

# The Evolution of 'Homegrown Conditionality' in India: IMF Relations

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*This article explores the historical relationship between the Government of India (GOI) and the International Monetary Fund (IMF) as a successful model for the ways in which a developing country can learn to work with and through multilateral organisations to promote economic and political development while sustaining democratic institutions and relative international political autonomy. In the mid-1960s, India's relations with the USA, IMF, and World Bank were strained after an attempt by these institutions to exert 'leverage' over Indian economic policies was exposed to parliamentary debate and the scrutiny of a free press. By the late 1970s, the GOI charted a new course in its interaction with the IMF. In 1981, India was awarded the largest IMF loan to a developing country up to that time. This article will evaluate India's economic reform strategy in the early 1980s and explain the development of the concept of 'homegrown conditionality' within the GOI.*

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## I. INTRODUCTION

In an era when globalisation and global institutions have become the subject of intense debate, this article seeks to analyse the ways in which countries can work with international financial institutions to promote their economic and political development, as well as contribute to improved global governance. Trends toward economic and political liberalisation in the developing countries have increased their weight in the world economy. This has been accompanied by a growing international consensus amongst policymakers, politicians, and other elites that emphasises the critical importance of democracy, human rights, transparency, and accountability. This article seeks to provide insights to policymakers regarding the emerging issues of global governance and of management of economic policy reforms in this age of democratisation and globalisation.

The article explores the dynamics of the inter-relationships between international financial institutions, developing countries, and the global economy in a historical framework. Specifically, the focus is on the relationship between the institutional centerpiece of the post-War monetary order, the International Monetary Fund (IMF), and a leading voice of the democratic developing world, India. The relationship between India and the IMF provides a lens with which to observe the influence of developing country members on the institutional evolution of the Fund.

An analysis of the strategic failures and successes of India's interactions with the IMF will provide policy relevant conclusions that are significant for improving the governance of global financial architecture. This article will examine two episodes in India's relationship with the IMF and explain the development of the strategy of 'homegrown conditionality' by India. The article also explores the institutional changes within the IMF and the global political economy that permitted this policy approach to be implemented with successful results. The argument has important implications for democratic developing countries seeking to maintain ownership of their economic reform and development programmes.

This article is divided into three sections. The first section recounts an unsuccessful episode in the mid-1960s when the USA, IMF, and World Bank attempted to exert leverage through diplomatic channels on a reform package requested by the Indian government. The second part examines the development of a successful strategy of 'homegrown conditionality' that the GOI adopted prior to requesting a major loan package in 1982. The final section explores the lessons that can be drawn from India's relationship with the IMF by other democratic developing countries.

## II. EXTERNAL LEVERAGE

In 1965, with reports of a food shortage looming across India,<sup>1</sup> US President Lyndon Johnson displayed a strong interest in re-evaluating the US economic aid programme to India begun by the Truman administration. The President, who became personally involved in the details of the aid process,<sup>2</sup> was willing to exercise strong 'leverage' before distributing aid to the leader of the non-aligned countries. The Johnson administration was deeply frustrated by India's lack of self-sufficiency in food production and its strident criticism of US involvement in Vietnam. Robert Komer of the National Security Council advised President Johnson, 'Let's tell the Indians we're not very happy with them either, especially their tendency to take our aid for granted without doing enough to help themselves or to recognise that we're fighting their war [against Chinese aggression] in Vietnam'.<sup>3</sup>

In the spring of 1965, when the Indian government requested a two-year food aid agreement, Johnson balked at the request. On 9 June 1965, President Johnson used the outbreak of hostilities between India and Pakistan as a pretext to issue a blunt directive to his staff. The President:

...

2. Directed that there be no additional decisions, authorisations or announcements on loans to India or Pakistan without his approval, pending passage of the FY 1966 foreign aid appropriation.
3. Disapproved advance program loans to India and Pakistan, even if as a result we had to ask Congress to reappropriate the money involved.
4. Requested an early review of economic aid to India and Pakistan by State and AID, in the context of our global pattern of use of aid resources. It should cover such issues as: (a) whether the US should be spending such large sums in either country; and (b) how to achieve more leverage for our money, in terms both of more effective self-help and of our political purposes ...<sup>4</sup>

After August 1965, the Johnson administration began its 'short tether' policy whereby food aid to India was only approved on a month-to-month basis, forcing India to heel to US demands. By the early spring of 1966, the newly elected Indian Prime Minister, Indira Gandhi, travelled to Washington DC to negotiate better terms of assistance. The Johnson administration was ready to do a deal with Mrs Gandhi. In a two-page memorandum circulated in late March 1966, Secretary of State Dean Rusk summarised the administration's desire to reach a 'bargain' with the prime minister.<sup>5</sup> The essence of the bargain was that if India (1) adopted a more effective self-help strategy that

included economic reforms and currency devaluation, and (2) supported or at least remained neutral on US security concerns in Southeast Asia; then the US would do its share with the World Bank and the IMF to provide the necessary resources to ensure food security.<sup>6</sup> The demand for economic reforms and currency devaluation were based on the recommendations of the 1964 Bell Report commissioned by the World Bank but strenuously opposed by the previous Indian Finance Minister Krishnamachari under Lal Bahadur Shastri.<sup>7</sup>

The US pressure for reforms came at a time when the Indian economy was approaching a serious crisis. By the middle of 1965, India's foreign exchange reserves had fallen below \$500 million from a high of \$1.87 billion a decade earlier.<sup>8</sup> By March 1965, the Reserve Bank of India had only \$29 million above the legally required currency cover for imports.<sup>9</sup> In its desperation, the GOI substantially increased duties on imports from 10 per cent in February 1965, to 13 per cent by August of the same year in an effort to manage consumer demand and increase revenue in order to pay for imports of food and military equipment. In order to stimulate exports, which had not shown any increase for two years, the import tariff regulations were riddled with exceptions to permit export oriented Indian firms to import raw materials at a lower cost. Major export firms in the tea and jute industries were given large tax credits to export their products. The tangled tariff regime thus created multiple effective exchange rates. Despite these efforts, the tariff regime had a constrictive effect on the economy and particularly the industrial sector, pushing the economy deeper into crisis.<sup>10</sup> In terms of debt, India already owed the IMF roughly \$200 million from stand-by arrangements taken in 1961 and 1962. In 1965, India borrowed another \$200 million from the IMF.

