FOREIGN EXCHANGE CRISIS —THE WAY OUT

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> "People must come to accept private enterprise not as a necessary evil, but as an affirmative goad."
>
> —Eugene Black

FOREIGN EXCHANGE CRISIS — THE WAY OUT

I

A. D. SHROFF*

The foreign exchange crisis is a built-in crisis in our Plans. In drawing up the Plans, the planners estimated that apart from our internal resources to implement the various targets, they will need a certain amount of foreign aid or foreign assistance. This would be best illustrated by our actual experience of the working of the Second Plan. At the beginning of the Second Plan, we had Rs. 746 crores of foreign balance in London. The planners estimated that at the end of the Second Plan, after meeting all the expenses involved in implementing the targets of the Plan, these balances will be reduced by Rs. 200 crores. Of course, they had assumed that there would be foreign assistance to the extent of Rs. 800 crores. What actually happened at the end of the Second Plan mas that, in spite of the anticipation of assistance of Rs. 800 crores, we actually had foreign assistance of about Rs. 1,600 crores, but Rs. 746 crores of our foreign balances which were assumed to be reduced by Rs. 200 crores were brought down to Rs. 140 crores! That explains what is meant by a built-in crisis. In making estimates for the Plan, there was such gross underestimation of the foreign exchange component of the various targets to be fulfilled that in spite of the fact that the foreign assistance received was double than was estimated, our own balances were reduced from Rs. 746 crores to Rs. 140 crores at the end of the Second Plan.

Another reason for the crisis is the imports spree which was started from the end of 1955 and which continued in 1956. This was the real genesis of our foreign exchange

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crisis. In those days, the Government's economic advisers believed that if inflation in this country had to be checked, the best and most effective way was to bring in as much of imports as possible so that it would absorb all the additional purchasing power which was placed in the country through the Plan expenditure. On the basis of that philosophy, Mr. T. T. Krishnamachari, as the then Commerce Minister, issued incredible amounts of licences for all sorts of things. I know very well that not only in shops in Bombay but in Poona I used to see unusual things like paintings, Italian goods of luxury character, all imported in implementing the philosophy that the more of imports we had the more effective it would be as a cushion against the increasing purchasing power which was being pumped into the economy.

When we started as an independent nation, we had about Rs. 1,800 crores of foreign balances to our credit. In those days it was really a problem as to what we were going to do with these huge balances which had accumulated during the war. When our country's delegation, of which I was a member, went to the Bretton Woods Conference regarding the starting of the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund, we delegates from India were very much worried about our foreign balances and, therefore, tried to induce particularly the representatives of the United States of America, to include our foreign balances in London in the sum total of the international balances that had to be dealt with by the International Monetary Fund. But our appeal was disregarded and we came down from there wondering all the time in 1944 as to what would happen to our balances. After Independence, in the first few years a very substantial part of the foreign balances were spent in imports of foodstuffs of which were very short. An estimate has been made that nearly Rs. 800 to Rs. 900 crores of foreign balances spent in the earlier years of Independence were absorbed in buying foodstuffs to see that there was no acute shortage in the country. Then came what is popularly known as P. L. 480.

P. L. 480 is what 'is called Public Law 480 of th United States of America. Under this Law, the United States Government makes available to other countries its surplus farm products. In America, under the Law, the Government at certain fixed price takes over from farmers surplus products like wheat, rice, oats, barley, butter, cotton, tobacco, cheese, etc. For the last several years, the American budget provides for nearly $6\frac{1}{2}$ to 7 billion dollars for buying over the surplus farm products. America is very generous and, therefore, makes available these surplus farm products to countries which are in short supply. Thus, India has been the biggest beneficiary of P.L. 480. The American Government, for instance, gives us wheat in very substantial quantities. The repavment has not to be made in dollars; it is to be made only in rupees. The last loan given was really a charity and not a loan in that it is to be repaid over a period of 40 years. For the first 10 years, there is no repayment excepting interest charges. A certain portion of that repayment in rupees is used by the American Government for its own use. A large portion of that is again used by the American Government in supporting charitable causes in India.

P.L. 480 has a very Important relevance to our exchange problem. If India had not been a large beneficiary under P.L. 480, our exchange problem today would be ncredtble.

