

INDIA

Tape #1

I started the morning off with a visit with Herbert Spivack who is the Political and Economic Officer in the Embassy. Because of much of what he and I discussed subsequently I reviewed with Dr. I. G. Patel, Special Secretary, Department of Economic Affairs, Ministry of Finance, and V. K. Ramaswamy, Chief Economic Advisor, Department of Economic Affairs, I'll run the interviews together. The fourth Five-Year Plan will involve a change of emphasis in pace but the techniques will not be substantially different. Agriculture will still be number one in the priority list. There is much less emphasis on industrial development principally because there exists substantial unused capacity. The casualty will be social services which, according to Patel, will receive much less emphasis than everyone had hoped would be possible. Much more emphasis will be placed on development within the states, by the states. In part, this is a tacit recognition that the diversities within India are so great that regional planning will be a necessity. In part, it also is recognition of the political problems the Congress party is facing. Local parties are becoming much stronger and unless some kind of political compromise, which will give to the states and their local political parties a greater say in developing their individual economies, the Federation will be in serious trouble and, of course, along with it the Congress party. Patel acknowledged that the planning capabilities in the 15 states are not equal but he believes, and probably rightly so, that unless they are given the obligation and the responsibility along with the freedom to develop a structure, they never will. None of these acknowledged a problem existed with the landless laborer and the small landowner as a result of the Green Revolution. Perhaps it might be better put that they did not see a problem emerging for many years. They believed that the problem, if there is one, can be handled for some years to come by better distribution of credit and agricultural inputs to equalize the disproportion

between the larger land units and the smallest ones. Our monetary policy, because of the impact it has had on interest rates around the world, has had an effect, according to Patel. Current interest levels for external borrowing are too high. He saw no way around the difficulty of financing the larger external debt other than through increasing use of direct aid for this purpose.

After lunch I called on Dave Hopper, who is an Agricultural Economist for the Rockefeller Foundation. More than anyone else I have visited with in India, he talked sense about the Green Revolution. He started his experience in India by attempting to farm six acres of Indian land. He found that regardless of his advanced technology and know-how, he could not match the best of the Indian farmers. This occurred sometime in the early 50's and caused him to start thinking seriously about the approaches being made by U.S. experts to Indian agriculture. Up until that time, the belief was commonly held that the Indian farmer was simply inefficient and there existed no real reason why he couldn't do as good a job as the Japanese. The suspicion began to grow that the problem was less with his methods and motivation and more with the kinds of wheat and rice he was attempting to grow. These plants were adapted to the tropics, at least in this way, that is, they were able to grow in soils that had become largely exhausted and in high tropical temperatures. They did not respond to fertilizer, however, and in some cases actually did worse with fertilizer. They ran largely to stem and to foliage. Most of the plant's energies were spent in growing high and bushy to protect itself from the sun and its neighboring competitors. The initial experimenting started in Mexico with short wheat that would respond to fertilizer and produce heavy heads and a stiff straw. According to Hopper, no one really knew the implications of this discovery in Mexico for tropical agriculture. It was almost on impulse that an experimental plot was tried in India and it proved enormously successful. Not only did it respond to the weather and to irrigation and the fertilizer, but

the new wheat dispelled the old myth about the Indian farmer being willing to change. He accepted the new wheat with great enthusiasm and a lively black market developed in the seed. Acreage expanded geometrically, and today Hopper figures that there is roughly a ten-year lead on the population growth. He believes though that a new attention has to be given to bringing in additional land and improving the road system. Land that can be easily irrigated is becoming in short supply, and one of these days the water table in the Punjab is going to begin to show the effect of pumping, although they are nearly a hundred thousand wells past their thirty thousand limit that was once thought the maximum. There will be a problem in the road system because the transport of fertilizer to the fields and the return transport of grain impose requirements that the present road system will be inadequate to fill. Although he believes the four per cent growth rate in agricultural production can be maintained for this ten-year period, the investigation has to start soon. He believes there is a real danger of complacency because of this success story and also regards with some skepticism the priority given agriculture in the fourth plan. The history has been that agriculture has suffered when military priorities or other priorities become important. He draws some encouragement in that there is a much higher quality of economists in the central government than were present before, particularly in the Department of Agriculture which was notoriously weak prior to the early 60's. The shocker that forced the change was the acceleration effect of failing agricultural production which spilled over to the industrial sector and then to tax revenues.