Thus, Indira Gandhi reluctantly accepted an austere economic reform package endorsed by the IMF, World Bank, and the US. India agreed to devalue its currency, restrain fiscal expenditures, tighten credit, and hold back wages in exchange for a massive aid package (for example, the US alone pledged to give \$900 million in non-project aid to support India during the currency devaluation). In addition, as a report prepared by the IMF stated, the Indian authorities seemed to be willing to shift towards an export oriented growth regime with import liberalisation:

Along with the change in par value, the Indian authorities intend to undertake measures, which would constitute a major exchange and trade reform. Most important, it is intended to remove step by step, within 24 months, administrative restrictions on a large percentage of imports, assuming that the necessary foreign aid is available for this purpose.<sup>11</sup>

Under the IMF arrangement, India said it would radically simplify and lower its import tariffs, in the hope that currency devaluation would eventually spark the return of export growth. The aid package was deemed necessary to compensate the country until the currency devaluation could stimulate the export sector.

In reality, however, Indian authorities were not keen to abandon the strategy of import substitution industrialisation (ISI). India did not concede export duties on major commodities (such as jute and tea), because prices were not considered to be elastic and India maintained a dominant market share. Furthermore, Indian authorities maintained a subsidy on imported food grains, even though India indicated to the IMF that '... the prices would be fully adjusted to the new exchange rate, possibly within two or three years'.<sup>12</sup> Indian authorities also asserted that even when the reform process is complete, certain special industries would remain protected from imports and import restrictions would continue to apply to low priority consumer goods and raw materials. In other words, the GOI had reserved the right to continue to pursue an ISI strategy once harvests improved and the crisis passed.

Even though the GOI had not actually shifted their economic policies, the 'reform' arrangement collapsed soon after the policy arrangements became public in India in the summer of 1966. The US, the World Bank, and the IMF had not accounted for the political consequences of imposing leverage in a democratic society. The Indian press argued that India had accepted food aid in exchange for 37 per cent currency devaluation and its silence on imperial policies in Vietnam. When only about half of the promised aid was delivered to India several months after the devaluation, the Indian public was outraged. As a prominent commentator noted:

All hell broke loose. Public opinion was aroused as never before except against the Chinese invasion four years earlier. The entire opposition, from the extreme Left to the extreme Right, condemned devaluation unequivocally [*Malhotra, 1989: 99*].

Under intense domestic pressure, Indira Gandhi abandoned critical components of the reform package.<sup>13</sup> By 1967, most of India's aid donors had withdrawn their pledges of support to assist India during the transition [*Patel, 2002: 102–15*]. The currency devaluation failed to turn the economy around, in fact major export items such as jute, tea, and cotton textiles all declined in 1967.<sup>14</sup> India's attempt at economic reform was deemed a failure both domestically and internationally. India's Prime Minister viewed the entire affair as a personal humiliation and her Congress party suffered a major electoral defeat in the 1967 elections.<sup>15</sup> The attempt to exert leverage tarnished relations between India and the US, as well as India's relations with

the twin institutions of the Bretton Woods system for more than a decade. From 1967 to 1980 India only drew small loans from the IMF that were either unconditional or required minimal policy pre-commitments.<sup>16</sup>

### III. HOMEGROWN CONDITIONALITY

By 1979, India's terms of trade deteriorated once again in the wake of the second oil shock and its agricultural output plunged due to a severe drought. There was an intense factional conflict and government instability between 1977–79. The return of Mrs Indira Gandhi to power in early 1980 allowed India to chart a new course for its unavoidable future interaction with the Bretton Woods institutions. A highly talented economic policy team formulated a strategy of 'homegrown conditionality', whereby the various aspects of economic reforms would be initiated by domestic policymakers prior to the onset of a crisis and then presented to international financial institutions.<sup>17</sup> The approach sought to counter the domestic opposition that would inevitably arise against a structural adjustment programme once the reform agreements became public. The authorities needed to formulate and pace the reforms in such a way that democratic institutions would not be compromised and the loan arrangement would not be so diluted that the international financial institutions would reject it. From the perspective of a democratic and developing political economy the strategy of 'homegrown conditionality' seemed to be the only path to generate sustainable economic reforms. In addition, as a leading country in the Non-Aligned Movement, which had officially opposed IMF conditionality, accepting the Fund's conditionality under duress would have been embarrassing internationally [*Boughton, 2001: 715–16*].

Indian officials viewed the economic reform package not only as an opportunity to correct persistent balance of payments problems but also as a mechanism to enhance India's international prestige. Oddly enough, Indian policymakers did not view securing a major loan from the IMF as a sign of weakness, but as a validation of India's importance in the global economy. By taking the initiative on economic reforms, Indian officials wanted to project to their fellow citizens and the world at large that the Indian government was in control of its finances and could undertake a major structural adjustment programme [*Boughton, 2001: 167–9*].

Indian authorities quietly ascertained whether the IMF would grant a precautionary loan under India's own terms. It appears that initial explorations with the IMF began during the annual (Article IV) IMF mission to India, a meeting in Kuwait, and before a meeting of the IMF Interim Committee of Finance Ministers in Libreville, Gabon in early 1981. Indian officials met with the IMF Managing Director, Jacques De Larosière, to

secure support for a major structural adjustment package.<sup>18</sup> De Larosière was sympathetic to the Indian officials as a major loan to India was in line with his desire for the IMF to play a major role in the process of 'recycling petrodollars' and increase lending to the developing world [*Boughton, 2001: 562–3; Patel, 2002: 167–9*]. Indian officials were interested in using the Extended Fund Facility (EFF), a programme that the Indian government had helped to establish in the mid-1970s. The EFF provided Fund resources on longer maturities than traditional stand-by arrangement maturity.<sup>19</sup> The resources of the EFF programme were also much larger than the stand-by arrangement (initially 140 per cent of a country's IMF quota rather than 75 per cent). Once the Indian officials were confident that they could obtain the loan, they approached Prime Minister Indira Gandhi. The officials convinced her not only that they could succeed in obtaining the loan but that securing the largest loan in the IMF's history would bring great prestige to India and eclipse the humiliation of the 1966 structural adjustment programme.<sup>20</sup>

The conditions and performance criteria under which India would take a loan from the IMF were derived from India's Sixth Five-Year Plan. In effect, Indian officials had pre-empted much of the Fund's conditionality by devising their own substantial macroeconomic adjustment programme in the Sixth Five-Year Plan and the government budget. James Boughton writes, 'Officials in the finance ministry and the Reserve Bank were convinced that the existing [Five-Year] Plan was strong enough to meet the Fund's conditions for an extended arrangement, and on that basis, the prime minister gave the go-ahead to enter into secret negotiations' [*Boughton, 2001: 710–11*]. As long as Indian officials did not have to deviate from the Five-Year Plan, they could credibly assert that they were not being pressured by IMF conditionality.

The Finance Minister of India, Ramaswamy Venkataraman, explained the importance of the Sixth Five-Year Plan as the economic and political basis for India's overall adjustment strategy, in India's Letter of Intent to the Managing Director, De Larosière,

The Government of India is currently implementing a set of policies designed to achieve a medium-term adjustment to the structural changes to which the economy has been subjected following, among other things, the sharp deterioration in terms of trade, and the higher oil prices. These policies are [an] integral part of the Sixth Plan (1980–81–1984–85).

