ERRATA

Page 11, line 13—*for* 'manouvres' *read* 'manœuvres'.
Page 27, line 26—*for* 'may be not' *read* 'may not be'.
Page 28, line 6 (from bottom)—*for* 'ill-effects' *read* 'ill effects'.
Page 29, line 8 (from bottom)—*for* 'coexist' *read* 'co-exist'.
Page 29, line 12—after 'ing' *read* 'and a cultural renaissance, a new sense of'.
Page 30, line 7—*for* 'It' *read* ', it'.
Page 31, line 6 (from bottom)—*for* 'ad' *read* 'and'.
Page 32, line 19—*for* 'other' *read* 'others'.
Page 32, line 23—*for* 'iniquities' *read* 'inequities'.

SPEECHES

OF

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PREFACE

In the following pages are six speeches made by the Union Finance Minister during his recent visit to the U.S.A. and Western Germany. The first two speeches were made in his capacity as Governor for India on the Boards of the International Monetary Fund and the International Bank for Reconstruction and Development at their annual meetings in Washington. The others were addressed to non-official organisations, three in New York and one in Bonn. In Bonn, the Finance Minister spoke extempore and, as no verbatim record was kept, an attempt has been made to summarise the main points made.

CONTENTS

I

September 24, 1957.

STATEMENT AT THE DISCUSSION OF THE ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND IN WASHINGTON.

We are meeting today against the background of a year of the most intense activity on the part of the Fund. The Annual Report for 1956-57 bears testimony to the wide variety of problems which the Fund has had to deal with; and in dealing with them, the Fund has shown an understanding and a flexibility of approach of which it can be justly proud.

As many as 16 member-countries, including India, had recourse to the Fund during the year, and I want to take this opportunity of expressing my appreciation of the promptness and sympathy with which our request for accommodation from the Fund was attended to.

In a way, Sir, the promptness of the Fund's decisions in 1956-57 is a tribute to the ground that was carefully laid in earlier years, and I am glad to note that the Executive Directors have drawn attention to this fact in their Report. Over the years, the Fund has adapted its procedures to suit changing needs and has evolved new rules for the use of its resources—rules regarding the gold tranche, stand-by agreements and waivers—and there is now general appreciation of the new pattern of Fund assistance that is emerging. As the Annual Report of the Executive Directors points out, the Fund has used its right to permit a member to draw more than 25 per cent of its quota during the twelve-month period sufficiently often to make it clear that this is not to be regarded as an extraordinary procedure. It is equally clear now that drawing beyond the first credit tranche would be permitted, whenever there is substantial justification for such drawings and whenever a member is itself making reasonable efforts to solve its problems. All this marks substantial progress in evolving a policy, which is both prudent and effective at the same time.

Sir, if we are meeting today against the background of a year of fruitful and intense activity on the part of the Fund, it is equally true that we are meeting at a time when the economies of many member-countries are under considerable stresses and strains. The Fund is essentially like a first-aid unit and a great deal of activity of such a unit is also indicative of a great many accidents and dislocations. The malady which afflicts so many members of the Fund today springs essentially from the same cause—an excess of demand over supply. In this respect, what we witness today in several industrially advanced countries is not

very different from what is also happening in many so-called under-developed countries. I think I am also right in saying that the basic objective of policy today is also more or less the same in most countries, irrespective of the stage of development: our common objective is to bring demand and supply into greater balance.

We, in India, are seeking development with stability; to ignore stability would be to ignore the verdict of experience that inflation and economic development go ill together. More than anything else, the psychological damage and mutual ill-will that inflation engenders among different groups within the country makes it impossible to have any concerted economic policy. In this respect, the countries in the process of development are no different from economically advanced countries, although the comparative lack of resilience, which characterizes under-developed countries, makes it even more necessary for such countries to pay the utmost heed to the claims of financial stability.

What distinguishes the situation in the less advanced countries from that obtaining in the more advanced countries is not so much the objective in view as the over-all framework of policies within which the objective of financial stability has to be achieved. Countries with high levels of investment and a reasonable level of economic prosperity can afford to curtail investment in order to bring demand into greater balance with supply. But countries, such as India, which are trying to break through the initial barrier of low savings, low investment and extreme poverty cannot afford to curtail demand by cutting back investment to any significant extent. To do so would be to slide back inevitably into the groove of stagnation. In such cases, the objective of better balance between demand and supply must be satisfied by a steady and intensive effort to raise resources rather than by giving up the game even before the battle is joined. Reasonable financial stability is necessary for development; but mere stability is not enough. While we want stability, we do not want stagnation.

I am aware, Sir, that in suggesting that any temporary disequilibrium or disturbance in poorer countries should be corrected essentially in terms of enlarging resources, I am in fact saying that the accent of policy should be on increasing productivity and on restraining consumption. I am equally aware that, in the short run, there are definite limits to an increase in productivity and that restraining consumption is by no means an easy task in countries where current levels of living are abysmally low. But there is hardly any underdeveloped country where productivity cannot be increased even in the short run by intensive organizational and other efforts. And even a poor country has to meet the challenge of higher savings and a higher tempo of development.

I would certainly not deny that there are limits to this approach of enlarging resources—of raising savings and productivity. But the limits to the enlargement of resources can be ascertained only by making the maximum effort in this direction. A policy of stretching resources to the maximum is bound, at times, to give rise to certain stresses and strains—and it is here that institutions like the Fund can play a valuable part in providing the necessary breathing time. More often than not, developing countries come up against the balance-of-payments barrier even before they reach the inflation barrier, so that the enlargement of resources necessarily implies that their internal resources have to be supplemented by an inflow of capital from other countries.

This general thesis is well illustrated by the difficulties into which India has run, despite a careful husbanding of her resources. Indian economy has been under considerable pressure in recent months—a pressure which has manifested itself partly in rising prices but mainly in declining reserves. As I indicated at the beginning of my remarks, we have had recourse to the Fund to the extent of half our quota during the past twelve months. Our difficulties stem essentially from our developmental efforts—our pains are the pains of growth. Whatever the reasons, however, for the pressures that have arisen, the important thing is to deal with them effectively so as to restore a greater degree of balance to our economy.

We have taken the view that, in the light of recent trends in the economy, we should reduce deficit financing to below the levels originally contemplated in our second Five-Year Plan. That means correspondingly greater effort to raise resources through taxation, small savings and public borrowing. The additional taxation we have levied at the Centre, together with the contribution made by the States, is expected to yield, during the Plan period, some 1,600 to 1,800 million dollars as against the Plan target of about 900 million dollars. Thus, in the very first fourteen months of the Plan, we have made a substantial upward revision in our taxation target and in our taxation effort. Taxation of many commodities like sugar and cloth which are in common consumption, a tax on railway fares, and more especially, the lowering of the income-tax exemption limit, new taxes such as a capital gains tax, a wealth tax and an expenditure tax are all indicative of the determination of the Government to make the tax structure at once broad-based, flexible and progressive. Whatever the modifications we may need here and there in the light of experience, I think we can reasonably claim that the tax effort we have made so far is sizable by any standards.

Simultaneously, we are pursuing our efforts to mobilise savings, and with this end in view, we have raised the yield on small savings and

market loans. The efforts to ensure the greatest economy in public expenditure have been intensified.

In the field of monetary policy, we have steadily improved on our selective controls so as to minimise undesirable investments and have also made upward adjustments in the interest-rate structure. Since this matter is to be discussed in detail at another session where the Governor of our Central Bank will participate, I do not wish to say anything more on this subject now.

Together with efforts to mobilise resources, we are intensifying our drive to raise production, particularly agricultural production, by greater organizational and other effort. On the whole, we are reasonably confident, on the basis of what we have already been able to do so far, that we shall be able to enlist the support of the people for such additional measures as may be required to augment internal resources.

We have taken no less determined steps for the conservation of our foreign exchange resources. We have had to restrict our imports drastically and are not permitting any new imports of capital goods—whether for public or for private projects—for expansion and establishment of new units except on the basis of sound deferred-payment terms, foreign participation or foreign credits and grants. To facilitate foreign credits, we have exempted interest earned by foreigners from our income tax in approved cases. Efforts to promote exports are being intensified, not only by organizational improvements but also by positive tax measures to curtail domestic consumption of exportable items. We shall, of course, need to keep a very careful watch on our payments situation in the months to come. As I indicated a moment ago, we are limiting all further commitments in regard to new investment to the availability of foreign credits. Since we have not entered into foreign exchange commitments in regard to a significant part of our Plan, our policy now implies that the implementation of the Plan is strictly conditional on improvement in our payments position.

Mr. Chairman, before I conclude, I must take this opportunity of paying my tribute to the new Managing Director of the Fund, Mr. Per Jacobsson, and his able colleagues in the Management. It is extremely fortunate that the Fund has at the helm of affairs a financial expert of Mr. Jacobsson's eminence, particularly at a time when its activities are expanding so rapidly. We, in India, look forward to Mr. Jacobsson's taking an increasing interest in our affairs. The staff have had to work very hard during the year, and the ability and understanding, with which they have handled the complex variety of problems entrusted to them, deserve our highest praise.

