THE U.S. ECONOMIC ASSISTANCE PROGRAM TO INDIA, 1950-1980: AN EVALUATIVE HISTORY

by

Ludwig Rudel

FIRST DRAFT

June 1980

PN-AAU-972

THE U.S. ECONOMIC ASSISTANCE PROGRAM TO INDIA, 1950-1980: AN EVALUATIVE HISTORY

by

Ludwig Rudel

FIRST DRAFT

June 1980

This document incorporates material supplied to the author by Victoria Morss under Work Order No. AID/otr-147-80-55 of April 30, 1980.

TABLE OF CONTENTS

LIST OF TABLES

Table

PREFACE

Objectives of the Study

The purpose of this study was to examine the U.S. economic assistance program to India from its inception in 1950 to its recent resumption in 1978. It was undertaken at the initiative of the Bureau for Program and Policy Coordination's Office of Evaluation and was designed to serve as a background document that provides a general "road map" of the development assistance program. It had these specific objectives:

- To reconstruct the history of the program, identifying the major components and indicating how the composition of the program changed over time;

- To identify the factors that influenced the magnitude and composition of the U.S. economic assistance program, specifically U.S. policy objectives, the development objectives of the government of India and major shifts in international political alliances and economic arrangements;

- To see what lessons can be learned from the 30 year historical reconstruction of the program that are applicable to the Agency in the design of future programs in India, the region and globally; and

- To begin to identify the areas of impact, positive or negative, the program had.

This preliminary investigation is intended to be the first phase of a three-phase study similar in scope and purpose to that undertaken by Dr. Neal Jacoby in 1972 of the U.S. Program in Taiwan and that of the U.S. Program in Korea now being prepared by Ed Mason of Harvard University. It proposes to set the parameters for later detailed evaluations of discrete sectors of the U.S. economic assistance program in India. As such, it poses a number of questions satisfactory answers to which may require a more detailed investigation based on interviews with Indian government officials and specialists who were involved with development and implementation of these programs in India.

The first step of this history is primarily an ex-post compilation of data. Data sources used within AID included cables to and from the Mission in India, evaluations done on specific projects and programs over the years, annual Congressional presentations, Mission program submissions and other relevant official agency texts. A sampling of the vast academic literature was perused to document specific issues and controversies. These written sources were supplemented by interviews with persons identified as being knowledgeable about the bilateral assistance program to India and foreign assistance policy objectives of the U.S. government in an effort to complement the formal requirements of official documentation with the opinion and reminiscences of those responsible for policy decisions.

The second step of the study attempts to draw some conclusions concerning the impact of the foreign assistance program. Here we hypothesize several determinants of impact and develop some indicators of success. The paper also identifies the sectors in which our aid was concentrated and suggests that some or all of these sectors be the subject of an in-depth impact evaluation.

Our primary focus was on the macro-economic impact of the program. We have not:

- Performed an in-depth analysis of the sectors in which our aid was concentrated;
- Performed any geographic analysis of the impact of our aid on any of India's discrete regions;
- Performed any detailed project analysis.

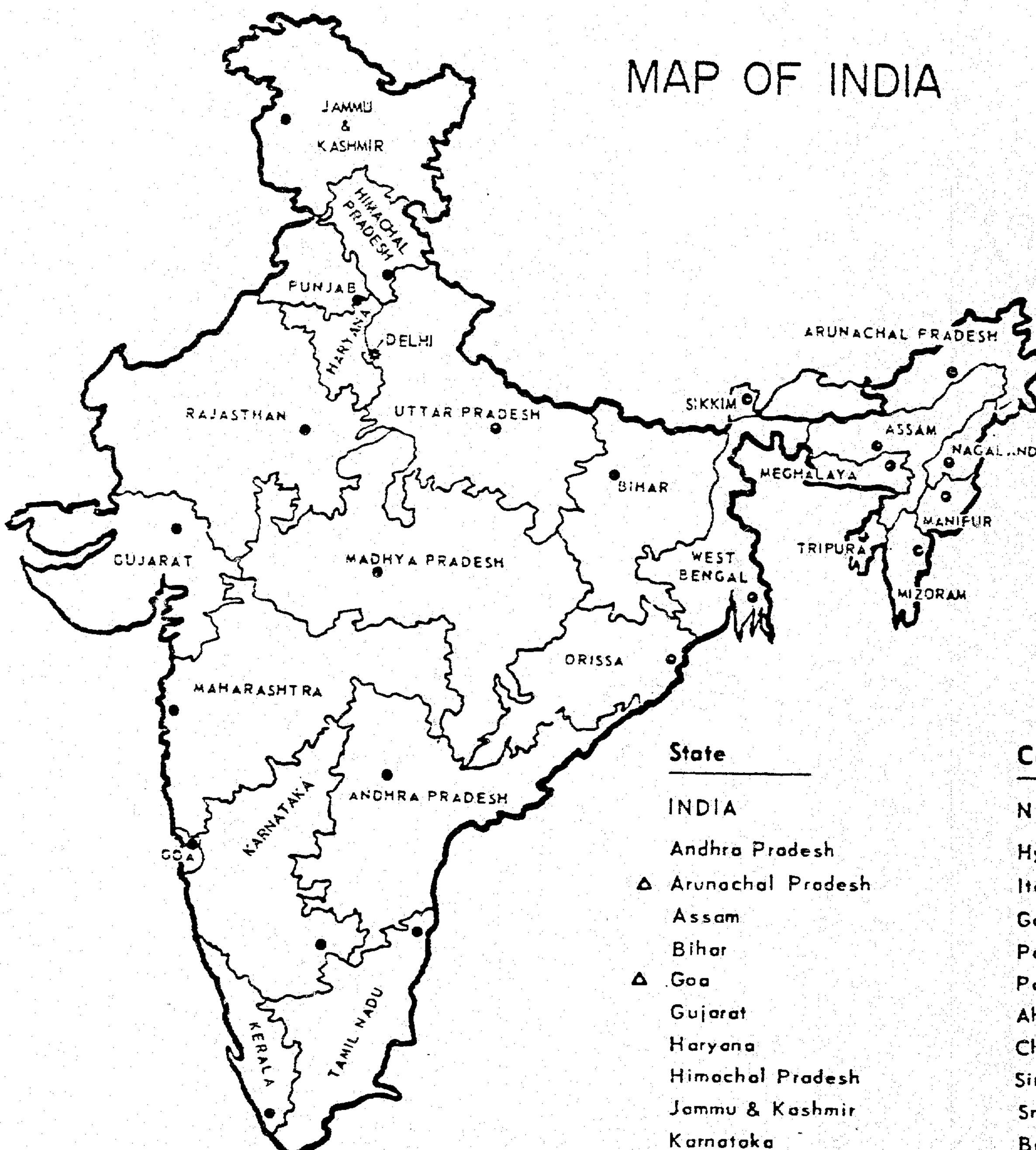
There have been very few personal interviews to collect the "oral history" of the program. A list of persons interviewed, or at least spoken to on the telephone, is attached. If this effort is considered to have potential value to AID, we suggest, as a next step, that this document be enhanced by further interviews both in the U.S. and in India, particularly with former officials of the government of India who directly participated in the negotiation and management of external assistance to India.

The past 30 years have seen a rapid evolution in accepted development theory. Approaches which we now consider sacrosanct were not so 20 or 30 years ago. It is therefore tempting to evaluate our predecessors' judgements on the basis of today's conventional wisdom. In our work we have been guided by Senator Howard Baker's criteria during the Watergate hearings: "What did he know, and when did he know it?"

To facilitate the reader's understanding of the approach taken by former officials of the U.S. aid program, we have described in footnotes the changes that occurred in the development concepts over the 30 year period. For example, in 1950 it was believed that American know-how had direct transferability to developing nations. Any one who, at that time, would have questioned the now widely accepted thesis that U.S. technology did not have such transferability, particularly for tropical and sub-tropical cultures, but rather that new research was needed to develop different technologies and know-how for these areas, would have been accused of drawing a "red herring" across the path of progress.

It has been said that "History is the imposition of order on chaos." Each of us has our own set of filters which we employ to create that order. This writer has attempted to achieve objectivity, but must apologize in advance to the extent he failed.

MAP OF INDIA



	State	**Capital**
	INDIA	NEW DELHI
	Andhra Pradesh	Hyderabad
△	Arunachal Pradesh	Itanagar
	Assam	Gauhati
	Bihar	Patna
△	Goa	Panaji
	Gujarat	Ahmedabad
	Haryana	Chandigarh
	Himachal Pradesh	Simla
	Jammu & Kashmir	Srinagar
	Karnataka	Bangalore
	Kerala	Trivandrum
	Madhya Pradesh	Bhopal
	Maharashtra	Bombay
	Manipur	Imphal
	Meghalaya	Shillong
△	Mizoram	Aijal
	Nagaland	Kohima
	Orissa	Bhubaneswar
	Punjab	Chandigarh
	Rajasthan	Jaipur
	Sikkim	Gangtok
	Tamil Nadu	Madras
	Tripura	Agartala
	Uttar Pradesh	Lucknow
	West Bengal	Calcutta

- ✱ Capital of India
- ● State Capital
- △ Union Territory

CHAPTER I

THE SETTING

The U.S. Perspective

A retrospective review of the U.S. economic assistance program to India during the last 30 years, accompanied by all the benefits of hindsight, runs the danger of forgetting the conditions which prevailed at the time in question: the values and style of the characters; the objectives of the program and the approaches and techniques taken to achieve them. A retrospective review is like watching an old Humphrey Bogart film. One has to give adequate weight to the style and values as they prevailed at that time. One must also recognize that the "dramatis personae" involved in "act one" did not, and could not know how the play would end. Indeed, they did not have access to the script for the very next scene.

With these considerations in mind, we have attempted to sketch the situation as it must have appeared to those who initiated the U.S. economic aid program to India in 1950. It might have gone something like this:

> The clipper constellation slowly circled Palam Airfield, New Delhi preparing for its final approach. It was 3:45 AM, and the flight was five hours late. The clear sky revealed the galaxies of India's winter sky as Norman Paul stared out the compartment window. It was almost Christmas and, although he would have preferred to be back with his family in Washington, D.C., the occasion which brought him this long way was of great importance: it was to negotiate the first technical agreement with India under the Point 4 Program. He had traveled for five days by the fastest aircraft of the day from Washington to Seattle, Hawaii, Guam, Tokyo, Hong Kong, Bangkok and finally was about to reach his destination. He had traveled first class, which permitted him a berth to sleep on the aircraft. He knew that December would offer the best weather available in New Dehli. The monsoon was over and the temperature at mid-day would reach 70 degrees Farenheit. The air would be crisp and dry, the danger of dysentery would be minimal, and the Bouganvillia and roses would be lush and in full bloom. As his plane circled slowly over Palam Airport he reflected on the events leading up to his arduous journey to India.

The conclusion of World War II found the U.S. to be the unrivaled superpower with awesome global responsibilities foisted upon it. The war had left the European powers with their productive facilities totally destroyed. Their colonies, seizing the opportunity, were agitating successfully for independence. And the Soviet Union with its supportive network of communist parties threatened the democratic political structure of these "newly emerging" nations. The euphoria of V-J Day and Wendel Wilkie's "One World" began to give way to a fear that the U.S. may become isolated as the USSR established control, first over Eastern Europe, then moved westward as the communist parties put pressure on their governments either through guerilla warfare as in Greece, or through political means as in Italy and France, to bring their countries into the Soviet orbit.

In 1947, the U.S. Congress enacted a military support program for Greece and Turkey. A refugee relief program was initiated to look after migrants fleeing from nations that had fallen under communist domination. The Marshall Plan, initiated in 1947, provided massive financial transfers (approximately $13 billion between 1948-1951) to rebuild the productive capacity of those nations in Western Europe that were still in the "free world." The Economic Cooperation Administration was established to manage the Marshall Plan.

As the colonies of the European powers pressed for and achieved independence, it became clear that material support to these new nations would also be required if Soviet influence or control over them were to be avoided. President Truman's inaugural address in January 1949 announced a new program of support for these nations to "...embark on a whole new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas..."

The defeat of the Nationalist Chinese on the mainland and their withdrawal to Taiwan, followed by the military invasion of South Korea in June 1950, gave rapid impetus to the initiation of the Point 4 Program. The "Act for International Development" was passed in September 1950. Because the very nature of developmental work implied a long period of growth and economic adjustment, no date was specified for its termination.

India, led by Prime Minister Jawaharlal Nehru, had achieved independence from Britain in August 1947 and had survived the ordeal of partition with Pakistan in which millions of Hindus and Muslims died or left their homes to resettle in other areas of the subcontinent.

Now, three years after independence, the communist party was exploiting popular dissatisfaction with the lack of perceptible improvement in living conditions. As the plane taxied to a halt, Norman Paul reflected, "East is East and West is West, but this time they have to meet."

India on the Eve of Independence

In November 1947, the All-India Congress defined the political and economic objectives of this newly independent country. The Congress declared:

> Our aim should be to evolve a political system which will combine efficiency of administration with individual liberty and an economic structure which will yield maximum production without the concentration of private monopolies and the concentration of wealth, which will create the proper balance between urban and rural economies.

The intention was to provide an alternative to the acquisitive economic orientation of capitalism, the regimentation of totalitarian states and to forge a unity out of the diverse regions and princely states. It was a formidable task. On the eve of Independence, India was a deeply stratified and disparate society. Hereditary caste groups were placed in positions of ritual superiority or inferiority to one another that governed all relationships and social organizations. Patterns of wealth, status and power were codified into a rigid social structure and seeds of division, nurtured during the colonial period, threatened efforts to heal and bind this regionally separate and politically diverse nation. It was mainly a peasant economy dependent on agricultural production which had been gratuitously exposed to a capitalist economic system and capitalist institutions.[1]

The Constitution adopted by the newly independent government in 1950 was modelled on the British parliamentary system. It called for elections every five years based on universal adult suffrage. It was adopted in a belief that evolutionary change using participatory democracy, would expand the possibilities of human development of the poor and most disadvantaged. The people's consciousness would be awakened by holding elections, and new institutions would be introduced at the village level to assist in the democratically mandated redistribution of economic and political power, with a minimum of disruptive violence.

---

[1] Francine F. Frankel, India's Political Economy, 1947-1977 (Princeton: Princeton University Press, 1978), p. 8; John Mellor, ed., India: A Rising Middle Power (Boulder, Colo.: Westview Press, 1979.)

It was a heroic attempt to apply democratic rule on a largely illiterate and poverty stricken population. Not only was the new government faced with administering the normal affairs of government following withdrawal of the British Colonial Service, but also with resisting the strong pressures for disintegration of the Indian princely states that comprised the new nation.

Nehru embarked on a development program to modernize his new country that emphasized the agricultural sector. Crop yields were among the lowest in the world, and food was of paramount importance. To increase agricultural production, plans were made for reclamation of land, irrigation and the introduction of better and more productive agricultural techniques. The first of many successive Five-Year Plans was drawn up in 1949. It called for a modest level of developmental expenditures amounting to $4.5 billion, of which less than ten percent would be sought from external sources.

The stage was set for the role outside nations were to play in assisting in the development of this new state. The role was to be limited by two fundamental ideological and political objectives: national self-determination and political non-alignment. These beliefs conditioned from the beginning, India's approach to economic and political development and acceptance of foreign assistance. As Nehru commented in a speech to Parliament:

> Even in accepting economic help, or in getting political help, it is not a wise policy to put all your eggs in one basket. Nor shall one get help at the cost of one's self-respect. Then you are not respected by any party; you may get some petty benefits, but ultimately even these may be denied you. [2]

In response to these goals the U.S. position was clear: to demonstrate tangible support for Nehru's effort to maintain a democratic government, through capital and technical assistance to the development plan. As a show of good faith and responsiveness to India's needs, Congress authorized $190 million under a special appropriation to finance the export of three million tons of U.S. wheat to India in 1950 before the bilateral assistance program began.

The dilemma of how to accomplish profound social and economic reforms essential for growth within the confines of a democratic political system was the challenge to Indian policymakers. The role of foreign assistance in that struggle is the subject of the next chapters.

