A QUARTERLY OF LIBERAL IDEAS

Freedom First

April-June 1989
No. 401
Price
Rupees Five

37TH YEAR OF PUBLICATION

Must We Live Beyond Our Means?

A Perspective on the Indian Economy

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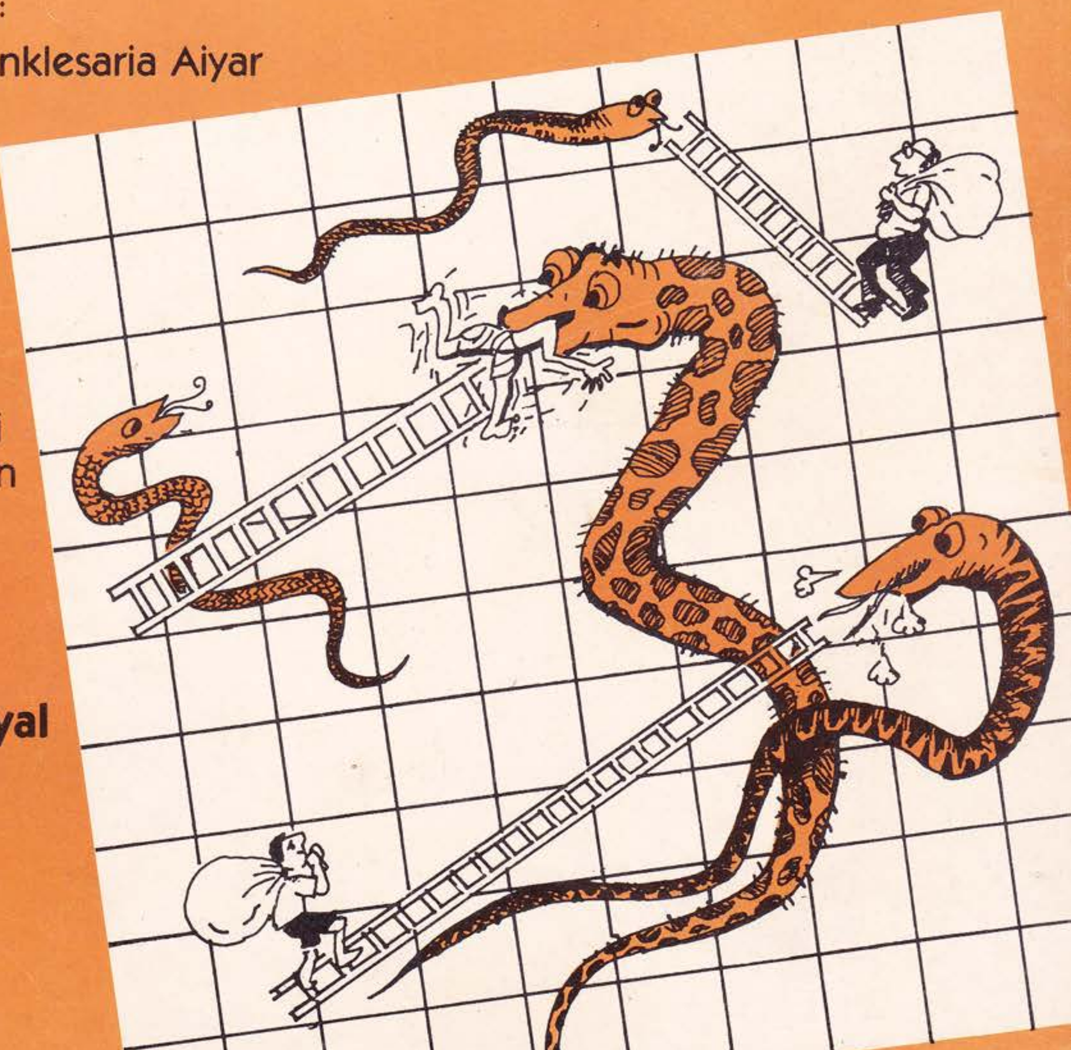

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Freedom First

A Quarterly of Liberal Ideas

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PUBLISHERS
Democratic Research Service
4th floor, Maneckji Wadia Bldg.
127, Mahatma Gandhi Road
Bombay 400 001
Tel: 27 39 14

