

The Economic Club of New York

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Prime Minister of India

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Thank you, Mr. Chairman, for your very kind words of introduction. I come to the United States and to New York not as a stranger but as a friend. New York is the financial and cultural center of your great country and I am aware that your Club is one of the best known groups in the business and banking community of this city. I am particularly pleased, therefore, to be with you this evening.

My theme today is the performance and prospects of the Indian economy, a subject in which, I know, you have been long interested. The basic fact about India is that she is at once a very old and a very young country. India has had a long history, a great culture and many traditions. But it is less than 18 years since she emerged into her own from the shackles of colonial rule. With the winning of freedom, we lost no time in adopting for ourselves a program of economic development. Our First Five Year Plan was launched in 1951. In a few days, we will complete the third of these five year plans, and 15 years of development will be behind us. This period of time, so full of performance and achievement as well as of rising, but unfulfilled expectations, is a useful time-frame for taking stock.

The recorded facts of progress are certainly impressive in all spheres of economic activity - agriculture, industry, infrastructure, health and education. I shall not repeat them in any great

detail. Yet I cannot resist quoting some figures which will give you a broad-brush picture of what has taken place in India. In these 15 years the production of food grains went up from 50 to 88 million tons. Industrial production has been steadily rising at the rate of 7 to 8% per annum. The generation of electricity has increased fivefold from 1.7 million kilowatts in 1950 to 8.5 million kilowatts in 1965. Nearly 70 million children attend school today, as against 25 million in 1950. Malaria and smallpox have been eradicated and the expectation of life has increased from 32 years in the 1940s to 50 years now.

In this tremendous endeavor, India has been helped greatly by her friends abroad. We are grateful for the generosity and understanding with which this help has been forthcoming. I might point out that our own efforts in mobilizing domestic savings have also been very substantial. In a country as poor as India, where the margin between income and consumption is necessarily so narrow, it is rather remarkable that domestic savings have doubled from 5% of the national income in 1951 to over 11% in 1966. In the last 15 years, these internal savings have financed 80% of our total investment. With patience and good cheer, our people have accepted the growing role of taxation in financing the rapidly expanding programs for developmental and social services. As another measure of self-reliance, exports in the last five years have increased at the rate of 5% per annum. The doctrine of self-help is, therefore, not by any means new to us. From the very beginning, we have been committed to, and have steadily organized ourselves for self-reliance to as large a degree as possible.

The practical connotation which we have given to this concept of self-reliance is to undertake, early in the process of development, basic investments designed fully to exploit our human and material resources. We have built steel mills not because they are prestigious but because India has vast reserves of good iron ore and skilled and inexpensive labor. We can produce steel cheaply. We are organized for fabricating machinery and for designing plants using our own steel. We have coal, oil and bauxite which we have proceeded to exploit in the same way. Qualitatively, the last 15 years have seen not only a growth but a diversification and sophistication of the industrial structure of India. This has meant that we now increasingly import raw materials and components. In many key commodities, the proportion of imports to total consumption is steadily going down.

I am sure you cannot be unaware of these broad facts. But unfortunately this is not the picture which has been in the forefront of world news about India in the last few months. This is why I wished to draw your attention to them once again this evening.

In recent months, in India as well as outside, there has been much public discussion of the strains which have developed in the Indian economy. It is not my purpose to take you through the detailed causes which have contributed to the phase of strain and tension which admittedly we are experiencing today. Qualitatively, it seems to me that much of our present difficulties in regard to food and foreign exchange are, in large part, a reflection of the fact that the rising expectations of the Indian people have overtaken the progress so far achieved. The greatest

single lesson to be drawn is that in future plans we should aim to achieve decisively higher results than we have done so far.

