

5



7

0

This dissertation has been 63-6270  
microfilmed exactly as received

FISH, Mary Martha, 1930-  
PUBLIC LAW 480: THE USE OF AGRICULTURAL  
SURPLUSES AS AID TO UNDERDEVELOPED  
COUNTRIES (WITH SPECIAL REFERENCE  
TO INDIA).

The University of Oklahoma, Ph.D., 1963  
Economics, general  
University Microfilms, Inc., Ann Arbor, Michigan

THE UNIVERSITY OF OKLAHOMA  
GRADUATE COLLEGE

PUBLIC LAW 480: THE USE OF AGRICULTURAL SURPLUSES  
AS AID TO UNDERDEVELOPED COUNTRIES  
(WITH SPECIAL REFERENCE TO INDIA)

A DISSERTATION  
SUBMITTED TO THE GRADUATE FACULTY  
in partial fulfillment of the requirements for the  
degree of  
DOCTOR OF PHILOSOPHY

BY  
MARTHA  
MARY FISH

Norman, Oklahoma

1963

PUBLIC LAW 480: THE USE OF AGRICULTURAL SURPLUSES  
AS AID TO UNDERDEVELOPED COUNTRIES  
(WITH SPECIAL REFERENCE TO INDIA)

APPROVED BY

*James M. Murphy*  
*H. J. Rondonall*

*James E. Hibdon*  
*W. R. Beach*

*John E. Reese*  
*Donald J. Butting*

DISSERTATION COMMITTEE

## ACKNOWLEDGMENT

One writes a dissertation to learn about research and writing. The Committee under which this dissertation was written gave me an opportunity to learn. For this I am grateful, particularly to Dr. James M. Murphy, who is a teacher.

## TABLE OF CONTENTS

	Page
ACKNOWLEDGMENT . . . . .	iii
LIST OF TABLES . . . . .	vii
 Chapter	
I. METHOD OF APPROACH AND SOURCES OF INFORMATION AND DATA . . . . .	1
Method of Approach	
General framework	
Application of general framework	
Sources of Information and Data	
II. UNDERDEVELOPED COUNTRIES AND ECONOMIC GROWTH . .	6
Introduction	
Underdeveloped Countries	
Definition of an underdeveloped country	
Characteristics of underdeveloped countries	
Process of Economic Growth	
Transformation	
Capital investment and industrialization	
Industrialization	
Investment	
Mechanics of Capital Investment	
Entrepreneur	
Manufacturing sector	
Balanced growth	
Colonialism and Economic Growth	
Dissemination of Western culture	
Nationalism	
Economic growth under colonialism	
Summary	
III. INDIA AND ECONOMIC GROWTH. . . . .	40
Introduction	
Climate and Terrain	
Culture	

	Hinduism	
	Caste system	
	Village	
	Population	
	Colonialism	
	East India Company	
	Permanent Land Settlement	
	British industrialists and India	
	Imperial Government of India	
	Nationalism	
	Formative years	
	Early years of the Indian National Congress	
	Gandhi	
	Modern leadership	
	Republic of India	
	First and Second Five Year Plans	
	Current economic condition	
	Agriculture	
	Industry	
	Employment	
	Trade	
	Summary	
IV.	UNITED STATES FOREIGN POLICY AND ECONOMIC AID TO UNDERDEVELOPED COUNTRIES. . . . .	82
	Introduction	
	External Challenges	
	Position of Underdeveloped Countries	
	Communism and Underdeveloped Countries	
	United States National Interest and Economic Aid	
	Objectives of Economic Aid	
	Conclusion	
V.	INDIA AND UNITED STATES FOREIGN POLICY . . . . .	100
	Introduction	
	Indian Constitution	
	Indian Socialism	
	Government planning	
	Indian Foreign Policy	
	Importance of India to the United States	
	India and United States national interest	
	India and communism	
	Indian alternative	
VI.	CONTRIBUTION OF PUBLIC LAW 480 TO UNDERDEVELOPED COUNTRIES . . . . .	113
	Introduction	

PL 480, the Law	
Title I	
Title II	
Title III	
Title IV	
Criteria for Evaluation	
General criticisms	
Criteria	
Criterion I	
Criterion II	
Criterion III	
Criterion IV	
Evaluation of PL 480	
Criterion I	
Criterion II	
Criterion III	
Criterion IV	
Conclusion	
VII. PUBLIC LAW 480 AND INDIAN ECONOMIC DEVELOPMENT. . . . .	148
Introduction	
PL 480 and Third Five Year Plan	
Third Five Year Plan	
Evaluation of May 1960 Sales Agreement	
Criterion I	
Rural development program	
Deficit financing	
Stockpiling of agricultural surpluses	
Criterion II	
Food crisis	
Financing of capital investment with agricultural surpluses	
Criterion III	
Criterion IV	
Conclusion	
VIII. SUMMARY. . . . .	167
BIBLIOGRAPHY . . . . .	173



## LIST OF TABLES

Table	Page
1. Outlay and Investment in Indian Third Five Year Plan, 1961-1966 (in Rupees and Dollars) . . .	150
2. Financing of Public Sector, Indian Third Five Year Plan, 1961-1966 . . . . .	151

PUBLIC LAW 480: THE USE OF AGRICULTURAL SURPLUSES  
AS AID TO UNDERDEVELOPED COUNTRIES  
(WITH SPECIAL REFERENCE TO INDIA)

CHAPTER I

INTRODUCTION

Method of Approach

United States government foreign assistance from 1955 to 1960 totaled \$28,151 million; during the same period, agricultural exports under government aid programs amounted to \$8,001 million.<sup>1</sup> Agricultural aid, therefore, represented about 28 per cent of total foreign assistance between 1955 and 1960. Surplus aid is of importance quantitatively. On other levels, however, the value of agricultural aid is inconclusive. The question posed in this study is the following: Can agricultural surpluses contribute to economic development in underdeveloped countries?

---

<sup>1</sup>U.S., Bureau of the Census, Statistical Abstract of the United States, 1961, 82d ed., Table No. 892, p. 646 and Table No. 1197, p. 872. Data are for fiscal years.

## General Framework

A general framework within which to evaluate aid to underdeveloped countries is evolved in the first phase of the study. The framework is developed in the following manner: first, attention is focused on the concept of an underdeveloped country and the process of economic development; second, the objectives of United States foreign policy in underdeveloped countries are considered since they become the over-all goals under which an economic aid program is administered; and third, a legislated aid program is evaluated, a program that presently is being used to carry out American foreign policy--the Agricultural Trade Development and Assistance Act, popularly known as Public Law 480 (PL 480).

Specifically, in Chapter II, the mainstreams of current thought in the area of economic development are summarized; and, to a degree, a process of growth is abstracted, not in order to construct a developmental model, but in order to delineate the underdeveloped country--the underlying subject of the study--and to provide a general framework with which to examine the important economic, social, and political characteristics of an underdeveloped country.

In order to give additional meaning and concreteness to the work, India was chosen as a "case study" to illustrate the relevance and applicability of the factors presented in Chapter II and in subsequent chapters. India was selected as the example because it is a principal recipient of PL 480 aid

and is presently of vital importance on the international scene. In addition, the United States and India in 1960 negotiated a \$1,276 million long-term sales contract for agricultural surpluses that have been incorporated in India's Third Five Year Plan. Thus, in Chapter III India is described historically and currently in such a way as to illustrate the characteristics, processes, and problems of economic development that were generalized in Chapter II. And in the following chapters, the Indian setting again is used for illustrative purposes.

Inasmuch as economic aid is a tool that is used to accomplish the goals of American foreign policy, aid programs are operated under the objectives and restraints of foreign policy. The objectives of American foreign policy in underdeveloped countries, as a result, provide one basis for evaluating an aid program. For this reason, the United States foreign policy in regard to emerging nations is surveyed in Chapter IV.

Once again, the Indian scene is considered in Chapter V. The Indian political atmosphere is observed with respect to the amenability of American foreign policy and Indian economic and political goals. Specifically, India's political and economic environment, and its goals and programs are examined in Chapter V.

#### Application of General Framework

With the necessary background established, the contribution of an agricultural aid program to economic development

now can be evaluated. PL 480 becomes the subject of study in Chapter VI because United States agricultural aid has been supplied primarily under the authority of the Act since 1954. In Chapter VI the PL 480 program is reviewed, and a set of criteria with which to evaluate the contribution of the Act to economic development are suggested and, in a general manner, applied to the past administration of the Act.

But, because myriad factors that vary from country to country affect the value of an aid program in an underdeveloped country, it cannot be said that an agricultural aid program can contribute to economic growth in a particular country without an awareness of the specific political and economic environment of the recipient country. In Chapter VII, therefore, the PL 480 program in India is appraised with special reference to the potential contribution of the agricultural aid to be received during India's Third Five Year Plan.

#### Sources of Information and Data

The principal sources of information and data for the study have been the following: articles pertaining to economic development and United States foreign policy in American and Indian economic and political science journals published between 1950 and 1961; government documents concerning United States foreign aid, and Congressional reports and hearings on agricultural surpluses; Indian official documents applying primarily to the First, Second, and Third Five Year Plans; and Commodity Policy Studies of the Food and Agriculture

Organization of the United Nations along with the Statistical Yearbook, 1959 published by the Department of Economics and Social Affairs of the United Nations.

## CHAPTER II

### UNDERDEVELOPED COUNTRIES AND ECONOMIC GROWTH

#### Introduction

At present economic development, as a special area of study in economics, is comprised of a collection of studies that represent different approaches to economic change, for example, the role of the entrepreneur, the effect of class conflict, the need for balanced growth, and the problem of a deficit in the balance of payments in an underdeveloped country. There is no single generally accepted approach to the process of development. The boundaries within which the study of economic development lies have not been delimited clearly, primarily because there appear to be no single definable cause and effect relationships in the process of economic growth. As S. Herbert Frankel puts it, " . . . when we designate one change as cause and another as effect, we are but examining the process of change itself from different points of observation."<sup>1</sup>

Economists recognize that institutions, technology, capital equipment, mineral resources, and many additional

---

<sup>1</sup>The Economic Impact on Underdeveloped Societies: Essays on International Investment and Social Change (Oxford: Basil Blackwell, 1953), p. 23.

factors affect the process of growth. A number of excellent studies that demonstrate the importance of each of these factors are available. Nonetheless, the field lacks cohesiveness by reason of the fact that social scientists, as yet, have not been able to determine the manner in which these many factors are interrelated in the process of growth.

This chapter is intended to provide a rather loosely knit pattern of the process of economic growth. It also is a summary of what, in the subjective judgment of the writer, is the more significant of the contemporary literature in economic development.

### Underdeveloped Countries

#### Definition of an Underdeveloped Country

The terms "developed" and "underdeveloped" are used to differentiate between modernized and non-modernized economies. The terms lack precision because there are no clear-cut criteria with which to classify the economic status of a country. In order to make comparisons, economists of necessity assume that all countries are pursuing the same or a comparable goal--a higher level of living. They also generally assume that the currently "underdeveloped" countries will follow the same pattern of development experienced by the modernized economies of today.<sup>2</sup>

---

<sup>2</sup>See H. Myint, "An Interpretation of Economic Backwardness," Oxford Economic Papers, New Series, VI (June, 1954), p. 133; Alexander Gerschenkron, "Economic Backwardness in Historical Perspective," The Progress of Underdeveloped Areas, ed. Bert F. Hoselitz (Chicago: University of Chicago Press, 1952), pp. 4-5; and B. M. Niculescu, "Under-developed, Backward or Low Income?" Economic Journal, LXV (September, 1955), p. 546.



A group of United Nations "experts" reported that after some difficulty in interpreting the term "underdeveloped," they agreed on the following definition:

We use it to mean countries in which per capita real income is low when compared with the per capita real incomes of the United States of America, Canada, Australasia and Western Europe. In this sense, an adequate synonym would be "poor countries."<sup>3</sup>

Economists, when using the term "underdeveloped countries," rather arbitrarily agree that they are referring to those areas in which per capita income is under \$600 a year.<sup>4</sup> Approximately 85 per cent (2,366 million) of the world's population of 2,790 million have a per capita income

---

<sup>3</sup>United Nations, Department of Economic Affairs, Report by a Group of Experts appointed by the Secretary-General of the United Nations, Measures for the Economic Development of Under-Developed Countries (New York, 1951), p. 3.

<sup>4</sup>Economists recognize that only limited interpretations can be drawn from international comparisons of national income statistics because the data, particularly of underdeveloped countries, frequently are of questionable validity; furthermore, the actual value of a specific income is determined to a large extent by the society in which it exists. In regard to international income comparisons, Frankel, p. 30, writes the following criticism:

"To anyone who has had experience . . . [in] economically less advanced communities, in which fundamental social factors often reveal themselves more directly and forcefully than they do in more complex societies, it is clear that at all times the attempt by the individual to obtain what we call 'income' is an attempt to achieve a social purpose and is not an isolated activity. It is not merely (and sometimes not at all) an attempt to create a set of individual values or an abstract entity such as 'an individual income stream.' . . . The 'creation' of income is not the solo act of a Robinson Crusoe marooned on an island. Even Robinson Crusoe did not act merely according to the dictates of his 'natural' appetites; he brought with him from the society to which he belonged not only a stock of goods but, far more important, a set of values, ideals and objectives."

of under \$600 a year; about 15 per cent (424 million) receive an annual income of over \$600 a year. About 50 per cent (1,387 million) of the world's population receive 5 per cent (\$101 billion) of the goods and services produced, while 8 per cent (214 million) of the population receive 44 per cent (\$510 billion) of the goods and services produced in the world (\$1,155 billion). Only 23 nations have an annual per capita income of over \$600 a year. About 140 other countries and territories for which national income estimates are available have a per capita income of less than \$600 per year.<sup>5</sup> These are the underdeveloped areas of the world.

#### Characteristics of Underdeveloped Countries

These underdeveloped areas possess a number of common characteristics. A peasant society, for example, generally predominates since most of the available resources must be devoted to the production of food and other necessities. The family group, which usually extends for several generations, is the productive unit. The individual has an indefinite responsibility to meet the needs of his extended family group.

---

<sup>5</sup>The sources of these data are the United Nations, Demographic Yearbook, 1958; Yearbook of National Accounts Statistics, 1958; Statistical Papers, Series E, No. 1 (1950), and Series H, No. 8 (1955). The data are presented by Mikoto Usui and E. E. Hagen in World Income, 1957 (Cambridge, Mass.: Center for International Studies, Massachusetts Institute of Technology, 1959), pp. 28-31. Also see pp. 1-3 and pp. 4-7 for an explanation of the methods and sources used by Usui and Hagen in obtaining their estimates. The data are for the year 1957 and dollar statistics represent 1957 United States dollars.

As a member of the group, an individual's economic position basically is determined by tradition, and he generally considers his status as being beyond his control.<sup>6</sup> Under these circumstances, the labor force needed to operate an industrial structure is not readily available.

The birth rate in traditional societies is high and corresponds to a high death rate, for the peasants are malnourished and disease ridden. Population is usually dense in relation to resources. And although productivity may be increasing, the population may be increasing at a faster rate.

Modern science and technology are not regularly applied in production. Capital formation is low and, thus, productivity is low. While a select group within the country may hold savings, it is commonly not invested in new capital formation because of tradition, political instability, and a lack of apparent profitable investments.

The political setting in underdeveloped regions, as well as the economic and social structure, does not stimulate potential entrepreneurs. Church institutions and dogmas do not encourage economic development. Laws and regulations usually tend to maintain the status quo, particularly the tenant-landlord relationship that places the land-owners, church officials, and military leaders on the top strata and the businessmen on

---

<sup>6</sup>W. W. Rostow, The Stages of Economic Growth: A Non-Communist Manifesto (New York: Cambridge University Press, 1960), p. 4.

the bottom.<sup>7</sup> Because of these conditions, oftentimes members of minority groups, as demonstrated by the Jews in Southern Europe, the Armenians and Greeks in Turkey, the Indians in Africa, and the Chinese in Southeast Asia, carry on the entrepreneurial functions if they are performed.<sup>8</sup>

### Process of Economic Growth

#### Transformation

In the past underdeveloped countries have become developing economies after an external factor such as colonialism, world and regional wars, foreign trade, and new technology and tools have disrupted their age-old static societies. These external factors have produced new conditions that have instigated changes in the norms, organizations, and practices of groups within the underdeveloped countries.<sup>9</sup> The

---

<sup>7</sup>See Everett E. Hagen, "The Process of Economic Development," Economic Development and Cultural Change, V (April, 1957), p. 195.

<sup>8</sup>William H. Nicholls, "Accommodating Economic Change in Underdeveloped Countries," American Economic Review, XLIX (May, 1959), p. 158.

<sup>9</sup>Eugene Stanley, The Future of Underdeveloped Countries (New York: Harper and Brothers, 1954), p. 202, writes that the products of, as well as the stimuli to, development are found in the values and norms of millions of individuals and in the institutions that regulate man's relationship to other men. Stanley's premise, however, is not accepted by all economists. P. T. Bauer, for example, rejects the idea that a society as a whole must strive for economic growth. He states in "The United Nations Report on the Economic Development of Under-Developed Countries," Economic Journal, LXIII (March, 1953), p. 215:

"The capturing of mass enthusiasm certainly played no important part in the development of Great Britain, the United States, Canada, Germany, Japan, Australia, New Zealand or any of the countries regarded as developed by the United Nations experts; it has also been absent in the development of West Africa and South-east Asia. The desire to accumulate wealth and the ability to perceive and exploit opportunity have indeed played a vital part in economic development the world over; but this is quite different from mass enthusiasm."

old social, political, and economic systems have crumbled when because of new conditions they were no longer of value, or valued.<sup>10</sup>

The new institutions that have been formed as the traditional systems crumbled have included many of the concepts and characteristics embodied in the external factors that initially disrupted the society. Since the disrupting forces often have come from Western societies, the value system of the West and Western institutions frequently have been adopted in underdeveloped regions. And, as a result, the desire as well as the requisite institutions for economic development, in varying degrees, have been established in underdeveloped countries.

During this period of transition from an age-old to a modern economy, many of the essential changes that are occurring are visible. The people begin to regard their environment as manipulatable, and once men accept this concept, they are no longer bound by old traditions and institutions. They are

---

<sup>10</sup>In the framework of Muzafer Sherif and Carolyn W. Sherif presented in An Outline of Social Psychology (1st ed. rev.; New York: Harper and Brothers, 1956), pp. 724-26, a social movement begins with a small group of leaders who formulate an ideology and a solution to common problems and, thereby, give direction to the movement as it grows. The movement becomes a formative process when a large cross section of the people recognize that their problems and objectives are similar, and begin to adopt the norms, values, and goals which emerge within the movement. The members of this new group, according to Sherif and Sherif, in time, conceptually extend the influence of the group--the hierarchy of the group structure and its norms become anchorages in their individual frames of reference. Thus, as man creates new social organizations, they, in turn, recast him.

willing to disregard the old facets of their society and to build institutions that will better serve their new objectives. Their attitudes toward fundamental and applied science change.<sup>11</sup> The peasants gradually improve their methods of cultivation and begin to produce for markets. The people begin to move to urban areas and to use capital equipment. New types of men come forward in business and government--entrepreneurs oriented to expanding output and technological change. Banks and other institutions for channeling funds appear while investment increases. And the scope of both internal and external commerce widens.

#### Capital Investment and Industrialization

The problems confronting an underdeveloped economy during a period of transition are myriad, but through the morass, two basic problems are apparent: the need to channel savings into productive capital investments, and the need to build an industrial structure. As an underdeveloped country surmounts these problems, its economy becomes what is called "modernized."

Industrialization. As development occurs an industrial structure gradually is built. Industrialization and the capital, technology, and labor structure which it embodies is, in most cases, a form of productive organization that is vital for economic growth.<sup>12</sup> Yet, industrialization does not occur

---

<sup>11</sup>Rostow, pp. 20-21.

<sup>12</sup>Richard B. Goode, "Adding to the Stock of Physical and Human Capital," American Economic Review, XLIX (May, 1959), p. 148.

spontaneously in various countries because of some innate propensity of man. As Wilbert E. Moore points out, "the spread of industrialization is one of the great examples of 'cultural diffusion,' made effective in part as a result of the very process of industrialization itself, . . . "<sup>13</sup> since the extension of the scope of markets and the development of transportation and communication networks are the result of industrialization and also the carriers of economic change.

Moreover, an industrial organization and its concomitant capital and technology is not transferred from one country to another in the abstract.<sup>14</sup> Rather, as Frankel emphasizes,

<sup>13</sup>Industrialization and Labor: Social Aspects of Economic Development (Ithaca: Cornell University Press, 1951), p. 178.

<sup>14</sup>Frankel, p. 23, in the following comment criticizes the social scientists who consider technology to be a stock of available techniques:

"Let me revert again to that commonplace view of technical change which regards it as resulting from the application of new knowledge--of technical 'know-how!' Such a view presupposes a kind of mental certainty as to the change which is required in order to bring about a particular consequence in the near or distant future. Basic to this way of thinking is the implicit assumption that the 'know-how' exists, as it were, as a stock of techniques--like a stock of raw materials--which can be drawn upon at will, and applied to any situation, in order to produce the desired, and therefore foreseeable, end. It is because we tend to think in such abstract terms that we are led to imagine that somehow economic development, or the lack of it, can be explained in terms of the presence or absence of adequate quantities of factors of production; as when it is suggested that all that is required to assist the development of backward societies is to give to or lend them part of the world's accumulated technical knowledge and capital--just as one might give an injection to a patient to cure him."

the problems and conditions of both the exporting and importing countries impinge on and mold the structure.<sup>15</sup> In regard to the integral process of change that occurs in a traditional society as it becomes industrialized, Frankel writes:

When the problems which constitute man's framework of reference change, they become useless. That is why they [technology] cannot be readily transferred from one situation to another. For meeting any new situation, new thoughts, new aptitudes, new action will be required. But knowledge has to grow; capital has to be created afresh on the basis of continuous experiment; and new hopes and beliefs have to evolve to urge men and women forward--for in the last resort they alone are the carriers alike of past experience, and of new endeavour. It is because all these new activities are not independent of the existing institutions into which they have to be fitted, and which have in turn to be adjusted to them, that the process of change is so complex and--if it is to proceed harmoniously--necessarily so slow.<sup>16</sup>

Industrialization, thus, is one aspect of a mutually determined and determining process of growth that develops within the social structure of underdeveloped regions. Industrialization initially may enter a culture in a few isolated areas, for instance, in a foreign owned plantation or mining project, but if it is to become an integral part of the economy and contribute to economic growth, there must be a correlated

---

<sup>15</sup>When underdeveloped societies begin to use Western capital equipment and technology, they develop new social patterns that resemble those of industrialized societies. Hence, if the machines of Western nations are adopted, the concomitant social structure cannot be rejected totally. See George A. Theodorson in "Acceptance of Industrialization and Its Attendant Consequences for the Social Patterns of Non-Western Societies," American Sociological Review, XVIII (October, 1953), p. 479.

<sup>16</sup>The Economic Impact on Underdeveloped Societies, p. 24.



development within the entire society. A new social structure is required.<sup>17</sup>

Investment. The lack of capital formation, an indispensable part of industrialization, represents an obstacle to economic growth in underdeveloped areas. Because of the low productivity in these countries, the rate of savings is low and, consequently, capital formation is low. This vicious circle of poverty must be broken for, if economic growth is to occur, savings must be increased and channeled to productive capital investments. Although the low level of income in underdeveloped countries is a primary deterrent to capital formation, there are other pertinent obstacles such as the lack of a set of social values and institutions that encourage productive domestic investment and the paucity of apparent profitable capital investment outlets.<sup>18</sup>

Low capital formation partially is the result of the psychological and sociological climate of underdeveloped areas. Anthropological studies indicate that even people who are members of subsistence societies seldom use all of their resources to provide food and shelter. Some of their resources are devoted to festivals, the construction of temples, and the collection of items such as gold, gems, or other status symbols. According to Everett E. Hagen, " . . . historical accounts suggest that the economies of traditional societies were

---

<sup>17</sup>Moore, pp. 301-302.

<sup>18</sup>Hagen, Economic Development and Cultural Change, V (April, 1957), p. 202.

typically slack rather than 'taut.' Labor was not used to the maximum."<sup>19</sup>

In underdeveloped countries, there generally exists a small group of persons who hold large surpluses.<sup>20</sup> This group commonly spends much of its savings on foreign travel and luxury goods of foreign manufacture. Their domestic investments usually are limited to the areas of land ownership, real estate, and well-established commercial fields. This condition exists because the important factors in the Western investor's calculus often are not pertinent to the potential investor living in underdeveloped regions. In traditional societies, the individual's hereditary role is the decisive factor, and the functions of innovating, risk-taking, and profit-seeking are not focal aspects of this role.<sup>21</sup>

In underdeveloped countries, cash holdings frequently are transferred into gold because individuals regard the hoarding of gold and the acquisition of certain luxury goods as forms of personal savings and investment.<sup>22</sup> A lack of political

<sup>19</sup>Economic Development and Cultural Change, V (April, 1957), p. 201.

<sup>20</sup>United Nations, Measures for Economic Development, 1951, p. 36.

<sup>21</sup>Stephen H. Axilrod, "Inflation and the Development of Underdeveloped Areas," Review of Economics and Statistics, XXXVI (August, 1954), p. 337.

<sup>22</sup>Nathan Rosenberg, "Capital Formation in Underdeveloped Countries," American Economic Review, L (September, 1960), p. 707 and pp. 709-11. The holding of cash balances and investments in land, if financed out of current income, release real resources as do other forms of savings.

security along with inflationary pressures and inadequate financial institutions, in turn, is conducive to these forms of savings. Although only estimates of the size of gold hoards are available, these data do indicate that hoards are sizable (probably about 10 per cent of the national income) especially in South and Southeast Asia and the Middle East.<sup>23</sup>

An adequate social structure, social overhead capital, and financial institutions are requisites for private capital formation, but they are not sufficient to channel savings and investment into productive outlets. Capital investment, if it is to take place in underdeveloped countries, must be profitable in relation to other types of investment. And often it is not as Nathan Rosenberg states:

. . . Certain preference and behavior patterns which are commonly observed in underdeveloped countries are in fact part of an elaborate adaptive mechanism geared to an economic environment characterized by a generally low marginal efficiency of capital and by a limited spectrum of profit opportunities.<sup>24</sup>

#### Mechanics of Capital Investment

Theories of economic development, for the most part, concentrate on the phase of the industrialization process in which capital formation becomes focal--the period which may be called the "take-off," the "big push," or the "rise of the entrepreneur." The theories of Joseph A. Schumpeter, Ragnar

---

<sup>23</sup>United Nations, Measures for Economic Development, 1951, p. 35.

<sup>24</sup>American Economic Review, L (September, 1960), p. 707.

Nurkse, and W. W. Rostow represent three of the outstanding theses pertaining to this period of development. Each of these economists is attempting to define specific problems that are associated with a significant increase in the rate of investment.

In Schumpeter's terms, entrepreneurial innovations in the supply function "trigger-off" capital investment in a number of different industries which, by enlarging the total market, breaks the stationary equilibrium of the economy. Nurkse's balanced growth approach concentrates on the need to overcome deficiencies in demand in order to induce capital formation. Rostow emphasizes the stimulus provided by the expansion of a manufacturing sector. In the following section, Schumpeter's, Rostow's, and Nurkse's approaches to the expansionary period of the development process are presented in greater detail.

### Entrepreneur

In Schumpeter's theory of development, a change occurs in the channels of circular flow, as he says, a disturbance of the general equilibrium which forever alters and displaces the equilibrium state that existed. Economic growth is not forced upon a society by an external force, according to Schumpeter; to the contrary, it arises from within the economy when a new combination of factors of production (a new product, a new method of production, a new market, a new source of raw

materials, or a reorganization of an industry) changes the framework of the existing economic flow.<sup>25</sup>

Schumpeter's theory pivots on the activities of a unique member of society--the entrepreneur. The entrepreneur who performs the special function of innovating the new combination of the factors of production is an audacious man, motivated by the desire to create wealth, to found a private kingdom, to prove himself superior, and/or " . . . to succeed for the sake, . . . of success itself."<sup>26</sup> Once the entrepreneur's original innovation has proven itself, other businessmen follow the lead of the entrepreneur, and a "cluster" of innovations occurs. And, thus, economic growth is initiated by the activities of the entrepreneur.

When considering Schumpeter's theory in light of its application to the underdeveloped countries of today, several points are pertinent. Changes in production and supply are the prime generators of development in Schumpeter's analysis. Yet, currently growth is taking place in underdeveloped countries to a large extent through the application of old technology and the production of Western products. The generating force today, as H. W. Singer points out, appears to be in the sphere of demand, not supply.<sup>27</sup>

---

<sup>25</sup>Joseph A. Schumpeter, The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle (Cambridge: Harvard University Press, 1936), p. 64.

<sup>26</sup>Schumpeter, p. 93.

<sup>27</sup>"Obstacles to Economic Development," Social Research, XX (Spring, 1953), pp. 19-22.

Schumpeter's system is not a complete explanation of the expansionary period of development, since it is concerned with the acceleration of economic growth after a society has produced the men who will perform the innovational activities and the institutions under which the entrepreneurial functions can be carried out with facility. The question that could be asked is what factors lead to the growth of an entrepreneurial class and the institutions that are complementary to its activities.

Schumpeter designed his theory of economic development before World War II when economic, political, and social conditions were much different than they are today. In underdeveloped countries today, the government frequently carries out the functions that historically were relegated to the entrepreneur. The entrepreneur, although still important in underdeveloped countries, now plays a lesser role than he did in the past. Today economic progress is considered to be in the interest of society as well as the individual, and the economic activities of the state are intertwined with political power at home and national stature on the international scene.<sup>28</sup> The entrepreneurial functions that Schumpeter emphasized, nonetheless, whether they are performed by businessmen or governments, still are essential in the process of economic growth.

---

<sup>28</sup>Singer, Social Research, IX (Spring, 1953), pp. 19-22.

## Manufacturing Sector

In his stages-of-growth thesis, Rostow has divided the process of economic growth into three phases: a long period, usually a century or more, when the institutional factors required for economic growth evolve; a period of "take-off" of two or three decades; and a period of self-sustaining growth in which growth becomes relatively automatic.<sup>29</sup> In this section (Mechanics of Capital Investment), the period of "take-off" is pertinent.

The "take-off," as defined by Rostow, is the period when the rate of investment increases in a manner that causes real output per capita to rise. During this period, structural changes take place within the society owing to the increased scale of economic production.<sup>30</sup> Radical changes that are brought about in production techniques and in the disposition of income flows perpetuate initial increases in investment and per capita output.<sup>31</sup>

In order for the "take-off" to occur, according to Rostow, three related conditions are required. The first condition is that the proportion of net investment to national

<sup>29</sup>W. W. Rostow, "The Take-off into Self-Sustained Growth," Economic Journal, LXVI (March, 1956), p. 25. In his 1960 publication, The Stages of Economic Growth, which is a re-iteration of his earlier writing in a popularized form, Rostow uses five stages: the traditional society, the preconditions for "take-off," the "take-off," the drive to maturity, and the age of high mass-consumption. Whereas in his earlier writing he used three stages.

<sup>30</sup>Rostow, The Stages of Economic Growth, p. 40.

<sup>31</sup>Rostow, Economic Journal, LXVI (March, 1956), p. 25.

income rises from about 5 per cent to over 10 per cent (definitely outstripping population pressures and yielding an increase in real per capita output). Second, one or more substantial manufacturing sectors that have a high rate of growth must expand rapidly. The last requisite is " . . . the existence or quick emergence of a political, social and institutional framework which exploits the impulses to expansion in the modern sector and the potential external economy effects of the take-off and gives to growth an on-going character."<sup>32</sup>

The rapid growth of one or more new manufacturing sectors is the engine of this economic transformation. Rostow amplifies his definition of the manufacturing sector with the following comment:

Historically, they have ranged from cotton textiles, through heavy-industry complexes based on railroads and military end-products, to timber, pulp, dairy products and finally a wide variety of consumers' goods. There is, clearly, no one sectoral sequence for take-off, no single factor which constitutes the magic key.<sup>33</sup>

The growth of a manufacturing sector sets in motion expansionary forces throughout the economy. Rapid expansion occurs in the supplementary areas in direct response to the growing requirements of the expanding primary sector. The primary and supplementary sectors, in addition, are stimulated by the effects of external economies. General advances also occur in relation to the growth of total real income, population, or a similar aggregate.<sup>34</sup>

---

<sup>32</sup>Rostow, The Stages of Economic Growth, p. 39, or Economic Journal, LXVI (March, 1956), p. 32.