We have been getting very substantial amount of assistance from abroad. There are two ways in which we can get assistance. One is in the shape of "tied loans" and another as "united loans". The exchange problem has become very acute in our country because the bulk of the loans which we have been receiving are "tied loans". The Government in the Five-Year Plans has thought of various projects. The lender foreign Government says, "If you want to build a Thermal Plant, Fertiliser or Hydel Project, you show us the project, we will study it and if we are satisfied, give loans against this project". What has happened is that even in the Third Five-Year Plan, although in the first two years we have been promised assistance to the extent of about Rs. 1,180 crores, barely Rs. 100 crores is "untied)' loan.

An "untied" loan means that the foreign Government will say that it holds at the disposal of the Government of India, say 100 million dollars. Our Government can utilise these dollars in buying anything it likes, for instance, in buying what is called maintenance imports.

Since our Independence, through the various Plans me have added considerably to the industrial capacity of the country by using the loans which we got from abroad. We have created three steel plants. The two earlier steel plants have been expanded with the assistance of the World Bank. The Government has created fertiliser factories, big river valley projects such as the Damodar Valley Project. All these have involved a capital expenditure running into crores of rupees. But once this industrial capacity is treat-ed, it has to be used. In order that we may use it, we must have the essential raw materials. We must have the spare parts for the machinery we have pnt in. We must have component parts for that. In other words, we re-quire "maintenance imports" as against "development imports" which mean import of capital goods. Maintenance imports require larger volume of foreign exchange because our installed capacity of industries has gone up considerably. Where is this foreign exchange to be found?

The balance between import and export constitutes our foreign exchange. Unfortunately, as the position stands, we have consistently an adverse balance of trade. That means, me are importing more goods and services than we are selling abroad. So, unless our exports exceed imports, we are not in a position to have enough of maintenance imports to enable us to run all our industries at their maximum capacity.

We have been hearing a lot of export drive. But figures of exports and imports for the last half year show a very big gap between mhat we have been able to earn

through exports and what we have to pay for imports. The unfortunate position of our country is that we have only certain traditional lines of exports; we export jute, raw jute and finished jute, tea, mica and manganese ore and, in recent years cotton textiles. We have created a number of new industries. But the products of these industries are not competitive in the world markets. We may be selling some fans or sewing machines abroad but the new exports which we are trying to develop through the development of our new engineering industries do not yet make an impression on our balance of payments. The gap between exports and imports is so big that unless we are able to export more the exchange crisis will get deeper and we might soon reach a stage where we may have to negotiate with our foreign lenders about the amortization of loans and even the servicing of loans.

In the Third Plan, we shall need at least Rs. 500 crores to make interest payments on the foreign loans we have borrowed so far (excluding the last two years) and the re-payment of some of the instalments which are becoming due on the past loans. It ma); well be in the neighbourhood of Rs. 140 to Rs. 150 crores a year. At a time when we are not able to export enough even to enable us to import the main necessities to run our industries, the repayment part causes a more acute problem.

The foreign exchange problem is becoming more acute and I hope that the day will be later than sooner when India might be compelled to declare its inability to repay or meet its obligations with honour. Up to now, India has enjoyed very high credit in the world markets because India has always honoured her obligations. But with the Soviet model of planning in which our Government has indulged since Independence, our country has been driven into a situation where the high credit that India has en-joyed so far in the world markets perhaps will suffer a very serious reverse. Even now, at this late stage, if the Go-vernment will realise the gravity of the situation and try to measure its resources in a realistic way and adjust its ex-penditure to the available funds, India may not be driven to the desperate situation of defaulting on her payments.

II

R. V. MURTHY*

If one is asked to comment on the present foreign exchange crisis in the country, one cannot do better than repeat the legend below a recent cartoon of Mr. R. K. Laxman in the "Times of India" which read thus: "The situation was not dangerous, though serious then. Now, the situation is not serious, but pretty dangerous". Our balance of payments position has been none too satisfactory for the past so many years though it has lately become "pretty dangerous". Right from the start of the First Five-Year Plan, India has been having a trade deficit which has steadily risen from year to year. During the middle of the Second Five-Year Plan, i.e. in 1957-58, there was an adverse trade balance of as much as Rs. 565 crores — the highest for any Plan period so far. Notwithstanding this, there was not then the same concern on the part of all concerned for our foreign exchange position as what we have today. Perhaps it required a shock like the one that was administered to this country when the Aid-India Club, which was to assure supplies of foreign exchange for the first two years of the Third Five-Year Plan, adjourned *sine die*, without coming to any conclusion, to bring home to us the seriousness of the situation.

