

Foreign Capital? Yes!
Govt.-To-Govt. Loans? No!

M. R. Masani, M.P.

N. Dandekar, M.P.



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Our Deputy Leader, Mr. M. R. Masani, had tabled in the Lok Sabha on behalf of the Party, a Resolution to be moved on May 6 which however was not discussed by the House for lack of time. The following is the text of the Resolution:

This House views with concern the efforts of the Government at raising foreign loans of colossal proportions in an attempt at bolstering its economic policies and Plans and perpetuating its tenure of office, and recommends the creation of conditions in which effective investment of domestic and foreign capital is made possible by the removal of restrictive controls, excessive taxation and inflationary policies which fetter the enterprise and productive capacity of the people.

Material in the first part of this pamphlet is based on Mr. Masani's Speech on May 3, 1966, during the discussion on the Finance Bill in which he took the opportunity to elaborate on the theme of the resolution. Rajaji has described it in Swarajya as "a great speech." The second part is based on the speech delivered by Mr. N. Dandekar on May 17, 1966, on the motion concerning Foreign Aid.

TOWARDS BETTER POLITICAL UNDERSTANDING

Organised by.
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M. R. Masani

Mr. Speaker, Sir, in the very limited time at my disposal, I would like to concentrate only on one aspect of this Budget. My colleague, Mr. Dandeker, has already drawn the attention of the House to the tremendous proportion of the social dividend that this Budget seeks to divert from the pockets of the people to the Treasury of the Government.

The thing I am concerned with is the extent to which, as a consequence, this Budget seeks to dump on the shoulders of the foreigner the greater part of the burden of development of this country. In gross terms, India is asking for 75 per cent more economic aid for the Fourth Five Year Plan than it did for the Third. What is interesting is that the share of the United States and the World Bank in the totality of economic aid is to go up, if the Government's wishes are responded to, from 2/3rds to 3/4ths of the total.

Prof. Shenoy, one of our most able economists, has calculated that, if the aid received is valued, as it should be, in terms of the real conversion value of the rupee, which is today 9 rupees to the dollar, then the support that this Budget demands from foreign aid is around 2/3rds of the capital outlay for the year and about 1/3rd of the total budgetary disbursements. Prof. Shenoy goes on to make a remark, which is startling, that "except for a year or so in the case of one or two countries, at no time of the post-war reconstruction phase did any of the Marshall Aid countries receive aid in such massive proportions." As has been said, Sir, it is a shame, it

is scandalous, that we should be that dependent on the crutches of foreign aid.

Let me make it clear that we on these benches are not against international co-operation and the acceptance of foreign capital. Far from it. Sir, we are very much for it. But we are against excessive dependence on Government-to-Government loans. We look upon Government-to-Government loans as a drug, if not a poison, a drug that has to be taken in very small quantities and for very specific purposes, while we look upon equity capital as vitamins, as nutrition, as something that can be taken in as large proportions as possible with benefit to the body politic. We think that the Government-to-Government loans are only valid and legitimate if given for infra-structure, for limited purposes like education, irrigation, power, transportation, communications, but nothing else.

Misdirection of Resources

There are three reasons why Government-to-Government loans, which our Government is pursuing today in Washington and New York, are bad for this country. It is a fallacy first of all to suggest, as was done the other day in a press communique arising out of the Prime Minister's discussions with industrialists, that loans are cheaper than equity capital. Nothing of the kind. The mere fact that loans are available at a lower rate of interest does not make them cheaper. In deciding what is cheap or expensive, it is the rate of return you get on that capital which is more important. The fact is that the Government cannot use these loans or capital remuneratively, and in fact this Government has not done so over the last several years. We know of the colossal misdirection of resources, specially in the

State sector, which has been taking place during the Second and the Third Plan.

Let me give just one example, the Heavy Engineering Corporation at Ranchi. With a capital of Rs. 136 crores invested in that plant, the output is a miserable Rs. 3.62 crores per annum. In other words the return on capital is in the ratio of 1:32. In the heavy engineering industry, the normal return should be in the ratio of 1:1. The Heavy Engineering Corporation is not giving a return more than 1/32nd of what a normal productive plant in that industry should be giving. This is how we have been using our foreign aid until now. Yet we have the effrontery to ask the country to accept more and others to give more.

