

ECONOMIC DEVELOPMENT

By

INDIA

D. R. GADGIL

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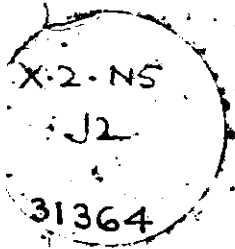
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ECONOMIC DEVELOPMENT IN INDIA

By D. R. GADGIL

I

THE problem of the rapid economic development of the underdeveloped areas of the world has assumed great importance in the post-war period. This is largely due to the progress of the sphere of communist influence. Governments of the underdeveloped countries in non-communist areas have begun to become aware of the need to improve internal economic conditions in order to keep in check the growing influence of communist parties and it has become an established axiom of American policy that the Communists can be effectively contained in the long run only if the standards of living of peoples in the underdeveloped countries rise rapidly. The problem was recognized and formulated in its present form only in the post-war period and it has received steadily greater attention with the increase of tension between the U.S.A. and the U.S.S.R. and the growth of effective communist influence, especially in Asia.

The growing sense of urgency has been exemplified by the constant presence of the subject on the agenda of international authorities. Last year the Secretary-General of the U.N. appointed a group of experts to report on the problem. The appointment of the group did not flow directly from consideration of the problem of economic development. Formally, the group was the counterpart to the body of experts that had been appointed previously and had reported on the problem of full employment. This earlier group had considered the problem of maintenance of full employment only in relation to the industrially advanced countries and chiefly in relation to its cyclical aspect; it had stated that for the underdeveloped areas the important problem was that of chronic underemployment, the solution for which could be found only in rapid economic development. It was recognized by this group that rapid economic development of the underdeveloped areas was a necessary pre-condition even for the success of policies of maintenance of full employment in the industrially advanced countries. It thus happened that the group of experts appointed formally as counterpart to the full employment group devoted almost all its attention not to the problem of unemployment or underemployment but to economic development which had been agreed on universally as its only remedy in the underdeveloped countries.

- The second group of experts submitted its report in May 1951. This report has been considered at many stages of the organizational

structure of international authorities. The reports of debates in these bodies throw valuable light on the points of view of the various countries and the time is opportune to consider the possibilities of national and international action.

The U.N. experts divided the measures necessary for economic development into two classes—internal and external; but the main controversy in international organizations has centred round the recommendations of experts regarding international or external measures. This for two reasons; first there was not much that international authorities could do directly in respect of the internal measures recommended by the experts; there did not also appear much difference among representatives of the various countries on the recommendations of the experts in this division. This absence of any expression of differences of opinion was due not to real agreement but to no attempt having been made to explore fully the implications, in terms of concrete policy, of these recommendations. Another feature of the debate to which attention may be invited was the large measure of agreement on a number of points of the analysis of the experts. The chief expressions of difference of opinion on these points came from the representatives of the countries of the Soviet Bloc. To them it was clear that the analysis of the experts, in so far as it did not accept their orthodox formulations, was at fault. Outside the Soviet Bloc, there appeared, in principle, agreement on certain major points which would have been surprising some years ago. In relation to internal measures the experts had emphasized the need for large political and social changes and had referred to the need of a social revolution which would bring about a shift in the distribution of income and power. This need was not directly challenged. Secondly, there appeared no opposition to the idea of an integrated plan for economic development; even the official memorandum submitted by the United States Government on the report of the group of experts accepted this idea. Here, as elsewhere, fundamental differences in approach became clear only through the details of the programme of action put forward by the different groups.

Regarding the general approach Americans and representatives of other older colonial areas contended that the development of the underdeveloped areas could take place on the same lines as the development of these older colonial areas. It was largely through the initiative of the private capitalist that the colonial economies had grown. None of them required even initially the importation of large amounts of foreign capital. Therefore, the spokesmen of this group urged, the underdeveloped countries should rely as far as possible on their own resources and should build up their economies with incentives offered to private capitalists. Even the foreign capital that these countries would require should be obtained through investments

made by private capitalists; the main requirement for this purpose was the creation of favourable conditions in the underdeveloped countries. Thus the thesis of the representatives of these countries was that the underdeveloped countries should create stable conditions, assure private capitalists from abroad and encourage domestic private enterprise to function actively within their own areas. If they did this, economic development would proceed in a normal and natural manner. The implication of the thesis was, of course, against an integrated overall economic development directed mainly by a central authority, and many representatives of these countries doubted both the utility of such a plan or the ability of the underdeveloped countries to implement it even if it could be usefully formulated. Some representatives of countries like Australia and Canada went so far as to doubt whether it would ever be possible for the underdeveloped countries to increase productivity fast enough to counteract the effects of the growth of population.

It would be useful to examine this plea of the recently colonized countries that the development of the underdeveloped areas should take place on the lines of their own past development. Their reasoning is based chiefly on historical analogy. It is hardly possible to imagine a greater contrast than that presented by the picture of conditions in which development in countries like U.S.A. or Canada took place and the existing conditions of the more populated underdeveloped regions of the Asian continent. At the time, the modern process of development began, that is in the 18th century and after, these colonial countries were largely bare of population and had enormous unused natural resources and vast land areas in which populations in possession of the most improved techniques in the world were being slowly introduced. For a century and more land and other natural resources were abundant, a large body of comparatively trained, vigorous and enthusiastic immigrants was steadily arriving and the countries generated considerable incomes and investment resources internally and also attracted substantial funds from abroad. When these developments took place large parts of the world, *i.e.* countries other than those of Western Europe, were backward and the terms of trade between the agricultural and industrial economies were favourable to the latter. Also, the social and economic structure and philosophy of these colonial countries were, at least initially, largely egalitarian. The position of the Asian countries of today presents a sharp contrast to this picture. All these countries have age-old economies in which the process of settlement on land has gone on for centuries and the units of cultivation have been adjusted to low sizes compatible with an older technique and the older ideas of possible standards of living. These economies have further been subject for a century or more to forces which have upset their balance, destroyed the fabric of their traditional industry and increased

the pressure of population on land. They have also a highly stratified society riddled with privilege and quasi-monopolistic positions.¹ The existing internal situation of these old economies is, therefore, vastly different from that of colonies formed by Europeans in North America and Australia in the 19th century. Moreover, the transition from the older economies to a post-industrial revolution economy entails high cost. Technological unemployment of resources is the chief element of such cost. The costs of the transition in countries of Western Europe were, in this respect, successfully transferred by them to the colonial and dependent parts of the world. In countries like the U.S.A. and Canada there were no large pre-industrial revolution structures which would be affected by the transition, and the immense unused natural resources and the constant stream of immigrant population kept up a constantly high tempo of development. Even so, the U.S.A. maintained for the greater part of its development a high protective tariff. The situation is radically different in the underdeveloped areas today. There are large populations and extensive old structures of traditional industry which greatly intensify problems of unemployment of resources. The external situation is also materially different. A larger and larger part of the world is being organizationally transformed. Therefore, industrial development of these areas takes place in a much less favourable world situation than that of industrial transitions in the 19th century.

Apart from pressing the general analogy of the development in the colonial countries, representatives of these countries urged a broadly cautious attitude in planning for development. In this they were joined by representatives of the countries of West Europe. Together the representatives of all the industrially advanced countries formulated a programme of development which they called realistic.

One may summarize as follows the contents of this realistic programme. It favoured essentially an effort at education and at increasing productivity, especially of agriculture and traditional industry, by the improvement of techniques. The problem of the reorganization of agriculture was considered chiefly in relation to the remnants of the older landlord system where they existed. Active measures were advocated to eradicate that system and to bring into existence instead a society of peasant family farmers. In this connexion it was important to observe the American insistence on mentioning specifically in the resolution on land reform the aim of creating small independent farms and on opposing everything that could be interpreted as smacking of collectivization. Little reference was also made by representatives of

¹ Note the following description by an American economist of existing West European capitalist society. 'Restrictions upon entry, concerted cartel practices, use of government to maintain vested positions, and the like, are the rule there and as a result the economy is highly rigid and extremely inefficient'—*American Economic Review*, Sept. 1951, p. 565.

the developed countries to problems of industrialization. In relation to this aspect emphasis was placed on the large requirements of capital and of the greater possibilities of advance in and the immediate requirements of the extension of consumer industries. To the extent that the field of industry was capable of profitable exploitation, it was emphasized that it should be left to private enterprise and that if the underdeveloped countries held out proper assurances and made conditions favourable, the foreign investor would be in a position to supply the necessary funds. In short, the attitude of the spokesmen of this group was that it would be wrong for the underdeveloped countries to pitch their aims too high; the only social revolution that they should content themselves with should be that of abolishing the older landlord class and creating a small-peasant class; in industry the emphasis should be on development through private investment, domestic and foreign, mainly in the direction of simple consumer goods industries started by domestic manufacturers and the exploitation of special resources by foreign capital. The approach was thus both simple and direct. The immediate requirements of the standard of living could be satisfied by growing more food and more industrial consumer goods. The peasant would be content with acquiring a farm and, for the rest, the domestic and the foreign capitalist would look after the problems of long-term industrial development.