<sup>33</sup>The Stages of Economic Growth, p. 57.

<sup>34</sup>Rostow, Economic Journal, LXVI (March, 1956), pp. 43-44.



The basic criticisms raised against the stages-of-growth theories developed in the past are applicable to Rostow's theory. Even though Rostow emphasizes " . . . that the stages-of-growth are an arbitrary and limited way of looking at the sequence of modern history: . . . ,"<sup>35</sup> they are to some extent misleading. Rostow's model assumes that the underdeveloped countries of today will follow the same pattern of development experienced by developing economies in the past. A country's stage of development, consequently, is determined by its position on this generalized path of development. And, therefore, a country that has not passed through the several requisite stages has not been successful in achieving a higher level of living. Nevertheless, despite these limitations, the stages-of-growth thesis is a valuable mnemonic aid in the study of economic development.

In regard to the "take-off" period specifically, two questions are germane: first, is a rapid acceleration in the rate of investment necessary for growth? and second, must growth be instigated by the manufacturing sector? In regard to the first question, economic growth can take place without rapid acceleration in the rate of investment, according to Douglass C. North who writes:

This may have happened in some countries, but it is likely that in others an increased rate of expansion took place rather gradually. . . . There appear to be many possible combinations in the timing and pace of accelerated growth and industrialization, of which Rostow's example of take-off within a space of two or three decades is but one variation.<sup>36</sup>

---

<sup>35</sup>Stages of Economic Growth, p. 1.

<sup>36</sup>"A Note on Professor Rostow's 'Take-Off' into Self-Sustained Economic Growth," Manchester School of Economics and Social Studies, XXVI (January, 1958), p. 75.

As to the second question, Rostow's thesis, by concentrating on expansion in a manufacturing sector, overlooks the possibility of inducing economic growth by other means, such as by increasing productivity in the agricultural sector, or by utilizing domestic resources heretofore unused, or by acquiring a substantial improvement in terms of trade.<sup>37</sup> Hence the universal applicability of the "take-off" period, as Rostow defines it, is questionable. Rostow's model represents one of several patterns that development may take in an underdeveloped country.

### Balanced Growth

The concept of balanced growth in a technical context refers to a balance between the demand for capital, amount of production, and size of markets. The three outstanding advocates of the balanced growth thesis--Ragnar Nurkse, Allyn Young, and Paul Rosenstein-Rodan--although they have used similar approaches, have differed on points of emphasis. The approach advanced by Nurkse is presented here.<sup>38</sup>

---

<sup>37</sup>North, Manchester School of Economics and Social Studies, XXVI (January, 1958), p. 74.

<sup>38</sup>Young's thesis is that the use of capital is inhibited by the small size of the market, and the size of the market is determined by the general level of productivity. The specialization of industries, not variations in the size of individual firms or industries, according to Young, allows progressive division of labor and capital and, thus, increased productivity.

Rosenstein-Rodan stresses the importance of external economies within a growing industry and of economies external to an industry resulting from the growth of other industries. The use of capital by an industry, Rosenstein-Rodan reasons, is inhibited by the size of the market for its product which, in turn, limits the increasing returns obtained from mutually supporting demands among different industries.

See Allyn A. Young, "Increasing Returns and Economic Progress," Economic Journal, XXXVIII (December, 1958), pp. 527-42; Paul Streeten, "Unbalanced Growth," Oxford Economic Papers, New Series, XI (June, 1959), pp. 167-90; and P. N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-Eastern Europe," Economic Journal, LIII (June-September, 1943), pp. 202-11.

Nurkse's theory of balanced growth concentrates on the self-sustaining effect of simultaneous investments in a number of final goods markets as a means of breaking the circular relationship that blocks capital formation in underdeveloped areas. Both the supply of and demand for capital is restricted in underdeveloped countries, according to Nurkse, since "the supply of capital is governed by the ability and willingness to save; the demand for capital is governed by incentives to invest."<sup>39</sup>

An individual entrepreneur's inducement to invest is limited by the size of the market; and the size of the market is determined by the general level of income or the general productivity. In turn, output per man-hour depends largely, though not entirely, on the degree to which capital is employed in production. Yet, the use of capital is limited by the smallness of the market.<sup>40</sup> Nurkse summarizes this circular relationship in the following comment:

The difficulty is not due fundamentally to discontinuities in the technical forms of capital equipment, though these may accentuate it. It is due above all to the inevitable inelasticity of demands at low real income levels. It is in this way that lack of buying power cramps the inducement to invest in any individual industry.<sup>41</sup>

---

<sup>39</sup>Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (Oxford: Basil Blackwell, 1953), pp. 4-5.

<sup>40</sup>Nurkse, pp. 6-10.

<sup>41</sup>Ragnar Nurkse, "Some International Aspects of the Problem of Economic Development," American Economic Review, XLIII (May, 1952), p. 572.

The inducement to invest is stronger, Nurkse maintains, if a given amount of capital is invested in the production of a variety of products in accordance with the income elasticities of demand. Nurkse concludes that "this basic complementarity stems, of course, from the diversity of human wants. The case for 'balanced growth' rests ultimately on the need for a 'balanced diet.'" <sup>42</sup>

Reviewers have pointed out that rapid economic growth often has stemmed from imbalances within an economy and the attempt to correct these imbalances. For example, Albert O. Hirschman maintains that, "On probability grounds alone, economic growth is unlikely to start everywhere at the same time and to proceed everywhere at the same speed within an economy." In Hirschman's words, "once some areas and sectors have pulled ahead of others, they assert a powerful attraction not only for the simple reason that nothing succeeds like success, but also because external economies are coming into being at these 'growing points.'" <sup>43</sup> Historically some sectors or industries have moved ahead more rapidly than others. <sup>44</sup> Balanced growth, thus, actually appears to be the net result

<sup>42</sup>American Economic Review, XLII (May, 1952), p. 572.

<sup>43</sup>"Investment Policies and 'Dualism' in Underdeveloped Countries," American Economic Review, XLVII (September, 1957), pp. 554-55.

<sup>44</sup>See Goran Ohlin, "Balanced Economic Growth in History," American Economic Review, XLIX (May, 1959), pp. 352-53, and J. R. T. Hughes, "Foreign Trade and Balanced Growth: The Historical Framework," American Economic Review, XLIX (May, 1959), p. 335.

of imbalance: the end result of innovations and expansions that alternately take place in various sectors of an economy.

If the balanced growth model is interpreted as recommending simultaneous extensive capital investment in a number of sectors, as some view it, a fundamental problem in underdeveloped countries is being overlooked--the shortage of resources. Bearing in mind that extensive industrial investments would have to be supplemented by investments in the agricultural sector as well, the costs of such a program probably would represent too large an undertaking for an underdeveloped country. In a consideration of the cost of this type of balanced growth program, Singer contends that, ". . . the resources required for carrying out the policy of balanced growth . . . are of such magnitude that a country disposing of such resources would in fact not be underdeveloped."<sup>45</sup>

The applicability of Nurkse's model is based partially on the assumption that real factor prices will not be affected by an increase in the amount of factors demanded. Since in the model the expansion of a given industry will generate production and investment in other industries, it is necessary to assume that the supply of the factors of production varies positively with factor prices. This assumption may be realistic in the long run, but capital expansion in one industry is likely to

---

<sup>45</sup>Hans W. Singer, "The Concept of Balanced Growth in Economic Development: Theory and Practice," Economic Growth: Rationale, Problems, Cases, ed. Eastin Nelson (Austin: University of Texas Press, 1960), p. 78.

lessen the amount of resources available for expansion in other industries in the short run. Therefore, as Marcus Fleming has observed, " . . . whereas the balanced-growth doctrine assumes that the relationship between industries is for the most part complementary, the limitation of factor supply ensures that that relationship is for the most part competitive."<sup>46</sup>

In spite of its several limitations, the concept of balanced growth does focus attention on the need to properly allocate the capital resources available among the various sectors; it stresses the merits of following an over-all plan in order to insure that individual projects are complementary.<sup>47</sup> Successful development, as Carter Goodrich has said, " . . . requires the promotion of a type of growth that will spread from one area to another, that will be contagious and pervasive . . . and that will therefore be mutually-supporting and cumulative in its effects. To stimulate this process, . . . is indeed one of the greatest tasks of economic statemanship in the developing countries."<sup>48</sup>

### Colonialism and Economic Growth

The general process of economic growth which has been considered commences when an underdeveloped society begins to

---

<sup>46</sup>"External Economies and the Doctrine of Balanced Growth," Economic Journal, LXV (June, 1955), p. 246.

<sup>47</sup>Singer, Economic Growth, p. 76.

<sup>48</sup>"Economic History and Development," Economic Growth: Rationale, Problems, Cases, ed. Eastin Nelson (Austin: University of Texas Press, 1960), p. 8.

discard its old institutions and replace them with modern ones. Underdeveloped countries have begun this process of change, the crumbling of the old and the building of the new, after an external factor has interrupted their traditional way of life. Several factors, world wars and new technology, to mention a few, have disturbed the way of life in these underdeveloped areas and, thus, indirectly brought about change. Colonialism has been one of the most important of these factors.

### Dissemination of Western Culture

Colonialism has been one of the primary disseminator of Western Culture during the last four centuries.<sup>49</sup> The fact that today many underdeveloped countries are striving to attain economic growth is, in part, the result of their colonial relationship with Western nations over the past several centuries. Western colonialism has been a principal factor in altering the traditional way of life in many of the areas that have emerged politically and economically since World War II.

Western colonialism, at first, was an extension of the military, political, and economic struggle that was occurring

---

<sup>49</sup>Arnold Toynbee, The World and the West (New York: Oxford University Press, 1953), p. 142. W. S. Woytinsky and E. S. Woytinsky in World Commerce and Governments: Trends and Outlook (Baltimore: The Lord Baltimore Press, 1955), p. 632, give the following definition of colonialism which is used throughout this study:

" . . . A colony is a territory administered by a foreign country but not assimilated as a part of the latter on the same basis as its other provinces; usually, a colony is not contiguous with the colonial power. . . . The essential is not the physical presence of the foreigners but the control they exercise over the territory, even when such control is carried on from the deck of a gunboat off its coast."

among European nations during the sixteenth and seventeenth centuries. It was the facet of the struggle that was reflected in competition for foreign trade, military bases, and military supplies. European monarchs and merchants were eager to extend their markets and to establish trade monopolies with areas that were less advanced economically. They sought buyers for manufactured goods and suppliers of raw materials. The political and economic conditions in nascent areas, however, were not conducive to efficient military activities or commerce. As a result, local governments were persuaded or forced to relinquish authority to foreign powers to enable Western interests to provide suitable economic and political conditions for their operations.<sup>50</sup>

The colonial attitude toward the peoples of underdeveloped countries underwent several changes through the years. At first Europeans looked upon colonization as a messianic mission--". . . the spiritual salvation of the heathen was more than adequate payment for all the earthly belongings of which the white man robbed them."<sup>51</sup> But colonial philosophy gradually shifted to the assertion that control and exploitation of "backward" regions was justified because it brought civilization to the natives.

In later years, although their philosophy did not change, colonial powers began to accept responsibility for the

---

<sup>50</sup>Rostow, The Stages of Economic Growth, pp. 108-10, and Woytinsky and Woytinsky, pp. 671-75.

<sup>51</sup>Woytinsky and Woytinsky, p. 679.



welfare of the natives. Western welfare measures were instigated by the colonists to protect the native from his environs. However, in many cases, the colonists still tried to preserve the indigeneous culture because they implicitly assumed that the natives were incapable of functioning in a Western political and economic framework.<sup>52</sup>

Some of the focal problems facing underdeveloped countries today are the result of this latter incongruent colonial policy. For example, prior to Western penetration, population pressures in most underdeveloped areas were not

---

<sup>52</sup>Myint, Oxford Economic Papers, New Series, VI (June, 1954), p. 144. In a book review entitled "Colonialism and Communism in Southeast Asia," Yale Review, XLVI (Spring, 1957), pp. 446-51, Richard J. Coughlin points out that colonial policy has induced both short and long term ramifications in colonies. In a substantiation of his thesis, he writes that during the latter part of the nineteenth century British colonial policy in Burma was changed to expedite administration; for example, the British legal system and artificial village structures were superimposed on the native culture. Overtly the new administration ran smoothly, but anarchy simmered among the natives. Crime became rampant among previously peaceful people! In Java the Dutch did not tamper with the native way of life, modern methods were not introduced, and change was avoided whenever possible. Only Western welfare measures were instigated. Although there was a lack of freedom in Java, social chaos did not exist as in Burma. Yet today communist infiltration and the problems of self-government appear to be less serious in Burma than in Indonesia. Coughlin, in the following statement, p. 450, suggests that in this comparison the essential factor may be the element of time:

"The disruptions in Burmese society came decades ago and in the interim a new equilibrium along lines laid down by Britain was worked out . . . which served to lessen the appeals of Communism after independence. In Indonesia, on the other hand, the war and revolution are recent events, and these rather than the colonial experience have shattered traditionalism. In the search for a new equilibrium Communism has gained in attractiveness simply because it offers the stability of a total way of life."

great by reason of the combination of a high birth rate and a high infant mortality rate coupled with a relatively short life span. Today Western public health measures have prolonged the length of life of native peoples and decisively lowered their infant mortality rate. But the birth rate in underdeveloped countries continues to be high and probably will remain so until the norm structure of an industrialized society is adopted.

The colonized peoples, after a time, conceptually began to relate themselves to Westerner rule and to accept Western values. Peoples of underdeveloped lands, even while fighting to throw off the yoke of colonial control, learned from their colonial rulers. Hence the Westerners' regard for the sovereign right of the individual and the state, although not necessarily demonstrated in colonial affairs, became a prized goal of the colonized peoples. And as they began to value the products of Western society along with Western ideology, the source of Western productivity, industrialization, became one of their goals.

Paul A. Baran, in what could be called a rather spirited essay, describes the process by which the economic goals and ambitions of the native peoples were altered by Western society in the following manner:

Young intellectuals filled with zeal and patriotic devotion travelled from the underdeveloped lands to Berlin and London, to Paris and New York, and returned home with the 'message of the possible.'

Fascinated by the advances and accomplishments observed in the centres of modern industry, they developed, and

propagandized the image of what could be attained in their home countries under a more rational economic and social order.<sup>53</sup>

In short, even though colonialism in many cases failed to raise the indigenous level of living, it was the factor that changed the attitudes, ambitions, aspirations, and hopes of the peoples in underdeveloped areas.

### Nationalism

In underdeveloped countries Westernly oriented goals and aspirations have been incorporated in national movements that have pivoted on an accumulated resentment of colonial rule. In turn, these nationalistic movements, as they have sought independence and the development of modern political, economic, and social organizations, have laid the foundation for economic development by instigating changes in the traditional concepts and ways of doing things. The following observation by Hagen sets forth this relationship as a tentative thesis:

. . . Reaction of a subordinated social group to its subordination has been a central force in each step of change from traditional society, and specifically that such a reaction by a subordinated group, in favorable circumstances, is requisite for the final surge by which continuing technological progress is institutionalized in a society.<sup>54</sup>

In summary, the development of a nationalistic concept in underdeveloped countries appears to have stimulated economic

---

<sup>53</sup>"On the Political Economy of Backwardness," The Economics of Underdevelopment, ed. A. N. Agarwala and S. P. Singh (Bombay: Oxford University Press, 1958), p. 77.

<sup>54</sup>Economic Development and Cultural Change, V (April, 1957), p. 209.

change.<sup>55</sup> For example, after Turkey became an integrated state, Ataturk was able to modernize the Turkish economy. India's development plans were initiated after independence was achieved. Nationalistic forces motivated economic change in Meiji's Japan, Witte's Russia, and Bismarck's Germany. And to-day similar movements are inducing change in Asia, the Middle East, Africa, and Latin America.<sup>56</sup>

Nationalistic movements, as they emerge in underdeveloped countries, are turned in varying degrees to the creation of a modern independent state and the development of modern economic and social organizations. Once a central government has been established and has received international recognition, the strength of the political party in power to a meaningful degree

<sup>55</sup>Nicholls, American Economic Review, XLIX (May, 1959), p. 156. Nationalism is defined by Adamantia Pollis Koslin in "The Megali Idea--A Study of Greek Nationalism" (unpublished Ph.D. dissertation, Dept. of Government, John Hopkins University, 1958), p. 415, as follows:

"Nationalism may be defined as a political movement whose objective is to establish and sustain a particular societal unit--the nation-state. By nation-state is meant a societal unit characterized by a general framework of norms, values and goals by which millions of individuals relate themselves directly to the government, to one another, as well as to other social units. Conceptually, the individual finds himself to be more or less a participating member and hence an integral part of this social unit. The norms, values, and goals which enable the societal unit to come into being and to exist, in turn come to regulate the behavior of the members of the nation-state in far reaching ways--one comes to be an American, a Greek, and so on."

<sup>56</sup>U.S. Congress, Senate Committee on Foreign Relations, Hearings on the Review of Foreign Policy, 1958, 85th Cong., 2d. Sess., 1958, p. 269.

depends on its ability to build a modern economy from the remnants of the past colonial structure.<sup>57</sup>

### Economic Growth Under Colonialism

Western colonization introduced Western values to native peoples, but it did not bring economic growth. Yet, it cannot be said that underdeveloped areas would have experienced economic growth if they had not been colonized. This section, therefore, describes the general results of the colonial relationship, not what might have been.

While under a colonial regime, colonies were economic as well as political appendages of a system that operated for the benefit of European nations. The policy maintained by colonial powers was based on Adam Smith's "vent for surplus" (productivity) theory. Under the productivity theory of the classicists, trade provided the home country with outlets for additional production and, thereby, raised local productivity by allowing an increased division of labor and a greater use of technology and capital equipment. But colonial trade did not contribute to economic growth in the colonies.<sup>58</sup>

When considering the effect of colonial trade on the colonies, the stimuli they received from an increased volume of trade (the economic activities generated by a wider market),

---

<sup>57</sup>Cited in Senate Committee on Foreign Relations, Review of Foreign Policy, 1958, p. 270.

<sup>58</sup>H. Myint, "The 'Classical Theory' of International Trade and the Underdeveloped Countries," Economic Journal, LXVIII (June, 1958), p. 318.

such as capital investment and external and internal economies, are of vital consideration. Under a colonial relationship, a large share of the gains in the colonies resulting from increased trade were diverted to the foreign owners of mines and plantations. Colonial trade, as a result, provided only an initial increase in production, primarily on the plantations and in the mines owned by foreigners.

Although native laborers were employed in foreign owned enterprises, the manner in which native labor was utilized did not lead to an enhancement of their skills or to the development of a diversified labor force.<sup>59</sup> The production structure built by the colonists centered on the existing large supply of cheap native labor.<sup>60</sup> Consequently, the technological advances by the colonists in agriculture and industry were not transferred to the native farmers and did not lead to an increase in productivity in other sectors.<sup>61</sup>

Another colonial policy that handicapped economic growth in the colonies was the practice of concentrating on the development of agriculture and extractive industries which supply products that have a relatively low price elasticity of demand in world markets. Although few generalizations can be

<sup>59</sup>Moore, p. 303.

<sup>60</sup>Theodore Morgan, "The Long-Run Terms of Trade Between Agriculture and Manufacturing," Economic Development and Cultural Change, VIII (October, 1959), p. 19, and Myint, Oxford Economic Papers, New Series, VI (June, 1954), p. 153.

<sup>61</sup>Raúl Prebisch, "Commercial Policy in the Under-developed Countries," American Economic Review, XLIX (May, 1959), pp. 251-73.

made, the terms of trade tend to turn against primary producing countries and in favor of industrial producers.<sup>62</sup>

As economic development occurs in primary producing countries, shifts in production in response to differences in the income elasticities of demand and to varying factor returns frequently are necessary--shifts principally from the primary producing areas to industrial and other sectors that have relatively high price elasticities of demand for their products and increasing returns in production. Since colonial powers did not encourage diversification in their colonies, today the stability of underdeveloped countries often depends on the exportation of one or two commodities which may have unstable world markets. For example, Chile depends on copper and Venezuela on petroleum not only for foreign exchange, but also for a large share of the revenue for their fiscal budgets.

### Summary

In this chapter the general characteristics of an underdeveloped country and a process of economic growth have been presented. Specifically, the traditional static societies of underdeveloped countries have been described along with a discussion of the basic needs of these areas (modern institutions, technology, and capital formation) if economic development is to take place.

---

<sup>62</sup>See Charles P. Kindleberger, "The Terms of Trade and Economic Development," Review of Economics and Statistics, XL, Supplement No. 1, Part 2 (February, 1958), p. 84; Myint, Oxford Economic Papers, New Series, VI (June, 1954), p. 136 and p. 146; Hughes, American Economic Review, XLIX (May, 1959), p. 331; and Nurkse, American Economic Review, XLII (May, 1952), p. 576.

In order to understand the current economic and political conditions in emerging nations, it is necessary to consider the factors that have instigated change in their age-old cultures. Western colonialism has been the factor that frequently has brought about change in traditional societies of underdeveloped countries. In many of the currently emerging nations, colonialism has aroused nationalistic movements--movements that in many cases at first focused on political independence, but now are centered on economic development. On the other hand, colonial powers, by following a policy of maintaining colonies as both political and economic appendages, did not initiate economic growth in these newly independent countries.

Underdeveloped countries have common characteristics, and a basic set of requisites usually is associated with economic growth. But there appears to be no list of select conditions or single pattern of development that has universal application. The obstacles to economic development from country to country tend to differ as their history, institutions, and resources differ; and as these conditions vary, the value of economic aid also varies. Thus, with this general survey of the underdeveloped country and the development process in mind, in the following chapter the Indian economy is described as an example of a development setting.



## CHAPTER III

### INDIA AND ECONOMIC GROWTH

#### Introduction

The value of an economic aid program varies from country to country as the past and present economic and political conditions of the recipient countries vary. Underdeveloped countries possess common characteristics, but each country is unique. Consequently, in order to determine the value of an economic aid program in a specific country, the country requires study in regard to its past development as well as its current economic condition. As an example of this approach, India is presented as a "case study" of an emerging but still underdeveloped country.

The general framework depicted in Chapter II is used to approach the study of India so as to place India's historical and contemporary economic conditions in the proper perspective, and to demonstrate the general applicability of the framework and pertinent characteristics emphasized in Chapter II.

As was noted in the general chapter on economic development, underdeveloped countries have common characteristics and are experiencing some similar problems. Many of these common characteristics and conditions are present in India. In pointing out some of these significant factors, first, some aspects of India's many-faceted culture, aspects that are commonly found in one form or another in underdeveloped countries, are presented. Second, the period of British rule and its conflicting effects on the Indian economy are reviewed. The effects of foreign control in India are similar to the results that the pattern of colonial rule has triggered in many of the currently emerging countries, inasmuch as British colonialism in India laid the foundation for economic development, but did not establish long term growth. In the last section of this chapter, the Republic of India's plans for achieving accelerated economic growth and the obstacles that the country currently confronts are discussed.

### Climate and Terrain

Before considering India's many-faceted culture, an initial description of its topography and climate helps to place the country in a meaningful setting. India is a semiarid land bounded on the north by the snow-capped Himalaya and surrounded on three sides by sea. The Himalaya separates the Indian sub-continent from the rest of Asia. The rich lands along the banks of India's three great rivers--Ganges,

Brahmaputra, and Indus--hold the bulk of the population, and are considered to be the overpopulated areas.<sup>1</sup>

Sixty per cent of the sub-continent is in the temperate zone, but the climate is overwhelmingly tropical. The high Himalaya repels the cold northern winds of the Asiatic continental shield and concentrates the monsoon winds from the tropical seas. India's rainfall, which is supplied by the semiannual monsoons, varies from year to year.<sup>2</sup>

By way of a prologue to and a synopsis of the Indian culture, Kingsley Davis describes India in the following terms:

Geographically, India is a subcontinent cut off and isolated by the cold Roof of the World and an inhospitable shore. It is a tropical region, fertile of soil but perilously dependent on the caprice of the fickle monsoon. It is no longer a political entity whose borders are almost but not quite conterminous with its natural geographical limits, but rather a partitioned region, one of whose countries is itself divided into two widely separated parts. It is a cultural region of a sort, made unique by its long isolation but showing great variation from one locale to another, between one group and another. It is a split personality, divided and yet somehow not divided between states and provinces, races and castes, religions and localities. It is a sick region, poor and conflictful and ready to fly apart.<sup>3</sup>

---

<sup>1</sup>Vera Micheles Dean, New Patterns of Democracy in India (Cambridge: Harvard University Press, 1959), pp. 17-19.

Although the natural resources of India have not been sufficiently explored, India has known reserves of iron ore, manganese, bauxite, coal, titanium, mica, and atomic materials, such as thorium ores; rivers which offer great potential for hydroelectric power and irrigation; and considerable deposits of gold, salt, gypsum, clay barytes, feldspar, and chromite. India, nonetheless, must depend entirely on imports for petroleum, copper, lead, tin, zinc, sulphur, mercury, and other minerals. See India, Planning Commission, The New India: Progress through Democracy (The Macmillan Co., 1958), pp. 12-13.

<sup>2</sup>Dean, p. 18.

<sup>3</sup>The Population of India and Pakistan (Princeton: Princeton University Press, 1951), p. 16.

Thus, with the geographical setting in mind, the economic segments of India's culture will be considered.

### Culture

Most of the people of India are peasant farmers whose lives are bound up in their villages. Because an economic system is intertwined in the culture, the values, beliefs, and institutions of the peasant farmers to a great extent affect economic activity, as it, in turn, affects the Indian way of life. In most underdeveloped areas, the peasant farmers' center of activity is the isolated, poverty-ridden village that is dominated by a rigid social structure and religious institutions and beliefs that do not emphasize man's material wants and needs. In India, the village life, the Hindu religion, and the caste system are examples of these characteristics. Together these three characteristics present a whole way of life that in some ways is peculiar to India, yet in other ways resembles the pattern of numerous other underdeveloped countries. This section describes the Hindu belief, the caste system, and the Indian village, and points out some of the economic implications of these institutions.

### Hinduism

The Hindu concept of life dominates India's traditional culture and gives coherence to the many sides of Indian life.<sup>4</sup>

---

<sup>4</sup>Norman D. Palmer, "Indian and Western Political Thought: Coalescence or Clash?" American Political Science Review XLIX (September, 1955), pp. 753-54 and p. 761.

The ultimate goal of Hinduism is self-realization and perfection. "A man becomes perfect when he can shake off the six enemies of mankind, viz., lust, anger, greed, vanity, naughtiness and overjoy; . . ." In the Hindu framework, welfare is " . . . that state of consciousness conditioned by intuition or reasoning, which enables a man to attain such perfection or salvation."<sup>5</sup>

Westerners have difficulty understanding the Hindu, probably because the Western and Hindu concepts of man's relationship to the world are fundamentally different. In Western culture, God is considered to be external to man; to the Westerner, the world is more real than God.<sup>6</sup> Accordingly, the Westerner tries to manage and to change his environment. The orthodox Hindu believes that his spiritual life is more real than his environment. The conservative Hindu, as a result, is primarily concerned with improving his soul instead of his economic status.<sup>7</sup>

In the Hindu framework economics must contribute to the total welfare. The Hindu concept of the proper function of economics is described by Shridhar Misra in the following excerpt:

---

<sup>5</sup>Shridhar Misra, "The Concept of Welfare," Indian Journal of Economics, XXXVII (October, 1956), p. 223.

<sup>6</sup>Frank Moraes, India Today (New York: The Macmillan Co., 1960), p. 4.

<sup>7</sup>Moraes, p. 4.

Economics can lay down, as its legitimate function, the foundation of human relations by fostering and promoting the spirit of love, goodwill, amity and sharing among all men . . . . Howsoever, narrowly conceived, economies can put up a new order of human wants, their number, type and the manner in which these can be satisfied, aiming at all times at the maximisation of welfare of the individual, the group, the society and the universe. The Gita prescribed a two-fold economic leveller viz., the development of the sense of detachment of mind from worldly life and the renunciation of the desire to enjoy the fruits of one's own actions.<sup>8</sup>

To the extent that the orthodox Hindu belief prevails, the incentive to achieve economic growth is quiet, or it, at least, is passive.

### Caste System

The caste system, like Hinduism, is deeply ingrained in Indian society and, therefore, it affects economic development in India. The Indian Constitution prohibits discrimination because of color, race, or creed, and the government regulations pertaining to recruitment for state jobs reserve posts for "backward classes," but in spite of the regulations, the government job quotas have not been filled and the caste system still exists.<sup>9</sup>

The system consists of four main castes and the out-castes or untouchables: the early priests, wise men, and teachers who today are generally the administrators, intellectuals, and professional men; the soldiers; the merchants

---

<sup>8</sup>Indian Journal of Economics, XXXVII (October, 1956), p. 224.

<sup>9</sup>India, Planning Commission, Third Five Year Plan: A Draft Outline (New Delhi: Government of India Press, June, 1960), pp. 126-27.

and landowners; and the craftsmen and laborers. The untouchables historically performed the tasks that were considered to be unclean--tasks such as tanning and scavenging.<sup>10</sup> In theory, the hierarchy of the caste system was based on a functional arrangement with each strata contributing to the whole. The prestige of a caste was determined by the value of the caste's contribution to society. Although today caste groups still are closed communities, according to Davis in 1951, they may or may not be specialized in a given occupation.<sup>11</sup>

Prior to the arrival of the British, the caste system was losing strength. The British substitution of a centralized government for local rule, along with the British rule of law and judicial system that disregarded caste status, encouraged the breakdown of the caste and village panchayat form of government.<sup>12</sup> Industrialization, however, has been the strongest force in eradicating the official caste system because it disrupts the association between occupation and caste and weakens caste unity on the village level.

In the past, the caste system has given order and stability to a society that is a conglomeration of diverse races, customs, and languages.<sup>13</sup> Nonetheless, the implications of the rigid social structure that the caste system represents with respect to economic development are obvious.

<sup>10</sup>Dean, p. 36.

<sup>11</sup>The Population of India and Pakistan, p. 170.

<sup>12</sup>Davis, pp. 171-72.

<sup>13</sup>Dean, p. 37.

## Village

The village, in which Hinduism and the caste system still survive, is the center of social, political, and economic activity for most Indians. The medieval village exists throughout India: "Her cities are like small islands in the ocean of villages."<sup>14</sup> In the following paragraph, Taya Zinkin describes the villages of India and emphasizes that there is no such thing as a typical Indian village:

In India there are over 558,000 villages, and they vary astonishingly from area to area. There are the smoky, filthy pigsties on stilts in which the Naga head-hunters of Assam live; the prow-shaped, thatched Toda villages of Madras; the mud-walled fortresses of the Punjab; the rural cities of Gujerat, with their hundred-thousand-dollar, three-story mansions; the Ladakhi hill-cut houses, strangely akin to the creations of Frank Lloyd Wright; the houseboats of Kashmir with their floating vegetable gardens; the palm-matted bashas of Bengal; the neat little wooden houses of Travancore-Cochin; the scattered huts of the coast of Malabar; and the painted villages of Rajasthan, where charging elephants trample over sleeping lions and the blue smoke of prehistoric railway engines coats the mud walls.<sup>15</sup>

The village peasants are isolated. There are few roads and only an occasional radio or newspaper is available.<sup>16</sup> For the most part, the villages are self-sufficient. The social and economic life of the peasants is carried on within the village.<sup>17</sup> Some villages are relatively prosperous, but most

---

<sup>14</sup>W. S. Woytinsky, India: The Awakening Giant (New York: Harper and Brothers, 1957), p. 36.