---

[2] Nehru speech to Parliament, March 8, 1948, exerpts printed in Blajit Singh, Indian Foreign Policy - An Analysis (New York: Asia Publishing House, 1976).

CHAPTER II

THE PROGRAM BEGINS, 1951-1957

Introduction

The United States economic assistance program to India was initiated in 1951 with obligations of $4.5 million. Over the next 30 years approximately $11 billion was provided to India, about half of which was in economic assistance, and half of which was in the form of Food for Peace commodities. This section will discuss the rationale for that program, the institutional structures under which it was executed, the Indian and American objectives, and a contemporary assessment of its impact.

The Objectives of the U.S. Program

Although much of the rationale for the program was based on fear of Soviet expansion and influence in South Asia, the main argument advanced to support the assistance program was the pervasive poverty of the region. In India, there was a general disillusionment after independence that economic performance had not measured up to expectation or markedly improved the lot of the poor. Outside India, the country was identified as a "special case" in that a series of major natural disasters appeared to exacerbate a gradually widening spread between the country's capacity to produce food and the food requirements of a rapidly increasing population. Moreover, it was felt hunger and poverty were being exploited by the Indian communist party in order to gain political control of the central government. This combination of extreme poverty and the jeopardy of the democratic political system combined to make India of great importance to the U.S. especially since the country represented about 20 percent of the world's population, was strategically located, had the potential for a strong industrial base, was a leader among the "newly emerging nations" and was attempting to achieve development in a free market society.

The Congressional Presentations which described the need for economic development to India for the next several years did not vary from this original premise. In 1956, for example, the objectives of the program were described as follows:

> India has a strong and stable democratic government which has opposed domestic communist influence very effectively. We desire to see it remain a strong democratic state. India's ability to continue to do so rests in large part on the ability of its government to meet the demands of its people for perceptible rises in the standard of living, under democratic institutions and procedures. The U.S.

program in India was designed to stimulate economic progress and thus strengthen the people's faith in democratic government. These are fundamental goals on which the U.S. and India fully agree.

Indian Economic Objectives

The Government of India (GOI) First Five Year Plan (1951-1956) was relatively modest in size and flexible in shape. Of the total investment, both public and private, about 95 percent came from domestic resources. This was possible because India still enjoyed substantial foreign exchange reserves which were built up during WW II. In terms of focus, all sectors were given equal priority with the exception of agriculture which was the major concern of government.

Composition of the U.S. Assistance Program

The U.S. Assistance Program was designed to support India's Five Year Plan. The following Table 1 indicates the monies allocated by the GOI by sector, the U.S. contribution and the percentage the contribution represented of the total expenditure.

Table 1

Indian and U.S. Development Expenditures
First Five Year Plan ($ millions)

GOI Field of Activity	Plan Expenditures through March 31, 1956	U.S. Commitment through June 30, 1956	Percentage U.S. Aid to Plan
A. Fields in which U.S. is Assisting			
Agriculture and Community Development	$ 544.2	81.0	14.8
Irrigation & Power	1,370.6	20.0	1.5
Transport & Communications	705.4	66.0	9.3
Industry & Mining	168.0	6.8	4.0
Health & Education	589.4	34.2	5.8
Others (in which U.S. contributes)	170.6	2.0	1.2
Sub-Total	3,548.2	210.0	6.0
B. Fields in which U.S. is not Contributing	890.0	--	--
C. Bulk Commodity Imports	--	100.0[a]	--
D. Technicians & Participants not Covered by Project Agreements & Technical Support	--	16.8	--
TOTAL	$4,438.2	326.8	7.3

[a] Represents $64.0 million of steel and $36.0 of cotton and wheat.

As can be seen, U.S. funds were expended for services and commodities in agriculture, power, irrigation, fisheries, community development and public health. Table 2 indicates the total U.S. obligations during this period.

Table 2

U.S. Aid to India, 1952-1956

Fiscal Year	Obligations		
	Technical Cooperation	Development Assistance	($ millions) Total
1952	50.5	None	50.5
1953	40.1	None	40.1
1954	23.8	53.0	76.8
1955	19.0	59.9	78.9
1956	14.4	66.1	80.5
	147.8	179.0	326.8

The U.S. program had three principal components: technical assis- advisors, capital equipment and participant training. Table 3 shows the breakdown of aid by sector, during this period.

Table 3

Cumulative Commitment of Funds
(FY 1952 - FY 1956)

	Technicians	Participants	Commodities	Total
		($ thousands)		
Agriculture & Natural Resources	8,730.4	911.6	61,040.6	70,682.6
Industry & Mining	5,382.3	646.8	90,232.9	96,462.0
Transportation	576.1	51.6	65,184.5	65,812.2
Labor	406.5	303.5	765.8	1,475.8
Health & Sanitation	958.5	468.1	30,046.6	31,473.2
Education	2,362.8	360.3	2,101.9	4,825.0
Public Administration	83.4	13.4	16.4	113.2
Community Development, Social Welfare & Housing	905.0	30.5	12,878.3	13,813.8
General & Misc.	6,149.6	30.0	--	6,179.6
Section 402	--	--	35,999.1	35,999.1
TOTAL	25,754.6	2,815.8	298,266.1	326,836.5

The table does not show the modest level at which the program began. In 1951, there were only 10 U.S. technicians serving in India. By June 1956, there were 174 technicians working in the program.

Participants training also began slowly, but as of June 1956, a total of 558 Indians were funded for training under this program. Table 4 provides a breakdown of that program by sector.

Table 4

Indo-American Participant Training Program[a]
(1952 to June 1956)

Sector	Total Number Participants
Agriculture and Natural Resources	182
Industry & Mining	153
Transportation	27
Labor	55
Health	88
Education	31
Public Administration	7
Community Development, Social Welfare and Housing	3
General Miscellaneous	12
Total	558

[a] Excludes 86 participants covered by contracts. As of June 30, 1956, 403 participants had completed training, 58 participants continued in training and 97 participants were in process.

Some of the major capital projects financed by the U.S. during the period were as follows:

Steel. $64 million to import approximately 500,000 tons of general purpose steel with the original priority for agriculture implements, later shifting to industrial and mining requirements.

Railway Rehabilitation. $63 million to supply 8,700 freight cars and 100 locomotives, 255,000 tons of steel and 4,000 tons of rail.

Malaria. $21.5 million to support the national malaria control program to pay for the import of DDT, jeeps, sprayers, and research equipment.

Fertilizer. $25 million to procure approximately 300,000 tons of fertilizer.

Water Supply and Sanitation. $27 million to construct 3,000 tube wells, and to pay for U.S. equipment, training and technical services for a water supply program to decrease cholera, dissentary, typhoid and other water and filth-borne diseases in 10,000 villages and 25 municipalities.

Community Development. $13 million to procure jeeps, tractors and agricultural demonstration equipment including health vans for community development program.

Rihand Valley Development. $6.4 million to finance construction equipment for the Rihand Dam Project.

The components of the program were well-coordinated. The Technical Assistance Program provided services for the capital assistance program in the agricultural and health areas. For example, they financed an inter-university contract linking nine Indian universities to several U.S. universities for the purposes of building the Indian institutional capacity in agricultural extension, research and training and to support educational programs.

An important part of the U.S. Aid program to India during this period was the importation of food grains. Approximately $36 million of aid funds were used between 1953-1956 to finance food grain imports from the United States under Section 402 of the Foreign Assistance Act. Then in 1955, the surplus agricultural commodity act (PL 480) was passed. Title I of that legislation provided for sales of surplus commodities at concessional terms. In 1957, about $275 million was authorized for food imports from the U.S. to India under this program. These resources were in addition to the technical assistance and development assistance program funding levels.

Within the overall context of the political rationale for U.S. economic assistance to India, a number of issues were debated dealing with the composition, areas of concentration and magnitude of the program and the development strategies that shall be employed.[1] They include these subjects:

---

[1] Although the objectives of the first U.S. economic assistance programs to developing nations and the procedures for reaching these goals have evolved since the beginning of the foreign assistance program away from the Marshall Plan reconstruction model, the economic and political objectives upon which this model was based controlled

1. Support for the Indian Private Sector. The Government of India adopted an "Industrial Policy Resolution" in 1948 delineating certain investment areas reserved to state enterprises. This resolution was revised in 1956, placing even greater restrictions on the private sector and became the basis for the "mixed economy" model that limited private investment to specific industrial fields. The approach presented a dilemma to American policymakers who asserted that it was philosophically contrary to American economic policies. The U.S. did not wish to put resources into public sector enterprises when, they believed, the private sector could make a greater contribution to economic growth. Yet they did not wish to undermine India's development plan. To resolve the problem capital aid was concentrated in those areas that were considered most acceptable for public sector operation (rail transport, power), and for general commodity import financing of raw materials, spare parts and other maintenance imports needed by the Indian private sector. This dilemma, however, reached a critical stage in 1963 when the U.S. refused to finance the proposal for a public sector steel mill project at Bokaro.

2. Agriculture. It is now generally agreed that long-range institution building projects, such as the Indian Agricultural Universities, permitted the application of the new "high yielding varieties" of seeds when they came along in the mid-1960s. These projects prepared the agricultural universities with a capability to do research, training and extension; they constructed large irrigation and groundwater systems; and they increased fertilizer production and distribution. At the time, however, this approach, advocated by the Ford Foundation, to transfer U.S. midwest land grant agricultural extension system and the "intensive agricultural district" to India was roundly debated.

---

development practices for years. These beliefs might be summarized as follows. In the 1950s, many development experts argued the lack of democratic political participation as well as the presence of political violence and socioeconomic inequality was the result of backward socioeconomic status. To correct these problems, the experts recommended rapid socioeconomic growth thereby increasing the overall economic well-being of the nation which, in turn, would permit the redistribution of wealth, promote political stability and provide the foundation for a democracy with broad-based political participation. This so-called "liberal model of development" was based on a belief in the correlation between social economic backwardness and the evils of arbitrary rule, instability and inequality. The provision of capital coupled with technical assistance was seen as the proper development strategy. If adequate investment resources were made available countries would "take-off" into self-sustained growth. Then it was assumed that poverty would be eliminated by increasing overall production and the benefits would "trickle down" through all segments of society.
W.W. Rostow, "The Take-off into Self-Sustained Growth," Economic Journal (March 1956): 25-48.

3. The Community Development Program. Some critics described this program as "a sentimental and ineffectual concept to tidy up the Indian villages." Although it was pursued to some extent, its effectiveness was questioned, and it was terminated when it did not prove to be successful in contributing to increase agricultural production.

4. The Rockefeller Program. This program focused on agriculture research, malaria control and health. An important debate concerned the degree to which the focus of health programs should be on preventative medicine versus curative medicine.

5. Indian Development Strategy. India's efforts to pull together its Second Five Year Plan covering the years 1956-1961 provided an opportunity for a major debate on India's development strategy. A recent article by John Mellor contains an excellent summary of that debate.

> The great debate over strategy for India's development occurred in the 1950s. It focused on P. C. Mahalanobis's grand design for the Second Five Year Plan. The debate concerned the primacy of large-scale heavy industry relative to agriculture and the effect of this strategy on the rate of economic growth.... The Mahalanobis strategy was chosen in effect primarily because of its potential contribution to national unification and global power.
>
> The theory behind the Mahalanobis plan was elegantly simple, internally consistent, and particularly suitable to a large country presumed to have poor prospects for growth in agriculture and in exports. Consistent with widely accepted economic theory, growth was seen as coming from an increased supply of capital goods. The faster the capital stock grew, the faster the economy's growth. Although labor was recognized as an important factor, high levels of underemployment were seen as confirmation that labor could be mobilized only if more capital were available.
>
> In the Mahalanobis approach, growth was to be accelerated by allocating existing productive resources directly to the production of capital goods. The more resources so allocated, the faster productive capacity would grow and the greater would be the future capacity to produce consumer goods. It was recognized that poverty and welfare considerations would limit the proportion of the economy's resources that could initially be allocated to production of capital goods. However, the increase in output from the initial allocation of resources to capital goods would largely be saved and reinvested in more capital goods production. Over time, an increasing proportion of national output would be saved and invested, and the rate of growth would accelerate. This latter point was an important

> feature of the theory. Growth would accelerate rapidly <u>if</u> the resources invested in capital goods production were productively used....
>
> Proponents of the heavy-industry strategy recognized that it would result in low employment and few resources allocated to agriculture. These needs were to be met by policies for agricultural and cottage-industry development parallel to but not an integral part of the strategy of growth. Labor was to be mobilized for these purposes. Its efficiency was to be increased through community development and other programs that relied chiefly on exhortation, rationalization, and organization.[2]

This strategy was the ultimate in central planning, and was extremely attractive to foreign donors at the time, for it centralized power and authority and it presented a plan to build an economic foundation for the country.

The Organizational Structure of the U.S. Program

Between 1950-1955, major reorganizations took place to consolidate the various U.S. Government agencies responsible for the administration of foreign aid. In 1950, the Economic Cooperation Administration, which had been responsible for administering the Marshall Plan was subsumed into the Mutual Security Administration. Simultaneously, the Technical Cooperation Administration was created within the State Department and the Institute for Inter-American Affairs (which had been created in 1947) was folded into the Technical Cooperation Administration. Thus, two agencies, the Mutual Security Administration and the Technical Cooperation Administration had somewhat overlapping jurisdiction. While the Mutual Security Administration concentrated on containing Soviet expansion, and operated in Europe, Greece, Turkey, and the colonial possessions of the European powers, the Technical Cooperation Administration focused its attention on the "backward underdeveloped countries" that had become independent of European colonial control. India, which had achieved its independence from Britain in 1947, was the responsibility of the Technical Cooperation Administration.

In 1953 a further organizational consolidation took place with the establishment of the Foreign Operations Administration. It combined the Mutual Security Agency and the Technical Cooperation Administration. Then in 1955 the International Cooperation Administration (ICA) was established to assume the responsibilities of the Foreign Operations Administration, and to administer the Surplus Agricultural Commodity Program (PL 480). The U.S. government finally had structured one agency -- a semi-autonomous unit of the Department of State -- that had full responsibility for all foreign economic assistance programs. Once this organizational consolidation was completed the level of sophistication of program development increased. Systems for annual program development and review evolved so that country objectives could be related to funding requests.

---

[2] John W. Mellor, <u>The New Economics of Growth, a Strategy for India and the Developing World</u> (Ithaca: Cornell University Press, 1976).

An Evaluation of the Period

In late 1956, ICA performed an evaluation of the U.S. Aid Program to India. The review concluded that it was in the U.S. national interest to support the Indian Government's economic development program and its experiment with a democratic political system. It pointed out that assistance could have been more effective if it had concentrated on certain sectors, but recognized that concentration was difficult because of the U.S. funding cycle and the consequent inability to make long-term commitments to a Five Year Plan.

It stressed the importance of American assistance as a counter to Soviet activities designed to influence the government of India towards central planning and control. The support of the private sector through non-project assistance, whereby spare parts and other industrial maintenance imports were provided to India, was considered an important aspect of our aid program. In short, the review concluded that the U.S. economic assistance program should remain firmly committed to assisting India in the construction of a modern economic development program.

CHAPTER III

THE PROGRAM LEAPS FORWARD, 1958-1963

Introduction

India's Second Five-Year Plan (1956-1961) proposed to double development expenditures of the First Plan (from $4.5 billion to $9 billion) and required additional commitments of external assistance amounting to $3.7 billion (as compared with about $1 billion for the First Plan).[1]

Officials of the U. S. Government who had responsibility for the shape and scale of our economic aid programs (and did not at that time have the clairvoyance to share with us the knowledge that India's democratic political structure would hold together into the 1980's) believed assistance from the West would have to be increased substantially to meet India's development needs. The Marshall Plan had successfully been completed; western European economies were thriving; the Soviet Union took an increasing interest in South Asia and began to provide aid to India in 1955. Notwithstanding the Indian Government's hypercritical anti-U.S. pronouncements made at the UN, it was believed that the political stakes were too high to chance a loss of the most populous developing nation in Asia into the communist orbit.