II

Before discussing further possible approaches to problems of development it is necessary to point to some important differences in underlying conditions among countries which are collectively described as the underdeveloped areas of the world. At least four broad divisions may be made. There are the countries in Central and South America which are in many respects close to the European historical traditions; also, in these countries the ratio of resources already fully utilized to those not so utilized is not large and the problem of chronic underemployment in agriculture does not usually arise. In many of them, modern industry has made considerable progress, at least in specific areas; and broadly their problems may be said to be of a type less urgent and difficult than those of the others. We have, next, the larger part of Africa in which the existing conditions of technique and material development are among the most backward. The pressure of population is not so insistent but the continent, as a whole, is still suffering from a colonial regime which it may take some years to shake off. In Asia, the problems of the Middle East have to be differentiated from those of the countries of the South and the East. The speciality of the Middle East area, which includes Egypt, is oil; a full control over the exploitation of its oil resources may give this area an asset which may

solve a great many of its problems of investment resources and economic development. Also, countries of the Middle East, other than Egypt, have no immediate problem of population. The countries of South and East Asia, including Pakistan and the countries of the Far East, face, on the other hand, most of the problems of underdevelopment in their most serious aspects. They have, in relation to their large populations, a comparative paucity of undeveloped resources and no special valuable asset like oil. Pakistan, India, Ceylon, Central Indonesia, Central Philippines and China—all of these suffer mostly from problems of a like nature and it will be the problems of development of these areas to which I shall pay special attention.

We may begin by considering the possible progress in development if the realistic approach as defined by the industrially advanced countries is adopted. There are available two national development plans which exemplify the possible results of this approach. One is the development plan for Colombia prepared by a mission sponsored by the International Bank and the other is the Indian five year plan. The main approach in both these plans is similar. There are, however, important differences which must be noted before commenting on the adequacy of performance of the two. Firstly, Colombia is a country much richer in natural resources and in per capita wealth and income than India; also, the magnitude of the effort outlined in the Colombia plan is very much greater than that in the Indian five year plan. Because of these two important differences the criticisms we shall make of the Indian five year plan may not apply to the Colombia plan. I am not in a position to say anything regarding the Colombia plan nor is it possible to say that the conclusions flowing from the criticism of the Indian five year plan will apply to countries of South America. The conclusions to be drawn from an examination of the Indian five year plan are valid, in the first instance, for India itself and would, by analogy, hold good in many respects for countries of South and East Asia which are similarly circumstanced.

The main features of the Indian five year plan are as follows: The plan is in the main a plan of public expenditure in which the emphasis is on construction of irrigation and power projects and on the development of productivity of agriculture through spreading of advanced technique. There is considerable expenditure proposed on the development of transport facilities and a small amount on development of industry. There is no well-defined plan for the reorganization of agricultural production or of ancillary activities connected with agriculture. Large-scale industry, banking and commerce continue as before in private hands and the targets in the plan, of investment and produc-

tion in the industrial sector, embody expectations of the extent to which, in appropriate circumstances, private industry might develop. An important objective of the plan is increase of food production within the country and the plan pays special attention to increasing the supply of industrial consumer goods, for the manufacture of which large-scale industry exists in India at present. In common with the American view and with what has been attempted in the Colombia plan, the Indian five year plan does not look beyond its period, and does not think in terms of a developmental process which will be continuing and for which the initial basis is afforded by the performance in the first five years. The five year plan is thus closely modelled on what one may term the American view.

It would be unfair if this is taken to imply that the Indian Planning Commission deliberately adopted the views of the representatives of the industrially advanced countries. The correspondence between these views in the approach of the Colombia plan and the Indian five year plan merely underline the logical consequences of the adoption of a particular approach. Once it is determined that the field of modern industry and trade is a field that is reserved for private enterprise the sphere of the planning effort is automatically very largely limited. In the Indian case Government goes so far as to reserve to itself the right to initiate or launch industrial activities in which the private industrialist takes no interest, *i.e.*, Government undertakes to start such activities as either require capital investment so large that it is beyond the resources of private industry or to establish activities which are considered too risky by private enterprise. For the rest, it leaves the field open to private enterprise, suggesting later intrusion if private enterprise fails to develop in particular directions. Even this modified approach limits severely the possibilities of planning in the industrial sphere; for, Governmental activity is looked upon as merely supplementary to private activity and as coming in only when private enterprise seems to have failed. It is obvious that in these conditions Government can neither improve a pattern of development on private activity nor dictate the pace at which progress is to take place. Special activities requiring large investment funds, *e.g.*, building of irrigation works, generating power or building a modern transport system, have always to be undertaken by other than purely private enterprise. These, therefore, become a direct responsibility of the State in such plans. In the agricultural sphere, the abolition of a landlord system is generally agreed upon; but no important steps for reorganization of a small farmers' society can be taken. With the prevalence of the notion of a strict private enterprise system in the industrial sphere, any drastic change in the organizational unit in peasant agriculture would be taboo. Again, any efforts at, say, reservation of agricultural marketing and processing to the co-

operatives would offend against the overall aim of maintenance of the private trader and operator. Therefore, excepting the spread of newer techniques, nothing much can be attempted in the sphere of agricultural production. The similarity in the different proposals thus stems from the central idea, accepted by all the three, of trying to achieve development mainly through the instrumentality of the private enterpriser and investor. In effect, a long-term plan of development of an integrated character is inconsistent with the fundamental acceptance of this idea because such a plan would lay down in advance lines of a process which should properly, from this point of view, be left chiefly to the operation of economic incentives and market forces.

We may now proceed to see to what extent the magnitude and direction of a programme based on such an approach can be adequate and appropriate. The aims of our economic policy stem from the wider national objectives. These are the development of internal resources so as to gain in strength abroad and contentment at home. There is no difference of opinion that rapid economic development is desirable from both these points of view. The present economic situation of the country cannot be said to be satisfactory. We seem to be just holding our own for the last decade or more. All the broad indications point to no increase in the standard of living. The availability of food is certainly not greater than before. Food crises seem to have become as normal a feature of our economy as the dollar crises in Britain. Calculations of the average length of cloth available for domestic consumption do not show an improving situation and in the matter of shelter and housing, the conditions in our cities and in even the large towns have notoriously worsened since 1940. There may be some credits to be put on the other side, such as that of an improvement in the condition of some classes of agriculturists as compared with the situation in the thirties. The whole picture, however, is not reassuring and no tendency or operative trend during the post-war period has indicated that relief will come from any quarter or that advance is being made in any particular direction. The problem created by the pressure of population on land is also urgent. The rate at which our population is growing is not among the highest; but it is high enough to cause concern. The existing situation regarding underemployment in agriculture is serious. Statistics relating to the size of the average cultivated holding in almost all the States point to a situation where considerable proportions of the working population at present engaged in agriculture could be easily removed from that occupation without affecting productivity; also, they point to a unit of productive organization so small that no considerable advance in productivity could be made and no proper basis for improving the economic structure could be found without significantly increasing its size.

It is clear that we require a rapidly increasing production of material goods; but a slogan of more production is by itself of no use. What is required is an integrated plan of development which would bring about larger and more varied production. The obvious approach to this problem is, of course, that of exhorting workers to greater efforts and of taking steps for improving technique while maintaining the present structure. This is essentially the approach of the Indian five year plan. Such an approach would be justified if the difficulties of the situation were not fundamental and structural. Our economic backwardness or our poverty are not the results merely of low intensity of human effort or of a backward technique. The history of the last two centuries in all the industrially advanced areas of the world has definitely proved that economic development means a shifting of emphasis from primary production, in the sense of the direct exploitation of natural resources, to industrial production. In all countries the general level of incomes has, in modern times, been greater in the industrial sector than in the agricultural sector and reorganization or advance in agriculture has usually been brought about by shifting workers from agriculture to industry. It has also been found that mere emphasis on improving technique in primary production is not only inadequate but that it does not bring about a lasting solution.