<sup>15</sup>India Changes! (New York: Oxford University Press, 1958), p. 3.

<sup>16</sup>India Planning Commission, The New India, pp. 160-61.

<sup>17</sup>D. R. Gadgil, "Indian Economic Organization," Economic Growth: Brazil, India, Japan, ed. Simon Kuznets, Wilbert E. Moore, and Joseph J. Spengler (Durham: Duke University Press, 1955), p. 453.



are in a state of ubiquitous poverty.<sup>18</sup> There are a few shops in the villages, but the peasants own few manufactured goods. Most of the peasants are unhealthy and illiterate.<sup>19</sup> A villager seldom reads or writes. Yet the future of India depends on its peasants. To awaken the villages of India and rehabilitate the peasants is the central problem in the economic development of India.

### Population

India is striving to achieve a rate of economic growth that will increase the level of living of the village and urban population. India's 1951 census was about 357 million; the estimated midyear population in 1958 was 397 million people.<sup>20</sup> These data indicate a 1-6/10 per cent increase per annum between 1951 and 1958. For economic planning purposes, the central government now is using a 2 per cent annual increase

<sup>18</sup>Woytinsky in India, p. 99, states:

"Illiteracy, poor health, poverty, and filth in Indian hamlets are the results of feudal bondage rather than colonial exploitation. The British left the villagers in such conditions, not because they exploited them for the benefit of the metropolis, but because they permitted the native landlords to exploit them. Generation after generation the farmer lived without thought of the future or hope of bettering his lot. Villagers were ruled by landowners and heads of families with inherited wealth, guardians of traditions who opposed any change."

<sup>19</sup>India Planning Commission, The New India, pp. 160-61.

<sup>20</sup>United Nations, Department of Economics and Social Affairs, Statistical Office of the United Nations, Statistical Yearbook, 1959 (New York, 1959), p. 31.

in population.<sup>21</sup> Which means that merely to maintain the current level of living, India must have at least a 2 per cent increase in production.

The outlook for a decrease in the rate of population growth in the near future is not encouraging. India's high death rate is declining. Even though cholera, smallpox, and plague are still the primary cause of death, the Indians are slowly building up an immunity to bacterial parasitism; and vector control as well as other public health measures have proven to be effective in combating these diseases.<sup>22</sup> Furthermore, the breakdown of rural isolation and the construction of modern irrigation systems have lessened the effects of the capricious monsoons that alternately created famines and floods in the past.

The future rate of growth in India depends upon the fertility rate which has not declined significantly in recent years. In the opinion of Ansley J. Coale and Edgar M. Hoover, fertility will not decline radically in the near future.<sup>23</sup> The fertility rate is already low among the upper socio-economic

<sup>21</sup>Stephen Enke, "The Gains to India from Population Control: Some Money Measures and Incentive Schemes," Review of Economics and Statistics, XLII (May, 1960), p. 175.

<sup>22</sup>Davis, The Population of India, pp. 41-43, and Kingsley Davis, "Social and Demographic Aspects of Economic Development in India," Economic Growth: Brazil, India, Japan, ed. Simon Kuznets, Wilbert E. Moore, and Joseph J. Spengler (Durham: Duke University Press, 1955), p. 280.

<sup>23</sup>Population Growth and Economic Development in Low-Income Countries: A Case Study of India's Prospects (Princeton: Princeton University Press, 1958), pp. 43-54.

groups, and there is no evidence that indicates that the birth rate is falling among other groups. While there is a rural-urban differential, it has not increased in fifty years.<sup>24</sup>

Davis, in the following statement, concurs with the conclusion of Coale and Hoover and predicts that fertility in India may temporarily increase:

Whatever the background cause, the main mechanism through which differential fertility occurs in India is not the deliberate control of reproduction by contraception, but the indirect control of it through such institutional practices as the non-marriage of widows. This means that the existing differentials do not in themselves point to an early decline of Indian fertility; for if the controls are indirect and institutional, a long time will be required for them to be abandoned and deliberate controls adopted. Indeed, while the institutional controls are gradually dying out and the deliberate controls are hardly yet started, fertility may actually increase.<sup>25</sup>

In the past industrialization, in European countries specifically, brought a decline in the death rate and initiated a decrease in the birth rate;<sup>26</sup> however, this pattern is not being repeated in India inasmuch as the Indian mortality rate began to decrease prior to industrialization. Although the death rate has already begun to fall in India, it probably will be some time before a decrease in the birth rate will offset the declining death rate. Therefore, as was pointed out, if the level of living merely is to be maintained in India, the

<sup>24</sup>Davis, Population of India, pp. 81-82.

<sup>25</sup>Population of India, p. 17.

<sup>26</sup>See Everett E. Hagen, "Population and Economic Growth," American Economic Review, XLIX (June, 1959), p. 323.

growth in national income must keep pace with large increases in population.

### Colonialism

There is a similarity between the traditional village society found in India and the societies of the other underdeveloped countries, so also is there a similarity between India's past colonial relationship with the West and the period of colonial rule experienced by underdeveloped countries in general. Many of the currently emerging countries have been influenced by a long period of political and economic domination. Historically, this period appears to have laid the foundation for development in the newly emerging nations, but not to have instigated economic growth. In India the current economic setting also is a product of centuries of colonial rule.

### East India Company

In the late sixteenth century, East India Company representatives, at the request of Queen Elizabeth, were sent to the Court of Mogul Jahangir of Agra to obtain trading privileges.<sup>27</sup> English merchants began to trade with India and, thus, British rule of India began--a relationship that lasted until 1947 when India became a sovereign power.

---

<sup>27</sup>Percival Griffiths, Modern India (New York: Frederick A. Praeger, 1957), p. 1, and also see Gorham D. Sanderson, India and British Imperialism (New York: Bookman Associates, 1951), p. 81.

The annals of Indian colonial history can be divided into three distinct periods. During the first phase of British-Indian relations, the East India Company established trade with India and became the accepted governmental authority throughout most of the Indian sub-continent. In the early nineteenth century, the second phase, British economic policy molded the Indian economy into an agrarian appendage of the British economy. From the middle of the nineteenth century until independence, the last phase of British rule, the policies of the Imperial Government and the growth of the Indian nationalistic movement were the focal aspects of British-Indian relations.

#### Permanent Land Settlement

In the process of establishing their political authority, during the first phase of British-Indian relations, British officials arranged for the payment of a land tax to the state. In order to collect these taxes, the British abrogated the traditional right of the peasantry to own the land they cultivated and made the government the landowner. The British, at the same time, established the appointed taxgatherers as the landlords and the cultivators as their tenants. The Permanent Land Settlement of 1793 fixed the annual land tax payable to the state and vested the landlords with complete control over the land and, thereby, the peasantry.<sup>28</sup> Ironically, as

---

<sup>28</sup>P. K. Gopalakrishnan, Development of Economic Ideas in India (1880-1914) ('s-Gravenhage: Institute of Social Studies, 1954), pp. 8-9, and Daniel Thorner, The Agrarian Prospect in India (Delhi: Delhi University Press, 1956), p. 8.

P. K. Gopalakrishnan points out in the following comment,

European capitalism strengthened feudalism in India:

The same capitalism which developed in Europe in a struggle against feudalism, which it partly destroyed and whose influence it greatly reduced, now supported feudalism in its colonial empire. In many instances it actually developed feudalism anew, and it did so because the feudal elements and their satellites, the usurers and tax officials, represented its only important political allies.<sup>29</sup>

Under the Settlement the cultivators were forced to produce a cash crop in order to pay the annual tax.<sup>30</sup> After paying the tax, the income that the farmer had left generally was owed to the local moneylender who was the primary source of credit. The cultivator, as a result, was left with few or no resources to purchase implements, better seeds, and fertilizer. He had little hope of increasing productivity; his only hope was to prevent his plight from worsening.

The new landlords appointed by the government were interested in agriculture only to the extent that they might continue to draw their incomes from it. Landlords, along with local moneylenders, began to extort usurious rates of interest on loans to the peasantry. Money lending and landownership became more profitable than investments in industrial production or other types of productive ventures.<sup>31</sup>

<sup>29</sup>Development of Economic Ideas, p. 9.

<sup>30</sup>Daniel Thorner, "Long-term Trends in Output in India," Economic Growth: Brazil, India, Japan, ed. Simon Kuznets, Wilbert E. Moore, and Joseph J. Spengler (Durham: Duke University Press, 1955), pp. 124-27, and Gopalakrishnan, p. 10.

<sup>31</sup>Gopalakrishnan, p. 10.

## British Industrialists and India

In contrast, the early years of the eighteenth century presented a different picture in agriculture and industry. Until the late eighteenth century India was highly developed in pre-industrial terms: agriculture provided a surplus, iron and steel were produced, and textile weaving and shipbuilding were important industries.<sup>32</sup> India's technological and industrial development paralleled that of the West until the end of the eighteenth century when development began to lag behind because the Western industrial revolution did not penetrate the Asian economies.<sup>33</sup>

Throughout the seventeenth and eighteenth centuries, East India Company merchants had profited handsomely by selling Indian textiles and other processed goods in England. The rising British industrialists, conversely, profited by selling their manufactured products in India and importing raw materials. By the early nineteenth century, England's new industrial class had acquired political power. The British government, as a result, rescinded the East India Company's trade monopoly with India and implemented measures that facilitated the sale of manufactured products in India and the exportation of raw materials from the colony.<sup>34</sup> This new

---

<sup>32</sup>K. M. Panikkar, The Afro-Asian States and Their Problems (New York: The John Day Co., 1959), p. 69.

<sup>33</sup>Lalubhia Samaldas, "Industry and Commerce," India, Vol. CXLV of the Annals of the American Academy of Political and Social Science, ed. D. R. Bhandarkar (Philadelphia: American Academy of Political and Social Science, 1929), pp. 91-92.

<sup>34</sup>Gopalakrishnan, p. 2.

economic policy, which opened the second phase of British-Indian relations, gradually converted India's economy into an agricultural hinterland of Great Britain.

British manufacturers, in order to carry out the new trade policy, needed a means of transporting Indian raw materials and foodstuffs to coastal ports and a means of shipping British manufactured goods to inland areas. Hence, a modern transportation system was built in India with British capital. From India's point of view this system had certain drawbacks. For example, the railroad network favored the port cities of Bombay, Calcutta, and Madras and discriminated against the cities in the interior. And, likewise, the rate structure of the railroads favored the movement of food and raw materials to seaports and the movement of manufactured goods to inland areas.<sup>35</sup>

When the modern transportation system was built, the markets of native craftsmen began to dwindle since British producers were able to supply Indian peasants with goods that were cheaper and better than those of the village craftsmen. As the economic isolation of the villages dissolved, however, the village handicraft and agricultural problems became national issues. Indian villagers began to communicate with their

---

<sup>35</sup>Helen B. Lamb, "The 'State' and Economic Development in India," Economic Growth: Brazil, India, Japan, ed. Simon Kuznets, Wilbert E. Moore, and Joseph J. Spengler (Durham: Duke University Press, 1955), p. 467.



counterparts throughout India and to recognize that their problems were similar. The poverty among the cultivators and the decay of village crafts, as a result, became the focal issues that united the Indian people in the social movement that was to come.<sup>36</sup>

### Imperial Government of India

During the latter half of the nineteenth century, the third phase of British-Indian relations, England was becoming a mature industrial economy. British financiers were interested in finding profitable international investments. The feudal structure of the Indian economy did not serve the objectives of these men. Thus, in 1857 the British Imperial Government assumed complete control over Indian affairs under a governmental framework that remained in operation until independence.

British industrialists opened cotton mills, jute mills, and coal mines in India. New Indian industries, such as petroleum, manganese, mica, and saltpetre, were developed with British capital. By the turn of the century, growth had occurred in almost all fields.<sup>37</sup>

Even though production did increase, India was unable to establish and to maintain a continual rate of growth.

---

<sup>36</sup>Gopalakrishnan, pp. 1-12.

<sup>37</sup>Gopalakrishnan, p. 4.

Economic development was not initiated, Gopalakrishnan concludes, because the Indian economy was subservient to British interests:

Historically this introduction of capitalistic forms was a progressive result of British rule; yet to the extent this transformation was subjected to the economic requirements of British trading, industrial and banking interests, the independent and untrammelled economic development of Indian society was arrested.<sup>38</sup>

### Nationalism

In India, as in many of the other emerging nations, the colonial government that prevented balanced growth laid the foundation for economic development. As the nationalistic movement that mushroomed in India against foreign control gained strength, it sought to build an independent state and a modern economic system. Thus, in spite of the fact that the movement pivoted on a resentment of colonial rule, it incorporated Western values, such as freedom and economic wealth, and Western institutions that laid the foundation for current economic development.

### Formative Years

Although during the nineteenth century the doctrine of "white superiority" underlaid British colonial rule, the doctrine stood in sharp contrast to the ideals of liberty, equality, and fraternity that were taught in British schools and inadvertently demonstrated to the Indians by the

---

<sup>38</sup>Development of Economic Ideas, p. 8.

British.<sup>39</sup> British rule, in turn, was accepted by the Indians because the English were stronger militarily, not because the Indians considered the English to be superior. The educated Indians did not consider themselves to be inferior in any way; rather, the orthodox Hindu believed in his own superiority and considered the British superior only because they ruled. Yet, directly and indirectly, the Indians learned from the British.

As the Indians lived under British rule and learned of Western ways from the Englishmen living in India, in Gorham D. Sanderson's words, " . . . it came to be that the future which India sought was all wrapped up in English civilization. The plans of men oft go astray. British civilization in India turned out to be a stronger influence than the British imperial system."<sup>40</sup> The Indians gradually began to accept Western

---

<sup>39</sup>Panikkar, The Future of South-East Asia, p. 114. The East India Company officials exploited the natives economically and oppressed them politically, but they did not set themselves above the Indians. In the nineteenth century a different type of British official governed: a civil servant who considered himself superior to the natives in terms of nationality, race, religion, and education. Toynbee, pp. 42-43, describes the situation as follows:

"The British rulers of India in the first generation behaved, in fact, very much as their Hindu and Muslim predecessors had behaved. They were humanly corrupt and therefore not unhumanly aloof; and the British reformers of British rule, who were rightly determined to stamp out the corruption and who were notably successful in this difficult undertaking, deliberately stamped out the familiarity as well, because they held that the British could not be induced to be superhumanly upright and just in their dealings with their Indian subjects without being made to feel and behave as if they were tin gods set on pedestals high and dry above those Indian human beings down below."

<sup>40</sup>India and Imperialism, p. 255.

ideals as their own and to desire freedom and equality for themselves.

Until the latter half of the nineteenth century, clan, caste, and religious cleavages, along with vast regional differences in language and culture, and a lack of transportation and communication systems prevented the growth of Indian nationalism.<sup>41</sup> But by the late nineteenth century, British education that opened the doors to European liberal thought and science and the British code of laws that gave the same treatment to the Brahman and the outcaste had begun to disrupt old social cleavages. The road and railroad systems built by the British connected, at least to a degree, the hundreds of Indian villages. British industrialization, although it was exploitive, had led to the growth of modern cities that had become centers of political and economic activity.<sup>42</sup> Moreover, the dire results of the British land policy and the effects of the crushing of rural handicraft industries had become national problems around which a nationalistic movement could rally.<sup>43</sup>

#### Early Years of the Indian National Congress

Political unrest was prevalent among the Indians in the latter part of the nineteenth century. Allan Octavian Hume, a retired member of the Indian Civil Service, believed that the

---

<sup>41</sup>Davis, Economic Growth, p. 294, and Griffiths, p. 71.

<sup>42</sup>Gopalakrishnan, p. 4.

<sup>43</sup>Joan V. Bondurant, Regionalism versus Provincialism: A Study in Problems of Indian National Unity (Berkeley: University of California, 1948), p. 2.

creation of an all Indian party through which the native peoples could express their grievances would pacify the Indians and strengthen imperial security.<sup>44</sup> Hume envisaged a native party that represented India--a party that subordinated differences of race, caste, religion, language, and province to national goals.

The first convention of the Indian National Congress, envisioned by Hume, was held in Bombay in 1885. The Congress initially pursued a moderate course of action; for example, it was able to increase the employment of Indians in government jobs, to establish provincial constituent congresses, and to organize an office in London.<sup>45</sup>

Early in the twentieth century leadership of the Congress shifted to Bal Gangadhar Tilak, leader of the radical Indophils that proffered a militaristic form of Hinduism. This group fought all social reforms that obstructed the customs of orthodox Hinduism. A similar nationalistic group arose in Bengal after the Curzon Partition of 1905. Swadeshi (home manufacture and boycott of foreign goods) was first advocated by this group in 1905 at a meeting called to protest against the partition of Bengal. These two militant Hindu groups were able to extend the scope of nationalism which was an objective that the more intellectual nationalistic leaders had not been able to accomplish. But, as yet, the Indian villagers were not apart of the movement for independence.

---

<sup>44</sup>Sanderson, p. 8.

<sup>45</sup>Griffiths, pp. 63-64, and Sanderson, p. 258.

## Gandhi

Mohandas K. Gandhi, who is regarded as the leader in India's fight for independence, dominated the nationalistic movement during the next three decades.<sup>46</sup> Gandhi taught politics to the peasants in terms that they could understand, and to the other Indian classes, he taught that the heart of India was its villages. He was able to instill in the Indians a respect for Indian heritage. In the words of Zinkin:

Perhaps even a greater contribution of Gandhi's to India has been the restoration of Indian self-respect. He was a little man who went about half naked, toothless, leaning on two young girls. Yet, by his very simplicity, he challenged the assumption of the British that material superiority was a sign of moral superiority.<sup>47</sup>

Gandhi believed that man had to participate in politics for his own self-respect and the development of his soul. The question as to whether British rule retarded India's economic development was irrelevant to Gandhi. His glorification of the spinning wheel, hatred of industrialization and mass production, and reverence for the cottage and village industries

<sup>46</sup>Patricia Kendall in Come With Me to India! A Quest for Truth Among Peoples and Problems (New York: Charles Scribner's Sons, 1935), p. 330, asks questions about Gandhi:

"Who is this man whom asceticism had induced willingly to relinquish a life of ease and whom worldliness impelled determinedly to grasp a position of power, who lives like a monk and rules like a monarch? What is the character of this gentle apostle and what is the career of this militant politician, whose perceptions are as irrational as were John Brown's and whose policies are as astute as were Samuel Gompers'?"

<sup>47</sup>India Changes!, p. 178.

were an outgrowth of his philosophical beliefs.<sup>48</sup> To him, the aim of all economic activity should be to create an environment that is conducive to man's spiritual progress, to his independence, and to his realization of self. To Gandhi, the value of an industry must be determined by the influence of the industry on the souls and spirits of the employees, not by the profits of the industry.<sup>49</sup> Industrialization, in Gandhi's framework, meant a ceaseless pursuit of material wealth that inevitably undermined man's character and sacred values.<sup>50</sup>

Gandhi did not recognize India's basic problem. He overlooked the fact that many of India's old institutions had to be torn down before new and more functional political, social, and economic structures could be erected. Gandhi feared that India would become entangled with the Western world.<sup>51</sup> If Hindus wore Western clothes and used Western machinery, according to Gandhi, they would take on Western jobs and begin to spend their leisure on Western amusements (for instance, movies), and they eventually would forget how

<sup>48</sup>J. C. Kumarappa, a noted exponent of Gandhi's Swaraj, is considered to be the leading authority on the economic theories of Gandhi. See his essay, "Khadi in our Life," in Swaraj for the Masses (Bombay: Hind Kitabs Ltd., 1948), p. 91.

<sup>49</sup>S. B. Prasad, "Gandhian Approach and Keynes," Indian Journal of Economics, XXXVII (October, 1956), p. 215.

<sup>50</sup>V. Vithal Babu, Towards Planning: An Examination of Policies, Snags and Priorities in Planning in India (Kashmere Gate, Delhi: Atma Ram and Sons, 1950), pp. 47-54.

<sup>51</sup>D. R. Gadgil, Economic Policy and Development: A Collection of Writings (Poona: Gokhale Institute of Politics and Economics, 1955), p. 150, and Toynbee, pp. 79-80.

to be Hindus and develop Western souls. Gandhi's reasoning was correct. As he predicted, the Indians have become Westernized. Gandhi's position was questionable because the underlying philosophy was atavistic at a time when modernism, not atavism, was needed by India.

### Modern Leadership

For a time the glory of past Indian civilizations and Hindu philosophy served to unite the peoples of India, but as younger, more Westernized leaders began to direct the movement for independence after Gandhi's death, the emphasis changed.<sup>52</sup> Nehru and others rejected Gandhi's religious convictions, his hostility toward industrialization, and his advocacy of active non-violent resistance.<sup>53</sup> The new leaders of the National Congress believed that the religious dogmas of the Indians contributed to Indian stagnation and that the teaching of docile acceptance of one's fate prevented social and economic progress.<sup>54</sup> Under modern leadership anti-imperialism

---

<sup>52</sup>Myron Weiner in "Some Hypotheses on the Politics of Modernization in India," Leadership and Political Institutions in India, ed. Richard L. Park and Irene Tinker (Princeton: Princeton University Press, 1959), pp. 36-38, notes some of the current characteristics of Indian politics. Weiner calls attention to India's mass acceptance of the Western value system that not so long ago was accepted by only a small minority.

<sup>53</sup>Frank Moraes, "Gandhi Ten Years After," Foreign Affairs, XXXVI (January, 1958), p. 254. Also see Karunakar Gupta, Indian Foreign Policy: In Defense of the National Interest (Calcutta: The World Press Private Ltd., 1956), p. 13.

<sup>54</sup>Werner Levi, Free India in Asia (Minneapolis: University of Minnesota Press, 1954), p. 139, and Pauline Moller Mahar in "Changing Religious Practices of an Untouchable Caste," Economic Development and Cultural Change, VIII (April, 1960), p. 297.



became the rallying call in India's struggle for independence-- a slogan local villagers understood in terms of their hunger, poverty, and disease.<sup>55</sup>

### Republic of India

The Republic of India inherited an economy in which 80 per cent of the people still lived in primitive villages.<sup>56</sup> Free, but partitioned, India was faced with acute food shortages, poverty, and unemployment. Agriculture was in a state of stagnation. Industrial production was below capacity levels. The British had concentrated on consumer goods industries and, as a result, the development of basic capital industries had lagged. The Indian transportation system was run-down. There was little coordination between central and state government development programs, and the administrative machinery in many of the newly created states was inadequate.<sup>57</sup> Furthermore, the new Republic's problems were heightened by the natives' belief that independence would automatically solve India's economic difficulties--that poverty was the result of foreign rule and would disappear when independence was achieved.<sup>58</sup>

---

<sup>55</sup>Levi, pp. 8-9.

<sup>56</sup>Dean, p. 9.

<sup>57</sup>C. N. Vakil and P. R. Brahmananda, Planning for a Shortage Economy: The Indian Experiment (Bombay: Vora and Co., Publishers, Ltd., 1952), pp. 20-23.

<sup>58</sup>India Planning Commission, The New India, pp. 12-13.

### First and Second Five Year Plans

In India the national government has accepted the responsibility for providing the entrepreneurial functions necessary for accelerated economic growth. In 1950 soon after the adoption of the Constitution, the Indian National Planning Commission was set up to carry out the entrepreneurial activities of the government. The guiding principles of the Commission are the constitutional directives which state that it is incumbent upon the government to strive to promote the welfare of the people and to work toward securing social and economic security, as well as political justice.<sup>59</sup>

The Five Year Plans that have been programmed from 1951 to 1970 by the Planning Commission represent integral parts of a long term blueprint for economic development. These Plans are not a rigid outline for economic growth, rather as Vijaya Lakshmi Pandit indicated, the Plans " . . . represent a summing-up of our thinking on the goals and objectives, the targets and programmes, and the policies and institutions which should be achieved and created over given periods."<sup>60</sup>

The overriding policy of the Commission is to secure "balanced growth" among the several sectors of the economy--

<sup>59</sup>During the 1940's India became planning conscious. After the war, many social leaders compared the need for economic development with the wartime emergency; the slogan was "War with Poverty!" See Radharani Choudhury, The Plans for Economic Development in India (Calcutta: Bookland Private Ltd. 1959), p. 50.

<sup>60</sup>The Evolution of India (London: Oxford University Press, 1958), p. 35.

agriculture, cottage and small-scale industries, large-scale consumer goods industries, and capital goods industries.<sup>61</sup>

These various sectors are interdependent because expansion of one is dependent on the expansion of the other for supplies and markets. Moreover, India's level of living is low and, in relation to the needs, the resources are limited. Production, consequently, must be allocated among food, consumer goods and services, and capital goods in relation to current and future needs. Although the needs differ somewhat among sectors, the limited supply of domestic resources and the national shortage of foreign exchange required to buy raw materials and capital equipment also necessitate a plan of allocation for the various sectors.

The First Five Year Plan (1951-1956) which marked the preparatory stage of development, the stage in which the structural barriers to growth would be removed, stressed agricultural development because a lack of food was India's most pressing problem. The Second Five Year Plan (1956-1961) was to initiate a period of rapid economic growth. In this plan a high priority, therefore, was given to industrialization in basic and heavy industries, such as iron and steel, coal, cement, and heavy chemicals. Both the Second and Third Plans are regarded as pertaining to the crucial stages in the course

---

<sup>61</sup>Pandit, p. 38.

of Indian development.<sup>62</sup> India is now carrying out its Third Five Year Plan (1961-1966) which will be discussed in relation to agricultural aid in Chapter VII.

The Indian government believes that a decisive breakthrough toward growth is currently possible in India. Over the past two Plans, output of goods and services has increased. Growth has occurred in the agricultural sector, in both large and small scale industries, and in transportation and services, and the size of the domestic market has grown.<sup>63</sup>

In 1951 India's national income was Rs 9,530 crores;<sup>64</sup> the per capita income in the same year (based on a population of 357 million)<sup>65</sup> was Rs 264. The provisional estimate of national income for 1960-61 was Rs 12,500 crores; the per capita income for the same fiscal period (assuming a population of 425 million) was Rs 294.<sup>66</sup> The India Planning Commission

<sup>62</sup>India, Planning Commission, Second Five Year Plan: Summary, 1956 (New Delhi: Government of India Press, 1957), p. 5, and India, Planning Commission, Third Five Year Plan, p. 17. The theory underlying India's Five Year Plans is discussed in "India (Prepares for Take-Off)," Economist, March 26, 1960, pp. 1255-89.

<sup>63</sup>M. F. Millikan and W. W. Rostow, "Foreign Aid: Next Phase," Foreign Affairs, XXXVI (April, 1958), p. 429.

<sup>64</sup>United Nations, Department of Economics and Social Affairs, Statistical Office of the United Nations, Yearbook of National Account Statistics, 1959 (New York, 1960), p. 277.

One crore is equal to 10 million, a rupee to 21 cents, and Rs 1 crore to \$2.1 million.

<sup>65</sup>United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 31.

<sup>66</sup>Enke, Review of Economics and Statistics, XLII (May, 1960), p. 176, and Stephen Enke, "Preliminary Thoughts about India's Third Five Year Plan," South African Journal of Economics, XXVIII (June, 1960), p. 103.

issued the following national income statistics on the First and Second Five Year Plans:

Over the ten years, 1951-61, national income (at constant prices) will have increased by about 42 per cent, per capita income by about 20 per cent and per capita consumption by about 16 per cent.<sup>67</sup>

#### Current Economic Condition

While progress has been made during the First and Second Five Year Plans, the current obstacles to economic growth in India are formidable. A high unemployment and under-employment rate and a shortage of foreign exchange tend to magnify the problems in each sector and to place restraints on the type of techniques that can be used to increase production. India, moreover, lacks basic social overhead capital, such as roads, irrigation systems, and power plants, that are needed as a base for sustained growth in all sectors.

If India is to achieve a higher level of living, productivity in the rural sector must increase because the Republic's immediate need is food for the people. In the long run, agricultural production will determine, to a significant extent, the rate of economic growth in India. But both consumer goods industries and capital industries also must be expanded. The country's ability to increase its production of coal, iron and steel, heavy machinery, electricity, heavy chemicals, and other products needed for capital formation will greatly affect the rate at which overall industrialization can

---

<sup>67</sup>Third Five Year Plan, p. 17.

occur.<sup>68</sup> In addition, as the effective demand for consumer goods increases, it must be met by an increasing supply of the goods which probably will be produced initially by hand and cottage enterprises and small industries that, at present, are essential for employment and social stability.

The general conditions in the agricultural and industrial sectors and the problems of employment and foreign trade are discussed in more detail in the following sections.

Agriculture. Contemporary India is a land of small farms. The land surrounding the village is divided into strips for farming.<sup>69</sup> The cultivator operates on a relatively small scale with the help of family labor. According to the India Planning Commission, an average farm seldom exceeds 2 acres; 3/4 of all the farms consist of less than 10 acres; and about 2/3 of the farms are less than 5 acres.<sup>70</sup> There is chronic underemployment in the rural sector: it is estimated that thirty-one million persons are underemployed for seven months of the year.<sup>71</sup>

<sup>68</sup>p. C. Mahalanobis, "Draft Recommendations for Formulation of Second Five Year Plan (1956-1961)," India, Planning Commission, Papers Relating to the Formulation of the Second Five Year Plan (New Delhi: Government of India Press, 1955), p. 43.

<sup>69</sup>Davis, Population of India, p. 127. In 1957, 47 per cent of India's gross domestic product of Rs 113.6 crores was contributed by agriculture, forestry, and fishing; whereas manufacturing and construction contributed 17 per cent. Data are given in United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 451.

<sup>70</sup>India Planning Commission, The New India, pp. 181-82, and Gadgil, Economic Growth, pp. 448-49.

<sup>71</sup>Ashish Bose, "The Population Puzzle in India," Economic Development and Cultural Change, VII, Part 1 (April, 1959), p. 234.

A variety of crops are grown because the climate and terrain vary, but the pattern of production is similar throughout India. The cultivator first supplies food for his household, then fodder for his livestock, and if there is a surplus, commodities for the market.<sup>72</sup>

The productivity per acre of Indian agriculture ranks among the lowest in the world. India's low agricultural productivity stems from poor cultivation. Woytinsky comments that one does not know at first sight whether a field is waiting to be harvested or has been left to the weeds.<sup>73</sup> The fields generally are plowed by a pair of bullocks, and even if the farmers could afford tractors, they could not be used efficiently because the fields are of small size.<sup>74</sup> A "vicious circle of poverty" is operative in Indian agriculture. The

---

<sup>72</sup>Gadgil, Economic Growth, p. 450. India's cattle population (roughly 200 million head) is excessive in relation to the supplies of fodder and feed. Cattle compete with people for food. The cattle population remained stationary between 1920 and 1945 primarily because of epidemic diseases and slaughtering by non-Hindus. Recently the number of cattle has been increasing rapidly owing to more effective disease control (notably rinderpest) and the loss of a large Muslim population. The efforts by the central government to establish cattle rest homes (gosadans)--enclosures for aged and unfit cattle--have been unsuccessful. In addition, as monkeys are killed rarely by Hindus, large numbers frequently destroy crops and raid the villages. See P. T. Bauer, United States Aid and Indian Economic Development (Washington, D.C.: American Enterprise Association, 1959), p. 18, and Agricultural Production Team sponsored by the Ford Foundation, Report on India's Food Crisis and Steps to Meet It, India, the Ministry of Food and Agriculture and the Ministry of Development and Cooperation (1959), p. 64.

<sup>73</sup>India, pp. 39-40.

<sup>74</sup>India Planning Commission, The New India, p. 162, and Gadgil, Economic Growth, pp. 448-49.

cultivators are poor because their fields are inadequately cultivated; and because they are poor, they are unable to buy fertilizer and are too undernourished, in many cases, to cultivate the fields properly.

The basic need of Indian agriculture is to increase productivity which would involve changing from subsistence to economic farming. When modern equipment, fertilizer, and irrigation are used, the land can produce two or three harvests a year.<sup>75</sup> Untold acres, the India Planning Commission reports, could be reclaimed and made more productive by drainage improvements and better water management.<sup>76</sup>

Industry. The traditional hand and cottage enterprises found in the rural areas make hand woven cloth, coir, and handicrafts, such as decorative ceramics, toys, and ivory carvings. The labor for rural industries, as in agriculture, is supplied by the household. The level of living of the rural artisan is as low as that of the peasant farmer. In addition, a large amount of unemployment and underemployment exists in rural industries.<sup>77</sup> The market for the products of the

<sup>75</sup>Gadgil in Economic Growth, p. 450.