II

September 25, 1957.

STATEMENT AT THE DISCUSSION OF THE ANNUAL REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

May I, at the outset, congratulate Mr. Black on his extremely thought-provoking address in introducing the Annual Report of the Bank. I am sure I am voicing the sentiments of all of you when I say that the International Bank has been playing an increasingly significant and vital role in world economic development and that we owe a debt of gratitude to those who have been in charge of the affairs of the Bank and, in particular, to its President, Mr. Eugene Black, for his stewardship of the institution over the last several years.

The year under review has been one of marked improvement in the basic economies of member-countries, and this fact is reflected in the working of the Bank. The total amount of loans this year exceeds the annual average so far reached; there have, at the same time, been striking innovations in the type of loans given. I refer, in particular, to the loan to the Herstelbank of the Netherlands to enable that bank to maintain its lending to Dutch industry, and to the general purpose loan to Iran to enable her to finance *ad interim* her Seven-Year Development Plan.

There is yet another reason why I feel gratified at the working of the Bank. Last year, Mr. Black was able to report that the lending to Asian countries was more than in any other continent; that performance has been kept up this year. What is satisfactory about this performance is not so much the amounts involved as the fact that these countries were able to present more and more projects, the economics of which were sound enough to pass the careful scrutiny of the Bank. Considering the purposes for which the loans have been made, we may hope that they will have the effect of increasing, over a period of time, the creditworthiness of the countries concerned.

My own country, India, has now advanced to the position of being the Bank's biggest borrower. And, if I may, I would like to assure Mr. Black and my colleagues at this Conference that we shall endeavour to justify the confidence which the Bank has thus shown in the soundness of our development programmes. The increasing role played by the Bank in India and in other underdeveloped countries is a matter of great significance to us as it indicates that we have begun, at last, to break away from the spell of stagnation.

Inevitably, a year of fruitful activity on the part of the Bank in the climate of rising investment everywhere has meant that the Bank has come up against the problems of resources. Rates of interest have been rising and the Bank has had, as a consequence, to charge for its loans as much as 5⅝ per cent and even to give up charging a lower rate for shorter-term loans. In this connection, it is gratifying that the Bank has shown considerable ingenuity in exploring new opportunities of raising money. The recent arrangements by which certain institutional buyers were offered an option to buy bonds more or less on deferred-payment conditions aptly illustrate this departure from orthodoxy to suit changing needs and circumstances.

Mr. Black has drawn attention to the necessity of making available to the Bank our 18 per cent subscription in a readily usable form. I would like to say on India's behalf that, strained as our foreign exchange position is at the moment, we shall make available our 18 per cent subscription over a reasonable period of time, which we shall fix in consultation with the Bank. And as a first step, we propose to release 7 million dollars this year.

We, in India, are interested in yet another activity of the Bank, *viz.*, the efforts made by the Bank in bringing together borrowing countries and private bodies in the industrially advanced countries. There is, and for quite a long time to come will continue to be, a large field of development activity in which direct Bank loans will be necessary. But I am sure it will be generally agreed that it is a development in the right direction for the Bank to assist the deficit countries in establishing direct contacts with international capital markets. In this connection, I recognize the desire of the Bank to keep in close touch with progress made in countries like India not merely by studying from time to time individual projects but also by keeping itself informed of government policy and of commercial and industrial programmes as these get formulated and worked out. And I, for this reason, welcome the decision to appoint a resident representative in India. We welcome it all the more because of the particularly felicitous choice of the person who is not only well known to official and business circles in India but whose friendship and sympathy for our efforts is informed by frank and understanding advice.

Sir, the problems of development will be with us for many years to come. In a way, the very fact that some progress has been made in many underdeveloped countries makes it even more imperative to ensure that the momentum gathered is sustained. For the first time in many decades, the poverty-stricken masses in India and elsewhere have witnessed some improvement and this has awakened in them new wants and a new desire for higher levels of living. It is in this context that the remarks made by the President, Mr. Black, on the general problem of development are particularly relevant.

We, in India, are experiencing in large measure the types of difficulties incidental to a growing economy to which Mr. Black referred. But a slackening of effort or a perceptible reduction of the targets which we have set ourselves in regard to raising the living standards of our people within a measurable distance of time would create serious political problems. It may not merely be a matter of the government having to face stormy weather, to use Mr. Black's expression; it may well be something much more serious than that. Underdeveloped countries, with democratic constitutions, cannot avoid satisfying the immediate and insistent claims for social and economic improvement even as they strive for raising the tempo of development. It is this fact which makes our task of development far more difficult and complex than is perhaps fully appreciated.

While I am on this general problem of development, I would like to remove a misapprehension regarding the role of private enterprise in India. Our ideology does not stand in the way of our encouraging private initiative and investment, including private foreign investment. Private enterprise is, in fact, playing a vital role in India. Indeed, its development has never been more marked or varied at any previous period than during the past ten years. To some extent, our recent difficulties stem from the very sizable boom in private investment that has been under way. We do not regret this boom, as it takes us a step forward towards our objective of higher levels of living. My regret would only be if, for reasons of scarce resources, we have to curtail activity in any sector.

At the same time, we have to recognize that in underdeveloped countries, economic development cannot be left entirely to the operation of market forces. In India, in particular, whether rightly or wrongly, the mass of the people look to the State for meeting the bulk of their needs outside their own particular sphere of activity. Not only do they expect the State to provide roads, water supply for agriculture and otherwise, schools for their children, medical attention for the sick, but they also feel that the State is responsible if prices go up or essential commodities are in scarce supply. The State, therefore, cannot reject the role that popular opinion imposes upon it. It cannot ignore this responsibility where government depends on popular franchise and, therefore, on popular goodwill; and that is why the State has to take up the leadership and initiative in the direction of filling up the major gaps in the economic structure.

Our approach to the respective roles of State and private enterprise has throughout been essentially pragmatic, and it admits of change from time to time in the light of changing needs and experience. We have now come to a stage where we feel that the primary role of the State is to concentrate on the establishment of basic industries, and in doing so, the twin methods of encouraging private enterprise, where it exists in

this sector, to expand and to establish public sector enterprises, where the private sector is not forthcoming, are being adopted. Where so many things have to be done with inadequate resources, there cannot be any question of putting an embargo on development in any sector. Development in different sectors must be conceived of as balancing and reinforcing the totality of effort and not in terms of mutual exclusiveness or antagonism.

Much of the effort of the State in India is directed towards creating the preconditions for the development of initiative and enterprise among the millions of illiterate and ill-organized farmers and small artisans and craftsmen; and our policies in the field of organized industry are also directed to achieving the maximum over-all rate of development that we are capable of. There is no question here of ideology but of facing facts as we see them. In fact, in a democratic political set-up, it is impossible to speak of ideologies in absolute terms.

Sir, as President Eisenhower so rightly pointed out on Monday last when he inaugurated this Conference, the bulk of the effort for development must inevitably come from the developing countries themselves; and I think it cannot be gainsaid that we in India are doing all that we possibly can. I am equally sure that everyone here recognizes that the problem of raising living standards under conditions of freedom is the common responsibility of all nations. At the same time, it is understandable that people in economically advanced countries find it difficult to make sacrifices for the development of other people separated by differences of race, language and nationality. Herein lies the great problem and challenge of our time, and it is in meeting this challenge that a heavy responsibility rests on all of us assembled here.

III

October 2, 1957.

ADDRESS TO THE COUNCIL ON FOREIGN RELATIONS, NEW YORK

May I say at the outset how happy and grateful I feel at this opportunity of meeting the members of the Council on Foreign Relations. Nothing is perhaps more important in the present-day world than the efforts of organisations, such as yours, to create a greater measure of understanding and goodwill among nations, and there are no countries which need this mutual goodwill and understanding more than your country and mine. I am particularly happy to be in your midst on this day which marks the birth anniversary of our great leader, Mahatma Gandhi, who has, perhaps, contributed more than any other person to the establishment of friendly relations between India and the rest of the world.

Those of us, to whom the memory of our struggle for freedom is still fresh, cannot forget the support and sympathy of the American people for the cause of Indian Independence. It has become a commonplace to say that America and India are the two largest democracies in the world, that we share a common faith in the dignity and worth of free men living under a rule of freely elected laws. But in yet another sense, America and India are the testing grounds for the fundamental values we cherish in common. If America is a living proof of what can be achieved in freedom, India is the testing ground for the ability of democratic methods to yield steadily rising levels of living in large parts of the world which have been left behind in the race for economic progress.

The most distressing fact about modern times is the abysmal poverty of nearly all the inhabitants of Asia and Africa at a time when the countries of North America, Europe and Australasia have succeeded in achieving reasonable standards of living for the bulk of their peoples. As country after country in Asia and Africa achieves political independence, the one question that assumes importance is : Can democracy survive and take root in societies where the vast majority of men and women are so close to starvation, want and disease? The answer to this question in the case of many of these countries depends essentially on the success of democratic methods in achieving higher levels of living consistent with the dignity of free men.