In support of its programme and in view of the present and prospective balance of payments need the Government of India requests an extended arrangement for a period of three years for an amount equivalent to SDR 5 billion.

The Government of India believes that the policies to be followed in 1981–82 ... are adequate to achieve the objectives of its programme but will take any further measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of an appropriate measures, consistent with the national policies accepted by our parliament, in accordance with the policies of the Fund on such consultation.<sup>21</sup>

In essence, the GOI considered the IMF loan to be a component of its Sixth Five-Year plan. Any adjustments to the IMF loan and hence the Five-Year plan would have to be routed through parliament. Similarly, Prime Minister Indira Gandhi, in a speech to the Indian Parliament, asserted that all arrangements with international financial institutions had to be transparent and subordinate to the national interest.

I want to emphasise just this, that this loan or the agreement for the loan, is a line of credit. It does not force us to borrow, nor shall we borrow unless it is for the national interest. There is absolutely no question of our accepting any programme which is incompatible with our policy, declared and accepted by Parliament ... It is inconceivable that we would accept assistance from any external agency on terms, which are not in conformity with our declared national policy.<sup>22</sup>

Some Indian authorities argued that conditionality was not relevant with regard to this IMF loan. When asked by *India Today* whether the IMF might object to India implementing higher tariffs after taking the loan, L.K. Jha, Chairman of the Economic Administrative Reforms Commission and a chief architect of the loan arrangement, stated, 'IMF doesn't really come into the picture. The loan is unconditional. It becomes part of your foreign exchange reserves and how you use it is your business. You may buy anything with it – plant and machinery, toys, even arms. But having taken the loan you naturally take care to see that it is put to good use'.<sup>23</sup>

In an odd twist, the Indian authorities even exerted a degree of reciprocal leverage over the IMF, by explaining how this massive loan to India furthered the interests of the IMF in the eyes of the developing world. The IMF Executive Director for India, M. Narasimham, stated:

The Indian request is an important one for India. It is perhaps no less important for the Fund as an earnest of its policies to help countries undertaking adjustment efforts with a view to overcoming the impact of an irreversible shift in the underlying structure of the external payments. It is an effort whose burden will be largely borne by the

Indian people but in which they also look to the international financial institutions such as the IMF for support. It is in this light that the Indian authorities hope, as I do, that this kind of board will give the Indian request its favourable consideration.<sup>24</sup>

Boughton writes that the IMF staff in the Asian department was quite content to develop a programme that required India to do little more than carry out its own intentions. However, other departments such as the Exchange and Trade Relations Department (ETR) and Fiscal Affairs objected strenuously and insisted on increased conditionality [*Boughton, 2001: 710–11*]. In fact, the head of the ETR department reported to the Managing Director that an official at the World Bank considered the Indian loan proposal to be 'a joke'.<sup>25</sup> De Larosière accommodated the objections of the ETR department by sending the IMF mission team back to India for another round of negotiations. The Indian government agreed to increase savings in the public sector, thus resolving the ETR department's most serious objections to the proposal; the Indian government did not accept greater import liberalisation or any other changes to their loan proposal. The support of De Larosière had given the Indian officials strong leverage in their negotiations with IMF staff.<sup>26</sup>

#### IV. THE INTERNATIONAL DEBATE

The overwhelming majority of member countries were favourable toward the request submitted by the Indian authorities. Other developing countries, looking toward the day when they too might need a large loan from the IMF, warmly welcomed and supported India's request.<sup>27</sup>

Minutes of the Executive Board meeting recount that Ariel Buira, Executive Director from Mexico, stated:

The Indian program fully reflected the aims of the Extended Fund Facility, which had been designed to provide the amount of finance, with suitable maturities, that could permit an adjustment program to proceed at an appropriate pace, Mr Buira concluded.

He hoped that the purpose of the Extended Fund Facility would be borne in mind when other countries sought help from the Fund.<sup>28</sup>

Yusuf A. Niamtallah, the Executive Director of Saudi Arabia, remarked:

... The economic program in support of which India was requesting the use of Fund resources under the Extended Fund Facility was on balance acceptable. The Indian authorities had already introduced a number of important corrective measures and they had expressed their intention to

take further actions throughout the program period. His authorities commended their courage and believed that they were extremely serious in their intention. The need for the balance of payments financing seemed to justify the amount of the request, which authorities could support. They sincerely hoped India's program would succeed not only for the sake of India itself, but also for the benefit of Asia and the rest of the world.<sup>29</sup>

Amongst the developed countries, French support for the Indian proposal was particularly enthusiastic. The French Executive Director, Paul Mentré de Loye commended:

the Indian authorities for their early approach to the Fund and for the scale of the adjustment measures already implemented or contemplated. In nominal terms at least, the arrangement would be the largest transaction agreed to by the Fund, and the success of the programme would be significant not only for India but for the world as a whole.<sup>30</sup>

The Executive Director for Japan, Teruo Hirao, also supported India's request but expressed some concerns. Hirao believed there was a 'major question regarding the nature of the proposed use of the Fund's resources'. Hirao stated that the ambitious loan gave the impression that at least part of the loan would be used as a means of obtaining project related financing in addition to balance of payments assistance, because the funds that would be available to India on the commercial markets for project financing might not be sufficient to cover the additional import expenses. In fact, the Japanese were under the impression that India had, could and should obtain even its balance of payments financing from the commercial markets, given the volume of demands on IMF resources.<sup>31</sup> Nevertheless, Hirao added that he appreciated '... the action of the Indian authorities in making an early approach to the Fund and the efforts they had made to take the steps required by the extended arrangement'.<sup>32</sup> Consequently, he supported India's proposal.

The Reagan administration was unreceptive to the Indira Gandhi regime and publicly opposed India's request but ultimately chose not to vote against it. As India's request conformed to the principles guiding US approval of financing arrangements adhered to under the Carter administration, the Reagan administration's opposition to India's request appeared irregular and contradictory.<sup>33</sup> Nevertheless, the Reagan administration argued that its opposition to India's request was based on a reinterpretation of established US policy. As Richard D. Erb explained to the other executive directors of the IMF:

India's request was the first one to be considered under the Fund's policy of enlarged access since the Annual Meetings. At the Annual Meetings, the US Governor to the Fund has outlined the basic principles guiding the US authorities on specific financing arrangements. Although these were consistent with the Articles of Agreement and the decisions of the Executive Board, it had to be recognised that the approach of the current US administration differed in emphasis, and perhaps at times in interpretation, from the approach of its predecessor.<sup>34</sup>