<sup>76</sup>The New India, p. 162, and Dean, p. 104. The outstanding feature of India's rural economy is the low yield per acre for all crops. The yield for wheat in India is 306 kilograms per acre; in Japan 862; in the United States 482; in France 486; and in Belgium and the Netherlands 1134. India yields 322 kilograms of corn per acre, while Japan produces 530 and the United States 980. These data are from the United Nations, Food and Agriculture Organization, Yearbook of Food and Agricultural Statistics, Part I (1955). The data also are presented in Woytinsky, India, p. 38.

<sup>77</sup>India Planning Commission, The New India, p. 287.



handicraft and cottage enterprises has been shrinking for some years because of competition from national and foreign producers. But as the consumption of consumer goods increases in the future with a rise in the level of income, initially these goods will be partially supplied by hand and cottage enterprises and small scale industries.

The principal small scale industries in India are footwear, bicycles, locks, surgical implements, sewing machines, builders' hardware, agricultural instruments, hand tools, and electrical appliances.<sup>78</sup> A number of boards for promoting these small industries have been established (the Khadi and Village Industries Board, the Handloom Board, the Handicrafts Board, and the Small Scale Industries Board). They, in cooperation with state governments, arrange for technical training programs, provide marketing facilities, and offer other forms of assistance to artisans. When possible, the government has attempted, in both village and small scale industries, to increase employment and to avoid technological unemployment.

The policy of the Indian government is to protect the village and small scale industries from destructive competition

---

<sup>78</sup>The term "small scale industries," as defined by the Small Scale Industries Board, includes all industries using power that employ less than fifty persons and have a capital investment of less than Rs 500,000. See India Planning Commission, The New India, p. 286.

fostered by large scale producers while the less developed firms are improving their technology and equipment. The government justifies its protective policy on the grounds that the policy is part of the over-all plan to instigate an orderly transition from a traditional pre-industrial economy to a modern, technically advanced economy. The government maintains that this policy is necessary because various levels of technology operate within a given industry and small industries employ the greatest number of laborers.<sup>79</sup>

During World War II new industrial firms mushroomed and old firms expanded owing to the wartime needs of the government and the increased amount of consumer goods demanded. Since it was difficult to obtain imports of capital goods during the war years, Indian industries were forced to expand in order to supply the expansionary and maintenance requirements of the economy. During the years immediately after World War II, industrial capacity did not expand because of the precarious political situation and the movement of English firms out of India. By 1951 industrial production was above prewar levels, but below wartime peaks in absolute terms.<sup>80</sup>

---

<sup>79</sup>India Planning Commission, The New India, p. 287.

<sup>80</sup>George Rosen, Industrial Change in India: Industrial Growth, Capital Requirements, and Technological Change, 1937-1955 (Glencoe, Ill.: The Free Press, 1958), pp. 4-5.

The Industrial Policy Resolution (passed in 1948 and revised in 1956), which provides the framework within which the industrial sector has expanded since independence, stresses the necessity of developing heavy and machine industries.<sup>81</sup> The progress in basic capital and producer goods industries has been rapid: the index of industrial production (1951=100) reached 151 in 1959.<sup>82</sup> The India government, specifically, has increased production in iron, steel, aluminum, cement, fertilizers, heavy chemicals, and machine tools in order to begin to build a capital goods sector to uphold expansion in consumer as well as producer goods industries.<sup>83</sup>

With the exception of the iron, steel, and cement industries, however, most of India's industrial expansion has not stimulated additional domestic industrial development. While expanding industries, such as jute and cotton textiles,

---

<sup>81</sup>India Planning Commission, The New India, pp. 248-49. The first priority was given to iron and steel, heavy chemicals (including nitrogenous fertilizers), and heavy engineering and machine-building industries. The second priority was granted for the expansion of aluminum, cement, chemical pulp, dye-stuffs, phosphatic fertilizers, and essential drug production. The third priority included the modernizing and the restoring of important existing industries, namely, jute and cotton textiles and sugar. The fourth priority was granted to the expansion of consumer goods production--in cottage and small scale as well as medium and larger industries--and to the utilization of existing capacity in industries that were partially idle. See India Planning Commission, Second Five Year Plan, p. 13.

<sup>82</sup>India Planning Commission, Third Five Year Plan, p. 4.

<sup>83</sup>Rosen, pp. 146-52.

sugar, and tea, have increased their purchase of domestic raw materials, they have imported a substantial amount of the capital goods required for additional production. Likewise, expansions in power facilities and railroad systems generally have led to an increase in imports instead of additional domestic production.<sup>84</sup>

The Planning Commission anticipates that in the future the expansion that occurred in steel and transportation during past Plans will provide greater external economies, and that the additional industrial capacity now available in heavy goods and other products will serve to reduce future demands for foreign imports.<sup>85</sup>

Employment. Unemployment and underemployment is a social, political, and economic problem in India. The manner in which expansion occurs in the industrial and agricultural sectors is determined to some extent by India's large number of unemployed and underemployed. This problem limits the type of technology and techniques that can be incorporated in the Five Year Plans.

In 1956 the Indian Planning Commission estimated the number of unemployed to be at least 5.3 million, but the Commission added the following comment: "This is the most conservative figure, the number who are underemployed is known to

---

<sup>84</sup>Rosen, pp. 146-52.

<sup>85</sup>Rosen, p. 116.

be very much larger."<sup>86</sup> The Planning Commission also estimated that 20 million new workers would join the labor force each year during the Second Plan.

Even though the cities represent only about 1/6 of the total population, of the 5.3 million unemployed in 1956, about 1/2 (2.5 million) lived in the cities, and about 1/2 of these were villagers seeking city employment for the first time.<sup>87</sup> The number of persons underemployed in the cities (those who work a quarter or less of the time they are willing to work) is 3 or 4 times the number of unemployed.

The extent of rural unemployment in 1956 was between 2.8 and 2.9 million,<sup>88</sup> and, in addition, approximately 30 million persons in agriculture were underemployed for

<sup>86</sup>No nation wide surveys that give the size of India's labor force or the number of unemployed are available. The number of unemployed registered with the employment exchanges gives an indication of the magnitude of the problem, but these data relate to only a part of the urban employment market and may indicate only a greater readiness to try this means of securing employment. See India Planning Commission, Review of the First Five Year Plan (New Delhi: Government of India Press, 1957), p. 10.

<sup>87</sup>India Planning Commission, The New India, p. 93. Woytinsky in India, p. 36, states:

"In contrast, Indian cities are flooded with people streaming in from the country; the markets are full of primitive carts with farmers bringing their produce for sale; the streets are crowded with men in rags who have fled from remote villages to seek work or join the army of homeless beggars. Thus the tide of destitution and poverty flows from rural areas to the cities."

<sup>88</sup>India Planning Commission, The New India, p. 89 and p. 93.

7 months of the year.<sup>89</sup> It is estimated that between 1/4 and 1/3 of the agricultural workers represent surplus labor.<sup>90</sup>

The large number of unemployed and underemployed in both rural and urban areas are a problem which India cannot overcome quickly. The agriculture and cottage industries cannot absorb a significant number of the unemployed since unemployment, as well as underemployment, is already excessive in

<sup>89</sup>Base, Economic Development and Cultural Change, VII, Part 1 (April, 1959), p. 233.

<sup>90</sup>India Planning Commission, The New India, pp. 162-63. Ragnar Nurkse in Problems of Capital Formation, p. 134; estimates that 15 to 20 or possibly 30 per cent of the agricultural workers in South-East Asian Countries are surplus. W. Arthur Lewis in The Theory of Economic Growth (Homewood, Ill.: Richard D. Irwin, Inc., 1955), p. 327, estimates that at least 1/4 of India's agricultural population is underemployed (about 20 million workers). Also see Gokhale Institute of Politics and Economics, "Employment Situation and Policy," India, Planning Commission, Papers Relating to the Formulation of the Second Five Year Plan (New Delhi: Government of India Press, 1955), pp. 217-18, which reports that the number of underemployed in agriculture is near 30 million.

In an extensively documented article, Harry T. Oshima, "Underemployment in Backward Economies, An Empirical Comment," Journal of Political Economy, LXVI (June, 1958), p. 259, questions the existence of underemployment in the sense that the "marginal product of labor in agriculture is really zero (or close to zero)." Oshima, p. 261, states:

"During the slack seasons the general impression given by works cited is clearly that the male, adult population significantly exceeds labor requirements on the farm. But whether such an excess constitutes a surplus of labor depends on the region under consideration. In parts of Asia where rural handicrafts and other non-agricultural pursuits have not been destroyed by the invasion of machine-produced commodities, handicraft and other activities keep the laborers and peasants fairly busy. Generally speaking, these are the regions located in the interior, remote from the seaboard and urban areas. Elsewhere, especially in parts of India and prewar China, the works cited point to the existence of large amounts of surplus male labor during slack seasons, owing to the destruction of handicrafts."

these sectors. The development of labor-intensive consumer-goods industries may provide jobs for a portion of the unemployed, but the expanding heavy industry sector, emphasized by the Five Year Plans, will not employ a large number of workers because investments in the sector are primarily capital-intensive.<sup>91</sup> In the long run industrial expansion may be the solution to India's employment problem, but not at the current stage of development. A partial solution, and a temporary one, is to offer additional employment in public construction of roads, wells, canals, and other forms of public works that are primarily labor-intensive in character.<sup>92</sup>

Trade. Another problem that seriously affects economic expansion is India's balance of trade. While the total value of India's exports is only 7 per cent of national income (1957 exports of goods and services were Rs 7.98 million and national income was Rs 113.6 billion),<sup>93</sup> to India exports are strategic because they provide the foreign exchange earnings necessary for capital goods imports. India depends on imported capital

<sup>91</sup>Vakil and Brahmananda, p. 38.

<sup>92</sup>Davis in Economic Growth, p. 283, writes:  
 "The writer watched a runway being built at an airport near Siligurir in Northern Bengal. A line of ragged men and women were carrying crushed stones in containers on their heads. At first thought a dump truck, or even wheelbarrows, would be cheaper, but then it was reflected that rice is cheaper than gasoline or steel in India and that wages of these 'coolies' is little more than the rice it takes to keep them alive."

<sup>93</sup>United Nations Department of Economics and Social Affairs, Yearbook of National Account Statistics, 1959, p. 117, and United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 277.

equipment for more than one-half of the total equipment used in domestic investments.<sup>94</sup>

India has not significantly increased its exports in the last three decades.<sup>95</sup> Yet Surendra J. Patel estimates that the value of exports from all primary producing countries to Western Europe, the United States, and Canada has trebled between 1928 and 1956.<sup>96</sup> In the last decade alone the value of India's exports declined. In 1952 the index of the value of India's exports was 109 (1953=100); by 1958 the figure had dropped to 101.<sup>97</sup> Patel associates this decline with the basic change in the type of imports demanded by industrialized countries. In the past most of the exports from primary producing areas to industrialized countries were agricultural commodities; whereas today petroleum and other mineral products account for approximately two-fifths of the total exports from primary to industrial regions.<sup>98</sup> Inasmuch as Indian exports have not developed in the latter area, this shift from agricultural to mineral products partially explains why Indian exports have not increased.

---

<sup>94</sup>Surendra J. Patel, "Export Prospects and Economic Growth: India," Economic Journal, LXIX (September, 1959), p. 502.

<sup>95</sup>Patel, Economic Journal, LXIX (September, 1959), p. 493.

<sup>96</sup>Economic Journal, LXIX (September, 1959), p. 493.

<sup>97</sup>United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 401.

<sup>98</sup>Economic Journal, LXIX (September, 1959), pp. 493-95.



The bulk of India's export receipts are from a few commodities; tea, jute, and cotton goods comprise about one-half of all exports. Of these three exports, it is predicted that only the exports of tea will increase.<sup>99</sup> The exports of a few agricultural products, for example, tobacco and vegetable oils, may increase, and the prospects also are favorable for some of the products of the newly developed industries, such as metals, chemicals, drugs, cutlery, and hardware.<sup>100</sup> But the total value of India's exports probably will not increase significantly in the near future.<sup>101</sup>

### Summary

The economic development of India has been surveyed in this chapter in order to understand the economic conditions in India and the obstacles to economic growth that India is attempting to overcome. The present economic situation in India, to a large extent, is the result of past colonial control. British rule was the impetus for India's nationalistic movement and associated desire for economic development, but it did not establish economic growth.

---

<sup>99</sup>Wilfred Malenbaum, East and West in India's Development (Washington, D.C.: National Planning Association, 1959), p. 261. India could increase its supply of exportable products, but as Patel, Economic Journal, LXIX (September, 1959), p. 497, points out, "Offering more of the same things to the same people, who no longer want more of them, lies at the basis of a remarkably poor performance in export trade over the last three decades."

<sup>100</sup>Patel, Economic Journal, LXIX (September, 1959), p. 501.

<sup>101</sup>Malenbaum, p. 261.

After independence the Indian Government initiated a series of Five Year Plans. The First and Second Plans now are completed, and India has begun its Third Five Year Plan. Given India's long term development goals coupled with an extensive unemployment problem and an increasing population, India, at this time, needs to increase agricultural productivity, to expand both capital and consumer goods industries, and to increase the production of products that can be exported favorably in order to alleviate the national shortage of foreign exchange.

## CHAPTER IV

### UNITED STATES FOREIGN POLICY AND ECONOMIC AID TO UNDERDEVELOPED COUNTRIES

#### Introduction

Economic aid is one of the tools used by the United States to carry out its foreign policy. An aid program, therefore, operates under the orientation, sanction, and restraint of American foreign policy. American foreign policy objectives in underdeveloped countries, consequently, provide a basis for appraising a specific aid program.

In this chapter, first, the potential threat that underdeveloped countries present to the long run interests of the United States is acknowledged; second, United States foreign policy in regard to underdeveloped countries is reviewed; and, last, the general objectives of economic aid programs in underdeveloped countries are summarized.

#### External Challenges

Today the United States is threatened by two external challenges: the ideological and political differences that exist between the Western and Soviet blocs and the political

and economic revolutions that are occurring in underdeveloped countries in Latin America, Asia, Africa, and the Middle East. Since World War II, United States foreign policy has been chiefly concerned with these two problems, and the orientation probably will not change in the near future.

The Sino-Soviet threat is currently crucial to the United States, but the future may indicate that this threat is only an appendage of the mass betterment drive. The causes underlying the current drive for economic growth existed prior to the rise of modern communism,<sup>1</sup> and if communism had never existed, the basic, economic, social, and political changes now taking place in underdeveloped countries would have occurred. Conceivably, within this century, both the United States and Russia, as Neal D. Houghton suggests, may find the real challenge to be the task of helping to raise the level of living of billions of peoples in underdeveloped areas.<sup>2</sup>

Nevertheless, the Soviet Union is influencing the pattern that uprisings are taking in underdeveloped areas.<sup>3</sup> The two problems are intertwined; each intensifies the other. An unprecedented opportunity for the diffusion of communism lies in the merging of communist objectives with those of

---

<sup>1</sup>Neal D. Houghton, "The Challenge to Political Scientists in Recent American Foreign Policy: Scholarship or Indoctrination," American Political Science Review, LII (September, 1958), pp. 680-81.

<sup>2</sup>American Political Science Review, LII (September, 1958), p. 680.

<sup>3</sup>Stanley, p. 21.

anti-colonial political and economic movements. Communist advances since 1945, particularly in Asia, can be meaningfully explained as the revolt of "backward peoples" against "Western imperialism."<sup>4</sup>

Even if the communist threat diminishes, the next fifty to one hundred years may demonstrate that the United States is still confronted with a major threat, the danger that underdeveloped countries will develop governments that are hostile to the West. As underdeveloped countries emerge politically and economically, their hostilities toward the West--long nurtured by foreign domination--and the myriad obstacles which they face may cause them to develop institutions that are antithetical to the United States.<sup>5</sup>

#### Position of Underdeveloped Countries

During the last century and a half, the United States has raised its level of living in the midst of a world that for the most part has remained poverty-stricken. Although Canada and Western Europe and a few other areas also have progressed economically, the vast populations of Asia and Africa have remained stagnant. Today Asia and Africa are emerging from years of relative stagnation and isolation. The construction of world communication and transportation systems, the two world wars, and the emergence of nationalistic movements

---

<sup>4</sup>Gadgil, Economic Policy, p. 18.

<sup>5</sup>Max F. Millikan and W. W. Rostow, A Proposal: Key to an Effective Foreign Policy (New York: Harper and Brothers, 1957), pp. 141-42.

throughout the world have changed the international setting. The colonial structure that overtly or tacitly dominated many underdeveloped countries for centuries is now crumbling.

"The 'revolution of rising expectations,' . . . is of recent origin," in the words of Paul G. Hoffman:

Through countless centuries most of the forebearers of these underprivileged people, who are now so determined to improve their lot, endured patiently the evils of poverty and ignorance. In all probability there was always some smouldering unrest, but it did not burst into flames until the advent of World War II.<sup>6</sup>

Although some of the underdeveloped countries have been sovereign states for years, many of these countries have recently become self-governing. Twenty-six countries in Asia, the Middle East, and Africa, with a combined population of over 780 million people, have become independent since World War II.<sup>7</sup> Moreover, the staff of the Stanford International Industrial Development Center predicts that the areas that still are under colonial rule will achieve independence within five to ten years.<sup>8</sup>

As a result of modern communication systems and greater contact with the Western world, the leaders of underdeveloped

<sup>6</sup>"Should We Reassess Our Foreign Aid Program?" The Annals of the American Academy of Political and Social Science, CCCXXX (July, 1960), p. 87.

<sup>7</sup>Frank L. Turner and Others, Significant Issues in Economic Aid to Newly Developing Countries (Menlo Park, Calif.: International Industrial Development Center, Stanford Research Institute, 1960), p. 19 and Appendix F, p. 68. Also see the work of William G. Carleton, The Revolution in American Foreign Policy (1st ed. rev.; New York: Random House, Inc., 1957), p. 18.

<sup>8</sup>Turner, p. 19.

areas are keenly aware of the difference in the level of living between their countries and the industrialized nations.<sup>9</sup>

Underdeveloped countries are determined to throw off the shackles of economic stagnation, in most cases, regardless of the cost, and to improve their lot by compressing the transformation from a traditional to a modern economy into little more than one or two decades.<sup>10</sup>

The newly self-governing peoples covet their independence and are fervently nationalistic. Emerging nations want to attain and preserve independence, an independence from foreign political and economic domination and based on equality and respect among nations. In emerging nations economic strength is considered to be a requisite for these goals.<sup>11</sup> The planned social and economic changes now occurring in underdeveloped countries, as a consequence, are not concerned with economic growth or the employment of Western technology and capital, per se.

The peoples of emerging nations believe political independence will yield them substantial economic benefits. To these peoples political sovereignty and economic growth are correlated. The political stability of these new nations, thus, depends, in part, on the governments' abilities to

---

<sup>9</sup>Committee for Economic Development, Economic Development Assistance (New York: Committee for Economic Development, 1957), p. 11.

<sup>10</sup>Turner, p. 20.

<sup>11</sup>See Stanley, p. 21, and Committee for Economic Development, p. 11.

instigate economic growth.<sup>12</sup> To quote Hoffman, "Political revolt is only the beginning of a wider and deeper revolt against the indignity of poverty."<sup>13</sup>

The question is not whether underdeveloped areas will be able to induce growth, rather, it is what political and economic measures will be undertaken to insure economic growth. Most of the underdeveloped countries, as yet, are not committed to a democratic or a totalitarian regime. A political and economic system that is different from those of the United States and the Soviet Union may evolve in underdeveloped areas.<sup>14</sup> The problem in underdeveloped countries, as peoples in underdeveloped countries see it, is not whether to establish a capitalistic or communistic form of economy; rather, the problem is to determine the amount of government control that is needed to achieve economic growth.

Although economic progress is a requisite for the building of a democratic and stable government, it is not the only essential. The past history of the peoples, the type of leadership that acquires political and economic control, and the current international situation greatly affect the future course of developing areas. As John J. McCloy says, there

<sup>12</sup>Turner, p. 19.

<sup>13</sup>The Annals of the American Academy of Political and Social Science, CCCXXX (July, 1960), p. 87.

<sup>14</sup>Palmer, American Political Science Review, XLIX (September, 1955), p. 761, and Chester Bowles, Ideas, People and Peace (New York: Harper and Brothers, 1958), p. 61.



instigate economic growth.<sup>12</sup> To quote Hoffman, "Political revolt is only the beginning of a wider and deeper revolt against the indignity of poverty."<sup>13</sup>

The question is not whether underdeveloped areas will be able to induce growth, rather, it is what political and economic measures will be undertaken to insure economic growth. Most of the underdeveloped countries, as yet, are not committed to a democratic or a totalitarian regime. A political and economic system that is different from those of the United States and the Soviet Union may evolve in underdeveloped areas.<sup>14</sup> The problem in underdeveloped countries, as peoples in underdeveloped countries see it, is not whether to establish a capitalistic or communistic form of economy; rather, the problem is to determine the amount of government control that is needed to achieve economic growth.

Although economic progress is a requisite for the building of a democratic and stable government, it is not the only essential. The past history of the peoples, the type of leadership that acquires political and economic control, and the current international situation greatly affect the future course of developing areas. As John J. McCloy says, there is

<sup>12</sup>Turner, p. 19.

<sup>13</sup>The Annals of the American Academy of Political and Social Science, CCCXXX (July, 1960), p. 87.

<sup>14</sup>Palmer, American Political Science Review, XLIX (September, 1955), p. 761, and Chester Bowles, Ideas, People and Peace (New York: Harper and Brothers, 1958), p. 61.

no easy answer to a Castro or a Lumumba.<sup>15</sup> Nevertheless, if the level of living in underdeveloped areas is not raised, the possibility that emerging nations will build stable and free governments becomes more remote, and the likelihood that governments antithetical to the United States will be accepted becomes less remote.<sup>16</sup>

### Communism and Underdeveloped Countries

In order to build a modern political and economic system in underdeveloped areas, the traditional institutions and ways of life must be discarded and new cultural patterns must be established. This process, of necessity, is gradual under a democratic form of government. During this transitional period the communist doctrine may be readily accepted because at this time discontent and confusion are omnipresent. The starving and hopeless people in underdeveloped areas are not highly susceptible to communist indoctrination. But those people who have begun to advance economically and who are aware that change is possible are vulnerable.<sup>17</sup>

Communism is imposed most easily on a frustrated and confused society. A society that has established a pattern of economic growth and has oriented its political and social

---

<sup>15</sup>"Foreign Economic Policy and Objectives," Goals for Americans, President's Commission on National Goals (Columbia University: The American Assembly, 1960), p. 336.

<sup>16</sup>Houghton, American Political Science Review, LII (September, 1958), p. 680.

<sup>17</sup>Stanley, p. 174.

institutions to the requirements of a modern state is not likely to accept communism.<sup>18</sup> When the traditional institutions are crumbling and the conditions necessary for accelerated capital investment are being established, a country is in a susceptible position; as Rostow states:

It is in such a setting of political and social confusion, before the take-off is achieved and consolidated politically and socially as well as economically, that seizure of power by Communist conspiracy is easiest; and it is in such a setting that a centralized dictatorship may supply an essential technical precondition for take-off and a sustained drive to maturity: an effective modern state organization.<sup>19</sup>

Communism becomes an impressive alternative for peoples who are striving to build a modern political and economic state and who are groping for a framework within which to relate themselves to the modern world. Irving Kristol, in describing the approach of the peoples of underdeveloped countries to communism, emphasizes that to them the doctrine may represent a "practical expedient":

It is this agitated yearning for an equality of status that lies behind the appeal of Communism to Asian, African, and Middle Eastern countries. To them, Communism is no "brave new world" as Western utopians have seen it, but a practical expedient whereby poor nations can ruthlessly mobilize their resources (and above all their manpower) so as to attain near-equality in effective military power and, consequently, in world esteem.<sup>20</sup>

---

<sup>18</sup>Millikan and Rostow, Foreign Affairs, XXXVI (April, 1958), p. 422.

<sup>19</sup>The Stages of Economic Growth, p. 163.

<sup>20</sup>"The Ideology of Economic Aid," Yale Review, XLVI (June, 1957), p. 510.

United States National Interest and Economic Aid

It is in the national interest for the United States government to provide for national security, to insure our economic and political survival, and to maintain the continual development of our institutions.<sup>21</sup> The national interest,<sup>22</sup> in turn, is the motive as well as the justification for government action in foreign affairs. Foreign aid, both military and development assistance, is an instrument of foreign policy and, consequently, a tool with which to support the national interest.

<sup>21</sup>William Reitzel, Morton A. Kaplan, and Constance G. Coblenz in United States Foreign Policy, 1945-1955 (Washington, D.C.: The Brookings Institution, 1956), Appendix A, p. 471, define the national interest as the following:

"...the general and continuing end for which a state acts. It embraces such matters as the need of a society to be free from external interference in the maintenance of its identity as an organized state--security from aggression; the desire of a national group to maintain its standard of well-being and cultural cohesion, and the efforts that an organized state, operating politically, makes to achieve the conditions both internally and internationally that will contribute to its security and well-being."

<sup>22</sup>Thomas I. Cook and Malcolm Moos in "Foreign Policy: The Realism of Idealism," American Political Science Review, XLVI (June, 1952), p. 345, state:

"The national interest is at most a continuous and quasi-organic outcome and synthesis of an interplay of forces, in which varied concepts of national role and function and of the relationship of particular interests to the nation are an inherent part. The nation is an instrument for persons who, amidst their vast diversity, share some common heritage and some general aspirations which can be pursued by collective action. A national interest, which, it is true, is not merely a sum of individual interests, which, in part by very reason of their divergencies, cannot be added or averaged. Rather, it is in large measure a set of some conditions which have to be furthered and of which some must be preserved by appropriate action."

Historically, each international crisis has proffered a new problem and, therefore, a different aid program. Since World War II, the foreign aid program of the United States has passed through three major phases: from 1944 to 1946, aid was given primarily for the relief and rehabilitation of war torn Europe; between 1947 and 1950, economic assistance was provided to reconstruct the shattered economies of Western Europe; and since 1950, military aid supplied through the North Atlantic Treaty Organization has been the dominant program.<sup>23</sup>

In the fall of 1951, Soviet policy overtly changed; a program of political, economic, and psychological infiltration appeared to be replacing the program of military aggression. Terms such as "anti-colonialism," "nationalism," and "economic progress" became the key words of communist propagandists. Underdeveloped areas in Asia, the Middle East, and Africa, at this time, began to doubt that their sparse forces constituted an adequate defense against communistic forces, and to assert that their national interests placed economic aid above military aid. The use of economic aid to counteract the increased political and economic emphasis of Soviet foreign policy in underdeveloped areas, thus, evolved. To this objective, gradually was added the idea of using

---

<sup>23</sup>For a critical evaluation of the United States foreign aid program see Elgin Groseclose, "Diplomacy of Altruism," Foreign Aid Reexamined: A Critical Appraisal, ed. James W. Wiggins and Helmut Shoeck (Washington, D.C.: Public Affairs Press, 1958), pp. 25-42, and Milton Friedman, "Foreign Economic Aid: Means and Objectives," Yale Review, XLVII (Summer, 1958), pp. 500-16.

economic aid to encourage the growth of political and economic freedom in emerging nations.<sup>24</sup>

Although the various programs have overlapped, categorically, the United States provides two types of foreign aid: military aid and aid for economic development. Military aid, currently considered to be essential for the defense of the United States, is intended to provide for the national security by helping to keep the free world prepared to defend itself against communist aggression. Numerous reasons, however, have been presented to justify economic assistance to underdeveloped countries. Many of these arguments cannot be substantiated, while others have some validity. Statements such as "aid is an expression of America's moral obligation," "the United States must depend on underdeveloped countries for raw materials," and "underdeveloped countries represent needed markets for our products" are of questionable validity.

Economic aid is not given because Americans are generous people and want to be "good neighbors" to less fortunate peoples. In regard to America's moral responsibility, Elgin Groseclose maintains that church representatives who advocate aid programs as an expression of moral concern or obligation to the rest of the world are attempting to involve the state in religious affairs. Specifically, Groseclose alleges:

---

<sup>24</sup>See William Appleton Williams, The Tragedy of American Diplomacy (Cleveland: The World Publishing Co., 1959), pp. 166-70; Millikan and Rostow, A Proposal, pp. 8-11; and Lorna Morley and Felix Morley, The Patchwork History of Foreign Aid (Washington, D.C.: American Enterprise Association, 1961), pp. 1-52.

It represents an effort to identify Church and State, that is, to convert the government into an instrument of moral conscience. It conforms to various totalitarian ideologies, both Fascist and Communist, in that it represents an effort to identify the State with the totality of the social life, and to use the mechanisms of the State, rather than those of Church or philanthropic societies, as instruments of foreign benevolence.<sup>25</sup>

The statement that the United States must depend on underdeveloped countries for raw materials is of doubtful validity. The United States, to some extent, does depend on foreign suppliers for raw materials, but given the time to make the necessary adjustments, in Chester Bowles' judgment, the United States is relatively invulnerable to the loss of foreign sources of raw materials.<sup>26</sup> Although domestic substitutes, both natural and synthetic, would be more expensive and new production techniques would be required, the economy as a whole would not be seriously affected.

Moreover, the argument that the industrialization of underdeveloped areas will increase the market for United States goods is based on the fact that the United States trades primarily with industrialized areas. The assumption is made, therefore, that American trade will increase as underdeveloped countries industrialize. This assumption is questionable. Whether or not United States trade with underdeveloped countries will increase as they industrialize, as J. N. Behrman stresses in the statement that follows, depends on the type of production structure that underdeveloped countries build:

---

<sup>25</sup>Foreign Aid Reexamined, p. 27.

<sup>26</sup>Ideas, People and Peace, p. 27.

That United States trade is largest with the industrialized countries in Europe where living standards are highest is a fact, but that its trade with presently underdeveloped areas would be greater and more profitable if the latter became industrialized is disputable. The result on the volume and character of trade after development depends entirely on the structure of production and trade attained; that is, whether it is more complementary to the United States or more competitive in general (both with domestic production in the United States and in third markets) than was the initial structure.<sup>27</sup>

Development aid is as closely tied to the national interest as is military aid, yet the relationship between United States foreign policy and economic aid is not always clearly seen, as the above comments point out. The objectives of development aid are to promote the establishment of democratic governments and dynamic economies in emerging nations.<sup>28</sup>

It is in the national interest to create a world that is oriented to Western political and economic institutions, because such an international order contributes to the political and economic survival, to the national security, and to the perpetuation of the way of life of the United States.<sup>29</sup>

C. Tyler Wood summarizes the relationship between foreign aid and the national interest in the following manner:

---

<sup>27</sup>J. N. Behrman, "Aid for Economic Development and the Objectives of United States Foreign Economic Policy," Economic Development and Cultural Change, IV (November, 1955), pp. 56-57. Also see Albert O. Hirschman's article "Effects of Industrialization on the Markets of Industrial Countries," The Progress of Underdeveloped Areas, ed. Bert F. Hoselitz (Chicago: University of Chicago Press, 1952), pp. 271-83.

<sup>28</sup>U. S. Congress, Senate, Special Committee to Study the Foreign Aid Program, The Objectives of United States Economic Assistance Programs, prepared by the Center for International Studies, Massachusetts Institute of Technology, 85th Cong., 1st Sess., 1957, pp. 16-25.

<sup>29</sup>See Millikan and Rostow, A Proposal, pp. 20-24.