Sir, ten years ago, in 1947, when we took the reins of government in our hands in India, the question that was uppermost in our mind was

that of laying the real economic foundations of freedom for millions of our countrymen for whom life, liberty and the pursuit of happiness were, until then, merely vague aspirations. No other question has engaged our attention more in Free India than this question of eliminating hunger, illiteracy, disease and squalor from among our countrymen and, I think, it will be readily admitted that our success or failure in achieving higher levels of living for our people in freedom has a significance which extends far beyond the confines of our own country. Extreme poverty and freedom go ill together and static economics makes for explosive politics. It is this fact which makes it so important that, more than anyone else, the American people should try and understand what it is that we in India are trying to achieve in the economic sphere.

I need hardly tell you that the task on which we embarked in 1947, and which continues to engage all our attention today, is by no means an easy one. Those of you who have not been to India can hardly appreciate the starkness of Indian poverty and the apathy and despair which come from decades of stagnation. Statisticians say that the average man in India has only one dollar to spend per week as against some 25 to 40 dollars per week which an average American spends, and that the income of an average Indian is among the lowest in the world even by comparison with most of the poorer nations. One of the misfortunes about a country being poor is that it makes it extremely difficult for it to break away from poverty. The only answer to poverty lies in more production; but production, in turn, means bigger and better tools which cannot be had without partly sacrificing immediate consumption. It is no easy task to persuade people to save and invest for a better future when they are unable to get a square meal a day or to buy medicines for their children. And it is this which makes it so very difficult for a poor country to achieve what one of your own economists has so happily called 'the take-off into a process of self-sustained development'.

There are countries in the world where people can be compelled to save and to forgo a part of their meagre earnings, where the consumption of a basic necessity such as cloth can be rationed and cut to a meagre seven yards per year. But democratic India cannot resort to such compulsion. It has to rely on coaxing, cajoling and persuading its people and on appealing to their sense of self-interest as well as patriotism. In a way, the very fact that we are trying to develop in freedom makes our effort to develop infinitely more difficult: for, democratic societies cannot deny the freedom to agitate and to organise even to those elements which do not share the faith in democracy. Anti-social and, perhaps, also anti-democratic elements in India, as elsewhere, have everything to gain by stirring up trouble and conflicts so that they can cash in on the failures and weaknesses of democracy. We have to face these troubles and handicaps, without allowing ourselves to be tempted by any short cuts, which involve giving up the basic democratic values and standards.

There is, if I may say so, no parallel in history for the kind of conditions under which we in India are trying to develop our economy. The countries of Europe and Japan were not full-fledged democracies during the formative years of their respective industrial revolutions. Nor do we, at the present moment, have the opportunities of expansion in space which Europe, America and Russia had in the early years of their development. An ancient country like India has hardly any empty spaces within itself whereon to settle its growing population. Then again, India is seeking to improve the standard of living of its people at a point of time when it is also over-populated with reference to its existing resources. There are, as is usually the case in underdeveloped countries, enough forces at work in India which seek to corrode the national will and effort not only by disruptive manouvres but also by holding out hopes of Utopias to ignorant masses. All these considerations make it imperative that the development of a country, such as India, should proceed fast enough to create a new hope and a new faith in democratic methods. Speed is of the essence of the problem, for it is on the speed with which democracy yields its fruits that the struggle for the allegiance of the people will turn.

In the case of India, the very formidable difficulties inherent in the present-day situation to which I have just drawn your attention were aggravated in the early years of her Independence by the partition of the country. It brought in its wake the terrible tragedy of the migration of millions of refugees from Pakistan to India who had to be settled. It meant also the loss of areas which used to meet the needs of the country in respect of foodgrains, as also jute and cotton: and the loss had quickly to be made good. These were, no doubt, transitional problems but they have meant, and still mean, loss of valuable time and effort in tackling the long-term tasks of development. Even today, the unending trail of refugees from across our Eastern borders continues and diverts our attention from the basic task of development. As many as 900 refugees cross the Indian border every single day on an average and, apart from the burden of settling them, these displaced persons carry with them bitterness and frustration which make them an easy prey to pedlars of unrest, disharmony and discontent.

Sir, I have dwelt at some length on the uniqueness of our problems, our endeavours to develop our economy and the difficulties of a broader nature that confront us in this task in order that you may appreciate the better our general policies in the economic field. When there is such a great difference between your problems and ours, it should not be surprising that the accent of our policies should be somewhat different from yours. But there is, from time to time, a somewhat unfortunate tendency on the part of all of us to convert differences of approach and emphasis into differences of objectives and ideologies. Unfortunately, misunderstandings of this nature arise more frequently among people

who use this very imprecise language which you good people call American and we in India still call English.

Take this question of the socialistic pattern of society which the ruling party in India has adopted as the framework of its policies. A socialistic pattern, to most Americans, signifies perhaps a monolithic state or State capitalism with all property and economic power concentrated in the hands of the State. As such, it is naturally an anathema to most Americans—and I can assure you that a socialist State of such a conception is repugnant to us in India also. When we talk of the role of a Socialist State in India, we speak essentially of three things: planning the use of our scarce resources in the interest of rapid development, a greater measure of equality of opportunity and economic power among individual citizens and the preparedness of the State to step in and fill such gaps in the economic structure as cannot be filled by private initiative and enterprise. These objectives, I need hardly add, have to be achieved with full regard to basic human values and democratic rights enshrined in our Constitution.

I do not think I need explain at any length to an American audience why it is that we attach so much importance to a greater measure of economic equality in India today. American society is, perhaps, in fact, the most egalitarian society the world has ever known and, if I am not mistaken, most Americans compare rather sadly the inequalities they witness in most parts of the world, including India, with what they are accustomed to in their own country. While this search for greater equality in India cannot altogether be a matter of mere ideological concern, if it is deprived of its ideological content, it would fail to generate a measure of interest, hope and enthusiasm in the people for economic progress. Besides, for a country as ancient as ours, with distinctions of caste crystallised over centuries and with extremes of poverty and riches existing side by side, a greater measure of equality is a necessary condition for that sense of national solidarity which alone can constitute the basis of all cooperative effort in a democratic society.

The second important aspect of our socialistic pattern, namely, a more active participation of the State in economic activity, is also something which is dictated by the peculiar needs and circumstances of our country. For millions of illiterate and ill-organised peasants and artisans in our country, initiative and enterprise will remain mere words without meaning unless the State creates for them the minimum of social and economic amenities by way of schools, roads, credit and marketing facilities, supply of water for irrigation, extension services and all the rest which constitutes what economists often call the infrastructure of a developing economy and which, in a developed country, the private entrepreneur can take for granted. Our experience in India is that, even in regard to industrial development, our progress would not be commensurate with our needs unless the State steps in as a pioneer in

some directions where private enterprise is not yet ready to take the necessary risks. That is why we are attempting to start some factories, such as steel and fertilizer plants, in the government sector.

But the fact that we envisage a more active role for the State in the economic sphere than what is necessary or appropriate in countries such as yours, does not mean that there is no room for private initiative and enterprise. On the contrary, the efforts of the State stimulate and encourage private enterprise and initiative. Indeed, a large part of the efforts of the State is devoted to helping private producers and investors to get on with the job of development. By far the most important part of the private sector in India consists of agriculture and small-scale or cottage industries which are entirely privately owned and here the efforts of the State are directed wholly to creating the pre-conditions of initiative and enterprise among millions of small and ill-organised producers. The organised sector of industry also is given every encouragement to expand and to contribute to development. When there is so much to do, and that too with inadequate resources, there can be no question of putting an embargo on development in any sector. Indeed, if you look at what is happening in India, you will find that the development of private industry has, at no time, been more varied or marked than in the last ten years. Practically all our industrial production is in private hands. I want to emphasise this point, for I have seen statements in this country to the effect that the State in India owns one-third of the total industry. But, as at present, nothing can be further from the truth, for, the share of the factories owned by the Government in total industrial production in India is only of the order of 2 per cent.—not one-half or one-third but just one-fiftieth of the total. We see no harm, of course, in the State starting factories where it is in the general interest to do so, as in the case of some of the big and basic industries such as steel, where the private sector is not in a position to expand production rapidly enough. But I venture to say that if we succeed in establishing some of these basic industries, it will be the largest single factor in stimulating private industrial development in numerous other directions.

Very often, the very fact that we are devoting so much of our energies to the creation of a more favourable environment for development is turned into an argument to show that the State is attempting to do too much by itself in India. This is clearly unfair and unwarranted. In order that industrial and agricultural development may be expedited, we are compelled to spend from the public exchequer large sums of money for irrigation, power development, transport, communications, schools, roads and so on. It is only natural that in the initial stages of development, expenditure of such a basic nature should form a large part of total investment in the economy.