Published by J.R. Patel for the Democratic Research Service and printed by him at Parsiana Publications Pvt. Ltd. 300 Perin Nariman Street, Bombay 400 001

Typeset at Ace Fototypesetters, 38, Hanuman Building, 2nd flr., Behind R.B.I. 308 Perin Nariman St. Bombay 400 001

Single Copy: Rs. 5
Annual Rs: 20
Life Rs: 300

(add Rs. 5 for outstation cheques)
Overseas (II Class Air Mail)
Annual $ 10 or £ 6
Life $ 100 or £ 60

Cheques to be drawn in favour of 'Freedom First' and mailed to publishers at address listed above

Dear Reader,

For the millions of listeners and viewers of the State monopolies — All India Radio and Doordarshan — the message from the Government of India is loud and clear: We have never had it so good. In this, the year of the birth centenary of Pandit Jawaharlal Nehru (which incidentally is also the 40th anniversary of freedom), we are trotting along nicely — if not galloping — towards the 21st century full of confidence that poverty will soon be a thing of the past.

So, don't worry, everything is under control. Don't be carried away by the mealy-mouthed warnings of frustrated politicians out of office or of paranoid economists who should know better than to frighten people with silly talk of disaster round the corner if the State continues to debauch the currency by indiscriminate borrowings within the country and abroad on the one hand and resort to increasing doses of deficit financing on the other.

The fact is it is impossible for anyone to live within his or her means in today's India. Ask any housewife and listen to her tale of woe. Her household budget has collapsed under the weight of those bigger ones — the Union and States' budgets.

To examine the state of our economy, we invited Mr. Jiban Mukhopadhyay, an economist attached to Tata Services Limited to be our Guest Editor for this issue and focus the attention of our readers on some major issues involving India's economy. Mr. Mukhopadhyay's credentials are impeccable. He taught economics for a number of years in Calcutta before coming down to Bombay to test theory on the touchstone of hard business reality. We are grateful to him for the time and effort he spared for this purpose. We are also grateful to our contributors who responded to our request for articles. Needless to add the views expressed are those of the writers concerned.

Many see a new future for our country precisely because never were forces for change more active than now. The electoral trouncing of the Congress (I) in Tamil Nadu is regarded as a straw in the wind. The forces that brought about the change in that state are explored in an essay on Tamil Nadu politics.

Violence again erupted in Lhasa. There is no keeping down a people's aspiration for freedom. While the West, lured by the carrot of business opportunities dangled by Peking, tends to play down, if not ignore totally the genocide of the Tibetan people by Chinese imperialism, the Dalai Lama has agreed to meet the Chinese in Geneva. The peace of Asia and the well-being of a religious people may well depend upon the settlement in Tibet. This is explored in a number of pieces in this issue.

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Please see back cover for the latest Map of Freedom from Freedom House

WITH MANY VOICES

"The deep moans round with many voices. Come, my friends
'Tis not too late to seek a newer world" — Tennyson

When ... George Fernandes sets out to prove a point with statistics, truth has no other go, except to keep out of the way and seek a safe hiding place.
Cho Ramaswamy, *Telegraph*, January 21

Not since Adi Shankara have we produced as clear thinking a philosopher as Acharya Rajneesh.
Khushwant Singh, *Express Magazine*, December 25

This is the third time in three weeks that the prime minister has visited Bombay, and his presence has not been really required on any of the three occasions ... To avoid further inconvenience to the citizens .. (he) should be advised to visit only on Sundays.
The Afternoon Despatch & Courier, February 16

We have been muzzled for so long that we have forgotten how to bark, let alone bite. Wagging our tails is the only way to show any feeling.
A Congressman, *India Today*, February 15

Aren't Tibetans justified in fighting for their rights just as Palestinians and Namibians?
Tenzin Namdhak Taklha, *India Today*, February 28

First Japan exported cars. Now it's exporting car plants.
The Times of India, February 13

Given the frequency of our restless PM's *chakkars* around India and abroad, it does seem ridiculous to have senior politicians cooling their heels in a reception line waiting for God.
Shobha De, *The Sunday Observer*, February 19

I can wreck the Janata Dal by just calling a simple press conference.
Chandrashekar, *The Times of India*, February 26