The US took the official stance that India did not need as much money as it had requested. In addition, Erb argued:

such a large loan to India will 'impinge on the availability of resources for future borrowers' and could also significantly alter the character of the Fund, by moving away from an institution that is ready to provide temporary balance of payments financing on a contingent level.<sup>35</sup>

It should be noted, however, that although he was frustrated by the lack of a detailed statement of concrete structural adjustment measures to be implemented during the programme, Erb expressed sympathy for the dilemma faced by India as a democracy:

He had some sympathy with the dilemma confronting the Indian Government, and recognised that it was difficult in a parliamentary democracy to commit a government to specific action two or three years ahead of time.<sup>36</sup>

The Executive Directors from the UK, Germany, and Australia, echoed much of the US criticism of India's request, but they did not oppose the loan itself. Mr Christopher Taylor, the Executive Director from the UK, expressed his government's concern that India had not needed such a large loan and he also added that India was limiting the amount of funds available to other developing countries. Taylor commented at the Executive Board Meeting:

India had asked the Fund for a large amount of assistance, which would, if granted, entail an exceptional draw down of the Fund's resources. It was for that reason, and no other, that his authorities had looked at the request with particular care. Given the likelihood that there would be other fairly large calls on the Fund in the coming years, the pre-emption of a large slice of the Fund's resources was not something that could be agreed lightly. His authorities have come to the conclusion that the adjustment programme for the first year, a

significant part of which had already been undertaken, seemed to be a satisfactory start toward re-establishing economic stability and the drawings of the size and phasing proposed would be appropriate to support the balance of payments of India through three years of adjustment. He could therefore support the purposed decision.<sup>37</sup>

Ultimately, given the decision of all other countries to support the loan, the Reagan administration did not appear to have a substantial basis for voting against the loan on its own merits. The US decided to abstain from the final and otherwise unanimous vote in favour of India's request. When the *New York Times* asked Erb, why the US did not simply vote against the loan instead of abstaining, Erb replied, 'We did not lobby the other countries to defeat the programme. We were willing to vote on the basis of how we saw the arrangement and other countries voted on their own judgment'.<sup>38</sup>

Thus, in November 1981 India was granted the largest IMF loan package ever given to a developing economy at that time (SDR5 billion, roughly equivalent to \$6 billion over a three-year period). The Indian authorities would not quickly forget the implicit accusation by the US, UK, and Australia that India had acted against the interests of other developing countries in requesting funds from the IMF. However, the Managing Director vouched for the Indian officials as noted at the Executive Board meeting:

With regard to the size of the transaction and its potential impact on the Fund's liquidity, I would say that a transaction with India of this size has been included in the financial projections made by the staff in relation to the enlarged access policy decisions. Thus, the transaction contemplated today is consistent with the liquidity estimates of the staff on which we have been working and it is consistent with the financial policies that have been adopted by the Fund since 1980.

The best thing we can try to do now is to convince those of you who had some doubts on some of the measures or on the wisdom of the decisions, that we were right. But to do that, of course, it is up to the Indian authorities and the Indian people to perform as Mr Narasimham said, very rightly, at the end of the presentation.<sup>39</sup>

## V. THE US APPROACH

US opposition to India's request was not primarily due to its concern for other developing countries. The Americans realised that the Indian strategy of homegrown conditionality significantly reduced the scope of political leverage that the US could exert on developing economies through the IMF and World Bank. Since the Truman administration, most US Presidents

and members of Congress have held the view that the World Bank and the IMF's role is to contribute to the broad political interest of the US.<sup>40</sup> In particular, US officials were upset by the fact that the IMF loan appeared to reward India despite (1) India's refusal to condemn the Soviet invasion of Afghanistan; and (2) India's decision to purchase \$3 billion worth of Mirage fighter jets from France rather than the US [*Boughton, 2001: 714*].

Relations between India and the US had sunk to a new low by mid-1981 after President Reagan announced that the US planned to rearm Pakistan as the eastern anchor of its 'strategic consensus' to protect the oil-rich Persian Gulf from Soviet expansion.<sup>41</sup> Indian officials expressed a longstanding concern that a significant portion of the arms being funnelled through Pakistan to help the Afghani 'freedom fighters' resist Soviet occupation would end up being used against India in the disputed territory of Jammu and Kashmir. Conversely, the US was angered by India's failure to condemn the Soviet invasion of Afghanistan, and India's outspoken criticism of US policies in Afghanistan and the Persian Gulf.

Adding to the strained relations was India's decision to purchase \$3 billion worth of fighter jets from France, which was viewed by the Americans as economically damaging to the US defence industry and politically hostile to US hegemony in the region. US legislators argued that the IMF loan would end up subsidising India's military build-up. In Congressional hearings by the House Banking Sub-committee, Congressmen Stephen L. Neal and John J. Lafalce pressed Erb to explain why India's arms deal with France had not been considered as a sufficient reason to vote against the loan. Erb explained that he was aware of the arms deal, but that such a justification would violate the sovereign authority of India:

Decisions on defence expenditures in particular are at the core of national sovereignty. And I do not believe any IMF member country, including our own, would accept outside constraints on expenditures, which it considered necessary for national security.<sup>42</sup>

Erb added that India's defence expenditure had remained around 3 per cent of GDP and that the arms deal between India and France would not take place until after the period covered by the IMF loan.

It is likely that the Reagan administration's decision to respect India's sovereignty and abstain from the IMF vote was a response to certain conciliatory gestures made by Prime Minister Gandhi toward the US at the Cancun Economic Summit of October 1981. Gandhi reportedly 'soft-pedalled' India's support for global negotiations which sought to increase the voting power of Third World countries in international institutions. India did not join in with Cuba and Algeria in rejecting the Reagan administration's

preconditions for the summit, thereby fracturing the unity of the developing countries.<sup>43</sup> Of course it would be inaccurate to imply that India kow-towed to the US, as India continued to attack the Reagan administration indirectly by vocally criticising the 'negative trend' of cut-backs in low interest loans from the World Bank.<sup>44</sup>

Nevertheless, even though the US abstained from the IMF vote, the Reagan administration maintained that the position that India was operating on a probationary period. As Erb explained in his congressional testimony on the loan, if India did not make the promised structural adjustment after the first year, then 'We would have to probably shift to opposition to the arrangement. In a sense, abstaining has given the Government [of India] the benefit of the doubt that it will follow through on those intentions. And we will see how policies in India evolve'.<sup>45</sup> As the loan was to be distributed in three tranches, the US would have another opportunity to vote on the India loan in 1982, when the second-year disbursement of more than \$2 billion would come up for a vote. As it turned out, the US was satisfied with India's adjustment and supported India's request for the second instalment of the loan in 1982.

## VI. THE DOMESTIC DEBATE

In India, as news of the IMF loan negotiations spread, it initially appeared that the opposition would derail the entire arrangement. The left mobilised rapidly and produced a stunning critique of the loan. However, in the long run the government strategy of couching the loan within the Sixth Five-Year plan trumped the critics' claims about the anti-democratic and neo-colonial nature of the loan arrangement.