A New Form of Aid

The Second Five-Year Plan was extremely ambitious. To implement it, India drew on its own foreign exchange reserves, reducing them from $1,895 billion in 1956, to $884 billion in 1958, and precipitated a foreign exchange crisis.

The resources of the United States alone were isufficient to meet the scale of aid necessary to meet the goals of the Plan. In 1957, the Administration proposed, and the Congress approved, the establishment of the Development Loan Fund. The Fund was billed as a "Soft loan window" (The World Bank had not, as yet, set up its International Development Agency (IDA)) and while its appropriations were not specifically earmarked for certain

---

[1] S. Stanley Katz, External Assistance and Indian Economic Growth (New York: Asia Publishing House, 1968).

developing nations, it was recognized that a significant amount of the annual appropriations would be used to meet India's development needs.

The Development Loan Fund functioned from June 1958 to August 1961 during which time it authorized a total of $557 million for 29 loans all repayable in Indian rupees. The first loans were of a non-project nature (railway modernization, steel imports) in part because the preparation and review of project proposals takes more time and rapid assistance was needed to support India in the course of its balance of payments crisis. Project loans began in 1960 and concentrated in the fields of power generation, fertilizer plants, loans to banking intermediaries to finance medium-scale private sector projects, and a loan for the Beas Dam as part of the INDUS settlement agreement with Pakistan.[2]

In 1961, this organization was combined with the International Cooperation Administration and renamed the Agency for International Development. Simultaneously the World Bank group created its own "soft loan window," the International Development Association (IDA).

In 1959 and 1960 the U.S. encouraged the World Bank to form the Aid India consortium, in part to encourage the West Europeans to increase their aid contributions, in part to coordinate the substantial amount of aid free world countries had been providing in bilateral assistance programs to India. The consortium which continues to operate to this day, holds formal annual reviews of India's development needs, conducts the dialogue between donors and the Government of India on development priorities, and secures pledges of assistance to India. See Annex B for a listing of annual aid donor pledges at the consortium meetings.

U. S. Objectives

It is interesting to note the continuity of purpose and general approach in U. S. foreign policy towards India during the entire period from 1950 to 1970, even with changes in administrations. The U. S. policy guidance papers of the early 1960s continued to stress the importance of India's experiment with democracy, the fear that the Indian Congress party might lose control to the Communists, that India's ties to Russia and/or China would become

---

[2] The level of assistance is as follows: U.S. assistance, including Export-Import Bank and PL 480 commitments, came to about $300 million in 1958, $400 million in 1959 and $700 million in 1960. By the end of the Second Plan (1961) India had received aid commitments totalling $3.7 billion, of which $2,125,000 came from the United States, another $551 million came from The World Bank and about $800 million came from the UK, West Germany, Japan, Australia and New Zealand.

too close, and a general admiration for the seriousness with which development problems were approached, including national planning activities. (It was the current vogue of the development economists to extoll the virtues of national planning in scarcity ridden societies as a means of achieving growth rapidly enough to move the society out of its low-level equilibrium trap.)

Throughout the period, the United States sensed the need to be competitive with Russia and provided economic support to India on the basis of the same political rationale used to defent the program in the early 1950s. The Congressional Presentation for FY1963 illustrates this point.

> Politically, India is the most influential of the non-aligned nations.... If India succeeds in building a modern state without resorting to authoritarian methods, the example will provide inspiration for other nations and peoples; if it fails, authoritarian governments could offer the alternative.... U.S. goals in India are to help in the building of an economically viable, stable nation that can maintain its independence....

But the political events in India during the period did tend to polarize U.S. opinions about the most appropriate approach to take toward India. The close relation between India and China (Nehru coined the phrase "Hindi-Chini bhai-bhai," or India and China are brothers) was shaken by the Chinese invasion of Tibet in 1959 and severed when war broke out between the two nations in 1962. Friction between India and Pakistan continued over Kashmir, and Goa was invaded. Some Hinduphobes argued India's foreign policy pronouncements about U. S. foreign policy in Southeast Asia were hyporcritical in view of their own military interventions on the Subcontinent. Their anger was fueled by the periodic lecturing to which the United States was subjected by Nehru while he treated Russia with deference, and the persistence of a capital-intensive socialist pattern of development in India.[3]

---

[3] There was strong resistance in the United States Government to use Official Development Assistance (ODA) to finance public sector industrial projects when it was believed that the GOI's industrial policy restricted private foreign investment and the expansion of its own private sector. The issue came to a head in 1962 with the request for the U.S. to finance a new public sector steel mill at Bokaro, India. The project would cost $900 million and had a foreign exchange component of about 60 percent. Congress objected to the project and amended the Foreign Assistance Act (Section 620 (k)) requiring Congressional approval for any project exceeding $100 million. The amendment was designed to forestall administration approval of the Bokaro Steel Mill project.

Despite these concerns, the Hinduphiles successfully argued for making available to India substantial amounts of assistance, partly on political grounds that, internally, India had been able to forge political cohesion among the disparate states,[4] continues to maintain a democratic form of government and is an important member of the non-alligned nations.

With the change in administration in 1961, Kenneth Galbraith was appointed U. S. Ambassador to India. His close relationship with the President gave an impetus to increase annual aid levels for India -- though the program had been moving in that direction before his time -- and moved the U. S. aid program into a "general support" posture. Then, in 1962, John Lewis argued for massive resource transfers to India to free it from its numerous self imposed constraints in his powerful book Quiet Crisis in India. The book provided a theme for an approach to the problem on a much larger scale. The Aid-India consortium provided a mechanism through which to launch the new approach.

The strong support of the U. S. Government to India's development plans, its leadership at the World Bank to pull together other free world aid donors to take seriously the Indian government's commitment to development, and to make the necessary pledges to supplement India's own resources gave a profound boost to the Indian economic development effort and opened the key policy dialogue between India and the free World.

A passive or unenthusiastic posture by the U.S. government during this critical time, in the opinion of many knowledgeable persons, would have had profound negative impact on the government of India's own commitment to economic development through an open market oriented society and probably would have produced important political changes in the evolution of the Indian nation.[5]

U.S. Assistance Program

The content of U.S. aid during this period did not change appreciably from the previous period although the magnitude increased, particularly with respect to shipments of U.S. surplus agricultural commodities.

---

[4] The Congress Party maintained control of the central government and all state governments except Kerala which went Communist in 1957.

[5] Based on an analysis using capital/output ratios, it has been estimated that foreign assistance was the source of some 13 percent of India's total growth during the decade (1951-1961) in effect adding $15 to the increase in income levels for each $100 added internally. Katz, *op. cit.*, p. 69.

During the period 1956 to 1961 the U.S. supplied $1.260 billion in PL 480 Title I assistance. Capital assistance was made available to import fertilizer, pesticide, and other maintenance imports; project loans were made to build up Indian capacities in agricultural implements manufacture, and water supply for irrigation. Each of the components of the bilateral assistance program is discussed below.

a. Technical Assistance. The technical assistance program focused on building local capability in agricultural research, training and extension, using the U.S. Land Grant Universities as a model to build an institutional base and lay a foundation on which the technological breakthrough of the high yielding varieties could be applied to bring about the "Green revolution" in the late 1960s.

The approach, tried in the early 1950s, which assumed that there was an agricultural technology in the United States which could easily be transferred to India through a system of county agents, was found wanting in the mid 1950s when the American hybrid corn varieties did not take in tropical India. It became clear that indigenous R & D was needed to develop India's own technology. U.S. assistance shifted to the concept of combining research, training and extension in agricultural universities in the various Indian states. This concept was out of keeping with the prevailing British derived Indian system. Universities were under the control of the Ministries of Education who bridled at the thought that there could be such a thing as a university that specialized in one thing. Moreover, those persons working at research institutues had no interest or motivation to teach; the teachers had no interest in research; and neither would associate with extension workers who were on the payroll of the Ministries of Agriculture.

A long-term project was developed to reorganize these Indian resources, to build institutions patterned along U.S. Land Grant Colleges, and link these with international agricultural institutions to work on India's problems. Simultaneously, projects were initiated with the Indian Fertilizer Association to link the production, importation and distribution of fertilizer. Irrigation projects were supported to increase irrigated land areas.

All this activity permitted the U.S. Mission easy access to senior agricultural offlcals both at the central Government and in the states and facilitated a dialogue at the sub-sector level on important agricultural policies. U.S. Mission personnel, for example, participated in discussions leading to the elimination of the Octroi tariff which restricted the movement of food grains from surplus areas to deficit areas in time of shortage.

b. PL 480. The PL 480 program has been criticised for holding down Indian agricultural prices below the levels needed to provide farmers with incentives to increase production. In fact, the program helped to stabilize the price of food grains which undoubtedly had a stabilizing political effect, at least in urban areas. It should also be noted that the assurance of ample and continuous supplies of U.S. grain which India obtained on a grant basis or for loans repayable in local currency, permitted India to devote its limited investment resources for industrial development, and defer investment in agriculture.

c. Capital Projects. Capital project assistance continued to be directed either towards the private sector or to public sector projects that were considered as properly belonging in the public sector. Substantial amounts of aid were earmarked for power generation facilities and assistance was provided to integrate the power grids of each state into regional networks with suitable rate structures.

d. Malaria Eradication. The malaria eradication program was a highly visible and successful program, reducing the incidence of malaria in India by 80 percent. Deaths dropped from two million per year to 80,000 by 1961.

e. Family Planning. The U.S. aid program did not include any assistance in Family Planning until 1965. However, the Ford Foundation was active in this field during the second plan period.

f. Education. The education program focused on meeting the manpower requirements of the new industrial sector by (a) training engineers in the United States; and (b) building institutions, including the Indian Institute of Technology at Kampur. The Kampur Institute succeeded in attracting well-trained Indian engineers who had migrated to the United States, to return to India and teach there, thus making an effort to reverse the "brain drain."

g. Other. A program of Summer Science Institutes was initiated to upgrade the instruction in secondary school science classes by offering teachers special six-week training programs, laboratory kits and other training aids and helping to revise the curricula.

In the early 1960s, the U.S. agreed to train nuclear engineers of the Indian Atomic Energy Commission. The construction of a nuclear power plant at Targpur was also financed under the aid program. It is likely that these efforts eventually led to India's ability to explode a nuclear device in 1974.

The Beginning of a New Device

In mid 1963, Chester Bowles, who had served as Ambassador to India in 1951, was appointed for a second term, replacing Ambassador Galbraith. His return, just prior to Nehru's death, was seen as a signal that the United States intended to make an important effort to increase India's development momentum. Bowles was to have had an understanding with President Kennedy that the so called "big push" approach proposed by John Lewis in "Quiet Crisis in India" would be the new theme of U.S. relations with India. To innaugurate the "big push," Bowles chose Lewis to head up the U.S. Aid Mission. Together they picked a team that had the professional stature to command the respect and attention of the GOI's senior officials with responsibility for economic policy. Indo-U.S. relations entered a period marked by U.S. and other free world commitments of general economic support for India -- with India's growing dependence thereon.

CHAPTER IV

THE ZENITH OF THE U.S. PROGRAM, 1964-1971

Introduction

By 1964, the Indian economy had expanded, particularly in the industrial sector, and the fruits of the earlier investment in development seemed to have paid off. Although agricultural production increased at only 2.1 percent, industrial production grew at 8.9 percent per annum from 1960 to 1964 and industrial employment increased by about six percent during that period. The time appeared ripe for a "take-off."

The "Big Push"

A new team at the U.S. Aid Mission engaged in a massive macroeconomic analysis to develop the arguments for a "big push" of aid to bring about major development progress in India. The case had to be made, not only for the U.S. Congress, but also for the other members of the aid-India consortium and the World Bank. Capital/output ratios were used to derive the quantum of external resources required to eliminate the complex and constraining resource allocation and licensing systems, and to permit market forces once again to allocate resources.

Simultaneously, another evaluation team, headed by James Blume, examined the technical assistance program. This team concluded that:

- The program's priorities should be focused on agriculture, family planning and scientific and technical education;

- With respect to the agriculture program, "...there are impressive indications that key elements in the GOI...are willing to move ahead...." and "that the technical assistance program ... be reshaped and expanded to take advantage of evolving opportunities to influence GOI policies and to support them. ... the increased willingness of the GOI to consider positive steps to utilize production incentives, expand credit availability, increase inputs such as fertilizer, and improve marketing facilities, should be matched by a U.S. willingness to make available our considerable expertise in these areas."

- The agricultural universities project was recognized as having little or no short-term effect on agricultural production but should be continued because of its long-term institution building value.

- The health program does not address India's priority needs and should be reshaped to focus on Family Planning.

- Malaria eradication was a successful project and should be phased out, even at the risk of GOI backsliding.

- The education program should be focussed on scientific and technical education by continuation of the Summer Science Institutes, the Indian Institute of Technology, Kampur, and (if necessary for political reasons) nuclear engineering.

- The industry program should be phased out.

Before a final agreement could be reached about the level of assistance to be provided for the "big push" -- including a new PL 480 agreement -- a border clash broke out between Pakistan and India in September 1965 and India found itself at war. Washington promptly suspended all aid -- military, economic and food shipments -- to both countries as the most readily available inducement to stop the shooting. While the war only lasted 18 days before a cease fire was achieved, U.S. aid was not immediately resumed. Until Washington was satisfied that the danger of renewed fighting between India and Pakistan had subsided, they were unwilling to negotiate any new agreements, including a new multi-year PL 480 agreement. This is referred to as the "short tether" policy by critics of U.S. policy. In fact, the cease fire occurred on 23 September 1965 and the first agreement to provide PL 480 Title I sales was signed on 29 September, just six days later. It increased the amount of wheat authorized by 500,000 tons -- barely 30 days supply. An additional 500,000 tons was authorized on 4 November; 1.5 million tons on 10 December and 3 million tons on 5 February 1966.

Limited buffer stocks resulting from the poor harvest in 1965 had made India dependent on U.S. PL 480 food imports and the difficulties of getting imported food distributed to the needy made it imperative that the food supply was not interrupted to avoid massive famine. This, together with the so-called U.S. policy of keeping India on a "short tether," persuaded Indian policy-makers that it was of critical importance to free their country from dependence on U.S. food.

In the spring of 1966, negotiations resumed with respect to the "big push" strategy. The strategy involved a significant amount of "performance conditioning." Specifically, the aid India consortium, under the leadership of the World Bank, considered it essential that the Indian rupee be devalued to a rate more consistent with its true international exchange value to permit the decontrol of foreign exchange and other licensing systems, thereby placing greater reliance on market mechanisms to determine priorities.

The events leading to devaluation are described by Lloyd Rudolph in an article:

> ...Mrs. Gandhi's political leadership was at stake in the devaluation crisis. She and a small circle of close advisors wanted to adopt most of the policies being recommended by the World Bank and circles in the U.S. government. Neither the U.S. government nor the World Bank properly realized that these congenial voices were a minority among Congress government and party leaders, and that they were extraordinarily vulnerable. ...The decision to devalue came early in her incumbency and in the midst of the aftermath of a less than successful war with Pakistan (September 1965); a very poor monsoon (1965-66), which caused the index of food grain production to fall 20 percent in one year, slowing the economy and fueling inflationary pressures; and several extraordinarily delicate and potentially explosive communcal crises (Punjabi Suba and anti-cow-slaughter agitation). The devaluation came on the eve of several constraining and impending events, the fourth general election and the next monsoon, both of which could and did further weaken the Congress party and the economy....[1]

Once the devaluation was agreed to, the aid consortium was prepared to discuss the level of assistance it was prepared to commit for the "big push." Rudolf summarized the negotiation.