...The foreign aid program has as its objective to aid in the development of political and economic systems in other countries of the world which will move in the direction of reasonable stability; will be able to contribute in appropriate measure to their own and the common defense against military aggression; will be based on the knowledge, consent and participation of an increasingly wider circle of people in each country; and will develop enough dynamism to create within themselves the human and physical resources required for their further progress.<sup>30</sup>

### Objectives of Economic Aid

Economic development cannot be superimposed, development must be initiated by the indigenous peoples in underdeveloped areas. They must provide the major share of the capital and master the skills needed to use modern technology and machines.<sup>31</sup> And unless an underdeveloped area puts forth the necessary effort, foreign aid will be ineffectual. If these conditions are met, however, aid can supply capital equipment and technical assistance, train local personnel, and provide some of the financial resources needed to build transportation and other basic facilities that generally do not attract private investment.<sup>32</sup>

Foreign aid can assist in the development process in many ways, and aid, as in the case of India, may prove to be a decisive factor. Yet, the value of economic assistance as an instrument with which to carry out United States foreign

---

<sup>30</sup>C. Tyler Wood, "Problems of Foreign Aid Viewed from the Inside," American Economic Review, XLIX (May, 1959), pp. 205-206.

<sup>31</sup>Stanley, p. 261.

<sup>32</sup>Committee for Economic Development, p. 20.

policy has not been determined.<sup>33</sup> The necessity of supplying economic aid to underdeveloped regions is for the most part accepted, but the contribution of economic aid to development is not clear-cut, probably because an appraisal of an economic aid program, as the Center for International Studies points out, calls for judgment and interpretation which may vary among observers.<sup>34</sup> In regard to the efficacy of economic aid, the Stanford International Industrial Development Center comes to the following indecisive conclusion:

For all the trial and error in the program mechanics for promoting the goal of development progress in underdeveloped areas, neither the U. S. government, its allies, nor the international agencies involved in aid programs have as yet discovered highly effective means of supporting this objective.<sup>35</sup>

Economic aid will not assure economic growth in underdeveloped countries, nor will it insure an ally or even a

---

<sup>33</sup>Recent controversies in congress concerning economic aid to underdeveloped areas have pertained to the amount of aid that should be given, the extent to which other nations in the free world should contribute, and the type of aid that would be most effective; the necessity of giving aid to underdeveloped countries, for the most part, has been accepted.

The few congressmen who maintain that private enterprise, if not restricted by government controls, would develop underdeveloped areas overlook the fact that the economic conditions that are necessary for the operation of a private enterprise system are lacking in most underdeveloped regions. Private enterprise has not functioned effectively in the majority of underdeveloped countries, not because of restrictive governmental controls, but because the requisites of a private enterprise system have not been developed. See Millikan and Rostow, Foreign Affairs, XXXVI (April, 1958), p. 419, and Stanley, pp. 238-39.

<sup>34</sup>Special Senate Committee to Study the Foreign Aid Program, The Objectives of United States Economic Assistance Programs, 1957, p. 64.

<sup>35</sup>Turner, p. 2.

friend for the United States. Even if underdeveloped countries begin to modernize, there is no certainty as to the form of government that will evolve in these countries.<sup>36</sup> Many factors, for instance, the culture of the country, the pattern that development follows, and the international situation, affect the outcome.

Emerging nations probably will not follow a pattern of economic and political development that is similar to the course followed by the United States or the Soviet Union.<sup>37</sup> The current domestic and international situation is not like the settings under which the United States achieved economic growth and Russia began to develop.<sup>38</sup> In Asia, particularly, the peoples are taking a new pride in their age old civilizations. They have a hatred of colonialism and the doctrine of "white supremacy" and, consequently, a reticence toward Western Society. "The American Way" is not necessarily an appropriate or satisfactory system for underdeveloped

---

<sup>36</sup>See Williams, p. 13, for a rather poignant discussion of the American attitude toward other nations. Williams contends that the American people have a strong drive to help other people better their lot in life. Americans maintain that all nations have the sovereign right to seek their objectives in the manner which they consider to be most appropriate. Yet, according to Williams, Americans are inclined to believe that other nations cannot solve their problems unless they follow "the American way." Americans want to be "good Christian neighbors" to the rest of the world, they believe in self-determination, but only as long as other nations accept American objectives and seek to establish American political and economic institutions.

<sup>37</sup>Bowles, pp. 71-72.

<sup>38</sup>Gadgil, Economic Policy, pp. 162-63, and Niculescu, Economic Journal, LXV (September, 1955), pp. 546.

countries.<sup>39</sup> American institutions cannot be transplanted, per se, for they are the unique result of our environment and historical traditions.<sup>40</sup> But a nation can act in many ways and not become a satellite or a pawn of the Soviet Union.<sup>41</sup>

### Conclusion

It is in the United States national interest to increase the level of living, the political stability, and the freedom and opportunities of peoples in underdeveloped countries. Economic aid, because it is used to promote American foreign policy in underdeveloped countries, is dedicated to these objectives. Given these objectives, the next step in this study is to consider the value of an aid program in a specific country in relation to the economic and political setting of the country.

Thus, in the case of economic aid to India the criterion of evaluation becomes the following: does the economic

<sup>39</sup>Kristol, Yale Review, XLVI (June, 1957), p. 508.

<sup>40</sup>According to Daniel J. Boorstin, the United States has learned from experience that man, by using the methods he considers most suitable based on his environment and historical traditions, can better his position in life. In The Genius of American Politics (Chicago: The University of Chicago Press, 1953), pp. 185-86, Boorstin writes:

"If we have learned anything from our history, it is the wisdom of allowing institutions to develop according to the needs of each particular environment; and the value of both environmentalism and traditionalism as principles of political life, as ways of saving ourselves from the imbecilities, the vagaries, and the cosmic enthusiasms of individual men. This is our idea of constitutional federalism, without which our great nation would have been impossible."

<sup>41</sup>See Palmer, American Political Science Review, XLIX (September, 1955), p. 761, and Bowles, p. 61.

assistance that is supplied contribute to India's Third Five Year Plan and, thereby, help to perpetuate a democratic government, to raise the level of living, and to stabilize domestic affairs in a period of rapid transition. In Chapter III India's economic background was presented. In Chapter V which follows the Indian political scene is examined with reference to the objectives of United States foreign policy.

## CHAPTER V

### INDIA AND UNITED STATES FOREIGN POLICY

#### Introduction

United States foreign policy acts as the restraint as well as the motivation for economic aid. The current political atmosphere of the United States and the aid recipient country become important factors in an appraisal of an economic aid program because aid is not given by one country to another in a vacuum. In this chapter India's political setting, with reference to the goals of United States foreign policy, is reviewed in order to point out the relevance of the political setting in an aid recipient country.

#### Indian Constitution

The Indian Constitution is considered by most observers to be democratic in spirit.<sup>1</sup> The central government is elected

---

<sup>1</sup>Woytinsky, India, pp. 10-11. The Indian Constitution states:

"We, the people of India, having solemnly resolved to constitute India into a Sovereign Democratic Republic and to secure to all its citizens: Justice, social, economic, and political; Liberty of thought, expression, belief, faith and worship; Equality of status and of opportunity; and to promote among them all Fraternity assuring dignity of the individual and the unity of the Nation; . . ."

These tenets which are elaborated upon in the Declaration of Fundamental Rights and the Directive Principles of State Policy constitute the guiding political, social, and economic principles of the Indian Government. For a discussion of the Indian Constitution see Panikkar, The Afro-Asian States, p. 85.

by universal suffrage, and state legislative power also is exercised by democratically elected assemblies.<sup>2</sup> The Indian Constitution gives each citizen the right of equality before the law, of ownership of property, of religious and cultural freedom, and of prerogative writs. In the words of Frank Moraes, " . . . the spirit of democracy is there--the right of every individual to express his opinion and the right to form an opposition party."<sup>3</sup>

### Indian Socialism

The Indian government distinguishes between democracy as a form of political organization and capitalism as a type of economic system. India has rejected both capitalism and communism for a socialistic economy.<sup>4</sup> In 1954 the Parliament

<sup>2</sup>Zinkin, p. 222.

<sup>3</sup>"After Nehru, What?" India and the United States, ed. Selig S. Harrison (New York: The Macmillan Co., 1961), pp. 229-30. Also see Panikkar, The Afro-Asian States, p. 26.

<sup>4</sup>John Kenneth Galbraith in "Rival Economic Theories in India," Foreign Affairs, XXXVI (July, 1958), p. 505, maintains that neither the capitalistic system advocated by the United States or the extensively planned system of the Soviet Union are applicable to India:

"Indian Marxists, who are a considerable and influential group, naturally assume that the formula for India's future is given by Marxist-Leninist doctrine and current Soviet experience. It is to these (and in recent times also to China) that they look for essential guidance. I sense that little effort is made to modify this doctrine in applying it to the Indian scene. And plainly, much of it is as remote from the realities of the Indian life as are Marx, Lenin and the modern Soviet leaders in time or temperament.

"A very much larger number of Indian economic leaders look for guidance to the sophisticated economic theory of the West. To be in communion with this doctrine is a mark of scholarly achievement. Again, no great store is set by modification and adaption to the Indian experience. As a result, an astonishing proportion of the economics that is taught and discussed in India has little relevance to Indian problems. Indeed, some of the more refined theoretical models discussed are not notably relevant to the Western communities where they originated."

Also see Palmer, American Political Science Review, XLIX (September, 1955), p. 761.

selected the socialistic pattern as the basis for its economic and social policies.<sup>5</sup> The capitalism that India has rejected is the theoretical laissez faire system that partially prevailed, if it ever existed, in the United States in the nineteenth century.<sup>6</sup> Indians describe their economy as socialistic, but as Woytinsky stresses, the Indian economy operates in a manner similar to that of the United States.<sup>7</sup>

To the average Indian, socialism is a "beautiful word"--<sup>8</sup> a term that connotes economic growth and well-being; social, economic, and political justice; and equality of status and opportunity. Both the conservative and liberal political parties accept, as a national objective, the goal of providing

<sup>5</sup>Harrison, p. 7.

<sup>6</sup>The United States domestic economic policy has been fundamentally pragmatic. Although government intervention is considered to be distasteful, the social security and agricultural programs, the Tennessee Valley Authority, fair trade laws, minimum wage legislation, and aid to depressed areas to mention only a few examples, today are considered to be essential by most citizens. This social pragmatism, in Galbraith's opinion, accounts for America's economic success. See Foreign Affairs, XXXVI (July, 1958), p. 590.

<sup>7</sup>India, pp. 11-13.

<sup>8</sup>Socialism is a term that is frequently used indiscriminately. Margaret W. Fisher and Joan V. Bondurant in Indian Approaches to a Socialistic Society (Berkeley: University of California, 1956), p. 1, list several governmental characteristics that the term generally denotes: the concept of the general welfare is the overriding consideration; social problems are considered to be of central concern; the people believe that collective action should be used in dealing with social problems; and cooperation is considered to be the best form of social organization.



for the economic welfare of all Indians.<sup>9</sup> Moreover, under the Constitution, it is incumbent upon the government to take the initiative in economic planning and development. The state, therefore, is considered to be the dynamic force in Indian economic development.<sup>10</sup> In this sense India is socialistic.

### Government Planning

The Indian government has embarked on a series of Five Year Plans. The Plans are drafted by the Planning Commission, submitted for general review, examined and criticized by the state governments, and then presented to Parliament for official adoption.<sup>11</sup> Given India's economic goals in relation to its shortage of capital, scarcity of technical and managerial personnel, and paucity of other requisite resources, the

---

<sup>9</sup>The only purely Indian brand of Socialism is "Sarvodaya." Gandhi adopted the term "Sarvodaya" (the uplifting of all) to describe his ideal social order--a peaceful, harmonious, casteless society that provided equal opportunity for all. In Gandhi's plan the villages were to be autonomous political units, and the local village councils the central political organizations.

The objectives of Gandhi's program have been adopted by the Bhoodan movement. The immediate goal of the Bhoodan movement is the removal of social and economic injustice, but the ultimate objective is the establishment of a socialistic society. The dedication of one's life to the service of India's poor and to the goals of "Sarvodaya" is considered to be the greatest gift that one can give to the movement. See Fisher and Eondurant, pp. 35-37 and p. 41.

<sup>10</sup>Zinkin, p. 221.

<sup>11</sup>B. K. Nehru, "The Prospects for Indian Democracy," India and the United States, ed. Selig S. Harrison (New York: The Macmillan Co., 1961), p. 211.

conservation of economic resources is necessary.<sup>12</sup> In the words of B. K. Nehru, "When the odds are so heavily against us, we have, in societies such as ours, to develop certain guidelines along which the entire process of economic development must take place."<sup>13</sup>

India is a mixed economy in which the private sector is allotted a significant role. Private enterprise, nonetheless, is required to conform to the objectives of the state

<sup>12</sup>In regard to economic planning, Woytinsky in India, pp. 167-68, states:

"This idea is contrary to our [United States] economic system, not because we deny the necessity of economic planning but because our economic system is too dynamic and too complex to be squeezed into a universal plan with watertight five-year compartments the same for all industries. Our system requires no less planning than the Communist *piatiletkas*, but its various movements neither start nor end simultaneously, at the beat of a drum. Within its framework plans may be made in agriculture for a year ahead; in certain industries and trades for three years ahead, and in others for five years ahead; in building highways and developing power for ten years ahead, and so on.

"Since our plans are devoid of dramatic devices of assessment of the past and call for the future, the Indian economists have decided that we are opposed to any economic planning. Some American economists have done their best to confirm this point of view. When I heard a business economist from New York explaining to a New Delhi audience that the first step toward economic revival in India must be denationalization of the railroads and airlines I realized why the Indian planners felt they would not find inspiration in the United States.

"The true difference between the free-enterprise system and that of the Soviets is not that one is a planless and the other a planned economy, but that they use different methods of planning."

<sup>13</sup>India and the United States, p. 210.

social and economic programs and is controlled by regulations, such as import quotas, exchange restrictions, and licensing permits. In a comparison between the Indian and United States economies, John Kenneth Galbraith comes to the following conclusions:

The Indians are indeed engaged in an imaginative and energetic effort to expand their economic plant and its output. Both by choice and by necessity they are doing much of this under public auspices. Yet, by almost any test, the economy of India is less responsive to public guidance and direction than that of the United States. Indeed, it is one of the world's least controlled or 'planned' economies. In the United States the several levels of government dispose of about 20 per cent of total production (of \$434 billions in 1957). In India the corresponding figure is not over ten per cent. By this test--the size of state activity in relation to all activity--more than twice as much of the American economy is managed or planned by government as is the case in India.<sup>14</sup>

### Indian Foreign Policy

Since independence, the attention of the Republic of India has centered on the need to consolidate and unify diverse peoples and on the necessity to maintain peace, both internally and externally, in order to promote domestic development.<sup>15</sup> The main tenets of Indian foreign policy appear to be opposition to imperialism and avoidance of foreign entanglement.<sup>16</sup> India has rejected extensive commitments to either the Western or Sino-Soviet bloc in favor of a neutral policy. India claims its position in foreign affairs is based on an evaluation of the

<sup>14</sup>Foreign Affairs, XXXVI (July, 1958), p. 589.

<sup>15</sup>Moraes, India Today, pp. 140-41.

<sup>16</sup>Gupta, p. 13.

merits of each issue.<sup>17</sup> Some Americans regard India's position with disfavor, they say it shows a lack of discrimination or an unwillingness to stand-up and be counted in a struggle between the forces of "good" and "evil."<sup>18</sup>

The tensions that exist between the United States and India center on a divergent analysis of the world situation and of the forces that threaten political and economic freedom. The United States believes the primary threat is the Sino-Soviet bloc (totalitarian communism);<sup>19</sup> India believes that the last vestiges of Western imperialism in Asia and Africa represent a greater obstacle to freedom. Indian leaders concede that totalitarian communism is a potential menace, but they maintain that it is a remote and internal problem<sup>20</sup>--"Put first things first, say the Indians, and make the free world really free."<sup>21</sup> From the Indian point of view, to become embroiled

---

<sup>17</sup>India's foreign policy has been compared to the neutral policy followed by the United States in the late eighteenth century. For example, Gupta, p. 61, maintains that India's neutrality, as was the United States', is an expression of the need of a new state to protect internal development. But Robert A. Scalapino in "'Neutralism' in Asia," American Political Science Review, XLVIII (March, 1954), p. 49, contends that Indian neutrality is a modern substitute for the outmoded isolationist approach that the United States followed during the nineteenth century.

<sup>18</sup>Scalapino, American Political Science Review, XLVIII (March, 1954), p. 55 and p. 57, and Gupta, p. 13.

<sup>19</sup>Robert Strausz-Hupe, Alvin J. Cottrell, and James E. Dougherty (eds.), American-Asian Tensions (New York: Frederick A. Praeger, 1956), p. 45.

<sup>20</sup>Scalapino, American Political Science Review, XLVIII (March, 1954), pp. 58-59.

<sup>21</sup>Strausz-Hupe, Cottrell, and Dougherty, p. 46.

in the "cold war" would be tantamount to losing everything that India has gained in its long struggle for national independence.<sup>22</sup>

Indian leaders believe both that the United States foreign programs have consisted mainly of defensive maneuvers against the Soviet Union, and that the United States is interested in controlling the communist bloc, regardless of the affect on underdeveloped countries. India considers the actions of the United States government to be negative and overly militaristic.<sup>23</sup> They doubt that the United States understands or approves of the nationalistic revolutions that are occurring throughout Asia.<sup>24</sup>

<sup>22</sup>Strausz-Hupe, Cottrell, and Dougherty, p. 1.

<sup>23</sup>In the United Nations General Assembly, Indian delegates have continually fought for the elimination of what they consider to be Western imperialism in Asia and Africa. The Indian government has protested the testing of nuclear weapons in the Pacific--the "yellow man's ocean." It considers the maintenance of Western air bases in Africa and Asian countries and the Southeast Asia Treaty Organization and Baghdad Pact to be symbols of Western encroachment upon the independence of the new nations in these areas. India would like to see the United States withdraw its treaty commitments with Asian countries, particularly Pakistan. Indian officials assert that the United States should not have backed Rhee in Korea or Chiang Kai-shek in Formosa. Likewise, India contends that the United States should consent to the admission of the Chinese People's Republic in the United Nations. See Scalapino, American Political Science Review, XLVIII (March, 1954), pp. 60-61, and Strausz-Hupe, Cottrell, and Dougherty, p. 191 and p. 196.

<sup>24</sup>Scalapino, American Political Science Review, XLVIII (March, 1954), p. 61.

### Importance of India to the United States

India is important to the United States for several reasons. India's population of about 400 million represents 40 per cent of all the peoples living in the underdeveloped countries of the free world,<sup>25</sup> and is equal to the combined population of the continents of Africa and Latin America.<sup>26</sup> Moreover, India is the first country with a large peasant population to attempt a program of accelerated economic development under a non-totalitarian government. In a way, India's development program is an experiment to determine whether rapid economic growth can occur under a democratic form of government. The question that confronts India is the following: can the present democratic government modernize India at a rate that is satisfactory to the Indian people? In regard to the international importance of the success of India's development plans, Bowles, while an American envoy in India, stated:

If the democratic government fails in India, the entire free world will suffer a catastrophic set back all through Asia. The set back will be even greater in my opinion than that which the free world suffered when China was conquered by the Communists.<sup>27</sup>

### India and United States National Interest

It is in the national interest of the United States that India becomes economically and politically stable and retains

<sup>25</sup>United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 31.

<sup>26</sup>Nehru, India and the United States, p. 209.

<sup>27</sup>Gupta, p. 6.

its democratic institutions. In India national unity pivots on the goal of achieving economic growth. This drive for economic growth, in a manner of speaking, is a continuation of the Indian nationalistic movement. The people of India will evaluate the performance of the present government in terms of how widely and rapidly modernization has occurred under the democratic institutions the present government has advocated and used.<sup>28</sup> Although economic growth will not assure the continuation of a democratic form of government in India, development will increase the probability that political freedom will be maintained.<sup>29</sup>

India and communism. Communism is a potential external and internal threat to India. If the present political structure collapses, the resulting vacuum could provide a situation in which communism would grow.<sup>30</sup> Yet, students of contemporary India believe there is little immediate danger that India will accept communism.

Peoples of underdeveloped areas are attracted to communism during the period when their traditional institutions have crumbled because of rapid social change and, as yet, have not been replaced with modern institutions. The peoples of underdeveloped countries are eager to participate in the modern

---

<sup>28</sup>Millikan and Rostow, Foreign Affairs, XXXVI (April, 1958), pp. 430-31.

<sup>29</sup>Averell Harriman, "The Prospects for Indian Democracy," India and the United States, ed. Selig S. Harrison (New York: The Macmillan Co., 1961), p. 209.

<sup>30</sup>Harrison, pp. 5-7.

world, but they do not know how to go about it. Communism, according to Richard J. Coughlin, offers a means by which peoples of underdeveloped countries can identify themselves with the modern world, and provides a social structure in which frustrated people can find an outlet.<sup>31</sup>

In India British colonialism, because it disrupted many of India's traditional institutions, laid the foundation for the gradual establishment of a Western value system and Western institutions.<sup>32</sup> Several factors long existent in Indian society, in addition, are in opposition to the communist doctrine. The Indian economy is composed primarily of peasants who own a few acres of land and shopkeepers who operate small shops.<sup>33</sup> Today the skilled working class is becoming India's new middle class, a class with leisure time that owns bicycles and attends movies. Moreover, the Hindu philosophy of life is opposed to the system of modern communism; people who are reluctant to squash a cockroach do not readily use force to obtain their ends.

The Hindu faith, although it has been a retarding force in Indian development, is a major bulwark against communism. The Hindu religion does not concern itself with the lot of the masses, rather, Hindu scriptures emphasize the value of

---

<sup>31</sup>Yale Review, XLVI (Spring, 1957), pp. 446-51.

<sup>32</sup>Coughlin, Yale Review, XLVI (Spring, 1957), pp. 446-51.

<sup>33</sup>Zinkin, p. 230.



renunciation and of perfecting the individual soul by humility and detachment. Hinduism teaches detachment from society because man is paying in his present life for actions in past lives. To disturb this process is to interfere with the plan of God.<sup>34</sup> Thus, communism does not represent an urgent threat in India.

Indian alternative. The gravest threat to the Republic of India is the differences that exist among the people. Regionalism rivals nationalism in many of the segmented areas. The caste system, which divides horizontally into regional castes in addition to vertical divisions, reinforces the distinct social groups. With few exceptions, Selig S. Harrison reports, the boundaries of the political units are also " . . . the boundaries of the separate linguistic (and political) territories which were conglomerately known as 'India' in the long centuries preceding Mogul and then British unification."<sup>35</sup> And as a result, "regional patriotism rivals all India loyalty in these disparate segments with their proud histories and high-developed literary heritages."<sup>36</sup>

If the national plans for economic development fail it is feared that the central government will lose power and mass anarchy will result. Should this happen, the powers of the central government probably would be usurped by rival factions.

<sup>34</sup>Zinkin, pp. 228-29.

<sup>35</sup>India and the United States, p. 5.

<sup>36</sup>India and the United States, p. 5.

M. F. Millikan and Rostow summarize India's precarious economic and political position in the following comment:

The commitment of most elements of Indian leadership to the methods of consent and non-violence is so deep that even if economic development lags, an early Communist take-over is exceedingly unlikely. What is likely over the years, if development loses its momentum, is increasing conflict and confusion within the Congress Party, a resurgence of sectional and linguistic interests perhaps breaking into violence, a heightening of the political and social tensions created by mass unemployment--in short, a reversion to the kind of political and social instability which tempts otherwise moderate persons to support anyone who can maintain order. While there is no Communist-inspired crisis at present, the prospects are poor for stable and effective government if the present development program fails.<sup>37</sup>

India may be able to make the economic adjustments that are necessary within the framework of the present governmental institutions, but " . . . the odds are close to fifty-fifty, . . ." in Harrison's opinion, " . . . that she will prove unable to do so."<sup>38</sup>

---

<sup>37</sup>Foreign Affairs, XXXVI (April, 1958), pp. 431-32.

<sup>38</sup>India and the United States, p. 6.

CHAPTER VI

CONTRIBUTION OF PUBLIC LAW 480 TO  
UNDERDEVELOPED COUNTRIES

Introduction

Economic aid is an instrument of United States foreign policy. The objectives of United States foreign policy, thus, become a framework which can be used to evaluate economic aid. Given the paramount goals of economic aid--to increase the level of living, the political stability, and the freedom and opportunities of peoples in underdeveloped countries--the next step is to appraise the PL 480 program within the framework of these goals.

In this chapter, first, PL 480 is described; second, four criteria, which can be used to evaluate the contribution of PL 480 to underdeveloped countries, are set forth; and, third, the extent to which PL 480 projects have contributed to economic growth is assessed.

PL 480, the Law

Several factors led to the passage of PL 480. In 1953 and 1954, United States surplus agricultural stocks were

mounting because of government price supports. The Department of Agriculture did not want to store American surpluses while other countries were disposing of their commodities in the world market, since the policy of the Department of Agriculture was pegging international prices. Yet the Department of Agriculture wanted to dispose of surpluses in a manner that would not disrupt world prices.

A few attempts were made to use agricultural surpluses in American foreign aid programs immediately before World War II. But little progress was made until the passage of Section 550 of the Mutual Security Act of 1953 and Section 402 of the amended Mutual Security Act of 1954. The adoption of PL 480 in 1954 greatly expanded the agricultural aid programs.

The paramount objective of the Agricultural Trade Development and Assistance Act of 1954, popularly known as Public Law 480, is to reduce agricultural surpluses by increasing world consumption of United States food and fiber products.<sup>1</sup> The program, in addition, is to aid in the

---

<sup>1</sup>United States agricultural surpluses are a manifestation of a maladjustment between the amount of agricultural products supplied and the amount demanded at the present level of governmental price supports. Surplus agricultural commodities are defined in PL 480 (Section 106) as the following:

" . . . any agricultural commodity or product thereof, class, kind, type, or other specification thereof, produced in the United States, either privately or publicly owned, which is or may be reasonably expected to be in excess of domestic requirements, adequate carryover, and anticipated exports for dollars, as determined by the Secretary of Agriculture."

See U.S., House of Representatives, Agricultural Trade Development and Assistance Act of 1954 and Amendments, Gilman G. Udell, Superintendent of Document Room (Washington, D.C.: Government Printing Office, 1959), p. 3.

promotion of economic development in "friendly" countries.<sup>2</sup>

The Law is based on the premise that, in the long run, the best way to obtain markets for United States agricultural products is to raise the level of living and, hence, consumption in underdeveloped countries.<sup>3</sup>

PL 480 authorizes the disposal of agricultural surpluses in foreign countries under four titles: Title I, sales for foreign currency; Title II, foreign relief through nonprofit voluntary and intergovernmental organizations; Title III, domestic and foreign donations and barter contracts; and, Title IV, long-term contracts. In the following section, each of these titles is presented in relation to its potential contribution to economic growth in underdeveloped countries.

### Title I

Title I of PL 480 authorizes the sale of United States agricultural surpluses for the domestic currency of the purchasing country. Sales, according to governmental contracts, are made by United States traders to importers or buying missions designated by the purchasing country. The

---

<sup>2</sup>Section 107 of PL 480 reads:

"As used in this Act, 'friendly nation' means any country other than (1) the U.S.S.R., or (2) any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement."

See House of Representatives, Agricultural Trade Development and Assistance Act of 1954, p. 3.

<sup>3</sup>The theory that countries as they develop economically will purchase more agricultural products from the United States is questionable. Even though developing economies may be able to import more foodstuffs in the future, these imports may not be from the United States.

counterpart funds established in payment for the surpluses can be used by United States governmental agencies, recipient nations, or other friendly countries for specified projects.

The value of counterpart funds is not clear-cut. Underdeveloped countries frequently are able to print local currency at will. But in most underdeveloped areas deficit financing does not increase the rate of development because domestic resources generally are limited. Yet counterpart funds may provide local currency for state development programs when other ways of acquiring funds, for instance, taxing or borrowing, are unsatisfactory.<sup>4</sup>

Title I, as amended, designates nineteen projects that are eligible for counterpart funds.<sup>5</sup> The types of projects authorized vary from the development of selected foreign

<sup>4</sup>See the discussion on counterpart funds by John H. Davis in "Agricultural Surpluses and Foreign Aid," American Economic Review, XLIX (May, 1959), p. 236.

<sup>5</sup>Section 104 of Title I, as amended, authorizes the use of counterpart funds for the following projects: (a) development of United States agricultural markets, (b) supplemental stockpiling, (c) common defense, (d) purchase of goods for other countries, (e) grants for multiple trade and economic development and loans to private enterprises, (f) translation of books and periodicals, (g) loans to foreign governments, (h) international educational exchange, (i) payment of United States obligations, (j) American-sponsored schools and centers, (k) scientific, medical, cultural, and educational activities, (l) buildings for United States government use, (m) trade fairs, (n) acquisition, indexing, and dissemination of foreign publications, (o) American educational institutions, (p) workshops and chairs in American studies, (q) purchase of nonfood items for emergency uses, and (r) audiovisual materials. See U.S., House of Representatives, The Twelfth Semianual Report on Activities Carried on Under Public Law 480, Doc. No. 449, 86th Cong., 2d Sess., 1960, p. 7.

markets for United States food and fiber products to the supplying of audiovisual materials. Only three of these authorities can be used to finance capital formation in underdeveloped areas: Section 104 (d), purchase of goods from recipient countries by other underdeveloped countries; (e), grants for multiple trade and economic development and loans to private enterprises; and (g), loans to foreign governments to promote economic development and multilateral trade. The other sixteen projects legislated, such as information and educational programs, can offer indirect aid, but they do not contribute to new capital formation in underdeveloped areas. The three authorities under which aid for new capital formation can be supplied are described in the following several paragraphs.

Under Section 104 (d) counterpart funds may be used to finance the purchase of goods and services for other friendly countries. For example: French francs were used to purchase materials needed for the construction of school buildings in Turkey; Italian lire financed a public works project in San Marino; and yen accounts were loaned to Indonesia for the purchase of Japanese equipment.<sup>6</sup>

Section 104 (e) authorizes local currency grants to recipient countries to finance projects that are unsuitable for loan financing, but are essential for balanced economic

---

<sup>6</sup>U.S., House of Representatives, The Tenth Semiannual Report on Activities Carried on Under Public Law 480, Doc. No. 206, 86th Cong., 1st Sess., 1959, pp. 13-14.

growth.<sup>7</sup> Counterpart funds, under this authority, have been used in the fields of agriculture, transportation, health and sanitation, and community development (including social welfare and housing projects).<sup>8</sup>

Section 104 (e) also states that up to 25 per cent of the foreign currency generated under each Title I agreement may be lent by the Export-Import Bank to United States firms for business development and trade expansion in the recipient country or to " . . . U. S. firms or firms of that country for expanding markets for, and consumption of, U. S. agricultural products abroad."<sup>9</sup>

Under Section 104 (g) loans to foreign governments have been sanctioned for projects such as the following: the building of electric power plants and textile factories; the construction of roads, bridges, and railways; and the development of livestock production.<sup>10</sup>

## Title II

Title II of PL 480 authorizes the giving of surplus agricultural commodities to friendly peoples (the government

---

<sup>7</sup>U.S., House of Representatives, The Ninth Semiannual Report on Activities Carried on Under Public Law 480, Doc. No. 60, 86th Cong., 1st Sess., 1959, p. 12.

<sup>8</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 15.

<sup>9</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 15.

<sup>10</sup>U.S., House of Representatives, The Eleventh Semiannual Report on Activities Carried on Under Public Law 480, Doc. No. 335, 86th Cong., 2d. Sess., 1960, pp. 20-21.



does not have to be friendly, as in Title I, just the people) in cases of famine, flood, or other extraordinary disaster. Since the program primarily has been used to furnish emergency relief to victims of natural disasters, assistance provided under Title II has not directly contributed to economic development. Nevertheless, the aid provided may have temporarily bolstered a shaking economy or shortened a recovery period.<sup>11</sup>

In 1960 Congress under Title II authorized the use of surplus commodities for development purposes when no extraordinary relief was required. The amendment was passed for a trial period of one year in order to determine the feasibility of extending this type of legislation.<sup>12</sup>

### Title III

Title III allows the donation of government surpluses to the American Red Cross, the United Children's Fund, and other inter-governmental organizations. This program, as the operations under Title II, has largely consisted of relief activities.