The fact of the matter is that we in India are trying to do, in a short span of time, so many things which are taken for granted in most

modern societies, as they have been developed gradually over a number of years. But the speed with which we have to develop ourselves is a matter not so much of choice as of necessity. Even today, the share of the Government in total economic activity in India is smaller than in most other countries, including America. And let there be no mistake about it—the Indian people look to the State to meet a large variety of their wants. We cannot ignore this responsibility which popular opinion enjoins upon us. To those of you who have any misgivings about the general pattern of our economic policies, I shall say only this: please do not expect us to follow in every detail all that you might have evolved to suit your particular needs and circumstances. Look at our problems and policies in their totality and not merely in isolation, turning your critical searchlights merely on things which to you may appear strange and unfamiliar. If you do this, you will find that, essentially, we follow policies which develop individuality and individual initiative. And, above all, remember that we are answerable first and foremost to our own people and it is by the extent to which we respond to the wishes of our own people that we shall be judged.

Let me turn now to another aspect of our basic economic policy, *viz.*, an approach to economic development through a planned utilization of our scarce resources. I think it will be generally recognised that, in the complex world in which we live, a measure of planning is necessary for everyone—for individuals, for businessmen and for the whole conglomeration of people that we call nations. But can there be any such thing as planned economic development in democratic countries? We have heard of five-year plans in several countries. In India, too, we have completed one five-year plan and we are in the midst of the second five-year plan of development. What exactly are the nature and scope of our five-year plans?

In 1951, some four years after Independence, we embarked on our first Five-Year Plan. The first Plan was little more than a five-year budget or a five-year programme of government expenditure with an eye essentially on some of the immediate problems on hand, such as the shortage of foodstuffs and raw materials. It did include, however, one really bold and imaginative scheme, known as Community Development. On October 2, 1952, exactly five years ago, on the birth anniversary of Mahatma Gandhi, we initiated this community movement. It was designed to inculcate in the average person in the countryside a desire for a higher level of living and a determination to achieve it by his own labours and co-operative effort. Without this determination and the desire to improve his lot, it would have been impossible to generate the degree of enthusiasm that was essential for the success of our plans for development generally. Hence it was that we laid and still continue to lay so much emphasis on this movement for community development.

Essentially, the first Five-Year Plan was a plan of preparation, and as such it succeeded in a large measure. Food production increased by some 20 per cent. during the five years and we were able to reduce our imports of food to a considerable extent. The backlog of replacement in the case of railway equipment was made good in large measure and the improvement in transport and power facilities gave a great fillip to private industrial development. Altogether, prices remained stable and our payments position was comfortable. And, above all, the modest improvement in living standards that took place created a new hope and a new awakening among our people.

But the implementation of the first Plan also revealed many of the basic weaknesses in Indian economy. Somewhere towards the middle of the Plan period, for example, the unemployment situation in the country became very acute. For decades in India, the growth of the economy had been barely commensurate with the growth of the population and a great deal of under-employment and unemployment had accumulated all over the country. The new employment opportunities we were able to create during the first Plan period were not sufficient to absorb the net addition to the labour force of nearly 2 million every year so that there was, in fact, an increase in unemployment. The worsening of the employment situation was particularly acute among the educated youth and you can imagine the political dangers of unemployment among a highly vocal and susceptible section of the community.

Another deficiency revealed by the first Plan was in regard to the virtual absence of basic capital goods industries in the country. Although we had made considerable progress in the production of manufactured consumer goods, such as cloth, sugar and vegetable oils, our production of basic capital goods, such as steel and machinery, was so meagre that, with the slightest attempt to develop our economy, our import bill went up considerably, creating in its wake balance of payments difficulties. India is richly endowed with resources of iron, coal, manganese and a variety of other metals. And yet, we produce only a million and a quarter tons of steel as against more than 100 million tons in your country, for example. So long as the Indian economy remained virtually stagnant, the absence of capital goods industries created no serious problem. But once development began to get under way, it became increasingly clear that we could not keep up the momentum of growth without steady expansion in the output of capital goods in the country.

Thus, when we came to think of our second Five-Year Plan in 1954 and in early 1955, it was clear that it had to be bolder than the first Plan if it was to make an impression on the employment situation in the country, and if it was to create for us a sound enough base for further and even larger development during subsequent years.

But given the objectives, the formulation of the Plan was not simply a question of preparing blue prints in the abstract, or just a set

of directives. It can at most be only an expression of what we would like to achieve and since the achievements turn largely on the efforts of millions of farmers, workers and businessmen acting freely in their own self-interest, the formulation of the Plan itself had to be done in close consultation with the people. Above all, a sense of participation had to be created among the people if they were to contribute the necessary hard work, and were to save on a scale essential to make the Plan a success. That is why we put out initially early in 1955 a brief assessment of the needs of our economy as we saw them and invited businessmen and State Governments as well as local bodies (i.e., Municipalities, District or County Boards, etc.) to prepare their plans in consultation with the people. "Planning from below"—from the village upwards—was our slogan. And for the greater part of 1955, village communities all over the country were preparing a statement of their needs—needs in terms of a school building or a maternity home, a link road or a tubewell, credit facilities and requirements of fertilizers and so on. These plans were co-ordinated at the local and the State level and sent up to the Central Planning Commission. I am sure no one here would be surprised if I say that when the plans we obtained from the village upward were put together, they added up to a huge figure which was several times more than what we could reasonably finance. The Planning Commission, therefore, had to perform a task which they had not expected to have to do and which was as difficult as it was unpleasant. They had to cut down these demands and, simultaneously, had to explain to the people why it was that so many of their urgent and insistent demands could not be met.

Simultaneously, we appointed a large number of committees of private businessmen to prepare plans about individual industries. These committees went carefully into the possibilities of development in each direction, the difficulties facing each industry and the steps that had to be taken to remove these difficulties. You will see that there was no question of just setting down arbitrary targets and compelling anyone to adhere to them. The targets themselves for the private sector were thus determined in full consultation with leaders of industry, and their fulfilment called for a high degree of assistance from and cooperation of the Government.

Similarly, a number of advisory bodies of economists, scientists, trade-union leaders and leaders of the cooperative movement were created to ensure a full and frank discussion of all problems. We even organised planning forums in schools and colleges so that our youth might have a chance to share in a responsibility which would be theirs in the years to come. It was after all these cogitations and debates that the outline of the Plan was drawn up in early 1956. Once again, the outline was discussed and debated extensively, and it was in the light of these discussions that the final Plan was prepared. You will notice how far removed this process is from any attempt at forcing down the Plan on an unwilling

people. The preparation of the Plan, in fact, became our most effective instrument for educating our people in the rights and responsibilities of a free people in this fast-changing world.

I need hardly tell the present gathering that despite all our efforts, it would take us many decades to make a decisive impact on living conditions in India. Because of the growing population, we in India have to run twice as fast as anyone else merely in order to keep ourselves in the same place. But, I think I can say that we have, at last, succeeded in breaking away from the spell of stagnation. The Indian economy has gathered a certain momentum and the millions in India have begun to appreciate the blessings of better tools and better know-how. Many of you will perhaps recall the epitaph on the tombstone of one of Kipling's characters. "A fool lies here who tried to hustle the East". Well, we have hustled the East, and the masses in India are already in a hurry.

Now, however, in the next stage of our development—the first stage of conquering the inertia and the apathy bred of years of want and misery having been successfully accomplished—we have come up against serious foreign exchange difficulties and, at the present moment, we have reached what I can only call the cross-roads of our future course. The second Five-Year Plan had necessarily to envisage a fairly large deficit in our balance of payments. But we could not aim at anything less if we were to make a sufficiently forward jump. There had to be an act of faith, the faith that, as we went along, the success of our efforts would lead to an increase in the quantum of foreign assistance. We have been receiving external aid for some years now from many friendly countries, notably your own, and this aid has played an important part in giving the Indian economy the impetus of which I spoke a moment ago. And now, this act of faith is under a severe test. For a variety of reasons, our payments difficulties have become very acute in recent months and despite stringent measures to restrict imports, we shall not be able to maintain the momentum of our economic progress unless substantial assistance from friendly countries in the shape of loans is readily forthcoming. To some extent, our present difficulties have arisen as a result of higher prices for our imports. Again, for reasons into which I need not now go, we have had to enter into large defence commitments and this has added to the already heavy burdens on our economy. The general buoyancy that we have succeeded in creating has also led to a very rapid increase in private investment in the last two years and this has meant a sizable increase in imports of machinery and raw materials. In time, these imports will add to the strength of our economy. But in the immediate future, we shall have to choke off this boom in private as well as public investment and even to risk starving our industries of imported raw materials and components for maintenance unless, as I have said, we are able to supplement our export earnings by a sizable inflow of foreign capital.