The last feature is related to the main characteristics of modern population growth. The growth of population in the post-industrial revolution period has been marked by two separate trends. Firstly, with improvements in public hygiene, especially through control of epidemics responsible for considerable mortality in the past, the death rate has been progressively lowered. The trend towards a lowering of the birth rate, wherever it is in evidence, has been usually associated with the correlated phenomena of industrialization and urbanization. The first trend, that of a lower death rate, is in operation throughout the world and is associated merely with the existence of a government of minimum efficiency and not with any particular type of economic structure or any level of economic well-being. The peculiar features presented by the population problem in most countries of Asia are due to this first trend having been in operation for a long time, while the second trend in most of the countries had been artificially kept down from emerging through the operation of colonial regimes. As long as industrialization and urbanization do not take place no balance could be attained in the populations of these countries. It has often been doubted whether modern methods of controlling population growth will be readily accepted and will spread in use in the industrial and urban communities in Asia, as they have done among similar communities of peoples of European stock. Whatever the doubts be on this score, it is clear

that these cannot make significant progress directly in societies which are in the main rural, and that it is by slow filtering of ideas from urban communities that in time the pattern of birth rates in the rural communities may also become affected. Therefore, any programme which lays emphasis on agricultural development is a programme which by its success merely postpones the time when the inadequacy of resources to population becomes again apparent. The recent history of countries like Egypt has emphasized this lesson.

In the same way a programme for immediately increasing the supplies of consumer goods is a programme that has chances only of a short-term success; for, economic development means a complex industrial structure and an economy which is well-balanced internally. An emphasis on increased production of consumer goods because this can be easily achieved or because the products are immediately in demand exhibits only a short period view. This view aims at an immediate increase of certain goods rather than at general economic development. In this sphere again universal experience shows the necessity of starting at what would appear to be apparently a more remote point, *i.e.*, with the basic industries on which alone lasting economic progress or development can be based.

The adequacy or propriety of the approach may also be brought out by an examination of what the Indian five year plan expects to achieve in terms of increased welfare or merely increased production. It is clear that the extent of social security and assistance measures in India today is insignificant. A beginning has been made with some measures related to industrial workers, but measures of this type affect a microscopic minority of the Indian population. For the large bulk of people even the most elementary social services are not available. Among the directive principles of policy embodied in the constitution of the Indian Republic is one which promises securing compulsory free primary education to all within a period of 10 years. No State, excepting Bombay, has yet framed a programme for attaining this end and the Bombay programme is already breaking down for want of funds. Any programme of social security or assistance for large populations in a poor country like India requires resources which far exceed the current capacity of the Governments of either the Union or States in India. The five year plan does not point to or provide for any real extension of welfare activities of the State.

It does not in any way also indicate more equal distribution of income or wealth. The Finance Members in India have been, for some years past, engaged in lessening the burden of direct taxation. As long as Government feels that the limit has been reached in the matter of direct taxation increased government expenditure can be sustained only

by proceeds of indirect taxation or by inflation. The burdens of indirect taxation and of inflationary pressures bring about greater inequality and not greater equality in distribution. Also since industrial development is to be brought about by leaving the field in the hands of the private industrialist, most of the extra gains of the development process, it must be clear to the meanest intelligence, will remain in those hands and not be diffused broadly.

The magnitude of the effort indicated in the five year plan is also very inadequate. It is difficult to say what results the Planning Commission itself expects to be reached at the end of the five year period. The most detailed calculations made by the Commission are in relation to agriculture. Here it is seen that not much more than maintaining the position of 1950 in terms of per capita availability at the end of the five year period is expected to be achieved in the basic requirement of food. A special effort in food production is included in the five year plan. In other directions no such effort is indicated and the Planning Commission is content, in relation to the production of commercial crops, with the ordinary progress which it expects will come about in view of favourable factors which, it says, prevail at present. Industrial production is almost wholly in the private sector and the estimates of production made in that sector are obviously liable to a considerable margin of error, because of the forces of fluctuating market conditions and price relations during the intervening period. In the field of small-scale industry definite action by way of investment and direction is visualized to an even less extent than in the sector of large industry. Therefore, while it is impossible to conjecture the magnitude of results that may be achieved, it does not appear that the per capita income level would be expected even by the Planning Commission to be increased significantly as a result of the plan. As regards distribution of the total income, it has been pointed out how the distribution is not likely to become more even with the progress of the plan, in spite of the many assertions to the contrary made by the protagonists of the plan.

The reasons for the inadequate effort and uncertainty of realization are not far to seek. The Indian five year plan falls neatly between two stools. It is not prepared to go far enough in the direction of creating conditions favourable for a rapid development through the agency of private enterprise. To do this, it would have to reduce much further the burden of direct taxation, dismantle a great deal of its labour legislation and disavow its social aims. For, by doing this alone could present sacrifices be imposed to a sufficient extent on the mass of the people. On the other hand, being wedded to private enterprise the Indian Government cannot think in terms of a central pool of savings, of centrally directed investment and of a general regime of austerity

imposed through direct controls and fiscal devices. The failure to take boldly to one or the other of these lines logically leads to a plan which can accomplish little.

III

Most areas which are today underdeveloped have, in the recent past, been under the influence, direct or indirect, of the highly developed capitalist countries. Among them there are no instances of rapid economic development. The Philippines may be cited as an example of a country governed by a modern industrially advanced State which had no need of obtaining a net direct return from exploiting the resources of its colony. Even so, the trend of economic development in the Philippines was not strikingly different from that of the neighbouring colonial areas of South-East Asia. Puerto Rico is another example of a small colony benevolently administered, receiving considerable external aid and yet failing to develop its resources at a rapid enough pace.

The largest numbers of recent cases of development of underdeveloped areas are within the communist bloc of countries. It would, perhaps, prejudice unnecessarily the case if one reasons largely from the experience of these countries. Though no underdeveloped country has developed rapidly outside the communist bloc during the last thirty years, there is the instance of Japan which started its course of development towards the end of the last century and made very considerable progress during the opening decades of this century. It is possible to reason by analogy from the case of Japan and from the general previous experience of the other industrially advanced countries. A discussion of some of the problems involved and of the lessons to be drawn may be found in Dr. Singer's lectures on 'Development Projects as part of National Development Programmes,'² delivered at the U.N. Asian Centre on agricultural and allied projects at Lahore. One refers with special confidence to Dr. Singer's discussion, as the U.S. Government in its memorandum on the report of the group of U.N. experts referred in approving terms to this Centre conducted by the U.N. The process of development in most countries and circumstances may, according to Dr. Singer, be described as follows: 'It is the story of the present sacrifice, maintained over extended periods and someone to see that the results of these sacrifices went into economic development.' Dr. Singer's view of the process of development in Japan is that, 'in the first instance the process of development meant a steady increase in concentration of wealth amongst a small group of capitalists. These capitalists with the help of the ruling classes were able to keep wages low and go very slow, on social improvement in the early stages.'³ It

² Included in the U.N. publication *Formulation and Economic Appraisal of Development Projects (1951)*.

³ See also, Saburo Okita—'Japan and Asia's Economic Development,' *India Quarterly*, October-December 1951.

was again, in Dr. Singer's terms, a combination of a very unequal income distribution with exhibition of a puritan spirit on the part of those people who received the big incomes. Evidently, the Japanese industrialist was not only puritanic like his fellow industrialist in England a century before, but was also patriotic and worked in close collaboration with Government in attaining the aims of national economic policy. The business of seeing that the result of present sacrifices went into economic development was done in Japan largely by the Government which had a fairly well defined picture of its priorities and which had a public development programme closely synchronized with the private development programme and which happened to have obtained in this work the full and honest collaboration of the industrialists. To the extent that Japan obtained foreign aid, that aid is stated to have been channelled by Government into high priority investments. It is thus clear to Mr. Singer from the experience not only of Japan but also of other countries like the U.K. and the U.S.A. that economic development can follow only a large effort involving considerable present sacrifice, the central direction of pooled investment resources and dominance of a puritanic spirit over both present consumption standards and the manner in which investments for the future are made.

The first decisions to be made in relation to a programme of economic development in a country like India are regarding the minimum magnitude and the main direction of the effort. Dr. Singer, for example, talks of a minimum starting level for the cumulative process. It is interesting in this connexion to note that he considers the crucial phase in Russia was through the period between 1921 and 1926 when he feels that collectivization of agriculture took place and some surplus in food supplies was achieved. This appears a version of the case which is slightly different from the generally accepted one. One would have thought that the term collectivization is properly applied to what happened after 1927 and not before it, and that the main reason for the somewhat dangerous experiment in collectivization was that in the New Economic Policy surpluses that may have been generated in agriculture were not yet available for a communal investment effort. Dr. Singer seems to believe that there are opportunities almost everywhere of no-cost institutional changes which might bring about a large increase in productivity. It is not necessary to inquire whether the concept is a valid one and whether there are available in any society such no-cost changes. It appears clear that in India no such opportunities exist. Ours is a system already of innumerable peasant farms, in which the abolition of zamindari would have no organizational effects, and would not release enthusiasm or effort in the way that the Green Revolution is supposed to have done in the countries of South-East Europe or in China. Therefore, with us, the problem of attaining the minimum level

of investment to start the cumulative process has to be considered in terms of available real resources.

