CHAPTER - THREE

EXTERNAL ASSISTANCE AND SELF-SUSTAINED GROWTH OF INDIA:

I. EXTERNAL ASSISTANCE AND SELF-HELP.

The principal objective of external assistance on concessional terms is to enable the recipient to attain a self-sustained growth within a stimulated period of time. The U.S., being the principal donor country in the world to-day, the Foreign Assistance Act of 1961 provides for self-help measures on the part of the aid-receiving countries as the necessary criterion for American aid.

The U.S. Foreign Assistance Act of 1961 reads:

"............ the President shall take into account ............ the extent to which the recipient country is ............ demonstrating a clear determination to take effective self-help measures ............

This is a common objective of current international public capital flows both on the part of the donors and that of the recipient countries, as the assistance

programme is based on a finite terminal date. Quite a few writers have emphasised upon this point. In their studies of the interaction between external assistance and promotion of "self-help" measures in the developing countries, all of them emphasise upon a relatively rapid increase in the marginal savings rate and growth of capital formation. By maximum national effort to attain a steady rate of growth in the developing countries, Rosenstein-Rodan meant mobilisation of "a level of capital formation sufficient for self-sustaining growth." He claims that external assistance aids the process. John C.N. Fei and Douglas S. Paish maintain that a successful foreign aid programme promotes austerity and "produces leverage effects on the growth of domestic saving capacity."

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2. Rosenstein-Rodan writes: "The purpose of an international program of aid to under-developed countries is to accelerate their economic development unto a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. The function of outside capital in a development program is to permit them to make the transition from economic stagnation to self-sustaining economic growth. The principal element in this transition must be the efforts that the citizens of the recipient countries themselves make to bring it about. Without these efforts, outside capital will be wasted.

of the recipient countries. These writers thus assume that domestic savings merely replace foreign capital as the transition period is over and that a stage of self-sustained growth could be realized as soon as the "saving barrier" is overcome. As such they seem to have overlooked the "trade barrier" for these countries and particularly the repayment burden of the past loans on their balance of payments.

In reality, the development process may be free from one without being independent of the other. What is needed, therefore, to attain a steady rate of growth is to have a high "replacement rate" of domestic savings for foreign capital and at the same time a high "transformation rate" to meet the increasing development needs as well as the debt service burden. For,

\[ I_d = S_d + S_f \]  \hspace{1cm} (1)

Total domestic investment equals domestic savings \((S_d)\) plus the flow of foreign savings \((S_f)\):

But \( S_d = S_v + S_i \)  \hspace{1cm} (2)

Aggregate domestic savings constitute voluntary savings \((S_v)\) plus involuntary savings or inflationary finance \((S_i)\). As a move towards self-sustained growth requires a reduction of dependence on foreign savings over time, 4. op. cit.
Both $S_\nu$ plus $S_\nu$ are to rise, $S_\nu$ initially fills up the gap between $I_\nu$ and $S_\nu$ and helps eliminating this gap in the time perspective and in the process $I_\nu$ itself gets progressively reduced so as to promote conditions for a self-reliant growth. One may not, however, lose sight of the inherent danger involved in increasing the magnitude of $S_\nu$ to substitute $I_\nu$ in the process of development finance. A sharp and continuous increase in inflationary finance ($S_\nu$) to replace foreign savings ($I_\nu$) is itself self-defeating as the former is likely to increase both the savings gap as well as the trade gap and thereby call for increasing quantity of $S_\nu$ if the development target is to materialise. The failure of the aid-receiving country to increase $S_\nu$ over time will necessarily entail an increase in $I_\nu$ if the $I_\nu$ constraint on feasible level of investment and growth remains constant. This is likely to raise the warranted level of $S_\nu$ for maintaining the target rate of growth over time and the move towards self-reliance will be arrested.

Or, if the warranted level of $S_\nu$ is not forthcoming the alternatives are a vigorous export drive and strict licensing of imports and exchange controls. As export $I_\nu$ is an exogenous variable and it is relatively more difficult to attain a breakthrough in exports in a relatively less diffiult to break short span of time, the only plausible alternative for external XX
viability is the continuation of vigorous trade and payment controls in order to lessen the dependence on $S$. This again has its limits because of the inflationary bias involved in the import-licensing scheme at least in the short run and because of the minimum import needs of development.

The foregoing analysis makes it clear that $S_d$ is to gradually replace $S$ in the development financing process to accelerate the move towards a self-sustained growth. It now looks as though the process is quite simple in so far as $S_d$ is an alternative to $S$ and as such, the former is deemed to be a perfect substitute for the latter. In reality, the substitution elasticity between domestic resources and foreign resources is less than infinite in the sense that the minimum import needs of plan investment as reflected in the trade gap may be greater than the savings gap. In this case although the savings limitation is overcome, the supply of foreign exchange will nevertheless remain as the major operative constraint on self-sustained growth. Alternatively, one

5. A more exhaustive treatment of the conditions of self-sustained growth has been made by A.B. Chenery and L.M. Strout than that one finds in the analysis of Rosenstein-Rodan and that by John S., Jef and Douglas S. Pears (Op. cit.). Chenery-Strout model requires that a country setting out to transform its economy without external assistance must provide for all of the requirements of accelerated growth from its own resources or from imports paid by exports. Success thus requires a simultaneous increase in skills. (Contd.)
could say that an infinite substitution elasticity
between $S_1$ and $S_2$ demands that the trade gap reflecting
the minimum import needs of development target becomes
exactly equal to savings-investment gap in the time-
dimension. Such a condition would, however, ensure a
slowly progress towards self-sustaining growth under the
assumption that domestic savings increase steadily to
the desired level to replace foreign savings.