The latest example of this kind of criminal waste is Bokaro. We are told that it would be "ungracious" to the poor dear Russians to reject that offer; so let us foot the bill at the expense of the poor taxpayer! This is one reason why foreign loans are bad.

Risk

The second reason is that the Government-to-Government loans come at our risk. However badly our Government invests this money, India has to repay the capital and interest. This is not so when private capital comes in. When a private investor comes to invest his money, he comes at his own risk. If he makes profit, he can take his profit back. If he makes a loss, he leaves the money in this country and goes back empty-handed. The Government and this country have not to pay for his failure.

Political Strings

A third consideration is the political strings that Government-to-Government loans have; they are full of implications of a political nature. This is not just

hindsight on our part. In the Election Manifesto of my Party, published in 1962, we had said this on this subject.

"The Congress Party's pattern of planning is based on extensive foreign aid that hangs on the slender thread of international peace which may snap any day. The Swatantra Party is totally opposed to the policy of huge foreign debts being incurred without any plan or prospect of adequate exports to enable India to discharge these obligations. The Party will endeavour its best to halt this grievous programme without damage to the national reputation. The Party will support and encourage the flow of foreign capital into private enterprises in India which would contribute to rapid industrial progress."

As I said, ours is not mere hindsight. We were prophetic in a sense. Last year, in August-September, what we foretold, that this foreign aid would dry up as soon as war took place, actually happened. Today, our Planning Minister is there in Washington pleading that the suspended aid should be revived. We think that this is altogether undesirable from the point of view of the country.

Prop to Misgovernment

Therefore we come to this conclusion that, unless this Government's policies, which we have been fighting for six years, are radically changed, the effect of any more international assistance in Governmental loans will be to bolster the rotten planning and the bad economic policies of this Government and, as Rajaji has rightly pointed out, to give this mis-Government, for that is what it is, another lease of life by propping it with political support and thus interfering in our internal affairs.

Now people will ask, is there not a change for the better? Is there not a more pragmatic approach to

these questions? Is not the Government, under pressure from the World Bank, changing its policies? It is true that recent statements of the Prime Minister have shown a fresh and pragmatic approach. In her 'person to person' broadcast, for instance, she said that socialism should not be "a book of words nor a bundle of high-sounding promises." I congratulate the hon. Prime Minister on this unintended but very accurate description of the policies of the Governments of the two Prime Ministers who preceded her!

In her reply to her critics in her Servants of People Society speech on April 30, there are many encouraging things. Encouraging in particular is her reference to the successful recovery of Germany and Japan with the help of U.S. aid. We have always said these two countries should have been our example, not the wretched Soviet Union. They are a model to this country.

Dr. M. S. Aney (Nagpur): East Germany or West Germany?

Mr. M. R. Masani: West Germany. It is obvious. I am very grateful to my hon. friend for making it clear.

Then she went on to say that "this is a changing world where new problems keep cropping up and these have to be solved in a new way." She also stated that "policies are not a stone edict which cannot be changed. Policies are there to serve the people. If they do not do good to the people, we shall change them." And finally she stated that "Government rules and regulations cannot change the ills of the country. It is the people who can do it." An excellent sentiment. This sentiment might well have been picked from the Manifesto of my Party!

I want to assure the hon. Prime Minister that if she pursues this pragmatic, fresh line of thought, the

younger people throughout the country will rally behind her and the whole country will support her.

Crypto-Communist Lobby

Unfortunately, the one party from which she has not got any support is her own Party and her own Government. It is perhaps natural that the two former Ministers who were removed from office for improper behaviour or unfitness to hold office by their own Prime Minister, who was a personal friend of both of them, should lead the attack on the Prime Minister with the ridiculous idea that the Government is out to sell the country. This is not unexpected from two Communist fellow-travellers of their ilk. What is surprising is that so many good members of the Congress Party have not come forward to say a word in contradiction.

