if it "tried to do too much rather than too little." H argued that these resources will be augmented if pro of development are well "synchronized," and that t sulting "momentum" may catapult the country into a s factory "take-off." It is hard at times to know what this of familiar jargon means specifically, but it is in general h ly misleading. Except for the idle capacity in certain ind tries, which the planners themselves have created, there today no vast reservoir of unused resources in India; nor c these be conjured up by talk of "synchronized" program There are, of course, *potential* natural resources in the grou and there is an abundant supply of unskilled labor. The r job is to put these to productive use by releasing the force enterprise and initiative that central planning now thrott As experience has shown, planned over-investment, parti larly in heavy industry, is simply self-defeating.

The cost of inflation

Central planning, plus big government spending, must a be held responsible for what is perhaps the most troubl aspect of the Indian economy—namely, inflation. Inflati has nibbled away the real income of the Indian masses. At t same time, inflation has all too often benefited the wealth classes. Inflation brings to traders, businessmen, and indust alists windfall gains to which they have no moral or econom claim. Price controls have given rise to black markets, whic in turn, yield "black" incomes to clever traders who a frequently able to escape taxes. As the result of inflation and other factors, it is estimated that what may be called "anti-social" shifts in income in India now run to some $630 million per year, or 2.5 per cent of the national income. Indeed, the British economist, Nicholas Kaldor, estimated that in 1953-54 tax dodging alone ran to between $420 million and $630 million. These shifts in income, whatever their size, account for the fact that the business and industrial classes of India are comparatively prosperous, even though real national income per capita has not been advancing rapidly. And this prosperity of the upper classes in turn may explain the paradox that businessmen and industrialists have so far not mounted an intense and effective opposition to the obviously socialist policies of the government.

Inflation has also had more far-reaching repercussions. Domestic inflation invariably penalizes a country's exports, since it raises costs and at the same time swells the potential demand for imports. Despite the fact that Indian national income and production have increased, Indian exports remain at an average of only 65 per cent of prewar levels while imports have been held at about 90 per cent of those levels through the imposition of import restrictions and exchange controls. Instead of a healthy balanced growth of *both* exports and imports, there has been an unhealthy disbalance punctuated by desperate sudden efforts to make both ends meet. In 1957–58 imports, including those used by industry, were drastically slashed and production suffered. Today India is faced with the dilemma of unemployment if import restrictions are tightened, and of large external deficits if the restrictions are liberalized.

Import restrictions and exchange controls have had other adverse effects. They have led to attempts to manufacture in India products that could be produced more cheaply abroad. They constitute a subsidy to favored import groups and industries and are an immense and perverse addition to statist power over the economy. Controls, plus an artificial exchange rate on the rupee, have furthermore produced

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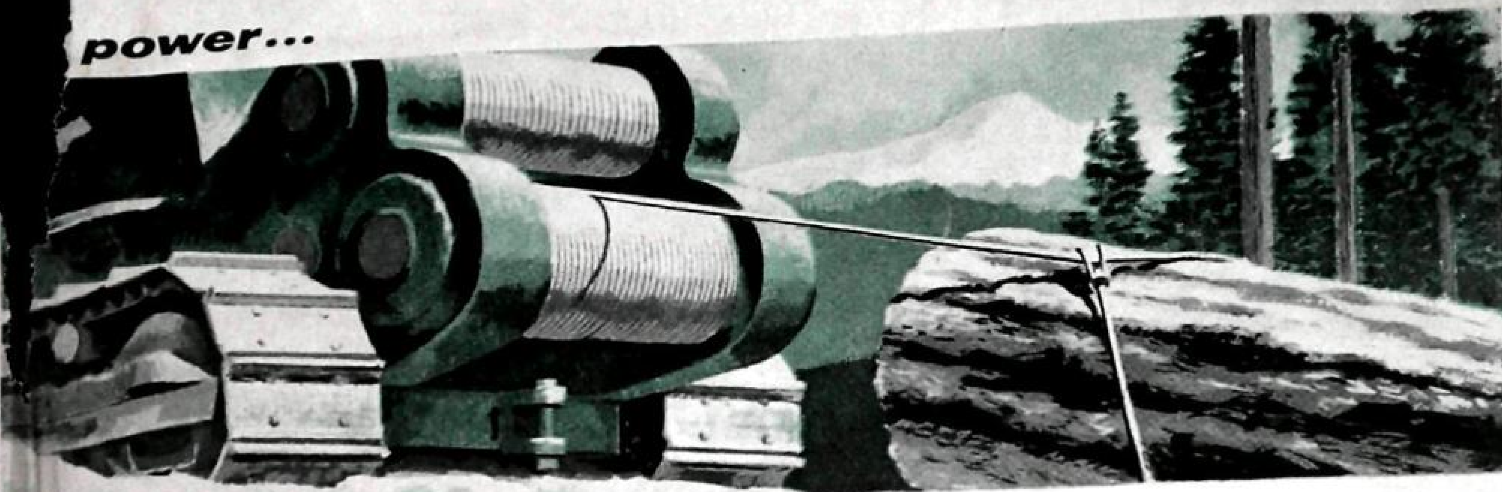

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phenomenal gaps between the internal and external prices of import goods, and hence have encouraged attempts to beat the system. There is today in India an unseemly traffic in import licenses, which are sold on the black market at 50 to 300 per cent above their face value. There is also a large smuggling trade in gold and diamonds and other goods such as watches, spices, playing cards, and cigarettes, which slip through the control network and use up needed foreign exchange.

