

BARBARA WARD
THE PLAN UNDER
PRESSURE

E/403



THE COUNCIL FOR ECONOMIC EDUCATION
BOMBAY

STARTING WITH a review of the variety of pressures to which Indian economy was exposed when the Chinese advanced on the country in mid-October, Lady Jackson refers to the likely impact of defence mobilisation on industrial production and stresses the desirability of an agreed solution of the Kashmir question—a political issue—for facilitating the flow of Western aid. In the context of foreign aid she has a few pertinent observations to make on the level of tariffs imposed by the developed countries on the products of the developing countries and of the attitude of the latter to foreign private investment. She argues that, provided certain conditions are fulfilled, Britain's entry into the European Common Market—no longer a live issue—will be to the advantage of the developing countries.

Lady Jackson believes that the time has come for India to evaluate the accounting significance of prices, not only in the narrow sense of prices of commodities but also of prices of capital (rate of interest), foreign exchange (rate of exchange), etc. To the extent that these prices are not indicative of their real value, they lead to a wasteful use of the scarce factors of production.

It is because her approach to India's economic problems has been as sympathetic as it has been analytical that Lady Jackson's views on the Plan acquire a special significance. Under the modest sub-title "An Observer's View" she covers a wide range of economic topics and puts across a number of suggestions which are thought-provoking.

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An Observer's View

by

BARBARA WARD

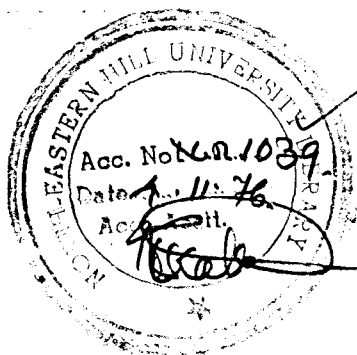


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INTRODUCTION

IN the series of lectures on India's current economic problems which the Council for Economic Education organises from time to time, Lady Jackson delivered this December two lectures on "The Plan Under Pressure—An Observer's View," at Jai Hind College, Bombay. Both the lectures attracted large audiences and proved extremely popular. In keeping with the practice of the Council, the lectures are now being published for the benefit of a larger public.

Lady Jackson, or Barbara Ward as she is so familiarly known, needs no introduction to the Indian public. Even before India appointed official economic ambassadors, she through her writings and lectures, had virtually served us as our economic ambassador to the West. In fact, her book, *India and the West*, contains most of the arguments that one might seek to advance in favour of maximum economic assistance to India.

It is because her approach to India's economic problems has been as sympathetic as it has been analytical that Lady Jackson's views on the Plan acquire a special significance. Under the modest sub-title "An Observer's View" she covers a wide range of economic topics and puts across a number of suggestions which are thought-provoking.

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Britain's entry into the European Common Market—no longer a live issue—will be to the advantage of the developing countries. She lays great emphasis on the need of India developing her forest wealth and evolving a pattern of technology suitable to her resources.