> ...The figures that Ashok Mehta, India's planning minister and Prime Minister Gandhi's emissary, took to Washington in April 1966 to discuss with World Bank president George Woods were $1.5 billion in immediate consortium aid, of which $1.1 billion was to be nonproject aid, and $1.5 billion in consortium aid for the subsequent four years of India's Fourth Five Year Plan. These expectations were not out of line with levels of consortium aid in the previous two years. They were countered by a World Bank proposal of $900 million....
>
> The U.S. government's insistence that its share of the consortium's $900 million in nonproject aid included the so-called $100 million Humphrey loan, offered by the vice president in January 1966, when he attended the funeral of

---

[1] Lloyd I. Rudolph, "Comment" on Assessing the Political Impact of Foreign Assistance" in India: A Rising Middle Power, ed., John W. Mellor (Boulder, Colorado: Westview Press, 1979).

Lal Bahadur Shastri, to finance the construction of fertilizer plants, hampered and delayed the World Bank's efforts to conclude negotiations on the $900 million aid package.

...President Johnson's mounting and increasingly public campaign to decrease the U.S. government's aid burden by embarrassing and intimidating America's European allies into increasing theirs, also slowed the effort to make final the consortium's aid package. The World Bank was not able to announce its intention to supply nonproject consortium aid for six weeks after devaluation and the consortium was not able to meet in order to make the $900 million aid package official until November 7, 1966, six months after rupee devaluation.

... Increased presidential attention to Vietnam, which displaced India in the budget year 1966-67 as the single largest recipient of foreign aid, lay behind the U.S. government's reluctance to commit its share ($350 million) to the consortium aid package that George Woods, as president of the World Bank, had agreed to provide when India devalued....

The failure of the Indian government to remove controls adequately and in a timely fashion resulted from causes that went beyond the delay occasioned by the World Bank's difficulties in mobilizing consortium aid and beyond bureaucratic vested interest and partisan and ideological opposition to devaluation within and outside government. Food scarcity and the speculative hoarding of commodities and goods that accompanied it exacerbated the inflationary effects of a de facto 58 percent devaluation, which drained goods into exports from domestic markets already depleted by an industrial recession and made imports more costly....

As is suggested in the foregoing excerpts from Dr. Rudolf's article, India experienced severe crop failures in 1965 and again in 1966. During this crises, the U.S. shipped more than 8 million tons of food grains under PL 480 Title I and significant quantities under the other titles of the Act (child feeding, relief, food for work) which, together with other aid provided to stabilize the Indian rupee after devaluation brought the annual U.S. aid level to India in 1966 to $904 million.

The Economic Climate in India

The period 1964-1972 was characterized by economic stagnation in India. Thus, the objectives of the "big push" strategy were not achieved; the "take off" never came. The causes of this stagnation were described by John Mellor as follows:

...The development strategy of the Second and Third Five Year Plans placed a heavy decisionmaking and management burden on a bureaucracy that as yet had little technical competence for this responsibility. During the Second Five Year Plan, problems of allocation were relatively simple. The bulk of public investment went to the steel industry, so the inadequacy of the planning models intended to guide the administrators was not apparent.

During the third Five Year Plan, however, decisions became more complex as industries expanded, consumer incomes rose, and the government began to encourage exports. The difficulty of these decisions was beyond the capacity of the economic models to instruct and of the bureaucracy to manage....

The 1965-66 drought, the worst in recorded history, was followed by another bad year, in 1966-67. Foodgrain production declined 19 percent in the first year and recovered by only 2.6 percent in the second.

Industrial production, which grew 8.9 percent per annum from 1960 to 1964, advanced at only 3.4 percent per annum from 1964 to 1968....

...Domestic savings as a proportion of national income dropped from 11.1 percent in 1965-66 to 9.0 percent in 1966-67 and to 7.9 percent in 1967-68, but partially recovered in 1968-69. The incentive and the ability to save and invest were diminished by the plunge in industrial profits because of higher costs and lower demand by the rapid fall in real government expenditures due to a reduction in foreign aid receipts and lowered budget deficits, and by the decline in household income.

The industrial recession struck particularly hard at the capital goods industries. The Economic Times index showed capital goods output shrinking at a 5.1 percent rate from 1965 to 1970 after it had grown at a 28.8 percent rate from 1960 to 1965. The reasons for the recession include the drought, the decline in foreign aid, and the related excess capacity relative to demand. The government's dwindling ability to finance capital expenditure produced a dramatic cutback. For example, by 1970 output of railroad equipment was down to slightly less than a third of its 1967 level. Meanwhile, a shortage of railcars inhibited the movement of grain from the Punjab, fertilizer from the ports, and coal from Bihar.

> The bright spot in the post-1964 period was the accelerated growth of agriculture. Because this growth was the product of modernization with greater use of purchased inputs and an income bias toward higher income rural people, marketing grew at a 4.5 percent rate, one-third faster than production. However, growth in food supplies was much less favorable to growth in the late 1960s than in the early part of the decade because rapidly declining food aid reduced the growth in foodgrain availability to 2.3 percent a year.

The role of foreign assistance during this period was critical, as Dr. Mellor points out:

> The depressing effect of the rapid reduction in foreign aid after the Third Five Year Plan is not surprising given the importance of foreign assistance and the political and economic difficulties of substituting other growth strategies. Net foreign resource inflow to India declined from $1.3 billion in 1965-66 to an outflow of $120 million in 1972-73, reflecting reduced gross aid, sharp increases in debt repayment, and increase in foreign exchange reserves. The latter probably was prompted by uncertainties accompanying the decline in aid. The average decline of $200 million a year was equivalent to more than 20 percent of the average annual increments to gross investment from 1960-61 to 1965-66.
>
> So great a decline in foreign assistance had three crippling effects on short-run growth. First, it directly reduced the funds and resources available for investment -- equivalent, in this case, to a major portion of the expected increments to savings. Second, given the previous strategy and the role played by foreign assistance, it imposed a proportionately larger reduction on producers of capital goods in the public sector. The scale and capital intensity of those producers made them particularly ill suited to rapid adaptation. The third effect follows from the decline in investment, which had at least a partial multiplier-accelerator consequence of reducing demand, income, and therefore further investment. Such an effect was made more likely by the significant decline in national income that accompanied the great drought of 1965-67.[2]

Economic planning in India was placed in a quandary as a result of this economic turmoil. The next centrally designed plan, the Fourth Five Year Plan, covering the years 1969-1974, was first released in draft form in 1966, but its execution was deferred for

---

[2] John W. Mellor, op. cit., India: A Rising Middle Power (Boulder, Colorado: Westview Press, 1979).

several reasons: the wars with Pakistan, successive crop failure, the cessation of foreign aid for a period, and the high costs of imports after the devaluation in 1966. Planning was done on an annual basis for several years while a review of the basic objectives of past plans were undertaken. This review seemed to indicate that the first three Plans had failed to extend prosperity to all people and all sections of the country. In consequence, the planning commission set about to redefine the objectives of planning with the main goal of bringing the benefits of economic development to all classes of people in all parts of the country.

After a modest economic recovery during the period of the annual plans, the Fourth Annual Plan was finally introduced in 1969. Its overall objective of economic growth was to be attained with three caveats: economic uncertainties -- especially in agriculture -- must be reduced; political stability must be maintained; and the dependence on foreign aid must be reduced or eliminated. Specific economic objectives included the following:

- An annual growth in national income of 5-1/2 percent and in per capita income of three percent;
- The achievement of price stability by building stocks of foodgrains and essential commodities;
- Self-reliance and the end of dependence on foreign aid, including the elimination of all concessional foodgrain imports under the PL 480, program by 1971;
- Social justice and economic equality; and
- The provision of employment opportunities for the rapidly increasing labor force.

India's determination to free herself from dependence on U.S. foodgrains coincided with technological breakthroughs in adapting new yielding varieties of Mexican and Philippine wheat and rice to Indian conditions. Substantial resources were invested to import pesticides and fertilizer, in fertilizer plants and grain storage facilities, and in agricultural extension. The "Green Revolution" resulted. Agricultural production increased at an average annual rate of about three percent during the period 1966-1973.

The Donor Community

Deteriorating political relationships between India and the U.S. during the late 1960s and early 1970s, resulted partially from U.S. sensitivity to Indian criticism concerning its involvement in Viet Nam, and partially from evolving relations between the United States and China regarding Pakistan which encouraged India to draw closer to Russia. Although the Indian press became increasingly hostile towards the United States, relationships between the AID Mission and their technical counterparts in the GOI continued to thrive. The technical assistance program which had been realigned in 1965 did not undergo major changes, except for the addition of projects in Human Nutrition and Export Promotion, both areas of growing interest for the Government of India. The capital loan program was reduced because of U.S. preoccupation with Viet Nam and disenchantment with Indian capital intensive and socialist oriented development plans. Still, it continued to provide financing for non-project imports, fertilizer plants and funding for development banks as part of the aid-India consortium package. PL 480 Tile I sales declined as agricultural yields increased and buffer stocks were built up. Title II grants for relief programs were increasingly tied to nutrition project efforts.

World Bank leadership of the aid-India consortium continued to strengthen during this period. As U. S. bilateral contributions gradually declined, the International Development Association to which the United States contributes about 30 percent, picked up the slack. Consortium pledges of new aid to India for the period 1968-1973 were as follows:

Table 5

Consortium Gross Disbursements to India, 1968-1973
($ millions)

	1968/69	1969/70	1970/71	1971/72	1972/73
Project Aid[a]	303	204	247	325	357
Non-Project Aid[b]	549	584	573	579	497[d]
Food Aid	354	325	279	263	70
Debt Service	-406	-434	-465	-516	-541
Net Transfer	800	679	634	651	384

[a] Includes suppliers' credits.

[b] Includes debt relief; excludes food aid and PL 480 aid.

[c] Includes all PL 480 aid, food and non-food.

[d] Includes some food aid.

Source: World Bank, Economic Situation and Prospects of India, May 1, 1980, Statistical Appendix, Table 4.1.

In 1968, at U.S. initiative, the World Bank sponsored a debt rescheduling exercise for India as a means of lengthening the relatively hard terms on which aid had been provided, particularly by the Europeans and Japanese. We participated annually until 1974, when we rescheduled $45 million, and then dropped out when Congress became critical of the use of debt relief as a form of aid.

Suspension of Aid

In the autumn of 1971 the conflict between West Pakistan and East Bengal threw the entire sub-continent onto a war footing and India's economic development was overshadowed by refugee relief operations. On December 4 Pakistan and India declared war and Indian troops entered East Bengal. On December 6 the U.S. suspended a major part of its assistance program because it had made the determination that "a general economic development program, for which such aid was intended, could not be carried forward."

The fighting lasted hardly more than a week, but the U.S. continued to hold in suspension about $87 million of previously committed aid to India, which was in the "pipeline."

In late April 1972, as relations between the U.S. and India continued to deteriorate, it became clear that the next aid-India consortium meeting, scheduled for June 1972, would find the U.S. not prepared to pledge additional funding. On May 8, the AID Mission Director was instructed by the Department of Economic Affairs of the Government of India to terminate the Technical Assistance program, close the mission and send the remaining 300 or so technicians home within 30 days. In the next week, extensive negotiations were held. Finally, the Mission Director and the Ambassador convinced the Government of India that it would be far better for all parties if the program could be gradually phased out and the technicians sent back to the U.S. over a period of one year. The Government of India then rescinded its 30-day deadline.

The phase out of the Technical Assistance program was accomplished and no new commitments were made. On March 14, 1973, the suspension was lifted and the $87 million of U.S. aid commitments in the pipeline was made available to the GOI for their originally intended purposes. On June 13, 1973, the INDO-U.S. Technical Assistance Program was formally terminated.

CHAPTER V

THE NADIR OF THE U.S. PROGRAM, 1972-1977

Introduction

The gap in U.S. bilateral economic aid to India from 1972-1977, while reflecting an unfortunate breakdown in the constructive exchange between the two countries, may offer some interesting insights and lessons to be learned with respect to the impact of bilateral assistance. Here we have a "control" to the aid experiment. This important and populous member of the Third World to whom the U.S. had made available large-scale assistance for 20 years with the rationale that the aid was essential a) to preserve its democratic governmental structure; b) to keep it from domination by the Soviet Union, and c) to maintain an open market oriented economy; was suddenly cast loose. What were the consequences of this action? Did all of these feared events occur? How did the GOI meet the various crises which befell it during that period? For example, how did it respond to the fourfold increase in world oil prices that occurred in 1974? One can just imagine the content of the cables which the U.S. AID mission would have sent to Washington requesting an increase in development loan financing to meet increased oil import costs had there been an AID mission in New Delhi in 1974. We will examine this period from the perspective of what happened when the largest individual donor withdrew from providing aid.

The Political Setting

There were three events that occurred in the decade that exacerbated negative sentiment between the two nations. The first was the Indo-Pakistan war in 1971 which led to the creation of the new state of Bangladesh out of East Pakistan, drastically altering the geopolitical situation in South Asia and confirming India's preeminence in the region.[1] As a result of this war, the U.S. suspended all military and economic assistance to both countries and froze approximately $87 million which had been authorized for the aid program to India.

The second event occurred in May 1974, when India exploded a nuclear device as an experiment in the use of nuclear technology for peaceful purposes. Critics of this experiment in the U.S. were not

---

[1] See Wayne Wilcox, "The Emergence of Bangladesh: Problems and Opportunities for a Redefined American Policy in South Asia." Foreign Affairs Studies No. 7, September 1973.

convinced that the acquisition of nuclear power by India was intended for peaceful measures. In the words of the U.S. Arms Control and Disarmament Agency, "the technology of making nuclear explosive devices for peaceful purposes is indistinguishable from the technology of making nuclear weapons. . . ."[2] These critics felt that India did not have a responsible nuclear policy, meaning no weapons program, no further testing and no exporting of nuclear technology. They viewed the Indian experiment as a set-back in their efforts to get international agreement on non-proliferation.

The final event that profoundly influenced the by now tense diplomatic relations between the two countries was in June 1975 when Emergency Powers were assumed by the government of India. Although the authority assumed at this time did not violate the Indian Constitution[3] the process circumvented some basic human rights such as freedom of the press and assemblage and habeas corpus. The action was viewed by many outsiders as a final defeat for democracy in India.[4]

U.S. Policy Objectives Toward India

The reduction of U.S. economic involvement in India was mirrored by a reduction in Congressional interest. After the nuclear test in 1974, Congressman Clarence Long of the House Appropriations Subcommittee of the Committee on Foreign Affairs, presented an amendment to the World Bank, IDA replenishment bill to prevent any funds from going to India. The disenchantment of traditional Congressional supporters of India continued when the Emergency was declared the following year. Congressman Donald Fraser, chairman of the Subcommittee of International Organizations stated it would be a "travesty" to resume bilateral assistance to India under these circumstances.

---

[2] See Baljit Singh, Indian Foreign Policy - An Analysis (New York: Asia Publishing House, 1976).

[3] In fact, the Indian Parliament did vote an amendment to the Constitution, Amendment No. 42, which modified the "inherent" property rights of the people. Recently, however, it was declared unconstitutional by the supreme court.

[4] There were other important issues during this period over which the two nations "agreed to disagree" that never became major bones of contention. For example, the Indian government opposed the establishment of American military facilities on Diego Garcia, a small island located in the Indian Ocean, especially after the U.S. carrier the Enterprise went into the Bay of Bengal during the Bangladesh crisis in 1971.

On the other hand, both nations were well aware of the volatile nature of their relations and were sensitive to the peculiar psychological attitudes that had developed between the two countries, and efforts were continually made throughout the decade to improve relations between the two governments by defusing the emotionally charged atmosphere.

Progress in the resumption of a bilateral assistance program, however, was slow and halting. In 1973, the funds that had been frozen when war broke out in 1971, were released. Simultaneously, the first overtures were made to the government of India about their receptiveness to the resumption of bilateral assistance. The following year, as part of an attempt to put aside misunderstandings and build a foundation for a production relationship in the future, a joint U.S.-Indian commission was formed to promote economic, cultural and scientific cooperation that proposed to sponsor fellowships and provide funds for cooperative science and technology programs.

