

Speech Delivered Before The Economic Club of New York
Grand Ballroom, Hotel Astor, New York City
Tuesday Evening, Nov. 15, 1960

CHALLENGE OF ECONOMIC DEVELOPMENT

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For Release
7 p.m., Tuesday, Nov. 15, 1960

Mr. Chairman,

Gathered as we are here tonight in the city of New York with the General Assembly of the United Nations in session not far from us, and with the President of the General Assembly in our midst, it is only natural that our thoughts should turn to international affairs. In this country, as in many others, when people think of international problems, the one which dominates all thought and discussion is what is known as the East-West problem. Tonight I propose to talk to you about what my friend Sir Oliver Franks called in this city the North-South problem, namely the problem created by the fact that economic development in the world has been limited, by and large, to the northern belt of the earth's surface, leaving the resources of the South in various stages of underdevelopment. The North-South problem has for many countries a more direct, immediate and forceful impact than the East-West problem; and indeed, the indirect impact of this problem is becoming of increasing consequence to the economically developed countries as well. It does not create the same kind of excitement as the struggle for power, for it does not

proceed, at least on the surface, from crisis to crisis. It is, however, like an iceberg, the submerged part of which is capable of creating infinitely greater havoc than the part which appears visible to the naked eye. Its importance is, fortunately, being increasingly recognized by the Western world and its statesmen. Last year, at the height of the Berlin crisis, President De Gaulle of France made the following statement:

"When two thirds of the inhabitants of the earth lead a miserable existence, while certain peoples have at their disposal what is necessary to assure the progress of all, is it the time for the dangerous fuss over West Berlin? . . . For, in our time, the only quarrel worthwhile is that of mankind. It is mankind that it is a question of saving, of being made to live and to develop. . . . Let us do this."

A little later, Vice President Nixon, while speaking at a conference on India, said:

"I would not underestimate the importance of the Berlin crisis, but I will say today that in my own mind what happens to India, insofar as its economic progress is concerned, in the next few years could be as important, or could be even more important in the long run, than what happens to the negotiations with regard to Berlin."

The facts about the North-South problem are very simple to state. There are in the world today about 3,000 million people. Of these, 1,000 million live in the so-called developed parts of the earth, namely, Europe, the North American continent, Australasia and Japan. Their average per capita annual income is in the neighborhood of \$1,200. Two thirds of the human race live in Asia, Africa and

Latin America, whose economies are underdeveloped and their average annual per capita income is no more than \$125. These figures do not, however, tell the whole of the story for the gap between the highest and the lowest is very much greater. The highest per capita income is that of the United States, which is getting on to about \$2,700 per annum. Almost the lowest is to be found in my part of the world where the Indian per capita income is no more than \$70 per annum. What these figures mean in real terms might become a little more clear to you if you tried to imagine what kind of a life you would have on a dollar and a quarter a week. What is even more striking than these contrasts is that they are increasing rather than decreasing so that if no corrective action is taken, in a few years the rich will be very much richer than they are today, while the poor will not have improved their lot to any substantial extent.

What, in this ever-shrinking world of ours, is the consequence of this state of affairs? The first, I would submit, is an increasing dullness of conscience. No civilized community permits, within the borders of the nation-state, contrasts of this kind between the rich and the poor. The individual human conscience no longer tolerates the juxtaposition of palace and hovel, nor feasting within doors when those without are fasting. The conscience of humanity, as organized in the authority of national governments, has ensured that all citizens within a nation-state shall have an adequacy before others have a superfluity; and the development of the progressive income tax and the transfer of funds from the richer communities to the poorer communities through the tax system has ensured that this should happen. Today, however, the obligations of the human conscience seem to terminate at national frontiers, it being

assumed that the continued existence of ignorance, poverty, hunger and disease on one side of a national frontier is no concern of those living on the other. This concept could possibly have been justified when the lack of communications was such as truly to isolate peoples living in different parts of the world from each other; but today, when space has almost been annihilated, when national frontiers have ceased to have meaning except in political terms, when we are each other's next door neighbors, however much we may dislike it, the obligations of the human conscience can have no limits except those of the human race. If it were to happen that even after knowing the appalling facts of the situation, people would not be prepared to sacrifice a small portion of their ever-increasing plenty in an endeavor to rectify injustices wherever they may be, then indeed one would begin to lose faith in the human race. Fortunately, the facts are that as more and more people begin to be alive to the situation, more and more action is taken to alleviate it.

