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AUGUST 1965

# The Current Economic Crisis

M. R. Masani, M.P.

THE Finance Minister, on June 13, announced that the country would not go bankrupt so long as he was Finance Minister.

What are the facts? Are we going bankrupt? What are the prospects of our escaping this disaster? The very fact that the Finance Minister had to give this assurance suggests something the reverse of what is intended, because Finance Ministers of solvent countries do not protest their solvency!

Let us examine some data about five or six concrete aspects of our economic life. First, the dissipating of our Sterling Balances. When the British left India, they left us with assets amounting to Rs. 1402 crores at our disposal in London to be drawn for our international needs. In 1949, within two years, the figure had dropped to Rs. 947 crores. By 1956, it was reduced to Rs. 746 crores. In 1961, the figure had come down from Rs. 1400 crores to Rs. 136 crores, one-tenth of what the British had left. We had managed to dissipate 9/10th. At the end of March this year, the figure had come down to Rs. 86 crores. On 28th May, the figure had come down to Rs. 7.35 crores, and on the 9th of June, which is the last figure we can get, our sterling balances had come down to Rs. 3.54 crores. This is the lowest that India's reserve have sunk in its entire history.

A second index is our foreign indebtedness – the amount that we owe to the rest of the world. In March 1961, our external indebtedness was Rs. 846 crores. In February this year, within four years, it had risen to Rs. 2439 crores. This brings us to our repayment liabilities. It is estimated by the Government that, at the end of the Third Plan, which will be early in 1966, we shall be liable to repay Rs. 650 crores straight away by way of either capital or interest and this payment will amount to 1/6th of our total exports during the Third Plan. During the Fourth Plan, which we are now so cheerfully and recklessly preparing, this liability will increase to 22% of our expected export earnings. In fact, just under 1/4th of all we export and supply to the rest of the world will not get us anything. It will repay our past debts. That is what people mean when they say that the country's future is being mortgaged by this Government.

A third index of our economic condition is the amount of our dependence on foreign aid. Foreign aid does not mean anything of a commercial nature, it means a gift. To what extent are we dependent on the philanthrophy and the generosity of the rest of the world? During the First Five Year Plan, which was a modest and sensible one, only 5.5% of the amount that we proposed to spend was to come from abroad. By the time we got to the 2nd Plan, our dependence on other parts of the world increased to 16%. In the Third Plan, which is now about to come to an inglorious end, foreign assistance accounts for 28.5%. For every two rupees that we spend now, we look to somebody abroad to provide us with one rupee.

Now, to move on to another index of solvency, what is the state of our foreign currency, our money? Every country's credit depends on the state of its money. People talk about shortage of foreign exchange, but there is no shortage of foreign exchange. There is a shortage of an Honest Rupee. Our rupee is supposed to be worth 20 cents of the American dollar, roughly 1/5th of the American dollar since 4.75 rupees make a dollar. That is the theory. Today our rupee in all the world's free markets is worth around 10 cents, just around half of what it pretends to be. And yet we expect people to do business with us under the pretence that our rupee is worth about 20 cents.

*Newsweek*, the American journal, publishes a column where it gives the market figures of currencies all over the world. It gives us a very clear picture of how our currency has been faring during the last few years. According to *Newsweek*, on 17th June, 1963 as against the official price of 4.75 rupees to the dollar, the dollar was in fact worth 5.70 rupees. On the 6th of January, 1964 six months later, the rupee had depreciated and fallen to 6.65 to the dollar. On 9th November, 1964, the rupee had gone down further to 6.90 to the dollar. On 1st February, 1965, just before Mr. Krishnamachari introduced his last unfortunate Budget, you could get a dollar for 7.20 rupees. A day before the Budget you could get a pound for Rs. 24 as opposed to Rs. 13.30 which is the official price. But the morning after the Budget, you couldn't get a pound sterling for less than 27 to 28 rupees.

Finally, the last index, the state of the Capital Market. According to the Reserve Bank's weekly index of variable dividends, of industrial securities, that index declined from 192.9 in April 1962 to 162.5 on February 27, 1965.

From all this it is clear that evidence of the fact that we are on the brink of bankruptcy is pretty conclusive. In fact, the Government, by its own behaviours, is admitting this. Let me mention three symptoms which show this. First, the moratorium on necessary imports. During the current quarter practically all imports have been stopped. Why? Because we have got no money to pay for them.

A second admission of insolvency is the Finance Ministry's demand that all sports teams going abroad should stop. They have informed the All India Sport's Council that no foreign exchange is available, not even a rupee for sportsmen going abroad, till March 1966. What can be a clearer indication of bankruptcy than this confession?