The Communist Party of India (Marxist) secretly obtained and published a copy of the IMF Executive Board Summary on the loan agreement, as well as the Letter of Intent from Finance Minister Venkataraman to the IMF Managing Director.<sup>46</sup> The sensational publication of a confidential document led to a conference of 23 progressive economists hosted by the West Bengal government to discuss the economic and political implications of the loan. The West Bengal government issued a White Paper titled, 'IMF Loan – Facts and Issues', shortly thereafter. Left wing economists argued that the arrangement was anti-democratic as the Parliament was not taken into confidence about the loan and that the loan represented a compromise of Indian sovereignty as it imposed restrictions on India's future economic and financial policies. They also believed that the loan was unnecessary, austere, inflationary and unserviceable. The left argued that the same loan could have been obtained on commercial markets without any attached conditions. They contended that the loan prevented India from borrowing on commercial markets and prevented bilateral agreements with socialist countries.

The right's reaction to the leftist critique came swiftly in the form of a book by Dr P.R. Brahmananda and articles in the *Economic Times* [Brahmananda, 1982]. In the words of one scholar, the right's rejoinder constituted an 'extreme defence [*sic*] of the loan' [Saxena, 1986: 158–9]. The right argued that the loan was actually anti-inflationary because of the constraints on the fiscal budget, credit expansion, pricing and policy. They praised the provisions of the loan that would terminate India's 'extravagant expenditure policies' on non-development expenses, fiscal transfers to the state governments, and even food subsidies. Right wing economists argued that middle-class urbanites were the true beneficiaries of the food subsidies, and hence the elimination of such subsidies would be a welcome benefit for the country as a whole. They insisted that although India would need to shift toward an export-oriented growth model, past encounters with the IMF indicated that sensitive domestic industries (for example, steel, cement, fertiliser) would not be dismantled as some leftists had claimed. Finally, the right accused the left of factual errors, political naiveté, ideological dogmatism, and a lack of faith in India's capacity to repay the loan [Saxena, 1986: 160–64].

The government drew strength from the right and argued that the main performance criteria in the loan package related to ceilings on domestic credit, restrictions on bank credit to government, and limits on the money supply (M3) [Joshi and Little, 1994: 167]. Indian authorities remained confident that these performance criteria were not sufficient to allow the IMF to influence or alter India's established economic policies. As the Indian Finance Minister, R. Venkataraman, noted in an interview with *India Today*, when the news magazine asked him whether the IMF would be in a position to dictate policies as a consequence of the loan, Venkataraman answered:

We have clearly mentioned in our letter [of intent] that in all matters of policy we will allow only those, which are approved by Parliament. But we will consult (with the IMF) on all matters. You see consultation is one thing, adoption is another. We will discuss whatever subject they want to discuss in respect of our exchange policy, our export-import policy, our industrial policy, all which will go to make a success of the programme . . . We will have to make domestic production competitive with the world. We will have to earn enough foreign exchange surpluses otherwise we would have added one more burden to our economy. But we will adopt only those policies, which are approved by Parliament.<sup>47</sup>

Finance Minister Venkataraman cited the same argument in the upper house of Parliament, the Rajya Sabha, when the extended arrangement with the IMF was debated. Venkataraman added that a similar loan on the commercial markets would be 8 percentage points more expensive than the Fund loan.

The Finance Minister noted that India was not prevented from borrowing from the Euro market on higher than 12-month terms and IDA loans. There was also no evidence that the loan forbade bilateral agreements with socialist countries. Finally, the Finance Minister ruled out any possibility of a devaluation of the rupee [Saxena, 1986: 164–5].

The government had a well-formulated strategy for the phasing in of conditionality. The government had designed the loan in such a way that it was unlikely that India would need to use the third and final loan instalment. *India Today* asked Finance Minister Venkataraman whether he foresaw a situation in which the IMF could cut off the loan; Venkataraman replied ‘Well, we can also foresee a situation where we may not ask for further loans. If Bombay High [oil field] comes through I may not draw the third instalment at all’.<sup>48</sup> As it turned out, the Bombay High oil project was immensely successful and immediately eased the balance of payments crisis by 1984.

After using the first two instalments, in 1984 Prime Minister Indira Gandhi announced that India’s balance of payments situation was strong enough that India could forego using the third tranche of the loan package. India actually prepaid its outstanding debt to the IMF. India had successfully shown that homegrown conditionality could be a sustainable practice for economic reform in a democratic society.<sup>49</sup>

India explained to the IMF that although the GOI envisaged a substantial overall deficit for 1984–85, the Indian authorities ‘... were reasonably confident of managing [the deficit] on their own’. India stated that ‘An important consideration for the decision was that it would release SDR 1.1 billion which would enable the Fund to meet the requirements of other countries whose balance of payments needs may be more acute’.<sup>50</sup>

India’s decision to cancel the extended loan was well received by the IMF. A summary of an IMF Executive Board Meeting on 27 February 1984 stated that:

Directors welcomed the recent announcement by the Government of India of its intention to cancel the extended arrangement at the end of the current year’s program. This action would significantly improve the Fund’s liquidity position. Directors noted the important progress achieved under the balance of payments adjustment program, despite an unfavourable external environment. India’s decision to approach the Fund in 1981 at an early stage of its difficulties was recalled with commendation.<sup>51</sup>

Even one year later in 1985, at another IMF Executive Board Meeting, there was much praise for India’s achievements under the IMF loan and its decision not to draw the third tranche.

Directors . . . commended the Indian authorities on the success of their economic policies. With regard to the performance of the Indian economy during the period of the extended arrangement, Directors noted that the important objectives relating to higher economic growth reduced inflation, and the avoidance of deterioration in the current account balance had been largely achieved. Steps toward industrial deregulation and import liberalisation and measures to strengthen public sector savings were also likely to enhance economic efficiency once those structural measures had their full effect. India's decision to terminate the extended arrangement on May 1, 1984, thereby releasing committed resources of SDR 1.1 billion, was again welcomed by several Directors.<sup>52</sup>

Of course, some Directors expressed disappointment that the process of import liberalisation had not gone further, while others noted the poor export performance and recommended the need to create a more liberal regulatory environment.<sup>53</sup> Ultimately, the 1981 loan package did not lead to a transformation of the Indian economy as the Indian government and people were not committed to such reforms; India viewed the IMF loan as an economic stabilisation package rather than a reform package.

Despite the failure of the loan to herald a new era of neo-liberalism and export oriented growth, the loan did re-establish links between India and the Bretton Woods institutions and demonstrate that a developing country could interact with multilateral institutions to achieve its national policy goals without compromising its democratic institutions or relative policy autonomy in international affairs. India's prompt repayment of the loan enhanced its reputation and credit worthiness at the IMF, which served India well when it returned to the IMF in 1991 to arrange a major structural adjustment programme.