Ideas regarding the magnitude of the effort required and the proper direction of it are closely interrelated. The U.N. experts made in their report an estimate of the magnitude of capital resources required for the economic development of the underdeveloped areas of the world. This is the one direction in which statistical measurement of the problem was attempted. It is not possible to measure the magnitude of the problem of internal, political and social adjustment. This may be large or small or more or less difficult from country to country. Some aspects of internal work such as that of training industrial personnel or generally educating the masses may be defined in some quantitative terms. But the quantitative measure of even educative or public health efforts has to be ultimately conceived in terms of total resources that can be spared for such work. There are, no doubt, some directions in which physical shortages may affect the timing of the development programme as a whole. One of the most important of such directions may be the availability of technical personnel. However, most of such difficulties may be met by an extra expenditure of national resources. Ultimately, apart from the changes required in the social or political structure, the most important aspect of a plan of development is the availability of resources. By and large, it may be taken for granted that if the total resources are adequate the development programme will not be significantly held up on account of inadequacy in particular directions provided that it is properly planned from the beginning. Therefore, the most important magnitude to be assessed or estimated was that of the total resources required for initiating and sustaining an integrated programme.

It is obvious that any attempt to measure such magnitude involved assumptions regarding the nature of the process of development. Therefore, before it was possible to discuss the magnitudes it was necessary to arrive at some agreement regarding what was involved and what were the objectives of the plan. The U.N. experts approached this question from two points of view. The immediate origin of the appointment of the experts was concern with the problem of full employment. It was chronic underemployment in the underdeveloped countries that had drawn attention to the need for their planned development. Therefore, the plan of development had to be such as could resolve chronic underemployment in these areas of the world. Secondly, the experts were told that the U.N. authorities were concerned about the great gap in the national incomes of various member countries and that for fulfilling objectives specifically laid down in the U. N. Charter as well as for helping the attainment of generally peaceful conditions in the world it was vital that the existing differences in the levels of national income

between the rich and the poor countries be reduced. Most of the rich countries were increasing year by year their average per capita productivity and incomes. Therefore, the aim of a plan of development for the underdeveloped countries would be to generate in these countries a rate of increase in per capita national income which was larger than the corresponding rate of the industrially advanced countries. It has been noticed that in recent years the underdeveloped countries had failed to show progress in relation to levels of their per capita income, and that consequently the difference between the rich and the poor had been increasing instead of lessening. The aim of increasing per capita productivity and national income involved increasing productivity and income at a rate that would, firstly, neutralize the current increase in population in these countries and subsequently lead to higher levels than the present. The admittedly crude and rough estimate made by the group of experts was related to the two requirements of reducing under-employment and increasing per capita incomes.

The statistical calculations of the group of experts are based on certain simple assumptions. Firstly, it is assumed that development must lead to a growing proportion of the total population being absorbed in non-farm occupations. This is both because the state of chronic under-employment is the acutest in farming in the large, populous, underdeveloped countries and because in most of these countries the present average incomes from non-farm occupations are much higher than those in agriculture. The calculations of the group of experts are based on the minimum objective of preventing further increase of persons occupied in farming; this objective involves providing non-farm occupations for all increases in the number of gainful workers brought about by future increases in population. One set of figures is derived from estimates of the number of such workers multiplied by an average estimate of the amount of capital required to provide non-farm employment for each worker. Another item in the estimates of magnitude is related to expenditure which would increase agricultural productivity. As the average amount of capital investment required per non-farm worker was pitched at a figure which would provide for use of modern technique there was no need to make calculation of other investment for increasing productivity in non-farm occupations. In agriculture an increase in productivity was held to be possible through an improvement in technique; and the resources required to spread the knowledge of new techniques and to enable the adoption of these techniques had to be estimated. The experts made a rough and ready calculation and arrived, on the addition of the two items, at a rough estimate of the total magnitude of resources required to finance the economic development of the underdeveloped areas of the world. The calculation of the experts referred to a volume of investment which

the experts expected would increase the per capita income of the under-developed countries at the rate of two per cent per annum; that is, if a country had a per capita income of 50 dollars in 1950 this would become, in 1970, \$75 approximately. If in the meanwhile the per capita income of the U.S. moved from 1,400 dollars a year to, say, 1,750 dollars a year the proportionate difference between the two would have been reduced; the absolute difference in the two levels of incomes may, of course, become even larger than before. Put in such statistical terms the calculations of the magnitude of effort required, made by the group of experts would be seen not only to have not been extravagantly high but to be almost the minimum required if the aims of the U.N. authorities are to be given concrete shape. In fact it would be seen that in terms of the goal of greater equality between the rich and the poor countries the target set by the experts is extremely modest. In the same way the target in relation to the occupational structure means no more than that the present numbers of workers on farms will in no way be increased, *i.e.*, the process of development will take place at a pace which though not reducing significantly the extent of existing crowding on land will at least prevent making it worse.

While the approach of the Colombia plan and the Indian five year plan may be said to be similar, the magnitudes of their proposed performance are of entirely different dimensions. The Colombia plan supposed a rate of annual investment for the five year period which was continuously at a level of between 17 and 19 p.c. of the total national income and of which, roughly one-third was investment on account of Government. Government investment in the plan moves up during the five years from roughly 5 p.c. of the national income to about 6 p.c. in the last year of the plan. The magnitude of the total investment required in India on the basis of the calculations of the U.N. experts would also be very large. The U.N. experts assume that capital investment at the rate of 2,500 dollars⁴ per new worker employed in non-farm occupations would be necessary, and that capital expenditure for improvement of agriculture may be roughly 4 p.c. of the total national income. If it is held that about 70 lakhs of workers may be added to the total working population in India during the period of the five year plan, capital investment for employing all these workers in non-farm occupations would amount to Rs. 8,750 crores approximately during the five years. Assuming a national income of roughly Rs. 9,000 crores the investment for agricultural development may be about Rs. 360 crores per annum. Ignoring any increase in this total national income, we may take the

⁴Dr. Singer assumes this figure of 2,500 dollars for persons engaged in light industrial and allied employments and stresses that this is not an American or West European figure; which would be much higher.

total investment for this purpose in a five year period at five time this amount, *i.e.*, at Rs. 1,800 crores. The total investment for the five year plan period on these calculations would amount to Rs. 10,550 crores which gives a rate of annual investment of Rs. 2,110 crores. This represents about 23.3 p.c. of the assumed national income of Rs. 9,000 crores in the initial year. The Indian five year plan makes no calculation regarding the total investment in the whole of the economy during the five years. However, it is clear that the scale of investment contemplated by the plan is very small compared either to the requirements as calculated by the group of experts or the figures projected in the Colombia plan. The total expenditure on capital investment in all directions in the public sector including education and social services amounts to no more than Rs. 1,500 crores in five years of the first five year plan. The expected investment in large-scale industry by private capitalists is put at no more than a gross figure of the order of about Rs. 250 to 300 crores for the five years. These very low figures which are expected to be increased by only another Rs. 300 to 500 crores through possible external aid are seen to stand in great contrast to the proposals of the Colombia plan, which must be considered as fairly realistic, the plan having been produced by an expert mission of the International Bank. Incidentally, comparison with Colombia figures also proves that the calculations of the U.N. experts are by no means extravagant. The experts worked with average figures with which to make global calculations. Therefore, the results of their calculations would, in term of percentages, appear much higher for countries with very low levels of per capita income. The Colombia plan assumed total capital formation and investment of the measure of between 17 and 19 p.c. of the national income. The rates of investment of the group of experts worked out in the case of India at a little over 23 p.c. which is not high if we note that the per capita national income of Colombia is nearly three times that of India. It is interesting to note in this connexion that the Japanese post-war economic plan estimates planned capital formation to be between 23.1 and 23.5 p.c. of the national income for each year of the plan, *i.e.*, from 1949 to 1953.⁵

Apart from considerations of magnitude, the direction and structure of the plan require careful attention. The large requirements of resources for development make it imperative that the effort should be