... IAS officers are nuts. They do not do anything. They merely sign on the papers prepared by their clerks. Their contribution is nil.
Mr. M. Manikarao, a former Andhra Minister, *Indian Express*, March 2

We keep on tackling breezily fifty year problems with five year plans, staffed by two-year officials, working with one year appropriations, fondly hoping that somehow the laws of economics will be suspended because we are Indians.
Mr. N. A. Palkhivala at the Annual General Meeting of the Associated Cement Companies, December 12, 1988
(Contributed by Mr. J. Vekiteswaran)

The only genuine socialists these days are intellectuals in the West who are enjoying a comfortable and even luxurious living within the supposed bastions of capitalism.
Murray N. Rothbard, *The Free Market*, October 1988

Money and adultery could be considered the Delhi elite's two favourite occupations.
Ravi Rikhye, *Illustrated Weekly of India*, January 15

When in power, Congressmen bicker. Out of power they battle.
Buroshiva Dasgupta, *The Economic Times*, January 23

In Politics, more so in Indian politics, two and two rarely add up to four.
Dilip Bobb, *India Today*, February 15

We know that people would prefer Karunanidhi to Rajiv because he was the son of the soil and didn't wear a bullet-proof jacket.
Murasoli Maran, *India Today*, February 15

Islam does not recognize unlimited freedom of expression. Most muslims are prepared to be broadminded about most things but never about anything that even remotely touches on their faith.
Mr. Amir Tahere, an Iranian journalist, *Time*, February 27

We Invite

readers to contribute to this page. The family of *Freedom First* readers must be reading a large number of newspapers and periodicals.

When you come across an interesting comment, remark or observation on current affairs (not necessarily confined to politics or economics) which says it all, do share it with us.

Send us, preferably, the clipping, marking the lines that have impressed you. If this is not possible then send us the Quote typed or written in block letters. Please do not forget to tell us who said it, and the name and date of the publication.

ᴧust We Live Beyond Our Means ?

˛ perspective on the Indian Economy

Jiban K. Mukhopadhyay

ʼhe present fiscal situation therefore implies that we are over-consuming, that is living beyond ɹr means. It appears that the Government has absorbed well the dictum of the ancient Indian ɔge Charvaka who exhorted, "borrow money and enjoy the good life and happily live a long life". But alas, in real life it is not all that rosy!

A most dangerous and potentially exɔsive situation is facing the nation toɪy. It is the fiscal mess in which we find ɪrselves. Simply put, the Government's non-plan expenditure (eg. dence, subsidies, welfare measures, lministrative expenses etc: Rs. 54,347 ores in 1989-90) has far exceeded the tal revenue receipts (Rs.52,630 in ɔ89-90). The total revenue receipts ɛ not only expected to entirely meet e non-plan expenditure but also leave sizable amount for plan expenditure. ɪt the total revenue receipts at present ɪn only finance about 97% of the nonan expenditure, let alone financing the an expenditure. To get over this probm Government resorts to deficit ɪancing and massive borrowing. Both ese two sources have already been ɾer-exploited to a great extent. Regardg borrowing: very soon a time may ɔme when interest repayment obligaɔn in a year may surpass new loans curred in that year, leading to what ɔonomists call the internal debt trap. ɪis is how we are living beyond our eans.

eficit Financing

Before proceeding further, a look at e magnitude of our deficit financing ɪd a quick review of how Government ants to "contain" it will be pertinent. ɪe deficit on revenue account which as Rs.7,776 crores in 1986-87 rose to s.11,030 crores in the revised estimate ;E) and was "shown" to decline to s.7,012 crores in 1989-90. Similarly, e deficit on capital account which was s.485 crores in 1986-87 rose to a surus of Rs.3,090 crores in 1988-89 (RE) as again shown a deficit of Rs.325 ore in the 1989-90 budget The overl deficit increased from Rs.8,261 ores in 1986-87 to Rs.7,940 crores in ɔ88-89 (RE) and was shown to come ɔwn to Rs.7,337 crores in 1989-90.

The Reserve Bank of India's credit to the Government, Rs.7,337 crores (net) in 1989-90, also needs to be included while accounting the overall deficit. But this is not done for the sake of showing a smaller deficit.