II. ORIGINATION OF NON-GRANT AID.

Foreign capital is a somewhat broad term to include
international capital flows of various types, viz.,
equities, portfolio, bonds, governmental loans and grants,
repatriation payments and military assistance. When one
talks of foreign capital today in the context of self-
sustained growth of the capital receiving country, one
primarily means external assistance on concessionary terms
both bilateral and multilateral and outright grants; for
these have largely replaced the older forms of direct
capital flow. Table-1 shows the total international
capital flows (net) to the less-developed countries
between 1960-64. If for the year 1960-61, international

5. (Contd.,) domestic savings, and export earnings ....

The attempt to increase output can be
frustrated by failure in any of these attempts, even
when the others have been quite successful".
private capital flows constituted about onethird of the total flow, in the subsequent three years it came down to about one-fourth of the total. This means three-fourths of the total net capital flows to the L.D.C.s comprise the total official bilateral capital and loans administered through multilateral organizations. The scope and significance of direct capital flows vis-a-vis the official economic assistance for the L.D.C.s. in general, with the exception of some Latin American countries, has been greatly undermined in recent years in view of their economic planning and enormous expansion of the public sector. More so, in the Indian context, statistics reveal that there has been an outflow of private capital during the period under study.6

There is a lack of consensus with regard to the definition of "foreign aid" or "external economic assistance" in the current literature as it involves a wide spectrum of measures affecting the economic relations between the developed and the L.D.C.s. Broadly speaking, these are of two types: one in a broad sense and the other in a very narrow sense. In the former sense, any flow of resources both in cash and kind to the L.D.C.s, including repayment payments, military assistance, flow

of private business capital and suppliers' credit may be termed as aid. J.H.J. Little and J.M. Clifford observe:

"The distinction between aid (provided by governments) and other sources of finance is much less important to recipients than to donors. Grants, soft and hard loans, and import-tied credits from governments or the I.M.F., state through loans for commercial development back to private export credits (which may or may not be government guaranteed). If a development programme is to be financed, the problem is simply to get the money on the best possible terms and conditions, from any or all of these sources, and there is no point in making a distinction between aid and private sources of finance." But all that money which comes to the kit of the L.D.'s cannot, however, be regarded as developmental assistance. Some may, for example, argue that military assistance forms a part of aid in so far as it releases resources for economic development which would otherwise have been used for purposes of defence. According to an estimate made by Rosenstein- Rodan about 20 per cent. of defence support of the U.S.A.


contributes to the recipients' economic development?.

But as the native behind military assistance is something other than development and indeed it is exclusively political, it does not deserve to be classified as external assistance. Payment of a political tribute on that score can't be regarded as a part of external aid. As regards the inflow of private business capital, Senhan10 argues in favour of its inclusion in the terminology of "foreign aid", as such capital has a predominantly profit motive but not the development bias, Pincus11 does not treat it as a part of external assistance. In India the "External Assistance" data compiled by the Ministry of Finance does not include the inflow of direct capital. Although business-like in character, it can not, however, be denied that direct capital has the growth-impulse for the recipient country. It is indeed a "gap-filler" like official loans and grants and assists economic development not merely by providing the necessary foreign exchange but also the necessary entrepreneurial abilities and technology. The two pertinent objections


10. op. cit. ch. II.

to direct capital is uncertainty in its flow and its likely investment in less desired fields. The first of these two arguments is no less true of the flow of official capital. The second objection is not tenable in the case of India, which maintains a mixed economy with progressive expansion in the size of the public sector. Foreign collaborations or even international portfolios are not unregulated in India during the plan period. They are directly linked up with the plan targets and priorities and harmonised into the process of planning. As such, there is no chance of private foreign capital being invested in projects with low priority in the plan. Hence there is no logic to exclude direct capital from the terminology of "external assistance". In case of India, the question of treating private foreign capital as a part of external assistance does not arise as the Reserve Bank of India's data reveal a somewhat negligible net flow of such capital during the plan period. This does not, however, exclude the loans given to India's private sector either directly or through the Government of India. The private sector of the donor countries also advances loans either through the official channel or through certain lending institutions. Examples of such type of assistance are U.S. Export-Import Bank Loans, U.S. Bank Loans and suppliers' credits. The Exim Bank
extends loans both to the public as well as the private sectors in India. A consortium of U.S. banks and Boeing company have financed the purchase of Jet Aircrafts by Air India International. Suppliers' Credits having a maturity period exceeding five years and guaranteed by donor-governments are provided to India by a number of countries. As all these types of loans are received by India on terms and conditions more favourable than those prevailing in international money markets and as the motive of the sellers in donor countries is to assist India's economic development, they have been rightly included in India's external assistance data.