⁵Following features of the Japanese post-war plan will also be found relevant. Although one of the primary aims of the economic recovery programme is to raise the people's standard of living, it is planned at the present stage to put emphasis on the increase of capital formation, with a view to increasing the productive capacity necessary for the attainment of a self-supporting economy. . . . New investment during the five-year period is planned to be concentrated mainly on important industries, such as electric power, marine transportation, coal mining, chemical fertilizer, iron and steel and agriculture. The Government will play an important role in the total investment. The percentage of government investment in the total investment will be 35.8 in 1949, increasing steadily to 41.8 in 1953.—U.N.: *Economic Survey of Asia and the Far East 1949* (p. 419).

in terms of the maximum possible for the Government and the society. This maximum effort may be reached by either leaving the field free to a small dominant group of private capitalists, or by socially directed concentration of the savings and investment effort. The maximum social effort could be made only by imposing a general regime of austerity on all classes and tapping to the fullest possible extent the sources from which savings can emerge; as Dr. Singer has emphasized rapid economic development, in a poor country, also requires a careful direction of all investment according to a carefully drawn scheme of priorities. In all countries in a position similar to that of India the main savings possibilities are few and are comparatively concentrated. There are not many studies of the distribution of savings possibilities. The report on Colombia of the International Bank Mission, however, contains some illuminating data and comment. It is pointed out in the report that personal savings in Colombia formed a small percentage of the total and that, in relation to the size of the sector, the savings in agriculture were small. The bulk of savings out of the current income is supplied by retained business earnings and reserves of various kinds. 'An exceptionally large proportion of Colombia's savings accrues to relatively few people. Likewise a substantial portion of earning is retained by the enterprises which make them.' The Mission adds 'This may not provide the requisite capital for the expansion of more socially beneficial projects in other sectors of the economy and the measures we have proposed may be insufficient.' (P. 610). It may safely be assumed that these features of Colombia's economy are reproduced in an even exaggerated form in India. The bulk of personal savings and savings in most types of agriculture with us also appear to be small. Most savings are made and are possible only in the restricted fields of modern industry, banking and insurance, foreign trade and internal wholesale trade, and, of course, in the large speculative activities of all kinds. These savings are concentrated in the hands of a relatively few. They are largely retained in business and there is no guarantee whatsoever that they would be directed to socially beneficial channels. In these circumstances, it is obvious that a policy which leads to the State acquiring control over the saving potentials in these fields, *i.e.*, over the businesses in which it chiefly emerges, is the only one that can meet the needs of the case. This obviously means a policy of socialization of the most important areas of the fields indicated above. This socialization is made equally necessary by the need of centrally directed investment. A large part of the newly directed investment will have to be in fields of modern business and without social control over these fields, effective progress in them could not be assured; also socialization would be necessary to see that the benefits of planned rapid development are not concentrated in the hands of a few.

Dr. Singer's requirement of present sacrifice also indicates the need for considerable social control. Present sacrifices if they are to be readily acceptable must have some grounding in equity. Any effort at imposing sacrifice by the State as a preliminary to rapid economic development must begin with considerably reducing existing inequalities in wealth. Socialization of fields where large concentration of wealth or income exists is then an obvious condition precedent. At this stage in the development of political and social ideas in the world, imposition of austerity on the mass of the people by a business class, however 'puritanic,' would be impossible. In the special circumstances of India any regime of austerity which left the business classes to thrive and prosper as before is not likely to be tolerated for any length of time. Therefore, a realistic programme from the point of view of India, if it is to lead to rapid economic progress, is a programme which would be oriented in a direction very different from that sketched for the underdeveloped areas of the world by representatives of the industrially advanced countries.

The large effort necessary dictates a pool of savings and centrally directed investment for all the main lines of development. The structure of the plan must also lean heavily on the side of industrialization, and it must think of industrialization as a long-term, continuous and self-sustained process. That rapid industrialization is the remedy for underemployment in agriculture is a view endorsed by the U.N. resolution on Land Reform. From the point of view of the structure of the programme the most important lessons are those afforded by the post-war planning effort in the Balkans. It is curious to observe that even opponents of the communist regimes in these countries often admit that but for a planned rapid drive the necessary industrialization would never have taken place in them and they hope that when these regimes, which they wish to destroy, vanish, the fact of the industrialized economic structure will remain.⁶

Another thorny problem which a plan of development for India and countries similarly situated must face is that of increasing the production of and the available surpluses from agricultural activity. The problem is already being faced in India. The only fundamental solution is to reorganize and enlarge the unit of production in agriculture. Before the reorganization can be undertaken plans for absorbing parts of the rural surplus population in non-farm occupations will have to be put in operation and certain preliminary reforms completed. These are either socializing or putting into the hands of co-operative organizations the credit, marketing and processing activities connected with agriculture. Only after this is done would it be possible to think of

⁶ Cf. Jan Wszelaki: 'The Rise of Industrial Middle Europe,' *Foreign Affairs*, October 1951.

setting up co-operative farming units on any large scale. Planned effort in all these directions obviously means government direction, reservation of the fields for co-operative activity, and perhaps legislation to compel minorities to join a communal co-operative effort.

The needs of both austerity and directed investment lead to a drastic control over foreign trade also. Even the comparatively simple objective that the British economy set before itself, of attaining an export surplus of a given size, required considerable control of both export and import trade. Such control in an underdeveloped area is necessary for a variety of reasons. Firstly, the use of foreign exchange resources has to be carefully planned so that the resources required for the development plan are all obtained. Secondly, measures of austerity necessarily imply reducing to a minimum expenditure of exchange resources on non-essential consumer imports. Exports have to be adjusted to the requirements of the plan in terms of the retention internally of the materials required for the plan and obtaining externally, through sale in adequate amounts of products in which the country holds a strategic position, the necessary exchange resources. During the post-war period, a number of countries producing important materials made efforts to pool all gains from export trade in these materials. The need has also been emphasized of conserving and evening out the supply of these gains for the financing of a development programme, especially by countries the prices of whose strategic exports are liable to considerable fluctuations.

Another important aim of the early stages of the plan would be to attain comparative self-dependence. The needs of development of a large country like India are immense. The process would continue for a long time and with the size of the country and the varied natural resources within it, it should be possible to plan development in a manner that is mutually helpful and largely self-supporting. Attainment of a large degree of self-dependence in a long-term plan of development cannot be too highly emphasized. The experience of the last three decades has shown that it is dangerous to the progress of a plan of development to depend to any large extent or in any essential feature on international trade of a given volume or direction. Apart from interruptions which result from a global war, the possibilities of which cannot be totally discounted in any present thinking, there are two dangers to be guarded against: (i) current non-availability of foreign exchange and (ii) current physical non-availability of the goods that are required for the programme of development. The ability to buy abroad continuously or import goods from abroad required for the development programme depends on the capacity to raise the required funds, which, in turn, depends upon the power to sell sufficient goods on reasonable terms abroad. This cannot always be depended on.

Secondly, in periods such that of the rearmament drive the goods, especially the capital goods required for a development programme, cannot always be available from abroad. Therefore, it is a prudent course to plan economic development in such a manner as to provide, within an early stage of the development plan, for freedom from dependence on essential imports from abroad. Of course, development planned in this manner requires resources of a minimum size and of a minimum variety. India, has, fortunately, adequate resources in both these regards; therefore, to plan economic development in India along other lines than those sketched above is to turn away deliberately from the lessons of the experience of other countries in the recent past, and to stake our future on a gamble on international trade and international progress.

IV

Before going on to consider the problem of external resources likely to be available for economic development of the underdeveloped areas it is necessary to pay some attention to the general reaction to this process on the part of the advanced countries. Most peoples of these areas are today independent and have begun to form their own notions regarding objectives of national policy. These objectives, are, of course, broadly similar to the objectives of all other political States, which are to obtain for their States a political, economic, and cultural position which is on some measure of equality of status with other political States with whom they are in contact. The ultimate objectives of the new political States of Asia, for example, can be framed in no less generous or no lower terms than these. The implications of the new Asian States setting up such objectives have, however, great significance for themselves and for the world as a whole. There is little doubt that during the last two centuries the whole world has been dominated more than at any stage of its previous history by a small group of nations belonging to the White races. The circumstances favourable to a continuance of such dominance appear to have ceased. It cannot be said whether the present is merely a prelude to another stage where other groups will dominate. However, in the circumstances, all, especially the States that have newly won independence, must strive to gain a position for themselves which will free them from the threat of domination. Till a comparatively small number of decades ago the superiority of the European Whites was complete and that they were destined to rule the world was taken for granted. In recent years the claims made on behalf of the Whites have not appeared as clear as before and the behaviour of the Whites towards the coloured has, in particular respects, been somewhat modified. There is no reason, however, to believe that in fundamentals the situation has greatly changed. The

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in the main, to the economic strength of the exploiting country. The economic strength and bargaining power as well as the complex structure of trade, transport and industry raised on the basis of oil resources all belong to the exploiting country and not to the country in which the oilfield is located. The dispute in relation to exploitation of oil is not a question of proportionate division of incomes but a fundamental one as to who will obtain all the important advantages flowing from ownership and exploitation of oil. The sedulous attempts of exploiting powers to draw a red herring across the trail by pointing to large or increasing monetary benefits now fails to conceal the true nature of the struggle from even the ignorant populations of these countries.