The good will that was gradually being restored had a set-back in February 1975 when the ten year embargo the U.S. had placed on arms sales to India and Pakistan was lifted. This action was viewed in India as a deliberate effort to promote a regional arms race and to upset the strategic balance in the region by rebuilding Pakistan's defense forces. The talks that had been tentatively scheduled in January 1976 to discuss the terms for the resumption of a bilateral assistance program were cancelled. But the Americans were committed to a program for humanitarian reasons: India represented more than 50 percent of the poorest people in the world. Bilateral assistance eventually resumed in 1978.

The Economic Setting

During the first two years of the Fourth Five-Year Plan (1969-1974) the targets were close to being achieved. However, by the end of 1971, the economic situation in India was put under severe strain. In consequence of the war with Pakistan there was a substantial influx of refugees, agricultural production began to decline and by 1973, with the beginning of the energy crisis, there appeared shortages of raw materials. That same year there was a world-wide shortage of food grains, causing famine conditions in many developing nations. The increase in real income was nominal as production declined and rapid inflation led to the predictable problems of labor unrest, strikes, hoarding and black-marketing. In short, it was a period of economic crisis that called for some major revisions in the Central Plan.

The Planning Commission revised the Fourth Plan, and drew up a draft of the next Five-Year Plan for the years 1974-1979 which focused on the problem of eliminating poverty, attaining self-reliance and concentrated on providing the minimum basic needs for all citizens in health, education, shelter and water.[5]

---

[5] For details see, J.S. Uppal, "The National Economy and the Five-Year Plans" in India's Economic Problems - An Analytical Approach, J.S. Uppal, ed., 2nd ed. (New York: St. Martin's Press, 1978); Planning Commission, Fourth Five-Year Plan, 1969-1974.

The Fifth Five-Year Plan made an effort to alter the emphasis on growth by focusing on the following goals:

1. Implementation of a National Program of Minimum Needs to provide basic necessities in elementary education, public health facilities, potable water, homes for landless laborers, roads, electricity and slum clearance;

2. Special employment programs; and

3. Greater equalization of consumption patterns through taxation, subsidization and public distribution of essential consumer goods.

The initiation of the Fifth Five-Year Plan in 1974 did not ease the growing pessimism about the merits of centralized planning since there was nothing basically different in it. Moreover, the strains of economic problems were mounting and it appeared increasingly possible that there would be total economic chaos. This, combined with the internal political struggle for control of the central government, led the government of India to declare a National Emergency in June 1975. Shortly thereafter a special Twenty-Point Program was initiated as a supplement to the Plan in order to cope with the economic problems. The objective was to invigorate the economy by reemphasizing existing policies and affirming the national commitment to implement them under emergency provisions.

The economic strides during the Twenty-Point Program were quite good. The growth rate in both the national and the per capita income were the highest ever achieved in the post-Independence period. Industrial production grew at 6 percent, food production reached the 119 million ton level making India self-sufficient and allowing the buildup of reserves. And there were substantial increases in the amount of electrical power generated (21.6 percent), steel production increased 18 percent, savings increased, export earnings rose, inflation decreased. The outlook appeared extremely good for the future. But critics were quick to point out that the development strategy followed during the Emergency emphasized industrial production and export products. An environment was created to facilitate the strategy: labor strikes were banned, prices were controlled, wages were frozen and incentives were provided to investors to introduce capital-intensive technology. The common man was not as well off as the figures might suggest. There was considerable unemployment, real income decreased as a result of increasing prices and frozen wages, and the availability of essential consumer goods such as food, sugar, and textiles declined.

The Emergency ended in March 1977 when free elections were held, and Prime Minister Indira Gandhi was voted out of power partially out of fear of the dynastic quality of the party leadership. While the economy did experience some gains between June 1974 and March 1976, most of them were wiped out in the last months of the Emergency. The growth rate had declined sharply from 8.5 percent in 1975/76 to 1.5 percent in 1976/77. When the increase in population of 1.9 percent is calculated into this, there was a decrease of per capita income of 0.4 percent. Agricultural production decreased 5.0 percent. There was, however, a large increase of 10.6 percent in industrial production most of which was in public sector heavy industries.[6]

The Role of Foreign Donors

As was stated above, this was a period in which the government of India hoped to achieve self-reliance and to eliminate the need for foreign donors to assist in the implementation of the development plans. They were not successful in this effort.

During the decade of the 1970s, foreign aid to India underwent numerous changes in composition, quality and volume. Both gross and net disbursements generally declined so that by the end of the decade they were about half their level at the beginning in real terms. The following table illustrates the trends in aid commitments and disbursements from the major donor groups through the decade.

Table 6

AID Commitments & Disbursements by Major Donor Groups [a]
(% of total)

	Commitments			Disbursements		
	1972/73	1974/75	1977/78	1972/73	1974/75	1977/78
Bilateral						
Consortium	49	44	36	65	48	54
Bank Group	32	31	53	26	27	31
East Europe	13	n.a.	4	7	4	2
OPEC	5	21	5	1	16	11
Others	1	3	1	n.a.	4	2

[a] World Bank. Economic Situation and Prospects of India, May 1, 1980, p. 95. This table excludes International Monetary Fund credit facilities.

[6] *Ibid.*, pp. 29-33.

As can be seen, the proportion of aid provided by the Consortium fell in the mid-1970s when OPEC aid increased sizeably and then rose again when OPEC aid fell off. For the Bank Group commitments rose steadily, but aid from Eastern Europe declined steadily. For other donors, commitments have declined.

In terms of the composition of the program, aid donors shifted their emphasis away from transportation, communication and industry to agriculture, power and irrigation. After the Indian balance of payments situation improved in 1975 donors began to disburse funds more slowly and moved away from debt relief and food aid to project aid. The percentage of monies disbursed as grants increased gradually, fluctuating between 60 and 80 percent of the total aid money. Table 7 indicates the level of aid provided to India during the period.

Table 7

Consortium and Non-Consortium Gross Disbursements to India, 1972-1977 [a]
($ million)

	1972/73	1973/74	1974/75	1975/76	1976/77
Project Aid[b]	399	465	428	791	767
Non-Project Aid[c]	497[e]	592[e]	1,091[e]	1,167	902
Food Aid [d]	70	220	242	383	284
Sub total	966	1,277	1,761	2,341	1,953
Debt Service	-658	-765	-785	-786	-829
Net Transfer	308	512	976	1,555	1,124
Debt Service Ratio[e]	25.7	23.6	18.8	16.8	14.4

[a] World Bank, Economic Situation and Prospects of India, op. cit., Statistical Appendix, Table 4.1. See also Annex B. p. 65.

[b] Includes suppliers credits.

[c] Includes debt relief.

[d] Includes all PL 480, food and non-food.

[e] Debt service divided by merchandise exports.

In the absence of a bilateral assistance program, the main U.S. contribution to India's development activities at this time was through contributions to the international institutions, primarily the soft loans of the IDA. The U.S. also agreed to reschedule loan repayments from 1968 to 1974 as part of debt rescheduling exercises to extend the terms upon which aid had been provided.

The Role of the United States

During this period, the role and value of economic assistance to developing nations was an issue being debated by all involved organizations in the United States from the Congress to private voluntary agencies. While there was almost unanimous agreement that foreign assistance had been one contributing factor to an exceptional rate of growth in developing nations, the traditional models of development were viewed with growing skepticism. There was a suspicion that aggregate economic growth had not alleviated poverty of the poorest members of the population in these countries. In fact, many development specialists argued that traditional development approaches of large-scale infrastructure investments and the importation of technologies from the industrialized nations had actually widened income disparities in these countries. Research was beginning to indicate that the application of the advances of agricultural technology were increasing absolute and relative income disparaties amongst farmers in some developing nations. For example, increased commercialized farming had led to a decline of independent garden plots, increased the number of landless laborers and reduced the size of farming plots. But most importantly, the development efforts did not seem to be attaining their objective of eliminating poverty. Privileges and extremes of wealth and social injustice persisted, structural changes within societies were not occuring and the international economic crisis caused by the increase in oil prices was acutely felt in developing nations in fluctuations in commodity prices, inflation, balance of payment crises and increasing debt burdens.

In response to these concerns, the major donors of development assistance considered a new objective: to concentrate development assistance on the poorest segments of a society. Policy directives were issued from the World Bank and the Agency for International Development in 1973 that expressed this new concern: Robert McNamara told the Board of Governors of the World Bank "that very little has been done over the past two decades specifically designed to increase the productivity of subsistence agriculture," and that it was about time this issue was confronted. Congress amended the Foreign Assistance Act in 1973 expressing similar concerns:

> United States bilateral development assistance should give the highest priority to undertakings submitted by host

> governments which directly improve the lives of the poorest of their people and their capacity to participate in the development of their countries.[7]

This change was radically different from earlier development goals that emphasized increasing overall economic growth and maintaining political stability. The change focused development assistance on helping the poor; it had a distinct distributional objective. Philosophically, it was a victory for the humanitarian advocates of development assistance; operationally, it emphasized agricultural development, equitable land tenure patterns, small farmer labor, equality of income distribution. In short, the new focus, or "New Directions" was a major policy shift that required new implementation strategies to reflect its objectives. This policy shift occurred at the same time the Government of India modified its development program. Both turned their attention to satisfying the basic needs of health, nutrition, housing and education of the poor. Although it was a time in which the two governments were in agreement about the goals of economic development, there were few opportunities to cooperate in projects to achieve these goals.

Table 8 indicates the level of funding that was provided to India through the PL 480 Title I and Title II programs as well as the monies authorized prior to the suspension.

In 1978, the U.S. bilateral assistance program to India was resumed after five years of suspension.

---

7 Robert McNamara, "Address to the Board of Governors," Nairobi, Kenya, 24 September 1973; The 1973 amendments to Chapter I, Section 102 of the Foreign Assistance Act of 1961.

Table 8

AID Assistance to India, 1972-1977[a]
($ millions)

	1972	1973	1974	1975	1976	TQ[b]	1977
PL 480							
Title I	-			121.6	78.9	-	24.7
Title II	104.6	64.2	71.2	106.1	102.4	21.9	101.4
Loans/Grants							
Agriculture	3.016	.921	-	-	-	-	-
Fertilizer	-	-	-	-	-	-	-
Irrigation	-	-	-	-	-	-	-
Power	.061	.672	-	-	-	-	-
Health	.580	.167	-	-	-	-	-
Malaria Eradication	-	-	-	-	-	-	-
Population	.512	.130	-	-	-	-	-
Education	.404	.075	-	-	-	-	-
Transportation	-	.465	-	-	-	-	-
Private Industry	.201	.064	-	-	-	-	-
Program Loan	-	-	-	-	-	-	-
Other	.786	14.095[c]	14.6[c]	19.9[c]	-	-	-
Sub total	5.6	16.6	14.6	19.9	0	0	0
Total							

[a] U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations July 1, 1945-September 30, 1979.

[b] Transitional Quarter

[c] Includes capitalized interest.

During 1974 to 1977, in the absence of U.S. contributions, the annual levels of AID India consortium pledges, which had hovered around $1 billion per year for the previous ten years, began to move up rapidly, in large part due to increase in IDA allocations to India. By 1977, total pledges came to $2.1 billion, of which IDA represented $1.1 billion, and rose rapidly to a total of $3.4 billion in 1979.[8]

[8] See Annex B.

After the Janata Party formed a new government following the elections which unseated Indira Ghandi, relations between the U.S. and India improved. The initiative was taken by the Congress on May 13, 1977 when a paragraph was added to the FY 1978 Senate Authorization bill (sponsored by Senators Javits, Percy and Humphrey) to allocate $60 million of the amount authorized in the bill for Grain Storage Facilities for India. In effect this paragraph recommended to the President that bilateral assistance to India be resumed. The President acceeded to the recommendation by proposing a program of $60 million in FY 1978 and $90 million in FY 1979. Surprisingly, the Congressional hearings on the FY 79 appropriation request disclosed that there was considerable divergence of view in the Congress with respect to the resumption of aid to India. Nevertheless, AID entered into negotiations to determine the Government of India's receptivity. The GOI welcomed the resumption of the program but made it clear that it would not entertain the reestablishment of U.S. policy involvement in India's economic development efforts along the lines of our previous involvement in the 1950s and 1960s. Nor did it wish to become dependent on U.S. aid, as it had been in the past.

In early 1978, AID sent a team, headed by Charles E. Lindblom of Yale University, to "consider a wide range of program levels and activities for the 1980-1984 period" and to express its views on the most appropriate mechanisms for implementing the program. This report, submitted by AID on June 1, 1978, provides the basic rationale for our current bilateral assistance program to India.

There is no reference in the Lindblom report to any political rationale for aid. Unlike the justification for aid in the 1950s and 1960s, there is no discussion of the need for U.S. assistance to stabilize the economy, preserve the democratic political system or fend off disasters. Instead, the argument was made that India is by far the most important single arena in the struggle against world poverty because 50 percent of the world's poor live there. It recognizes that India's performance on the economic development front since independence has been uneven. It analyzes the Sixth Five-Year Plan (1978-1983) in terms of its priorities, feasibility of implementation, external resource requirements and likelihood that it will make an appreciable dent in India's poverty level. The report endorses the view of the World Bank that it is a responsible plan worthy of international support, but that the five-year requirement for gross external assistance will probably come to about $14 billion, almost double the GOI's estimate.

The report discusses three options for U.S. bilateral aid in support of the Sixth Plan. Option I considers the consequences of U.S. bilateral aid at $750 million over the five-year period. Option II would provide $2 billion and Option III would provide $3 billion over the same period. After examining the phasing of aid, India's absorptive capacity and other factors, the report recommends that we adopt Option II and concentrate our assistance on development of India's agricultural potential (irrigation, power, rural credit) and rural health and family planning.

The report does not discuss the level of U.S. bilateral aid in relation to other aid donors or IDA. It appears to assume that total aid commitments from other free world aid donors and IDA for the period 1978 to 1983 will be $12 billion exclusive of U.S. bilateral aid. Thus Option II ($2 billion) would have been needed to supplement the other donors to meet the required $14 billion of external assistance for India's Sixth Plan.

The report also does not discuss the options available to the U.S. to provide whatever aid it considers appropriate through other international institutions, rather than to establish an orthodox bilateral aid mission to implement the program.

CHAPTER VI

THE RESUMPTION OF BILATERAL ASSISTANCE, 1978

New Global Perspectives

When the United States resumed bilateral assistance to India, the world was a different place than when aid had ceased in 1971 or, for that matter, when the first economic assistance programs began in the 1950s. Economically, the 1970s brought confusion and trauma globally. There were unprecedented scarcities and price increments in natural resources that profoundly altered the political and economic structure of the world. Capital shortages plagued all countries, inflation in developed, middle income and developing nations was pervasive, advanced technology which was once expected to solve all human problems of production, health and the environment seemed inadequate, and the work force was growing at record rates causing acute unemployment everywhere. It was estimated that about 25 percent of the total labor force in developing nations was out of work or under-employed in 1977; the number was expected to double by the end of the century.

From 1966 through 1973, the world economy had expanded at about five percent annually. Then, with the dramatic increases in oil prices, growth dropped to two percent in 1974 and to less than one percent in 1975. While the world economy resumed a modest growth rate of two to three percent annually in the last half of the decade, the prospect of diminishing growth had become increasingly a reality. In consequence, the distribution of wealth became even more problematic. So long as growth continued at a healthy pace, the developing nations could assume their share would increase. But, when expansion greatly diminished, the question of distribution became complicated.

Conditions in India in 1978 were very different from those prevailing in 1950. Population had almost doubled but real per capita income had hardly changed at all. Indian industrial capacity had increased and diversified, and the gross quantum of economic activity had increased. Agricultural production had more than kept pace with population growth and buffer stocks were building up. Indian exports had quadrupled since 1950. The Indian educational system had achieved universal primary education to the 5th year and the education pyramid was turning out about four million university graduates per year, eight million secondary, 18 million middle-level and 72 million primary graduates by 1978. The adult literacy rate had increased from 28 percent to about 36 percent.

The international institutions to which developing countries look for resource transfers and for assistance had expanded and diversified. In 1950, the U.S. was the only major aid donor. Now numerous international financial institutions were dispensing assistance, other bilateral aid donors were operating in India and an entire family of technical assistance agencies, under U.N. auspices, was ready to offer technical services and training.