Private firms also are empowered under Title III to trade agricultural surpluses for strategic materials and other goods of value to the United States. The barter program has

---

<sup>11</sup>National Planning Association, "Agricultural Surplus Disposal and Foreign Aid," Foreign Aid Program, U.S., Senate Special Committee to Study the Foreign Aid Program, Doc. No. 52, 85th Cong., 1st Sess., 1957, pp. 388-89.

<sup>12</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 28.

not offered development aid nor has it provided relief to destitute areas.<sup>13</sup> Activities under the program have not been concentrated in underdeveloped countries, as have the activities of the other programs initiated under PL 480. Between 1954 and 1960 barter transactions were principally with Belgium, France, West Germany, Japan, the Netherlands, and the United Kingdom.<sup>14</sup>

#### Title IV

Title IV, which was legislated in 1959, empowers the President to make long-term supply contracts with friendly nations. The United States, under this authority, can supply surplus commodities to another country annually over a period of up to ten years, and accept payment in dollars over a period of up to twenty years. In regard to Title IV, The Twelfth Semiannual Report on PL 480 states: "The Department of Agriculture . . . is proceeding to implement this new authority by means of a 'pilot' country approach from which to gain experience bearing on the later development of the Title IV program."<sup>15</sup>

This legislation was designed to increase the disposal of United States surpluses by permitting the sale of surpluses

---

<sup>13</sup>National Planning Association, Foreign Aid Program, p. 368.

<sup>14</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 35. Also see House of Representatives, Agricultural Trade Development and Assistance Act of 1954, p. 17.

<sup>15</sup>House of Representatives, p. 37.

to "hard currency" countries on a dollar basis. In a recommendation of this provision, the Agricultural Committee of the 86th Congress clearly recorded the objective of Title IV:

...This new program will open up markets that are not available on other than a strictly cash or short-term credit basis because the countries are considered "hard currency" nations and are, therefore, essentially ineligible for a title I sales agreement or for a barter transaction.<sup>16</sup>

Under these circumstances, it is doubtful that a program that will offer assistance to underdeveloped countries will be initiated under Title IV.

### Criteria for Evaluation

#### General Criticisms

PL 480 has been both highly praised and severely condemned. Usually the types of criticism expressed vary with the vantage point and theoretical orientation of the writer. For example, the primary goal of Department of Agriculture officials is to lessen the stock of agricultural surpluses; and to the extent that PL 480 accomplishes this goal, they commend it. On the other hand, some agricultural economists, who look upon United States surpluses as a manifestation of chronic disequilibrium in the agricultural sector owing to inappropriate government policies, condemn the Law because it is a means of circumventing the basic agricultural problem.

---

<sup>16</sup>U.S., House of Representatives, Extension and Amendment of Public Law 480, Rept. No. 908, 86th Cong., 1st Sess., 1959, p. 7.

Most economists, however, praise the relief that has been given to destitute areas under the program.

Theoretically, PL 480 is a state trading program. The Law, therefore, is regarded as a cardinal offense by those economists who envision world trade as being in temporary disequilibrium because of state trading and government restrictions. The following comment by Boris C. Swerling epitomizes the position of this group:

Title I transactions provide a thoroughly shabby demonstration of the virtues of the market system. The very term 'sales' for foreign currency and economic development 'loans' are a mockery of the kind of a commercial market relationship we presumably seek to foster and which in these instances simply does not exist.<sup>17</sup>

Other authors prefer to disregard the classical framework. They maintain that it is a fictitious model that is used by economists for their own convenience. This group recognizes that the disposal program is a step away from our traditional view of world trade, but maintains that bilateral and state trading is no longer the exception.<sup>18</sup> The National Planning Association presents this viewpoint in the following statement:

The disposal programs are admittedly a step away from our traditional view of world trade with a minimum of Government restrictions. They do contain elements of "state trading" and bilateralism. But the major agricultural countries of the world have brought their governments into the pricing and marketing of farm products on

---

<sup>17</sup>Discussion of "The Role and Character of Foreign Aid," American Economic Review, XLIX (May, 1959), p. 243.

<sup>18</sup>U.S., Senate, Committee on Agriculture and Forestry, Hearings on Policies and Operations Under Public Law 480, 85th Cong., 1st Sess., 1957, p. 601.

a decisive scale. <sup>18</sup>Bilateral trading has become the rule, not the exception. <sup>19</sup>

### Criteria

PL 480 has two paramount objectives, one domestic and the other foreign, that are relevant in an evaluation of the Law. The primary objective of PL 480 is to facilitate the disposal of United States agricultural surpluses; the second objective is to provide economic aid to underdeveloped countries. Since in this study the contribution of PL 480 to economic development is appraised, the impact of the Law on underdeveloped areas is examined, rather than its success in disposing of American surpluses.

The value of agricultural aid to an underdeveloped country must be assessed with reference to the development program of that country, for the assistance that can be provided by agricultural aid varies with the economic characteristics of the recipient country. Some of the factors in underdeveloped countries that affect the value of agricultural aid, for example, are the following: the foreign exchange position, the food and fiber situation, the level of labor underemployment and unemployment, and the need for labor-intensive capital formation. Yet, regardless of the special conditions present in each recipient country, several general criteria should be met in the administration of the program if surpluses are to offer effective development aid.

---

<sup>19</sup>Foreign Aid Program, p. 362.

These general criteria are based on a consideration of the principles that should be met by a well-planned agricultural aid program, a program that would maximize its potential contribution to economic growth in underdeveloped countries. Therefore, before setting forth specific criteria, it is necessary to consider the framework, the possibilities and limits, in which an agricultural aid program operates. In a staff report on "Agricultural Surplus Disposal and Foreign Aid" requested in 1956 by the Senate Special Committee to Study the Foreign Aid Program, the National Planning Association summarized the potentials and limitations of agricultural aid:

Use of surpluses to aid the economic growth of underdeveloped countries has greater potentialities than have been realized to date. At the same time, the use of surpluses has limitations as a direct aid to development and in advancing the political and economic objectives of United States foreign policy.

The potential is great, because in most countries receiving economic aid, food supplies are inadequate. Grants or sales for local currency can serve the dual purpose of increasing the supply of food and other commodities and increasing the funds for use in financing development projects.<sup>20</sup>

Although the general criteria used to evaluate agricultural aid programs by "authorities" (namely, the Food and Agriculture Organization of the United Nations, the National Planning Association, Kust, Stern, and Davis) differ to some extent, several criteria for judging an agricultural aid program have been accepted rather widely in the United States and on the international level. The following composite of

---

<sup>20</sup>Foreign Aid Program, pp. 391-92.

the criteria suggested by these various groups provides a framework with which to appraise agricultural aid to underdeveloped countries: first, surpluses should be used to fill an increased demand for food and fiber products resulting from an increase in capital formation; second, domestic and foreign markets should not be disturbed by the disposal program; third, in order to increase the rate of economic growth, surpluses cannot be used as a substitute for other types of aid; and, fourth, they should represent long-term aid that can be incorporated in the economic planning and programming in underdeveloped countries.

The economic assistance given under the PL 480 program can provide a twofold benefit to underdeveloped countries by simultaneously supplying surplus food and loaning counterpart funds for development projects. Unless the above four criteria are met in the administration of the program, however, agricultural aid is of limited value, and could retard economic growth.<sup>21</sup> These four criteria, which are essential if the contribution of surplus aid to underdeveloped countries is to be maximized, are discussed in greater detail in the following section.

Criterion I. Agricultural surplus aid, to be effective, should supply new demands for food and fiber resulting from the initiation of new capital formation. In 1954 the

---

<sup>21</sup> United Nations, Food and Agriculture Organization, Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries: A Pilot Study in India, Commodity Policy Studies No. 6 (Rome, 1955), pp. 3-7.

Committee on Commodity Problems of the Food and Agriculture Organization, which at that time consisted of representatives from the United States and eighteen other governments, agreed that this criterion was basic for a program of selling surpluses for the currencies of recipient countries.<sup>22</sup> Criterion I is of primary importance in its own right; however, if this criterion is satisfied, the additional criteria, although not automatically met, are more easily satisfied.

If surpluses are not used to meet new demands for agricultural products created by new capital formation, they will be used to feed a hungry people who will be hungry again, or will displace the markets of local or international producers. In the past agricultural surpluses have been used to alleviate food shortages resulting from famines, earthquakes, and other natural disasters, but, as Matthew J. Kust has observed, these emergency programs have added little to the process of economic development in underdeveloped countries.<sup>23</sup>

The objective of agricultural aid, in Kust's words, " . . . should be to supply the underdeveloped country with the food and cloth needed to achieve full employment of its

---

<sup>22</sup>See J. H. Richter, "Agricultural Surpluses for Economic Development," Journal of Political Economy, LXIV (February, 1956), pp. 69-70, and National Planning Association, Using American Surpluses Abroad, Planning Pamphlets No. 91 (Washington, D.C.: National Planning Association, 1955), p. 21.

<sup>23</sup>"Economic Development and Agricultural Surpluses," Foreign Affairs, XXV (October, 1956), p. 110.



idle manpower as fast as this can be organized administratively."<sup>24</sup> When capital formation takes place at the same time agricultural surpluses are used, surpluses can supply a portion of the wage payments of laborers employed in capital construction. For instance, the workers could be paid partially in surplus commodities.

Much of the capital formation required in underdeveloped countries falls into the category of community projects that, to a large extent, can use local labor and materials, projects such as farm to market roads and irrigation systems. The problem is to move laborers from the agricultural sector to the industrial sector and to obtain the tools and materials needed for capital formation without reducing the amount of food and consumer goods available.

When the supply of manpower is limited, agricultural surpluses can be used to replace the agriculture production that is lost when workers are transferred from the agricultural to the industrial sector. When underemployment and unemployment exist, theoretically, it is assumed that agricultural production will not decrease significantly when some of the farm labor is shifted to capital projects. Yet, as Nurkse points out, additional funds are needed to close the gap that arises

---

<sup>24</sup>Foreign Affairs, XXXV (October, 1956), p. 110.

from leakages in the savings of local agriculture.<sup>25</sup> As the income level in underdeveloped countries rises, either the workers remaining on the farms or the new industrial workers, or both, may increase their food consumption; some household expenditures are not reduced when a member of the family moves; and costs incurred in transporting food from farms to capital projects all represent possible forms of leakage.<sup>26</sup> Therefore, no matter whether the labor supply is limited or excessive in an underdeveloped country, agricultural surpluses can be used beneficially.

<sup>25</sup>Some economists, namely Lewis and Singer, have substantiated Nurkse's concept of "disguised" unemployment. Others, particularly Viner and Haberler, have questioned the existence of a removable surplus population in the agrarian sector of underdeveloped countries. In an evaluation of the Nurkse model, A. G. Chandavarkar in "The Saving Potential of Disguised Unemployment," Economic Journal, LXVII (June, 1957), p. 338, makes the following comment:

"Thus the saving potential of disguised unemployment--in itself somewhat exaggerated by economies of joint consumption--is largely a conceptual magnitude which could be said to exist only under the highly restrictive assumption of constant population, constant marginal propensity to consume of the retained and transferred farm labor, abstraction from the income effects of price changes on food production, and from the implications of large-scale agricultural indebtedness. Furthermore, in practice the costs of mobilising the savings potential of disguised unemployment, to the extent that it exists, would probably be greater than the magnitude of such saving."

<sup>26</sup>See Nurkse, Problems of Capital Formation, pp. 32-56. Also see Dharm Narain, "Ratio of Interchange Between Agricultural and Manufactured Goods in Relation to Capital Formation in Underdeveloped Economies," Indian Economic Review, III (August, 1957), p. 46; R. J. Bhatia, "Disguised Unemployment and Savings Potential," Indian Economic Review, IV (August, 1958), pp. 37-38; and P. N. Rosenstein-Rodan, "Disguised Unemployment and Underemployment in Agriculture," Monthly Bulletin of Agricultural Economics and Statistics, VI (July/August, 1957), p. 1.

Surpluses, in turn, can offer the same type of assistance whether the funds for new investments are financed from counterpart accounts, other forms of foreign aid, or domestic savings. But in the event that the counterpart funds established in lieu of agricultural surpluses are used to finance capital formation, the surpluses and counterpart funds should be used simultaneously. If the funds are invested after the surplus commodities are consumed, inflation could occur unless other forms of foreign aid are forthcoming or domestic output has risen sufficiently in the interim.

Thus, in summary, Criterion I centers on the need to use surpluses and counterpart funds simultaneously on projects that increase capital formation in underdeveloped countries. The importance of planning for the combined use of commodities and counterpart funds is paraphrased in the following statement by Frederick C. Dirks:

. . . There is a problem of planning so that the increased consumption of agricultural commodities is accompanied by new employment, preferably in productive projects that will permanently increase the country's output and its ability to sustain higher living standards.<sup>27</sup>

Criterion II. The disposal of agricultural surpluses must not injure domestic or international food and fiber markets. In regard to the protection of usual marketings, the concern of Criterion II, Section 101 of Title I states that in negotiating aid agreements the President shall:

---

<sup>27</sup>"United States Exports of Surplus Commodities," International Monetary Fund Staff Papers, V, No. 2 (August, 1956), p. 213.

(a) take reasonable precautions to safeguard usual marketings of the United States and to assure that sales under this act will not unduly disrupt world prices of agricultural commodities; . . . <sup>28</sup>

In 1958, as a result of foreign criticism, to Section 101 was added the statement that reasonable precautions would also be taken to prevent the disruption of "normal patterns of commercial trade with friendly countries."<sup>29</sup>

Foreign governments have expressed alarm over the possibility of PL 480 impairing their foreign markets and, therefore, their foreign exchange earnings. International agencies also have expressed concern. The Food and Agriculture Organization and the signatory countries of the General Agreement on Tariffs and Trade have recommended that certain steps be taken to protect usual marketing patterns. In 1954 the Food and Agriculture Organization suggested that a set of principles be followed by parties to surplus aid contracts. The need to insure that aid contracts did not exert undue pressure on world market prices and did not disrupt normal trade patterns was included as a principle.<sup>30</sup> The following year, 1955, the signatory countries of the General Agreement on Tariffs and Trade agreed that surpluses that were exported

---

<sup>28</sup>See House of Representatives, Agricultural Trade Development and Assistance Act of 1954, p. 1.

<sup>29</sup>House of Representatives, Agricultural Trade Development and Assistance Act of 1954, p. 16.

<sup>30</sup>Dirks, International Monetary Fund Staff Papers, V, No. 2 (August, 1956), p. 214.

without consideration of normal trade channels could damage international markets and could disrupt prices.<sup>31</sup>

In turn, if agricultural aid harms the domestic markets of recipient countries, the program is operating at cross purposes. The importance of this phase of Criterion II is pointed out by John H. Davis in the following paragraph:

From the standpoint of the recipient country it is important that P.L. 480 be integrated with such country's own development program in a manner that will avoid retarding the development of agricultural resources in the country, either by reducing the price incentive to local growers or by delaying investments in the agribusiness sector and will utilize local currencies to stimulate and accelerate the rate of progress in lagging phases of the development program-- . . .<sup>32</sup>

The objective of agricultural aid is to fill a temporary need for food and fiber in underdeveloped countries that is caused by their present inability to increase agricultural production at a rate that will meet their current needs.<sup>33</sup> In order to meet future food and fiber needs, the governments in many of the underdeveloped countries are carrying out rural development programs. Should the existing domestic markets be injured by the aid program, the local development programs would be retarded.

Thus, briefly, Criterion II is vital because if the aid program injures the markets in recipient countries, the

---

<sup>31</sup>Dirks, International Monetary Fund Staff Papers, V, No. 2 (August, 1956), p. 215.

<sup>32</sup>American Economic Review, XLIX (May, 1959), p. 241.

<sup>33</sup>Kust, Foreign Affairs, XXXV (October, 1956), p. 115.

program could retard their rate of development, instead of increasing it. And, if in the process of supplying aid to one country, export markets of another country are usurped, the program, although of benefit to one country, could be detrimental to another.<sup>34</sup>

Criterion III. In order to finance an increase in investment, agricultural surpluses and the corresponding counterpart loans must represent an addition to the aid that is currently being given underdeveloped countries.<sup>35</sup> Criterion III takes into consideration a limitation of agricultural aid. When surplus aid is a substitute for dollar or other types of aid that provide resources needed for capital formation, the rate of economic growth in underdeveloped countries is not increased.

The basic problem in underdeveloped countries is a lack of resources, particularly those necessary for capital formation. Although agricultural surpluses represent resources that can help to feed labor employed on capital projects, counterpart loans, which generally can be created at will by underdeveloped countries, do not increase domestic resources. Under these circumstances, a local currency loan to an underdeveloped country, as Davis mentions, " . . . has little or no

---

<sup>34</sup>See National Planning Association, Foreign Aid Program, p. 389, and Richter, Journal of Political Economy, LXIV (February, 1956), p. 69.

<sup>35</sup>Food and Agriculture Organization, Uses of Agricultural Surpluses, p. 7.

positive effect on the rate of employment or the rate of economic development."<sup>36</sup>

Criterion III also pertains to another limitation of surplus aid on which both the National Planning Association and Kust have commented. Agricultural aid does not help to alleviate the problem of a shortage of foreign exchange that commonly exists in underdeveloped countries. Economic development requires a substantial amount of equipment and machinery which, in most cases, must be purchased with scarce foreign exchange that surpluses and counterpart funds do not supply.<sup>37</sup>

In regard to this limitation, Davis contends that,

" . . . should the existence of such United States holdings [counterpart funds] cause a reduction in the volume of United States dollar aid to such country . . . the rate of economic development might even be impeded."<sup>38</sup>

Moreover, should the United States use PL 480 counterpart funds for the payment of local obligations, such as embassy costs or military expenditures, that previously were paid in dollars, the foreign exchange reserves of underdeveloped countries would be reduced, and, therefore, the foreign exchange available for development purposes also would be reduced. "In essence, the result . . .," as Davis suggests, " . . . is the same as if the United States had converted the

<sup>36</sup>American Economic Review, LXIX (May, 1959), p. 235.

<sup>37</sup>National Planning Association, Foreign Aid Program, p. 392, and Kust, Foreign Affairs, XXXV (October, 1956), p. 111.

<sup>38</sup>American Economic Review, XLIX (May, 1959), p. 235.

local currency proceeds to dollars and then, spent them to defray United States obligations in the country."<sup>39</sup>

Criterion IV. An agricultural disposal program should be planned and administered on a long-term basis. More literature has been written about Criterion IV than the other criteria. The National Planning Association, the Food and Agriculture Organization, and Davis (to select a few) emphasize the importance of Criterion IV.<sup>40</sup> The authors point out that economic development is a long-term process, and that an aid program to assist this process also must provide for a "continuity of effort." Agricultural aid will be more efficiently used if, during the planning phase, an underdeveloped country is assured of its continuance.<sup>41</sup>

In order to incorporate surplus aid projects in national development programs, recipient countries must be assured that the aid will continue over a period of years.<sup>42</sup> Aid that is intended to accelerate economic development cannot be sporadic or temporary, because the capital formation needed by underdeveloped countries, in most cases, cannot be completed

<sup>39</sup>American Economic Review, XLIX (May, 1959), p. 238.

<sup>40</sup>National Planning Association, Foreign Aid Program, p. 392; Food and Agriculture Organization, Uses of Agricultural Surpluses, p. 5; and Davis, American Economic Review, XLIX (May, 1959), p. 235.

<sup>41</sup>Davis, American Economic Review, XLIX (May, 1959), p. 235.

<sup>42</sup>Food and Agriculture Organization, Uses of Agricultural Surpluses, p. 7.



in a short period of time. Richard S. Eckaus in the following observation sums up the case for long-term aid:

. . . The aid which we do provide can be used more imaginatively and effectively by underdeveloped areas, if it can be fitted into their own time horizons of effort. In the underdeveloped areas, these time horizons go on for many years.<sup>43</sup>

Criterion IV, nonetheless, does not imply that agricultural aid should continue for an indefinite period of time. Rather, as the National Planning Association suggests, surpluses are needed until development projects instigate an increase in local agricultural production, or other sectors develop exports which provide the foreign exchange required to purchase additional food.<sup>44</sup>

#### Evaluation of PL 480

The following section appraises the extent to which the agricultural aid authorized under PL 480, between 1954 and 1960, fulfilled the above general criteria--administrative requisites that should be met if surpluses are to contribute to economic development in underdeveloped countries.

#### Criterion I

Have the surpluses been used in conjunction with an increased demand for food and fiber created by new capital projects?

---

<sup>43</sup>Discussion of "The Role and Character of Foreign Aid," American Economic Review, XLIX (May, 1959), p. 250.

<sup>44</sup>National Planning Association, Foreign Aid Program, p. 392.

Between 1954 and 1960, only a few attempts were made by the United States government to coordinate surplus disposal programs with local development plans, or other national or international aid programs.<sup>45</sup> The two notable exceptions pointed out in the Semiannual Reports on PL 480 were India and Brazil. Since the primary aim of PL 480 legislation is to provide outlets for American agricultural surpluses, the goal of supplying development aid has been secondary; hence, the United States government has been primarily concerned with disposing of surpluses, not with providing coordinated aid.

From July 1954 through June 1960, sales agreements amounting to \$4,319.6 million were negotiated under Title I.<sup>46</sup> By the end of March 1960, the Bureau of the Budget had allocated the equivalent of \$3,098.9 million in counterpart funds to United States agency accounts, but only \$861.4 million of these funds had been used for programs that could finance capital formation: \$26.2 million for the purchase of goods for other countries (Section 104-d); \$68.4 million for grants for economic development (Section 104-e); \$26.6 million for loans to private enterprises (Section 104-e); and \$740.2 million

---

<sup>45</sup>Robert Mitchell Stern, "World Food Exports and United States Agricultural Policies: A Study of the Development of World Trade with Special Reference to United States Food Surplus Disposal and Foreign Aid" (unpublished Doctoral dissertation, Columbia University, 1958), pp. 299-300.

<sup>46</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 41.

for loans to foreign governments (Section 104-g).<sup>47</sup> Although there is a discrepancy in the time periods covered by these data, the figures do indicate that only approximately 20 per cent of the counterpart funds had been used for new capital formation in underdeveloped countries.

The manner in which the program has been administered partially explains the lag in the use of counterpart funds to finance development projects.<sup>48</sup> In the past the divided

<sup>47</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 67.

The question of how counterpart funds should be used has been debated extensively. Since surplus commodities are imported and consumed more rapidly than the corresponding counterpart currencies are disbursed, inflation may occur when local currencies are spent. The following recommendations by R. M. Stern in "Agricultural Surplus Disposal as a Means of Financing Economic Development," Economia Internazionale, XII (November, 1959), p. 656, in this writer's opinion, has considerable merit:

"Problems of repayment could be avoided by giving away the surpluses outright perhaps in conjunction with the World Bank and other international agencies to help finance the local currency costs of projects which these agencies are unwilling to assume. If, however, loans are preferred to grants, the best way of avoiding repayment problems may be to establish a revolving loan fund, the resources of which could be utilized solely for development purposes."

<sup>48</sup>The 1961 Act of International Development established the Agency for International Development which combined the functions of the International Cooperation Administration; the Development Loan Fund; the agricultural surplus aid program; and, the Export-Import Bank in regard to counterpart funds. This study is concerned, however, with the administration of PL 480 prior to 1961. The Presidential Executive order 10560, which covered the administration of activities carried on under PL 480 between 1954 and 1960, assigned the responsibility for sales agreements to the Secretary of Agriculture. The Secretary of Agriculture was authorized to select the countries with whom agreements would be negotiated and the commodities and quantities which could be included in the sales agreements. Programs were developed in consultation with the Department of State, the International Cooperation Administration, the Bureau

responsibility and authority, as well as the different points of view existing among the many government agencies administering the PL 480 program, led to a program that was fraught with confusion.

Furthermore, the mechanics involved in acquiring the use of the counterpart accounts have not been expedient. The funds could not be spent locally until the commodities were received by the importing country; the foreign currency deposited; the project submitted and approved; and the provisions made for the audit, supervision, and control of the counterpart account.<sup>49</sup> Measures have been taken to remove some of these administrative hurdles. For example, negotiations of sales and loan agreements were taking place simultaneously at

---

of the Budget, the Department of Defense, and other departments and agencies. The Interagency Staff Committee on Agricultural Surplus Disposal reviewed and approved all sales agreements.

Counterpart funds were deposited to the account of the United States disbursing officer in the embassy in the aid recipient country. The Treasury Department administered these currencies, and the Bureau of the Budget authorized the use of the funds, after reviewing the appropriate sales agreements and applications of the various agencies. Several departments and agencies administered the disbursement of the counterpart funds. For example, the Department of Agriculture was responsible for the currencies used for agricultural market development, the International Cooperation Administration for currencies allocated for economic development, and the Export-Import Bank for currencies loaned to private enterprises. See U.S., House of Representatives, Committee on Agriculture, Hearings on Surplus Commodity Disposal, Serial K, 85th Cong., 1st Sess., 1957, p. 4; National Planning Association, Using American Agricultural Surpluses Abroad, p. 14; and U.S., House of Representatives, The Sixth Semiannual Report on Activities Carried on Under Public Law 480, Doc. No. 212, 85th Cong., 1st Sess., 1957, pp. 6-7.

<sup>49</sup>National Planning Association, Foreign Aid Program, p. 372.

the time of this writing.<sup>50</sup> And approval of local projects now may be given by United States Diplomatic Missions abroad.

The reticence of foreign countries to use counterpart funds also has been a reflection of the "maintenance-of-value" clause, which was inserted in loan agreements by the United States as a hedge against the depreciation of foreign currency. In the past loan repayments in local currencies had to be equal to the dollar value of the currency at the time the sale was negotiated.<sup>51</sup> This clause was dropped from loan agreements signed after April 1959. Under the new program, " . . . the United States will receive repayments equal to the amount of foreign currencies lent without reference to changes, if any, which may occur in the exchange value of the currencies."<sup>52</sup>

Thus, between 1954 and 1960, few attempts were made to coordinate surplus aid with local development programs or with the use of counterpart funds for new capital formation. At present, however, steps are being taken to improve this situation, such as allowing diplomatic missions abroad to approve local counterpart fund projects.

---

<sup>50</sup>U.S., House of Representatives, Committee on Agriculture, Hearings on Extend Public Law 480, Serial FFF, 85th Cong., 2d Sess., 1958, p. 239.

<sup>51</sup>House Committee on Agriculture, Hearings on Extend PL 480, pp. 15-16.

<sup>52</sup>House of Representatives, The Tenth Semiannual Report on PL 480, pp. 18-19. Since 1959 the interest rate of loans to foreign governments has been set at 4 per cent regardless of the type of currency used in repaying the loan. Prior to this time, the interest rate was 1 per cent higher for loans repaid in local currencies (5 per cent) than those repaid in dollars (4 per cent).

## Criterion II

Has the disposal program injured the markets of recipient countries or international food and fiber markets?

The Tenth Semiannual Report on PL 480 states:

" . . . Sales of agricultural commodities for foreign currencies shall not displace U.S. usual marketings or be unduly disruptive of world market prices or normal patterns of commercial trade with friendly countries . . . . Some proposals are rejected and others modified in order to avoid possible harmful effects on normal trade patterns."<sup>53</sup>

The United States has often overlooked the fact that the practice of selling commodities abroad at prices below American domestic prices is regarded as dumping by other countries. Donald M. Fleming, Canadian Finance Minister, in his 1958 budget message to the Canadian House of Commons said:

United States agricultural policies continue to be severely damaging to Canadian interests. We suffer severe harm from the United States surplus disposal activities. Massive United States disposal of wheat and other grains on giveaway subsidized terms have done serious damage to Canadian exports in some of our best commercial markets. Despite frequent and energetic Canadian complaints these harmful practices have continued. We find it difficult to understand why the United States treats its best customer and friendly neighbor in this way. We have made it clear to the United States authorities that measures which add to our difficulties in selling in third countries cannot but impair our willingness and ability to import from them.<sup>54</sup>

Officials of other nations also have voiced their disapproval.

A Burmese cabinet minister contended, "Dumping of American rice

---

<sup>53</sup>House of Representatives, p. 4.

<sup>54</sup>House Committee on Agriculture, Hearings on Extend PL 480, p. 336.

in Asia will force us to go to China on our knees. We will have to depend on China for our rice market and this will naturally tie our economy to Red China."<sup>55</sup> In 1956, the chairman of the Australian Wheat Board, John Teasdale, wrote in the Farmers Weekly:

The United States is using the powers granted by Congress's Public Law 480 to dump primary products in other countries. The terms of sales, financial considerations and ethics of fair trade are being made subservient to the desperate desire to shift the responsibility for the care-taking and storing of products to countries other than the United States of America.<sup>56</sup>

In regard to the disruption of the markets of recipient countries, the Twelfth Semiannual Report on PL 480 states, as do the previous reports, that sales for foreign currencies under Title I generally have been made at prices comparable to those prevailing in the market for dollar export sales.<sup>57</sup> Nevertheless, Patrick O'Leary, Assistant Administrator of the Foreign Agricultural Service, testified before the House Agriculture Committee in 1959, " . . . that in some instances we have had problems where the domestic price in the foreign country is higher than the world price . . ."<sup>58</sup> O'Leary reported:

---

<sup>55</sup>National Planning Association, Using American Surpluses Abroad, p. 9.

<sup>56</sup>House Committee on Agriculture, Hearings on Extend PL 480, p. 336.

<sup>57</sup>House of Representatives, p. 4.

<sup>58</sup>U.S., House of Representatives, Committee on Agriculture, Long-Term Contracts Under Public Law 480, Serial V, 86th Cong., 1st Sess., 1959, p. 26.

In general, we have been able to hold this to the point where the profit which is made on one commodity is used to make up for a loss which that government has on another commodity that they take under the program where their domestic price is lower, and therefore the government has to subsidize it in the market at its domestic price.<sup>59</sup>

As to the effects of surplus aid on the agricultural sectors of recipient countries, John H. Davis reports:

In this respect the author found no real evidence that this was happening as the direct result of U.S. imports having depressed local market prices below prevailing levels which, in turn, would reduce incentives for expanded agricultural production.<sup>60</sup>

Davis suggest, however, that PL 480 programs might be reducing incentives to expand the manufacturing of agricultural supplies, such as fertilizers, chemicals, and machinery, and that there is a danger that funds will be invested primarily in the industrial sector on the theory that agricultural development can be deferred.

United States commercial agricultural exports have continued in a manner that is generally consistent with previous trends.<sup>61</sup> United States commercial exports have not been displaced, partly because clauses, which specify the amount

<sup>59</sup>House Committee on Agriculture, Long-Term Contracts Under PL 480, p. 26.

<sup>60</sup>American Economic Review, XLIX (May, 1959), p. 235.

<sup>61</sup>United States nongovernmental agricultural exports including subsidies, for the years 1952-1957, were the following: 1952, \$3,157 million; 1953, \$2,273 million; 1954, \$2,225 million; 1955, \$2,213 million; 1956, \$2,076 million; and 1957, \$2,724 million. See Raymond F. Mikesell, Agricultural Surpluses and Export Policy (Washington, D.C.: American Enterprise Association, 1958), p. 46. Mikesell, p. 45, reports that cotton is the only major farm export in which the United States has not increased or maintained its share of the world market since World War II.



of United States agricultural exports that will be purchased commercially as well as under Title I, have accompanied most Title I sales agreements.<sup>62</sup> Foreign officials and traders have severely condemned these clauses. The United States has been accused of requiring recipients of PL 480 to buy stipulated amounts of commercial exports as a prerequisite for the privilege of paying for agricultural surpluses with domestic currency.<sup>63</sup>

In regard to Criterion II, therefore, the concensus is that the domestic markets of recipient countries have not been directly injured. But the reports indicate that, although United States commercial exports of food and fiber products have been protected, some of the foreign markets of grain exporting countries (Canada, Australia, and others) have been hurt by the agricultural aid supplied under the authority of PL 480.

### Criterion III

Is the aid given under PL 480 a substitute for dollar aid?