There is still a second flaw in J.M. Little and J.M. Clifford's statement. The fact cannot be overlooked that foreign aid in its qualitative aspect, apart from the volume, has varying implications for the development process of the recipient's economy and thereby influences the time-perspective necessary for the attainment of self-sustained growth. It is not true to argue that the distinction between various forms of foreign capital is "much less important to recipients than to donors", as will be illustrated in the case of India (Chapter 8). The terms and conditions of various forms of foreign capital receipts are not a matter of indifference for the recipient country. For example,
under certain assumptions, foreign capital in the form of outright grants would enable the recipient to attain a self-sustained growth earlier than direct capital or loan capital as the former involves no servicing obligations. As between the latter two, a given amount of direct capital would plausibly be more conducive to the attainment of a self-sustained growth than an equal amount of loan capital. For, the latter involves definite amortisation obligations besides the payment of interest whereas direct capital merely entails the obligation of dividend payments but no repayment, although occasional repatriation of capital cannot altogether be ruled out. Conclusively, it may so happen that dividends accruing on direct capital, instead of being remitted abroad, may be ploughed back in the home country. The main difference between these two forms of capital is that if in one case the obligation is terminated for good once the repayment is over while in case of direct capital, its liability continues for a significantly long period. As the question of resistance is involved in case of international equities and portfolios, they are necessarily invested in directly productive enterprises which reinforce the process of self-sustained growth.
The numerous assumptions in this analysis are:

i. Firstly, the absorptive capacity of the recipient country is given and it is the same for different types of foreign capital. This may not, however, be true.

ii. The target rate of growth of the economy is given and foreign capital in any form comes as a 'gap-filler'. But the target rate of growth might vary in relation to the availability of foreign capital in different forms.

iii. It is assumed here, that alternative types of foreign capital come in the required quantity. In practice, the foreign capital requirement of the developing country is not being fulfilled through any one of the alternative forms. Instead, foreign capital comes in a mixed bag, i.e., outright grants, soft and hard loans and direct capital.

iv. The incremental capital-output ratio is assumed to be given.

v. The target rate of growth of exports of the recipient is given.

vi. Lastly, it is assumed that the input-output relationship both in the private sector and public sector is the same.

A question of some relevance in this connection is the transactions with the I.M.F. Loans from the I.M.F., for example, invariably help the recipient to tide over the temporary balance of payments difficulties yet they
cannot be regarded as a part of developmental loans. Instead they are short-term balance of payments loans in lieu of which India deposits rupees with the obligation of repurchase. The data of the Ministry of Finance on "External assistance" does not cover the I.M.F. transactions while the R.B.I. data includes them as part of foreign loans.12

Rupee deposits are also made against the imports of surplus agricultural commodities under P.L.480 by the Government of India in the United States Government account with the U.S.I., which are equivalent to the dollars paid to the U.S. suppliers of such commodities. As per the agreements, the bulk of P.L.480 proceeds (nearly 80.4 p.c.) are returned to the Government of India by way of grants and loans to cover the local currency costs of development projects and programmes. Another 6.5 p.c. of the total proceeds is used for loans to private enterprise of the U.S. origin and the rest 13.1 p.c. is reserved for the use of the U.S. Government in India. The terms and conditions of U.S. P.L.480 loans were amended in 1967. The amendment encourages a gradual switch over from sales for rupees to sales.

against long term 40 year loan called "convertible local currency credits", which are repayable in dollars.

To sum up, it can be said that foreign aid for the purpose of this thesis includes official grants, gifts and donations from private agencies, both bilateral and multilateral loans and commodity assistance, under P.L.480 and P.L.666. With the exclusion of the inflow of private business capital, drawings upon the I.M.F. and military assistance received by India. Thus during the plan period, India has received external assistance in various forms, viz., outright grants, loans repayable in hard currencies, loans repayable in rupees, hard loans, soft loans and technical assistance.

III. MEANING OF SELF-SUSTAINING GROWTH

A succession from take-off to self-sustained growth marks an important phase in the economic history of a developing country in so far as the economic structure gets built-in flexibility and permits an increase in the marginal as well as average rates of savings and an increase in the feasible level of investment without dependence on foreign capital. In the historical perspective, a period of sustained and self-reinforcing growth falls in between the stage of "take-off" and that of
maturity.

The definition of self-sustained growth as one finds in the current literature permits some form of international capital flows excepting official loans at concessional terms even after growth is sustained at a stipulated rate.

In this sense, a self-sustained growth requires the progressive elimination of the domestic resource gap.

as well as the trade gap and thereby facing the development process from dependence on foreign capital. At this stage, domestic savings will not merely be adequate to finance the target rate of investment but also current export earning plus normal capital flows should pay for minimum imports together with the service charges on foreign loans incurred in the past. The position of self-sustained growth thus becomes: \( I_t = S_t + X_t - (I_t + P_t) = 0 \) here \( I_t \) stand for minimum import-content of investment to sustain a stipulated rate of growth and including the service charges and \( X_t \) denotes external assistance (net) on concessional terms in the time period \( t \).

The foregoing analysis clearly reveals that independence of the target rate of growth from foreign capital in the post-perspective plan period does not, however, strictly preclude the normal inflow of direct business capital. Such net capital imports are likely to be there even after the stage of self-sustained growth is reached, in order to maintain a still higher rate of warranted growth than what is permissible by domestic resources, as soon as the domestic resource limitation is overcome, there is no guarantee that the development process will be totally free from foreign capital. The two gaps may not simultaneously synchronise in the time dimension. A developing country might face
a negative external balance in the current account in
the post-perspective plan period in order to maintain a
"warranted" rate of growth in excess of the "natural"
rate.