## VII. LESSONS

India is one of the few developing countries that successfully implemented Fund programmes while effectively ensuring ownership of its reform programme. Through constructive engagement with the IMF, the Indian policymaking elite developed a coherent strategy to gain domestic and international support for economic reforms. The successful strategy of 'homegrown conditionality' offers several lessons for other democratic developing economies faced with balance of payments crises. First, states should approach international financial institutions like the IMF, for precautionary arrangements, long before the actual onset of a financial crisis. Second, a policy framework should be rooted in the democratically approved

economic policies of the country prior to approaching the IMF. Third, it is important to interpret properly the degree of US support or opposition to a loan arrangement. There is a zone of tolerance, which varies depending on the international context and the mobilisation of support from other major economic powers, in which the US may express its nominal opposition to a particular reform package without advocating a direct veto. Hence, the careful assessment of the US stance is of key importance in negotiating an IMF programme. Fourth, it is better to base a loan request on more conservative estimates so that performance is better than promised. This helps to establish credibility with long-term payoffs. Fifth, the goodwill earned by refraining from using the Fund's resources when the balance of payments need disappears and early repayment when possible enhances a country's 'reputation capital'.

India's strategy has gathered greater relevance in the current international political and economic climate, as a set of guidelines for other democratic developing countries seeking international support, for at least three reasons. First, there has been a new wave of democratisation in the developing world, especially in the countries of Asia, South America, and Africa.<sup>54</sup> Second, the weight of developing countries in the world economy has increased through higher growth rates and increased trade facilitated by the adoption of export oriented economic programmes. Third, global institutions such as the IMF and World Bank are under intense scrutiny from civil society to demonstrate their responsiveness to the needs of poor countries without compromising democratic institutions. The turn towards democratic forms of governance by a growing number of the IMF's membership will have an impact on the content and design of economic reform policies by IMF staff. The IMF has added new facilities to address the structural problems of transitional economies. The IMF has begun to make strides towards greater transparency in its interactions with member countries, as policy transparency is associated with democratic and accountable modes of governance. Management at the IMF is increasingly responsive toward this trend of encouraging country ownership.<sup>55</sup> Thus, the environment is supportive for developing countries to secure the assistance of the international community. The history of India's interaction with the IMF demonstrates that it is possible, with strategic planning, to stabilise a macroeconomic crisis and to maintain ownership of a reform package without compromising democratic institutions or foreign policy autonomy.

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## NOTES

1. Although Indian economists such as C.N. Vakil, B.R. Shenoy and P.R. Brahmananda rightly warned of the consequences of the relative neglect of agriculture over heavy industry, the structural roots of India's food security problem in the mid-1960s date back to partition, when India lost access to the food surplus generated by the fertile western portion of the sub-continent (see IMF Document: RDX-34-Confidential; EB Special/69-Confidential (31 May, 1949) 'Report of the Mission to India', Washington DC: IMF, p.4). Prolonged hostilities between India and Pakistan over Kashmir, limited the prospects for the organic recovery of the two economies from the trauma of partition. While Pakistan profited by selling its surplus food stocks to Europe, India was forced to import massive amounts of food (relative to pre-partition imports). India's heavy reliance on food imports from both the sterling area and the dollar area drained its reserves and perpetually imperiled its balance of payments situation. A true resolution to India's food security problem did not come until the Green Revolution in the late 1960s. For a recent discussion of the nature of India's economic strategy see Nayar [2001].
2. Dean Rusk recounts, 'Lyndon Johnson assigned Secretary of Agriculture [Orville] Freeman the task of requiring India to take major new steps in the agricultural field as a condition for any substantial food assistance from the United States. Now, he [Johnson] followed that very carefully and was concerned about the performance of India in its own behalf. He took the view that the President of the United States could not be more concerned about feeding Indians than the Prime Minister of India, and unless the Prime Minister and the Cabinet in India took the steps necessary to feed their own people, there was nothing the United States could do about it'. See Dean Rusk (28 July, 1969) 'Transcript: Dean Rusk Oral History Interview I', by Paige E. Mulhollan, LBJ Library, Tape 1 of 1. See also Lyndon B. Johnson (28 June, 1965-1:56 PM) 'Conversation 8199 with Budget Bureau Director Charles Schultze', Retrieved from <http://www.c-span.org/ram/lbj/lbj8199.ram> on 30 January 2002.
3. Robert Komer (8 June, 1965) 'Memorandum from Robert Komer of the National Security Council Staff to President Johnson', *FRUS 1964-68, Vol XXV, South Asia: 128* - Source: Johnson Library, National Security File, Memos to the President, McGeorge Bundy, Vol.10, 15 April-31 May, 1965. Secret. McGeorge Bundy sent this memorandum to Johnson on 8 June under cover of a brief memorandum in which he stated: 'I think he makes a very good case for authorizing the immediate public decisions, while insisting on a hard new look at our Indian/Pak policy'. (Ibid.) Johnson responded with a handwritten note on Bundy's covering memorandum that reads: 'I'm not for allocating or approving \$1 now unless I have already signed and agreed - If I have, show me when and where'.
4. McGeorge Bundy (9 June, 1965) 'Memorandum by the President's Special Assistant for National Security Affairs (Bundy)' *FRUS 1964-68, Vol.XXV, South Asia: 129* - Source: Johnson Library, National Security File, Country File, Pakistan, Vol.III, Memos, 12/64-7/65. Secret; Limit Distribution; See also Lyndon B. Johnson (5 June, 1965) 'Letter From President Johnson to Prime Minister Shastri', *FRUS 1964-68, Vol.XXV, South Asia: 127* - Source: National Archives and Records Administration, RG 59, Presidential Correspondence: Lot 66 D 294, Johnson/India, 1964-1965. Secret; Exdis.; See also Robert Komer (8 June, 1965) 'Memorandum from Robert Komer of the National Security Council Staff to President Johnson', *FRUS 1964-68, Vol.XXV, South Asia: 128* - Source: Johnson Library, National Security File, Memos to the President, McGeorge Bundy, Vol.10, 15 April-31 May, 1965. Secret.
5. Johnson had become frustrated with Indian Prime Ministers in their interactions with the US. Dean Rusk states, 'President Johnson always had difficulties with Prime Ministers of India, but that was partly because the Indians looked upon their relations with the United States as a one-way street - that we were supposed to do a great deal for India and India was not prepared to do anything for the United States'. See Dean Rusk (28 July, 1969) 'Transcript: Dean Rusk Oral History Interview I', by Paige E. Mulhollan, LBJ Library, Tape 1 of 1.
6. See Dean Rusk (26 March, 1966) '304. Memorandum From Secretary of State Rusk to President Johnson', *FRUS 1964-68, Vol.XXV, South Asia: 297* - Source: LBJ Library,

