of development (other than "industrialize heavily and rapidly"). These attributes of foreign aid scarcely mean that the aid contributes most to economic growth. It does mean, however, that Indians generally, and officialdom particularly, are pleased with such evidences of respect and appreciation.

Finally, the monolithic structure of the aid device--from offer through survey missions and loans to training and operation--yields a picture of unanimity and clarity of Communist intent. There are no conditions which have to be placed upon this aid; there are no strings to placate a vocal minority back home.

All the above are in contrast to Western and especially American ways of providing assistance. Perhaps the first Indian image of our aid is wheat. Yet hunger is normal in India, and even huge shipments from abroad--as in the 1951 wheat loan of some 2 million tons or the 1956-58 program of more than 3 million tons--add only 2 per cent to 3 per cent to annual grain supplies. However critical are the supplies to the specific recipients in a drought area, or however important they are for countering deflationary pressures in urban centers, the impact upon most Indians is small: "Americans are kind people."

Similarly, there is a lesser image which associates America's Point IV and community development. One might perhaps argue that, with the wide publicity government has given the Plan, community development may strike Indians generally as of comparable importance to India's growth as is steel. But the steel begins to become available in three to five years. The community develop-

ment formula is still evolving; results emerge slowly from the social, cultural, and economic changes which generate them.

In general, then, popular reaction to Russia's assistance activities in India have tended to be more favorable than to Western activities. This stems from the types of programs rather than the special efforts made by Russians in India to win friends and influence people. Thus, much to the chagrin of Indian Communists who have long badgered government officials in parliament on the high salaries and way of life of American experts in India, the Russians now match these. Nor is there any marked effort by Russian technicians to join in the life of India; more than Westerners, they tend to live closely among themselves. Rather, the Soviets chose types of activity which yield highly in terms of popular reaction.

The only possible solution to the problem for the West--assuming it is important to begin to remedy the popular reaction--is to become more intimately associated with the goals of Indian development. Food shipments, assistance for community development projects and for small-scale enterprises, technical aid in a wide variety of activities--all these must be more clearly tied into some over-all scheme directed, by understandable stages, to the economy's achievement. The Western efforts here can only bring India's people along if the Western effort is more closely identified with governmental development activities. Again, there is the need for a cooperative venture with government.

Chapter V

Conclusions

Were India's current economic crisis left to resolve itself, the consequences would be serious, whether measured by the change and distribution of national income, the level of employment, the output targets for the public sector, or the vitality and hope in the private sector. There would be both a dismal performance for the Second Plan period, 1956-61, and an economic inheritance which would make even the recouping of lost ground difficult over the Third Plan years. Nor would there be economic reversals only. Growing urban unemployment, especially among educated groups, provide a ready hand for irresponsible political action--perhaps for Communist leadership should Communist government in the State of Kerala turn in a relatively successful performance. Most important by far would be the direct consequences of such developments for the Congress leadership. Failure could only be attributed to the Plan and to its implementation--the major responsibilities of the Congress. While the election in 1962 would probably not see the defeat of the Congress, it would be clear that there was need for a major change in the policies of this dominant party. Its present overriding commitment to the ways of democracy would certainly be reconsidered in favor of ways of governing which will assure "more action, more efficiency."

In Delhi, these are days of re-appraising the Plan. Government is attempting to adopt measures to regain its control of the evolving economic situation so that reformulated plans might achieve reformulated goals. Increasingly, it appears that lower targets are being envisaged for 1961; some "hard core" rather than the Plan has become the blueprint. But it is a hard core of limited

scope. Assure the achievement of a few key, primarily industrial, targets--steel, power, railroads--and you have provided the wherewithal for success in 1966, not in 1961; this appears to be the underlying rationale. Apart from these key targets, official reappraisals seem to favor any other investment activity which does not demand any of the available foreign exchange.

Admittedly, the over-all goals for a development program are politically determined. A government must decide for itself, and can best decide for itself, how high the various increases in output need to be. Still, it is a large shift from the Plan's over-all income increase of 25 per cent to the hard core's, of about half that amount. Made midstream amid obvious and unexpected reverses, this reappraisal seems more a flight to any, rather than to the best, alternative. It must also be recognized that even politically determined goals must have defensible inter-relationships, and inputs. Indeed, the original Plan even emphasized that some--the unemployment target, for example--was politically necessary. The hard core scarcely suggests that this (and other) additional political requirements are met, nor some equally important requirements dictated by technological considerations. On the basis of the information available here, one can therefore question whether the hard core program offers sufficient basis for improvement in the development outlook over the alternative of letting the crisis resolve itself.