The "Trick" to contain Deficit Financing

It has been claimed in the Budget 1989-90 that the overall deficit has declined and the high capital surplus has been made into a smaller deficit. Both welcome, if only they were genuine. But a rising revenue account deficit and a capital account surplus are bad indicators of a country's fiscal health. They ultimately reflect the non-availability of investible surplus as well as the expenditure of borrowed money on non-plan expenditure.

In the face of serious criticism from many quarters, the Budget 1989-90 felt the need to "contain" the overall and revenue deficits and reduce the capital account surplus. This was done, largely by a statistical transfer, that is, by the transfer of Rs.2,300 crores in 1989-90 from the Oil Development Fund, (which is actually meant for developing the oil sector) not to the capital receipts side, which should have been the normal practice, but to the revenue receipts side. At the same time, additional imposts of Rs.1,287 crores (Rs.903 crores net) have been made.

Thus, by this artificial transfer mechanism the Budget 1989-90 was "shown" to discipline the fiscal mess! If the traditional practice was used then the revenue account would have shown a deficit Rs.9,312 crores with a surplus of Rs.1,975 crores in the capital account. The implication is that the real life situation continues to be grim.

Besides high deficit financing, Government is borrowing money at the very high interest of about 12%, while the return from investments from State Owned Enterprises (SOEs) is meagre — less than 4%. If the astronomical sums of money invested in SOEs (over Rs.71,300 crores in 1987-88 in commercial SOEs run by the Central Government) in a resource-scarce country does not bring in a reasonable return and need to be supported by budgetary measures and ever-increasing administered prices, is there any wonder that we are in the present fiscal mess?

Borrowing

The total outstanding liability (net) comprising of both internal and external debts of the Government of India will be as high as Rs.2.6 lakh crores at the end of March 1989-90. This will require total interest payments alone of Rs.17,000 crores in 1989-90. This is equivalent to about 77% of capital receipts, and may be around Rs.24,000 crores in 1990-91. These are mind-boggling figures.

Implications

To meet the increasing plan and non-plan expenditure additional taxes were imposed year after year. When sufficient resources were not in sight, increased deficit financing and borrowing were restored to. Increasing taxes led to increasing cost, which again justified increases in administered prices, which led to a even higher cost of the economy necessitating higher revenue from yet higher taxes, borrowings and deficit financing. This has been the vicious circle of Indian fiscal profligacy.

Therefore, the plan expenditure is now to be funded by ever increasing deficit financing and borrowing. These borrowings now come more from domestic sources and less from exter nal sources, since the flow of conces sional assistance has been drying up.

Large investible funds will be required for the plan expenditure in the immediate future. The Eighth Plan is to begin next year. But sufficient resources are not in sight. One reason is that the savings rate, at 20.2% of GDP in 1987-88, among the highest in the third world, has refused to grow further. This is understandable. In a situation of high taxes and inflation it cannot grow. Besides, non-plan expenditure has been growing in an explosive manner to gobble up massive resources.

No less a person than the Chairman of the Ninth Finance Commission recently warned that revenue deficits of the Union and State Governments may come close to Rs.50,000 crores and Rs.12,000 crores respectively by 1989-90; and if this trend is not reversed soon, the country will reach a state of "fiscal collapse" by 1995.

The present fiscal situation therefore implies that we are over-consuming, that is living beyond our means. It appears that the Government has absorbed well the dictum of the ancient Indian sage Charvaka who exhorted, "borrow money and enjoy the good life and happily live a long life". But alas, in real life it is not all that rosy!

A country's financial situation is not fully identical with that of an individual, who will go bankrupt if he cannot pay off his outstandings even by selling off all his silver. But when a nation lives beyond its means and resorts to excessive borrowing and high deficit financing, it has to face many negative consequences. A high rate of inflation is one such consequence.

The average rate of inflation which was 7.6% during 1965-80 increased to 7.8% during 1980-86. Inflationary pressure is very much in evidence at present as the wholesale price index, on an average basis, was up 7.3% during the period April 1988-January 1989 and the all India consumer price index rose by 9.3%. This is in addition to the price increases of previous years. This year's Budget proposals accompanied by a high dose of deficit financing will only fuel further inflationary pressures.

