

SPECIAL LECTURE

**Structural Transformation: India in a Global Perspective
Since the 1960s***

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It has been an honour and a pleasure to memorialise Dr. S.R. Sen. I met him when I joined the World Bank in 1971, as a young professional. He was an Executive Director representing South Asian countries on the World Bank's Board. Notwithstanding his seniority relative to mine, he was always accessible to young Indians, as a mentor—even for one-on-one meetings—and he and his wife invited young people, like me, to social occasions at their home.

As the Founder and Institutionaliser, Dr. Sen left a big intellectual footprint.

Born in Noakhali, Bangladesh in 1916, he was an early member of the Indian Society of Agricultural Economics (ISAE) and of the International Association of Agricultural Economists (IAAE). I learnt recently that Professor Elmhirst played a leading role in the formation of both institutions.

Along with then ISAE President M.B. Nanavati, he hosted the 10th IAAE Conference in Mysore in 1958, with considerable fanfare. It was the first IAAE Conference in a developing country. Prime Minister Nehru inaugurated the Mysore Conference along with very many celebrities—for example, the Maharaja of Mysore, but also some of the most well-known Indian and international economists, demographers and sociologists including W. Arthur Lewis, V.M Dandekar, Irawati Karve, and Ali Khusro, names I used to know as a young adult.

With this background, it is not surprising that he served as President of the ISAE's 18th Conference in 1959. He was a scholar and civil servant in India and abroad. He reminds me of another statesman leader, Sir John Crawford. Their paths were similar and parallel.

As the Founder and Institutionaliser, he served as Economic and Statistical Advisor in Ministry of Food and Agriculture, and helped build the economic and statistical system of the Ministry. He is credited with starting Farm Management Studies. My understanding is that Nobel Laureate Ravindranath Tagore invited young Elmhirst to visit Shantiniketan to help address problems of his tenant farmers. After spending two years working on the issues of Bengali farmers, Elmhirst recommended to Tagore that a longer term centre should be established in Shantiniketan to conduct

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studies of small farm communities. That was the beginning of the idea of the Agro-Economic Research Centres. It is possible that, with his close connection to East Bengal, Dr. Sen helped foster their growth. In any case, in view of the weakening support to agro-economic centres from the government, they need to be reinforced.

As member of the Planning Commission, he was Vice-Chairman of the Second Irrigation Commission, 1969–70, and other Foodgrains Enquiry Committee recommendations on price-support, which led to the formation of the Commission for Agricultural Costs and Prices in 1965. I worked with all these entities during my PhD and post-doctoral work in India, and I appreciate their importance.

However, Dr. Sen's contribution was much wider. He was co-founder (with Sachin Chowdhury) of the *Economic Weekly* (later renamed the *Economic and Political Weekly*). He was President-Elect and President of the IAAE's 15th and 16th Conferences in 1973 and 1976; he was Executive Director, World Bank Board, 1970–78. He was Chairman of the IFPRI Board at the crucial time when IFPRI was admitted into CGIAR.

He also worked on agricultural productivity in Eastern India. As member of the Sarkaria Commission on centre–state relations, he played key roles in policy issues.

I will confine the rest of my comments on Dr. Sen's regime as India's Executive Director on the World Bank Board in the 1970s. The seventies was a tumultuous time in the World Bank. He also became the Executive Director, representing Bangladesh at the time it became Independent, a development the US opposed.

As a board member representing India and South Asia, he was an important voice on the Board of Directors representing India and developing countries. The Board of Directors had 24 members with a strong share of representation from developed countries in an institution that runs on a shareholder model, unlike others, particularly UN organisations, where one country, one vote prevails. He was a calming influence when times were anything but calm.

To Understand the Tumultuous 1970s, We Need to Understand the Bank–India Relations in the 1960s

In the 1960s, as the largest developing member country, India was seen as seriously committed to development. The Western countries viewed India as an antidote to China. While India's five-year plans were inspired by the Soviet experience, and not the Western way of developing, the Bank supported those plans with one of the largest lending programmes, and indeed, many Western economists collaborated with India in the development and refinement of those plans. The overall view was one that "India could do no wrong."

