A Policy for Foreign Aid

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Foreign Aid And Third Plan—II

IT is dangerous to argue that despite leakages foreign aid must continue, as otherwise economic development might be slower still. This would put a premium on indiscipline, render the "need" for aid insatiable, burden the economy with debt services without economic betterment, and deaden the forces of policy reform for economic stabilization, without which there can be no lasting progress.

The Indian economy may not have gone to ruin if we had not got the "emergency" aid of Rs 171 crores, which ensued from the conference at the World Bank in August, 1958, of "countries with the biggest stake in India"—Canada, West Germany, Japan, the U.K. and the U.S.A. At the close of 1958-59, our reserves might have then fallen to Rs 204 crores instead of, as actually, to Rs 375 crores. The continued fall in reserves would have induced introspection, leading to the identification and removal of the real causes of the trouble. Instead, the habit to interpret foreign exchange difficulties as "part and parcel" of a developing economy persists. The third Plan document pays next to no thought to the paramount need for domestic stabilization.

A Paradox

Aid contemplated in the Plan which is close to double the total aid (Rs 1,673 crores) received as at September 30, 1959, is beyond the absorptive capacity of the Indian economy. It is significant that only 54 per cent (Rs 197 crores) of the authorized aid (Rs 366 crores) was utilized during the first Plan period. The corresponding ratio for the second Plan, as at September 30, 1959, is 57 per cent, the unused aid being Rs 660 crores, which is a paradox in face of the acute scarcity of foreign exchange and the continued depletion of reserves.

Economic development is not a matter of finance and foreign aid alone. It demands a growing body of entrepreneurs, managerial talent, skilled labour, technological know-how, and a background of monetary, fiscal, economic and political stability. These conditions cannot be created at once and foreign aid is not a substitute for all of them, though aid may provide much of the specialized equipment, know-how and top-level skilled talent. If aid came in under conditions of instability or outpaced the availability of the complementary factors for development, it is apt to go to waste or remain unused. Both phenomena are in evidence in India. The remedy to unused foreign aid is not to convert, as is now being proposed, specific-projects aid into general-purpose aid. Specific aid embodies some hurdles against its misdirection. To remove them would be imprudent in the context of inflation and unrestrained public sector activity. The remedy lies in adjusting aid to absorptive capacity.

Limitations

PL 480 imports illustrate the limitations of the absorptive capacity of foreign aid. The case for aid in food imports rests on two factors. First, in the context of sub-standard consumption of food by the masses of the people, expansion of employment increases the demand for food grains, necessitating imports. Secondly, shortages of output caused by crop failures, if not corrected by imports, might impinge adversely on the national product by underfeeding workers and through price dislocation.

If food imports exceeded the needs of expanding employment or of crop failures, they might depress prices unduly and cause a disincentive to production. This may interfere with the third Plan objective of "self-sufficiency in food grains by 1965-66." As at December 31, 1959, PL 480 imports aggregated 12 million tons, costing Rs 441 crores. It would seem that these imports are retarding food grains prices. The more usual trend in India has been for food articles to lead other commodity groups in times of a general price rise and to fall faster than other group indices, in times of a general price decline. Since 1956-57, when PL 480 imports began, the rise in foodgrains prices became tardy and at times fell, when most other group indices continued to move upward. Though together with other prices foodgrains prices too rose to a peak (114.0) in August, 1958, since then it has fluctuated downward and, as at May, 1960, while all other group indices were above the August, 1958 peak, the foodgrains index alone was far below (103.1) it. This lagging behind reflects artificial repression by PL 480 imports. With the index of industrial raw materials at 140.1 in May, 1960—in 1955-56 the foodgrains index was at 86.0 and industrial raw materials at 110.6—the incentive to move shiftable land and resources away from food crops gains in strength.

Undismayed by this experience last May the Government entered into another PL 480 agreement—the fifth in the series—for imports of 17 million tons of food grains, costing Rs 608 crores, five million tons going into "strategic" buffer stocks as a big stick against speculators. The prevailing problem of a general price rise is a monetary phenomenon. It cannot be corrected by food imports beyond saturation point. This would throw food prices out of alignment with other prices, dampen domestic production and, the heavy costs apart, render the food situation basically worse.

Thus, it is not as if—as Prof. Max Millikan, Mrs Joan Robinson, and their Indian followers seem to think—PL 480 imports offer abundant scope for accelerated economic growth through deficit financing, food grains absorbing inflation. Food grains are not the entire package of wage-goods, nor can wage-goods alone enable economic development. For the latter, wage-goods must come with the complementary factors of production. While the eagerness of the USA to dispose of price-supported farm surpluses is understandable, the absorptive capacity of underdeveloped countries for them is not unlimited. Beyond saturation limits, other essential imports should replace food grains.