The history of the relations of the U.S.A. with the Central and the South American countries is another important illustration and may provide useful material for a study of possible changes in the balance of such relations and the possible pattern of continuous readjustments. It is obvious that the efforts of the underdeveloped countries to free themselves from dependence on industrially advanced countries and to develop and exploit fully their own resources may result in some diminution in the economic strength and in the incomes of the richer countries of today. The possession of colonies and of concessions for exploitation have important tangible results; their loss is bound to be felt seriously by, at least, some of the European countries who, but for the peculiar political developments of the post-war period, would have made a greater fight for their retention.

It is difficult to judge how, apart from these aspects, the general development of the underdeveloped countries would affect the economic position of the present industrially advanced countries. There is one apprehension that is already felt and expressed. It is a commonplace of thought on the subject that a rapid economic development of underdeveloped areas may change the terms of trade between agricultural and industrial products in such a manner that economies built on the basis of bulk imports of raw materials would find themselves under great strain. There are other ways in which through affecting the prices or the availability of particular materials the advantages enjoyed so far by the European countries in relation to tropical and colonial products may vanish and this might affect the structure of their economies and their prosperity. Such are some of the general arguments for believing that the economic consequences of a rapid economic development of the underdeveloped areas may not be all to the advantage, at least immediately, of the present industrially advanced countries and that therefore it would be too much to expect them to assist generously such developments.

The U.S.A. are a possible exception to what has been said above.

The internal resources of the U.S.A. are both rich and varied and though the country does derive some advantage from its exploitation of, *e.g.*, oil resources in different parts of the world and from the general tutelage exercised by it over Central and Southern American economy the loss of these in due course may not affect significantly the material prosperity of the people of the U.S.A.

The political and cultural consequences of a rapid economic development of the underdeveloped areas may also be important. Many of these areas, especially those in Asia, are heavily populated and if with rapid economic development the economic and political strength and status of these countries is greatly raised an almost revolutionary change will have come about in the present balance of political power in the world. For about 200 years the European peoples have been used to thinking of themselves as the natural ruling powers. It has been with great reluctance and with strenuous opposition at each stage that they have admitted nations of the other races to a position of even theoretic equality. If now these countries, some of whom are extremely populous, attain to a status of something like real equality the mental adjustment required of the European peoples in accepting this fact would undoubtedly put them under great strain. There is little doubt that this is partly the explanation of the great attention paid by the Anglo-Americans to the population problem of the Asian countries. 200 years ago the population of the world was largely non-white; within the last 200 years, the white peoples have grown rapidly in numbers as a result of having occupied large areas of the world. In many of these areas colonized by the Europeans, older populations have been almost completely wiped out as in the present U.S.A. and Canada, Australia or New Zealand, and when in these areas a non-white element has been admitted it has been only on the status of and for use as slaves or serfs.

The racialism of the Whites has been incorporated in and expressed through many institutions and legislative enactments. At one extreme stands, no doubt, the South African segregation policy. The sentiment appears in the extreme form in South Africa only because the sense of fear under which the South African Whites labour is so much the more immediate, constant and large. The immigration laws of the U.S.A. and Australia are, in principle, based on concepts no different from the South African policy of segregation. If the economic development of the whole world was a single indivisible process, the movement of population from areas in which the productivity of labour was low to those where it was high would be the obvious first step to bring about increased prosperity. That not only can such steps not be taken but that they should be considered so impracticable that nobody should find it worth while even to mention them on an international plane is itself an adequate commentary on the present distribution of the political

power in the world. There is no doubt that countries, especially like Australia, look on this matter of economic development of underdeveloped areas as something like a race against time; their constant apprehension being as to what would happen if large areas of their country are still unpeopled when coloured peoples of Asia have become strong enough to voice their real sentiments in the matter and to exercise their power accordingly.

V

The above discussion would indicate that there is no reason why the rich and developed countries which belong almost entirely to the West European group, directly or indirectly, should take any interest in the rapid economic development of the underdeveloped areas. In actual fact also, before 1940, none of the rich countries took an interest in the development of the underdeveloped countries, except as complementary economies. The problem of the availability of external aid for the underdeveloped countries, has, therefore, to be looked upon as entirely a post-war phenomenon. The communist countries claim to have solved the problem of the rapid economic development of underdeveloped areas. They claim to have actually developed many such economies without significant external aid. Whatever the extent of their actual achievement in this respect, they are seen to have attained an impressive political status in the world. They are also supposed not to entertain a racial bias. Their appeal to peoples of the underdeveloped areas is obviously great. It is in the context of counteracting this appeal that the aid policies of Western countries must be judged.

This would explain why in spite of some immediate considerations to the contrary the rich countries are disposed at present to help the underdeveloped areas. What are likely to be the terms and what the magnitude of such help? In this connexion the views of the representatives of the developed countries, indicated previously, have relevance. They illustrate what in effect is a universal phenomenon, that thought in economic policy in a society is closely related to its immediate experience and to the comparatively short-term economic interest of that society. As the experiences and immediate interests of the developed and underdeveloped areas diverge greatly, it is not necessary for us to take seriously their thinking on our problems. I have shown above that the programme indicated by them is neither appropriate nor adequate. It is, however, pertinent to enquire whether the terms and extent of the external aid available are likely to depend on the nature of the policies followed by the underdeveloped countries. The problem may be considered separately for the different sources of available aid.

Before considering future prospects, reference may be made to discussions in international authorities on recommendations regarding ex-

ternal aid made by the U.N. experts. The points of open disagreement were the recommendations of U.N. experts regarding the creation of a new and independent International Development Authority and the making of grants through such authority to the underdeveloped countries for certain specific types of non-self-liquidating expenditure. The division, outside the Soviet Bloc, was as among representatives of the developed and of underdeveloped countries. In opposition to the recommendations of experts it was urged that a new International Authority was not necessary and that the experts had ignored the work that was being done by the existing international agencies and that while it may be true that at least some underdeveloped countries stood in need of grants the resources available today with the developed countries for the purpose were not adequate for the functioning of such authority. All the developed countries, other than the U.S.A., pleaded that in view specially of the rearmament expenditures they had no surplus resources and those that they had were fully required for their existing commitments in their own colonial or commonwealth areas. The United States Government took the view that there was no justification for setting up an International Authority unless it was in fact international *i.e.*, unless a substantial part of the funds of that authority were raised by contributions from a number of Governments. There was, in its opinion, no point in creating such an authority if almost all the funds, as appeared certain, would have to come from U.S.A. itself.

The ultimate decision taken by the General Assembly was the result of continuous pressure exercised by representatives of the underdeveloped countries. The Economic Committee of the Economic and Social Council, entrusted with the task of preparing a draft resolution for consideration of the Council, had emphasized the need for the underdeveloped countries providing appropriate conditions for an inflow of foreign capital, especially private capital, had drawn special attention to the non-availability of funds for grants and to the improved terms of trade of the underdeveloped countries which made grants unnecessary and had merely asked various organizations to keep the question of grants under consideration. The draft resolution of the Economic Committee came under severe criticism in the Council and was substantially modified in it; it underwent further change in the Assembly. It is, however, doubtful whether this modification of the draft resolution as originally sponsored by the developed countries will prove of any concrete use.

Consideration of the measure of likely assistance forthcoming from external sources for the development of underdeveloped countries must be made without much reference to resolutions passed by international authorities. We may begin the consideration by passing under review

what has already been done in this behalf. During debates in various U.N. authorities the charge was often levelled against the U.N. experts that they had failed to pay due attention in their report to the work being done or already accomplished by existing international authorities. No doubt, a large number of international authorities have been brought into existence since the war. Some of these such as the U.N.R.R.A., which had notable achievements in the work of rehabilitation to its credit, have been wound up. Most of the others such as the W.H.O., F.A.O. or the much older I.L.O. are all specialized agencies devoted to work in particular fields. They perform in their own fields useful service in bringing about international agreements, exchanging ideas and giving advice; their contribution to a programme of economic development cannot, however, go further than helping in the formulation or definition of particular aspects of the programme and rendering some technical assistance in its execution. The work of these agencies is also by no means confined to or concentrated in the underdeveloped areas of the world. The one recent activity undertaken on an international level and directed specifically to the economic development of underdeveloped countries has been that of technical assistance. Here again the assistance given is in the shape of the services of experts in particular fields; this could be fruitfully utilized only by a country which had previously formulated a plan of integrated development and which had the resources with which to implement it. The Technical Assistance Board set up by the U.N. has itself begun to realize this fundamental limitation on the scope of its activity.