For instance, Mr. Krishna Menon spoke with a jibe and a jeer about that great and friendly country, Brazil, three times as big as our country. While he was making that cheap jibe here, the Brazilian Ambassador in India announced at the same time that his country was in a position to give us a free gift of 500 tons of rice to help our country out of the mess to which this Government has brought us! Though it is a small gift, they are in position to give and we have to accept it. That is the main point. It is hardly a country at which a finger can be pointed.

No doubt, Mr. Malaviya and Mr. Menon would want us to follow the example of Nkrumah and Sukarno, two gentlemen very much of the same kidney, who in their own countries have been thrown out of power or are in the process of being thrown out of power. Any day, Brazil is a better example than the Ghana and Indonesia of Nkrumah and Sukarno, which they would want this country to emulate.

But what is amazing is that, apart from the Prime

Minister, there has been no fighting response from any member of this Government or any member of this party. On the contrary, there are apologetic noises, and the Government is entirely on the defensive. Recently, Cabinet Ministers have one after another made these apologetic statements. Let me give some examples.

Old Autarchic Brand

Shri T. N. Singh wants to reopen the 'turn-key' job given to the British Consortium for the expansion of Durgapur by his predecessor, Shri N. Sanjiva Reddy, and on May 1 he publicly criticised the cry for the liberalisation of import policy. The Finance Minister, I am sorry to say, on February 27, was extremely weak and apologetic in replying to an attack from certain quarters about foreign capital coming into India. He sounded as if it was some kind of necessary evil which had to be tolerated to the minimum extent instead of something which we want desperately and which was not coming but which would come in if we go out and get into this country. Shri D. Sanjivayya echoed Mr. Barve; both of them said on April 27 that there had been overreadiness to enter into collaboration agreements and from now on these must be more rigidly screened. And finally we are told that the Industrial Policy Resolution needs no revision. All this is the old autarchic brand of thinking of the Second and Third Plans. I fail to see any new leadership, any new thinking in this Government, with the exception of the Prime Minister.

Change Overdue

The fact is that a drastic change in overall policy is necessary if India is to survive, and this needs to be frankly admitted. Let me quote a sentence from Shri Mulgaonkar's article in the *Hindustan Times* of

April 27 to show that we are not the only people who notice this cowardly, apologetic attitude on the part of this Government in the face of the challenge from the crypto-communists and communists. He wrote:

"The challenge of the Malaviyas is easy to meet on the facts. And that is exactly how it is not being met. The Government, far too often, gives the impression of being on the defensive, of denying that a change is sought, of laboriously searching for loopholes in the wording of past policy declarations to justify what it knows to be compelling reasons to alter course if total bankruptcy is to be avoided."

I must regretfully say that I see no indication that Mr. Mulgaonkar's good advice is going to be taken.

On the contrary, I want to draw the attention of the Finance Minister to a UNI Report on May 1, which said bluntly that the proposed Indo-US Educational Foundation was not likely to be formed in the foreseeable future, according to authoritative indications.

Mr. N. Dandeker: Shame!

Mr. M. R. Masani: I am not prepared to accept the truth of this report but the fact remains that for three days it has not been contradicted. I hope that the Finance Minister, when he speaks this evening or on Thursday, will say that is not true. But if it is not contradicted, then we shall be entitled to assume that this Government, which was trying to do a most harmless and innocent act, has been stampeded and pressurised by the crypto-communist lobby in its own ranks into a cowardly surrender and a scuttle of that policy.

Fire Brigade Operation

Let us assume Sir, that even if foreign loans are undesirable in a big way, we are in such a plight

today that this Government had to send my friend Shri Asoka Mehta on what may be called a fire-brigade operation. Let us assume that that may be justifiable as a short-term expedient. But what is the way they are going about? Our needs are urgent. The essential supplies for industries are running out. If they are not available in the next few months, the wheels of our enterprises will grind to a stop. But the Government is so handling this matter that the outlook is that there will be no decision by the Consortium till October, and after the Consortium makes its recommendation, the US Congress will be asked to consider what appropriations to make. For the six months' delay which will thus take place, we shall have nobody to thank but our own Government.