For obvious reasons, the foreign exchange problem did not appear so grave during the first and the second Plan periods. This was because, at the beginning of the First Plan, we had Rs. 951.41 crores of foreign exchange reserves, and we did not have to draw much from our foreign exchange reserves during this Plan as the Plan was one of modest dimensions. Otherwise also, we were very comfortably placed thanks to the boom generated by the Korean war. But the position started to deteriorate with the increased import bill consequent on the enlarged size of the outlay in the Second Plan. Moreover, the Suez episode disturbed our import schedules and also swelled our import bill. Thus, when we embarked on the Third Plan, not only were the available foreign exchange reserves meagre, but our total foreign exchange requirements for the Third Plan also rose to the figure of over Rs. 3,000 crores, including the P.L. 480 credits. It is not merely this fact, but the superimposition on our economy of an inflationary situation as well, that has occasioned growing concern on this account. Had prices not begun to rise so sharply as they have tended to do, the position might perhaps have been more manageable. This would be evident from the fact that it is not in the case of India alone that reserves of gold and freely convertible foreign exchange have fallen steeply, as the following table shows:

RESERVES OF GOLD AND FREELY CONVERTIBLE FOREIGN EXCHANGE. MID 1962 POSITION

West Germany -	enough to	finance	imports of	6.8	month
Italy	,,	,,	,,	7.4	,,
United States	,,	,,	,,	14.00	,,
France	,,	,,	,,	6.3	,,
Netherlands	,,	,,	,,	4.2	,,
Belgium-Luxurnburg	,,	,,	,,	4.6	,,
Britain	,,	,,	,,	3.3	,,
India	,,	,,	,,	2.6	,,
Denmark (controlled *economy)*	,,	,,	,,	1.00	,,

There is, however, one feature that distinguishes India from other countries, in that the latter are not overwhelmed by anything like the inflationary situation that has developed in this country. Again, unlike India, they have sufficient foreign balances still to draw upon. This explains the predicament in which India finds herself, namely, of having to implement a Rs. 10,600-crore Plan entailing foreign exchange expenditure of over Rs. 3,000 crores, with only a meagre foreign exchange reserve and with the chances of adequate foreign aid forthcoming to fulfil even the original financial targets remote. It is a matter worth investigating whether a less ambitious Plan more in keeping with our

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meagre resources would not have saved us from our present straits. Ignoring the case for or against a heavy industry-biased development Plan, one cannot but question the woeful 'unpreparedness of the authorities to meet a steadily rising maintenance import bill following the installation of heavy industry, on the one hand, and a steadily rising annual repayment of debt together with the accrued interest thereon, on the other. There was yet another unfavourable development from the point of view of the primary producing countries, generally, and of India, in particular, namely, the fall in prices of primary products. Surely, it did not require an astrologer to predict these developments, as the signs were there on the economic horizon as early as in April, 1956, when Mr. C. D. Deshmulrh categorically stated that the foreign exchange problem was already upon us.

At this stage, it is perhaps worthwhile to consider whether at least the intensity of the problem that we are today confronted with could have been mitigated. In the opinion of many economists who have given careful thought to this question, the intensity of the problem could undoubtedly have been reduced by a more careful handling of the promised credits. The following figures of unutilised credits at the end of the first two Plan periods and at the end of next year, as per the latest estimate, tell their own tale:

At the end of the first Plan	.. Rs. 108 Crores
At the end of the Second Plan	: : Rs. 707 Crores
At the end of 1962-63	: : Rs. 880 Crores.

If we compare these figures with the total requirements of foreign exchange of the Third Plan of Rs. 3,200 crores, including Rs. 600 crores of P.L. 480 funds, the enormity of the blunder of the slow tempo of utilisation of foreign aid becomes obvious. True, the entire blame for non-utilisation or under-utilisation of credit cannot be placed at the doors of the Government of India alone, especially in the light of our experience of the yen credit. But, once the difficulties mere known, one thought that the authorities would have spared no effort to overcame these difficulties and to avoid past mistakes.

In a way, we ourselves are responsible for the present foreign exchange problem. Our initial mistake was to underestimate our total foreign exchange requirements for implmenting the Plan. We should have been more guarded than we have been found to be in arranging foreign aid. We should have been, from the beginning, a little more circumspect about "tied" loans, tied either to a country or to a project. Incidentally, here is a partial explanation for the non-utilisation of a good bit of the foreign aid promised to this country. Because the loans were tied to projects, we could not make use of the loans except in a pre-defined manner.