- India's 1958 Balance of Payments crisis was followed by generous contributions, and as India's foreign exchange needs increased, the International Development Association (IDA), the concessional window of the Bank was established in 1960. A lesson from India's early development experience was that developing

countries need large foreign exchange flows. Even if they use the resources productively, the returns take time to materialise. In the meantime, a repayment of loans after 10 years can create balance of payments deficits. Hence, they need concessional loans with low interest rates, which are payable over a longer period. IDA credits (as distinct from IBRD loans), carry a charge of 0.75 per cent—just enough to carry the administrative cost of managing the loan and credits are repayable over 40 years. India has been the largest recipient of World Bank loans and credits of any country, and it “graduated” from IDA in 2017, a successful case, as its per capita income increased.

- Many developments in the 1960s, though, changed the Bank’s cozy relationship with India. The first was the War with China in 1962, which India lost—a loss of face for India’s Western supporters as well. Prime Minister Nehru’s passing in 1964 created such uncertainty about India’s political stability—a frequently asked question was: “After Nehru, who?” The transitions to Mr. Shastri and Mrs. Gandhi turned out to be peaceful, showing India was maturing as a democracy.
- It was India’s import substitution industrialisation strategy, however, that began to be viewed with skepticism. India’s balance of payments situation had begun to deteriorate, and the World Bank mounted a comprehensive macroeconomic Bell Mission in 1964 to understand the impending economic crisis—steps India could take and the support the Bank would need to garner as the leader of Aid India’s Consortium. Yet, India was highly vulnerable politically and in no mood to accept foreign scrutiny and criticism, US President Johnson, was already displeased with non-aligned India’s criticism of the United States’ policy in Vietnam, and he had adopted a ‘short-tether policy on food aid’ at a time when India was dependent on massive food aid from the United States. Food aid imports amounted to 10 million tonnes in 1964. The United States was running out of surplus food and was concerned about India’s growing food aid dependence. The short-tether policy meant ships would leave the harbour of Baltimore only if India did not continue its public criticism of the Vietnam war. President Johnson was personally observing India’s weather reports and the need for food aid and approved release of individual shipments.
- Bernard Bell reported directly to the President of the World Bank, George Woods, who reportedly was an India expert and highly supportive of India. The Bell Mission wrote a comprehensive report and made a number of recommendations, including to moderate, if not abandon, the import substitution industrialisation strategy, gearing imports to support India’s agricultural needs, including fertilisers. It also recommended the devaluation of the rupee, in return for more support. India reluctantly devaluated the rupee in 1967, but the devaluation and other reforms had limited short term impacts.
- Domestic criticism of the Bell Mission was extensive, as it was considered an undue interference in India’s internal affairs. Tensions were so high, as per my interview with Bernard Bell in 1988, on his arrival in Calcutta, one newspaper

ran a headline, “To Hell with Bell.” India also complained and rightly that the World Bank did not come up with its promised level of aid.

- A redeeming feature of the Bell mission was its agricultural annex led by Sir John Crawford of Australia, which planted the seed of the Green Revolution—a technology-driven strategy with major reforms to ensure public sector delivery of seed, fertiliser, and credit; a minimum price support programme through the establishment of the Agricultural Prices Commission; the establishment of the Food Corporation of India; and a fertiliser import policy backed by the Bank’s import support for fertilisers and support for the expansion of surface irrigation. While the Green Revolution strategy, too, was unpopular with Indian intellectuals, it had the strong support of C. Subramaniam, then the Minister of Agriculture, and M.S. Swaminathan of the Indian Council of Agricultural Research (ICAR). By the end of the 1960s, India had turned its large food imports to meet recurrent food shortages into perpetual food self-sufficiency which prevails today even though India’s population has nearly tripled and area under cultivation has not increased much, in large part due to the adoption of new technology by millions of small farmers mostly in irrigated areas.

The 1970s was a calming period between India and the World Bank, despite many external shocks—Dr. Sen’s style and substance made a difference.

- In 1971, India had another war with Pakistan. Bangladesh was striving for separation from Pakistan and became independent with strong support from India, particularly from Mrs. Gandhi. With a deteriorating situation in East Bengal, India had received nearly 10 million refugees. From India’s viewpoint, the situation was untenable, but the United States was opposed to Pakistan’s imminent division between Pakistan and Bangladesh.
- To express its opposition, the United States sent its seventh fleet into the Bay of Bengal, raising temperatures in India. Mrs. Gandhi aided the separation of the two countries and was the first to recognise Bangladesh.
- As someone born in Noakhali in 1916, Dr. Sen was proud to represent Bangladesh.
- Henry Kissinger called Bangladesh a “basket case” and happily, he has been proven wrong, as we will show below.