The wastage of aid

Beyond all this, controls have not solved India's balance-of-payments problem. In 1955–56 the gap between India's total payments abroad and income from abroad was on the order of $64 million. During the first three years of the second five-year plan—i.e., between April, 1956, and April, 1959—this gap widened to a record figure of $2.7 billion as the result of increased imports, inadequate exports, and concealment of foreign exchange. This enormous gap was covered in part by India's drawing on its currency reserves, and in part by aid from various foreign governments. But India cannot afford to draw on its currency reserves indefinitely and in February they were only about $260 million above legal requirements. Hence India is increasingly dependent on foreign aid, which in 1958–59 actually covered 89 per cent of its payments deficit. Such aid takes many forms. It includes large quantities of surplus agricultural products shipped to India from the U.S. under Public Law 480, as well as loans and grants from the U.S., the U.K., Canada, Germany, the World Bank, and other sources. During the first five-year plan, foreign aid actually utilized amounted to $450 million. During the first three years of the second plan, such aid was more than tripled and reached $1.56 billion.

There is no doubt that such aid has kept the economy going and has patched up the effects of mistaken policies. But it must be asked by both the receivers of this aid and the donors whether it has really been used effectively toward the ends it is supposed to serve—i.e., real capital formation and a rising standard of living for the people. Here the answer is discouraging. There is strong evidence that during the first five-year plan much of the foreign aid given to India was in effect diverted into gold smuggling, and that in fact most of the planned investment of the period had to be financed out of domestic savings. During the second five-year plan the diversion of aid to non-development uses has continued. Between April, 1956, and April, 1959, gold smuggling alone may have run to as much as $365 million, using up scarce foreign exchange. While the planners have been talking about investment, inflation and government spending have swelled the demand for consumer goods of all kinds; and this demand has been further increased by the rise in "concealed incomes" derived from sales of commodities at illegal prices, black-market sales of import licenses, and widespread tax dodging.

In addition, inflation and the fear of rising prices have stimulated undue accumulation of inventories, particularly of food grains, the largest single item of trade and consumption. During the past three years imports of food grains have run to 10 million tons, costing $890 million, and in 1959 imports continued at a high level despite record domestic harvests. At least in 1959, the increase in imports seems to have gone hand in hand with increased hoarding. What has happened is that grains, originally stockpiled in the U.S. under its own farm program, have been transferred to India

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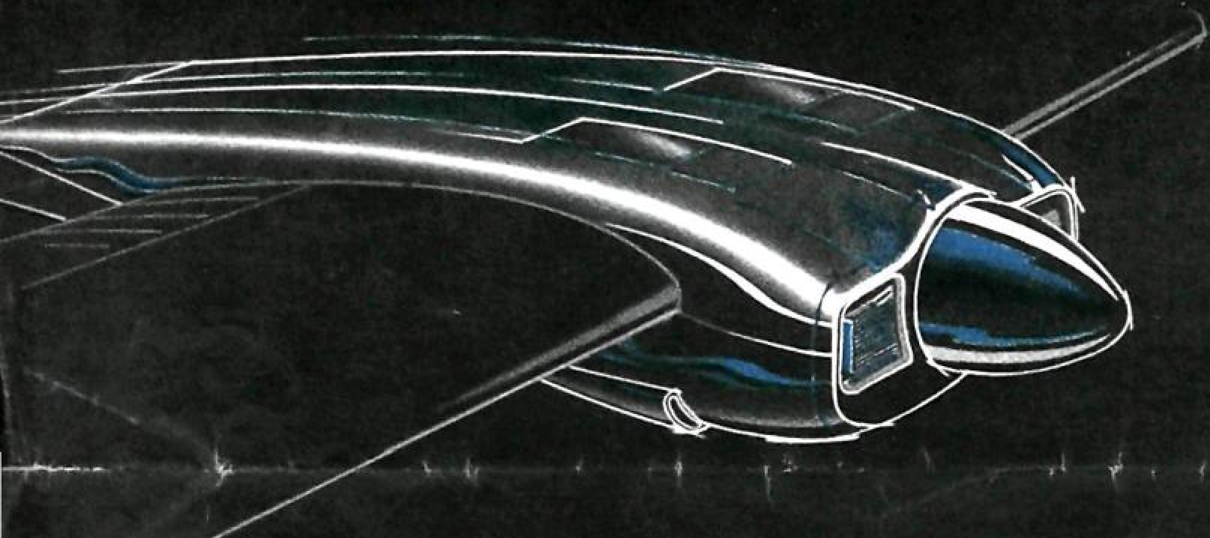

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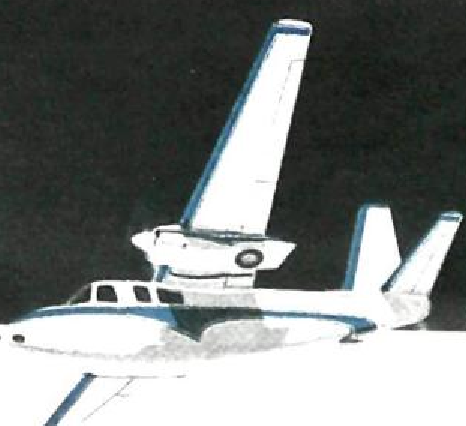

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