In this context, the crucial sector is clearly agriculture. Over the last 15 years, Indian agriculture has grown by nearly 4% per annum. The demand has simultaneously gone up, due not only to the increase in population, but also because people eat more, prefer better food and live longer. Even so, with the agricultural growth we have achieved, production might have been adequate for meeting minimum requirements if only food could be steadily produced in factories without any fluctuations beyond the control of man. Unfortunately, the vicissitudes of weather have greater impact in India than perhaps elsewhere in the world. We have a high proportion of arable land, but less than a fifth of it is irrigated. Also, a large part of irrigation depends on the rains and, this year, we have had a drought exceptional and unparalleled in the last 70 years. It is a measure of the degree to which the world has become indivisible that in this crisis we have had the full understanding and assistance of many countries and most notably, of your own. With this support, I have no doubt that we shall tide over the famine without too great suffering.

We have drawn a long term and essential lesson from this famine. In agriculture it is not enough to aim at self-sufficiency, we must produce a little more. This is the basic objective of the bold new agricultural strategy which has been evolved in India in the last year. This strategy has been based on an intense review for several months preceding the present crisis. Basically, what we are attempting is to break within a short space of time, the vicious circle of poor incentives,

inadequate inputs and low production in Indian agriculture and achieve a modernized agriculture. A few months ago, we adopted a policy of guaranteeing to the farmer an incentive floor price for his produce. This change is already producing tangible results. In the last few years, the Indian farmer has become thoroughly accustomed to the use of chemical fertilizers. The consumption of fertilizers has increased nearly twenty fold in the last 15 years, and the demand for it is double what we can produce in India at the moment. Building on this base, the new strategy concentrates on making available the whole package of inputs that the farmer needs, such as fertilizers, improved seeds, credit, pesticides, extension services, etc., to areas of assured rainfall. We are confident that the additional yield expected by these means will enable India fully to replace food imports by 1970-71. The most encouraging development in this area is the adoption of improved seed varieties for wheat, rice and other grains which promise yields 5 to 6 times the present levels. In terms of priority, agriculture has been placed on top of the list of all developmental schemes, whether for allocation of internal or external resources.

Of equal priority are our plans for population control. Our efforts have received a decisive impetus in the last year or so. Over 18,000 family planning centers are now functioning in the country and we started on the intra-uterine contraceptive device program last year. This device which is simple, inexpensive and harmless has already become quite popular and, on an average there are 100,000 insertions a month. This number is rapidly increasing. In the current Plan, the expenditure on family planning will be over 10 times that spent on the program in the first 2

plans put together and more than 3 times this higher amount will be allotted for population control in the next five years.

What is important to remember is that in both agriculture and population control, we have to operate in the diffuse area where success depends on the extent to which individuals accept a change in attitude. At this point one can truthfully say that the Indian peasant as well as the Indian parent is being rapidly prepared to accept the changed attitudes demanded of them by modern society. But ultimately what will convince them to modernize is the example of modernization itself. Nothing succeeds like success, and in the coming years, as examples of progress in India multiply, the pace of progress will certainly accelerate. What is important is that at every state we should have the resources and the inputs to satisfy this demand for improvement in whatever forms and whenever it arises. This then is the challenge for the coming period.

We are at present engaged in the formulation of the Fourth Five year Plan. It seeks to take India on to a decisively higher stage of development in the next 5 years. The investment in the fourth Plan will be \$45 billion, nearly twice the investment of around \$24 billion in the Third Plan. The strategy underlying this plan is a rapid reduction in the birth rate, an assurance to the agricultural sector of all the inputs it needs, an emphasis on rapid expansion of exports, and a rapid increase in domestic savings. In drawing up this plan, we have time and again been impressed by the extent to which agriculture; transport; power and industry are linked together. Fertilizers provide

the most obvious example of these links. One of our most important targets is to increase fertilizer production capacity to 2.4 million tons of Nitrogen. We already have enough schemes on hand and under active negotiation which will ensure realization of this target.