I am aware that the American people have had occasion to listen to such dreary tale from many other countries running into trouble and needing assistance times without number in recent years. Nothing can be more irritating than being a rich uncle to a number of needy nephews and nieces and we all know the irritation in private life from poor relations who are always knocking at our door for something or other. I can only say, for my part, that we in India have strained every nerve to give a measure of hope to our people and that our own people have put forth and are continuing to put forth all the sacrifices they are capable of for their own advancement. We are confident also that any assistance given to us for maintaining the tempo of our development will not only add greatly to our economic strength but will also enable us to repay the help given to us in full measure. That is why we seek loans and not aid—and we seek them to the extent that our needs and repaying ability would justify them. Even at the risk of appearing not too modest I would like to say that India has an unparalleled record of honouring her obligations and we intend fully to maintain the record. The friendship and esteem of other people that we seek is not a matter of immediate need but of enduring faith in the brotherhood of man. In relation to what the U. S. has so generously given to the countries in Europe and elsewhere in the near past, our needs are by no means excessive and the rewards in terms of safeguarding the values we cherish in common were, perhaps, nowhere as rich as in the case of India. Having said this, all I wish to add is that, no matter what happens, we, in India, shall remain steadfast to the twin goals of freedom and higher levels of living. The destinies of 400 million people cannot but react on the affairs of mankind as a whole and those of us who are responsible for shaping the destiny of our people at this critical juncture in our history have no intention of being jolted out of our fundamental values by temporary upsets and difficulties.

IV

October 4, 1957

ADDRESS TO THE FAR EASTERN CONFERENCE SPONSORED BY THE FAR EAST AMERICA COUNCIL OF COMMERCE AND INDUSTRY, INC., NEW YORK.

I consider it a great honour and privilege to be asked to participate in the luncheon meeting this afternoon and to say a few words to the distinguished delegates assembled here. Three years ago, in 1954, my predecessor, Mr. Chintaman Deshmukh, was among you on a similar occasion, and I am very grateful to the organisers and sponsors of this Conference for giving me the same privilege this afternoon.

The Indian Republic, Sir, has only just completed the first ten years of its independent existence. These ten years have been years of many trials and tribulations, years of substantial achievement as well as of a growing realisation of the many directions in which achievement is still short of expectations. Ten years ago in 1947, when we took up the reins of government, we were deeply conscious of the fact that the political freedom we achieved then was only the beginning of another and even greater struggle—the struggle against poverty, hunger and want amongst millions of our countrymen. The aspirations which gave meaning to Indian Independence were the same as those which are enshrined in the Declaration of American Independence—life, liberty and the pursuit of happiness. But life for millions of our countrymen meant then—and unfortunately still means—only a miserable pittance of hardly a dollar a week for back-breaking labour aided only by primitive tools and know-how. We knew then, as we know now, that the only answer to Indian poverty was production and more production, and to achieve this, more and better tools and know-how. But if political freedom was to have any meaning for our people, we had to make a significant and demonstrable change in their economic lot in as short a time as possible. And it is to this task that most of our energies in Independent India have been and are still being directed.

Judged by results, I think I can say that our efforts and endeavours have not been in vain. In the last ten years, there has been a decisive increase in production, both agricultural and industrial. Agricultural production in India has increased by about 25 per cent over the past ten years and industrial production by 60 per cent. These increases have not been on a small base, as even in 1947 we had a few industries which were already well established. Factory-made cotton cloth, for example,

has gone up in production by about 40 per cent. We now produce more than two million tons of sugar as against a little over one million tons at the time of Independence and some 6 million tons of cement as against only 1.5 million tons in 1947.

In addition, a large number of new industries in the engineering and chemical fields have developed in the country in the last ten years. These include the automobile industry, locomotive works, fertilizer plants, oil refineries, structural shops and factories producing basic chemicals, electric motors, diesel engines, bicycles and several other light engineering goods. Most of these items were not produced at all in India in 1947, or were produced only in small quantities, whereas today these newer industries form an important and dynamic part of India's economy.

Nonetheless, I need hardly tell a group of American businessmen that Indian industry is still in its infancy in many respects. The total contribution of factory establishments to the income of the people in India today is only a little over a million and a half dollars per year. The corresponding figure for the U.S.A. would be more than sixty times, and this has to be judged in the context of there being more than two Indians for every American in the world.

Besides, there are important gaps in our industrial structure. We have advanced only a small way in the development of basic metallurgical and engineering or chemical industries, so that a large part of our requirements in these fields has still to be imported. With the richest resources of iron ore in the world, and by no means insignificant resources of coal, manganese, etc., the Indian steel industry produces today only 1·3 million tons of steel as against the American production of steel of over 100 million tons. This is naturally reflected in the small volume of machinery, structurals and general engineering goods we produce. The total production of machinery in the country is hardly of the order of 50 million dollars per year, whereas currently we are importing machinery and spare parts worth some 500 to 600 million dollars every year.

It is self-evident that no dent can be made on the poverty of the Indian people without increasing production rapidly—production on all fronts, including agricultural and industrial. A great deal is being done to increase agricultural yields, and a measure of success is being achieved by these efforts. That, however, is a large subject in itself, and I shall not speak about it today except to underline one point, about which some misapprehension appears to exist in some minds. Agriculture is our most important industry and is being accorded that importance and status in all our thinking. Let there be no misunderstanding on this score. Agriculture gives employment to an overwhelming majority of our people and we realise that only if we succeed in increasing the productivity of our land can we hope to make any worthwhile impression on our living. But even to increase its productivity, we need industry—we need electricity, we need diesel engines for pumps and tractors, we

need chemicals to destroy pests, we need fertilisers, we need agricultural implements, and so on and so forth. There has indeed to be a measure of industrialisation and it is that only which we are seeking to achieve. The number of persons who earn their livelihood from agriculture is perhaps a hundred million; that from all our organised industries, a bare 3 million or so. And it will take us many many years even to double the figure of those employed in industry. Let me repeat, therefore, that we do not understate the importance of agriculture in our economy from any point of view. But we realise also that by virtually delaying development of industries, we shall be allowing our economy to become too unbalanced and unsound. It is, in other words, imperative that our economy becomes broadbased, and hence we are endeavouring to establish new industries and new industrial units in order to increase industrial production at a rapid pace. And it is about these efforts that I propose to speak today.

Our second Five-Year Plan, which covers the period 1956–61, has gained some currency in the world. We are hoping to increase industrial production in these five years by as much as it has increased over the past ten years. The emphasis on basic capital-goods industries will be seen from the fact that their output is expected to increase by 150 per cent. By 1961, we hope to produce 13 million tons of cement as against the present output of 6 million tons, about 4·5 million tons of finished steel as against 1.3 million tons now and some 60 million tons of coal as against 40 million tons now. Similar increases in production are planned in the chemical and drug group as well as in the general engineering group, and other industries—the older ones, such as cotton textile and sugar—are also to be encouraged to achieve substantially higher capacity and production. These increases are sizable; but in relation to the needs of nearly 400 million people, they mark only a modest improvement over the meagre levels of current supply.

I have no doubt that American businessmen regard the development and prosperity of countries such as India as something which is not only good and desirable in itself but also as something which is good for the rest of the world. Take, for example, the substantial increase in trade that has taken place as a result of our development efforts. Our recent step-up in development investment got going really in 1953-54. In that year, India's imports from the dollar area were only of the order of 200 million dollars. In 1956-57, when our development effort had been carried considerably forward, our imports from the dollar area were nearly 400 million dollars—that is, roughly twice as large as in 1953-54. In matters of investment also, a developing India means fresh opportunities for overseas enterprise. For historical reasons, a large part of the foreign private investment in India is, of course, of British origin. But in recent years, some American enterprises have been established in India either as branches of American companies or as new Indian companies,

independently or in cooperation with Indian business. The Government of India welcome foreign private capital to the mutual advantage of both India and the foreign investors. Our urgent need in India today is for capital and technical know-how. Foreign private investment means an inflow of both capital and know-how as also of that intangible but invaluable ingredient of progress, namely, the spirit of enterprise and expansion. Foreign enterprise in India today enjoys all the privileges and encouragement given to indigenous enterprise. Indeed, if anything, we give special concessions to foreign enterprise in taxation and similar matters in view of the importance we attach to such capital. For example, foreign technicians working in India are exempt from Indian income-tax for the first three years of their service. Some of the new taxes we have levied recently provide for somewhat concessionary treatment of foreign companies and personnel. Foreign enterprises operating in India enjoy full freedom to remit profits. Even capital, including capital gains, can be remitted freely. A few weeks ago, we signed a convertibility agreement with the U.S. Government which guarantees to American enterprise in India full freedom to convert their profits and capital into dollars. We are determined to continue this liberal approach because we consider it to be in our best interest to do so.

We appreciate fully that business enterprises all the world over are guided by profit considerations and that foreign investment will come to India only to the extent that it is profitable for them to do so. May I say in this connection that I was shown the other day some calculations which show that in relation to total turn-over, some of the leading enterprises operating in India made profits, after tax, which were two to three times as high as those made by leading enterprises in West Germany. I am sure you will agree that I am not making an unfair comparison in referring to West Germany. There is another point also which I would like to make about profits. All of us know from our experience that profits are good when everyone is expanding business and that they are bad when the spirit of expansion is at a low ebb. The best assurance against poor profits is high all-round activity and investment. This is true of countries also. I have no doubt that as long as we in India persevere in our efforts to keep developmental activity at a high level and as long as we continue to get supplemental investments from abroad in the process, the outlook for foreign business in India will not only remain good but will materially improve in the future.

