

Tape #1 - Bombay

Send "Essence of Security" to Mrs. Jerroo N. Vakil, c/o Eugene Bird at the Embassy. I will write a note when I get home to accompany the book. I will also be sending a copy of the "Money Game" to Eugene Bird. In my letter to Bird I should comment on the fact his son will be coming to Carleton next fall and offer my services to get him down to the college. To Mr. and Mrs. Braddock I want to send a hard-back copy of "You English Words" and in my letter of acknowledgement for the dinner, I should comment on the phrase "lay on." I should immediately get in touch with Bard Smith and tell him to please send the academic program outline for the Asian Studies Program at Poona, in accordance with the urgent request from Dr. Karve.

To resume travels with Charley -- I left Delhi at 6:00 with Larry Veit, the Treasury attache for Bombay. It was interesting to watch the country change as we left the fertile green of the Punjab and started across the more arid central areas of India. As soon as we left the area under irrigation, the land started to shift to the dry brown of the arid unwatered plains. There still were visible the outlines of farm plots clustered in fairly uniform circles around the innumerable villages that stretched across the horizon. The intervals between villages became longer, and finally we were across the central desert area of India. Soon we could see the broad sweep of the Indian Ocean in front of us and we started our descent into Bombay. Bombay is on an island and for beautiful setting ranks with Rio, Sydney, and San Francisco. The great curving sweep of beach, which at night is outlined in lights, curves in almost a circle and quite aptly is known as the queen's necklace. The airport, unfortunately, is quite primitive and the usual bustling inefficiency of the Indian bureaucracy is obvious every place you turn. The atmosphere of Bombay is quite different from Delhi, not only physically but emotionally. Physically, it is quite humid and by the end of the day I had a feeling I had

been dipped in warm molasses. Emotionally you are very much aware you are in a large bustling city several times larger than Delhi. While there are not quite as many cranes on the horizon marking the construction of new high-rise apartments and office buildings as was obvious in Sydney, it is nonetheless an area on the move. The business community is quite sophisticated and at least in some sectors, enormously wealthy. My first call was at the Consulate where I met the Consul General, Mr. Braddock. We then went to a luncheon hosted by Mr. Mehta in my honor, which was attended by a wide variety of people, all of whom were interesting. Mehta is a lively, witty man who at one time served as Ambassador to the U. S. He has been in public life in various roles and is an unusual figure for he has a distinguished business career in his record in addition to the public service. This is not characteristic of Indian businessmen generally, who prefer to stay as far from politics as they can, although I gather with a fine impartiality they support a broad range of political parties, including on occasion the Communists. Mehta has been a long-time friend of the Cowles and, in fact, in temperament resembles John Cowles, Sr. He called the party together after the luncheon and gave me an opportunity to speak to them on subjects of my choice. I chose to ask questions. Most of my questions had to do with attitudes toward social control of banking and my effort to find an awareness of the social problems of the cities. With regard to the latter, I found an immediate response from Mehta, who is very much concerned and has spoken of his concern. A copy of his most recent speech on this is enclosed in the file. The bankers present generally acknowledged the merits of social control and its justification. The Vice Governor of the Reserve Bank was present and spoke quite strongly in response to my question about the failure of the Indians to use the interest mechanism as an instrument of allocation of bank credit. The populist tradition has many strong adherents in India and obviously the Vice Governor is one of these,

at least in his rejection of the use of the interest mechanism in a developing country as an allocative device. He was quite bitter about the world-wide rise in interest rates and argued rather effectively that he could not see that it had been of material assistance to either government in solving their domestic or international problems. Rather than get into a detailed exchange with him, I told him I hoped we could talk about it further when I called at the Reserve Bank.

I.C.I.C.I., which is the private or semi-private development bank headed by Mr. Mehta, is an interesting organization. It combines public money, U. S. bank money, World Bank money, and Indian money, to make industrial loans in a pattern not too dissimilar from an S.B.I.C. in our country. A copy of their annual report has been given me which better describes their operations.

In the afternoon I attended a "tea party" given by the Indian Banks' Association. I talked to them about U. S. economic and monetary policy and there were mixed questions. It was very difficult to get much of a reading from the group, although again there was a general expression of acceptance of the principles of social control. Indian banks do not openly compete for money on the basis of interest, nor is there much variation ostensibly in the interest charged.