Finally, there is the credit squeeze, the denial of facilities to banks to lend money to perfectly solvent, stable businesses for their needs. The Reserve Bank has ordered the banks to refuse to give finance to solvent businesses and farmers.

We come now to a very unsavoury part of our economic life and policies today. A sports team can go to Czechoslovakia or Hungary or Moscow, but not to any other part of the world. Why? The answer is that when you buy something from, or spend something in, Russia or one of these communist countries, you do not use foreign exchange. They are prepared to accept payment in rupees, and so our naive Government gets delighted with these good friends who don't ask for a solid dollar or pound but take this debased rupee, which is worth 10 cents in payment for their imports or to finance our sports team in Poland or Russia. So they say: "They are nice people, they take payment in rupees from us, so there is no foreign exchange involved." Now this is a big lie, and everyone who mouths it should know it.

When the Soviet Union sells us diesel oil, they take payment in rupees. What do they do with them? Do they just lie in our banks? The Americans do that. The Americans deposit all the rupees from our PL 480 loans, which they also allow us to repay in rupees, in the Reserve Bank of India, and 80% of these rupees are given back to our Government for developmental projects in our own country. The remaining 20% they use for running their own Embassy and for the use of Americans in India. They do not ask us to send anything out of India for these crores of rupees they have acquired in India.

What, in like conditions, do the Soviets do? The Soviets give a small percentage to the Communist Party to destroy our Constitution and our Government, to the fellow travellers, and to certain newspapers whose names we know; and for the rest, they ask: "What are you going to sell us in return? We want your oilseeds, we want your shoes, we want your cloth, we want such and such things." And we sell to them. Now, when those goods leave our country, does it not mean that our foreign exchange has been used?

Suppose there is a certain stock of materials which we sell to the Soviets against the rupees with which we have bought other things from them. If that material had not been exported to Russia would it not have gone somewhere else, and earned us pounds or marks, francs or dollars? Is that not use of our foreign exchange?

So, foreign exchange is used from whichever country we buy our goods. When we buy something from another country, we are using up foreign exchange, whatever the currency they accept, including rupees, because ultimately those rupees are converted into exports and the use of exports means the loss of valuable foreign exchange. This is basic – no country can import anything without giving something in return. Therefore, this rupee sources racket is an attempt to throw dust in the eyes of the Indian people.

Let me give an example of what often happens. Because the Russians accept rupees, our Government has been selling several things to them below the world market price. It has been subsidising exports to Russia. It has been benefitting the Soviet government at the cost of the Indian producer and the Indian exporter.

Here are the figures of our silk exports. During

1963 we exported mulberry silk fabrics in large quantities. The Soviet Union bought 290,000 square meters, and they paid to us Rs. 16.11 lakhs. The United States bought a little less. They bought 219,000 square meters. What did they pay us for this smaller quantity? They paid us Rs. 26.17 lakhs, or ten lakhs more than the Soviet Union had paid for a larger quantity! If the Soviet Russian purchase had been made at the rate paid by the United States, India would have obtained Rs. 35 lakhs of rupees in place of 16 lakhs. Rs. 19 lakhs of foreign exchange were thus thrown away in giving the Russians a cut price! Now, Italy also imports the same material. If the material had been exported at the rates paid by Italy, we would have got Rs. 22.50 lakhs. If the Western European countries had been given that silk, they would have paid Rs. 27.60 lakhs. If Australia had been given that export, they would have paid the highest price, Rs. 37 lakhs. The average Asian rate was Rs. 29 lakhs and the average African rate Rs. 26.40 lakhs. In fact, if we had exported these silk fabrics to any part of the world outside the Iron Curtain, we would have made 50 to 100% more than what we made from Soviet Russia. So this is how we save our foreign exchange!

Finally, we come to one of the worst examples, the crisis over diesel oil and kerosene. On the 31st March everything was fine and there was no problem. On the 1st of April this year, our Government created this problem for which there is no excuse. They suddenly and arbitrarily said that India was not to import any more diesel oil. All import licences were cancelled. When they were asked how they proposed to meet the shortfall, because we produce 75/80 per cent of our diesel but we cannot produce the remaining 15 or 20 per cent, they said Moscow had promised to sell to us for rupees. So they are now buying Soviet diesel. Now who is to distribute it? Their own company, the government monopoly, the Indian Oil Company hasn't got the distribution facilities, they have few pumps. So what do they do? They call in the other oil Companies and try to bully them. They say: Will you sell Soviet diesel as our agents? Why should they? They know perfectly well that in the next few months when the Indian Oil Company has put up more pumps, when at the end of 1965 the Indian Oil Company has enough pumps, the Government will tell them to go to blazes. Does any businessman participate in his own suicide? Does any businessman allow somebody else to establish a monopoly over his trade? So they are blackguarded. The fact is that while they are trying to make scapegoats of the oil companies, they are the real culprits who have created this diesel shortage.