Aid given under PL 480 initially was intended to provide supplementary aid. The United States wanted to dispose of its mounting surpluses. The disposal of agricultural surpluses abroad in the form of economic aid would minimize

---

<sup>62</sup>House of Representatives, The Ninth Semiannual Report on PL 480, p. 4, and House of Representatives, The Twelfth Semiannual Report on PL 480, p. 4.

<sup>63</sup>Mikesell, p. 36.

our storage costs and help to feed the hungry peoples of other countries. Nevertheless, the original policy soon changed.

In regard to this change in policy, the National Planning Association reports:

. . . It became evident to some Members of Congress and to the Bureau of the Budget that aid generated through title I might in some cases take the place of aid generated through mutual security programs. In preparation of the International Cooperation Administration's budget requests for fiscal 1958, for example, efforts were made to estimate the amount of economic aid that would be forthcoming through title I.<sup>64</sup>

The intent of government officials to substitute surplus aid for dollar assistance is also pointed out by R. M. Stern in the following statement:

The ICA is vigorously endeavoring to take advantage of PL 480 financed commodities and the local currencies generated from such sales where they can be utilized to the advantage of mutual security objectives and thereby reduce the ICA need for dollar appropriations. Rigid tests are made at each successive stage in the ICA review of its budget submissions to assure that any benefits from 480 are faithfully matched by reductions in mutual security estimates. PL 480 is looked upon as a means of reducing dollar aid, whenever possible, under the mutual security program.<sup>65</sup>

<sup>64</sup>Foreign Aid Program, p. 378.

<sup>65</sup>Economia Internazionale, XII (November, 1959), p. 652. Davis in American Economic Review, XLIX (May, 1959), p. 234, reports:

"An unpublished estimate indicates that between 1954 and 1957 as much as 2 billion of the roughly 4 billion dollar Title I movement would have been provided by the United States under special programs in the absence of PL 480 legislation."

In contradiction, the House of Representatives, Sixth Semi-annual Report on PL 480, p. 6, states:

"In nearly all cases appropriated dollars would not have been used or requested for the same purposes and the expanded activity financed by sales proceeds did not permit a reduction in dollar expenditures."

Under these circumstances, PL 480 probably has provided a limited amount of additional development assistance. Furthermore, in all likelihood the United States has deprived underdeveloped nations of the foreign currency that they require to import nonagricultural commodities, especially capital goods needed for economic growth. If development is thwarted because of a lack of foreign capital, the availability of counterpart funds does little to alleviate the situation. In effect, by substituting agricultural aid for dollar aid, the United States has increased the dollar shortage in underdeveloped countries, and, thereby, worsened their balance of payments position.

#### Criterion IV

Has PL 480 offered a long-term economic assistance program?

Prior to 1959 the Agricultural Committee of the House of Representatives maintained that PL 480 was not intended to be a permanent part of either the United States agricultural or foreign aid programs. The committee regarded PL 480 as an emergency law--a law that made the best of a bad situation by authorizing the disposal of agricultural surpluses in a manner which would return some benefit to the United States.<sup>66</sup> In a reiteration of this policy, Earl L. Butz, Assistant Secretary

---

<sup>66</sup>House Committee on Agriculture, Hearings on Extend PL 480, p. 326.

of Agriculture, before the Senate Committee on Agriculture and Forestry in 1957 commented:

. . . There is a tendency on the part of our foreign government officials, as well as some of our own people, to a lesser extent, to feel that the primary purpose of Public Law 480 might become the promotion of a foreign policy rather than the disposal of surpluses, which we hope are a temporary phenomenon in this country.<sup>67</sup>

In 1959 the viewpoint of agricultural officials began to change. The House Agricultural Committee recommended that PL 480 be amended in order to permit long-term sales agreement--contracts to supply agricultural surpluses over a period of up to ten years in exchange for long-term dollar loans of up to twenty years. But, as the discussion on Title IV noted, sales negotiations under this section will be principally with "hard currency" nations on a dollar basis. The 1960 American-Indian four year sales contract, negotiated under the authority

---

<sup>67</sup>Hearings on Policies and Operations Under PL 480, p. 52. In 1958 the following memorandum was sent to the President by Clarence Francis, Chairman of the Interagency Committee on Agricultural Surplus Disposal:

"I wish I could say that as a result of operations under this authority our surpluses were declining or that they could be expected to reach more manageable proportions in the near term. I am, however, persuaded otherwise.

"Barring eventualities not to be anticipated, the probability is that our surpluses will continue to be substantially above any normal or desirable carryover for at least the next 5 years, even if Public Law 480 operations continue at the current rate for that period.

"In the past 4 years of such operations we have tended to look on the problem of our surpluses as a temporary one and thus to make decisions concerning them on a year-to-year basis. If my conclusion is justifiable, we would do well to base our thinking and planning on longer range considerations in the period immediately ahead."

See U.S., House of Representatives, The Eighth Semiannual Report on Activities Carried on Under PL 480, Doc. No. 431, 85th Cong., 2d. Sess., 1958, pp. 1-2.

of Title I, however, may indicate that in the future long-term agricultural aid will be available to underdeveloped countries.

### Conclusion

After comparing the administrative criteria set forth with the activities conducted under PL 480, the conclusion that must be drawn is that the program provided limited development aid between 1954 and 1960. Government activities conducted under the authority of PL 480, during this period, were not carefully planned, and the program was administered in an inexpedient manner. The surpluses and corresponding counterpart funds were seldom used simultaneously, and in only a few instances were surpluses used to help finance local development projects. It should be noted, however, that adjustments are being made in the administration of the program which will, to some extent, improve this situation. The international markets of other grain exporting nations have been injured by the disposal program, although United States commercial exports and domestic markets in recipient countries probably have not been injured. In addition, Congress, undoubtedly because of pressure from constituents, unwisely has substituted agricultural surpluses for other types of aid.

## CHAPTER VII

### PUBLIC LAW 480 AND INDIAN ECONOMIC DEVELOPMENT

#### Introduction

The contribution of agricultural aid authorized under PL 480 to economic growth in underdeveloped countries has been considered in general terms. Yet, the value of an aid program is affected by the economic and political conditions of the recipient country as well as the manner in which the United States administers the Law. In this chapter the potential value of agricultural aid to India is assessed with reference to India's current development program.

In May 1960 the United States Government agreed to supply the Government of India, under Title I of PL 480, 587 million bushels of wheat and 22 million bags of rice over a period of four years for Rs 608 crores.<sup>1</sup> This chapter is an analysis of the potential contribution of this \$1,276 million sales agreement to Indian economic development.

---

<sup>1</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 2, and India Planning Commission, Third Five Year Plan, pp. 48-49.

One crore is equal to 10 million, a rupee to 21 cents, and Rs 1 crore to \$2.1 million.

PL 480 and Third Five Year Plan

One of the objectives of the May 1960 sales agreement is to contribute to India's economic progress.<sup>2</sup> If the assistance provided under this agreement is well planned and carefully administered, its contribution to economic development will depend upon the manner in which the aid can be used in India's over-all development program. Thus, the basis of evaluating the aid offered under the May 1960 agreement is its contribution to India's Third Five Year Plan.

Third Five Year Plan

The Third Five Year Plan, which covers the period 1961 to 1966, will continue and attempt to accelerate the programs initiated during the First and Second Plans. Broadly, the Plan includes the following five objectives:

(1) to raise national income by over 5 per cent per annum and to increase investment from 11 per cent of national income (the level of investment estimated by the government at the close of the Second Plan) to about 14 per cent.

(2) to achieve self-sufficiency in food grains and an over-all increase in agricultural production.

(3) to enlarge machine building capacity and to expand basic industries such as steel, fuel, and power.

(4) to increase employment.

---

<sup>2</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 2.

(5) to eliminate some of the inequalities in income and wealth that exist in India.<sup>3</sup>

The target figure for the Third Five Year Plan is a total investment of Rs 10,200 crores: an investment outlay of Rs 6,200 crores in the public sector and Rs 4,000 crores in the private sector. In addition, Rs 1,050 crores will be spent in the public sector for current outlays (recurring expenditures over the plan period for increasing levels of social services and administrative overhead). In Table 1 the outlays

TABLE 1  
OUTLAY AND INVESTMENT IN INDIAN THIRD  
FIVE YEAR PLAN, 1961-1966  
(in rupees and dollars)\*

Outlay and Investment	Rupees (in crores)	Dollars (in millions)
<b>Public Sector:</b>		
Current Outlay	1,050	2,205
Investment	6,200	13,020
Total Outlay	7,250	15,225
<b>Private Sector:</b>		
Investment	4,000	8,400
Total Investment	10,200	21,420
Total Outlay	11,250	23,625

\*Calculated from: Information Service of India, Embassy of India, "The Economic Development of India: A Presentation of the Third Five-Year Plan and a Review of the Progress during the First and Second Plans," India Economic Newsletter, Supplement No. 12, June, 1960, p. 8.

<sup>3</sup>India Planning Commission, Third Five Year Plan, p. 11.



and investments anticipated during the Third Plan are presented.<sup>4</sup>

The resources available for financing the public sector during the Third Plan are given in Table 2. The funds that

TABLE 2  
FINANCING OF PUBLIC SECTOR, INDIAN THIRD  
FIVE YEAR PLAN, 1961-1966\*

Financial Resources	Rupees (in crores)
Balance From Revenues on the Basis of Existing Taxation	350
Contribution of the Railways on the Existing Basis	150
Surpluses of Other Public Enterprises on the Existing Basis	440
Loans From the Public	850
Small Savings	550
Provident Funds, Betterment Levies, Steel Equalization Fund, and Miscellaneous Capital Receipts	510
Additional Taxation, Including Measures to Increase the Surpluses of Public Enterprise	1,650
Budgetary Receipts Corresponding to External Assistance	2,200
Deficit Financing	<u>550</u>
Total	7,250

\*Source of Data: Indian Planning Commission, Third Five Year Plan: A Draft Outline (New Delhi: Government of India Press, 1960), p. 47.

<sup>4</sup>India Planning Commission, Third Five Year Plan, p. 43.

can be raised by the central and state governments from taxation, borrowing, and public enterprises are estimated to be Rs 4,500 crores. In designing the Third Plan, the Planning Commission has anticipated an increase over past periods in the amount of domestic resources available to finance the public sector (Rs 1,650 crores). Yet, it is doubtful that any large amount of extra taxation can be used without tapping private investment sources and decreasing loans to the government.<sup>5</sup> The amount of government deficit financing expected during the Plan is limited to Rs 550 crores because the general price level is relatively high in India. The external assistance needed to finance the public sector, as given in Table 2, is Rs 2,200 crores. But the foreign assistance needed to finance the Plan period has been set at Rs 3,200 crores, since Rs 450-500 crores are needed to meet external obligations which must be paid during the period; Rs 300 crores of foreign assistance will go to the private sector; and about Rs 200 crores, of the Rs 608 crores of the PL 480 agreement, will be used for buffer stocks that will not yield rupee resources. Thus, the external assistance needed to finance the public and private sectors during the Third Plan period is Rs 3,200 crores.<sup>6</sup>

---

<sup>5</sup>See Enke, South African Journal of Economics, XXVIII (June, 1960), pp. 111-12, and "India," Economist, March 26, 1960, p. 1281.

<sup>6</sup>India Planning Commission, Third Five Year Plan, pp. 48-49.

When considering the needs of the Indian economy, the Third Plan is not overly audacious.<sup>7</sup> The preparation of the Five Year Plans is a political activity; the targets proposed are a compromise between what can be achieved with the available resources and what is politically expedient. When a nation is waging a close race between production and population growth, and political stability to a great extent depends on economic growth, the government of necessity must establish goals that will mobilize all available resources.

Growing unemployment, along with a subsistence level of living, is a serious problem in India. And in some of the areas of high unemployment, particularly West Bengal, leftist political forces are vocal. This situation, a combination of unemployment and political activity, is India's chief reason for not accepting lower targets.<sup>8</sup> The possibility that the current level of living will not be maintained and that

---

<sup>7</sup>Enke in South African Journal of Economics, XXVIII (June, 1960), p. 102, recommends that India embark on an extensive plan for the following reasons:

"A 'bold' plan, besides being politically desirable at home, may be a requirement of extensive aid from abroad. Such aid is especially important as only about 5 per cent of India's output is exported, food has to be imported, her own sterling reserves are largely depleted, and she makes few industrial producer goods. A Third Five Year Plan that prospectively required no foreign aid might get none promised. The best strategy for the Indian Government may have to be devious. It should perhaps design the Plan to incorporate, on paper, all the foreign aid that seems available; . . . and the resultant emergency may evoke extra assistance."

<sup>8</sup>"India," Economist, March 26, 1960, p. 1279.

unemployment will be increased forces the Indian government to set relatively high targets for the Third Plan.<sup>9</sup>

The question is can India mobilize the resources that the targets will entail? At this point, only tentative answers can be given, and they, at best, are only conjectures. Yet, the outlook for India's Third Five Year Plan, according to most writers, is not encouraging.<sup>10</sup> The 1960 PL 480 sales agreement is, therefore, significant.

#### Evaluation of May 1960 Sales Agreement

The following analysis of the potential contribution of the May 1960 American-Indian sales agreement follows the

---

<sup>9</sup>At the start of the Third Plan, it was estimated that Indian per capita consumption was about Rs 260. Population was approximately 430 million at that time, and will increase by about 50 million during the Third Plan. If per capita consumption is to be maintained, the annual output of consumer goods by the end of the Third Plan must increase by about Rs 1,300 crores. About Rs 5,200 crores in new investments will be needed during the Plan period to maintain the 1960-1961 level of per capita consumption, assuming a capital-output ratio of 4, since the capital-output ratio during the Second Plan probably will be 3.5:1. See Enke, South African Journal of Economics, XXVIII (June, 1960), p. 103, and Enke, Review of Economics and Statistics, XLII (May, 1960), p. 176.

<sup>10</sup>"India," Economist, March 26, 1960, p. 1281, and Enke, South African Journal of Economics, XXVIII (June, 1960), pp. 111-12. Enke in Review of Economics and Statistics, XLII (May, 1960), p. 176, makes the following prediction for the Third Five Year Plan:

"The probable 'size' of the Third Plan goals, including Rs 1,000 crores of external assistance but no deficit financing, is a public sector investment of Rs 6,700 crores (as compared with the 'revised' figure of 4,500 for Second Plan) and 3,300 for the private sector. The author, after several days of intensive work with well-informed officials and later weeks of study, is of the opinion that a combined public and private investment of about Rs 7,000 crores is the most that can be assumed with any confidence at 1959 prices. This estimate includes Rs 1,400 crores of external assistance to meet the 'foreign exchange component' of the investment."

guidelines that were presented; that is, the four administrative criteria given in Chapter VI<sup>11</sup>--criteria that should be met if surplus aid is to contribute effectively to India's Third Five Year Plan. The four criteria, as explained and interpreted in the previous chapter, are the following:

I. Can the surpluses be used in conjunction with an increased demand for food and fiber created by new capital projects?

II. Will the surpluses injure Indian domestic markets or international food and fiber markets?

III. Do the surpluses represent a substitute for dollar aid?

IV. Does the May 1960 agreement offer a long-term assistance program?

#### Criterion I

Can the surpluses be used in India in conjunction with an increased demand for food and fiber created by new capital projects?

Rural development program. In underdeveloped areas, unemployed and underemployed labor can be used beneficially in a number of public works projects which have a high labor component and utilize principally local materials and resources. Agricultural surpluses can finance a significant portion of the cost of the projects by supplying the food required by

---

<sup>11</sup>Above, pp. 125-35.

the laborers. In such a program the agricultural surpluses, in turn, are being used in conjunction with an increased demand for food created by new capital construction.

This surplus-project relationship is applicable to some of the projects programed for India's Third Plan in the area of agricultural and community development. Undertakings such as the following have been proposed for rural areas: major and minor irrigation systems, village and market roads, village cattle sheds, contour bunds, flood control projects, land reclamation schemes, village fisheries, school buildings, and community pastures.<sup>12</sup> Surplus commodities and local funds could be used to finance a substantial part of these projects since they require little capital equipment and employ primarily unskilled and semiskilled labor.

Deficit financing. In India government deficit financing has been used principally to meet the wage bills on capital construction projects. Through deficit financing the government has attempted to move food from the rural sector to the areas where capital construction was taking place. The government, Radharani Choudhury reports, has been relatively unsuccessful in its attempt to mobilize food surpluses, because the consumption level of most of India's rural population is

---

<sup>12</sup>India Planning Commission, Third Five Year Plan, pp. 66-72. V. M. Dandekar in Uses of Food Surpluses for Economic Development, Publication No. 33 (Poona: Gokhale Institute of Politics and Economics, 1956), p. 63, reports that in India the share of labor costs in capital projects varies from 25 to 80 per cent, and in special projects, such as earthworks, from 70 to 90 per cent.

so low that any increase in the amount of food available, for the most part, is absorbed within the agricultural sector.<sup>13</sup>

The use of deficit financing is limited in India unless a sufficient supply of food is available from external sources. Thus, in effect, the amount of food that is available to control potential inflation is a decisive factor in determining the amount of deficit financing that India can successfully undertake.<sup>14</sup> The May 1960 sales agreement will increase India's supply of wheat and rice and, therefore, conceivably will increase the government's ability to employ deficit financing.

Stockpiling of agricultural surpluses. The May 1960 sales agreement is the first contract under PL 480 specifically designed to establish food reserves in the recipient country.<sup>15</sup> Under the agreement, 147 million bushels of the 587 million bushels of wheat and all of the 22 million bags of rice contracted will be used as buffer stocks.<sup>16</sup> This arrangement will contribute to India's development plans.

<sup>13</sup>The Plans for Economic Development of India, p. 168. Choudhury points out that the buffer stock program was an outgrowth of the government's inability to mobilize agricultural surpluses.

<sup>14</sup>"India," Economist, March 26, 1960, p. 1281.

<sup>15</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 2.

<sup>16</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 2, and India Planning Commission, Third Five Year Plan, p. 48.

The Indian government under the direction of S. K. Patil, food minister, has instigated a program to build buffer food stocks.<sup>17</sup> In keeping with the major aim of attaining self-sufficiency in food grains by 1965-1966, the goal is to dispense with imports and maintain buffer stocks entirely from domestic production by 1966.<sup>18</sup>

Agricultural aid that is used to build buffer stocks will help to stabilize the domestic agricultural situation and, consequently, will contribute indirectly to the success of India's Third Five Year Plan. Nevertheless, a buffer stock program will not increase directly the amount of resources available to finance capital formation.

When surplus commodities are stockpiled, they are not immediately consumed. Yet, the counterpart funds established in lieu of the agricultural commodities may or may not be disbursed. If the counterpart funds are spent by United States government agencies for regular purchases, theoretically, India suffers a loss of foreign exchange and risks inflation. In the event the currencies are used for local capital formation, given India's food shortage, there is a danger of inflation. In both cases, the increased demand for food would not be

---

<sup>17</sup>The article "India" in Economist, March 26, 1960, p. 1274, suggests that the objective of the buffer stock program is to allow free trade in food grains, but to maintain a floor and ceiling price, through government open market operations, in order to eliminate extreme price fluctuations. This plan would protect agricultural investments as well as consumers.

<sup>18</sup>"India," Economist, March 26, 1960, p. 1274.



offset by a corresponding increase in the amount of resources available.

Another consideration, however, is important at this point. Title I sales agreements with India through June 1960 totaled \$1,286.5 million; but only \$555.9 million of the corresponding counterpart funds had been allocated by the Bureau of the Budget, and only \$89.6 million (7 per cent of the total funds) had been disbursed by the authorized agencies as of April 1960.<sup>19</sup> Thus, the surpluses that have been shipped to India, in a realistic sense, have been commodity grants. And it is possible that this situation will not change in the near future.

## Criterion II

Will the program injure India's domestic market or international food markets?

Food crisis. India must attain an immediate and substantial increase in food production.<sup>20</sup> The population, as estimated by the Indian Central Statistical Organization, will reach about 480 million by the end of the Third Plan. The Third Plan production target of 110 million tons of food grains annually by 1965-1966 is reasonable in light of the anticipated

---

<sup>19</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 8.

<sup>20</sup>The agricultural crisis centers on the production of food grains for they comprise two-thirds of the caloric consumption of the average Indian. Rice, wheat, and millet are the chief food crops grown in India. See John E. Russell, World Populations and World Food Supplies (London: G. Allen and Unwin, Ltd., 1957), p. 323.

population increase of 49 million people. This amount of food production will feed the increased population, allow a small improvement in diet, and provide a safety margin against a bad harvest or other unforeseen events.<sup>21</sup>

In order to produce 110 million tons of food grains annually by the end of the Third Plan, the rate of increase in production must average about 8 per cent per year between 1959-1960 and 1965-1966. The average annual increase was about 3 per cent between 1952-1953 and 1958-1959.<sup>22</sup> In the event that the rate of production of food grains does not increase, the gap between supply and need by the end of the Third Plan will be about 28 million tons or 25 per cent.<sup>23</sup> Currently the gap between the amount of food grains needed, as set by the Plan targets, and the supply, as indicated by current production trends, is increasing. The Agricultural Production Team reports that the 1958-1959 harvest failed to reach the food grains target by 4 million tons, and the 1957-1958 harvest was 9 million tons below the target. On the other hand, considering India's soil, climate, and labor supply as well as

---

<sup>21</sup>India, The Agricultural Production Team sponsored by the Ford Foundation, Report on India's Food Crisis and Steps to Meet It, issued by the Ministry of Food and Agriculture and the Ministry of Community Development and Cooperation, 1959, p. 3 and p. 11.

<sup>22</sup>Agricultural Production Team, Report on India's Food Crisis, p. 12.

<sup>23</sup>Agricultural Production Team, Report on India's Food Crisis, p. 12, and Sherman Johnson, "The Food Gap," India and the United States, ed. Selig S. Harrison (New York: The Macmillan Co., 1961), p. 124.

other resources, it is possible, the Agricultural Production Team maintains, to achieve the Third Plan target of 110 million tons of food grains by 1966.<sup>24</sup>

In regard to the question of injuring international food and fiber markets in India, several facts are pertinent. Between 1954 and 1956 (the latest official data available), 86 per cent of India's total supply of wheat and rye (10,528,000 metric tons) was produced domestically, and all of its supply of rice and other cereals (27,483,000 metric tons and 20,738,000 metric tons, respectively) was produced domestically.<sup>25</sup> Therefore, India is a limited market for international grain producers.

At present India is unable to export enough goods to pay for the amount of agricultural imports required to meet domestic needs,<sup>26</sup> and, if the Third Plan food-grain targets are not attained, external supplies also will be needed to feed the population increase. Because of the limited supply of foreign exchange and the government's stringent control which requires that imports of food grains be held to a minimum, it is

<sup>24</sup>Report on India's Food Crisis, pp. 11-12.

<sup>25</sup>United Nations Department of Economics and Social Affairs, Statistical Yearbook, 1959, p. 297.

<sup>26</sup>Coale and Hoover, p. 176. Some observers of the India scene believe that within the next ten to twenty years, India will abandon its goal of achieving self-sufficiency in agriculture. They predict that India, in time, will import a portion of its food requirements and export manufactured goods in payment for food. See Agricultural Production Team, Report on India's Food Crisis, p. 128.

doubtful that surplus commodities will disrupt the markets of local or international suppliers. Nonetheless, the actual effect of surplus aid on international food and fiber markets depends upon the manner in which the commodities and counterpart accounts are used.

Financing of capital investment with agricultural surpluses. The total investment of both the public and private sectors during the Third Plan is to be Rs 10,200 crores. The foreign exchange component of this investment has been set at Rs 1,900 crores.<sup>27</sup> The net domestic investment, accordingly, will be Rs 8,300 crores. The India Planning Commission estimates that the domestic multiplier is about 2-1/2. If agricultural surpluses are used to meet increases in food consumption created by new investments, the additional food consumption would not generate domestic income. Given that the recipients of additional income will spend about 1/3 of this income on food grains,<sup>28</sup> the multiplier would be reduced from 2-1/2 to a modified multiplier of 1-2/3. Total income, therefore, would be increased by 1-2/3 times the original net investment: the Third Plan net investment of Rs 8,300 crores, when applying the modified multiplier, would generate

---

<sup>27</sup>India Planning Commission, Third Five Year Plan, p. 25 and p. 29.

<sup>28</sup>India Planning Commission, Papers Relating to the Formulation of the Five Year Plan, p. 119. The data collected by Dandekar, p. 119, affirm that of an additional income of Rs 300 crores, the average rural family may be expected to spend about Rs 100 crores for additional consumption of food grains.

Rs 13,833 crores of additional income. Of this income, the amount of food consumed, in this case surplus commodities, would be equal to Rs 4,611 crores or  $1/3$ .<sup>29</sup> Therefore, India with a modified multiplier, *ceteris paribus*, could finance about 45 per cent (Rs 4,611 crores) of the Third Plan net domestic investment of Rs 8,300 crores with agricultural surpluses without injuring local or foreign suppliers.<sup>30</sup> The amount of surpluses that will be supplied under the May 1960 agreement is Rs 608 crores, or about 13 per cent of the amount that, theoretically, could be used beneficially in the Third Plan.

### Criterion III

Do the agricultural surpluses represent a substitute for dollar aid?

The United States government stipulated in 1954 that 50 per cent of the development assistance offered India should be in the form of agricultural commodities. As of July 1960, the United States had loaned or given India a total of \$2.6 billion in economic assistance through the Mutual Security

<sup>29</sup>Food and Agriculture Organization, pp. 11-14 and pp. 54-60.

<sup>30</sup>Richter in Journal of Political Economy, LXIV (February, 1956), p. 70, contends that India could finance 30 to 50 per cent of its capital formation with agricultural surpluses; whereas, the Food and Agriculture Organization, pp. 13-14, has estimated that \$100 million of agricultural surpluses could be used annually in India in connection with an annual expansion of about \$250 million in investments. Also see National Planning Association, Foreign Aid Program, p. 392, and Millikan and Rostow, A Proposal, p. 93.

Program, the Wheat Loan, the Export-Import Bank, and PL 480.

A breakdown of this total indicates that the largest amount of aid has been supplied under PL 480--about \$1.4 billion or 54 per cent.<sup>31</sup> Thus, it appears that the relative amount of surplus aid offered India cannot be replaced by other forms of aid. Under these circumstances, the May 1960 sales agreement, conceivably, allows the United States government to offer other types of economic aid to India during the Third Plan period--matching dollar aid valued at \$1,276 million.

Although agricultural surpluses can be used beneficially, the success of India's Third Plan largely depends on the amount of foreign exchange that is obtained from other countries.<sup>32</sup> The May 1960 agreement will increase India's

---

<sup>31</sup>See Harrison, p. 65; Jawaharlal Nehru, Toward Freedom (1st ed. rev.; New York: The John Day Co., 1941), p. 31; and Turner, Appendix A, p. 4.

<sup>32</sup>Total export earnings and net receipts from invisibles over the Third Plan period are appraised at Rs 3,570 crores. Repayments of external obligations will amount to Rs 500 crores. After deducting the disbursements on capital account from the earnings on exports and invisibles, the balance remaining for financing imports during the Plan is Rs 3,570 crores. The projected cost of imports of raw materials, intermediate products, food grains (through normal markets), capital goods for replacement, and other products necessary to maintain the current operations of the economy is Rs 3,570 crores. As a result, the excess of payments over receipts in the balance of payments will total Rs 500 crores prior to the consideration of the foreign exchange component for projects in the Third Plan.

The direct foreign exchange component for projects in the Third Plan is Rs 1,900 crores, and the corresponding figure for intermediate products is Rs 200 crores. Since the May 1960 sales agreement represents an import, it increases the balance of payments deficit by Rs 608 crores. Hence, the total deficit in the balance of payments during the Third Plan will be approximately Rs 3,200 crores. See India Planning Commission, Third Five Year Plan, pp. 53-55.

supply of wheat and rice and can help finance capital formation, but it will not provide foreign exchange which India must have in order to purchase machinery and supplies for capital formation. In addition to agricultural aid, India needs the type of external aid that will provide foreign exchange!

#### Criterion IV

Does surplus aid offer a long-term assistance program?

The American-Indian agreement of May 1960, under Title I of PL 480, will cover a four year period.<sup>33</sup> A part of the commodities was to be received during the contract year, but the agreement relates to the Third Plan.<sup>34</sup> The aid provided under the May 1960 agreement will offer assistance throughout the Third Plan, and has been considered in the scheduling of projects to be undertaken during the Plan.

#### Conclusion

The May 1960 American-Indian sales agreement can contribute to India's Third Five Year Plan. Agricultural aid can be used to finance part of the cost of capital formation in India. A substantial amount of the cost of agricultural and community development projects, particularly, can be financed with agricultural surpluses. In turn, under these conditions,

---

<sup>33</sup>House of Representatives, The Twelfth Semiannual Report on PL 480, p. 2.

<sup>34</sup>India Planning Commission, Third Five Year Plan, p. 55.

surpluses can be used to meet increases in food consumption created by new capital formation, and, thereby, lessen the probability of injuring local and international markets. In addition, an added supply of food grains could increase the amount of deficit financing that the government is able to undertake. The commodities that are held as buffer stocks also could indirectly contribute to the Third Plan by helping to stabilize domestic agricultural conditions. Given India's food shortage and foreign exchange gap, there is little likelihood of injuring local or international food and fiber markets if the surplus aid is properly administered. The May 1960 sales contract, moreover, provides long-term aid inasmuch as the agreement relates to the Third Plan period. Since 50 per cent of the economic aid supplied to India has been in the form of agricultural surpluses, the May 1960 agreement may open the door for additional dollar aid to India. Wheat and rice surpluses are of value to India, but they cannot replace dollar aid needed to bridge India's Rs 3,200 crores balance of payments gap.



## CHAPTER VIII

### SUMMARY

Many of the underdeveloped nations that now are awakening after centuries of economic stagnation have been greatly affected by Western colonialism. Western political and economic control often has instigated nationalistic movements among the peoples of underdeveloped countries--movements that have pivoted on the common problem of foreign domination. As these movements have developed, the goal of self rule has become intertwined with the desire for a higher standard of living. Today economic growth has become a requisite for political stability in the newly formed nations.

During the period of transition now being experienced in many of these underdeveloped countries--the period when the age old structures have begun to crumble, but, as yet, have not been replaced with modern institutions--the people are groping for a framework with which to relate to Western society. New ways of doing things must be developed. The needs of underdeveloped countries are many, but two basic problems are apparent: the need to channel savings into productive capital investments, and the need to build an

industrial structure. As underdeveloped countries begin to surmount these problems, they begin to establish economic growth.

The emerging nations in Latin America, Africa, the Middle East, and Asia that are resolved to develop economically, present a potential challenge to the United States. During the period of transition, from a traditional to a modern economy, communism offers an expedient political and economic alternative. It is in the national interest of the United States to help emerging nations establish economic growth and stable, democratic governments, because such a policy contributes to the formation of an international setting that is favorable to the continual survival of the United States.

Since 1955 agricultural aid has represented about 28 per cent of United States foreign assistance. PL 480 has been the primary vehicle through which agricultural surpluses have been disposed. The actual contribution of surpluses authorized under PL 480 to economic development in underdeveloped countries is questionable, however, in view of the manner in which the program has been carried out.

Agricultural aid authorized under PL 480 can render a twofold benefit to recipient countries; commodities can be used to meet an increased demand for food created by new capital formation that, in turn, partially can be financed with counterpart funds established in lieu of the agricultural surpluses. Capital projects which employ largely local labor

and materials, for example, irrigation systems and farm to market roads, are well-suited to this type of financing.

In order to use agricultural aid effectively in under-developed countries, the surplus program should satisfy four administrative criteria. The four criteria, which most economists emphasize, are the following:

I. Surpluses should be used in conjunction with an increased demand for food and fiber created by new capital projects.

II. Surpluses should not injure domestic markets or international food and fiber markets.

III. Surpluses should not represent a substitute for dollar aid.

IV. Surpluses should provide long-term economic assistance.

Between 1954 and 1960, the manner in which the PL 480 program was administered limited the value of agricultural aid. The surpluses and corresponding counterpart funds authorized were seldom used simultaneously or in conjunction with local development projects. This situation, to some extent, was the result of the many administrative hurdles connected with the use of counterpart funds, and strong Congressional pressure to lessen United States stocks of surplus commodities regardless of the conditions in recipient countries. Nevertheless, attempts currently are being made to overcome some of these administrative problems.