Tape #2

By a process I did not understand then and I haven't gotten clarified yet, they can have a limited competition for new customers by changing the category of the customer, thereby permitting them to go to a different rate structure. They do not offer negotiable certificates of deposit. The reason for this is the widespread pattern of tax evasion in India. The government is fearful of any bearer certificates.

I then attended a dinner party given by the Consul General and his wife, Mr. and Mrs. Braddock. This was a delightful dinner and blessedly quite small,

so there was an opportunity for good conversation. Vakil is a young lawyer who already is one of the most distinguished in India and represents a substantial number of U. S. clients. Mrs. Nanubhai is the widow of one of the great Indian industrialists. But the prizes really were the Bhabhas. The Central Bank of India is a commercial bank, which happens to have come into existence prior to the Reserve Bank, which is the true central bank and, therefore, pre-empted the name. Mrs. Bhabha is a distinguished pediatrician who was educated in England. It was from Bhabha I got the most direct criticism of social control. He foresaw substantial credit losses for the commercial banks based upon the experience of the cooperative bank. Their bad debt losses ranged from a minimum of 15 per cent to a maximum of 53 per cent, with the average closer to the top. This was definitely at odds with the expressions I had gotten from the other bankers in the afternoon, who argued that the agricultural revolution has changed the pattern of agricultural credit, at least in the irrigated fertilized areas. They appeared quite willing to make term loans and not rely on security in a conventional sense. This is less a matter of choice than of necessity because, as I mentioned in an earlier tape, the security devices available for agricultural lenders are mostly illusory because of protectionist state laws aimed at shielding the farmer from the money lender.

Bhabha was also deeply concerned about the state's rights movement. I had made reference to the attitude I had heard expressed a few places in Delhi that India can no longer be administered totally from the center, largely because of the breakdown of the Congress party. He argued that because the Indian states start as linguistic states they already have a separate identity from India as a whole, and to further the economic separation would be simply to play into the hands of those who want a weak national state.

Early the next morning I drove with Bird and an A.I.D. investigator, John Bieler, to Poona. This was the usual Indian traffic experience, except that in this case it was further complicated by the number of detours where roads were being extensively repaired. It was a very much different kind of country we traversed though than the Punjab. Quite dry, quite arid and we passed up through a narrow defile in a high escarpment to finally emerge on the Deccan plateau. It was exceedingly hot. The temperature was about 107 degrees. I never thought I would think wistfully of the snows in Minnesota but I found myself brooding about the lovely, deep, white antiseptic snowfield in back of our house. Poona is an educational center. The Indian universities are loosely structured in the pattern of the English universities. The university is a degree-granting institution presiding over a number of only tenuously connected colleges. Many of these colleges are still only on a graduate level with most of the undergraduate experience being concentrated in the university itself. Gokhale Institute is such a research graduate institution except that it is the ultimate with no students at all. Its faculty, however, is loaned to different colleges within the University of Poona for teaching on the graduate level, but the major time of the 60 people loosely associated in the Institute is devoted to economic research. I was surprised at the concentration on agricultural economics. They have no one specializing in monetary economics because by a very intelligent process of priorities, they have left this field to the University of Bombay, which in turn has stayed away from fiscal and agricultural economics.

The conversation with them was quite lively and very interesting. The group numbered about 12, including the director and assistant director. Most have had experience in the U. S. They do not have the same relationship to policy formation as obtained in most of our major research institutions. They do derive substantial support from the Indian government and on occasion will do designated research, but in general, they are left fairly free to pursue

their own ends.

I then visited at the American Institute of Asian Studies. This is a similar kind of an arrangement financed mostly by U. S. foundations. Although all of their programs have been aimed at U. S. graduate students, the program that will be started in June with the associated colleges in the Midwest under the leadership of Carleton will be on the undergraduate level. I had lunch at the Turf Club, which is a private race and polo club dating from the old British days and still operated very much in the old British tradition. I was joined at lunch by Bird, Beelir, and the two men from the Deccan College where the Institute of American Cities is lodged. They confirmed that social research is a recent arrival in India and still is quite a ways behind economic research. I was surprised at the range of projects they have going on and again at the relatively loose structure of the educational system. It's one thing in the U. S. to find senior faculty not on the campus but in India quite often the students are not there either because their projects take them out into the country.