Now why are we in this mess? Why are we on the verge of bankruptcy? It is not because there is any shortage of foreign exchange. There is ample foreign exchange for every one in this world. If you go and offer an honest price for the dollar, or for the pound, or for the yen, or for the franc, you will get any number of dollars, pounds, marks, yens and francs. In other words, the shortage is not of foreign exchange, the shortage is of a decent, honest Indian currency.

Basically, therefore, the cause of our bankruptcy today is the fundamentally wrong economic and planning policies of the Government in India. The policies of so called Socialism and Planning are at the root of our disaster. For ten years, some of us have warned against these wrong policies. Today, the chickens have come home to roost.

We have tried to spend money that we do not possess, we have refused to cut our coat according to the cloth. We have concentrated on heavy industries, which are wasteful and uneconomic, while neglecting agriculture and transport. We have put up State factories knowing perfectly well that the State is not an efficient producer of anything except laws. We have indulged in economic chauvinism and turned foreign capital away from our doors. We are in a mess because we have a bad government and wrong policies.

I would like to conclude by trying to answer the question which agitates on many minds: Can India escape bankruptcy? My answer is that we cannot escape bankruptcy unless certain things first happen.

The first of these is that Government should discard entirely these wrong policies and strike out in a more realistic, more practical direction.

I frankly have very little hope that this group in office can be made to change their policies. The leopard does not change his spots. There is another solution if India does not want to go bankrupt and that is a change of Government. But that can only happen in February or March 1967 if the Indian people show intelligence similar to that showed by the people of Ceylon a few months back.

But, what do we do during the next year and a half? Can India remain solvent for a year and a half. Can we avoid total economic collapse during these eighteen months? I think a great deal will depend on what our friends abroad do.

Today some of us think that the Soviet Union will rescue us, but let us not have this illusion. The Soviet Union is itself in need of credits. The Soviet Union has obtained credits in the world markets amounting to 180 million dollars in the last few months from Britain, Japan, Italy, Belgium and France.

Only the United States, Britain, West Germany, Japan can do so. Now, will they do it? How should they do it? Professor Shenoy, our finest economist, who has a tremendous reputation abroad, says they should not help us any more in the way they have, that foreign aid that has been given has proved a mixed blessing to this country.

Therefore, the West German Government's declaration made on 15th April this year by the Minister for Economic Cooperation, Mr. Walter Scheel, a very Liberal, deserves to be welcomed. They said in that declaration three things. First, no deutschmarks without German know-how. Secondly, the German Government has said that German capital will not come to developing countries unless they learn to treat their capital as it is treated in Germany. The third thing is that they will only give government loans to developing countries for four purposes and nothing more: Roads, bridges, dams and power stations. This is what is called the infrastructure. For other purposes, the German Government wants us to borrow money from private parties in a commercial way. That imposes the discipline of the market on us. One hopes that other Governments will follow the West German approach. Something like this is likely to happen. One sees some indications of it. *The U.S. News and World Report* says in its last issue: "Nations that have tried to blackmail the United States by threatening to go to Russia if aid is not increased have been told to do just that."

Why do I welcome this trend? Because I feel, as Professor Shenoy does, that the way that American food and American aid has been given to this country had defeated its own benevolent purposes in some respects. Take food. The American Government has been feeding us for the last five or ten years. What is the result? The result is that we make more and more cock-eyed Plans. If there was no American grain coming in and people were facing starvation, not even this Government could continue to waste money on steel plants and heavy industries and Television. They are now proposing to spend Rs. 100 crores on Television from the poor taxpayer's money, when they don't give him drinking water! Therefore, so long as the American people go on feeding us free of charge, as they are doing now, our Government will go on making bad Fourth and Fifth Plans, taking us further and further down the slope. I would therefore suggest that the American Government gives India twelve months notice that, if within twelve months, the Fourth Plan is not scrapped, if larger amounts of money are not ploughed into the land to produce more food, they will stop gifting us more grain.

That, I fear, in the next eighteen months is the only way in which those who are in office today be persuaded to come down to earth.

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