Tape #2

Hopper thinks there is a real social problem emerging as a by-product of the Green Revolution. He admitted that he was one of those who early pressed for a commitment of resources to agricultural development in those areas where development would occur easiest and fastest. As he put it, the social problems which flow from a maldistribution of economic benefit had to wait until there

was something to distribute. With the success of the new wheat and the somewhat more limited success of the new rices, skews of benefit among the various agricultural areas are emerging. The first of these has to do with the differences between the easily irrigable areas and the less easily irrigable areas or dry areas. The new wheats, because of their fast response to irrigation, have benefited those areas in the Punjab where water is either available or has been easily obtained with wells. It has meant little or nothing to the dry areas. The result is that areas of the Punjab are producing substantial surpluses with much lower costs than other areas. This is producing price pressures that will force a break in the system of zoning that was the central government's response to the staff and the accompanying famine of a few years ago. Under this system grain could not be transported from one state to another except by the central government. This meant producers had to sell surpluses to the state, at the state price, which the state could then distribute at that same low price in the urban areas. It was one thing to make this system work under the pressure of the national emergency and the relatively limited supplies; now with the enormously increased production the farmers in the surplus area want direct access to the markets in the other areas.

There are also skews in the availability of credit. The small farmer is not as credit-worthy as the large one and it is not possible for him to secure the credit necessary to finance the purchases of the improved seeds and fertilizers, let alone the development of water supplies. Some new credit system will be necessary. He doubted that the pressure to open branches in rural areas, currently being exerted against the commercial banking system, will be the answer because it will not improve the credit-worthiness of these small operators. Some subsidization is going to be necessary. He referred to

the strength of the populist tradition, which is keeping a lower interest rate than the size and difficulty of the small agricultural loans would stand. He felt that something like the Philippine system, referred to by Simmons yesterday, which would involve the money lender will be necessary. He maintained the money lender is the one best equipped to serve this kind of customer because of the high risk and the problems of loan supervision. Although the interest rates of the money lenders are high by nominal standards, that is, sometimes 40, 50, or 60 per cent, the difficulties of collection and supervision make the effective rate about 12 per cent. The final problem will be the release of unused agricultural labor. The limited mechanization that has taken place has enlarged the labor market, but this cannot be expected to continue. At the present time, it is possible in these areas using new technology and tractors to use tractors to put in the crops quickly between the dry season and the monsoon season, and then to harvest and replant at the other end of the cycle. The tilling of the crops in between has been done manually, but he said there is pressure in the agricultural area on agricultural wages, and he said it isn't going to be very long before farmers start using their tractors to till the crops and when this happens, there will be a serious displacement of agricultural labor. He didn't think this day is far off. The old social structures, which were not unlike those existing in the South a few years ago with the landlords taking care of the village in a paternalistic pattern, is breaking down and will continue to do so because the cost and profit factors will force it to.

He said he didn't know the answer but there were a couple of possibilities -- the first would be to insist on labor intensive industries and to reduce the reliance in every way possible on capital inputs. The other possibility would be at the other extreme, which would mean to lower the bars to capital investment by overseas companies and hope that the rush to take advantage of the expanding labor supply would pick up the slack. It takes about

ten thousand rupees to create one new job in India. There are two and a half million people being added to the work force each year before any addition from the displaced agricultural worker. These are enormous numbers, in fact exceed the capital budget of the fourth Five Year Plan. Perhaps because it agrees with my prejudices, I thought he made a much better case than the others I've talked to who insist that the traditional patterns of Indian agriculture will prevail long enough to permit a pattern of adjustment to evolve.

My last visit of the day was to Mr. K. S. Sankhala, Director of the Delhi Zoological Park. This must be one of the great zoological parks of the world. It is magnificently laid out with the animals kept in the so-called natural enclosures. There are flowers everywhere and the whole development has been placed in and around one of the ancient-walled cities of Delhi. The conservation problems of India are the same as every country, aggravated perhaps by the absence of transport and accommodations near the principal sanctuaries. I don't believe even Africa has a greater variety of animals and birds. The problem has been exacerbated by the lack of a bureaucratic structure to administer national parks separately from other agencies such as wildlife management, forestry, etc.