The second consequence of the continuance of this state of affairs is the harm which it causes to the rich and the developed countries themselves. International trade has, since the dawn of history, been a source of wealth. The more it increases, the more prosperous do nations become. But the single greatest obstacle to the growth of international trade today is not tariffs nor quotas nor currency restrictions nor even the stresses and strains of the cold war, though these are what occupy the center of the stage, but the fact that two thirds of the human race is incapable of buying what one third of the human race produces. We have, therefore, the extraordinary situation that there are surpluses of wheat in some countries with hungry people in others, surpluses of cotton in some

countries with naked people in others, and unused productive capacity in a number of countries while the people of other countries are desperately in need of the products that could be turned out by factories which are standing idle. The total value of the international trade of the non-Communist world today is of the order of \$200 billion. Of this, only \$54 billion, or 27%, is accounted for by Asia (excluding Japan), Africa and Latin America, while 73% represents the trade of the industrialized countries themselves. In the territory known as South Asia, there resides more than one fourth of the world's total population, yet American trade with South Asia is no more than 2 per cent of America's total foreign trade. Contrast this with the fact that 17 million Canadians provide a market for the United States 20 times as large as 750 million Asians. The reason for this state of affairs is not far to seek. The developed countries produce goods which they can sell in exchange for the goods they buy. The underdeveloped countries produce only a limited amount of goods and therefore are in no position to buy the produce of other countries to any significant extent. If the productive capacity of the vast populations of the underdeveloped world were to be increased even by a small amount, the markets that would open up and the new sources of supply that would be made available would cause to pale into insignificance the existing scale of international trade. The fact of the continued underdevelopment of large parts of the world is, therefore, a drag, and a serious and growing drag, on the increase in the wealth of the developed countries themselves. There is a point at which markets become saturated and stationary, and increasing artificial stimuli have to be applied to them and this is the condition which the developed world is gradually

approaching. On the other hand, there are markets capable of infinite expansion whose needs are so basic that they require no artificial stimuli, markets waiting to be created through the process of an increase in the over-all productive capacities of their peoples.

The third consequence of the present division of the world between the rich and the poor is perhaps more serious for the international community even than the other two. You will recall the dire prophecy of Karl Marx, born of the conditions of nineteenth century capitalism, that a system under which the rich grew richer and the poor poorer had within it the seeds of its own destruction. Karl Marx was proved a false prophet on the national scale because the capitalist system, when it realized the consequences to which it was leading, reformed and reshaped itself beyond recognition, thus not only escaping destruction but revitalizing itself and emerging infinitely stronger than before from the change. The nation-states of the developed world underwent, during the latter half of the nineteenth century and the first half of the twentieth, a transformation which reduced the contrast between rich and poor and assured to all of their citizens a reasonable national minimum. In this process of transformation, not only did these societies become stronger because they became just but, almost as an unforeseen consequence, they became stronger because they grew richer through the more wide distribution of purchasing power among their peoples. The troubles and tribulations of the nation-state of the last century are now repeating themselves on an international scale. We have the same contrast between the rich and the poor, this time as between

nations rather than as between individuals. And this contrast which is now becoming increasingly manifest is causing the same stresses and strains in international society as were felt by the national societies of the nineteenth century. I would submit that the political instability in many parts of Asia, the continuous ferment in newly emerging Africa, the discontent and changes in Latin America are all reflections, despite their different outward manifestations, of the same common factor, viz., that the inhabitants of these areas do not possess the wherewithal to live their lives with the dignity that human beings require. There is a great danger that the distinction between the "have" nations and "have-not" nations will become so great, and the opportunity to move from one category to the other will become so limited as to polarize the world into two opposing groups of the haves and the have-nots, a polarization much more serious than the one which is commonly believed to exist at present and one much more dangerous for the continuance of organized world society. In plain words, it is simply not possible for small oases of prosperity to continue to exist amidst vast deserts of poverty without engendering storms that might engulf these oases themselves in the illimitable sands of the desert.