It is the unenviable experience of developing countries like India that has prompted some of India's genuine friends like Mr. Eugene Black to propose that more and more aid to developing countries must take the form of IDA loans. Loans given by IDA are 50-year loans and, there is no question of repayment for the first ten years; also there is no interest, but only a nominal service charge of 3/4 per cent per annum.

The slow tempo of utilisation of foreign aid brings in its wake a number of other difficulties. When the projects for which credit is available are not implemented according to schedule, the country would be called upon to increase its imparts to a greater extent than estimated earlier. The same consequences will follow also, if there should be a shortfall in the estimated total foreign aid. In the latter event, the whole Plan may have to be phased so as to concentrate on what has come to be familiarly known as the "hard core" of the Plan. To put it differently, there would have to be cuts in even some of the important sectors like power, iron and steel, fertilisers, and cement. This again, would not only result in an increase in our import bill, as already stated, but would also lead to a rise in prices, consequent on the resulting scarcity of supplies. There would, of course, also be more unemployment.

As regards remedies, the first, and undoubtedly the most sensible, suggestion is that we should augment our exports as much as possible. Theoretically, at any rate, this is even now being done, what with the creation of a separate Ministry for International Trade and a number of export promotion councils and the grant of export incentives. Not all these would be of any avail if the will to export is absent on the part of those that should export. Equally essential, of course, is thepreparedness of the countries who may genuinely wish to import Indian goods. To be honest to ourselves, we must ask the question : "Are our goods accceptable to them, judged by the twin criteria of price and quality?" Hence the suggestion that India should emulate Japan which has succeeded in maintaining the rate of its economic growth, in spite of its balance of payments difficulties. This is more easily said than done, for we have never been as export-conscious as, say, Japan : nor have we the quick adaptability of Japan to changing conditions. Further, unlike our exports, exports from Japan are both good and reasonably low-priced. Since the American occupation especially, the Japanese technique has undergone such a change that Japan can now compete successfully with any country in the world, even in such highly advanced fields as electronics.

Secondly, as suggested by Mr. Eugene Black, we should go in for more and more of IDA loans, if our reputation for creditworthiness is not to be jeopardised. The only snag here is that we may not get all our requirements of foreign exchange in this form, inasmuch as we will be one in a fairly long queue of developing countries soliciting IDA loans. Even if we should get all our loans as IDA loans, it is not enough; they must be promptly put to the best use.

Thirdly, there must be a reappraisal of all "tied" loans. If there is a leeway between the total estimated cost of the project and the actual amount of credit promised, necessary action should be taken. If this is not done, our balance of payments difficulties are bound to continue even with more tied loans.

Fourthly, a stage has been reached when we should go slow with our collaboration agreements by restricting them only to the most essential spheres. This presupposes certain restrictions on foreign investments and technical collaboration agreements so as to slow down the drain on our foreign exchange resources. Foreign investments (estimated at Rs. 600 crores) and technical collaboration agreements (involving about Rs. 800 crores) are believed to be responsible for the following outgo:

	Remittance of Profits	**Technical Fees**
	(Rupees in Crores)	
1956 — 57	**23.9 (R.P)**	**23.6 (T.F)**
1059 — 60	**44.7 ,,**	**27.5 ,,**
1960 — 61	**55.9 ,,**	**31.9 ,,**
1961 — 62 (first half)	**36.8 ,,**	**21.4 ,,**

Attempts must be made to prevent smuggling and other invisible drains. The large-scale smuggling of gold into this country is mainly due to the very attractive price that the Indian market offers. It also stems from the slowly eroding value of our rupee in other countries. It is because of this that the devaluation of the rupee has been recommended in certain quarters. If devaluation is deemed too drastic, it is suggested that at least schemes like "Exchange Auctions", coupled with export subsidies, might be tried.

Among other suggestions are (i) to avail ourselves of the standby credit from the International Monetary Fund, and (ii) to turn more and more to the East European countries for our imports against payment in rupees. While the first of these suggestions has already been availed of — there are, however, severe limitations to this — thesecond is not without its dangers. It might have been all right to enter into rupee payment agreements when, as in 1969-60, we used to export more to these countries, but not now when we are having a gradually increasing adverse trade balance. Furthermore, the rupees that are paid in settlement of the trade balances. will add to the already large currency in circulation and thereby impinge on our domestic price structure. We have no means of ascertaining, as, for instance, in the case of the P.L. 480 funds, how the rupee payments to the East European and other countries are utilised in India. The result of such uncertainty is no less serious than the uncertainty caused by the unpredictable effect of black money on our prices.