The North-South dialogue was in full swing to negotiate international economic issues which effected the rate and direction of growth of the Third World and which aspired to establish a new international order. A variety of organizations were created to represent the "South" in negotiations with the "North," such as the Non-Aligned Movement, the Group of "77" and the Organization of African Unity. Their objectives were:

- Equitable access to the world's natural resources;
- A reorientation of trade policies;
- A restructuring of the transfer of technology to the needs of the user, rather than those of the supplier;
- The creation of a stable monetary system with greater control by developing nations, to provide means of creating and distributing reserves, of adjusting to deficits and surpluses and of promoting reserve flows to developing nations; and
- The design of a system of financial transfers for development which are predictable, equitable and subject to international surveillance or accountability.[1]

The Resumption of Bilateral Assistance

Although the United States had no bilateral assistance program to India during 1972-1977, substantial U.S. resources were made available through PL 480, Title I and Title II programs and contributions to the World Bank. The resumption of bilateral economic assistance to India was preceded by lengthy negotiations and considerable

---

[1] For a succinct discussion of the new development strategy see, The Brandt Commission -- The Independent Commission on International Development Issues (London: Pan Books, Ltd., 1980); and The Scheviningen Report. The latter is the result of a symposium organized by the International Foundation for Development Alternatives for the U.S. Director General for Development and International Economic Corporation, and held in the Netherlands in July 1979. IFDA Dossier, Nos. 12, 13, 14, 15, 1979-1980.

efforts to determine how it could be most efficacious in contributing to good relations between the two countries and in assisting India in its development objectives.

Globally, the political objectives of the U.S. had changed during the years in which economic assistance had been phased out in India. Asia and South Asia had become a lower priority in terms of security interests to the United States and non-alignment, such as India had maintained, was no longer regarded as inimical to American security interests. The main political objective was much more modest than in previous periods -- to keep India from forming any exclusive political relationship or security dependence on Russia or China and to have responsible behavior about the use of nuclear power.

The Government of India had indicated a positive attitude toward the resumption of bilateral economic assistance so long as that aid was not dependent on any conditions and so long as no attempts were made to intervene in Indian policy. For the United States, bilateral assistance offered the opportunity for a substantial improvement in relations with India. In addition to the obvious economic need, it would be a positive sign that the U.S. shared many basic values with India,[2] including the commitment to democracy and to some aspects of the New International Economic Order, such as a belief that an orderly transfer of resources from wealthy nations to poor nations was essential to achieving global economic progress and to meeting the basic needs of the poor. It was also a sign that the United States recognized and supported India's growing power on the global scene, its pre-eminent role regionally in South Asia, and its moderate position and leadership role among developing nations.

---

2 The two issues over which there had been substantial disagreement, human rights and nuclear proliferation, had been resolved. The orderly resumption of a constitutional government in India in 1977 placed the two countries on a relationship similar to the one that existed before the Emergency of 1975 when human rights were eroded. Most officials in the State Department felt that India's nuclear capability was not in violation of Section 669 of the Foreign Assistance Act had been passed in June 1976, since it had neither delivered nor received any nuclear processing or enrichment equipment or technology since that Act had been passed.

Options

It was noted that India's development efforts since independence had not directly impacted on the life styles of most of India's poor, who lived in rural areas. They were small farmers, landless laborers and artisans; they had few employment opportunities, few assets and little access to clean water, education, health or sanitation facilities. They suffered from a lack of basic human necessities and their condition of life was not materially different than it was in 1950. In contrast, the Indian economy was performing well. There had been two record food grain harvests resulting in 20 million tons of stock of wheat, rice and other grains, and the balance of payments had improved dramatically so that India had $5 billion in foreign exchange reserves.[3]

Most analysts assumed this favorable position was transitory, and that, in any case, a foreign assistance program should not be based exclusively on a country's current balance of payments position. India had always been dependent on the vagaries of climate. Bad weather was inevitable and would probably result in depleted food reserves and foreign exchange shortages. In the long-term, India's development needs remained massive and it appeared unlikely they could be met without foreign assistance.

In anticipating a resumption of economic assistance to India and in trying to determine how to make it most effective in contributing to India's development needs and good relations between the two countries, the United States had three options:

a. To continue current programs and levels of food aid and contributions through the World Bank;

b. To increase aid through these same channels (i.e., debt rescheduling, increased contributions to multilateral organizations) and by liberalizing trade arrangements and special technology transfers; or

c. Resuming bilateral assistance.

By choosing to consider the resumption of bilateral assistance, the United States made a commitment to the new global development strategy. Hence, certain aspects of the traditional donor-recipient relationship needed to be clarified; the objectives of the program, the degree of collaboration, and the level of assistance.

---

[3] For a good analysis of the Indian economy at this time see, Charles E. Lindblom et al., "U.S. Bilateral Assistance to India: A Strategy for the Early 1980s," A Report of a Mission to India, June 1979; also see Memorandum, N. Bellocchi on AID Strategy Report, 3 July 1980; World Bank, Economic Situation and Prospects of India, 1979.

The Indian Context

The resumption of U.S. Bilateral assistance to India coincided with the inception of the Sixth Five-Year Plan (1978-1983) in India. Clearly, much progress had been made since independence. The economy had become more modern, diversified and self-reliant. A modest growth rate of per capita income had been maintained in spite of population increases. Significant results had been achieved in agricultural research and industrial and scientific technology. The average life expectancy had risen due to a reduction in infant mortality and the control of eradication of serious diseases. But an assessment of the last quarter century also "indicated some fundamental failures." The following statement in the Sixth Five-Year Plan illustrates that U.S. dissatisfaction with the results yielded from India's development strategy were shared by the Indian planners.

> We must face the fact that the most important objectives of planning have not been achieved, the most cherished goals seem to be almost as distant today as when we set out on the road to planned development. These aims...are the achievement of full employment, the eradication of poverty and the creation of a more equal society.[4]

With a population of over 625 million people, India's population exceeds that of every continent, except Asia, and is increasing at a rate of more than one million people a month. It is estimated that between 50 and 60 percent of the world's poor now live in India.[5] The level of poverty has remained virtually unchanged especially for those members of the Scheduled Castes and Schedules Tribes, and the distribution of income and wealth has remained unequal.

The Government of India formulated a new development strategy in the Sixth Five-Year Plan that reflected the new humanistic focus of development. It stated:

> In the next phase of development it will no longer be appropriate, in the light of our past experience to formulate the principal objectives of a particular plan period merely in relation to a specified target of growth for the economy. What matters is not the precise rate of increase in the national product that is achieved in five or ten years, but whether we can ensure within a specified time-frame a measurable increase in the welfare of the millions of the poor.[6]

---

4 Government of India Planning Commission, <u>Draft Five-Year Plan</u> 1978-83, p. 2.

5 This is defined as a per capita income of $150 annually or less.

6 Draft Sixth Five-Year Plan, 1978-83, New Delhi, 197

The emphasis of the new Plan was placed on people: on removing unemployment, of raising the standard of living of the poorest segments of society by providing for their basic human needs while increasing equitable growth and self-reliance. To achieve these goals resources were to be shifted to agriculture and rural development with a secondary emphasis on transportation, education, health and electric power projects designed to benefit the rural poor.

Program Objectives

The FY 1981 Congressional Presentation states:

> ....the U.S. commitment to alleviating worldwide poverty, finding solutions to the world's food and population problem and encouraging free societies requires U.S. support for India's development.

U.S. development specialists argued that certain aspects of the donor-recipient relationship needed to be modified to more accurately reflect the new global evelopment strategy. Firstly, India should take the initiative in most bilateral issues. And secondly, the U.S. assistance program should be expeditious, uncomplicated and employ a small staff with a low-profile. The program should be planned jointly under the guidance of Indian planners, and the transfer of resources should be dependable over a period of years to facilitate long-term planning. Ideologically, the projects should reflect the goals of the Sixth Five-Year Plan and the overall objectives of the U.S. economic assistance program as articulated by Congress; i.e., they should be directed at the rural poor with priorities given to agriculture and rural development.

Level of Assistance

The selection of initial projects and the funding level will set the direction of the resumed bilateral assistance program in India and is important in laying the foundation for a sustained economic relationship. The level of assistance proposed in the AID Congressional Presentation of FY 1977 was $60 million. It was a modest program that allowed for the gradual resumption of bilateral assistance and was viewed by many as the establishment of a pipeline for more substantial resource transfers in the future.[7]

---

[7] In terms of the total funding level, India had the largest requested budget in FY 1981 of any U.S. bilateral assistance program - amounting to $135 million. But in terms of per capita assistance, it was one of the lowest, equaling only 21 cents for each person. (FY 1981 Congressional Presentation, AID, Development Assistance Request: Distribution by Country.)

The FY 1981 Congressional Presentation discusses the $3 billion commitment of the aid India consortium for 1979 and recognizes that the U.S. bilateral aid is relatively small. It describes the AID strategy as follows:

> A.I.D.'s program supports the GOI's emphasis on creating rural employment and enhancing food security through small farm agriculture and rural development. Irrigation expansion is supported through medium-scale projects for surface irrigation, credit, and electrification for groundwater development. A.I.D.'s financing of fertilizer imports supports rapid increases in food production. The U.S. PL 480 Title II Program is targeted toward school feeding, food-for-work and cooperative development, and also helps to expand food availability and employment. Applied research in rural energy will continue to receive support.
>
> Reducing fertility and mortality is the second focus of A.I.D.'s interest. A.I.D. proposes to provide continued financing for the Government's Integrated Rural Health and Family Planning Program, Maternal/Child Nutrition (under Title II), and Malaria Control.

Table 9 shows the funding levels by area of the U.S. bilateral assistance program since it was renewed.[8]

Table 9

AID Program in India 1978, 1979
($ millions)

	1978	1979
PL 480		
Title I	26.4	
Title II	109.8	137.6
Loans/Grants	60.0	90.7
TOTAL	196.2	228.3

[8] Funding levels do not include U.S.-owned rupees. As a result of repayment of previous aid loans, the U.S. owned over $800 million in Indian rupees in FY 1977. According to an agreement signed between the U.S. and India in 1974, the latter must agree to any use of U.S.-owned rupees for purposes other than those previously specified. According to AID legislation, the rupees were to be used to the extent possible to finance the local costs of projects. India refused to authorize their use for development activities, however, arguing that it was equivalent of re-using previously provided aid and did not represent the transfer of any new resources to the Indian economy.

In FY 1978, the AID program to India resumed providing 28 million dollars for malaria eradication in response to a resurgence of malaria, 30 million dollars for medium-sized irrigation projects to assist small farmers in Gujarat, and two million dollars for assorted small grants for science and technology to develop new appropriate technology for rural needs.

The following year a country-wide program was begun in rural electrification to provide farm pumpsets for rural industry, and funds were made available for small health and agricultural programs and for fertilizer imports as well as to continue the malaria project and the science and technology research activities started the previous year.

In addition, Title I concessional food supplies and Title II grants to U.S. PVOs continued at a modest level.

Summary

Ironically, the program today appears much as it did in the beginning: it is a modest program in terms of resources, and has a low-profile in terms of the number of individuals involved. We have made a full cycle from modest beginnings to massive resource transfers and back to modest programs. But the context in which today's program operates is very different from that of the 1950s.

In the next section we will attempt to draw some lessons from this experience for future development activities in India and in other countries.

CHAPTER VII

CONCLUSIONS AND LESSONS TO BE LEARNED

What has been the impact of $11 billion in U.S. economic aid to India during the past 30 years?[1] To give an unequivocal and provable answer to that question, using the "scientific method," one would need an experiment and a control. Unhappily this is not possible with a subject such as this.

But shouldn't we attempt to answer some "what if" questions? What if the U.S. had not taken it upon itself to embark on an economic assistance program to India in 1950? What if we had not organized the aid India consortium under the auspices of the World Bank in 1958? What if we had not provided the millions of tons of PL 480 food grains over an extended period of time, or the 8 million tons in 1965-66 during the Bihar famine?

---

[1] U.S. economic assistance to India from 1951 to March 1977 can be broken down into the following categories:

		($ millions)
1.	Technical Assistance Program:	
	(a) Development Grants	460.9
	(b) Loans (repayable in rupees)	148.1
2.	Development Loans:	
	(a) Dollar Loans repayable in dollars	2,692.3
	(b) Dollar Loans repayable in rupees	502.3
3.	Wheat Loan of 1951 (repayable in dollars)	243.7
4.	PL 480, Title I Agricultural Commodity Sales:	
	(a) Rupee Payable Sales	4,076.8
	(b) Convertible Credit Sales (repayable in dollars)	423.8
	(c) Dollar Credit Sales (repayble in dollars)	237.0
5.	PL 480, Title II Grants	1,334.6
6.	U.S. EXIM Bank Loans (repayable in dollars)	539.0
7.	Other	11.3
TOTAL		10,669.8

Myron Weiner objects to "counterfactual analysis." He states:

> Donors will often argue that economic assistance should be provided in order to prevent certain economic, and therefore political, catastrophes. Hence, food should be provided during a period of scarcity to prevent widespread dissatisfaction that might lead to insurrectionary movements and political instability; or foreign aid is needed to provide foreign exchange to maintain imports so as to avoid severe inflation and a disaffected middle class. When economic assistance is provided, aid agencies argue (especially before congressional committees) that the assistance was effective because the predicted catastrophes were avoided. But, as with all counterfactual history, proof is impossible. The reverse argument is also used: had aid been larger, then certain undesirable economic and political developments might have been avoided. Had India received larger amounts of foreign assistance in 1973 and 1974 when the international price of India's primary imports -- food, fertilizers, and oil -- had risen, some have suggested, India might have been able to avoid the inflationary spiral and food shortages that intensified the political crisis leading to the declaration of an emergency in 1975. Again, this is untestable counterfactual history.[2]

And yet, for those who do not enjoy the status of intellectual detachment in academé, but continue to be saddled with the drudgeries of operating our aid programs and making daily decisions to allocate large sums of public funds for high risk endeavors, it is important to explore the possible answers to such questions. Even if the conclusions are not scientifically provable, they may shed some light on relevant issues which will arise in the future, and on which important judgments must be made.