As I see it, India is well past the mid-point of a process of development which began in 1951. The next 10 or 12 years, of which the Fourth Plan will be only the first milestone, will be a crucial period as it is within this time-span of the next decade or so that India plans to complete her emergence as a fully self-reliant nation. These years will certainly be crucial to the people of India, in terms of the effort and sacrifice which they will be called upon to make. They will also be crucial for our friends elsewhere in the world in that they will face the test of whether they intend to continue the support which they have given to India so far, decisively enough in the future so as to make a difference. The aid which we have received hitherto has been on a generous scale in absolute terms. But, relative to other countries, it has been somewhere at the end of the list on a per capita basis. To some extent, this is, perhaps, due to the enormous size of our country. Nonetheless, the fact remains that unless internal savings are supplemented to an adequate degree by the import of capital, we cannot carry out the very investments which would render the further flow of aid unnecessary in the foreseeable future. I would venture to suggest that from the point of view of the aid-giving countries themselves, it would be far better to render assistance on a scale that promotes early self-generating growth than to run the risk of giving too little. Such a policy would be self-defeating.

This concept of ultimate self-reliance means that aid, which is an extraordinary form of transfer of resources need not continue and our own export earning could meet our import requirements. The flow of private investment would certainly continue; it would be welcome and indeed, receive greater emphasis. I am aware that most of you in this gathering are keenly interested in our policies in respect of private foreign investment and I shall, therefore, speak quite frankly on this matter. In India, we welcome private foreign investment not only for the capital it brings with it, but also for the transfer of modern technology and managerial and technical skills private investment facilitates. In the future, we shall continue to maintain our policy of treating foreign investors completely on par with national investors. Indeed, the foreign investor in India is “discriminated” only in the sense of being allowed certain advantages such as tax exemption for technicians which are not available to Indian nationals. Our fiscal structure contains sizable incentives to private investment, Indian and foreign, and these will be continued. We allow full repatriation of profits and capital freely and we intend to continue this policy. Most important of all, India has a large and growing market with a high degree of profitability. In the foreseeable future it will be one of the world’s largest markets; and enterprises established early in the process of development are bound to take a full share in that prosperity. In India, we have a well-laid infrastructure of power and transport. Indian labor has demonstrated that, with proper training and good working conditions, its productivity can compare with that achieved in Western Europe. We have given high importance to technical education and there is no dearth of technicians and engineers in India.

This is the brighter side of the picture. The other side which has been presented to us repeatedly is the existence in the Indian system of a number of controls and allocation procedures which, it is claimed, act as a major inhibiting factor to the smooth flow of private investment. To large extent, those controls are a product of scarcity. When resources are limited, and have to be put to the most productive use within the framework of a system of priorities, it is inevitable that there should be selectivity about the fields in which one wants new investment. To give an obvious example, in the Indian context it would be irrational to assure freedom of investment in cosmetics or similar luxury goods. It is this need for selectivity which necessitates controls.

Having said this, I do fully agree with the plea for a rationalization and simplification of procedures for operating these controls. In this area, wherever the supply situation has improved, such as in steel or cement, we have loosened the allocation procedures. We have also undertaken a number of steps to streamline the approval mechanism. As a major step in this area, I am meeting young Indian industrialists next month to explore with them possibilities for further improvement. Any suggestion which you might like to contribute in the matter individually or in groups are welcome and we shall give them our full consideration.

Ultimately, liberalization of controls is possible only with a greater inflow of foreign resources whether from export earnings or foreign aid or foreign investment. We do not believe in controls for their own sake and, with an additional supply of foreign resources, we shall certainly be prepared to relax many of them. On exports, we continue to do all we can but I must point out

that the industrialized countries of the western world need to open up their markets much more than they have been prepared to do so far.

I have outlined our approach to private foreign investment. I feel confident that this approach supplies a framework within which we and you can do business together. In this country you have always believed in pushing back your frontiers. In the last century, you tamed the Wild West. My appeal to you today is that in the next few decades you should allow yourselves to be tamed by the Developing East. In this complex and troubled world of today, the greatest promise for a better future lies in the growth in science and technology and in modern means of communication which have brought this world, yours and mine, so close together already. We, in this generation, have the opportunity to use these marvelous tools to secure for the world peace through prosperity. In this quest, India is entirely ready and willing to be your partner.

Thank you.