Conventional wisdom will take some comfort by comparing our situation with some Latin American countries. But it needs to be remembered that the real impact of price rise in India is not properly reflected by our indices. A large number of articles of consumption in urban areas are not included in the index number. The wholesale price index, which is more often used, is not a correct barometer of the accelarating pace of inflation. The vast rural economy is also not yet adequately monetised. Distribution of foodgrains through fair price shops is subsidised at a cost to the nation as a whole, without which, again, inflation figures would have been higher. True, the Latin American high inflation syndrome (eg. inflation in Brazil was 1,000% in 1988) has not come to India. But the cancer virus is there in the body; only, it has not become critical yet.

Hard Measures Needed

With the value of money going down sharply (Re.1 of 1960 is worth only 12.22 paise today), the amount repaid will, in any case, be much less in terms of real purchasing power. Besides, there also could be serious problems with respect to repayments of internal loans as was experienced in many other countries. This has to be avoided. That is why, it is time to do something positive, structurally as well as fundamentally, in disciplining our fiscal imprudence.

A beginning could be made by adopting what the eminent jurist Mr. N. A. Palkhivala has suggested: "The time has come for Parliament to prescribe by law under Article 292 of the Constitution the limits within which the Executive should be allowed to borrow upon the security of the Consolidated Fund of India." This may put a psychological check on Government's on-going borrowing.

At the same time fiscal prudence demands a trimming of expenditure, particularly non-plan expenditure (some gestures have been made this year by freezing defence expenditure) and by raising revenues in non-conventional ways. One way to raise revenue is, of course, privatisaton. At least minority shares (i.e. less than 49%) of selected profitable public sector units can be sold. In fact the inefficient operation of public sector units, which need to be supported by government funding and rising administered prices has been one of the major causes for the present fiscal mess. The remedy should start with them. Side by side, fresh thinking is required regarding the need to encourage the growth of industries by making them cost and quality efficient, since it is industry that gives Government the lion's share of the revenue. Indian agriculture is very revenue inefficient, a situation which should not be allowed to continue for long. A restructuring of policy is required for increasing the productivity of Indian industry and agriculture. This can only be done by adopting a liberal policy.

It is also important to make India's exports grow in a more dynamic and gainful way so as to pay for our growing imports and foreign debt repayment obligations. According to Government the total external debt on medium and long term foreign loans is Rs.55,000 crores at the end of April 1988. But according to foreign expert banking sources, it is Rs.75,000 crores. The figure is higher because of the inclusion of both short term loans and non-resident deposits in foreign currencies etc. The debt services ratio is 24% of current receipts as per Government calculations but over 30% according to others. However, the debt service ratio has been gradually declining after reaching a peak in 1987-88. Though an external debt trap is not in close sight, we may also walk into this trap by our traditional habit of over consumption, for example by utilising foreign exchange resources in projects not requiring any foreign exchange at all. The temptation can increase as foreign commercial banks are only too eager to lend money to India. The management of the external sector therefore requires extreme prudence.

While export promotion strategies may be helpful in the medium term for gainful and dynamic growth, exports have to be competitive in terms of cost and quality. This cannot happen unless the high cost nature of the economy is changed.

And herein comes the need for a continuing policy of economic liberalization for restructuring the Indian economy in a fundamental way.

Need For A Liberal Policy

It is imperative that the political, social and cultural aspirations of a nation need to be strongly supported by growing economic prosperity. However, even after almost four decades of centralized planning, the promised rapid economic development is nowhere in sight. India in 1986 is the 20th poorest

›untry in the world, measured from - bottom in terms of per capita in-me. For about 40% of India's popula-›n, freedom from acute material de-ivation and ignorance remains a mis-able reality. Though official figures e not available it has been estimated at about 40 million Indians are unem-oyed. Population continues to grow at fast pace and we shall come close to ıe billion by the turn of the century, of hich at least about 500 mn. will be ‹erates. We would then have the high-t stock of illiterate human beings in e world.

Why it has to happen this way is not together unknown, though often it is ›t frankly admitted. Apologists with ›nventional wisdom would like us to elieve that it was not so easy to resolve l these problems in the first place and hatever has been achieved is quite stounding. In fact, in recent months, ıere has been a deluge of conventional ›nomic literature to highlight our ‹hievements after forty years of eedom.