This point may be illustrated with the help
of J.R. Harrod's equation which states: \[ y \frac{C}{G} = s - b, \]
where:

\[ C_y = \text{warranted rate of growth}, \]
\[ \frac{C}{G} = \text{Required capital-output ratio}, \]
\[ s = \text{The fraction of national income which is saved, and} \]
\[ b = \text{Foreign balance}. \]

\( \frac{C}{G} \) and \( s \) being constant, \( C_y \) varies in an inverse proportion to \( b \). This means a positive trade balance will tend the warranted rate of growth to fall and a negative foreign balance will tend to increase it.\(^{16}\)

Looking at this equation from the standpoint of a developing country, where the "warranted" rate of growth is to exceed the "natural" rate over time, a continually negative foreign balance may seem desirable to ensure a steady rate of progress. This assertion cannot, however, be generalized in the sense that a continuously increasing

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import surplus is necessarily a sign of economic progress. This may hold good unto a certain point, beyond which it may reflect the general inability of a developing country to attain a "self-assured" growth, particularly when it finds that the current account gap is not being totally covered by normal capital inflow. That is, therefore, needed for making the growth process self-sustaining is to develop an external viability simultaneous with the growth of domestic savings.

In the macro-exercise behind India's perspective plan between 1933-39 and 1930-31, total saving in the Indian Economy is estimated to be in the order of Rs.10,450 crores and aggregate net investment at Rs.10,305 crores in the terminal year of the perspective plan. This means saving and net investment as percentages of projected G.D.P. at 1933-39 prices will be 13 per cent and 17.5 per cent respectively in 1930-31. As such, projected saving is likely to exceed projected net investment by Rs.145 crores in the terminal year of the perspective plan. Considering the trade gap, on the other hand, we find that in the year 1930-31 the projected commodity imports would value at Rs.2050 crores as against the estimated export earnings of Rs.2020 crores (Table-1, Sec. 4). This means the total export earnings will exceed the total import payments.
by Rs. 70 crores in 1930-31. Figures for projected imports include only commodity imports and exclude debt service charges. The Planning Commission estimates that the debt service charges of India in 1930-31 will be in the order of Rs. 650 crores. The expected total outflow of foreign exchange in 1930-31 will, therefore, be Rs. 3600 crores as against the expected export earnings of Rs. 3020 crores. Hence arises a gap of nearly Rs. 580 crores, a part of which, the Commission expects, will be covered by the balance on invisibles and private capital inflow.

The Planning Commission in this connection observes:

"The scheme of long-term development seeks to eliminate dependence on foreign aid by 1930-31. By 1930-31, commodity imports are expected to increase to Rs. 2950 crores and debt-service charges to Rs. 650 crores. The balance on account of invisibles, private capital transactions and other miscellaneous items is expected to show a modest surplus by 1930-31. This together with the estimated export earnings of Rs. 3020 crores would be adequate to meet the commodity import requirements as well as interest obligations on foreign debt."

17. The Fourth Five Year Plan, p. 44.
18. Ibid, p. 44.
It is clear from the foregoing passage that the projected foreign exchange gap by 1930-31 is expected to be covered by a modest surplus on account of invisibles and private capital transactions. A part of this foreign exchange gap represents the interest payment on foreign loans. A calculation made in Ch. 4 (Table-3) shows that by 1930-31 total interest payment by India on all such foreign loans will be somewhere around Rs. 227 crores per annum. There is a remote possibility to cover this amount through a surplus of invisible balance, net private capital inflow and other miscellaneous items by 1930-31. The commission itself observes: "There was a substantial net outflow on account of invisibles, net private capital transactions and other miscellaneous items of Rs. 202 crores ..........." in the beginning of the perspective plan. Furthermore, there has been a persistent net outflow of private capital in all the plan periods. Even if one accepts the Planning Commission's estimates in this regard, there still remains a foreign exchange gap of nearly Rs. 353 crores by 1930-31 which represents amortisation on past loans. To this extent India will have to incur fresh foreign loans even by 1930-31 for amortisation purposes.

All this clearly shows that the two gaps may not simultaneously be eliminated. It would, provided
all foreign capital received in the past was in the form of outright grants, which does not entail any debt servicing obligations. But this is far from being true and the two gaps may not exactly synchronise in the time dimension for the following reasons:

(i) Firstly, as has been discussed earlier, a developing country might possibly maintain a "warranted" rate of growth in excess of the "natural" rate in the past-perspective plan period. In this case the minimum import needs would exceed the amount envisaged in the perspective plan. Assuming that there is no saving gap for maintaining a growth rate in excess of the target, there may still persist a foreign exchange gap. Of course, the latter does not hamper the realisation of a self-sustained growth as the foreign exchange gap is obviously being covered through a normal inflow of private capital. Or else, it won't be possible at all to maintain a rate of growth in excess of the target in the post-perspective plan period.

(ii) Secondly, the minimum import need of the economy after the termination of the perspective plan depends on the degree of import substitution realised during the period.

19. In this case it is assumed that the "natural" rate of growth is equal to the target rate of growth in the perspective plan.
of the perspective plan, which leads to a reduction in the import co-efficient of investment and output. If import substitution falls short of the schedule envisaged in the perspective plan, the foreign exchange payments arising out of the minimum import needs may exceed the current export earnings plus the net private capital inflow even after the terminal year. In this case, the post-perspective target rate of growth cannot be said to have been completely freed from dependence on foreign aid, even though the saving barrier does not exist.

(iii) Thirdly, even if net official capital flow disappears for India by 1930-31 as per the target set in the perspective plan, the requirement for external assistance in gross terms in the post-perspective plan period is not totally ruled out, as has been said earlier in this chapter. India would need gross aid to the tune of approximately Rs.350/- to Rs.400/- crores by 1930-31. In such a case the overall external payments deficit will persist for some years after 1930-31 even though there may not be the saving-gap.