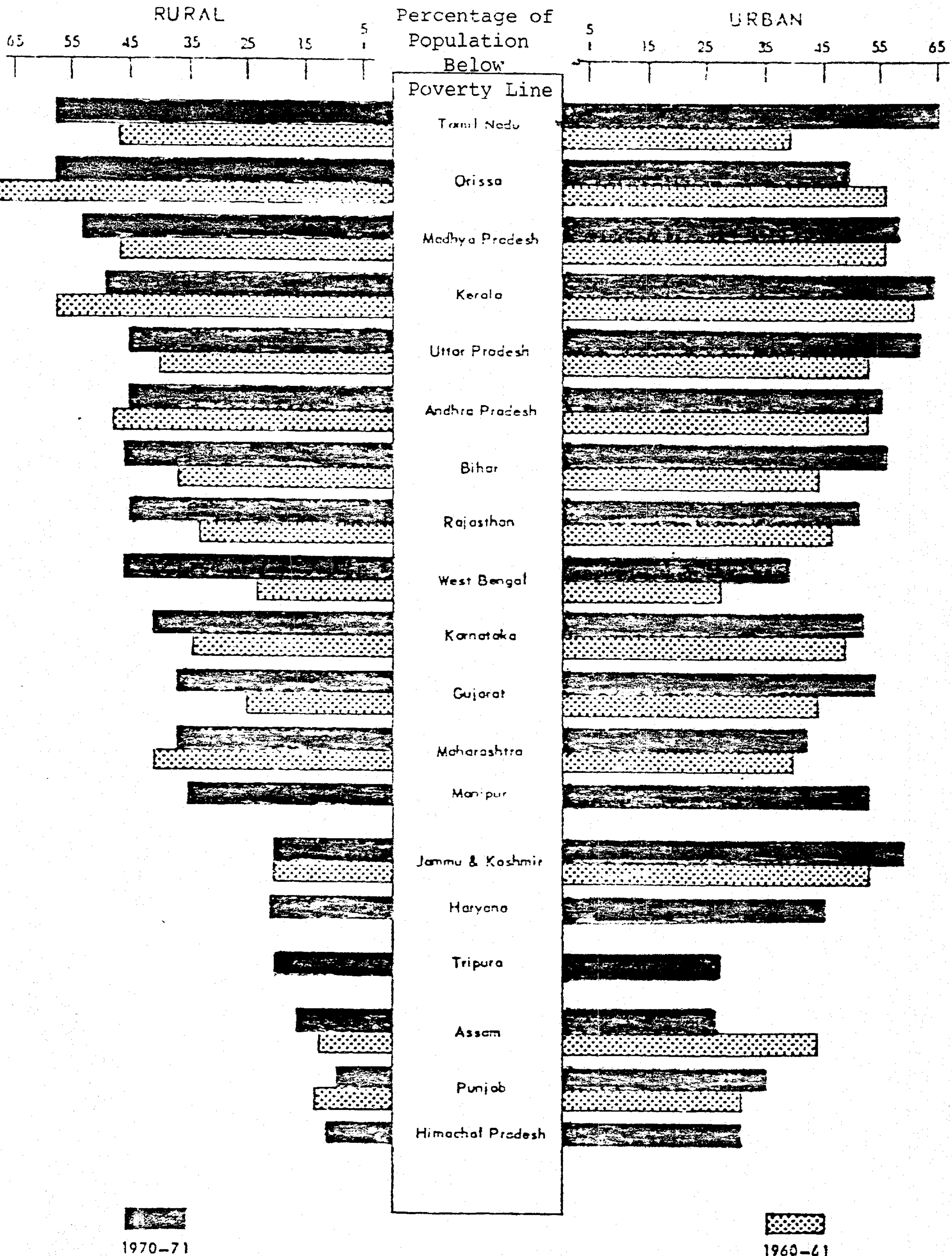
There are many ways to assess the development process: some measure GNP growth, others look at changes in volume of production of various industries and agriculture; still others try to measure a decline in human suffering by showing reductions in poverty and employment, and lastly, some measure development success in terms of attainment of stated goals, particularly in centrally planned countries such as India. Whichever of these measures is used, the development effort in India since independence has not eliminated the suffering of a majority of the population of the country. The following chart shows the proportions of the poor in rural and urban areas in the different regions of India. It was based on consumer expenditures comparing the years 1960-61 with 1970-71. For the first period poor was defined as a monthly per capita consumer expenditure of less than Rs. 15 in rural areas and Rs. 21 in urban areas. The corresponding poverty line in 1970-71 was Rs. 28 in rural areas and Rs. 43 in urban areas. As can be seen, the percentage of population below the poverty line is increasing in most regions in both rural and urban areas. In fact,

---

2 Weiner, op. cit., p. 49.

RURAL AND URBAN POVERTY AMONG INDIAN STATES

1960-61 and 1970-71 compared



by most measures the absolute number of poor has increased, as the following indicators illustrate.

If poverty is defined as a minimum of at least 2,000 calories per person for a population resembling India on a daily basis to sustain a minimum level of health and production, then the average availability of calories in a normal year is not far short of that level. But this assumes food would be perfectly distributed according to nutritional needs. Unfortunately, food is not distributed according to need but according to a number of factors, one of the most important of which is income. The following table estimates the average income and upper and lower limits of average caloric intake by deciles of the population.

Table 10

Estimates of Average Caloric Intake in India [a]

	Decile	% Total Income	Per Capita Income US$	Per Capita Calories Lower Limits	Per Capita Calories Upper Limits
Lowest	1	3.3	34.98	1,360	1,671
	2	4.4	46.64	1,551	1,767
	3	5.3	56.18	1,674	1,828
	4	6.1	64.66	1,767	1,875
	5	6.9	73.13	1,848	1,916
	6	8.1	85.86	1,955	1,969
	7	9.0	95.40	2,025	2,004
	8	10.0	114.48	2,146	2,065
	9	16.1	170.66	2,411	2,197
Highest	10	30.0	318.00	2,823	2,404
Average			106.00	1,970	1,956

[a] Cassen, Robert, "India's Human Resources" in World Bank Staff Working Paper No. 279, India: Occasional Papers, May 1980, p. 191.

Income level is by no means the only cause of malnutrition in India. Other explantions include disease, unsatisfactory food habits, and the delicate balance between food production and population.

If development progress is measured in terms of a reduction in unemployment, the picture is similarily bleak. Using the conservative estimates of a government committee on unemployment, it would appear that unemployment had doubled between 1961 and 1971 from about 9 million people to almost 19 million.[3]

---

[3] Romesh Diwan, "Elements of Gandhian Economics: Their Relevance to India's Economic Problems" in India's Economic Problems, J.S. Uppal, ed., (NY: St. Martin's Press, 1975), pp. 182-194.

If progress is measured in terms of attaining the goals of the Five-Year Plans, 25 years of planning in India seems to indicate that while the economy had made good progress in some areas, there have been serious problems in others. Moreover, it would appear many of the egalitarian policies of the plans had failed,[4] such as land reform, reduction of income inequalities, and the provision of "basic human needs." Some major economic indicators of India's development performance are presented in the following table. But, whatever interpretation is given to these numbers, there is little perceptible improvement in the well being of the largest, poorest segment of the Indian people.

Table 11

Indicators of Economic Growth in India During the First 25 Years of Planning[a]

Indicator	1950-55	'56-60	'61-66	'67-71	'73-74	'74-75	'75-76	'76-77
GNP at 1961 prices								
target	2.5	5.0	5.0	5.5	-	-	-	-
actual	3.5	4.2	2.6	3.7	5.4	0.3	8.5	1.5
Per Capita Income(61)								
target	1.3	3.8	2.8	-	-	-	-	-
actual	1.6	2.5	0.3	1.6	3.2	-1.7	6.6	0.4
Population Growth								
predicted	1.2	1.2	2.2	-	-	-	-	-
actual	1.9	2.2	2.3	2.1	2.2	2.0	1.9	1.9
Agricultural Prod.	4.2	4.3	-1.1	-0.1	10.7	-3.5	15.6	-5.0
Food Grain Produc.	4.9	4.4	2.0	1.1	-7.9	-4.6	21.0	-8.0
Industrial Produc.	8.2	6.6	5.7	4.1	2.0	2.8	6.1	10.6

[a] See Chapter I, Draft Sixth Five Year Plan, 1978-83.

Before we say too many "mea culpas" we should note that our stated goals, both the policy guidances of the Executive Branch and the Congressional Presentations justifying AID's appropriations requests, never claimed that our aid was intended to reduce or eliminate poverty in India. Our goals were clearly stated and of much more limited scope. The Congressional Presentation for FY 1961 states as a program goal:

> The basic U.S. policy objectives with regard to India, the largest and most populous nation in free Asia, is that India remain in the free world and demonstrate that an underdeveloped country can achieve a satisfactory rate of economic progress in a free society. Outside assistance is necessary since India's low level of domestic output and savings do not permit an adequate rate of capital formation, while satisfying minimum current consumption.

[4] See Chapter I, Draft Sixth Five-Year Plan, 1978-83.

That statement is consistent with the statements appearing in the Congressional Presentations from FY 1952 onward until the "New Directions" legislation was passed in 1973. The political objective was to avert destabilizing crises and this contributed to the quest by Nehru for a "generation of peace." The level of assistance was calculated as the minimum necessary to stave off crises and disasters, so as to permit an orderly, evolutionary national development along democratic lines. The aid was to buy time for the government to undertake needed measures which, in the absence of aid, might not have been possible.[5] While the well-being of the Indian people did not improve, it also did not deteriorate.

It is difficult to fault the U.S. aid program in terms of its contribution to this limited objective. Few would argue that India would have been able to afford the luxury of preserving its democratic political system, in the absence of U.S. and other free world economic support during the periods of crises which occurred over the past 30 years. And who knows how many other crises of varying kinds and degrees would have materialized in India if this flow of external resources had not been known to be available.

Several other conclusions can be drawn about the impact of U.S. economic aid to India during this period. Firstly, we can look into overall impact.Then we can draw a few inferences with respect to its impact on the sectoral and sub-sectoral levels. We do not have evidence, however, to assess the relative contribution of one development strategy over another in contributing to the economic growth of India ("trickle-down" vs. "basic human needs").

Overall Impact

It is clear that the massive resource transfer which occurred in support of the Second and Third Five-Year Plans contributed significantly to India's economic growth during that period.[6] It may be argued that India's preoccupation with capital intensive public sector investment was ill-advised, and that they would have been better served by encouraging private foreign investments. There is ample evidence to suggest that the government of India considered private foreign investment a very expensive resource and preferred to press for official development assistance. Even as a "second best" scenario -- and the principles of national sovereignty dictate that the U.S. could not have imposed a different national policy on India -- the U.S. contribution was significant in absolute terms towards the building of India's industrial production capacity.

---

[5] See above, Chapter II for details on the political arguments made in support of aid to India, including the fear of Soviet expansion and influence in the subcontinent.

[6] See above, Chapter III for details.

To the extent it was possible to do so, U.S. capital assistance was structured to encourage the preservation of a market oriented economy and to facilitate the growth of the Indian private sector, thereby counteracting pressures for direct India government ownership and management of the means of production.[7]

Of the $480 million in DLF and AID project loans, about 25 per cent were either made to private companies or to development banks which reloaned the money to private companies. "Cooley loans," using Indian rupees generated from PL 480 sales were made to many U.S. private companies operating in India, providing needed capital for investment and expansion. Export Import Bank loans were largely made to private companies or to such Indian public sector enterprises as Air India.

By far the largest amount of U.S. capital assistance was made available in the form of non-project loans. These loans amounted to nearly $2,350 million up to 1971. They financed maintenance imports, spare parts and raw materials on which Indian industry depended for their continued operation and were an effective tool in bringing about greater reliance on market forces in economic decision-making. In the absence of such aid, the private sector probably would not have been able to meet the economy's productive requirements, thereby giving rise to pressure for yet greater government intervention and further centralization of production in the public sector. The GOI, in its report on U.S. economic assistance to India 1951-1971, had this to say about non-project assistance:

> The U.S. is the leading provider of non-project assistance to India. In recent years the GOI's emphasis in aid negotiations has shifted from project to non-project assistance.... Almost all Indian industries have benefitted from U.S. non-project assistance. The GOI allots funds made available by the U.S. to several thousand private enterprises and government undertakings. Some specific examples of non-project imports are non-ferrous metals; a wide variety of chemicals; lubricants, components such as specialized roller bearings; and spares for industrial and construction equipment. It has been calculated that every dollar of raw material or component furnished by U.S. non-project assistance enables India's industry to turn out an additional 2½ dollars worth of production.

---

7 Philosophically, U.S. development planners disagreed with Nehru's "mixed economy" model limiting the private sector to certain fields. The problem reached a critical stage when the U.S. refused to finance a public sector steel mill in 1963. For details, see above Chapter II.

Perhaps the most important impact the U.S. economic assistance program had in India was in convincing the World Bank and other donors to support the Five-Year Plans, and therefore the development priorities of the Indian government. This effort, which began in 1958 in the middle of the Second Five-Year Plan, succeeded in bringing together 14 aid donors that jointly supported subsequent Plans under the auspices of the aid-India consortium. Galvanizing the support of other free world aid donors under the auspices of the World Bank to support India's development plan, provided an important psychological uplift to the Government at a time when only the United States was in a position to do so.

The current level of consortium assistance came to more than $3 billion in 1979 (of which IBRD/IDA contributed $1.9 billion and the United States contributed $90 million development assistance and $155 million PL 480 Title II). This compares with a level of about $1.2 billion in 1961 (of which IBRD/IDA contributed $250 million and the U.S. contributed $545 million). While India has not freed itself from dependence on foreign aid, it is no longer dependent on economic aid from any single foreign nation. This is not to suggest that the level of U.S. resources flowing to India has declined. The U.S. portion of the IDA replenishments has been running at about 30 percent. India's share of IDA assistance is running at about 40 percent of total IDA commitments. Thus, a very large segment of IDA funds represent U.S. resources.

Implementation

In reviewing this very exciting period of history and searching for its impact, one senses that the execution of the program, as required by the myriad externally imposed constraints on AID and its predecessor agencies, caused much of the potential positive impact to be dissipated. For example, the annual programming of PL 480 Title I sales was dependent on allocations made by the U.S. Department of Agriculture. The program was never based on the development dialogue between the U.S., other aid India consortium countries and the government of India, but unfortunately on U.S. supply disposal needs. Greater authority and control of the program in the field would have significantly enhanced its impact. Also greater impact would have been achieved if projects had been concentrated in certain sectors and tied to India's Five-Year Plans. But such concentration is difficult because of the annual funding requirements of AID. The Congress has never seriously considered providing multi-year funding to AID.

Often changes in aid policy would throw the Indian program off balance: All too frequently these changes would be read by the Indians as being of a conspiratorial nature. Certainly, the way in which the U.S. supported devaluation of the rupee in 1966 was a case in point. Even the more mundane rule changes such as the imposition of direct hire personnel ceilings, prohibitions against financing certain items, such as DDT, newly imposed requirements for project approval, all appeared as heavy handed and irrelevant issues which got in the way of doing business. The cumulative effect of these restrictions on the program, as they evolved over the years, made it increasingly difficult to manage.

In concept, the new bilateral assistance program to India as it was initiated in 1978, was designed to be flexible and responsive to the requirements of Indian development planners. In practice, the present organizational structure of AID has created an environment that promotes caution and eschews innovation and risk. It is likely that the rigidities of AID's program management systems will interfere in achieving the objectives of the program.[8]

Although the program in India is new and there has not been enough time to see the extent to which the bureaucratic structure has impeded development activities, there are clear signs that the India program will not be exempted from the problem. For example, one group of critics of the recently written Country Development Strategy Statement commented that while the development focus was appropriately placed on the rural poor, it would have been a

---

[8] Beginning with the "New Directions" legislation in 1973 which mandated that U.S. foreign assistance be directed at the poor majority, particularly the rural poor, Congress has increasingly placed restrictions on AID operations requiring detailed planning, budgeting and scheduling of development activities. In an effort to respond to these requirements and to demonstrate to Congress that country programs are designed in accordance with the legislated development objectives, the Agency has instigated a complicated project design, review and approval process that involves excessive time and paperwork.

A recent study found that the average time taken to develop a specific project throughout the Agency was about 20 months. During the design phase lengthy delays were caused by the need to form large technically specialized design teams, contractual complications, clearance difficulties, the demand for detailed documentation and conflicts over design metholologies. Delays during the review and approval of projects in Washington were even more substantial and occasioned by innumerable problems including ambiguous review procedures, non-conformity with legislated requirements, and individuals with peculiar sets of interests to protect and promote. Unfortunately, these endless debates and reviews between the design of a project and its final approval appear to have resulted in few substantive changes. The changes appear to have dealt with procedure and proper packaging.

See Booz, Allen & Hamilton, "Study of Selected Aspects of the Project Assistance Cycle" AID/otr-C-1689, October 1980. For a recent study of the bureaucratic cynamics of AID, which focuses on the review and approval of projects and the incentive system that motivates Agency staff see, Donald R. Mickelwait, Charles F. Sweet and Elliott R. Morss, New Directions in Development: A Study of the U.S. AID (Boulder, Colo.: Westview Press, 1979).

better designed document if the Mission had found ways of incorporating other AID policy objectives into the program, such as women in development, growth with equity or nutritional improvement.[9] So while the new approach to development assistance in India was to have stressed institutional flexibility and responsiveness to changing circumstances in the field, the reality of the bureaucratic structure appears to enforce rigidity, excessive paperwork and structured planning and unconscionable delays in transfering resources.

In the 1960s, as a consequence of operating a large economic assistance program and of being involved in discussion of development policies with the government of India, the AID Mission had a high public profile. At the best of times officials were lauded for contributing to the development of the country; at the worst of times they were accused of meddling in internal policies and adverse affecting the development of the country. It is not possible under those circumstances for AID officials to insulate themselves from such criticism.