While the achievements are certainly ›t to be scoffed at, it must be realised . the same time that much more could ave been achieved, if we had critically valuated the difficult situation and hanged from the conventional path.

Many with conventional wisdom, are lmost scandalised if told that Fabian ›cialism everywhere (other than India) as long since been in a state of *rigor ıortis* and is a lesson on how not to ursue economic development. But onventionalists in India will not accept ıis.

The process of economic liberalisa-on began rather haltingly in the early 980s because of sheer compulsion. he pace accelerated in the mid-1980s. here has been in fact, some condition-l, albeit substantial, relaxation of India's ıyriad controls and regulations, what ejaji aptly called the "Licence Permit ‹uota Raj". But many conventionalists owned at some of these pragmatic ıeasures.

Their wrath was particularly directed ɟainst the liberalisation of import poli-/ in the name of balance of payments oblem. They did not appreciate that ›ing back to restrictive and time con-ıming import regulations would dis-ıpt domestic production as well as ex-›rts. Ironically, even after long years of ırsuing import-substitution, the Indian economy in general and import-substituted units in particular remain highly import-intensive. It has been estimated that for every one per cent of real growth of the economy, about 1.5% growth in imports is required. More important, the liberalisation of imports was only procedural in nature with off and on changes according to the needs of the time; it was not "liberalisation" in a fundamental sense. "India today probably has the most highly protective trade regime among major trading nations in the world, with a mean nominal tariff of over 120 per cent (after accounting for major exemptions) as compared with 90 per cent for China, Bangladesh and Pakistan and between 20 and 40 per cent in most other countries", so says no less an expert on India's Foreign trade than Mr. Abid Hussain.

On the whole, the economy responded favourably to the liberalisation process and its rate of growth improved. For example, the so-called long term Hindu rate of growth of 3.5% per annum has at last crossed this barrier to what we may now like to call the neo-Hindu growth rate of 5% per year.

Thanks to liberal policies, the rate of growth in industrial production improved spectacularly during the last four years. Despite a serious drought, a 3.5% economic growth was achieved in 1987-88 and a high 9% to 10% growth is expected in the current year (1988-89). Agricultural production improved after the drought, thanks mainly to a good monsoon in 1988, as did exports in recent years. The crawling Hindu rate of growth was the product of obscurantist policies of the past, while the relatively higher growth materialised after liberal policies were adopted.