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20. We have arrived at this figure for gross aid for India by 1930-31 on the basis of the Planning Commission's estimate of Rs.650 crores as total debt servicing charges by 1930-31. But our estimate made in Chapter 4 (Table-5) reveals that India's requirement for gross aid by 1930-31 will be still more.
It appears that the Planning Commission presumably accepts the Rodan-I.B.R.D.-Chenery and Stout version of self-sustained growth. For the Commission claims that India could possibly sustain a growth rate of 6.5 per cent per annum by 1980-81 without any concessional finance. But as we have seen before, even in terms of the Commission's own estimates, the need for such concessional finance is not completely dispensed with by 1980-81, apart from the normal inflow of private capital. The dependence on external assistance (gross) continues to exist, say, for a period of 20 to 25 years after the terminal year, as India shall have to incur fresh foreign loans to pay for the debt service charges. Failing to arrange the requisite amount of refinancing loans, India may have to resort to devices like debt-rescheduling and debt-relief as she is doing at present. These devices may provide a temporary relief, although the ultimate burden of repayment remains outstanding. And if creditor countries and institu-

21. It is worth quoting Prof. Rosenstein-Rodan in this connection when he observes: "It is by no means rational for each country to reduce its foreign indebtedness to zero. The rational question to ask is: How much foreign indebtedness can a country maintain in the long run? After ten to twenty years of aid, the net capital inflow to underdeveloped countries will come to a stop. The gross capital inflow, however, will continue, while at the same time the old loans will be repaid. In exactly the same way in which any national debt (or corporate debt) need not be reduced if it is within sound limits, the foreign debt of debtor countries need not be amortized to zero in a sound world economy", cf. op. cit., p.109.

22. The Aid India Consortium granted debt relief of 100 million dollar per annum to India between 1963-69 and 1970-71. cf. see the Appendix-I.
tions do not concede to India's request for refinancing loan, debt relief or rescheduling, her foreign exchange reserves will dwindle and the external balance will be under heavy pressure so as to disrupt her planning process and distort the target rate of growth in the post-perspective plan period. Such distortions will inevitably counteract the forces conducive to a self-sustaining process of growth. In the face of a relatively heavy debt service burden after the termination of the perspective plan, how can it be said that the economy has become self-reliant? Such a situation did actually arise for India in the year 1971-72 as is evident from the Government reports. "The strains on the balance of payments so far in the current year despite considerable improvement in the merchandise balance are largely attributable to heavy debt service payments, delays in the accrual of certain promised credits and the unavailability of the full amount of the promised credits".¹²³ Whether or not such a continued dependence on external assistance in gross terms even after the terminal year leads to an increase in India's net foreign liabilities depends on the terms on which the new loans are contracted.

A better appreciation of this point can be made by making a reference to Prof. Hoede's analysis of balance of payments.²⁴ Instead of making a conventional analysis of payments, instead of making a conventional balance of payments, the government of India, Ministry of Finance, Economic Survey, 1972-73, p.67.

distinction between current account and capital account transactions, Prof. Meade draws a line of distinction between numerous "autonomous transactions" and "accommodating transactions" in a country's balance of payments. It is the difference between the receipts on account of autonomous trade and transfer items on the one hand and payments arising out of such autonomous transactions on the other hand and payments arising out of such autonomous transactions on the other which measures either the actual surplus or deficit in the balance of payments. The money that is necessary to meet the excess of autonomous payments over autonomous receipts is known as the "accommodating finance" and this is the real measure of actual deficit in the balance of payments. The main distinguishing feature of these transactions is that while autonomous transactions take place regardless of the size of the balance of payments, the accommodating transactions occur to meet the payments gap, if any.

Such accommodating finance is provided by private persons, banking sources including the Central Bank's loss of reserves and by public bodies and institutions in the form of special governmental aid and loans from the L.M.F. Thus, Prof. Meade treats foreign aid as an item of accommodating finance.²⁵ Whether or not foreign aid

²⁵. Prof. Meade, however, treats foreign aid as an intermediate case as it is received both for balance of payments purposes and for filling up the domestic saving gap. cf.: Ibid, p.13.
aid is an item of accommodating finance depending upon the attitude of the recipient. If aid is received by a country for a considerably long period without the obligation of getting away with it, then it should be classified as an autonomous transaction. On the other hand, if there is uncertainty about the terms and quantum of availability of aid and the recipient is obliged to adopt measures to eliminate it after some years, then it should be classified as an accommodating receipt. Thus, in the case of India, external assistance should be treated as an accommodating receipt in the balance of payments.

A progress in the direction of self-reliance would now require a continued reduction in the volume of such accommodating receipts in the form of governmental and other institutional capital aid. On the other hand, a continuous increase in the autonomous capital outflow is necessitated by the requirements of interest, dividend payments and amortisation obligations. The need for accommodating finance in the balance of payments will not be entirely eliminated unless and until the developing country's balance of autonomous trade and transfers tends to zero.

Can India's development process be said to be free from foreign exchange constraint in the face of a continued requirement for accommodating finance in her balance of payments even after the terminal year? Failure to develop the necessary surplus in the foreign balance on the part of India in a reasonable period of time would necessitate the provision for accommodating finance in the form of special governmental aid for purposes of amortisation in the post-perspective plan period.

It is Prof. Anisur Rahman who thinks in this line when he substitutes the term "self-assured growth" in the place of the conventional terminology of self-sustained growth. Prof. Rahman defines "a nation will be said to have reached the state of self-assured growth if it is able henceforth to sustain a prescribed minimum growth rate in terms of G.D.P. without any form of foreign capital": 

"A country whose long-term planning objective is "self-assured growth" says Prof. Rahman, should develop some degree of "staying power" so that it can attain a respectable rate of growth without any form of foreign capital."


