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**EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL SECURITY COUNCIL
WASHINGTON**

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1 OCT 1959

September 30, 1959

MEMORANDUM FOR THE NSC PLANNING BOARD

SUBJECT: Indian Economic Development

At the request of the Chairman of the Planning Board the enclosed article from the Wall Street Journal of September 18, 1959, sent to him by the Treasury Planning Board Member, is circulated for the information of the Planning Board Members.

ROBERT H. JOHNSON
Director
Planning Board Secretariat

Only one copy rec'd.

An Indian Intellectual Asks Whether U.S. Aid Can Ever Be Effective in a Planned Economy

By WILLIAM HENRY CHAMBERLIN

OXFORD, England—United States opinion about India results almost entirely from actions by the planners and collectivists who direct that country's series of economic five year plans.

As a consequence, some influential members of Congress and publicists have committed themselves to the proposition that Uncle Sam should countersign any blank check for foreign aid which Prime Minister Nehru may present.

Insofar as there is opposition to this "Back up India at any cost" psychology, it has been mainly rooted in two considerations: Dislike for India's strident neutralism, to which a sometime representative in the United Nations, Mr. Krishna Menon, has often given a strong anti-Western twist; and consideration for the heavily-burdened American taxpayer. What may be the more important question, whether India is on the right economic road, whether there can be reasonable confidence that American and other foreign aid will be effectively used, has seldom, if ever, been raised.

But it was raised very emphatically, and by an Indian of proved competence as an economist and financial expert, Professor B. R. Shenoy, at the meeting of the Mont Pelerin Society in Oxford.

The Mont Pelerin Society is a group of economists and political scientists, committed to the belief that economic freedom is an integral part of political and personal freedom and that economic freedom means maintenance of the free market, rejection of state intervention in economic matters and reliance on individual initiative as the principal moving force in economic life. Its membership is overwhelmingly West European and North American, with a small fringe of Latin American members.

A Revelation

But by general agreement Professor Shenoy's speech was the highlight of the Oxford meeting, if only because it was a revelation, even to an audience considerably above average in familiarity with world political and economic conditions. Professor Shenoy has served as an Indian representative with the World Bank and the Monetary Fund, is director of the school of social sciences in Gujerat University, at Ahmedabad, and is a member, an increasingly dissenting member, of the panel of economists attached to the Planning Commission of the Government of India.

So Professor Shenoy's analysis of the results of India's planned economy was an inside job of a man with thorough knowledge of the subject and it was devastating in its impact. India is now in the fourth year of its second Five Year Plan. The main counts in Shenoy's indictment may be summarized as follows.

Agriculture, basic source of livelihood for the overwhelming majority of the people, has been ruthlessly sacrificed to the building of costly industrial white elephants, including

not be proved. Investment in these "white elephants" has been pushed at a rate quite out of proportion to the real savings of the country. The result has been an inflationary rise in the price level, alleviated, but not cured, by foreign aid, and by reducing the gold and foreign exchange backing of the currency to a dangerously low level, with a prospect of complete exhaustion if the present course is followed for another year.

News reports of firing on hungry mobs in Calcutta lent topical significance to Professor Shenoy's criticism of a series of state interventionist measures in agriculture, interference with interest rates, land transfers, prices and marketing of food grains, pressure for collective farming. The effect of these interventions, however well meant, has been to affect adversely the amount of credit available in agriculture, to deter larger landowners from improving their land and to cause withholding of food grains from the market.

Gold Smuggling

A rigorous system of exchange and import controls has led to equally disastrous consequences, slowing down industrial output, leading to a widening gap between the internal and external prices of import goods and gold, promoting gold smuggling. The state enterprises which are heavily favored against private firms in new investment generally run at a loss or at rates of profit considerably lower than private firms.

Professor Shenoy sees two alternatives for India's economy: All-out planning along Communist lines or the adoption of policies consistent with a free market economy. He received a hearty round of applause when he declared: "What we need from the West is not dollar aid. It is the philosophy of the Mont Pelerin Society."

One enthusiastic member suggested that the Society promptly make plans to hold a meeting in New Delhi.

Even more surprising, perhaps, than Professor Shenoy's exposure of the consequences of highpowered planning (which could be paralleled in the experience of Turkey and other underdeveloped countries which have tried to do too much too fast) is the fact that they are so little known in the West. Perhaps we have a better idea of the Soviet than of the Indian economy.

Professor Shenoy is considering the publication of a book in America. Certainly his views should be made widely available in the United States—not least to the members of those Congressional committees which deal with foreign aid appropriations.

His speech, with its hard-hitting facts and figures, conveyed the impression that government-to-government foreign aid creates for the givers the awkward dilemma of underwriting the shopping list of foreign bureaucrats who may or may not know what they are doing, or of being denounced as imperialist Shylocks if there is any attempt to criticize or to prune the extravagant