The day ended with a dinner at Herb Spivack's. The guest list is attached. It was a superb cross-section of Indian and U.S. talents.

Tape #3

Wednesday -- Delhi

Because of the mix-up in the plane, I had a little difficulty getting in touch with the contact officer at the Embassy when I arrived yesterday. But finally we got together and he proved to be most helpful. Donald W. Born of the Embassy staff was the one in charge of my arrangements. Lawrence Veit, the Treasury attache, was involved in an indoctrination program as he had only arrived here six weeks ago.

My first session was with William H. Wethersbee who is the Deputy Chief of Mission? in the Embassy. This was a casual encounter and not particularly significant although he was quite pleasant. I then spent the balance of the morning with the AID Mission. Dr. John Lewis who is the Minister Director of AID, Clarence Julick, Assistant Director for Development Policy, and Dr. Richard Ault, Director of Economics, were the ones with whom I visited. Dr. Lewis reviewed the AID program in India. Up until 1965, U.S. aid was mostly project directed. The U.S. concentrated on electrical utilities contrasted, for example, with Russia, which concentrated on heavy industry. As new industries came on stream, the protectionist sentiment grew in India, in some cases amounting to outright banning of products competing with Indian products. There was an interesting division which still continues between Fabian socialism and the most rugged kind of capitalism. It became obvious as 1965 approached, though, that the hoped for results were simply not being obtained. In arriving at this determination, the Indians led the way, although the conclusion finally became a consensus of all of those on the spot. Things had certainly not gone well with agriculture. The conviction grew that it ought to be possible to accelerate the growth of agricultural production if (1) Indian farmers were given sufficient financial incentives, (2) a major commitment to agricultural research was made similar to that conducted by the land grant colleges in the U.S., but with particular concentration on development of new seeds, fertilizer and agricultural methods, and (3) the water resources were developed. On the non-agricultural side, it became obvious that foreign exchange had not been properly allocated. The emphasis had been on new plants, new equipment without providing for maintenance and repair parts. It became obvious that the problem was less one of constructing new plants than using the plant they had more effectively. To do this it was necessary to liberalize the import policy to permit the importation of parts and to raise the prices of imports so that the

market could take over the process of allocation. Several things happened in 1965 to accelerate the processes of examination. First was the breakout of the Indo-Pak war in the fall of 1965. The second was a severe drought, and the third was the loss of Nehru. This was severe shock therapy but it worked. The rupee was devalued, which helped the import situation. Instead of project AID, program assistance was solicited and obtained from the major AID donors. Unfortunately, another drought occurred in 1966-67 and this, together with a cutback in foreign aid was unfortunate politically for it has made politicians increasingly reluctant to say yes or no to the decisions that have piled up awaiting action. Typical of these are the off-shore drilling proposal and the Allied Chemical proposal. The 1965 policies, however, are still in effect.

They did not think that any of the U.S. monetary programs had had any major effect, although there was a possibility this was a deterrent to the Armour Fertilizer proposal. However, this one now looks as if it will be going forward with U.S. Steel as the contracting party. They agreed that India would have a hard time bleating about U.S. monetary policy because in general Indian economy has not been attractive to U.S. capital anyway, except in the narrow area of fertilizers.

I had lunch with Mr. and Mrs. Ensminger and a house guest, Mrs. Heiser, at the Ensminger's home. It was a very pleasant lunch and the Ensmingers were quite cordial. He has been in charge of the Ford program in India since its inception. He indicated the Ford Foundation was going to continue a major commitment to India. In casting about for new direction, he had asked a cabinet minister recently what he thought the Ford Foundation should be doing now that it had not already done. Ensminger reported that the answer was very prompt -- engage in social research. Not enough has been done to assess the changes that are taking place in the distribution of people in India. He then launched into a discussion of the Indian counterpart of the rural-urban balance. While it is