Three elements are essential in any successful programme of economic development of an underdeveloped country. These are (1) state of internal preparedness, social and political, (2) the formulation of an integrated plan, (3) resources required to fulfil the plan. Existing international agencies could do little regarding the first requirement; the definition of the scope of existing specialized agencies and the development of their activities has also made clear that their utility in the other two respects was confined to helping the formulation of plans in particular fields and supplying the services of some expert personnel in them. The international agencies are, of course, not to blame for the manner in which their scope has been defined and the consequent limitations on their usefulness in the large task of economic development. Equally, U.N. experts were also not to blame for the fact that in view of the way in which they had analysed the problem and defined its magnitude they found no occasion to refer to the activities of these agencies.

The above has been written without reference to the international agencies which have command of general resources and could, in appropriate circumstances, supply them to individual countries. These are the International Monetary Fund and the International Bank. The re-

sources with the International Monetary Fund are available mainly for meeting short-period balance of payment difficulties and could not be counted on in a programme of long-term development. The International Bank, though its activities are not confined to underdeveloped areas, was on the contrary specially set up to provide investment resources. The U.N. experts, therefore, made special reference to the work performed so far by the International Bank and the part it could and should play in an international programme of economic development. The experts were somewhat critical of the extent of the assistance that the International Bank had been able to give so far. Whatever the circumstances responsible for the fact it cannot be denied that the actual performance has been disappointing. At the same time the experts noted that there had been, on the part of the International Bank, a reorientation or reinterpretation of policy and an attempt at quickening the pace and recommended that a definite target should be set up and reached.

It should be noted that the recommendation to set up an International Development Authority does not imply an underestimation or deprecation of the role of the International Bank. The International Development Authority is required because the Bank cannot perform a number of vital functions essential in formulating and implementing an international development programme. The International Bank has no doubt been driven by necessity to assist countries applying for loans to formulate plans. However, the giving of such assistance or advice is not a primary function of the International Bank and it could undertake the function only in particular circumstances and only to a limited extent. It could not initiate, even in an indirect manner, the formulation of integrated development programmes in individual countries or give the assistance required in many forms in the various stages of such formulation. The International Bank could not, also, undertake the co-ordination of plans or constantly help in their implementation, especially in times of international difficulties. Also the International Bank did not desire to have anything to do with the distribution of grants or with even the administration of loans at concession rates. The International Bank held the view that its activities should be confined to banking proper and that any admixture of other functions would be undesirable from all points of view. Taking an integrated view of the whole process of development and assisting in it at all stages is a task which neither the International Bank nor any arrangement of co-ordination between various international agencies could carry out. If the nations of the world did really consider the development of the underdeveloped areas the most urgent problem of the present, it could be adequately dealt with only by a special authority created for the purpose. Such were some of the considerations which led the U.N.

experts to recommend the setting up of an independent International Development Authority.

It has been pointed out above that aid from international agencies other than the International Bank was not likely to be substantial. The views of the international agencies also revealed large differences of opinion among themselves. At one extreme we have Dr. Ezekiel of the F.A.O. who considered that the ability of the underdeveloped countries to direct and control far-reaching programmes was limited and who professed belief in a programme chiefly of mass education. On the other hand, there were some representatives of the International Trade Union organizations who thought the U.N. experts had paid insufficient attention to problems of the workers' standard of living and there was also the complaint that the U.N. experts had not paid sufficient attention to the problem of underemployment. It was only the International Labour Office and the International Organizations of Trade Unions that supported wholeheartedly the approach of the experts and their estimate of the magnitude of the effort involved. This difference in reaction may have been due to the fact that these labour organizations were in touch with conditions of workers and the poorer classes in the underdeveloped countries and not merely with investment markets and leaders of private enterprise. The reactions shown in the official representation of the International Bank are highly interesting. The International Bank fully agree with the need for the internal political and social changes which the experts advocated. It also supported the idea of an integrated plan of development and felt that if grants were available for non-self-liquidating expenditure the security of the loans made by the International Bank would be greatly strengthened and the terms and amounts of the loans offered by it could be improved. It did not admit that much more could have been done by the Bank in the past or that it was practicable to set up a target of annual loan amounts to be reached within a specific number of years.

The International Bank is no doubt strongly in favour of development taking place through private enterprise. In many plans of development, as, for example, that in connexion with Turkey, it has deliberately put in the forefront of the programme the development of private industry and it may safely be assumed that the check to the progress of nationalized industry in Turkey was connected with the large American aid and with help from the International Bank received by that country. It would appear that in other countries also where the International Bank has helped in preparing the blueprint of a development programme, emphasis has been placed on working through private investors. However, it may be that the International Bank would not necessarily refuse or grossly curtail help if other circumstances determined or indicated that help should be given. A notable instance is that

of Yugoslavia. The International Bank has begun to grant development loan funds to the country even though it is known to profess a communist ideology in matters of economic development, though even in Yugoslavia a decided change in direction has been alleged following the help received.

Assistance from governments of individual countries, either directly or through their own agencies set up for the purpose, and assistance from private individuals in foreign countries are the other sources of external aid. The Export-Import Bank of the United States of America is an important example of an agency set up by an individual country. The U.N. experts have referred appreciatively to the work of this Bank. In fairness to the International Bank it must be observed that the Export-Import Bank operated in conditions which are somewhat peculiar. The Export-Import Bank administers resources set apart for the purpose by the Government of the United States of America and, unlike the International Bank, had not to pay any attention to reactions of its policy in making loans on the international capital market. Secondly, the administrative organization of the Export-Import Bank was such as to make it very responsive to the policy of the United States Government and highly elastic in its terms and conditions. The International Bank operated necessarily in a more rigid framework, and there were severe limitations on the possible variations and elasticity in its terms or methods of doing business. The Export-Import Bank was in brief an instrument of policy of an individual government, while the International Bank was an international agency. However, this very difference made it difficult to place as much reliance on an organization like the Export-Import Bank in a programme of long-term international economic development as on the International Bank. While the Export-Import Bank had in recent years done some useful work the total amount of assistance made available through it had not been large.

The help given or to be given by foreign Governments stands in a class by itself. At the present there is no programme of aid in Asia comparable to the Marshall aid for European countries. It is likely, however, that in the near future offers of substantial help may be made by the Government of the U.S.A. to some countries like India. These offers of aid will, most probably, be directed towards specific objectives and programmes. Help from the U.S.A. or from any foreign Government is likely to depend much more largely on political and military considerations rather than on considerations of internal economic policy of the recipient country. If the Government of a country, say, India, takes any large steps towards socialization or drastic control of foreign trade, the Government of the U.S.A. may not entirely relish the step, but it is not likely to revise its aid programme merely on that account. Receipt of aid from the International Bank or from the Government of

the U.S.A. will thus mainly depend on the political situation. It is equally clear that aid from the International Bank or from the Government of the U.S.A. will be available after a country embarks on an economic programme which they do not approve, only if political circumstances make the giving of that aid imperative. This is tantamount to saying that such aid may be available in particular circumstances but that it cannot be completely depended upon. Experience of other countries who have received American aid shows clearly that the aid always has, as such aid received by one Government from another must always have, some political implications. Action of the U.S.A. in relation to the embargo on trade with China or the case of the agreement obtained on the Japanese Peace Treaty are important illustrations of what is likely to happen. The mechanics of political action in the U.S.A. are also very peculiar and it is not certain that aid programmes in a given direction launched at a particular time will always be kept going year after year. While, therefore, it may always be perfectly honestly stated both by the donor as well as by the recipient that no strings or conditions are attached to receipt of particular aid, the political relations with the giver of aid, of a constant recipient or of one who expects a stream of gifts in the future are necessarily of a type which must shackle political discretion in a significant manner. It is specially important to observe that as matters stand there is continuous likelihood of a sharp difference of opinion on important issues between the U.S.A. and India. The peculiar position that India occupies, its tradition and history and the evolution of its foreign policy in recent times all point to possibilities of recurrence of these differences. In the circumstances, while it would be unnecessarily foolish to refuse any specific aid that is currently offered or given, only because it may give rise to possible embarrassments later, it would be highly unrealistic to continue to count on any receipt of such help or to make a programme of development dependent in any essential respect on receipt of help from a foreign Government such as that of the U.S.A.