Airy Nothing

I feel that the Prime Minister's mission to Washington was badly misconceived. I would like to compliment her on the grace and the charm with which she behaved, the dignity which she showed, and the hearts that she won. That was a very good thing, and we were all very happy. But between establishing an intellectual *rapport* and getting the assistance that this country needs there is a great difference. Fair words, it has been said, butter no parsnips. She, unfortunately, announced before she went there that she did not want to talk business or to ask for aid, and President Lyndon Johnson took her at her word, quite rightly and naturally, from his point of view, although it does not suit us. He took her at her word and said: 'Fine, in that case, please send someone to talk to the World Bank', or, in American parlance, he passed the buck, and he was perfectly entitled to, because we gave him the opportunity.

I think the Prime Minister should have gone properly equipped with the necessary people, accom-

panied by my friend, the Finance Minister, to talk business with the American Government and come back with some concrete proposition. When Mr. Macmillan or Mr. Wilson or Gen. DeGaulle cross the Atlantic, they do not go just to establish a *rapport*. When Dr. Erhard goes from Germany, he goes to discuss hard concrete business, and he comes back and reports to his people what he has brought back. I think that, if the Prime Minister had done that, she could certainly have got very good dividends.

And now what happens is that this Government can find no more suitable person to send to negotiate this very delicate business than the author of that egregious Saugar speech, with its many follies and its howlers. Was that the best person for this Government to send in order to inspire confidence in the economic realism of this country?

Mr. N. Dandeker: No.

Mr. M. R. Masani: And what does he do? On April 21, in the *Indian Express* he is quoted as saying:

"I have not travelled 10,000 miles in order to discuss the exchange value of my currency. What we do with our rupee is a matter for the Government of India to decide. We shall not discuss it with anybody."

Impertinence

What impertinence! You ask people to take a rupee and say: 'This is 20 cents; give us 20 cents worth of goods', and they say to you: 'But this is not 20 cents; your paper rupee is worth only 10 cents. Therefore, let us discuss what is to be done about the fact that you have by your inflationary policies brought your rupee to half its value.' You can answer them; you can say; 'We do not believe in devaluation', nor do we. But you cannot say that you will not discuss it.

The value of the rupee, like the value of the rouble

or the pound, is a matter of international concern. When you do international business and try to sell your rupee and get goods in return or other currency in return, then it is everyone's business, particularly that of the World Bank, to say that your rupee is not worth what you pretend. And to send a person who makes this kind of egregious remark, which must have made a painful impression anywhere outside this country, except amongst these limited ranks, is something that is a matter for worry. In other words, this Government is following a policy which has been well described by a journal as "a combination of subservience and bluff." This is not the kind of policy that is going to win the regard or the friendship or the help of the world. It makes such a painful impression in India that one can only wonder what kind of impression this Government is making abroad.

Therefore, Sir, the point is this. This Budget has thrown the greater part of the burden of the development of this country on foreign shoulders. Instead of going out for foreign capital, which would be productive, they want to go in for more and more Government-to-Government loans, thus mortgaging further the economic future of this country. And they are going about it in a most inept way.

I frankly do not see any hope for this country unless another Government, which is more pragmatic, which is more open-minded and which is less doctrinaire, can take its place and face the world on more equal terms.

N. Dandeker

Mr. Deputy Speaker, Sir, I was not present here last Friday to see the unedifying spectacle of the kind of opposition that was demonstrated against Shri Asoka Mehta. I think, it was most unfortunate.

Shrimati Renu Chakravarty: You did not see Shri Asoka Mehta shouting also.

Shri N. Dandeker: I think, much of the opposition to what he has done and what his statement contains is out of the fundamental allergy of some people here to the United States.

From being merely an exercise in vague and amiable generalities, which is where the Prime Minister had left it after her visit, Shri Asoka Mehta has brought the discussion down to brass tacks, to a definition of the nature and scope of our requirements, on the one hand, and to concrete figure work, on the other. And, it is on that basis that I propose to examine the achievement and the implications of Shri Asoka Mehta's mission in relation, firstly, to the current year's situation and, secondly, to the larger question of the Fourth and subsequent plans.