The present aid program presents a strong contrast. The level of assistance is minimal, the influence of Mission personnel on development policies is unremarked, and the level of public hostility is low.[10]

Sectoral Impact

On the sectoral level, the most significant impact of the program was evident in agriculture.[11] The U.S. development assistance program was able to assemble the "critical mass" of assistance resources needed by India to overcome major development obstacles, and to move the entire development process into a higher track. Our assistance in agriculture covers the entire range of the aid relationship, i.e., besides financial assistance, it involved the application of adequate technical expertise in the field, institution-building, policy analysis and dialogue, senior management attention and sustained multi-year efforts.

The U.S. began to help develop India's agricultural infrastructure -- its agriculture universities, research stations, extension services-- in 1952. By the time the new high-yielding varieties of wheat and rice became available in the mid-1960's, this infra-

---

9 Synopsis of BIFAD Review of India CDSS, 15 February 1979.

10 See the discussion on the devaluation of the rupee in Chapter IV.

11 Agriculture was a focus of the aid program throughout the 30-year history and was particularly important in the 1950s and early 1960s. See above, Chapter III, for details.

structure was well enough developed to enable the bulk of Indian wheat production, and a significant portion of its rice production, to switch to the new technologies, based on Indian research that adapted the Mexican and Philippine (IRRI) varieties. At the same time, substantial aid was provided to help finance imports of pesticides and chemical fertilizer, on which the productive power of the new technologies depended, and to expand India's fertilizer production capacity. Grain storage facilities were built when the first bumper crop of the "green revolution" revealed the inadequacy of India's storage capacity, and local pesticide production was increased. The aid relationship also facilitated a very active policy dialogue on India's fertilizer import and distribution policies, farm-gate support prices, inter-state surplus distribution regulations, including elimination of the octrol barriers, and other policies affecting India's ability to make maximum use of the high-yielding technologies.

It was reflected in PL 480 self-help provisions, and was supported by an expansion of research in agricultural economics undertaken partly at the agricultural universities the program had helped create, by Indians many of whom had been trained as AID participants.

The Mission staff included some of the best economists, agricultural specialists and program and loan officers AID could assemble. In short, the Mission had the credentials, analytic basis, and program scope to undertake policy dialogue on the whole range of factors affecting Indian food production, and the financial and technical resources to provide the critical inputs that made the difference between stagnation and growth in Indian foodgrains. From being a major taker of foodgrains from the world market, India is now in position where domestic supplies are adequate to support the countries' efforts to attack domestic undernourishment, and to provide a margin for export.

The other sectors in which a major impact is evident are transportation, power generation, malaria control, irrigation and water supply, family planning and scientific and engineering training. Each of these areas deserves careful examination to analyze the impact and derive the lessons learned. For example, in a manner quite similar to the Mission agricultural program, the power program not only accounted for a very significant increase in essential generation capacity, but it also brought about regional integration of India's power grid -- a remarkable accomplishment since power is a "state" subject in India. AID programs provided more than 5,000 megwatts to India's electric generating power which contributed to electrifying about 192,000 villages, it also provided over three million irrigation tubewells.

It should be stressed that the impact of the aid programs was not all positive. For example, while over $103 million was provided for insecticides, spray equipment, and U.S. technicians for malaria control and eradication programs between 1953 and 1970 and the reduction in malaria was remarkable, there has been a resurgence of the disease, and the current program includes a substantial anti-malaria component.

It should also be pointed out that the linkage between U.S. program activities and changes in a sector, positive or negative, might be reasonably inferred but ought to be tested to establish accurate causality.

Summary Issue

Did the resumption of U.S. bilateral assistance to India in 1978 reflect the needs of the 1980s and is it contributing to the development of India?

The once clear goal for U.S. assistance to India, i.e., to meet the political objective of heading off destablizing conditions, is no longer as relevant to the bilateral aid program as it once was. The aid India consortium, without U.S. leadership, has taken on a life of its own and the levels of free world aid, excluding U.S. bilateral assistance, exceeds $3 billion per year. This level seems sufficient to meet the shortfall in India's own resources for the current Five-Year Plan.

It is questionable whether the rate and composition of growth of the Indian economy envisioned in the Sixth Plan, is adequate to meet the humanitarian goals espoused in the Brandt Commission report, of eliminating global poverty by the turn of the century. This objective would call for significantly higher levels of U.S. and consortium aid. The present U.S. bilateral aid level is well below the levels of the late 1960s. As a consequence, the relationship between the AID Mission and the government of India is more distant and less significant as is its contribution to the achievement of this objective.

India's democratic political structure has withstood one attack, but the very Prime Minister who instituted the Emergency Measures is again in power, and there are no assurances that the parliamentary system in India, one of the few democracies of the Third World, will endure. And India's relationship with Russia has become significantly closer.

To be successful, the program in India requires the accommodation of conflicting policy criteria. It is not an easy task. AID is required to meet a series of Congressional mandates involving both the substance of development activities (focus on the basic needs of the poor), and the administration of project design and implementation (adequate planning, environmental soundness). The Government of India wants a bilateral assistance program that provides an expeditious and uncomplicated transfer of resources managed by a small U.S. Mission which is not involved in determining social or economic policy in India.

Under the present circumstances, it appears that AID is handicapped in being able to respond to Indian initiatives because of burdensome and repetitive documentation and reporting requirements, substantive and procedural nit-picking and second-guessing.

If there is any lesson to be learned from the past, it is that the goals of our aid to India should be unambiguous, and the program be of a scope and size to provide a reasonable assurance in this high risk business, that it is capable of accomplishing its goals.

ANNEX A

LIST OF PERSONS INTERVIEWED

ANNEX A

LIST OF PERSONS INTERVIEWED

Richard Birnbirg
James Blume
Ralph Cummings, Jr., Rockefeller Foundation
Morton Grossman
Haldore Hanson
Howard Houston
C. E. Lindblom
Ajit Mozoomdar
Robert Muscat
Russell Olson
Gus Papenek
Ronald Ridker
John A. Ulinski
Charles Wolf
C. Tyler Wood

ANNEX B

AID INDIA CONSORTIUM "PLEDGES" OR "INDICATIONS"
1958 - 1979

ANNEX B

AID INDIA CONSORTIUM "PLEDGES" OR "INDICATIONS"
1958 - 1979

	AUSTRIA	BELGIUM	CANADA	DENMARK	FRANCE	WEST GERMANY	ITALY	JAPAN	NETHER-LANDS	NORWAY	SWEDEN	U.K.	U.S.	EEC	SWISS	U.N.	IDA/IBRD	TOTAL
uly 58			17			40		10				108	75				100	
ar 59			17			30		10				53	75				65	930
ar 60			N/A			N/A		N/A				N/A	N/A				N/A	
ep 60			25									14	50					
un 61			28		15	225		50				182	545				250	1,295
un 62	5	10	33		45	k28	53	55	11			84	435				200	1,070
un 63	7	10	30.5		20	99.5	45	65	11.1			84	435				245	1,052
ar 64	1		41		20	95	36	60	11			84	435				245	1,028
pr 65	5	4	41.2		20	85.9	36	60	11.1			84	435				245	1,027.2
ov 66	4.7	1.2	38.7		17	63	34	45	11.1			89.6	382				215	901.2
ov 67	5	2.5	97		17	62.5		52	10.5			84	276				73	680
ay 68	1.6	4.1	53.1	5	30	62.5	7.4	45	11.8		15	91.2	393.7				235	955.4
un 69	Not available.																	
un 70	2	3	92.9	5	30	68.3	15.3	52	11.7		12	126	274.7				298.5	991.4
un 71	1	4	41.8		32.3	73.7	14	61	15.2	4.2	15	130	228.7				400	1,021.7
un 72	0.5	11.8	66	5.7	37	N/A	15	71.8	21	5.4	8	163.8	8.7[a]				400	796
un 73	2.9	5	91.4	7.8	52.6	86.9	13.9	81.2	21.7	4.4	64.1	149.8	41.5[a]				274.2	897.4
un 74	2.7	6.2	86.7		69.8	116.2	17.2	117.8	24.5		40	202.1	45[a]				629	1,357.2
un 75	4.2	9.7	66.9	1	87.5	167.6	15	100.4	94	7.9	57	227.5	235[b]				700	1,773.6
un 76	2.4	9.6	60.7	22.4	86.5	143.4		103.9	76.3	11.2	53.8	223.7	183[b]				700	1,677.1
ul 77	2.6	10.2	40	9.8	74.4	150.5		106.9	101.9	13.3	58.5	247.3	163[b]	22.3			1,100	2,100.7
ul 78	3.1	11.1	61.8	16.6	74.2	178		125	100.8	19.9	61.1	269.1	230[b]	48	15.7		1,250	2,464.4
un 79	5.9	11.9	38.5	20	79.1	192.8	20	154.3	111.7	19.6	66.3	346	245[b]	84	23.7	91	1,900	3,409.8

Debt rescheduling only.

Includes Title I and Title II of PL 480.

ote: - This table reflects pledges only. No effort has been made to correlate with actual expenditures.
- Some discrepancies may result from changes in effective foreign exchange rates.
- Numbers may not add due to rounding.

ource: Constructed from Annual Chairman's Reports of Proceedings, IBRD.

BIBLIOGRAPHY

BIBLIOGRAPHY

There is a massive amount of literature on the political and economic development of India. It is unfortunate that there was insufficient time to explore this literature in greater detail. A number of important areas have been overlooked; in particular the plethora of books applying quantitative methodologies to economic problems of India, the vast anthropological and ethnographic literature examining the complex social problems of this ancient civilization, and more recent dissertations investigating the effects of development assistance in India.

Attempts have been made to penetrate behind the formal statements of official policy documents and to catch glimpses of the motives behind the actions taken by policymakers. Since certain aspects of this paper concern current events, we have endeavored to protect the anonymity of sources in areas of political sensitivity and about events that still arouse controversy.

GOVERNMENT DOCUMENTS AND REPORTS

1. Government of India

Department of Economic Affairs. U.S. Economic Assistance to India June 1951 - April 1971, New Delhi, 1972.

Planning Commission, First Five-Year Plan, New Delhi, 1953.

__________. Second Five-Year Plan, New Delhi, 1956.

__________. Third Five-Year Plan, New Delhi, 1962.

__________. Fourth Five-Year Plan, 1967-74, New Delhi, July 1970.

__________. Fifth Five Year Plan, 1974-79, Part I, New Delhi, 1976.

__________. Draft Sixth Five-Year Plan, 1978-83, New Delhi, 1978.

2. U.S. Government

Agency for International Development. Annual Budget Submission - India FY 1979, 1980.

__________. Blume, James N. and Peter Sherrill, "Report of Technical Assistance Review Team" prepared for John P. Lewis, Director USAID/New Delhi, March 1965.

__________. Congressional Presentation, 1952, 1955, 1956, 1959, 1961, 1963, 1965, 1969, 1970-80.

__________. India Country Development Strategy Statement FY 1982, 2 vols. (Washington, D.C.: U.S. International Development Cooperation Agency, 1980).

__________. "Implementation of 'New Directions' in Development Assistance; Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973," (Washington, D.C.: U.S. Government Printing Office, 1975).

__________. Lindblom, Charles E., et al., "U.S. Bilateral Assistance to India: A Strategy for the Early 1980s," A Report of a Mission to India, June 1978.

__________. Mission to India, "The United States Contribution to Indian Development," New Delhi, 1965.

__________. Mission to India, "U.S. Economic Assistance to India," New Delhi, 1978.

__________. Timberg, Thomas, et al., "Report of the Study Team on Research and Development Activities of USAID/New Delhi," 26 November-25 December 1979.

Senate Hearings Before the Committee on Appropriations, Foreign Assistance and Related Programs Appropriations FY 1980, Part I 96th Congress, First Session (Washington, D.C.: U.S. Government Printing Office, 1979).

U.S. General Accounting Office. Report to Congress by the Comptroller General, "Examination of Economic and Technical Assistance Program for India International Cooperation Administration Department of State Fiscal Years 1955-1958," Sept. 1959.

__________. Report to Congress by the Comptroller General, "Need for Improvements in the Management System to Assess Performance of AID-Financed Projects in India," August 1972.

U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations July 1, 1945-September 30, 1979.

3. International Organizations

World Bank. Annual Reports 1970-1979.

__________. Economic Situation and Prospects of India, 1979, 1980.

__________. India: Occasional Papers No. 279, May 1978.

__________. Chairman's Reports of Annual Meetings of the AID India Consortium 1958-1979.

NEWSPAPERS AND PERIODICALS

American Economic Review
AEI - Foreign Affairs Studies
Congressional Record
Economic and Political Weekly (Bombay)
Foreign Affairs
International Foundation for Development Alternatives Dossier (Nyon, Switzerland)
The Futurist (Washington, D.C.).
Harvard Educational Review

BOOKS AND ARTICLES

Banerjee, Brojendra Nath. Foreign Aid to India. Delhi: Agam Prakashan, 1977.

Bhattacharyya, Dhires. India's Five-Year Plans. Calcutta; Progressive Publishers, 1975.

The Brandt Commission - The Independent Commission on International Development Issues. London: Pan Books, Ltd., 1980.

Dagli, Vadilal, ed. Twenty-Five Years of Independence - A Survey of Indian Economy. Bombay: K.K. Vora & Co., 1973.

Eldridge, P. J. The Politics of Foreign Aid in India. New York: Schocken Books, 1970.

Frankel, Francine F. India's Political Economy 1947-1977. Princeton: Princeton University Press, 1978.

Johansen, Robert C. "United States Foreign Aid to India: A Case Study of the Impact of U.S. Foreign Policy on the Prospects for World Order Reform," World Order Studies Program. Occasional Paper No. 2., Center for International Studies Princeton University, 1975.

Katz, S. Stanley. External Assistance and Indian Economic Growth. New York: Asia Publishing House, 1968.

Khan, Mohammad Shabbir. Planning and Economic Development in India. New York: Asia Publishing House, 1970.

Lewis, John Prior. Quiet Crisis in India. Washington, D.C.: Brookings Institute, 1962.

Mellor, John A. The New Economics of Growth, a Strategy for India and the Developing World. Ithaca: Cornell University Press, 1976.

Mickelwait, Donald R., Charles F. Sweet and Elliott R. Morss. New Directions in Development: A Study of U.S. Aid. Boulder, Colo.: Westview Press, 1979.

Papanek, Gustav F. "India and Pakistan: The Effects of Development Strategy on Growth, Efficiency, Equity and Policies." Paper prepared for a Conference of the Development Advisory Service of Harvard University, Torremolinos, Spain, Sept. 1972.

Rudolph, Lloyd I. "Comment" on "Assessing the Political Impact of Foreign Assistance" in India: A Rising Middle Power. John W. Mellor, ed., Boulder, Colo.: Westview Press, 1979.

The Scheviningen Report. IFDA Dossier, Nos. 12,13,14,15, 1979-1980.

Singh, A. K. Impact of American Aid on Indian Economy. Bombay: Vora & Co., 1963.

Singh, Baljit. Indian Foreign Policy - An Analysis. New York: Asia Publishing House, 1976.

Tendler, Judith. Inside Foreign Aid. Baltimore: The Johns Hopkins University Press, 1975.

"The Indian Economy and the Five-Year Plans," in India's Economic Problems - An Analytical Approach, 2nd ed. J. S. Uppal, ed., New York: St. Martin's Press, 1975.

Weiner, Myron. "Assessing the Political Impact of Foreign Assistance," in India: A Rising Middle Power, John W. Mellor, ed. Boulder, Colo.: Westview Press, 1979.

Wilcox, Wayne. "The Emergence of Bangladesh: Problems and Opportunities for a Redefined American Policy in South Asia," Foreign Affairs Studies, American Enterprise Institute for Public Policy Research, No. 7, Sept. 1973.

UNPUBLISHED MATERIALS

Carlin, Alan P. "An Evaluation of U.S. Government Aid to India." Unpublished Ph.D., Massachusetts Institute of Technology, 1964.