Finally, there is the suggestion for utilising private gold hoards. Apart from the psychological effect on the morale of the people, the compulsory acquisition of private gold by the Government will present innumerable difficulties, such as the fixation of an acceptable minimum holding and the price to be paid for the gold acquired. If the prices are to be the current ruling prices in this country, the Government would straightway be a loser, in that it would get credit only for half the price paid by it when it offers this gold to any country in satisfaction of its balance of payments dues. This apart, prudence demands that an extremely unpopular measure that this is bound to be must be resorted to only if it promises to achieve the purpose in view wholly and satisfactorily. No one in his senses will maintain that the equivalent of all the private gold hoards in this country will at all be adequate to finance the foreign exchange requirements of the country for even one Plan like the present Plan, let alone, for the many more and even more ambitious Five-Year Plans yet to come.

III

DR. LANKA SUNDARAM*

There is a facile assumption in official and ministerial circles, and also among the apologists of the Government, that, after all, the foreign exchange problem is a "built-in" problem, which has been integrated into the structure of the three Plans, obviously implying that it is a problem of which the Government was aware from the very first dav of the First Plan, and for which it is trying to make provision. There is no validity at all for this assumption. The problem is the result of a completely runaway system of economics and economic policy. I shall illustrate this by examining various facets of the problem and the way it has been handled.

There is no validity for figures contained in any publication of the Government, whether it is the Budget memoranda, the Planning Commission's calcnlations, or even the Reserve Bank of India's calculations. The result is that, we do not know what the problems are of foreign exchange in terms of quantum, of their implications, and more so of what they would mean to us and the future generations through amortization repayments. After insistent clamouring in the country, in the 1962-63 *Budget Memorandum*, the Government became aware of the existence of a problem of magnitude. Now the Government is revising the figures to the best of its ability, to give citizens an opportunity of trying to ,understand what the figures are. But, even today, after 15 years of continuous application as a professional economist and as a journalist, I am not able to give you a fairly accurate position of what the foreign exchange problem is, and what it would mean to us.

All known economic techniques are insufficient to describe our foreign exchange problem today. In the old days, it was only a question of balance of trade, whether it was favourable or adverse. But, today it is completely integrated with the structure of the Plan, the targets of the Plan, the manner in

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which the Plan is being sought to be processed, and the results so far achieved, or are in front of us.

We have wiped away, almost to the vanishing point, Rs.1,800 crores of sterling balances which came to us on the day of freedom. We had budgeted for more than Rs. 6,000 crores of foreign assistance for the three Plans. In 1955 and 1956, there was indiscriminate issuance of import licences, whose burden we are carrying today and mill have to carry tomorrow. From such an insensate policy of issuing import licences, we have now come to the other end of the swing of the pendulum—total austerity in imports. And finally, the domestic market is sought to be denuded of goods in order to sustain our projected export drive. These and other issues are inter-related with each other.

There is a sort of erroneous impression that foreign assistance is purely a matter of money coming into our country for certain developmental purposes. I have always held a contrary view, and I found support in one of the latest books sponsored by the Federation of British Industries, and written by Mr. H. J. P. Arnold. He says:

> "The expression 'trade and aid' which is used so often these days conveys the subtly misleading impression that 'trade' and 'aid' are separate entities, that they might be mixed in varying proportions in promoting development in the low income countries, and even that one might be substituted for the other. This is, of course, false........ And any investment abroad is, therefore, more than trade; it is production and employment both in the investing and in the recipient countries; and it is economic growth and increased prosperity all round."

This is true at least as far as Western assistance is concerned.

As regards Soviet bloc's aid, even though problems of convertibility of currencies do not bother those countries, the following comments by Klaus Billerbeck on Soviet foreign aid to underdeveloped countries is relevant.

> "The fact that repayment clauses place the initial emphasis on deliveries of local products and only quote payment in convertible currency as a secondary alternative should........not be overstressed. The repayment of loans received from private Western firms, which normally takes place in convertible currency (although leading Western companies have in recent years been accepting payment in local currency with this currency *via* associated companies) in the last resort also amounts to payment by delivery of local products. Convertible currencies can, after all, only be obtained by means of export........Repayment in kind in the case of India, for example, is likewise equivalent in practice to payment in foreign currency, unless the amounts repaid are used to buy products which India otherwise would not export."