What I have been endeavoring to say so far is that the contrasts which exist today between the rich nations and the poor nations, contrasts which are rapidly increasing rather than narrowing, are a blot on the developed human conscience, are holding back the growth or prosperity even in the rich countries and are creating a world-wide political situation which, given the present rapid pace of sociological change, may reach explosive proportions sooner than

is generally supposed. If I have carried you with me, the question arises what men of goodwill, whether in the developed or the underdeveloped countries, should do in order to remedy, as rapidly as possible, this state of affairs. In order to discover a practical course of action, it is necessary to analyze not so much why the present state of affairs arose -- though that might lead to interesting answers -- but what it is that today stands in the way of the economic development of the underdeveloped countries.

This inquiry leads straightaway to the discovery that there are vast differences in the conditions of the underdeveloped countries themselves. Economic growth requires a multitude of factors, among them being the existence of a stable government, an efficient administration, managerial and entrepreneurial ability, technical know-how, and capital. There are some underdeveloped countries where many or most of these factors are lacking; there are others where many of the principal conditions of growth exist and the only real shortage is that of capital. In any organized effort to help the underdeveloped countries to develop themselves, the first step must necessarily be an analysis of the factors of growth which may be missing in any particular case, and the provision of these factors from outside insofar as they cannot be produced by the people themselves. It would take me too far afield to discuss how this analysis could be undertaken or how external aid to remedy the shortages over the entire world should be organized. I shall, therefore, limit myself to the concrete case of my own country as an illustration of the problems of economic development and of what the outside world can do to help the process of economic growth. I take India as an example not only because I can speak with some authority on the subject but

because it is by far the most important country in the world today which is endeavoring to raise the standards of living of its people through a completely free and democratic organization of its society. From the point of view of economic analysis also, it is a fairly simple case because practically the only bottleneck which stands in the way of Indian economic development is capital and, in particular, foreign capital.

India became independent in 1947. The per capita annual income of India at that time was in the neighborhood of \$50. It was apparent that if India was to survive as an independent sovereign state and was to maintain the democratic way of life which it had chosen for itself, Indian society could not for long, now that it was master of its own destiny, permit the continuance of a state of affairs in which malnutrition, disease, illiteracy, a lack of clothing and a lack of shelter was the lot of the average citizen. For the modern world, where the means to relieve poverty and suffering exist in plenty, no society can continue to claim the loyalty of its citizens if it does not satisfy their basic human wants. The entire energies of the Government of India have consequently been devoted to the economic betterment of the conditions of the people.

We had before us a task unique in human history for no other country -- with the exception of the vast empty spaces which are now the United States, Canada and Australia -- had ever taken its first and major steps in economic growth under a system of democracy with a free and universal franchise. The United Kingdom, the continent of Europe and Japan underwent the pangs and sacrifices of the industrial revolution before they were democracies as that

term is understood today. Their political revolution came after their industrial revolution. The Soviet Union, China and the other Communist countries had their political revolution before their industrial revolution and they have adopted the totalitarian method of economic growth and have produced remarkable results by doing so. We in India also had our political revolution before the industrial revolution and the problem before us was how to organize our own economic growth. We rejected the totalitarian example because that involved too great an interference with the liberty of the individual, a concept to which we are firmly wedded. We could not adopt the principle of complete laissez-faire -- of leaving things alone to take care of themselves -- because with the extreme urgency and difficulty of our problem and with the compulsions implicit in a democratic society, we had to move fast as we could and without allowing the burdens and sacrifices implicit in development to fall disproportionately heavily on the weaker and poorer sections of society. We, therefore, adopted what can best be described as a mixed and planned economy which ensured on the one hand that the basic resource of which we were short, namely, capital, would not be frittered away on objectives of relatively low priority, and on the other ensured that the vitality and vigor of private initiative, which is so great an asset for any economic development, was not interfered with.

During the last ten years, a total of \$22 billion would have been invested in the Indian economy. This is roughly the amount which is invested in the American economy every three months. Of this amount, five sixths has come from the Indian people themselves, only one sixth coming by way of external assistance. The

result of this effort during the last ten years has been an increase in the national income of 40 per cent and in per capita income about 20 per cent. These percentages sound impressive. But it must not be forgotten that the base from which we started was only \$50 a year. In ten years, therefore, we have succeeded in raising the per capita income by no more than \$1 per year (as constant prices) which is roughly the amount by which American per capita income has increased during the same period every fifteen days. This rate of increase has been felt to be too slow for the maintenance of our political stability. Furthermore, we have begun to feel very strongly that we must rid ourselves of the dependence on government-to-government economic aid as soon as we possibly can. It is galling to our sense of national purpose and self-respect to have to rely for our economic growth on outside assistance; and though all developed peoples, notably the United States itself, have had to rely on external economic assistance in order to establish themselves firmly on the path of continued economic growth, we would like nevertheless to be able to dispense with economic aid given at the cost of the foreign taxpayer as soon as we possibly can. Indian economic policy has now, therefore, the dual objective of increasing the rate of economic growth and so directing investment as to make future economic growth self-generating.