The PL 480 program carried on between 1954 and 1960 may have injured international grain markets, because surpluses were not used in conjunction with new capital formation. But the aid program, in all probability, did not hurt domestic markets in recipient countries or American commercial markets, the latter having been protected by contract. Moreover, according to Senate testimony, surplus aid has been substituted for other types of development aid which, in most cases, is detrimental to recipient countries, because underdeveloped areas lack the resources needed for capital formation as well as adequate food supplies.

In addition, agricultural aid generally was not offered on a long-term basis between 1954 and 1960; and, thus, its contribution to the development programs of recipient countries was limited. Congress now appears to be changing its policy of regarding PL 480 as merely a temporary measure to rid the United States of agricultural surpluses; instead, Congressional committees are beginning to view PL 480 as a tool with which to supply long-term economic aid as well as to pacify the American agricultural situation.

Although in the past the assistance offered by the PL 480 program has been restricted, the program need not be hindered in the future. The 1960 American-Indian four year sales contract is an example of an aid agreement in which the objectives of United States foreign policy can be met and the contribution of agricultural surpluses to economic development can be maximized.

It is in the national interest of the United States that India becomes economically and politically stable while retaining its democratic institutions. Since independence, national unity in India has centered on the goal of economic growth. The survival of India's present democratic government depends, to a significant degree, on its ability to achieve economic growth. Even though economic development is not a guarantee, the possibility of rival factions overthrowing the present Indian government is lessened if growth occurs.

After independence, India faced myriad economic problems, partly because the Indian economy had operated as an appendage of the British economy for several centuries. Growth had occurred, but a foundation for continual economic development had not been laid. Today most of the Indians are peasants who are caught in a vicious circle of poverty. The Indian Third Five Year Plan, which began in 1961, is a bold plan in relation to India's resources, but not in view of its needs. India must cope with a food shortage, a high unemployment rate along with extensive underemployment, and an increasing population that threatens to outstrip increases in production. If the Third Five Year Plan targets are to be achieved, India must receive foreign assistance.

The agricultural aid to be supplied under the 1960 American-Indian sales contract can be of substantial benefit in the rural development projects scheduled for the Third Plan. In these projects agricultural surpluses and counterpart funds

can be used simultaneously. Furthermore, when surpluses and counterpart funds are used in this manner, there is little possibility that domestic or international markets will be injured, since the surpluses will be meeting an increased demand for food instigated by new capital formation. Thus, the agricultural aid to be supplied India under the May 1960 agreement will offer development assistance, and, therefore, can contribute to the stability of the Indian Republic. Surplus aid, however, cannot be substituted for other types of aid. Although India has a food shortage, it also faces a shortage of foreign exchange that is needed for new capital formation as well as for general economic activity.

## BIBLIOGRAPHY

### Books

- Agarwala, A. N., and Singh, S. P. (eds.). The Economics of Underdevelopment. Bombay: Oxford University Press, 1958.
- Babu, V. Vithal. Towards Planning: An Examination of Policies, Snags and Priorities in Planning in India. Kashmere Gate, Delhi: Atma Ram and Sons, 1950.
- Bauer, P. T. United States Aid and Indian Economic Development. Washington, D.C.: American Enterprise Association, 1959.
- Bhandarkar, D. R. (ed.). India. Vol. CXLV of The Annals of the American Academy of Political and Social Science. Philadelphia: American Academy of Political and Social Science, 1929.
- Bondurant, Joan V. Regionalism versus Provincialism: A Study in Problems of Indian National Unity. Berkeley: University of California, 1948.
- Boorstin, Daniel J. The Genius of American Politics. Chicago: University of Chicago Press, 1953.
- Bowles, Chester. Ideas, People and Peace. New York: Harper and Brothers, 1958.
- Carleton, William G. The Revolution in American Foreign Policy. 1st ed. rev. New York: Random House, Inc., 1957.
- Choudhury, Radharani. The Plans for Economic Development of India. Calcutta: Bookland Private Ltd., 1959.
- Coale, Ansley J., and Hoover, Edgar M. Population Growth and Economic Development in Low-Income Countries: A Case Study of India's Prospects. Princeton: Princeton University Press, 1958.

- Committee for Economic Development. Economic Development Assistance. New York: Committee for Economic Development, 1957.
- Dandekar, V. M. Use of Food Surpluses for Economic Development. Publication No. 33. Poona: Gokhale Institute of Politics and Economics, 1956.
- Davis, Kingsley. The Population of India and Pakistan. Princeton: Princeton University Press, 1951.
- Dean, Vera Micheles. New Patterns of Democracy in India. Cambridge: Harvard University Press, 1959.
- Dube, S. C. Indian Village. Ithaca: Cornell University Press, 1955.
- Fisher, Margaret W., and Bondurant, Joan V. Indian Approaches to a Socialistic Society. Berkeley: University of California, 1956.
- Frankel, S. Herbert. The Economic Impact on Underdeveloped Societies: Essays on International Investment and Social Change. Oxford: Basil Blackwell, 1953.
- Gadgil, D. R. Economic Policy and Development: A Collection of Writings. Poona: Gokhale Institute of Politics and Economics, 1955.
- Gopalakrishnan, P. K. Development of Economic Ideas in India (1880-1914). 's-Gravenhage: Institute of Social Studies, 1954.
- Griffiths, Percival. Modern India. New York: Frederick A. Praeger, 1957.
- Gupta, Karunakar. Indian Foreign Policy: In Defence of the National Interest. Calcutta: The World Press Private Ltd., 1956.
- Harrison, Selig S. (ed.). India and the United States. New York: The Macmillan Co., 1961.
- Hoselitz, Bert. F. (ed.). The Progress of Underdeveloped Areas. Chicago: University of Chicago Press, 1952.
- Kendall, Patricia. Come With Me to India! A Quest for Truth among Peoples and Problems. New York: Charles Scribner's Sons, 1931.
- Kumarappa, J. C. Swaraj for the Masses. Bombay: Hind Kitabs Ltd., 1948.



- Kuznets, Simon, Moore, Wilbert E., and Spengler, Joseph J. (eds.). Economic Growth: Brazil, India, Japan. Durhan: Duke University Press, 1955.
- Levi, Werner. Free India in Asia. Minneapolis: University of Minnesota Press, 1954.
- Lewis, W. Arthur. The Theory of Economic Growth. Homewood, Ill.: Richard D. Irwin, Inc., 1955.
- Malenbaum, Wilfred. East and West in India's Development. Washington, D.C.: National Planning Association, 1959.
- Mayer, Albert, and Others, in collaboration with Marriott, McKim, and Park, Richard L. Pilot Project, India. Berkeley: University of California Press, 1958.
- Mellor, Andrew. India Since Partition. New York: Frederick A. Praeger, 1951.
- Mikesell, Raymond. Agricultural Surpluses and Export Policy. New York: American Enterprise Association, 1958.
- Millikan, Max F., and Rostow, W. W. A Proposal: Key to an Effective Foreign Policy. New York: Harper and Brothers, 1957.
- Moore, Wilbert E. Industrialization and Labor: Social Aspects of Economic Development. Ithaca: Cornell University Press, 1951.
- Moraes, Frank. India Today. New York: The Macmillan Co., 1960.
- Morley, Lorna, and Morley, Felix. The Patchwork History of Foreign Aid. Washington, D.C.: American Enterprise Association, 1961.
- Nanavati, Manilal B., and Vakil, C. N. (eds.). India Speaking. Vol. XXIII of The Annals of the American Academy of Political and Social Science. Philadelphia: American Academy of Political and Social Science, 1944.
- National Planning Association. Using American Agricultural Surpluses Abroad. Planning Pamphlets, No. 91. Washington, D.C.: National Planning Association, 1955.
- Nehru, Jawaharlal. Toward Freedom. 1st ed. rev. New York: The John Day Co., 1941.
- Nelson, Eastin (ed.). Economic Growth: Rationale, Problems, Cases. Proceedings of the Conference on Economic

- Development Sponsored by the Department of Economics and the Institute of Latin American Studies at the University of Texas, 1958. Austin: University of Texas Press, 1960.
- Nurkse, Ragnar. Problems of Capital Formation in Underdeveloped Countries. Oxford: Basil Blackwell, 1953.
- Ojala, E. M. Agriculture and Economic Progress. London: Oxford University Press, 1952.
- Pandit, Vijaya Lakshmi. The Evolution of India. London: Oxford University Press, 1958.
- Panikkar, K. M. The Afro-Asian States and Their Problems. New York: The John Day Co., 1959.
- Panikkar, K. M. The Future of South-East Asia: An Indian View. New York: The Macmillan Co., 1943.
- Park, Richard L., and Tinker, Irene (eds.). Leadership and Political Institutions in India. Princeton: Princeton University Press, 1959.
- President's Commission on National Goals. Goals for Americans. A Report Prepared by the President's Commission on National Goals. Columbia University: The American Assembly, 1960.
- Ramamurti, V. Indian Agriculture, 1950-75. Eastern Economist Pamphlets. Delhi: Rakesh Press, 1957.
- Reitzel, William, Kaplan, Morton A., and Coblenz, Constance G. United States Foreign Policy, 1945-1955. Washington, D.C.: The Brookings Institution, 1956.
- Rosen, George. Industrial Change in India: Industrial Growth, Capital Requirements, and Technological Change, 1937-1955. Glencoe, Ill.: The Free Press, 1958.
- Rostow, W. W., The Stages of Economic Growth: A Non-Communist Manifesto. New York: Cambridge University Press, 1960.
- Russell, John E. World Populations and World Food Supplies. London: G. Allen and Unwin Ltd., 1957.
- Sanderson, Gorham D. India and British Imperialism. New York: Bookman Associates, 1951.
- Schumpeter, Joseph A. The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle. Cambridge: Harvard University Press, 1936.

- Sherif, Muzafer, and Sherif, Carolyn W. An Outline of Social Psychology. 1st ed. rev. New York: Harper and Brothers, 1956.
- Singer, Milton (ed.). Traditional India: Structure and Change. Philadelphia: The American Folklore Society, 1959.
- Stanley, Eugene. The Future of Underdeveloped Countries. New York: Harper and Brothers, 1954.
- Strausz-Hupé, Robert, Cottrell, Alvin J., and Dougherty, James E. (eds.). American-Asian Tensions. New York: Frederick A. Praeger, 1956.
- Thorner, Daniel. The Agrarian Prospect in India. Delhi: Delhi University Press, 1956.
- Toynbee, Arnold. The World and the West. New York: Oxford University Press, 1953.
- Turner, Frank L., and Others. Significant Issues in Economic Aid to Newly Developing Countries. Menlo Park, Calif.: International Industrial Development Center, Stanford Research Institute, 1960.
- Wiggins, James W., and Schoeck, Helmut (eds.). Foreign Aid Reexamined: A Critical Appraisal. Washington, D.C.: Public Affairs Press, 1958.
- Williams, William Appleman. The Tragedy of American Diplomacy. Cleveland: The World Publishing Co., 1959.
- Woodrow Wilson Foundation and National Planning Association. The Political Economy of American Foreign Policy: Its Concepts, Strategy, and Limits. Report of a Study Group Sponsored by the Woodrow Wilson Foundation and the National Planning Association. New York: Henry Holt and Co., 1955.
- Woytinsky, W. S., and Woytinsky, E. S. World Commerce and Governments: Trends and Outlook. Baltimore: The Lord Baltimore Press, 1955.
- Woytinsky, W. S. India: The Awakening Giant. New York: Harper and Brothers, 1957.
- Vakil, C. N. Economic Consequences of Divided India: A Study of the Economy of India and Pakistan. Bombay: Vora and Co., Publishers, Ltd., 1950.
- Vakil, C. N., and Brahmananda, P. R. Planning for a Shortage Economy: The Indian Experiment. Bombay: Vora and Co., Publishers, Ltd., 1952.

Zinkin, Taya. India Changes! New York: Oxford University Press, 1958.

### Articles

Adler, John H. "The Fiscal and Monetary Implementations of Development Programs," American Economic Review, XLII (May, 1952), pp. 584-600.

Axilrod, Stephen H. "Inflation and the Development of Underdeveloped Areas," Review of Economics and Statistics, XXXVI (August, 1954), pp. 334-38.

Base, Ashish. "The Population Puzzle in India," Economic Development and Cultural Change, VII, Part 1 (April, 1959), pp. 230-48.

Bauer, P. T. "Lewis' Theory of Economic Growth: A Review Article," American Economic Review, XLVI (September, 1956), pp. 632-41.

Bauer, P. T. "The United Nations Report on the Economic Development of Underdeveloped Countries," Economic Journal, LXIII (March, 1953), pp. 210-22.

Behrman, J. N. "Aid for Economic Development and the Objectives of United States Foreign Economic Policy," Economic Development and Cultural Change, IV (November, 1955), pp. 55-67.

Bhatia, R. J. "Disguised Unemployment and Savings Potential," Indian Economic Review, IV (August, 1958), pp. 33-38.

Chandavarkar, A. G. "The Public and Private Sectors," Economic Development and Cultural Change, VII, Part 1 (April, 1959), pp. 249-57.

Chandavarkar, A. G. "The Saving Potential of Disguised Unemployment," Economic Journal, LXVII (June, 1957), pp. 335-38.

Choudhry, N. K. "A Note on the Dilemma of Planning Population in India," Economic Development and Cultural Change, IV (November, 1953), pp. 68-81.

Clough, Shepard B. "Strategic Factors in Economic Growth," Political Science Quarterly, LXX (March, 1955), pp. 19-27.

Cohn, Bernard S. "Some Notes on Law and Change in North India," Economic Development and Cultural Change, VIII (October, 1959), pp. 79-93.

- Colm, Gerhard. "In Defense of the Public Interest," Social Research, XXVII (Autumn, 1960), pp. 295-307.
- Cook, Thomas I., and Moos, Malcolm. "The American Idea of International Interest," American Political Science Review, XLVII (March, 1953), pp. 28-44.
- Cook, Thomas I., and Moos, Malcolm. "Foreign Policy: The Realism of Idealism," American Political Science Review, XLVI (June, 1952), pp. 343-56.
- Coughlin, Richard J. Review "Colonialism and Communism in Southeast Asia," Yale Review, XLVI (Spring, 1957), pp. 446-51.
- Davis, John H. "Agricultural Surpluses and Foreign Aid," American Economic Review, XLIX (May, 1959), pp. 232-41.
- Dirks, Frederick C. "United States Exports of Surplus Commodities," International Monetary Fund Staff Papers, V, No. 2 (August, 1956), pp. 200-17.
- Eckaus, Richard S. Discussion of "The Role and Character of Foreign Aid," American Economic Review, XLIX (May, 1959), pp. 248-50.
- Eisenstadt, S. N. "Sociological Aspects of Political Development in Underdeveloped Countries," Economic Development and Cultural Change, V (July, 1957), pp. 289-307.
- Ellis, Howard S. "Accelerated Investment as a Force in Economic Development," Quarterly Journal of Economics, LXXII (November, 1958), pp. 485-95.
- Enke, Stephen. "The Gains to India from Population Control: Some Money Measures and Incentive Schemes," Review of Economics and Statistics, XLII (May, 1960), pp. 175-81.
- Enke, Stephen. "Preliminary Thoughts about India's Third Five Year Plan," South African Journal of Economics, XXVIII (June, 1960), pp. 102-18.
- Enke, Stephen. "Speculations on Population Growth and Economic Development," Quarterly Journal of Economics, LXXI (February, 1957), pp. 19-35.
- Fleming, Marcus. "External Economies and the Doctrine of Balanced Growth," Economic Journal, LXV (June, 1955), pp. 241-55.
- Friedman, Milton. "Foreign Economic Aid: Means and Objectives," Yale Review, XLVII (Summer, 1958), pp. 500-16.

- Galbraith, John Kenneth. "Rival Economic Theories in India," Foreign Affairs, XXXVI (July, 1958), pp. 587-96.
- Goode, Richard B. "Adding to the Stock of Physical and Human Capital," American Economic Review, XLIX (May, 1959), pp. 147-55.
- Hagen, Everett E. "Population and Economic Growth," American Economic Review, XLIX (June, 1959), pp. 310-27.
- Hagen, Everett E. "The Process of Economic Development," Economic Development and Cultural Change, V (April, 1957), pp. 193-215.
- Healey, J. M. "A Note on the Concentration of Control in Manufacturing Industry," Indian Economic Review, IV (February, 1958), pp. 120-25.
- Hirschman, Albert O. "Economic Policy in Underdeveloped Countries," Economic Development and Cultural Change, V (July, 1957), pp. 362-70.
- Hirschman, Albert O. "Investment Policies and 'Dualism' in Underdeveloped Countries," American Economic Review, XLVII (September, 1957), pp. 550-70.
- Hoffman, Paul G. "Should We Reassess Our Foreign Aid Program?" The Annals of the American Academy of Political and Social Science, CCCXXX (July, 1960), pp. 86-94.
- Houghton, Neal D. "The Challenge to Political Scientists in Recent American Foreign Policy: Scholarship or Indoctrination," American Political Science Review, LII (September, 1958), pp. 678-88.
- Hughes, J. R. T. "Foreign Trade and Balanced Growth: The Historical Framework," American Economic Review, XLIX (May, 1959), pp. 330-37.
- "India (Prepares for Take' Off)," Economist, March 26, 1960, pp. 1255-89.
- Kindleberger, Charles P. "The Terms of Trade and Economic Development," Review of Economics and Statistics, XL, Supplement No. 1, Part 2 (February, 1958), pp. 72-85.
- Krishnaswamy, K. S. "India's Second Plan: The Background," Economic Development and Cultural Change, VII (April, 1959), pp. 194-205.
- Kristol, Irving. "The Ideology of Economic Aid," Yale Review, XLVI (June, 1957), pp. 497-510.

- Kust, Matthew J. "Economic Development and Agricultural Surpluses," Foreign Affairs, XXXV (October, 1956), pp. 105-15.
- Leibenstein, Harvey. "Underemployment in Backward Economies. Some Additional Notes," Journal of Political Economy, LXVI (June, 1959), pp. 257-58.
- Lewis, W. Arthur. "Economic Development with Unlimited Supplies of Labor," Manchester School of Economics and Social Studies, XXII (May, 1954), pp. 139-51.
- Mahar, Pauline Moller. "Changing Religious Practices of an Untouchable Caste," Economic Development and Cultural Change, VIII (April, 1960), pp. 279-97.
- Malenbaum, Wilfred. "India and China: Development Contrasts," Journal of Political Economy, LXIV (February, 1956), pp. 1-24.
- Malenbaum, Wilfred. "The Role of Government in India's Third Plan," Economic Development and Cultural Change, VIII (April, 1960), pp. 225-36.
- Millikan, Max. "Economic Thought and Its Application and Methodology in India," American Economic Review, XLVI (May, 1956), pp. 399-407.
- Millikan, M. F., and Rostow, W. W. "Foreign Aid: Next Phase," Foreign Affairs, XXXVI (April, 1958), pp. 418-36.
- Misra, Shridhar. "The Concept of Welfare," Indian Journal of Economics, XXXVII (October, 1956), pp. 223-24.
- Moraes, Frank. "Gandhi Ten Years After," Foreign Affairs, XXXVI (January, 1958), pp. 253-66.
- Morgan, Theodore. "The Long-Run Terms of Trade Between Agriculture and Manufacturing," Economic Development and Cultural Change, VIII (October, 1959), pp. 1-23.
- Morgenthau, Hans J. "The Paradoxes of Nationalism," Yale Review, XLVI (June, 1957), pp. 481-96.
- Mukherjee, P. K. "Review of FAO Pilot Study," Indian Economic Review, III (August, 1956), pp. 94-97.
- Myint, H. "The 'Classical Theory' of International Trade and the Underdeveloped Countries," Economic Journal, LXVIII (June, 1958), pp. 317-37.

- Myint, H. "The Gains from International Trade and the Backward Countries," Review of Economic Studies, XXII, No. 58 (1954-1955), pp. 129-42.
- Myint, H. "An Interpretation of Economic Backwardness," Oxford Economic Papers, New Series, VI (June, 1954), pp. 132-63.
- Narain, Dharm. "Ratio of Interchange between Agricultural and Manufactured Goods in Relation to Capital Formation in Underdeveloped Economies," Indian Economic Review, III (August, 1957), pp. 46-55.
- Narayan, H. Laxmi. "The Indian Labour Market and Its Impact on the Pattern of Regional Wage Differentials," Indian Economic Review, IV (February, 1958), pp. 34-56.
- Nicholls, William H. "Accommodating Economic Change in Underdeveloped Countries," American Economic Review, XLIX (May, 1959), pp. 156-68.
- Niculescu, B. M. "Under-developed, Backward or Low Income?" Economic Journal, LXV (September, 1955), pp. 546-48.
- North, Douglass C. "A Note on Professor Rostow's 'Take-Off' into Self-Sustained Economic Growth," Manchester School of Economics and Social Studies, XXVI (January, 1958), pp. 68-75.
- Nurkse, Ragnar. "Notes on 'Unbalanced Growth'," Oxford Economic Papers, New Series, XI (October, 1959), pp. 295-97.
- Nurkse, Ragnar. "Reflections on India's Development Plan," Quarterly Journal of Economics, LXXI (May, 1957), pp. 188-204.
- Nurkse, Ragnar. "Some International Aspects of the Problem of Economic Development," American Economic Review, XLII (May, 1952), pp. 571-83.
- Ohlin, Goran. "Balanced Economic Growth in History," American Economic Review, XLIX (May, 1959), pp. 338-53.
- Oshima, Harry T. "Underemployment in Backward Economies, An Empirical Comment," Journal of Political Economy, LXVI (June, 1958), pp. 259-64.
- Palmer, Norman D. "Indian and Western Political Thought: Coalescence or Clash?" American Political Science Review, XLIX (September, 1955), pp. 747-61.



- Patel, Surendra J. "Export Prospects and Economic Growth: India," Economic Journal, LXIX (September, 1959), pp. 490-506.
- Prasad, S. B. "Gandhian Approach and Keynes," Indian Journal of Economics, XXXVII (October, 1956), pp. 215-18.
- Prebisch, Raul. "Commercial Policy in the Underdeveloped Countries," American Economic Review, XLIX (May, 1959), pp. 251-73.
- Richter, J. H. "Agricultural Surpluses for Economic Development," Journal of Political Economy, LXIV (February, 1956), pp. 69-73.
- Rosenberg, Nathan. "Capital Formation in Underdeveloped Countries," American Economic Review, L (September, 1960), pp. 706-15.
- Rosenstein-Rodan, P. N. "Disguised Unemployment and Underemployment in Agriculture," Monthly Bulletin of Agricultural Economics and Statistics, VI (July/August, 1957), pp. 1-7.
- Rosenstein-Rodan, P. N. "Problems of Industrialization of Eastern and South-Eastern Europe," Economic Journal, LIII (June-September, 1943), pp. 202-11.
- Rostow, W. W. "The Take-off into Self-Sustained Growth," Economic Journal, LXVI (March, 1956), pp. 25-48.
- Roy, Jyotirmoy. "Population Control in the Rural Sector," Indian Journal of Economics, XXXVII (January, 1957), pp. 291-97.
- Scalapino, Robert A. "'Neutralism' in Asia," American Political Science Review, XLVIII (March, 1954), pp. 49-62.
- Scitovsky, Tibor. "Two Concepts of External Economies," Journal of Political Economy, LXII (April, 1954), pp. 143-52.
- Sen, Amartya Kumar. "Unemployment, Relative Prices and the Savings Potential," International Economic Review, III (August, 1957), pp. 56-63.
- Sheahan, John. "International Specialization and the Concept of Balanced Growth," Quarterly Journal of Economics, LXXIII (May, 1958), pp. 183-97.

- Shetty, V. Venkappa. "The Community Development Programme in India," Indian Journal of Economics, XXXVIII (October, 1957), pp. 209-16.
- Singer, H. W. "Obstacles to Economic Development," Social Research, XX (Spring, 1953), pp. 19-31.
- Singh, Pritam. "The Monopoly Problem: Its Implications in India," Indian Journal of Economics, XXXIX (October, 1958), pp. 183-90.
- Sinha, J. N. "Population Growth and Balance in Economic Development," Economic Development and Cultural Change, VII (April, 1959), pp. 206-15.
- Stern, R. M. "Agricultural Surplus Disposal as a Means of Financing Economic Development," Economia Internazionale, XII (November, 1959), pp. 643-59.
- Streeten, Paul. "Unbalanced Growth," Oxford Economic Papers, New Series, XI (June, 1959), pp. 167-90.
- Swerling, Boris C. Discussion of "The Role and Character of Foreign Aid," American Economic Review, XLIX (May, 1959), pp. 242-45.
- Tandon, B. C. "Some Ideological Approaches Towards Planned Economies," Indian Journal of Economics, XXXIX (July, 1958), pp. 141-49.
- Theodorson, George A. "Acceptance of Industrialization and Its Attendant Consequences for the Social Patterns of Non-Western Societies," American Sociological Review, XVIII (October, 1953), pp. 477-84.
- Wood, C. Tyler. "Problems of Foreign Aid Viewed from the Inside," American Economic Review, XLIX (May, 1959), pp. 203-15.
- Young, Allyn A. "Increasing Returns and Economic Progress," Economic Journal, XXXVIII (December, 1928), pp. 527-42.

#### Public Documents

- India. The Agricultural Production Team sponsored by the Ford Foundation. Report on India's Food Crisis and Steps to Meet It. Issued by the Ministry of Food and Agriculture and the Ministry of Community Development and Cooperation, 1959.

- India. Information Service of India, Embassy of India. "The Economic Development of India: A Presentation of the Third Five-Year Plan and a Review of the Progress During the First and Second Plans," India Economic Newsletter, Supplement No. 12, June, 1960.
- India. Planning Commission. Appraisal and Prospects of the Second Five Year Plan. New Delhi: Government of India Press, 1958.
- India. Planning Commission. The New India: Progress Through Democracy. New York: The Macmillan Company, 1958.
- India. Planning Commission. Papers Relating to the Formulation of the Second Five Year Plan. New Delhi: Government of India Press, 1955.
- India. Planning Commission. Reappraisal of the Second Five Year Plan, A Resume'. New Delhi: Government of India Press, 1958.
- India. Planning Commission. Review of the First Five Year Plan. New Delhi: Government of India Press, 1957.
- India. Planning Commission. Second Five Year Plan: Summary, 1956. New Delhi: Government of India Press, 1957.
- India. Planning Commission. Third Five Year Plan: A Draft Outline. New Delhi: Government of India Press, 1960.
- U.S. Bureau of the Census. Statistical Abstract of the United States, 1961. 82d. ed.
- U.S. House of Representatives, Committee on Agriculture. Hearings on Extend Public Law 480. Serial FFF, 85th Cong., 2d Sess., 1958.
- U.S. House of Representatives, Committee on Agriculture, Hearings on Surplus Commodities Disposal. Serial K, 85th Cong., 1st Sess., 1957.
- U.S. House of Representatives, Committee on Agriculture. Hearings on the Surplus Disposal Program. Serial U, 84th Cong., 1st Sess., 1955.
- U.S. House of Representatives, Committee on Agriculture. Long-Term Contracts Under Public Law 480. Serial V, 86th Cong., 1st Sess., 1959.
- U.S. House of Representatives. The Eighth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 431, 85th Cong., 2d Sess., 1958.

- U.S. House of Representatives. The Eleventh Semiannual Report on Activities Carried on Under Public Law 480. Document No. 335, 86th Cong., 2d Sess., 1960.
- U.S. House of Representatives. Extension and Amendment of Public Law 480. Report No. 908, 86th Cong., 1st Sess., 1959.
- U.S. House of Representatives. The Fifth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 50, 85th Cong., 1st Sess., 1957.
- U.S. House of Representatives. The Ninth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 60, 86th Cong., 1st Sess., 1959.
- U.S. House of Representatives. The Seventh Semiannual Report on Activities Carried on Under Public Law 480. Document No. 323, 85th Cong., 2d Sess., 1958.
- U.S. House of Representatives. The Sixth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 212, 85th Cong., 1st Sess., 1957.
- U.S. House of Representatives, Subcommittee of the Committee on Appropriations. Hearings on Department of Agriculture Appropriations for 1958. Part 6, 85th Cong., 1st Sess., 1957.
- U.S. House of Representatives. The Tenth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 206, 86th Cong., 1st Sess., 1959.
- U.S. House of Representatives. The Twelfth Semiannual Report on Activities Carried on Under Public Law 480. Document No. 449, 86th Cong., 2d Sess., 1960.
- U.S. House of Representatives, Udell, Gilman G., Superintendent, Document Room. Agricultural Trade Development and Assistance Act of 1954 and Amendments. Washington, D.C.: Government Printing Office, 1959.
- U.S. Senate, Committee on Agriculture and Forestry. Hearings on the Extension of Public Law 480. 85th Cong., 1st Sess., 1957.
- U.S. Senate, Committee on Agriculture and Forestry. Hearings on the Extension of Public Law 480. S. 3039 and S. 3223, 85th Cong., 2d Sess., 1958.
- U.S. Senate, Committee on Agriculture and Forestry. Hearings on Policies and Operations Under Public Law 480. 85th Cong., 1st Sess., 1957.

- U.S. Senate, Committee on Foreign Relations. Hearings on the Review of Foreign Policy, 1958. Part 1, 85th Cong., 2d Sess., 1958.
- U.S. Senate, Committee on Foreign Relations. Hearings on the Review of Foreign Policy, 1958. Part 2, 85th Cong., 2d Sess., 1958.
- U.S. Senate, Committee on Foreign Relations. Hearings on the Review of Foreign Policy, 1958. Part 4, 85th Cong., 2d Sess., 1958.
- U.S. Senate. Report from the Department of Agriculture on Exports Under Public Law 480. 85th Cong., 1st Sess., 1957.
- U.S. Senate. Special Committee to Study the Foreign Aid Program. Foreign Aid Program. Document No. 52, 85th Cong., 1st Sess., 1957.
- U.S. Senate. Special Committee to Study the Foreign Aid Program. The Objectives of United States Economic Assistance Programs. Massachusetts Institute of Technology, The Center for International Studies. 85th Cong., 1st Sess., 1957.
- United Nations. Department of Economic Affairs. Measures for the Economic Development of Under-Developed Countries. Report by a Group of Experts appointed by the Secretary-General of the United Nations, New York, 1951.
- United Nations. Department of Economics and Social Affairs, Statistical Office of the United Nations. Statistical Yearbook, 1959. New York, 1959.
- United Nations. Department of Economics and Social Affairs, Statistical Office of the United Nations. Yearbook of National Account Statistics, 1959. New York, 1960.
- United Nations. Food and Agriculture Organization. Uses of Agricultural Surpluses to Finance Economic Development in Under-Developed Countries: A Pilot Study in India. Commodity Policy Studies No. 6, Rome, 1955.

#### Unpublished Material

- Attiga, Ali Ahmed. "Opportunities and Problems of Using the U.S. Surplus Food to Increase Capital Formation in Underdeveloped Countries." Unpublished Ph.D. dissertation, University of Wisconsin, 1959.

- Hultman, Charles W. "Agricultural Surplus Disposal and Foreign Aid." Unpublished Ph.D. dissertation, Department of Economics, State University of Iowa, 1960.
- Koslin, Adamantia Pollis. "The Megali Idea--A Study of Greek Nationalism." Unpublished Ph.D. dissertation, Department of Government, John Hopkins University, 1958.
- Stern, Robert Mitchell. "World Food Exports and United States Agricultural Policies: A Study of the Development of World Trade in Food with Special Reference to United States Food Surplus Disposal and Foreign Aid." Unpublished Ph.D. dissertation, Columbia University, 1958.
- Usui, Mikoto and Hagen, E. E. World Income, 1957. Cambridge, Mass.: Massachusetts Institute of Technology, Center for International Studies, 1959.