- National Security File, Country File, India, PM Gandhi Visit Papers, 3/27–30/66 – Confidential. Rusk has denied that there was an attempt to exert a *quid pro quo* bargain with India (see Dean Rusk (2 January, 1970) ‘Transcript: Dean Rusk Oral History Interview III’, by Paige E. Mulhollan, LBJ Library, Tape 1 of 2). However, his account is contradicted by the notes of a meeting between Vice President Hubert Humphrey and Prime Minister Indira Gandhi at her home on 17 February 1966 (see Hubert Humphrey (20 February, 1966) ‘297. Telegram from the Embassy in New Zealand to the Department of State’ – Source: National Archives and Records Administration, RG 59, Central Files 1964–66, POL 7 US/HUMPHREY. Top Secret; Flash; Literally Eyes Only for the President). Records of a discussion between President Johnson and Indian Ambassador B.K. Nehru also cast doubt on Rusk’s assertion that there was no *quid pro quo* with India (see ‘301. Memorandum for Record’ (22 March, 1966) *FRUS 1964–68, Vol.XXV, South Asia: 297* – Source: Johnson Library, National Security File, Country File, India, Vol.VII, Cables, 1/66–8/66 – Secret).
7. Francine Frankel, in her study, claims that Shastri’s view remained unclear on this issue. The sudden death of the Prime Minister left the entire issue to be dealt with by Mrs Gandhi. Source – Frankel [1978: 287].
  8. IMF Document: EBS/66/135 (4 June, 1966) ‘Par Value of the Indian Rupee’, p.2. There was a recovery in reserves in 1966 to \$800 million due to the substantial use of IMF resources.
  9. IMF Document: EBS/65/36 (10 March, 1965) ‘India – Use of Fund Resources’, pp.3–4.
  10. IMF Document: EBS/66/135 (4 June, 1966) ‘Par Value of the Indian Rupee’, p.3.
  11. IMF Document: EBS/66/135 (4 June, 1966) ‘Par Value of the Indian Rupee’, p.3.
  12. IMF Document: EBS/66/135 (4 June, 1966) ‘Par Value of the Indian Rupee’, p.4.
  13. The domestic pressure on Prime Minister Indira Gandhi is inexplicable without an understanding of the economic exploitation of the subcontinent under British colonial rule. As Rakesh Mohan writes, ‘The animosity toward foreign domination through trade and through foreign investment was quite natural in the immediate post-colonial scenario. In order to appreciate the factual basis underlying this animosity, Maddison has provided interesting estimates of the magnitude of the “colonial burden”. Although the British were estimated to comprise only 0.05 per cent of the population of India in 1931, British incomes were estimated to be about 5 per cent of the Indian national income. About 1.5 percent of Indian product was actually transferred to the UK ...’ See Mohan [1982: 85–115].
  14. IMF Document: EBS/67/290 (11 December, 1967) ‘India – Use of Fund’s Resources’, p.7.
  15. Mrs Gandhi was so upset with the way leverage was exerted that she moved politically towards the left and adopted several populist policies, such as the nationalisation of various industries (for example, banking, insurance, and petroleum products). At the same time, she also decided to go ahead with a series of agricultural reforms, which was introduced by former Prime Minister Lal Bahadur Shastri, that came to be known as the ‘Green Revolution’. The agriculture reforms were adopted so that in the future India would not have to depend on Western countries for food grain assistance.
  16. The positive effects of the devaluation appear to have taken effect in 1969 with a reduction in imports and a rapid acceleration in exports. The result was that India was able to repay the Fund \$79 million in one year. However, by this time India had grown further wary of import liberalisation and export-oriented models of economic development. As B.K. Madan, the Executive Director for India, noted, ‘The jolt to the process of growth given by the prolonged drought, coincidentally with a retreat and relapse in the erstwhile growing role of capital flows and foreign aid has naturally led to much rethinking and re-examination of the pace and pattern of development. This is expected to be reflected in the content of the Fourth [Five-Year] Plan for the period starting April 1969.’ IMF Document: EBM/69/10 (17 February, 1969), pp.3–4.
  17. The close knit economic policy team consisted of I.G. Patel, the Governor of the Reserve Bank of India and a former Executive Director for India at the IMF; R. Venkataraman, the Finance Minister; M. Narasimham, the IMF Executive Director and former Governor of the Reserve Bank of India; and L.K. Jha, Chairman of the Economic Administrative Reforms Commission. Other members of the economic policy team included officials who would later help design the major economic reform package in 1991. The distinguished economist, Dr Manmohan Singh, was a member of India’s Planning Commission. Dr Singh would later