Tape #3

I returned to Bombay by air where I spent the night. The next morning I had an interview with the Governor of the Bank of India, Mr. L. K. Jha. This was an excellent one. The Governor answered all my questions forthrightly in a warm outgoing manner. I had about 45 minutes with him; unfortunately he had to leave to set the bank rate which is established every week and I had to continue to another appointment. In response to my question about the current account, that is, whether it had continued to show the improvement indicated in the last year's report, he said that it had. He attributed this to several reasons--first of all he said the devaluation was continuing to be beneficial

and was improving their export position. The sector of most promise is the engineering goods, as he put it. These are such items as tubing for pipelines. He referred to a recent successful contract obtained with Australia in competition with the Japanese. Along the way, however, he pointed out the difficulties of maintaining competitive credit packages. In the case of the pipeline contract, although the Japanese were higher on the pipe itself, they were able to offer a more favorable credit package. By agreement between the Central Bank and the commercial banks of India, the Governor was able to see to it that a competitive credit package was assembled. This, however, brings up additional problems because the return flow of foreign exchange is relatively slow on long-term payout programs. He launched into a discussion of a discount mechanism for such long-term credit which would enable a central bank to discount contracts at a competitive world market rate with a bank like, for example, the Asian Development Bank, secure immediate foreign exchange and still not disturb whatever subsidization package might have been put together to help finance the contract internally initially. He thought such a scheme was possible within the Bank for Latin American Development. The second reason for improvement has been the continued low level of imports. He said that the impact on Indian industry from the decline in imports had been much less severe than had been expected. He referred to a study made in the bank which indicated that the proportion of industrial output in India depended upon imports was much less than anyone had anticipated. There also has been a considerable import substitution going on in India as manufacturers have had to turn to domestic sources. He felt reasonably encouraged for the future. One of the encouraging signs has been the increasing degree of interest of Indian manufacturers in external trade. As he said, it gives them a means of leveling out their sales, for the Indian pattern of demand has been

far from stable. Although the rate of industrial growth did decline from what had been a five to six per cent level to closer to one per cent, he felt that it was again on the move up. I made reference to the idea of an open end investment trust for equity flotation that I heard discussed in Australia. He was quite interested in this. I asked him about social controlled banks. He said there was no single document summing up either the framework of social control or the results to date, but he believes it was having an effect. He pointed to the number of new branches that have been opened by commercial banks and the degree of interest shown by commercial banks in cooperating with the Central Bank. The first step, he said, was to change the structure of the banking system which had been drifting towards a Zaibatzu pattern. This was done by forcing the banks to appoint more than 50 per cent of their directors from non-industry sources. The second big step was to force changes in their portfolio. They are required to make loans to small business and to agriculture. The quotas are determined bank by bank, for example, U. S. banks have been exempted from some of the quota proposals, although Bank of America because of its long history in India, does have a quota for small business. To assist banks in moving into these new credit areas, such as agriculture and small business, there has been a pattern of guarantee by the Central Bank. This amounts to 70 per cent of any losses sustained. So far it has been profitable for the Reserve Bank for the premiums collected have been larger than the losses. They do not have much experience in agriculture yet, but he felt that the pessimism expressed by the more conservative bankers might turn out not to be justified. He said that to rely upon the cooperative experience is dangerous simply because the farmer thought he was borrowing from the government and, therefore, did not feel the same pressure of repayment. His relationship with the money lender in the past, on the other hand, has been reasonably good. The guarantee program

has been inefficient though simply because, as he said, "The small chaps do not fill out forms very well and, of course, my people like very much to invent new forms." The system he felt they would go to would be a reporting system with a bank not having to supply basic credit data which would then be checked by the Central Bank, but would simply supply a schedule each month, compute a premium and mail a check. The number of rural banks has increased by 650 in the last year, and the objective is to have at least one bank in all towns of India classified as those with a population in excess of 10,000 by the end of 1970. I reviewed the U. S. system of farm credit for his benefit and promised to send him information on its operation. I also extended an invitation to him to visit Minneapolis next fall after the Bank and Fund meeting. I should formalize this with a letter when I return.