There is not perhaps time for me to say much about the general level of taxation in India. It is too large a subject to be covered adequately in a few minutes. But I think it will help you in getting a proper perspective if I were to state a few facts which are not commonly appreciated. We give several concessions with a view to promoting investment. Thus, apart from normal depreciation and allowances for multiple shifts, all new investments are entitled to special depreciation allowance equal to normal

depreciation for a period of five years. In addition, an outright development rebate equal to 25 per cent of cost is given for all new plant and machinery installed—and as this rebate is not taken into account for determining the written-down value, it acts as a bonus or special allowance over and above the normal recoupment of the cost of plant, *viz.*, depreciation allowances. Again, all new industrial undertakings enjoy a tax holiday for the first five years in respect of profits up to 6 per cent of the capital employed, and the dividends declared out of this tax-exempt portion are also tax-exempt in the hands of shareholders. In specified cases, companies are also exempt from tax in regard to dividends earned on investments in other companies. A large part of the investment funds and reserves of corporations or companies in India has been built up as a result of these various concessions. I am aware that there is some apprehension among businessmen here regarding some of our measures, such as the compulsory deposit scheme. But I want to say this categorically that the only purpose of this scheme is to ensure that the tax concessions we give are utilized for the purpose for which they are given, *viz.*, to promote genuine investment. We are not seeking to appropriate these reserves for our own purposes and I can say without hesitation that anyone who wishes to add to his reserves for genuine business purposes need have no fear of having to deposit any part of it with the Government. Taken as a whole, our taxation compares favourably with that of most modern societies. I would not claim that Indian taxes are such as to permit of exorbitant profits to Indian or foreign companies. It is certainly not our intention to enter into shot-gun weddings with foreign enterprise followed by feverish activity and excitement for a short time and culminating in quick divorces. What we want is an enduring partnership with foreign business, including American business, a partnership which will give them a decent return and, at the same time, help in cementing friendship based on mutual interest.

India is one of the most stable countries politically, judged by any standard. I wish I could narrate to you the many ways in which government in India actively helps the development of private initiative and enterprise not only among the big enterprises but also among the millions of peasants and small artisans, who are by far the most numerous and important sector of private enterprise in India. We have set up several financial institutions to finance private industry; we encourage private enterprise by direct loans, by tariff protection, by guidance and assistance in matters of designs, research and marketing. Our good offices are always available to them when they seek loans from bodies like the World Bank. The best proof of the assistance and encouragement given to the private sector is the substantial growth that has taken place—and is taking place—in private industry. The figures I quoted to you earlier about the growth of industrial production in India reflect essentially the growth of private industry, for the few industries owned by the Government of India account

for hardly 3 per cent of total industrial production—and if production by small entrepreneurs of the non-factory type is included, the share of the Government in the total will hardly be one per cent.

There is, I am told, an apprehension in some quarters that the policies of the present Indian Government are not conducive to the free working of private enterprise in India. Much of this apprehension springs not from experience of conditions in India, but from a kind of reflex action against the ideology which the Congress Party has adopted in India, *viz.*, 'the socialistic pattern of society'. Unfortunately, the term socialism does not mean to us in India what it seems to mean to most Americans and much of the misunderstanding about the objective of economic policy in India arises from a terminological confusion of the kind which is all too familiar to all of us who use a foreign tongue such as English to express our ideas. Let me say quite categorically that socialism in India indicates nothing more sinister than a society in which there is equality of opportunity and a better distribution of income and wealth and one in which the State plays an increasing part solely with a view to maintaining an adequately high tempo of development activity. The basic desiderata of an egalitarian society as we understand it are precisely those of the American society as it now exists, where the standard of living of the common man is very high, indeed the highest in the world, where the dignity of labour is understood, appreciated and honoured, a thing which does not exist in India today to any large extent, and where everyone has all the opportunity of improving his lot that his innate abilities and initiative permit. These are culminations which I suppose any civilised society desires. You have in America anti-trust and anti-cartel legislation to prevent excessive concentration of economic power and to promote competition—legislation which is almost unique in the world. Our objectives and our ideas, therefore, do march together to a very great extent. Let me also add that a greater measure of equality is the greatest insurance for the continuance of a democratic set-up in an over-populated, under-developed country such as mine, for extreme inequalities and mutual goodwill and peaceful cooperation go ill together.

Let there be no misunderstanding about this: the values we stand for and which are considered in our Constitution and in our centuries-old traditions are the same as yours—the dignity and freedom of the individual, a decent minimum standard of comfort for all, equality and brotherliness in relations among individuals and a peaceful and democratic approach to all problems, social and economic. If, in our best judgment, we feel that the emphasis we place on our policies has to be somewhat different from yours in view of the difference in our respective circumstances, it is no justification for conjuring up visions of irreconcilable differences. The difference in our policies and yours is no more than that of emphasis. India is no more a totalitarian, monolithic socialist state than America is, what its critics often caricature as a Capitalist State where each is for

himself and the devil takes the hindmost. The American political system has not disregarded its social obligations, as is obvious from your fine educational and social security system, flourishing trade union movement, the most gigantic endowments by industry for the improvement of the educational and health standards of people not only in America but also in other parts of the world, and a variety of other things.

Unfortunately, we often attach too much meaning to words and too little to substance—we tend to think too often in terms of one thing to the exclusion of the other. I hope I shall not be accused of interfering in your internal political matters. But I am sure no Democrat in this country has ever thought that the Republicans are totalitarians just because they do not call themselves Democrats; and I am equally sure that the Democrats are not accused of being monarchists just because they do not call themselves Republicans. I am afraid something like that is true of democratic countries which call themselves by different names. The socialistic pattern of India is not the antithesis of American capitalism. Far be it from me to suggest that the two are the same; and lest there be any misunderstanding, I hasten to add that I am not really suggesting either that the Democrats and the Republicans are indistinguishable one from the other. But if there are differences in the American and the Indian approach to economic problems, the similarities are even more striking and it is this fact as well as the basic differences in our respective needs and circumstances that we must keep uppermost in our minds.

V

October 7, 1957.

SPEECH AT THE FOREIGN POLICY ASSOCIATION, NEW YORK

I have no doubt that your Association is interested in India's foreign policy. Naturally, you would expect me to say something on it today. The making of foreign policy is not my primary concern. But I cannot be impervious to its effects—good or bad—in the sphere for which I am responsible, since today the policies and activities of Government in any particular sphere cannot be wholly disentangled from their interactions on other spheres. I am sure it is well understood generally that economic forces largely dominate the political, and in the relationship that exists from time to time among nations, the one or the other or both play an important part in determining the exact nature of such relationship. In the case of India, with her present preoccupations about her second Five-Year Plan, peace and stability in the world are vitally necessary to enable her to fulfil the economic burdens she has undertaken. We realize that in the matter of groupings of nations based on political, military or economic strength, India can have little say, since she can only plead from weakness and not from strength in respect of all these criteria. But the fact remains that India represents a large slice of humanity and, if she has any strength at all, it is the moral force of a nation which can speak not only for 370 millions of its people, but also for several millions of other people who are similarly placed.

Speaking of the U.S. and India essentially, what ought to draw together the American and Indian peoples in friendship and mutual respect is not the fact that our two countries are the world's largest democracies or that we share a common faith in the dignity and worth of the individual and in the supremacy of freely elected laws. I venture to think that the ties between India and America go even deeper than the recognition of the fact that our two countries are the testing grounds for the values we cherish in common. I am confident that the American people appreciate that if America is the living proof of what can be achieved in freedom, India is the testing ground for the survival of democracy in large parts of the world which have been left behind in the race for economic progress. The struggle for the allegiance of the peoples of Asia and Africa will ultimately turn on the ability of democratic methods to yield quickly that measure of economic well-being which is consistent with the dignity of free men. It is this fact which gives meaning to our endeavours in India to rid ourselves of poverty, want and disease in as short a time as possible, to develop our economy in freedom and yet rapidly enough. But while all these factors un-

doubtedly account for the interest and sympathy of the American people for India's developmental efforts, there are yet deeper springs for which friendship and mutual respect between India and America are nourished.

This deeper spring of friendship and mutual respect is the fundamental similarity between the Indian character and the American character in at least two respects: I am referring to our common faith in the ultimate supremacy of moral ends and our equally passionate attachment to continuous questioning. We Indians have developed over generations a tradition of continuous questioning, of keeping the mind and the heart open to new promptings and new truths. This trait, I expect, is shared by Americans also. This tradition of independence and continuous search is something which should and does command mutual respect between Americans and Indians. Again, there are very few people who guide their individual and national policies so explicitly and consciously with reference to moral ends as Americans and Indians, with the result that despite all apparent differences, we are able to respect the *bona fides* of each other. It is these similarities in our national character which make us both realize that what draws India and America together is something which is far more abiding and valuable than mere short-term alliances of convenience.