In regard to the current year, it seems clear that an agreement has been reached apparently, *both* as to the nature and scope of the aid and also as regards the quantum of the aid, both for non-project purposes and project purposes. But I would like at this point to interject three comments concerning the aid

in relation to the current year. The first comment related to the subject of "tied aid"; the second, to the use of non-project aid in public sector enterprises; and the third, to project aid in relation to the current year.

Tied Aid

The expression "tied aid" refers to two directions in which foreign aid can be tied. It can be tied, in the first place, to the objectives of the aid in this country; that is to say it may be specifically for a particular project or a particular purpose. To that kind of tying there can be, I think, be no objection. But the other kind of tying, namely, as to the country, — usually, it is the aid-giving country—from which the imports represented by the aid shall be made, I regard this with considerable apprehension because experience shows that it is usually far more expensive than if the aid were capable of being spent in that market where we could buy at the best prices.

That has been, in effect, my objection, as I voiced during the debate on the Commerce Ministry's demands for grants, to the rupee payment trade, namely that we get tied, in the name of easier financing of imports, to importing from Russia and the East European countries. I have no objection whatever to importing from those countries. What objection I have is to be tied to importing from the particular countries that give us aid.

I recognise, Sir, that there is a limit to which we can impose counter conditions, or refuse to accept the conditions imposed by those who are giving us aid. But I would respectfully inform Mr. Asoka Mehta that it has been my experience in concerns which have had to use such tied aid that very often, — indeed, more often than not, — the cost of importation from tied-

aid sources is generally more than if the importation was allowable from anywhere.

Non-project Aid

Secondly, I suggest, there is very great need to arrest extravagant demands upon non-project aid by Government for its own general purposes and by public sector enterprises in particular. One of the characteristics of the last 10 years management of the foreign exchange resources of this country has been the extravagant demand upon foreign exchange resources made by Government for general purposes, and in particular the extra-ordinarily extravagant demands by public sector enterprises upon untied or rather upon, what is called, non-project aid; with the result that they are all choked with enormous inventories, some of which are becoming entirely obsolete and it would take years to use up most of it.

In fact a good deal of the drain on foreign exchange resources, I might inform Mr. Asoka Mehta, has been the consequence of extravagant spending by public sector enterprises in using what is now being called non-project aid.

Current Year

Finally, Sir, as regards the current year, insofar as there is any element of project aid at all in the current year's foreign exchange aid, I would very strongly suggest that its use be limited to the admirable objectives that Mr. Mehta has himself indicated in para 3 of his statement which I will take the liberty of reading:

“..... on such questions as agricultural development, population control, acceleration of the programme for fertilizer production within the country, enlargement of export earnings, facilitating more

intensive and more efficient utilisation of the production capacity we had already built up in several sectors.....”

I hope that the current year's programme will be limited to the objective of that kind.

Fourth Plan Aid

I would like to turn now, from a long-term point of view, to the more important problem of external aid in relation to the Fourth Five Year Plan and possibly the subsequent Plan, in a perspective sense. But before I do that, I feel it necessary to get on record some outside measurements, so that one can see the thing in perspective, as to just exactly where we are today in the matter of burden of foreign indebtedness and in the matter, or more particularly, of the burden of repayment of foreign indebtedness and the interest on foreign indebtedness. Here are the figures: At the end of 1950-51, our foreign indebtedness was practically nil; at the end of the First Five Year Plan, our outstanding foreign indebtedness was Rs. 114 crores only; at the end of the Second Five Year Plan, our foreign indebtedness was Rs. 761 crores; at the end of the Third Five Year Plan, that is to say, as on 31st March, 1966, it stood at the monstrous figure of Rs. 2629 crores. (In case Mr. Asoka Mehta is wondering where I got these figures from, there has been recently published an admirable survey of this problem of foreign aid in a journal known as *Tata-Quarterly* — Review of Economic and Financial Conditions in India). If that were all, it would still not give us the true magnitude of the burden.