Despite its history from the 1960s, India became the largest recipient of IDA since its establishment. What explains this phenomenon?¹

- McNamara’s poverty focus was articulated in his 1973 Nairobi speech, which became a watershed in the World Bank, branding it as an organisation with a mission to eradicate poverty—a dramatic difference from its image as an infrastructure bank in the 1950s and 1960s.

- McNamara's mission coincided with Mrs. Gandhi's "Garibi Hatao" slogan.²
- Slightly more than 40 per cent of IDA went to India from 1970 to 1979, despite US opposition—India became IDA's largest recipient.
- There was more Bank tolerance of public enterprises.
- In 1973, the first oil price shock caused further challenges for India. The United States' largest grain sale to the Soviet Union had led to skyrocketing of food import bills; the food and oil price increases, factors beyond India's control, led once again to balance of payments difficulties. India undertook some price reforms and some export orientation.
- This time India was in a better position to respond to the external shocks. Its external reserve situation was less precarious. India had generated the Green Revolution. Also, after the Bangladesh triumph, India was more confident in contrast to 1962, after the loss of war with China, and prior to the success of the Green Revolution.

India Influenced the World Bank

- As an important development partner, the World Bank learned a lot in small and large ways from India. For example, the establishment of IDA was caused by the need for soft loans of long maturity to avoid balance of payments crises and indebtedness in developing countries.
- Programme loans to deal with balance of payments difficulties and macroeconomic crises became important complements to project lending.
- The Bank modified its practice of International Competitive Bidding (ICB), which had been the bread and butter of the Bank's infrastructure financing. With IDA, also came a willingness to accept a greater share of local cost financing together with local procurement of goods and services.

The 1980s and 1990s saw a new, less prominent role for the World Bank in India and for India in the World Bank

- China joined the World Bank and the International Monetary Fund in 1980.
- As another mega country, and a new kid on the block, India had to learn to compete with China on "voice and influence" and IDA although overall China received only 0.6 per cent of IDA and "graduated" from IDA eligibility more quickly. The African economic crisis in the 1980s and 1990s also increased demand on IDA.
- More IBRD assistance hardened lending terms for India.
- Much happened between 1980s and 2014, when India "graduated from IDA."
- The Sen era had ended with the phenomenon called "the Rise of Emerging Countries".

In the rest of my presentation I speak of how entries of China and Bangladesh changed India's position. The overall shares of the three countries in Bank lending so far have been India: 13.2 per cent, China 2.6 per cent, and Bangladesh 8.2 per cent.

India in Its Neighbourhood: China and Bangladesh—Why Focus on Them?

- First, because China is now years ahead of India in development. It all started since 1979, when China joined the World Bank and undertook its major economic reforms, starting with the Household Responsibility System, giving land rights to peasants. That greatly increased China's agricultural productivity. Unlike India, China was export-oriented from the outset, as it had no external support, nor did India have any expectation of external support and felt such support would compromise its sovereignty. China has enjoyed a sustained balance of payments surplus, unlike in the case of India, whose import substituting industrialisation strategy and more precarious weather has made it vulnerable to frequent balance of payments difficulties. China's reforms in agriculture, manufacturing, and other sectors have been bolder and more frequent compared to India's with less external aid.
- China has had a "Three-Legged Development Strategy":
 - Household Responsibility System
 - Town and village enterprises which metamorphosed into an industrialisation strategy, including reform of state-owned enterprises
 - Special Economic Zones in coastal China which became dramatic export producers.
 - After 2007, the financial crisis, China provided an economic stimulus, becoming a technological powerhouse and has been transforming its economy from a manufacturing export hub to a service sector economy.
- Another striking performance is of Bangladesh, which started way behind India. Bangladesh has been "booming" since the mid-1990s. It has better indicators in several respects than India on an average, for example, on agricultural productivity growth, declining infant and child mortality, and women's representation. The set of figures in the Annexure at the end, prepared on a strictly comparative basis, show the situation of three countries over a long period.
- India has much to learn from both neighbours going forward.

NOTES

1) This section benefitted from an unpublished paper by Jochen Kraske, who participated in the Bell Mission as a young professional and later served as the World Bank's resident representative and historian before his retirement from the Bank.

2) Coincidentally, Mahbulul Haq, a Pakistani economist and advisor in the World Bank's Development Policy Staff where I was an economist, contributed to both speeches. In the case of Mrs. Gandhi, her speechwriter was rumoured to have taken paragraphs from Mahbul ul Haq's writings without attributing them to him. She was later asked about this borrowing, and she was reported to have said good ideas can come from anywhere.

ANNEXURES