In other words, aid from Soviet bloc comes to denudation of our goods.

There is one estimate for 1957-58 and 1958-59 made by the "*International Economic Assistance to Less Developed Countries*" (a United Nations Publication) of foreign public assistance, *viz.*, to the Public Sector in India, which is the kingpin of planning and development and which is also the primary cause of shortage of foreign exchange. It says: "Foreign public assistance as a percentage of gross fixed investment was 10.6 in India compared to 14.3 in Burma and 15.6 per cent in Ceylon."

Thus there is an interplay of factors, and not merely money coming into India in the shape of aid, loan or grant or even charity. The impact of the foreign exchange problem is upon our national economic development and also on the shape and size of the Plans.

On August 27, the Union Planning Minister said in Lok Sabha that there "was objection raised by an Hon'ble Member about debts being incurred. He asked, how shall we repay them? Any businessman knows that when he goes and contracts a loan he gets accommodation from the Bank on certain calculations that he is going to pay the interest and make something for himself. It applies to the nation also." An assurance of this character is misplaced in the present context of the running of our Government's affairs, in the financial and the economic spheres.

The first principal element in the problem of our foreign exchange relates to deficit trade balances. Unfortunately, in our country there is no attempt made to pursue the problem of the physical quantum of exports and imports. We are only concentrating upon the financial implications of imports and exports—money values only—with the result that an accurate picture of the balance of trade position will not be known to us in terms of economic implications. We know only the figures of values. For the years 1956-57, 1957-58 and 1958-59—I have taken the peak period figures available so far—the "*Economic Survey*," issued to Parliament, says that the gross, (i.e. total) adverse balance of trade was of the order of Rs.1,554.20 crores. For the same vears, the "*Reserve Bank of India Bulletin*" says that the figure was Rs. 858.91 crores; and, for the same years, again, the "*Report on Currency and Finance*," also a Reserve Bank publication, saps Rs. 826.61 crores. A difference of about Rs.650 crores in three of the key official publications of the Government and of the Reserve Bank, perhaps the most important authority on matters of this character, is astonishing. To draw any conclcsion from these figures is an impossible task.

The discrepancy persists. The July issue of the "*Bulletin*" of the Reserve Bank of India gives two tables, one on page 1123 and another on pages 1133 and 1134. On one page, the adverse balance of trade for 1956-57 is shown as Rs.283.29 crores. The other page saps it is Rs.464.3 crores. Similarly, for 1957-58 the figures given are Rs.401.6 crores in one place and Rs.565.1 crores in another place!

Let us now examine the very important question relating to the overall position of our external trade, both import and export. The Union Planning Minister, on August 27 in the Lok Sabha, said: "Actually, India's share in world trade has come down from 1.5 per cent in 1955 to 1.2 per cent in 1960-61." What has happened to the generating economic tempo in this country as a result of two Plans? In other words, the whole approach to the problem of adverse balance of trade is neither

realistic nor accurate, and will not lead us to any proper or valid conclusions.

I have worked out the detailed figures. Private imports have been brought down from Rs.810.9 crores in 1956-57 to Rs.591.5 crores in 1960-61, and the figure for the last half year is Rs.308.6 crores. The Government wants to step up this export figure to Rs.720 crores a year, and, we are to build up a position which at the end of the Third Plan period will result in Rs.1,300 to Rs.1,400 crores of exports! On the other hand, the Government imports moved up from Rs.287 crores in 1956-57 to Rs.537.4 crores in 1957-58, came dcwn to Rs.496.9 crores in 1960-61, and the average for the last pear will be round about the same.

It is against this background that I want to make another general proposition. Mr. Ramaswami hludaliar, who mas Chairman of the Export Promotion Committee, has said that "it mill be illegitimate, irresponsible and immoral to give priority to internal trade over exports." He said this in the context that there are more profits in our country for manufacturers and traders than in exports. I do not agree with this view. Since the First Plan period, our cost of living index has shot up. From 86 at the end of the First Plan, the food prices have shot up to nearly about 130 a few weeks ago. The general index also was in the same position. In this situation, if the country is denuded of goods, specifically for the sake of export promotion, the position of our population, of indastry, cost of production, and, eventually, of the need for getting more foreign aid in an atmcsphere which unfortunately is not particularly happy, will become very difficult.

Having found that our figures of imports and exports have no validitv and will not give us a concrete picture of the manner in which provision must be made to tackle a certain deficit balance of trade, let us examine a few related issues like Commonwealth preferences, the G.A.T.T. and the E.C.M.