- serve as Finance Minister from 1991 to 1996. Bimal Jalan and Montek Singh Ahluwalia were officials in the Finance Ministry. Jalan would later become an Executive Director at both the World Bank and IMF, and India's Finance Secretary. Jalan is currently the Governor of the Reserve Bank of India. Ahluwalia, a World Bank economist prior to joining India's Finance Ministry, would later become the Finance Secretary and a member of the Planning Commission. He is currently the Director of the IMF's Independent Evaluation Office. Dr Arjun Sengupta was an economic advisor to Prime Minister Indira Gandhi, and later Member-Secretary of the Planning Commission, and the IMF Executive Director for India. He is currently a professor at the School of International Studies, Jawaharlal Nehru University in Delhi and the UN's Independent Expert on the Right to Development.
18. Confidential interview (22 February 2002), Interview by authors, Washington DC.
  19. Stand-by arrangements in the mid-1970s disbursed payments in four quarters over 12 months. The money was to be repaid in quarterly instalments over two years beginning in the third year. EFF programmes typically lasted three years and credit was expected to be repaid within eight years. Boughton [2001: 110–11].
  20. Confidential interview (22 February 2002), Interview by authors, Washington DC.
  21. IMF Document: EBS/81/198 (13 November, 1981) 'Attachment I: Letter to Mr J. de Larosière, Managing Director, IMF, from the Finance Minister, India, 28 September, 1981'.
  22. Lok Sabha Debates (2 December 1981), New Delhi, IN: GOI Press.
  23. *India Today*, 15 January 1983, p.117.
  24. IMF Document: EBM/81/138 (9 November, 1981), p.13.
  25. C. David Finch (1997) *Werribee to Washington: A Career at the International Monetary Fund*, Unpublished Manuscript, pp.91–92.
  26. Confidential interview (22 February 2002), Interview by authors, Washington DC.
  27. IMF Document: EBM/81/138 (9 November, 1981), pp.13–15 [Morning Meeting].
  28. IMF Document: EBM/81/139 (9 November, 1981), p.5 [Afternoon Meeting].
  29. IMF Document: EBM/81/138 (9 November, 1981), pp.47–8.
  30. IMF Document: EBM/81/138 (9 November, 1981), p.16.
  31. IMF Document: EBM/81/138 (9 November, 1981), p.35. It is possible that the Executive Board may have anticipated that China, which had recently 'assumed its seat' at the IMF, might also request a large EFF. The Chinese request had been communicated through diplomatic channels and was not subsequently pursued by the Chinese government (Confidential Interview 26 February 2002, Interview by authors, Washington DC.).
  32. IMF Document: EBM/81/138 (9 November, 1981), p.36.
  33. Kendall W. Stiles points out that 'the US reaction was strong and obstructionist'. Stiles [1991: 120] also see Gwin [1983: 511].
  34. IMF Document: EBM/81/139 (9 November, 1981), p.10.
  35. IMF Document: EBM/81/139 (9 November, 1981), p.10.
  36. IMF Document: EBM/81/139 (9 November, 1981), p.13.
  37. IMF Document: EBM/81/138 (9 November, 1981), p.40.
  38. *New York Times* (13 November, 1981), p.2.
  39. IMF Document: EBM/81/139 (9 November, 1981) 'The Chairman's Concluding Remarks with Regard to India's Request for an Extended Arrangement', pp.1, 4.
  40. Robert Komer of the US National Security Council wrote, 'The precedents on economic aid to India/Pakistan go back almost to the end of World War II, basically as part of our effort to shore up the threatened nations on the borders of the Communist Bloc. Then in 1958, we organized a World Bank consortium for *India* as a device to get other Western countries to bear more of the aid burden. Each year since we've used a US pledge as a lever on them. This has proven quite successful – in FY 1965 for example we got total pledges of over \$1 billion, of which our share was around 40 per cent', See Komer [1965]. 'Memorandum From Robert Komer of the National Security Council Staff to President Johnson', *FRUS 1964–68, VolXXV, South Asia: 128* – Source: Johnson Library, National Security File, Memos to the President, McGeorge Bundy, Vol.10, 15 Apr.–31 May, 1965. Secret. See also Kapur *et al.* [1997].
  41. *Washington Post* (18 October, 1981), p.A19.

42. US Congress (4–5 November, 1981, 10 December, 1981) ‘Oversight hearings on US international monetary policies hearings before the Subcommittee on International Trade, Investment, and Monetary Policy of the Committee on Banking, Finance, and Urban Affairs, House of Representatives, Ninety-seventh Congress, first session’, Gov. Doc. Y 4.B 22/1:97–38; GPO Item No. 1013–B; LC: KF27, Washington DC.: US GPO, p.210; See also *Washington Post* (11 December, 1981), p.D8.
43. *Washington Post* (25 February, 1982), p.A23.
44. *Washington Post* (25 February, 1982), p.A23.
45. US Congress (4–5 November, 1981, 10 December, 1981), p.212; See also *Washington Post* (11 December, 1981), p.D8.
46. *The IMF Memorandum* (16 November, 1981) Calcutta, IN: Communist Party of India (Marxist).
47. *India Today* (15 December 1981), p.58.
48. *India Today* (15 December 1981), p.58.
49. Many social commentators and policymakers had believed that India’s democratic government was in large part responsible for its inability to develop rapidly. When Indira Gandhi imposed authoritarian government from 1977 to 1979, Robert McNamara, President of the World Bank, and H. J. Witteveen, Director of the IMF, praised the economic performance of the emergency regime. Rudolph and Rudolph argue that McNamara and Witteveen’s assessment supported Gunnar Myrdal’s earlier diagnosis that India’s inability to develop rapidly was attributable to its ‘soft state’. See Lloyd I. Rudolph and Susanne H. Rudolph [1987]. Similarly, I.G. Patel suggests, ‘the only reason for not drawing fully upon the very generous assistance obtained from the IMF in 1981 in the wake of the second oil crisis was to escape from the discipline of the IMF’. See Patel [2002: 120].
50. IMF Document: EBM/84/14 (26 January, 1984) ‘Statement by Mr Malhotra on India at the Executive Board Meeting 84/16 – 27 January, 1984’, p.2.
51. IMF Document: SUR/84/23 – Confidential (27 February, 1984) ‘Chairman’s Summing Up at the Conclusion of the 1984 Article IV.
52. Consultation with India; Executive Board Meeting 84/17 – January 27, 1984’, p.2.
53. MF Document: SUR/85/19 – Confidential (27 February, 1985) ‘Chairman’s Summing Up at the Conclusion of the 1985 Article IV Consultation with India; EBM 85/28 – February 22, 1985’, p.1.
54. IMF Document: SUR/85/19 – Confidential (27 February, 1985) ‘Chairman’s Summing Up at Conclusion of the 1985 Article IV Consultation with India; EBM 85/28 – February 22, 1985’, pp.2–3.
55. See Horst Köhler (14 January, 2002) ‘Introductory Remarks by Horst Köhler, Managing Director, International Monetary Fund’, at the International Conference on Poverty Reduction Strategies, Washington DC.
56. Programme ownership has become an important concept at the IMF as reflected in a number of IMF publications, speeches, and press releases. See IMF Document: IMF and IDA (15 March, 2002) ‘Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings’, Washington DC: IMF and World Bank; IMF (14 February, 2002) ‘Review of the Poverty Reduction and Growth Facility: Issues and Options’; IMF and World Bank (4 February, 2002) ‘Poverty Reduction, Growth and Debt Sustainability in Low-Income CIS Countries’, Washington DC: IMF and World Bank; Horst Köhler (28 January, 2002) ‘Working for a Better Globalization: Remarks by Horst Köhler, Managing Director, International Monetary Fund’, at the Conference on Humanizing the Global Economy, Washington DC; Thomas Dawson (20 December, 2001) ‘Transcript of a Press Briefing by Thomas Dawson, Director, External Relations Department, International Monetary Fund’, Washington DC.: IMF; IMF Document: News Brief 01/133 (20 December, 2001) ‘Statement by Horst Köhler, Managing Director of the International Monetary Fund, on the Work Program of the Executive Board’; Masood Ahmed, *et al.* (19 December, 2001) ‘IMF Conditionality: How Much is “Enough”? An Economic Forum’, Washington DC.: IMF; IMF (5 December, 2001) ‘Strengthening Country Ownership of Fund-Supported Programs’, Washington DC.: IMF; IMF (17 July, 2001) ‘Conditionality in Fund-Supported Programs: External Consultations’, Washington DC.: IMF; IMF (16 February, 2001) ‘Conditionality in

Fund-Supported Programs – Policy Issues’, Washington DC.: IMF; IMF (15 June, 1998)  
‘External Evaluations of the ESAF – Report by a Group of Independent Experts’,  
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