true that the application of modern agricultural methods plus fertilizer, plus the rain, plus irrigation, has enormously improved the capacity of Indian agriculture, the benefits have been disproportionate for the larger land owners. Nor have the benefits been equally distributed geographically. In substantial measure this was a deliberate policy because the requirement that food production be significantly increased was so pressing that the deliberate decision was made to put the major effort in those areas where the greatest gains could be obtained in the shortest period of time. Ensminger indicated that he had helped influence this decision. Now it is necessary to go back and help catch up the others. I questioned him on this, because it seemed to me this might be perpetuating inefficient unit. The answer he gave was not particularly satisfactory, in that he relied defensively on the differences between U.S. agriculture and Indian agriculture. He argued that the small unit of five or six acres can support a family and the benefits of the new technologies, fertilizer, etc., while disproportionately balanced against the small farmer, can still be of sufficient benefit to enable him to raise his family and provide a certain measure of security. This sounded suspiciously like the family farm concept to me, and I told him so. He agreed that it probably was no long term solution, but in the short run, it would help stabilize the population by keeping these people out of the cities.

**Tape #4**

He pointed out that in Calcutta there are as many people living in one slum district as live in the whole Boston area. These people have no water, no sewage, no electricity, no public health services and are the most highly explosive element of Indian society.

I received some interesting reactions to Gunnar Myrdal's work on Asia. In general, they are negative. Ensminger was quite critical of it but for the wrong reasons. He argued that the solutions to India's problems cannot be solved in economic terms but by an examination of the social structure,

the normative values, etc., for it is within these the solutions have to be found. This, I thought, was the one valid observation Meredolf made but I didn't argue the point. Lewis was much more critical of Meredolf. He thought he not only had missed the boat on agriculture, which is pretty obvious, but that he also missed the shift in Indian policy which occurred in late 1965 and early 1966. This, of course, was because Meredolf closed up his book in the spring of 1966 but really with data, according to Lewis, that was derived from 1962 and earlier. For these reasons, he felt that as an instrument of policy it was dangerous to place much reliance on the statistical data and the conclusions which Meredolf drew from them.

I spent the afternoon in three visits with different departments of the Ford Foundation. The first one was with Reuben Simmons, a Consultant on Agricultural Credit to the Ford Foundation. Simmons is a black man from the U.S. who worked for the Farmers Home Administration, Farm Credit Administration, and has been overseas for 18 or 20 years. He was very knowledgeable and my session with him will rate as one of the high spots of this trip. He bounced back from optimism to pessimism and back again. He was not sure that the proposals being made to assist the landless agricultural worker and the small farmer would work. As he stated it, everyone sees the problems and recognizes the ingredients for answer, but to attempt to apply these from the central government position will be impossible. Somehow the state governments have to be involved and regional solutions sought. His particular area of interest was bank lending. The pressure to nationalize the private banks in India has abated in part. It might be questioned how seriously the proposal was ever considered. It would indicate, at least to an outsider, that much of the pressure to nationalize was designed to force the banks into new patterns of operation. Interlocking directorships, self-interest were accepted patterns of the industry. By an instrument called "social control," banks have been

forced into agricultural lending. Many other steps have been taken to curtail the abuses, such as, an authority now granted to the central bank to remove bank officers and requiring approval by the central bank of all directors. This latter is designed to force a broader representation of the economy on bank boards. Simmons believed that this would be a major step forward. The control of the central bank, he said, is so extreme that they are now in a position to compell banks to respond to their direction. The Indian banks, he said, were quite good, at least in the top management. In any event, he said they're much better and much faster in making decisions than the cooperative banks, which was one of the cornerstones of the Congress party. Decision making is much faster, he said, in the private section. By forcing commercial banks into the country and to open branches in selected areas, several things will be accomplished. First of all, the enormous financial resources of rural India which have not been tapped by the commercial sector may become available if the farmers bring their money into banks out of the tin cans and other traditional depositories that they have used. Simmons believes this will happen as farmers see that new credit sources are being made available to them. He cited several instances where this had occurred. The second advantage will be the development of small growth centers for servicing agriculture scattered around India. From these there should be spin-off to new employment opportunities for the landless agricultural workers. The Ford Foundation has agreed to support the training process for agricultural lending bank officers in selected areas at no cost to the banks provided they go ahead with the new branches. One of the problems has been to get the rate structure revised. The Congress party has a felt? commitment to maintain low interest rates even though the traditional sources of lending to farmers, that is the rural money lenders, carry interest charges of 80, 90 and 100 per cent. Only by raising the rates