Magnitude of Burden

The true magnitude of the burden of this foreign debt, — I am talking about public foreign indebted-

ness, — can only be measured when we consider what is the annual obligation in terms of repayment of debt and for payment of interest on the debt. The total bill during the Third Five Year Plan, the total foreign aid burden, was Rs. 2316 crores; and the repayment of loans amounted to Rs. 332 crores; and the payment by way of interest was Rs. 288 crores; thus making a total of Rs. 620 crores. That is to say, over 25 per cent of the total foreign indebtedness we incurred at Government to Government level over a period of five years was used for repayment of debt and towards payment of interest.

Finally, the magnitude of the Fourth Five Year Plan proposals in terms of external borrowing is something like this. New borrowings contemplated are to the tune of Rs. 4000 crores, of which I estimate that 40 per cent would be utilised for repayment of debt and payment of interest. It is that kind of burden that one is to look at, when asking ourselves what it means to the economy of this country, to the public finance of this country, to the export-import balance of this country and so on. And in order to get that measure right, the first thing one has to do is to put the thing in proper value. The value today, of the dollar is nearer Rs. 10 than the bogus price of Rs. 5 at which the dollar is at the official rate of exchange; which means that over the next five years, in the Fourth Five Year Plan period, the true burden, in rupee terms of additional foreign indebtedness (at current prices) is going to be increased by Rs. 8000 crores; and the true burden of interest, repayment, and so on, in rupee values of the dollar, we shall have to bear will be about Rs. 3200 crores. On the basis of those figures, on the basis of some relationship towards national income, on the basis of some relationship of one's capacity to pay in terms of net earning of foreign exchange, by whatever test one likes to measure this,

— I am sorry to say — I have come to the conclusion that this is *not* the kind of magnitude of Government-to-Government indebtedness that should ever be imposed upon this country.

Use of Government-to-Government Aid

I would like to conclude by stating a few practical conclusions that seem to me to emerge from an examination of the burden of indebtedness that is proposed to be built up on the shoulders of the people of this country, now and for the future. I would suggest that foreign aid on Government-to-Government basis should be strictly geared, first, to maximum utilisation of the installed industrial capacity and secondly, to finishing the unfinished business of the Third Plan and, thirdly, to taking on the projects to which I have just referred from para 3 of Mr. Asoka Mehta's statement. The rest I would cut out without the slightest hesitation, because the rest of it is not, in any sense, at all — whether in national accounting terms or in terms of earning necessary surplus of foreign exchange over foreign expenditure, or in terms of the returns, or by any other test, of "cost-benefit" analysis — justifiable.

Self-paying Proposition

I do not want to suggest by that that we ought to shut off the *investment* of foreign capital in this country. On the contrary, I am of the very definite opinion that, judging by every test that I have just mentioned, it is desirable to encourage private foreign investment in this country on a person to person basis, not on Government-to-Government basis. It is only when that is done that both the borrower and the lender take a close look at the project, at its general feasibility, at its technical feasibility, its financial

feasibility, its profitability, its capacity to repay, applying every conceivable test that ought to be applied, and only then will the borrower borrow and will the lender lend.

Only then will the foreign investor invest. And when they do that, then it is a self-paying proposition, which is in the interest of the borrower, which is also primarily in the interests of the lender and which is in the interests of this country. That, indeed, is why person-to-person investment is from the national accounting point of view cheaper. That is also why person-to-person investment is at the risk of the investor and not at the risk of the country. And I would go further; I would extend that mode of foreign borrowing and investing to public sector enterprises as well.

I know perfectly well that some public sector enterprises would be entirely capable of attracting foreign aid on that brass-tacks basis. The Hindustan Machine Tools is one, the Indian Telephone Industries is another; and the Indian Shipping Corporation is a third one. Undoubtly, there are projects in the public sector enterprises group which can stand the tests that I have just mentioned and which can stand on their own feet in the matter of attracting foreign investment to this country on this self-paying basis. But any project that is not capable of making out a case of that kind ought not to be bolstered up at Government-to-Government borrowing for their benefit. I would beg of Mr. Asoka Mehta to bear in mind that there is a burden of foreign aid which is already excessive, and he should not impose a further burden that might break our backs. For in that case, instead of a self-generating economy, he may well have on his hands a self-degenerating economy.