23. Ibid., p. 9.
One may have the impression that Prof. Rahaman's model of "self-assured growth" (SAG) seals the door for foreign capital in any form whatsoever in the post-perspective plan period. But this is not true; as he himself observes: "It should be emphasized and this indeed is claimed as the chief novelty of the concept - that a self-assured nation (economy) will not necessarily dispense with foreign capital altogether. Full growth without any form of foreign finance literally self-sustaining growth (henceforth LSIG)"[30].

It appears from the foregoing that Prof. Rahaman vacillates between SAG and LSIG as at one place his SAG excludes inflow of foreign capital in any form and again he terms that pattern of growth as LSIG. For the purpose of this thesis, self-sustained growth does not mean LSIG but maintaining a target minimum rate of growth in the post perspective plan period without any form of concessional financing both net and gross. It is not merely sufficient to dispense with official assistance (not) to realize the condition of a self-sustained growth. For, in that case the target minimum growth rate after the terminal year can not be said to have become totally independent from foreign capital on concessional terms as long as fresh loans are necessary for purposes of amortisation. Thus,

self-sustaining growth here does not exclude normal private capital flows, although it aims at eliminating the need for concessional financing (gross). As such, it comes nearer to Prof. Rahman's SAG as the latter takes account of post-perspective plan debt service charges in order "to release less developed countries from the so called foreign exchange constraint".31.

All that this thesis advocates is not that the devices like debt relief, debt-rescheduling, refinancing loans and etc. are not necessary as mere temporary measures for a debtor nation like India, but these should not form a part and parcel of India's plan after the terminal date of the perspective plan. As will be seen later in this chapter, there has been a conspicuous omission of the provision for post-perspective plan debt servicing obligations of India in the current perspective, although the Planning Commission estimates that it will be in the order of Rs.360 crores by 1930-31. The Commission seems to have adopted the conventional notion of self-sustained growth. The only point that could be made in this regard is that the post-perspective plan debt servicing obligation should have been incorporated in India's perspective plan for determining the long-term path of "SAG".

It may be borne in mind that the move towards a self-sustained growth for a developing country with the help of external assistance is both 'gap-eliminating' as well as 'gap-deepening' in the balance of payments. It is gap-eliminating in the sense of bridging up the domestic resource gap as well as the gap in autonomous trade and transfers. At the same time, it tends to widen the gap in autonomous transfers over time arising out of an increasing interest and amortisation obligations.

The foregoing analysis reveals the fact that a self-reliant growth can not be said to be realised in the face of the acceptance of external assistance (gross) in the post-perspective plan period. Instead, the dependence continues to exist until such a debtor nation attains a surplus in the balance of autonomous trade and transfers or, at the least, a zero balance in the post perspective plan period. Hence a more rigorous test for 'self-reinforcing' growth requires the realisation of the conditions for both the domestic resource adequacy and at the same time an adequacy of foreign exchange so that fluctuations in normal capital flows in the post-perspective plan period will not jeopardise the growth process.

Arguments advanced thus far are in favour of
termination of external assistance enabling the recipient to be a net exporter of capital over time, thereby reducing its external indebtedness so as to free the development process from the foreign exchange constraint are branded as the "convenient doctrine" for foreign aid. The theoretical basis for such "convenient doctrine" is the ability to take-off or the theory of "big-push." Dr. Patel contends that the so-called "convenient doctrine" for foreign aid lacks a universal validity for all the developing countries when he says:

"... ability to take-off or the ability to grow steadily at the rate of 5 or 6 percent per annum on the basis of one's own resources does not establish any presumption in favour of terminating further aid. Such loss does it imply that every country which takes off, so to speak, should emerge as a net exporter of resources by actually reducing its external indebtedness. The developing countries represent widely varying degrees of poverty. The position of different developing countries will not be strictly on par. Why should a country be expected to be a net exporter of real resources - or even to cease to be a net importer of resources - simply because it has

achieved a 5 or 6 percent per annum rate of growth? For some countries, even this rate of growth may take decades before mass poverty can be said to be eliminated so that an even higher rate of growth with the help of continuing aid would be quite justifiable.33

Dr. Patel, as he is a theoretical economist of high repute and a practical administrator in charge of external assistance flow to India34, shows some degree of indignation towards an undue emphasis on the short-run character of aid and a relatively excessive preoccupation with the problem of termination of aid and its self-liquidating nature, which he feels, "...... had made the whole business of aid a paradise for bankers, economists and bureaucrats with narrow specialisations and preoccupations rather than the primary concern, as it should be, of statesmen with a wide vision, social consciousness and a sense of history.35

The transition from take-off to self-sustained growth, Dr. Patel maintains, is not sudden or abrupt.

33. Ibid, p.10.
34. Dr. I.C. Patel in his capacity as Secretary, Dept. of Economic affairs, Ministry of Finance, Govt. of India had led several delegations to the Aid India consortia in the past.
35. op. cit., p.11.
No doubt, there exists a large element of historical truth in what Dr. Patel says and it is also true from the broad humanitarian and moral points of view and also from the point of view of practical statesmanship. That the development process of the capital-receiving countries has some broad socio-political-economic goals and that growth process is not merely mechanistic are clear from Dr. Patel's assertion. Strong democratic forces, egalitarian pressures and high national aspirations may warrant a prolonged dependence on foreign aid. Dr. V.V. Bhatt also pleads for a longer time horizon for foreign aid, if growth is to be self-sustained at all.