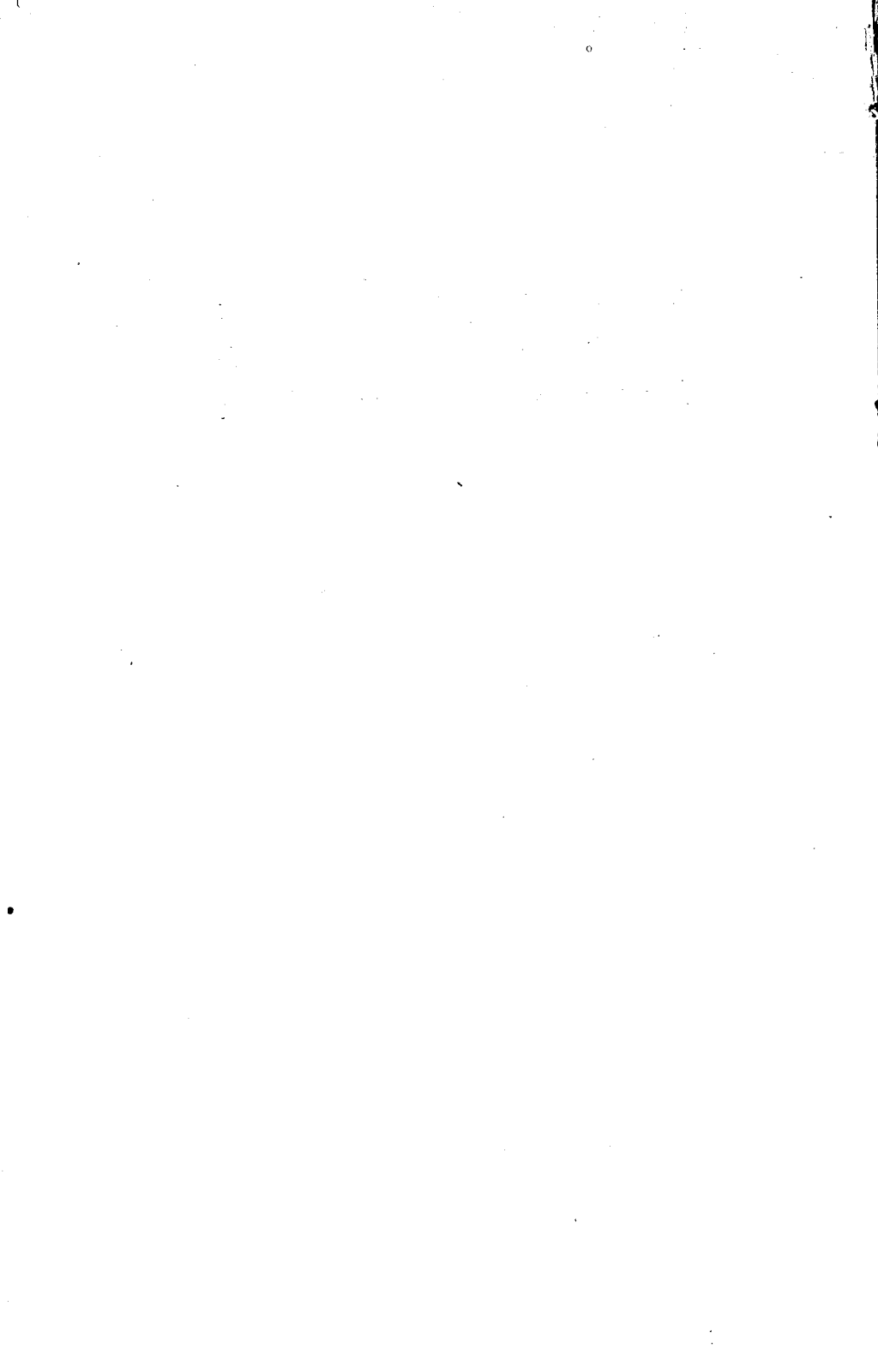
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It is hoped that these views of a keen observer will stimulate fresh thinking on our economic problems and suggest new lines of action.

J. S. Kundu

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The Immediate Crisis

THE subject to which I have to address myself—"The Plan under Pressure"—is about the most difficult subject that one could choose at this time. Can one say what the future shape of the Plan is going to be? Can one define the likely scale of the pressure? If I feel rather like the proverbial man in a dark room groping for a dark cat, you must forgive me. The subject is immensely tenuous and every time one thinks to lay hold on an absolutely solid fact, the fact either dissolves or turns into something quite different.

Even our starting point—the emergency itself—is a very uncertain affair, once we leave the brute fact of aggression. Is it a prelude to all-out war? Or pressure designed to bring India back to the negotiating table in a more compliant frame of mind? Or opportunism, part of a long process of probing here and probing there, weakening the independence of border states, undermining India's status and self-respect and reducing the Himalayas from a secure frontier to a threatened no-man's land? Having no direct insight into Mao Tse-tung's thinking, we can only guess and all I can tell is that the most informed guesses these days seem to conclude that India is faced with one of the most unpleasant and most difficult kinds of conflict a nation can be compelled to face—a sort of "on-again, off-again Flanagan" conflict, in which the enemy never gives its opponents for any length of time, the brisk, invigorating sense of open struggle, but continuously saps away at the foundations of their essential interests and of their long-term defence.

What happened in October-November, 1962, certainly fits into this picture. Indian troops, the Chinese alleged, were probing forward in Ladakh, part of which the Chinese are determined to keep. Now, the Chinese could, I suppose, in these conditions have responded solely in Ladakh, delivering a very strong attack there to bring their frontier within sight of Chusul. What did

Planning for Growth

THE immediate emergency, thrust upon India by Chinese aggression, has underlined two major difficulties. The first is the disappointing performance of a number of key sectors in the economy—in other words, the economy's slow rate of growth. The second is the biting shortage of foreign exchange which places further curbs on expansion. The emergency has underlined them. But they were there before it and could outlast it unless the extra urgency and energy it breeds can lead both India and India's friends abroad to take a fresh look at the difficulties.