About eight years ago, the Government of India appointed a committee to evaluate the implications of the Commonwealth Preferences. After some of us went on beating at the dcor of the then Commerce Minister, Mr. T. T. Krishnamachari, one or two copies of the report were privately shown. Discussion was blocked, even in the Lok Sabha, on a matter of this vital character. Only a negative conclusion was drawn up by that Committee, *viz.*, that it was not to the advantage of India. The Committee recommended a review of Commonwealth Preferences, which should have taken place some six years ago. This has not been attempted even today.

As regards G.A.T.T., again, a debate on that important document, which is of vital importance to us, because it is the governing instrument of our international trade even today, was blocked in Parliament. According to British or American parliamentary practice and procedure, an agreement which is signed must be debated upon by the national Parliament and approved *before* ratification.

For last 15 years, some of us have been trying to have a treaty of friendship, trade and navigation with the U.S.A. U.S.A. is the only country in the world with which India has no trade treaty even today. Everything is *ad hoc*, all because of the exceptionally complicated problems of Indo-American trade, and in the context oF the tremendous amount of money which has been given to us by that country. No attempt is made to bring about a treaty on a bilateral basis.

As regards E.C.M., although the Treaty of Rome setting up the economic group was signed in 1957, Parliament and people of our country are not given access to any information of importance and utility on the implications of the E.C.M. as far as we are concerned. Only two or three documents became available after the Brussels talks a few months ago. In other words, there was no preparedness, ncr any attempt at preparedness, to see that our trade is protected.

I have reviewed all these relevant matters to set our foreign exchange problem in proper perspective. Aid is not merely a set of financial transactions, especially in the contest of P.L.480 and P.L.665, the Colombo Plan and so many other adventitious aids; but the sum total of actual investment; it is foreign capital investment predominantly in the Public Sector, and in the case of Export-Import Bank, in occasional investments, in the Private Se tor.

A document on foreign assistance was recently presented to Parliament. From that document, I have tried to calculate the implications of direct foreign assistance impinging upon our external balances. There is a "Statement showing amounts due for payment (amounts drawn less that repaid) by the Government of India to different countries on account of foreign loans and credits as on June 30, 1962." And the footnote says that this statement does not include, (1) Loans given by the International Rank for Reconstruction and Development; (2) Loans of International Development Association; **(3)** Drawings from the International Monetary Fund; and (4) Loans given by foreign countries to autonomous Public Sector and Private Sector bodies.

What is the purpose of a document of this character, after 15 years of freedom, when people want to know how much we owe the foreign countries? There is a deliberate attempt to mislead the country about the true position of the foreign exchange problem. The amount given is Rs.912.15 crores. Rates of interest vary from $2\frac{1}{2}$ per cent to 7 per cent. Some loans fall due for payment in a year or two years; sometimes the first payment begins after **5** years, some go up to 6 years, and some others go up to 20 years.

Assuming that, if the average rate of interest is 4 per cent, and assuming that we have to make the repayment in 15 years, the impact would be about Rs.150 crores a year, to be paid out of the Consolidated Fund of India towards the discharge of our foreign debt obligations.

If this is so, and supposing chat the average adverse balance of trade is Rs.400 crores in a year, the combined total will represent 75 per cent of the non-developmental outlay of the Central and State Governments, all put together, in every year, roughly about Rs.500 to 600 crores. Where is this money for us to repay, how will we repay, and what will we do to recoup the repayment in terms of economic factors in India, are difficult problems to be solved. Credits have fallen due for repayment, especially the West German credits. We have asked for a moratorium and postponement of them.

I had known something about the work of the Bank for the Settlement of International Debts created after the first World Win at Basle. England used to pay £1 as token payment every year to the U.S.A., and, finally, everything was written off. Two billion American dollars were wiped out. I think the stage is very soon coming when we in this country will be unable to shoulder these amortisation obligations; and we are mortgaging the fortunes of the future generations of the country, leave aside those of the present.

I was only able to get one reference to what we have done towards repayment. One of the latest Government publications entitlrd "*Economic Classification of Central Government Budget for 1962-1963*" says that in 1960-61 we repaid Rs. 17.71 crores. In 1961-62, according to revised estimates, we repaid Rs.67.6 crores, and in 1962-63 Budget Estimate it is Rs.44.8 crores. From 17 to 67 to 44. As more loans are coming and as more amortisation obligations are being taken on our shoulders, our repayments are becoming less and less. It only illustrates the manner in which budgeting, control of budgeting and planning in general are carried on by the Government.