Unfortunately, things which unite deep within can often be great sources of disturbance on the surface. There is only a thin gulf which separates moral concern from self-righteousness and there is nothing in the three worlds like the fury of self-righteous men who happen to catch a glimpse of two separate facets of the truth for the time being. And if we go on saying "so what?" or "maybe, maybe not" to each other for too long, we are bound to create a good deal of irritation. That, unfortunately, is what we have been doing to each other for quite some time now. And that is why for most of the time we stand poised towards each other—not knowing whether to move closer as our innermost feelings dictate or to move away as our momentary irritations tend to suggest.

But every story has to have its denouement, and I am sure there is only one consummation that we all desire in regard to Indo-American relations—and that is that the friendship and mutual respect that we feel for each other must govern our day-to-day affairs. And the only way this can be done is by continuous effort at mutual understanding, such as what your own association is engaged in promoting. This obligation to try and understand, of course, is mutual—it rests on India and America alike; but you will no doubt permit me to avail myself of your hospitality in order to try and dispel a few misunderstandings that exist, I believe, in America about India and about what we are trying to achieve by our internal and external policies. Perhaps I should put it a little differently and say that I would like to create a somewhat greater understanding of our policies, for the term "misunderstanding", like so

many other terms we have come to use in our divided world, is itself one of the greatest sources of division. It seems to suggest that if others do not agree with us, they are wrong, whereas the truth of the matter in most cases is that different needs and situations create different but equally valid responses and that all we need for mutual goodwill is a greater understanding of the basic differences in the needs and situations of different countries.

Take, for example, our foreign policy, which in many quarters is regarded as a policy of neutrality. The question that friends of India in America and elsewhere so often ask is: "How can a country like India with its traditions be neutral between right and wrong?" And yet, time and again, our Prime Minister has made it clear that what India stands for is not neutrality but non-alignment. Indeed, I venture to think, that if India were strictly neutral in the sense that we cultivated our own garden and refused to say or do anything about what goes on in the rest of the world, there would be no misunderstanding and annoyance about India's foreign policy—for, there would be nothing to misunderstand and nothing to be annoyed about.

What many Americans apparently find it difficult to understand is that we refuse to align ourselves once and for all with one side or the other. I do not wish to enter here into a discussion of whether or not non-alignment is a desirable general policy—all I can say is that circumstances alter cases. But consider for a moment the history of a country like India, its philosophy and its immediate needs and pre-occuptions; and I venture to think that if you do take these things into account, you will at least appreciate that whatever may be its general merits, a policy of non-alignment does make sense for India.

The American people had only a brief experience of colonial rule. But for hundreds of years, the history of India is one long tale of conquest and subjugation, relieved only by brief and glorious periods of the flowering of Indian culture and civilisation. Even before Alexander, hordes of people came to India from the North-West with fire and sword. These early conquerors had no specific culture of their own and they were absorbed in India as Indians—but many were the indignities that the conquerors inflicted on the inhabitants of the land and it is to the relationship between the conqueror and the conquered that you can trace the origins of many elements in Hindu society such as caste. The march of Islam ushered in a fresh wave of invasions and conquests and all the ill-effects that issued from it, and when, after hundreds of years, we were just beginning to settle down as a united people—a people united after years of religious discord—then came the British, first as traders, who slowly but surely converted themselves into rulers. It is this victory which makes us so suspicious of international power, of irrevocable alliances.

There is yet another strand which runs through Indian history—that after every period of trial and tribulation has come a glorious flowering of our civilisation. The Aryan invasion and the struggle for coexistence between the conquerors and the conquered brought in its wake the Vedas and the *Ramayana* and the *Mahabharata*. Even from the rigidities and indignities of caste came the message of the Buddha, as a sort of protest. And centuries later, the need for synthesising Islam and Hinduism brought into being the glorious traditions of dance, music, poetry and architecture in the days of Akbar. British rule also was not one unrelieved story of exploitation and insults—it brought a new spirit of unity, a renewed faith in our ancient traditions, a new national awakening, a new spirit of unity, and a cultural renaissance, a new sense of India's place in the modern industrial and technological age. More often than not, these manifestations of good coming out of evil were the by-products of protest and revolt rather than of positive and conscious design.

But if you look at Indian history as I have set it out briefly, you will appreciate why the Indian mind refuses to accept only black and white, why indeed it refuses to accept simple and settled solutions. It is no accident that in Indian philosophy, there are not one birth and one death, not just one heaven and one hell—life goes on, the pursuit of good in the midst of evil goes on incessantly; there are only approaches of various degrees to the perfect, but the approaches are not all in one monotonic ascending order—there is ascent and descent, rise and fall and the journey between the profane and the perfect is criss-cross and continuous with no one-way traffic only. Time and again, evil takes foot in the world and spreads, and time and again, when the burden of iniquity on this earth becomes intolerable for good men, there is a manifestation of the eternal force to re-establish the rule of the just—such is the message of the *Gita* and it fits the facts as we have experienced them over centuries of national existence.

Is it any wonder then that an average Indian hesitates to commit himself irrevocably, to believe in only the two shades of black and white? Not merely that, he refuses, above all, to blow up his bridges, for he knows and believes that even as you part you must get together, that tolerance is not so much a virtue as a necessity, that good and evil not only coexist forever but that the good can triumph only to the extent that its practitioners remain alert and yet ready to wrest good out of evil.

Far be it from me to suggest that the attitude of mind I have just described is something peculiar to India. The doctrine of original sin or the belief that " In my Father's House, there are many mansions" will take you not far from the Indian attitude. But partly as a result of our experience—an experience reinforced by the teaching of Mahatma

Gandhi— the average Indian is perhaps more deeply steeped in the traditions of his religion and philosophy than others are in their own. Or perhaps, unlike the Christian, Jewish or Islamic traditions, which have been scattered over large parts of the world, the Indian tradition has remained rooted and localised in one place for many centuries, so that the roots have struck deeper and the foliage has been of a more consistent pattern. But be that as it may. It would, I think, be unwise for Americans or others to dismiss the Indian attitude to foreign affairs as the haphazard or accidental creation of one man or another—it has its roots deep in Indian history and philosophy.

We carry this bent of mind and attitude even in regard to matters where our vital national interests are involved. Our reluctance to seek publicity for ourselves arises from a reluctance to make matters worse, reluctance to blow up the bridges of harmony and accord. Take this question of religious tolerance in India, for example. Anyone who has the slightest knowledge of Hindu-Muslim relations in the past will have to admit that we in India have strained every nerve to build up a secular State—a State in which religious minorities are not only tolerated but given every rightful share in the governance and development of the country as respected citizens. The unending trail of refugees from East Pakistan continues and these refugees not only add to our already heavy burdens of development but they become a source of bitterness and frustration among our people. And yet, the Indian Government and the Indian people and the Press resist all temptation to play up these facts and to contrast our tolerance with the intolerance of others, for the simple reason that we are anxious that the fires of religious passion should not be fanned further. In the battle for propaganda, therefore, we are fighting, so to speak, with one hand tied to our own backs. Unfortunately, this self-imposed restraint has not evoked as much understanding of our efforts and approach as it deserves. But I have no doubt that in the ultimate reckoning it is India's attitude to her religious minorities which will commend itself to the conscience of civilised humanity.

I would not have you believe that the Indian policy of non-alignment is governed entirely by our historical experience and philosophical beliefs. There is, as I said at the outset, the consideration that it is a policy which best suits our immediate needs and preoccupations. The most pressing problem in India today is that of developing our economy, so that the millions of our countrymen who live today in abysmal poverty get as quickly as possible decent levels of living consistent with the dignity of free men. Freedom has little meaning to millions of people in my country who hardly get a dollar a week to spend, who are constantly faced with hunger, disease, illiteracy and squalor. The millions in India and in other parts of Asia and Africa are in a hurry to effect some improvement in their lot, for now they know that poverty is something

which can be got rid of. It is towards meeting this challenge of giving to our people some stake in their own future and a faith in democracy that most of our energies in India are directed.

And, if I may say so, the task on which we are engaged in India is unparalleled in human history. The levels of living in India are low even by standards of the poorer nations of the world. And nothing is more difficult than to make a poor man save and invest for a better tomorrow when today he does not get a square meal a day and when he has to see his wife and children suffer in helpless silence for want of ability to buy even simple medicines. Moreover, barring America, no other country in the world so far has combined democracy with rapid development at least in the formative years of its industrial and economic progress. Neither England nor Japan, for example, had to operate within the four corners of representative government during the formative years of its development—both could impose many direct and indirect burdens on their people without having to worry about elections based on universal franchise and the like. Unlike the countries of Europe, we cannot expect our surplus people to be absorbed in newer continents. And unlike America and Russia, India is not a comparatively virgin country where people can be settled by an expansion of its frontiers. No other democratic country had to face the opposition of antisocial forces of unrest to whom the democratic laws of our country afford protection.

It is the presence of these alternative influences which not only renders our task difficult but also makes it necessary at the same time for us to progress rapidly—for speed is of the essence of the struggle for the allegiance of our people.