The First Plan ended in 1956 in an atmosphere of some euphoria. By setting under-used, war-developed capacity to work fully and by completing schemes started soon after independence, industry achieved a very favourable capital-output ratio.¹ The weather was kind and gave such bumper harvests in 1953/54 that many people erroneously attributed the rise in output to irrigation, better methods and the success of Community Development. Above all, foreign exchange faced little or no stringency. India's sterling balances were not exhausted and all its primary exports earned record returns in the post-Korean boom.

The spectre of slow growth and low reserves began to appear in 1957 and, since that time, the Indian economy, in spite of steady growth, has always run behind its targets. Perhaps the simplest fashion of illustrating the shortfall is once again through a table: (Table 3). Similarly in the first two years of the Third Plan, output has been disappointing. As I have already pointed out, nearly all the indices for agricultural production in 1961/62 were static or falling and industry's rate of advance has been held back as a result.

¹ Such a ratio is very favourable if each unit of fresh capital achieves a unit of added output. A more normal ratio is 3 of capital to 1 of output.

The Foreign Exchange Crisis

WHEREVER one starts in the effort to disentangle India's difficulties, the thread leads back sooner or later to the shortage of foreign exchange which, in both 1961 and 1962, led to a deficit of the order of Rs. 3,000 million and, at the beginning of 1963, reduced India's reserves to Rs. 2,146 million—or the equivalent of 2½ months' imports. Each of the three ways of securing foreign exchange—foreign aid, foreign investment, or exports—presents problems and none is strictly adequate. This may seem an extreme statement with regard to aid since the AID India consortium of Western Nations under the chairmanship of the World Bank have guaranteed over \$2,000 million in aid during the first two years of the Plan.

TABLE 5
WESTERN AID TO THE THIRD PLAN
(million dollars)

	1961/62	1962/63	Total
Canada	28	33	61
France	15	45	60
Germany	225	139	364
Japan	50	55	105
United Kingdom	182	84	266
United States	545	435	1,000
World Bank International Development Assoc. }	250	200	450
Austria*	—	5	5
Belgium*	—	10	10
Italy*	—	53	53
Netherlands*	—	11	11
	1,295	1,090	2,385

* Joined Consortium in 1962

Source: Official Statistics

BARBARA WARD (LADY JACKSON) has come to be as well-known in India as she is in the U. K. and the U. S. A. Educated in France, Germany and England, she has been connected with the *Economist* of London since 1939 and has to her credit several publications on politics and economics, all of them relating to current situations. These include, among others, *The West at Bay* (1948); *Policy for the West* (1951); *Faith and Freedom* (1954); *Interplay of East and West* (1957); *Five Ideas that Change the World* (1958); *India and the West* (1959). Deeply interested in the programmes of development of the developing countries, she has made a special study of Indian planning. She is the foremost advocate of extensive aid from the West and her recent books have been eloquent arguments for India's case for assistance. She has had opportunities of observing the plans under progress and making her assessment of them. Her presence in India soon after the Chinese aggression was fully availed of by her to observe the Indian reaction not only in New Delhi but even in some of the remoter villages.

Inflation : Causes and Consequences

MILTON FRIEDMAN

IN THE TWO lectures constituting this book, Milton Friedman maintains that: inflation is mainly caused by a government when it prints paper money indiscriminately; and, controls not only do not check inflation, but lead to corruption and malpractice. He categorically suggests the removal of all price controls, licensing, and foreign exchange restrictions. These measures alone will give stability to the country's price structure, create incentives for greater production and rehabilitate the rupee in the context of its real purchasing power.

In a specific reference to the inappropriateness of present economic and fiscal policies of India, Mr. Friedman points out that these policies are nothing new, for they were initiated by Hjalmar Schacht in 1934 in order to prepare Germany for war and "to facilitate the expropriation of the Jews and prevent them from getting their capital out of the country". Similarly, he is quite critical of the recently promulgated gold control order, for smuggling will continue so long as it is profitable to smuggle, and this will not improve the foreign exchange position. He mentions that when America tried gold control in the New Deal, about \$287 million worth of gold went underground. The same thing would happen in India also.

In a number of broadsides on the absurdities of Indian economic policies, one of the instances he mentions is: when coming to India he sold his old car for \$20, about Rs. 100 in Indian money. He was shocked to learn that in India its market price was Rs. 10,000. "Is there any sense at all to India's refraining from acquiring transport at so much lower a cost than she is now spending by assembling automobiles?" he asks.

A highly thought-provoking book, which will also entertain on account of its simplicity and directness, and instruct by its deep thought and penetrating analysis.

Rs. 5

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