Political Appeal

The case for reorienting the policy for foreign aid is strong. Aid to India commands considerable emotional and political appeal in the free world. The U.S. President's foreign aid message of February 16, 1960, to the U.S. Congress spoke of the American tax-payers' duty "to raise the standard of living of millions of human beings" all over the world through government economic aid. Mr John F. Kennedy in a recent speech in the U.S. Senate pleaded for aid to India to enable her "to compete with China for economic leadership of all Asia," and urged the grant of it "in a spirit of generosity, motivated by a desire to help our fellow citizens of the world, not as narrow bankers and self-seeking politicians." Aid to underdeveloped economies forms part of the election platform of both the Democratic and the Republican Presidential candidates in the USA.

Indiscriminate aid can do more harm than good. If aid must in fact aid, the whole of it must go into the economically most effective capital formation. When loans were raised through capital issues in overseas markets, quotations for past loans and the terms for fresh borrowing exercised some

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Ganga Floods Bihar Villages

MONGHYR, Aug. 19.—The flood level of the Ganga crossed the danger mark by six inches here yesterday and swept across an area of about 100 square miles in the foreshore belt.

Reports received from the Gangetic belt of Monghyr district said communications had been disrupted at many places in the countryside by flood waters which had submerged maize crop ready for harvest in about 10,000 acres.

Residents of the foreshore villages are leaving for uplands with their cattle. Reports said that flood waters were lashing against the railway embankments at several points.—PTI.

...posals with the Chief Commissioner and decided to go ahead with these two schemes.

The Link Road will cost the committee Rs 1.70 lakhs and steps have already been taken to get the required land transferred. The barricading work will cost about Rs 1.37 lakhs.

'APSARA' CLOSED FOR REPAIRS

BOMBAY, Aug. 19.—Apsara, India's first atomic reactor, which recently completed four years, is now closed until November for maintenance, repairs and improvements, says an official Press release.

The reactor, located at the Atomic Energy Establishment at Trombay, first became critical on August 4, 1956.

For the past four years, Apsara has given continuous and trouble free service.

Delhi Contractor On Hunger-strike

BY A STAFF CORRESPONDENT

A New Delhi contractor started an indefinite hunger-strike on Friday in front of the Central Public Works Department's construction Division 1 office (behind Annapoorna on Janpath) for alleged non-payment of dues for a contract completed in February, 195[illegible]

Three Gastro-enteritis Deaths In Shahdara

FROM OUR CORRESPONDENT

SHAHDARA, Aug. 19.—Three fatal cases of gastro-enteritis were reported to the Shahdara health authorities yesterday.

Arrangements for inoculation have been made at the Shahdara zone offices of the Delhi Corporation, in Shahdara and Gandhi Nagar.

RADIO PROGRAMMES

DELHI "A": 370.4 metres—6-30 Mangal Dhwani; 7-0 Sarod Recital by Ishtiaq Ahmed; 7-30 Bhajan by Lalita Nagrajan; 7-45 Bhavalok: Talk in Hindi; 8-0 Bhajanmala; 8-20 Khayal by Hilal Ahmed; 12-30 Vividh Sangeet; 12-45 Ragdari; 1-0 Chitrapat Se; 1-30 D. Amel: 1-50 Qawwalian; 5-55 Manohar Lal: Geet; 6-15 Programme for Children; 6-45 For the Rural Listeners; 8-0 Admi ke Roop: Talk in Hindi; 8-30 Vadya Vrinda; 8-45 Khayal by Hilal Ahmed; 9-0 Pyara Singh: Dilruba; 9-30 National Programme of Music: Vocal Music.

DELHI "B": 280.4 metres—6-30 As in Delhi A; 7-45 Khayal by Hilal Ahmed; 8-15 Thumri aur Dadra by Shahjehan Bano; 8-45 Manohar Lal: Bhajan; 1-0 As in Delhi A; 1-40 The Melody Lingers On; 2-0 Today's Top Hits; 5-55 Local Announcements; 6-5 Tarshahnai by Pyara Singh; 6-15 Dadra aur Ghazal by Shahjehan Bano; 6-30 Sarod Recital by Ishtiaq Ahmed; 6-45 For the Forces; 7-30 Programme in Gorkhali; 8-0 Punjabi Programme; 8-15 Thumri aur Dadra by Shahjehan Bano; 8-30 Radio Newsreel; 8-40 Sarod Recital by Ishtiaq Ahmed; 9-15 Bhajan by Lalita Nagrajan; 9-30 Time to Dance; 10-30 Sentimental Journey.

SELECTED LISTENINGS

DELHI "A":

8-0 p.m. Aadmi ke Roop: Talk in Hindi.

9-30 p.m. National Programme of Music: Vocal Music by V. R. Athavale and Narayan Rao Vyas.

LUCKNOW:

8-0 p.m. For the Universities.