which commercial banks can charge agricultural customers, will it be possible to increase the level of interest paid on deposited funds and thereby get the other part of the engine working. He believed that in some way the money lenders have got to be brought into the pattern. He argued that these men serve valuable roles in many communities, serving as the engines for whatever economic growth is occurring. In many ways, he said, they serve the typical catalytic role of the historic small town banker in the U.S. The most difficult problem is going to be to keep new job opportunities opening up off the farm in the rural areas as the on-the-farm job opportunities tend to decline under the pressure of improving agricultural practices. A number of keys, he said, would have to be tried but certainly one of most promise was changing the credit distribution in India.

My next visit was with Dr. Hugh Leavel whose address, like the rest of the Ford personnel, is 55 Lodi Estate, New Delhi, 3. I promised I would send him the Hill studies on medical care and nursing care in the Ninth Federal Reserve District. Dr. Leavel is in charge of the family planning efforts of the Foundation. Only recently, he said, has the Indian government faced up to this as their most serious social problem, and pledged to commit the resources that will be necessary to make the program fully effective. Leavel said it's not so much that the birth rate has changed, but the survival rate has materially increased.

**Tape #5**

Religion is less an obstacle than distance, money, trained personnel, and social patterns. This last relates to the desire of the Indian family for sons. Given the very high infant mortality, the probability of a son growing to maturity is far less than would be tolerable in the most backward area of the U.S., of course. The whole intra-structure of Indian medicine is in trouble because the population has increased so much faster than its capacity. The ideal structure towards which they're working is one of district health centers

with sub-district health centers at various locations distributed around the perimeter of a circle surrounding the center. There are 5,200 of these centers necessary, with 10 or more sub-centers required. To staff these even with the most rudimentary kinds of medical or paramedical people is enormous. Although the number of medical schools in India has increased, the nursing training programs have not kept pace, so there are many more doctors than there are nurses, which is the reverse of the U.S. situation. He felt great progress had been made particularly in this new commitment of the government in a financial sense. Compared with the scope of the problem, however, it certainly is enough to make an outsider despair.

The final session of the afternoon was with Ed Kieloch, who is the political liaison officer for the Foundation. His principal efforts have been to bring about something like a Hoover Commission in India. The heart of the Indian administrative structure and the glue that is holding the country together is made up of the 17,000 class one administrators in the government. These men are supported by an incredibly huge bureaucracy of clerks. This is a holdover from the old British colonial system for it was the only way the British could administer so large a country with so few people. Unfortunately, the only ingredient for promotion is seniority. This means there is no incentive for anyone to make decisions, because if they make a good decision it isn't going to help them advance, but if they make a bad one they may be passed over. As a result, decisions have to be bucked from one to another until they reach one of these administrative heads. The entire civil service is staffed by the system, that is, there is a personnel section independent of every other department of government. Department heads are unable to hire, fire, or transfer personnel, nor do they have any control over their budgets. At least this last is being cured. From what Kieloch said, the current budget will carry specific appropriations on a program basis instead of a line basis,

and department heads will have controls then over the expenditure funds. Like everyone else, Kieloch varied back and forth between optimism and pessimism. He felt the political strides that have been in India have been enormous. They were attempting to solve their problems within a democratic context. Unfortunately, they also had some of the very volatile elements of a democratic form; for example, the use of the parliamentary form of government means that the loss of one vote will bring the government down. Up until this time, the Congress party has been all-powerful. This meant that political decisions could be made within the party rather than within parliament and, therefore, the threat of government collapse was not real. However, the process of change from the generation that saw the Congress party as the party of liberation to younger members who are concerned with the immediate social and economic problems of India is producing strains within the Congress party, and it does not look as though it can continue much longer. The common denominator of the party label covers a spectrum that ranges from communists on one side to a political philosophy to the right of McKinley on the other. This polarization is increasing.

In the evening I went to dinner at the Veit's home. This was very pleasant for there were just the two young couples -- the Veits and the Borns. I should remember to send them some books.