These are conclusions which offer little hope for the achievement either of India's or of the western world's policy objectives. They are hopeful conclusions for the Soviets, for the Communist Bloc must gain from economic

failure in India. The challenge for those interested in the retention and strengthening of democratic institutions in India is a great one. It must first be clear that other alternatives do exist for Indian development over the remainder of the Second Plan years. Chapter III has suggested not only that there are favorable possibilities, but also that they lie in directions along which the Indian economy moves rather readily. Indeed, the directions are best revealed in the actual performance observable in India over the past four or five years.

The major need is for greater governmental involvement in the small-scale sectors on the one hand, and the overhead sectors on the other. Specific suggestions by sectors were made above along with comparisons with the original Plan. Clearly these will need further examination and adjustment. But the broad lines of action seem clear and, as compared with present performance, these involve shifts in emphasis rather than marked breaks. Indeed, with regard to the important problem of investment in industry what is suggested is in some measure actually developing in the public sector. Thus even major new efforts to activate the Rourkela steel mill by 1961 may well not succeed. Resetting its target into the Third Plan period and allocating the exchange resources involved (and not yet available) to other projects will serve the economy better. Unlike the hard core or the "let-drift" position, these adjustments still offer some promise of attainment by 1961 of the over-all objectives of the Plan.

Admittedly, foreign exchange requirements--some $2.5 to $3.5 billion more--will be larger than any figures yet announced officially.[1] While a decision

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[1]It must be understood, however, that these higher requirements are still much lower than would be needed to achieve these Plan targets if other investment paths were followed.

to go ahead along the lines indicated here can only be made by the Government of India, prior assurance that necessary foreign exchange would be available is therefore essential. This is an assurance which the West is in a position to give. Indeed, only the United States and other democratic nations have foreign policy interests which would prompt making assistance in such orders of magnitude available. The challenge is therefore one of combining these common Government of India and Western interests into a program.

Action in these directions confronts India with more difficult decisions than did the adoption of a hard core program, the original departure from the Plan. India would need to acknowledge a much greater dependence upon foreign assistance for development than ever before suggested. In fact, top Indian officials have frequently stated, and may still state, that India can go it alone if necessary. These remarks are directed inward primarily, and it is the domestic reaction to higher aid figures which probably constitutes a deterrent. One would also of course expect doubts about such a large increase in the levels of foreign financing available, but these can be offset were there to be an offer from possible donor nations. Perhaps even more difficult would be the clear admission, by implication perhaps, that the Second Plan was not an appropriate blueprint for Indian growth, however classic the underlying theoretical model. Such an admission would of course be compensated in some measure by the possibility that successful Indian achievement would indeed show that a way to develop economically, within the framework of democratic institutions, did exist for other of today's heavily populated countries with poor, underdeveloped economies. Finally, there is implied in the new program a different appreciation of what the economy of India is like. The "hard core" was still the hard core of the original plan. But the difficulties India encountered were less the external ones of foreign exchange, or of price increase, than

of the Plan to take proper account of the way the domestic economy behaves.

Given the importance of action, machinery for further assistance should seek to minimize such problems deterring Indian action. It would be more helpful if the West were to take initiative broadly by offering external resources geared not to the hard-core targets, but to the over-all goals for 1961 of the Second Plan. An American statement, from the White House or in a Congressional resolution, might then invite India to set up an international group of experts to advise on the possibilities for re-establishing these targets in lieu of the revised, hard core objectives. Since India's foreign needs will continue in part to be met from other countries than the United States, the American statement might also invite these and other nations to work cooperatively toward helping India achieve these broader goals.

Beginnings for some such program must be made soon. Current economic developments in India will benefit only the Soviet Union and its satellites. Soviet aid continues to strike responsive chords in India. It seems to support the hard core to which the Indians are now committed. Indeed, it seems now to be encouraging India into patterns of investment that will deter over-all economic achievement. Thus, the most recent Soviet loan agreement embarks India upon a major project which was earlier considered premature even within the framework of the original Second Plan. Today there is even less justification for this project.

In the present situation, India's development prospects would seem to be deteriorating. In any case, there is gain for the East, while major policy goals of the West are jeopardized. There remains room for significant investment in public industry in the type of programs mentioned earlier.

Now Russian assistance, current and perhaps prospective, is of direct relevance here. A Western sponsored program for a major cooperative effort with the Government of India would thus not preclude the continuation of Communist aid. Rather, by restoring more balance to the total investment picture, it makes Russian aid better serve the cause of Indian development. And it is success here which will best serve the cause of democracy in India.