We calculate that in order to get India to the point at which the Indian economy will not only become viable on current account but will generate a surplus sufficient to be able to finance its further economic growth with its own resources, a point which is now generally known as the point of "take-off," there requires to be invested in the Indian economy a sum of about \$50 billion. We feel

that in our condition it will take us about ten years to invest this money. We calculate further that in spite of our extreme poverty, and in spite of all the limitations of a democratic system, where sacrifices have to be made by consent and cannot be imposed, we will be able to produce from within the country no less than \$40 billion. We have a gap of \$10 billion over the next ten years which we hope to be able to get from private foreign investment, capital markets, the governments of friendly foreign countries, and from international agencies. If this effort of ours is successful, we should at the end of ten years be in a stage of development where, though we will still remain incredibly poor, it will not be necessary for us any further to rely on government-to-government assistance for our continued growth at a satisfactory rate.

I am aware that this forum is interested in the part that foreign private capital can play in the process of the economic development of the underdeveloped world and I should like in conclusion to say a few words on this subject. The role of private foreign investment in solving this great problem of the second half of this century is important but it has till recently been exaggerated. It has been assumed that just as private foreign investment built up this country, it will build up the rest of the world waiting for development. But it has become increasingly accepted, among those who give thought to these problems, that this historic analogy is fallacious. Private capital must necessarily move where it finds conditions of security, stability and profitability. These conditions are found best among the developed countries themselves and it is no wonder, therefore, that most of the large exports of capital that take place from the rich countries go to the countries which are

already rich and developed. The United Kingdom exports capital to build a skyscraper in New York because the private investor can operate in conditions of complete security and sophistication and expects handsome profits to boot; but the same United Kingdom investor is not likely to build a powerhouse in, say, Kathmandu because he has hardly heard the name of the place, has no knowledge of the conditions of the country, does not in any case trust the governments of these foreign parts and is not sure that even if he were to make a profit, he would be able to repatriate it. Furthermore, there has been a change in the ownership of capital as a result of the social revolution I have earlier talked about. So there are today no longer the vast accumulations of wealth in the hands of individuals which enabled those individuals to take the kind of risk associated with investment in an underdeveloped country. Today capital is owned by the small man and is managed by managers who dare not take any kind of risk with it. "Venture" has, therefore, gone out of "venture capital" and investment in most underdeveloped countries is certainly very much more than a routine operation. Moreover, the kind of investment that is required in most underdeveloped countries is generally neither capable of being undertaken by private enterprise nor sufficiently attractive or profitable to them. Private foreign enterprise cannot build schools and colleges and hospitals, nor roads, nor irrigation dams, nor even railways or powerhouses. The entire field of the social overheads and of the infrastructure of economic growth is a field for public enterprise and help for this purpose is required to be given to governments by governments. It is only after a country has achieved a certain degree of economic development, has built the basic infrastructure of economic growth

and has reached or is very near reaching the point of take-off, that private capital can really perform its task.

Conditions of this kind prevail in some parts of the under-developed world, notably in India; but the general reluctance to move, the existence of investment opportunities at home, the distrust with which new countries are viewed, all result in the flow of private capital being no more than a trickle. In India we have created conditions for private investment, whether Indian or foreign, second to none in the world. We give to all new investors a virtual tax holiday for five years; we are compelled, because of a shortage of foreign exchange, to give to all industries established in India, whether Indian or foreign, a virtual monopoly of the Indian market and we permit the remittance of all profits and dividends irrespective of amount as well as the repatriation of all capital and all capital gains to the foreign investor. Nevertheless, the net flow of private American capital into India during the last few years has been no more than \$10 to \$20 million per year, inclusive of retained profits. That this sum is absurd, compared to the availability of private capital in the world and the opportunities for investment in India, goes without saying. And if what I have said earlier today has affected you enough, to make you want to do something about it in your individual capacity, I suggest the least you can do is to investigate investment opportunities in countries like India, where private foreign capital is welcome, is needed and has a useful role to perform.

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