With so many forces working, so to speak, against us, is it any wonder that we strive to avoid further complications for ourselves by a policy of non-alignment? No one, I am sure, has the slightest desire in present-day conditions for another world war. But peace and the utmost goodwill towards everyone are, in our case, a matter of life and death. A country situated as India is, both geographically and economically, can ill afford to eschew friendship from whatever quarter it comes. That is why we persevere in our efforts to promote an international approach to the task of assisting under-developed countries in achieving rapidly rising levels of living. By far the largest amount of assistance we have received so far has been from your own good country—not only from your government but also from private foundations such as the Ford Foundation and the Rockefeller Foundation. Many individual American men and women have given of their time ad energy and talent freely and ungrudgingly for the benefit of my country. Your Research Director, Mrs. Dean, for example, has only recently been to India on an assignment under the Ford Foundation to lecture to students in our School of International Studies. And I can assure you, the Indian people and the Indian Government are grateful for your assistance.

I have often been told by friend of India: "We understand your policy of non-alignment and we appreciate that it suits your traditions and needs. But why do you go about objecting to other people aligning themselves with us?" I am afraid, it is not correct to say that we object to all alliances or alignments—it will be unwise to ignore historical and other ties which transcend purely national frontiers. Our objection has only been to disproportionate military aid to areas where the economic and strategic position does not justify such aid and where there is the possible danger, on the other hand, of disturbing the safety and stability of neighbouring countries. I do not wish today to go into specific controversial matters. But I submit to you a simple statement of fact that such action forces us to re-equip our defence forces at considerable cost. No one in India doubts the good intentions of America. But there are certain facts—inter-relationships, if you like—which cannot be ignored. There is yet another complaint which many Americans seem to have against India—they feel that we are somewhat partial in our attitude in that we are often more critical of America than of Russia. I can only say that in no case is it our intention to be critical. In a sense, our long experience of life as a people makes us less prone to criticize other. I do not wish to comment on your internal problems. But I can say without hesitation that we in India can understand your present problems in Little Rock and elsewhere, for we know from our own experience of caste and other iniquities how obstinate social prejudices can be despite the best will and effort in the world.

I said some time ago that more often than not our two peoples stand poised towards each other, not knowing whether to move closer or not. I have no doubt, however, that the situation will begin to thaw—that the smiles will return and each will move closer to the other. It is here that organisations like yours can provide the necessary impetus to greater warmth and understanding. There is so much in common between our peoples and so much that we cherish in common and which can be salvaged only by friendship between our peoples. One of the things that has cheered me a great deal during my visit to this country is the almost universal understanding in this country of our economic problems, the sympathy for our aspirations and the genuine desire to help. I have no doubt that, in time, we shall also move closer together in international affairs with mutual understanding and respect for each other's point of view.

VI

October 19, 1957

SPEECH AT THE GERMAN ASSOCIATION OF FOREIGN POLICY IN BONN

The Prime Minister of India, who is the architect of India's foreign policy, has already spoken to you on an earlier occasion about our foreign policy and there is very little that I can add to what he has said. The making of foreign policy is not within my own sphere of activities, although developments abroad have naturally some bearing on my preoccupation, which is to help promote a process of rapid economic development in India within the democratic framework.

In one sense, Western Germany is in a better position to appreciate India's endeavours in the economic sphere. Your country had to pass through a difficult time before arriving at a point when you could order your own affairs; and even then, you had to contend against several adverse factors such as the influx of a large number of refugees. We, in India, also had to make great sacrifices for attaining our freedom; and when we got our freedom, we inherited a large number of problems, including the problem of rehabilitating a large number of refugees. Not many of you are perhaps aware of the magnitude of our refugee problem; but this is a problem which continues to add to our difficulties even at the present moment. While you have been able to overcome your difficulties and to achieve a remarkable measure of economic recovery and progress, we in India have yet to take a decisive step forward in building up our economy.

In matters of foreign policy also, it should not be difficult for the German people to understand our attitude. We, in India, appreciate that your foreign policy tends to some extent to be shaped by your particular geographical position and by the fact that you received substantial assistance from the United States for the reconstruction of your economy. At the same time, the very fact that your geographical position is extremely vulnerable in the event of any conflict in Europe should, I think, make for greater objectivity in international affairs on your part than would be the case with countries situated more favourably. We, in India, find it difficult to sympathise with the attitude that there is only black and white, that those who are not with us are against us. Such an attitude is contrary to the teachings of Indian philosophy. There has always been a great deal of interest in Indian thought and

philosophy in Germany and it should not, therefore, be difficult for the German people to appreciate why it is that we in India refuse to align ourselves irrevocably with one side or the other.

Our foreign policy is based essentially on the principle of judging each issue on its own merits from the moral stand-point. At the same time, we realise that militarily, economically or politically, we are not in any position to enforce a policy which we may consider to be right. Indeed, the very fact that we are not aligned to any bloc makes it sometimes difficult for us to enlist the support of other nations in the furtherance of our economic objectives. But there can never be any question of our compromising in regard to our foreign policy in order to suit economic ends. Even in regard to our struggle for independence, we refused to compromise with what we perceived to be the right goal and the right course of action.

What I wish to speak about mainly today, however, is our endeavours in the economic field. In 1951, we began our first Five-Year Plan. The first Plan was essentially a plan of preparation. In a democratic country, there cannot be any question of an inexorable plan which has to be implemented even against the wishes of the people. Indeed, during the first Plan period, we took a number of steps such as removal of controls and rationing in response to popular demand even though some of us felt that the maintenance of a modicum of controls was desirable in the long-term interest of development. At the same time, the economic affairs of nearly 400 million people cannot be managed without some goals and targets, some framework policies and some appeals to the people about the part they have to play in the interest of economic development. This is the essential purpose of economic planning in India.

In formulating the second Plan, we made a deliberate effort to seek the co-operation of the people at all levels and to build the Plan from below. The people naturally desired improvements in a great many directions and the Plan, as it was finally adopted, was much smaller than the sum-total of the plans submitted by the representatives of the people at the State and district levels. Even so, the second Plan as originally adopted contained a large gap both in regard to internal finance and foreign exchange.

The gap in internal resources has been nearly bridged by intensive efforts to raise resources by additional taxation. The gap in respect of foreign exchange, however, has actually increased beyond our original calculations. This is due in part to increased expenditure on defence. While we, like Western Germany, are anxious to keep our defence expenditure to a minimum, it is not possible for us to overlook developments in other countries in matters where vital interests of national

security are involved. We are already attempting to re-phase the Plan so as to reduce the gap in foreign exchange. At the same time, we have to honour commitments which we have already entered into and complete at least the basic schemes in the Plan which have a bearing on the long-time potential of our economy. Even with the re-phasing that is being undertaken, there still remains a foreign exchange gap of about Rs. 700 crores for the rest of the Plan period and it is with regard to meeting a portion of this gap that I have been approaching friendly countries.

It is sometimes asked whether we shall default payments or contracts and whether we shall stop remittances of profits and dividends by foreign firms if we do not succeed in finding resources to bridge the gap in our balance of payments. I can say categorically that, aid or no aid, we shall honour all our commitments, including the commitment to permit remittances of profits. Naturally, if foreign aid is not available on an adequate scale, it will become necessary for us to cut imports drastically even at the risk of reducing employment and production in our country This is no doubt a serious matter. Even the original second Five-Year Plan was expected to provide employment only for the net addition to labour force and to raise average incomes in the country by about 25 per cent. over a period of five years. Any significant slackening of the tempo of development and any reduction in normal levels of economic activity will naturally lead to serious disappointment. Nonetheless, we have made plans to deal with all eventualities and we have no doubt that we shall be able to carry our people with us even in the face of serious difficulties. Our difficulties are essentially short-term; and if we can overcome them, we shall undoubtedly come out with our economic potential significantly strengthened.

The private sector has been assigned an important role in India's economic development and the progress of that sector over the last ten years has been striking. Within the broad framework of our Plans, we offer every encouragement to the private sector to develop. There is a tendency on the part of most people to over-simplify matters when it comes to a discussion of the overall objectives of different societies. I for one will be very happy if I can give to an average Indian the same standard of living as obtains in Germany or America and I have no quarrel with the political or social objectives of American or German society. But as we see it, what the people in India need and desire cannot be achieved without the State assuming a great deal of responsibility for economic development. Indian capitalism is only of recent origin and it is not broad-based enough to carry by itself the heavy burdens of rapid development that have of necessity to be borne in a poor country. To the best of our judgment, our economic policies are calculated to achieve what our people desire as rapidly as possible and with the least sacrifice of the freedom of our people.

I would like to say, in conclusion, to those who believe in democracy that the Indian experiment is something in which I could ask for their sympathy and co-operation. If this is not possible, I would ask at least for their interest. We are interested mainly in raising the standard of living of our people so that they may better appreciate the values of democracy. We are afraid of being drawn into conflicts because we have to get on with a job of work similar to what you have been doing in your country. I think that to the German people, India's foreign policy, India's economic objectives and India's moral values may have a slightly better appeal than to the people of those countries who have not suffered as much as you have done and who have not learnt by suffering the value of discipline and economic progress.

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