At this stage a word may be said regarding the position of the Soviet Bloc. It must be clearly recognized that the Sino-Russian group of countries are among the poorer countries of the world and most countries within the group are undergoing or awaiting development. In particular, the development of China will require specially large resources. Therefore, even if India adopts parts of ideas on planning and economic development which have been evolved largely in the communist countries, it should not expect any substantial help from this group of countries. Not only are the surplus resources required for giving such aid not available with these countries, but also the political implications of receiving such aid from them may be found to be even more embarrassing and more inconsistent with our past and present than

those of receipt of aid from the U.S.A.

We may lastly consider the possibilities of private investment by foreigners. It is obvious that such private investment effort is compatible only with a plan drawn on the lines favoured by the advanced countries. The implications for economic policy of encouraging private foreign investment for internal development are many. Investment effort by foreigners is, in the first instance, fairly costly. The minimum returns obtained and expected on such investments is of the order of 15 p. c. or so. From the point of view of generating investment surplus from exploitation of resources, this is a rate of return which is very high and could be given only by a country which finds no way of bringing about development by other means. Secondly, encouragement of investment by foreign private entrepreneurs may influence long-term economic policy. It may imply the entrenchment of domestic private effort for periods and in conditions in which alone the foreign investor will choose to invest. The encouragement to foreign private investment may thus involve a commitment relating to domestic policy which is in fact a long-term commitment.

In the context of modern conditions it is also clear that increased foreign investment effort strengthens not only indirectly but also directly the position of domestic private enterprise; this is because whether compelled to do so by local Government regulations or not, foreign capitalists nowadays seek everywhere to exploit resources chiefly in collaboration with groups of local capitalists. The privileged position and superior bargaining status of foreign capitalists in relation to the national government thus fortifies by association with them the position of domestic capitalist classes also. In effect, therefore, encouragement to foreign private capitalists is tantamount to wanting to or guaranteeing to maintain a private enterprise economy internally for an indefinite period of time. Such a policy may fit in with the aims and the scale of efforts contemplated in the five year plan in India. It would, of course, be incompatible if any more vigorous or more radical measures are taken for development. External capital from private sources could not, therefore, be counted on in such a programme as a significant source.

It is difficult to estimate the magnitude of the help that might be available to any country from external sources. However, making a rough guess, the external aid that India may receive during the next decade may in favourable circumstances be put at from Rs. 100 crores to a maximum of Rs. 200 crores per annum. In a plan where the total investment in the public sector is no more than Rs. 300 crores per annum, external help of this magnitude will prove important. Also, in such a plan help from all sources, including, foreign private investment, can be drawn upon and help from the International Bank and the Government of the U.S.A. may be liberal and certain. The other

approach which I have indicated as providing the only solution to the problem would require an initial minimum planned investment by or through Government of the order of about Rs. 1,000 crores per annum. In such an approach utilization of private investment capital from abroad will not be possible; also in it, in comparison with the requirement of internal effort, the available foreign aid could not be proportionately large. Hence, though foreign aid of the dimension of even Rs. 100 crores per annum can never be ignored or chances of obtaining it neglected by a country like India, its absence would not affect the plan fundamentally.⁸

VI

The final decision regarding the approach to the plan and the magnitude of the effort required will ultimately be arrived at in relation to circumstances other than the availability or non-availability, or the magnitude of foreign aid. The decision will be taken by the Government of a country in relation to what it thinks is possible and necessary. If small efforts of the type of the Indian five year plan are all that the situation needs, the ruling classes are not likely to do anything more strenuous and risky, and may then, incidentally, benefit from all types of foreign help. The masses in India have lived in great poverty for generations; there is no reason why they may not continue to live in equal poverty for more generations. There may be no special urgency about economic development and no particular reason why economic development should not take place in India through private enterprise by increasing concentration of economic power and the sacrifices imposed on the poor. If the people of a country continue to stand a regime of that sort, there is no particular reason why it should be disturbed. If, however, internal pressures make it necessary for Government to embark on more difficult policies, the possible cessation of foreign aid is not likely to deter them from the effort. Absence of foreign aid would only mean that the efforts would have to be more intense, more well-planned and the sacrifices larger than might otherwise have become the case.

Whether foreign Governments, in this instance chiefly the Government of the U.S.A., extend help or not—and the conditions on which they extend it—is entirely their concern. Indians have no reason to hold any particular set of expectations in the matter. It does, however, appear unnecessary for the Americans to give the impression that in giving aid they are favouring a particular approach to the problem of development and frowning on the other. The great emphasis laid

⁸In this discussion I have treated loans and grants from foreign Governments together. The justification for doing this is that ultimately the bulk of the funds for all purposes come from the U.S.A. and whether aid is in the form of an outright grant from the beginning or of a loan to be repaid over a long period the difference in the early stages of development to the plan will not be significant.

by representatives of advanced countries on private enterprise, on foreign investment capital and on the need for recipient countries making conditions easy and favourable for the investment of foreign private capital has undoubtedly created an unfortunate impression. American spokesmen do not adequately realize the great differences in conditions and dispositions between their country and the Asian countries. Even the Europeans find it difficult today to accept all American ideas on economic policy. The following quotation from an article in the *Economist* (15 December 1951) on a conference of European industrialists in New York addressed by Americans will be found illuminating:

It was beyond dispute that the visitors had come to the most prosperous area of the world from one not so prosperous. The Americans were well-entitled to assume that explanations of how the United States had achieved such prosperity, coupled with some advice on the methods by which the same admirable results might be reproduced elsewhere, came within the definition of helpfulness.

This from a British liberal newspaper is significant; for, the British have exhibited during the last 150 years similar helpfulness in relation to the Asians and find only recently the role reversed in relation to the Americans.

If the British and the West Europeans find the cry of more competition meaningless and unhelpful, it may well be that many people in countries where modern private enterprise has been seen in some of its more unsavoury aspects may consider the American attitude and insistence as being worse than merely unhelpful. For many Indians, it is difficult to understand why a plan of integrated development which imposes a uniform regime of austerity should on account of its rejection of the concept of a private enterprise economy be considered less democratic than one which protests about welfare and equality, but in effect maintains a regime of gross inequality and the denial of welfare. Also, it is difficult for many of us to understand how to think in terms of a socially integrated planned economy is necessarily more wicked than maintaining a system which avowedly works on the dictum: 'The race is to the swiftest and the devil take the hindmost.' These are, of course, all large disputes in which sharp differences of opinion are bound to arise and each is likely to judge according to his own experience and disposition. What I think is unfortunate is that the American help potential should, in this dispute, appear inextricably mixed up with one approach to the problem. American aid in Asia is available today largely to regimes which have been judged by the peoples of Asia as being essentially undemocratic, socially, economically and politically. The emphasis on private enterprise everywhere is interpreted, at least

by many in India, as reflection of a policy which on the plea of strengthening the democratic front could only lead to bolstering up undemocratic regimes. This is a matter connected not so much with the quantum of economic help as with mutual understanding and good relations and is, therefore, one on which an Indian may express a frank opinion, thus far.

For us in India the moral of the considerations set forth in this article is clear enough. Our Government has guaranteed the maintenance of the present field of private enterprise and Finance Ministers have declared that they cannot increase direct taxation further or curtail imports. Therefore, the maintenance of the present standards of living of the rich in India is assured and no diminution can take place either in the economic resources concentrated in their hands or in the fields open to them for profitable activity. The magnitude of investment contemplated by Government in the public sector is relatively no larger than the investment made by the British when they were building railways or canals. Government will also find it impossible to increase significantly the burdens on the poorer classes or to generate general enthusiasm. The only new factor that has recently emerged is the availability of some foreign government aid on very easy terms. Evidently, the Indian Government expects the economic development of India to take place at the needed rate without any sacrifice on the part of the rich and without any special effort on the part of the Government. This is rank delusion. India is one of the oldest, biggest and poorest of the countries of the world; its problems are among the most complex and its resources among the slenderest. In such a country no rapid economic development can begin without a social revolution which changes radically the existing distribution of economic power and income; and such development will involve the imposition of great present sacrifices on all and will call for patience during the long period which will elapse before the fruits of development accrue. The need for social cohesion and solidarity is great and the situation demands, in a high degree, intelligence in planning, honesty and ability in execution and discipline within the community. It is high time thinking men within the country woke up to these realities of the situation.

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