The foregoing discussion makes it clear that the need for foreign aid on a continuing basis on the part of the developing countries, particularly for a country like India with one-seventh of the total world population, is quite imperative, if a visible difference

36. The same view is echoed by Dr. Bhatt. He says: "... if external assistance is viewed in this light, its magnitude may have to be greater, its duration much longer and its terms more flexible than what would be considered more reasonable from a strictly economic and hence partial view of the process". cf. V.V. Bhatt, "Perspectives on External Assistance", published in the book entitled "Foreign Aid: A Symposium, A Survey and an Appraisal", Indian Council on Current Affairs, March 1968, p. 149.

37. Ibid, p. 149-150.
In the standard of living of the masses of people is aimed at. Philanthropic considerations apart, economics and politics of foreign aid and current international trends in respect of the flow of public capital reveal a contrary trend. The net flow of global aid has declined from 0.82 per cent in 1961 to 0.6 per cent of the GDP of the donor countries in 1963. This being considered inadequate, negotiations are going on at the United Nations level to increase it to 1 per cent of the GDP. But when account is taken of the mounting debt servicing obligations of the developing countries as well as the "reverse flow" of capital from the developing to the developed world, it would be no exaggeration to estimate the gross flow of aid considerably in excess of 1 per cent of GDP.

"Reverse flow" of capital from the developing to the developed countries takes place under the following three heads:

i. Debt servicing including amortisations,
ii. outflow of indigenous capital and
iii. investment income or repatriation of dividends on business capital.

Estimates made by the United Nations experts reveal that the annual reverse flow of capital is something in the order of 6 to 7 billion dollars.28
The attainment of a "self-reliant" or a "self-generating" growth in the near future is the ultimate goal of India's perspective plan. Projections relating to numerous micro-economic variables by the PPD of the Planning Commission appear in different plan documents. In the original perspective the year 1960-61 was taken as the base year and various projections ranged up to 1975-76 construed to be the year of final terminal date for foreign aid (net). This perspective has not been revised in the fourth plan, and the target date for a self-sustaining growth has been shifted to 1969-71 with 1969-70 as the base year.

38. Net Outflow of Long-Term Capital from the Developed to the Developing Countries

<table>
<thead>
<tr>
<th>Year</th>
<th>1961</th>
<th>1962</th>
<th>1963</th>
<th>1964</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in $ billions</td>
<td>3.0</td>
<td>7.4</td>
<td>7.4</td>
<td>7.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Percentage of GNP of the developed countries</td>
<td>0.32</td>
<td>0.71</td>
<td>0.66</td>
<td>0.63</td>
<td>0.66</td>
</tr>
<tr>
<td>Socialist countries in $ billion</td>
<td>---</td>
<td>0.33</td>
<td>0.84</td>
<td>1.25</td>
<td>0.69</td>
</tr>
</tbody>
</table>


40. It may, however, be mentioned that the Commission varies between 1973-79 and 1939-81 as the target date for self-sustaining growth.
The perspective plan solemnly proclaims that dependence on foreign aid shall be progressively reduced so that "the targets of income and investment are sought to be achieved without calling for any significant increase in foreign aid beyond the Fifth Plan."

A successful move on the path of self-sustained growth depends partly on the logical consistency in the derivation of a few key macroquantities from sectoral projections on the one hand as well as on the effectiveness of numerous assumptions underlying the perspective plan frame. As the internal consistency and soundness of the plan-frame is merely one part of the exercise in planning, much depends on the validity of the assumptions underlying the plan structure for a success in self-reliance. The P.P.D. has gone to the details of sectoral commodity composition and fixation of sectoral commodity (or production) targets with a study of the interrelationships between different sectors and has therefore derived the various macroquantities in the perspective plan, which one may not question. The numerous calculations give an internally consistent picture of investments, savings, exports, imports, balance of payments and that of various physical targets. In this connection the P.P.D. observes, "......"

41. According to the Planning Commission "This implies that the internal savings of the economy after 1973-79 should be sufficient to finance not only investment (Contd....)"
a viable plan must not only be consistent and balanced, but operationally feasible. The internal consistency of the perspective plan being given, its operational feasibility requires a careful scrutiny of certain key magnitudes like savings, investment, exports, imports and other items in the balance of payments. Such an examination would, however, reveal the true nature and degree of numerous constraints, the extent to which they inhibit the development process and would also indicate the speed and precision of the elimination of the gaps.

An analysis will be made here of the relevant macro-magnitudes pertaining to India's perspective plan of 1968-69 and 1970-81 as the old perspective has been replaced. The Planning Commission envisages that by the end of the Fifth Plan (i.e., 1978-79), growth of the Indian economy will become self-reliant and thereafter the economy will grow at the rate of 6.5 per cent per annum in the absence of any net inflow of capital. In order to attain this target rate of growth of national income, the Commission observes: "............. it is essential to raise the ratio of net investment to net national product from the current level of 11.2 per cent."

41. (Contd.) But also the payment liabilities on foreign debt, and that the growth of imports and exports is so managed in the context of the requirements of the growing economy that after 1978-79 the economy has a foreign trade surplus (inclusive of invisibles) equivalent to at least the interest payment to foreign creditors" of: The Fourth Five year Plan, 1969-74, p.33.

and the planned 14.5 per cent in 1973-74 to 17-18 per cent by 1980-81.43.