The total repercussion of this type of budgeting and control of economic planning are to be studied carefully. In 1958-59, banking capital flowed into our country at the quantum of Rs.4.9 crores. Next year it became Rs.11.2 crores. But, in 1960-61 it was Rs.9.2 crores, and in 1961-62 we repatriated Rs.22.7 crores of banking capital abroad! That is also an element of foreign exchange. I am not giving an isolated illustration to build up any particular argument. If I read the meaning of the figures right, lack of confidence in the eventual implication of our planning is responsible for the repatriation of banking capital which was all these years coming in.

Government figures create only confusion in the minds of public. Speaking in Parliament on August 25, the Planning Minister said: "The Third Plan envisaged a total external aid, apart from P.L.480, of Rs.2,600 crores." And then he said: "The total external assistance available for the Third Plan now amounts to Rs.1,890 crores." He added: "Allowing for a carry-over of Rs.400 crores for the Fourth Plan the total additional aid required is of the order of Rs.1,100 crores."

I have come across a dozen variations of these figures from the highest in the Government of India. According to the latest "*Economic Survey*", when the budget paper was issued, Rs.1,386 crores of external assistance was not utilised, but carried forward from the First to the Second, and from the Second to the Third Plan. If we require Rs.2,200 crores, as the Planning Minister says, o-here does this carry-forward come in?

Once Mr. C. D. Deshmukh, as Finance Minister, sent me a number of memoranda, in replp to my memoranda and questions in and outside Parliament. He said: "I would like to point out that compilation of budget documents is a race against time." A statement like this will not be left unchallenged in any Parliament anywhere in the world. In another note, he wrote that there has been an *inadvertent omission* of the grants to khadi and handlcom funds of Rs.4.5 crores, and small-scale and other village industries of Rs.3.30 crores—a total of about Rs.7½ crores. The discrepancv was later rectified because it had been pointed out. These instances show the dangerous manipulation of accounts that has led us to the present unfortunate position.

For the past three years I have been in continuous correspondence with the Planning Commission for securing the revision of the Budget papers and for categorising information which will be intelligible to the public. On the carry-over of foreign assistance from the First to the Second Plan, I mentioned earlier five different sets of figures, *viz.*, Rs.93.71 crores, Rs.99 crores, Rs.108.27 crores, Rs.132 crores and Rs.193.3 crores. The answer from the Planning Commission was, "The difference between the first three figures is rather small"—from Rs.93.71 to Rs.108.27 crores! About the figures of Rs.132 crores, the reply is that it "includes some items of aid which have not been taken into account earlier because that aid has been authorised towards the closing part of the First Plan period." The last explanation is: "The last estimate, *viz.*, of Rs.193 crores, includes authorisation of Rs.63 crores from the Soviet Union for the Bhilai Steel plant." If it is the Soviet plant, why was it not included in the total until attention was drawn to it?

There was recently a statement that 42 per cent of the aid received had not been so far utilised, up to the end of the Second Plan. Actually, because Britain and West Germany do not bind us or tie up our loans, the estimate should be only round about 35 per cent. And for this Plan period, accounts are not rendered so far, or even explanations offered for a total of **Rs.372.21** crores! This non-utilisation of loans obtained after so much difficulty is deplorable.

When a financial commitment is there, whether it is a tied loan or is set off against purchases in India, the question arises whether our projects are properly planned and pursued. Estimates are revised times out of number, and the result is that the entire structure of the Plan documents has been sought to be camouflaged. I opened the first debate on the First Plan, and was also co-chairman of one of the committees for processing the Second Plan by both the Houses of Parliament. At every stage, the position was the same. We are in a tremendous hurry to start a project, we are in greater hurry to get the money, whatever be the terms. We are accumulating obligations which me are not able to pay on a planned basis. In fine, gross under-estimation of revenue, concealment of revenue, gross-over-estimation of expenditure. and total lack of accountancy, have led to this enormous complicated problem of foreign exchange.

Some of us in this country have been trying to bring to the notice of the Government of India, under the old British regime and more so under our present Government, the need for reasonable honesty in presentation of facts. The stage has come when some sort of a National Committee of competent people, non-politicians, is set up to bring about Budget reforms. Otherwise, our economy will be a runaway horse.

The views expressed in this booklet are not necessarily the views of the Forum of Fret Enterprise.

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