LUCKNOW AND ALLAHABAD: 394.7 metres and 406.1 metres—6-30 Avahan; 7-0 Khayal by Bala Saheb Poochwale; 7-45 Sitar Recital by B. K. Mishra; 8-30 Sitar Recital by B. K. Mishra; 12-30 Chitrapat Se; 1-0 Sabras; 1-30 Sitar Recital by B. K. Mishra; 1-50 Lok Geet; 5-30 Sanjhavati; 5-35 Aao Bachcho; 6-55 Geet by Kalyani Mazumdar; 8-0 For the Universities; 8-30 Radio Newsreel; 8-40 Vadya Vadan; 8-4[illegible] Geet by Manoj Kumar Banerji; 9-3[illegible] National Programme of Music.

INDORE: 461.5 metres—6-45 Prabhati; 7-20 Bansuri Recital by Narayanrao Dhodapkar; 7-40 Khayal by S. M. Tambe; 8-30 Sugam Sangeet by Ashalata Raman; 12-30 Madhurima; 1-0 Narayan Rao Dhodapkar; 1-15 Khayal by S. M. Tambe; 1-3[illegible] Geetmala; 1-50 Sugam Sangeet by Ashalata Raman; 5-30 Kishore Sabha; 6-0 Local Announcements; 6-1[illegible] Sugam Sangeet by Ashalata Raman; 6-25 Khayal by S. M. Tambe; 6-4[illegible] Bansuri par Nainjhoti by Narayanrao Dhodapkar; 8-0 Ap ke Patra; 8-3[illegible] Radio Newsreel; 8-40 Giriraj Singh Sitar; 9-25 Saz Sangeet; 9-30 National Programme.

JULLUNDUR: 422.5 metres—7-[illegible] Suprabhat; 7-20 Sazon par Bhatiyar; 7-25 Khayal by Keshav Chander; 7-45 Bhajan by M. L. Sudarshan; 8-45 Sugam Sangeet by Kalyani Mazumdar; 12-0 Geet by M. L. Sudarshan; 12-15 Khayal by Keshav Chandra; 12-35 K. L. Saigal; 1-[illegible] Sabras; 6-0 Mahiya by M. L. Suderchan; 6-20 Khayal by Keshav Chander; 8-0 Sada-i-Watan; 8-30 Radio Newsreel; 8-30 Musical Interlude; 8-45 Aaj ke Prasang; 9-15 Sher aur Shairi: Talk in Urdu; 9-25 Musical Interlude; 9-30 National Programme of Music.

JAIPUR AND AJMER: 267.9 metres and 500 metres—7-0 Mangal Dhwani aur Vandana; 7-25 Tulsidas aur Surdas ke Bhajan by Sohan Singh; 7-45 Alap aur Dhrupad by Imamuddin Khan Daggar; 7-55 Sazon par Dhun; 12-30 Mahila Jagat; 1-0 Alap aur Dhamar by Imamuddin Khan Dagar; 1-15 Ghazlen; 1-50 Vadya Vadan; 6-0 Local Announcements; 6-20 Vadya Dwai; 6-30 Alap aur Dhrupad by Imamuddin Khan Daggar; 6-50 Sohan Singh; 8-0 Manyatayen Badal Rahi Hain: Talk in Hindi; 8-10 Swar Madhuri; 8-30 Radio Newsreel; 8-40 Vadya Vadan; 8-45 Imamuddin Khan Daggar; 9-15 Navin aur Puratan; 9-30 National Programme.

FOREIGN AID

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healthy influence on the policies of debtors. These external restraints ceased when the bulk of the aid came from governments and institutions. The change has occurred at a time when the need for checks is probably greater as internal restraints on lax policies may be slow to operate in countries where the bulk of the voters are illiterate.

This enhances the responsibility, on the part of nations extending aid, to ensure the pursuit of correct policies by borrowers. But it raises difficult issues of national sovereignty over domestic affairs. The loan procedures and policies of the International Monetary Fund and the European Payments Union offer a helpful guide. While requests for drawings from the IMF up to 50 per cent of the quota of a member are treated liberally, for drawings in excess of this limit "substantial justification is required, namely, that the drawings must be in support of a sound programme likely to ensure enduring stability at realistic rates of exchange." The U.K.'s drawings in December, 1956, followed such a "declaration of intent," the British Government undertaking "that strict financial and credit policies would be pursued, that quantitative restrictions would not be reimposed, and that the value of the pound sterling would be maintained." The Managing Board of the EPU reviewed the domestic policies of members with continued debtor positions and urged on them corrective measures.

This suggests an agency, representative of borrowers and lenders, to canalize aid to underdeveloped economies, aid being linked to domestic policies. It is generally easier for an international institution than for individual governments to discuss frankly such delicate matters as fiscal and credit policies with the countries concerned and arrive at the best technical solutions which the circumstances permit. Diplomatic difficulties and questions of machinery cannot absolve nations extending aid of the responsibility to ensure that aid is put to the uses for which it is meant.

Concluded