Two estimates of savings for 1930-31 have been presented by the Planning Commission (Table-1), i.e. one according to the targeted growth of income and the prevailing level of taxation in the Fourth Plan and the other estimate takes into account the additional resource mobilisation beyond the Fourth Plan. Table-1 reveals a planned increase in savings in the time perspective. Average savings as a ratio of national income is expected to rise from the level of 3 per cent in 1968-69 to 13.2 per cent in 1973-74 and to 16.6 per cent by 1980-81. As national investment is planned to increase to 15 per cent of national income by 1980-81, it is estimated that additional resource mobilisation in course of the current decade would be to the extent of 2 per cent of the projected increase in national income. Thus according to the P.P.I projections the capital account of the Indian economy would balance by 1980-81, i.e. national savings and investment would be equal ex-ante. At the same time the Commission envisages that the domestic savings of the economy after 1973-74 should be sufficient to finance not only the projected investment but also a part of the payment liabilities on foreign debts.

43. The Fourth Five year Plan, 1969-74, p.32.
Total payment liabilities include both interest payments and amortisations on past loans besides the payment of dividends or occasional repatriation of capital. The Commission in this connection observes:

"...the growth of imports and exports is so managed in the context of the requirements of the growing economy that after 1975-76 the economy has a foreign trade surplus (inclusive of invisibles) equivalent to at least the interest payment to foreign creditors. This shows that the Planning Commission has not taken into account the post-perspective amortisation obligations for India in the formulation of the perspective plan. Even the interest payments on foreign loans require the projected savings rate to exceed the planned investment of a corresponding magnitude by 1980-81."

It appears from the foregoing that the P.P.D. envisages a simultaneous disappearance of both the gaps for India by 1980-81 and this needs a careful assessment. But in reality the Commission's approach to self-reliance is merely to free the growth process from domestic resource limitation but not from the foreign exchange constraint. A few plausible explanations may, however,

44. Ibid, p.33.
45. The aggregate saving of Rs.10,450 crores in the Indian economy by 1980-81, as has been projected by the Planning Commission tends to exceed the projected investment of Rs.10,250 crores in that year. Hence the Commission obviously provides this excess of Rs.200 crores towards the payment of interest on foreign debts by 1980-81.
be adduced here for hastening up the target date for 
India's self-sustained growth by the P.P.D. and prominent 
among these are as follows:

(i) Firstly, there is the domestic political 
purpose for attaining an economically viable rate 
of growth as quickly as possible without being dependent 
on foreign assistance which has been bred out of sheer 
uncertainties in the flow of aid from time to time, and 
(ii) Secondly, it is deemed necessary by the authori-
ties to present a neat plan frame to the donors embody-
ing the necessary structural transformations on the path 
of a self-sustained growth to win their confidence, 
which is a basic criterion of aid-flow.

The P.P.D. figures for the period between 
1963-69 and 1950-51 are given in Table-2. As it appears 
from Table-2, the net national income at market prices 
will grow at a compounded rate of 6 per cent per annum so 
that by 1930-31 it would be double the level of 1963-69. 
Aggregate domestic expenditure inclusive of total domes-
tic consumption and net investment equal the aggregate 
income. Net capital formation equals domestic savings 
plus net inflow of foreign funds. A net outflow of funds 
to the tune of Rs.100 crores and Rs.200 crores for the 
year 1978-79 and 1950-51 respectively provide for servic-
ing of foreign loans and other remittances abroad. This 
reveals that India will become a net exporter of resources 
from 1978-79 onwards.
V. ASSUMPTIONS UNDERLYING THE P.P.D. PROJECTIONS FOR SELF-RELIANCE.

The numerous assumptions of the P.P.D. behind these projections relating to a self-reliant growth of the Indian economy are as follows:

1. Aggregate marginal saving is postulated to grow at the rate of 23 per cent per annum.

2. The incremental capital-output ratio is assured at 2:0:1 for the period of the Fourth Plan and about 2:4:1 thereafter.

3. Exports are assumed to grow at a compound rate of 7 per cent per annum.

4. A complete elimination of food imports by 1972-73 is envisaged.

5. Non-food imports are to grow at a compound rate of 5.5 per cent per annum.

6. The rate of growth of agricultural output is postulated at 5 per cent per annum over the decade between 1970-80 and

7. The rate of expansion of industrial output is envisaged at 6 per cent per annum during the decade 1970-80. The Planning Commission, in this connection, observes: "Important as agricultural growth is to self-reliance, the rate and pattern of industrial development are no less crucial." 46.

Table-3 shows that the share of agriculture in the projected aggregate domestic product is postulated to decline from 51 per cent in 1968-69 to 43.5 per cent by 1980-81, while that of the industrial sector is to increase from a mere 19 per cent to 25.5 per cent by that year. Although the success of a self-sustained growth is dependent on the performance of both the agricultural and industrial sectors, it is relatively more dependent on the rate of growth of the latter as is evident from the fact that the index of the value of industrial output is estimated to rise to 273 as against 171 for agriculture by 1980-81.

3. This leads to another important assumption, i.e., price stability, which largely depends on the actual rate of growth of output. The projection of several macro variables has been made on the assumption of stable prices.47

47. The Commission maintains, ".............: the goal set for the period beyond 1973-74 must be of a magnitude which can be sustained with reasonable price stability and on the basis of progressive self-reliance". cf: Fourth Five year Plan, op. cit., p.30. "Growth with stability should remain the objective of the perspective plan, as it is of the Fourth Plan", cf. Ibid, p.35.