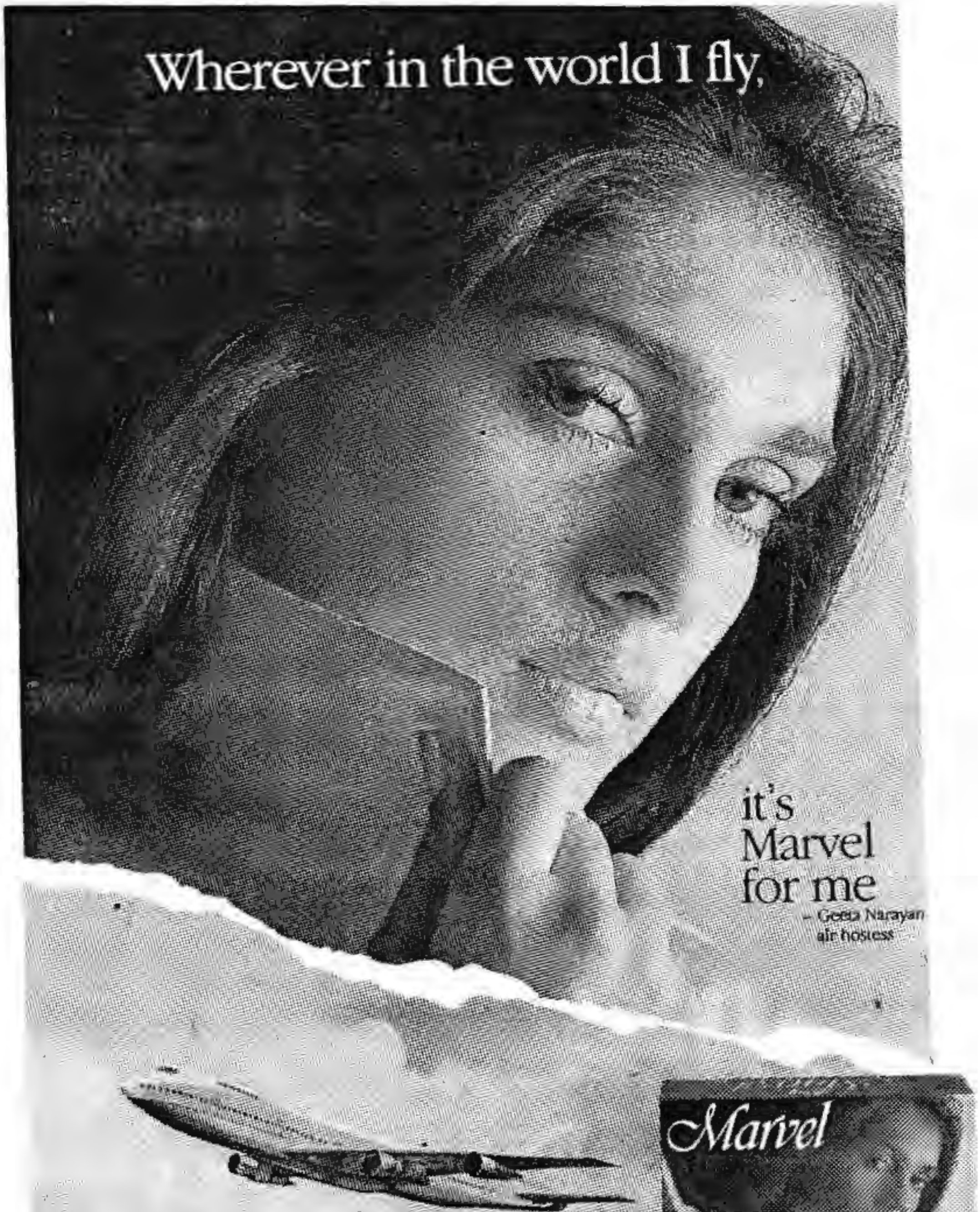
The economy urgently needs to be given atleast a wide-angled U-turn towards the path of economic liberalisation. Unfortunately, conventional wisdom does not approve of it. In the name of achieving equality, which has not come off markedly from our traditional emphasis on "growth with equity", they would love to engage themselves in meticulous discussion on the hypothetical effects of marginally higher economic growth distancing "India" from "Bharat". They would not even like to consider, what ought to be pure commonsense, that unless there is substantially higher growth what is there to actually percolate down, or to be distributed? So they would love to have the eighth plan "approach" to be as centralised as before without the least regard to the plurality of market forces and competition.

The relevance and suitability of carrying on with the rigours of a highly centralised planning juggernaut under the supremacy of an omnipotent and omniscient State, introduced to achieve the objectives of a so-called egalitarian society in such a multi-ethnic, multi-lingual, multi-cultural and even multi-agro-climatic, vastly populated, continental-sized country, are thus religiously accepted by the protagonists of conventional wisdom as something divine.

Happily, however, there is a small section of Indian intelligentsia who, with more courage, are propagating unconventional wisdom. They strongly feel the need for liberating the Indian economy from the shackles of controls. Mercifully, some prominent former government experts have also jumped the fence in favour of a policy of liberalisation. And, miracle of miracles, there are even a small number of eminent persons with unconventional wisdom who are advocating it from within the Government. Hope for the country lies in this sensible unconventional thinking and policy-actions based on it.

It is also pertinent to realise that the time has come to look at Indian economic liberalisation policy from a theoretical angle. The liberalisation that has taken place was more out of compulsion than conviction. Its implementation was also attempted to be blocked by an unwilling bureaucracy, which together with politicians have a vested interest in controls and regulations. For example, when the licensing policy was liberalised, many other controls, like pricing control, for example, remained. As a result, liberalisation was not effective in all cases.

A wholistic view, rather than a piecemeal and *ad hoc* policy of liberalisation, is needed. Sudden changes of policy in mid-stream (eg. electronics and automobiles) not only created problems, but also led to a loss of confidence. Once the green signal is given for the first phase, the next round should be kept under amber, and so on. Liberalisation that comess from conviction, considered thinking and is supported by political will, should produce better results. ●



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'he Internal Debt Trap — Too Close For .omfort

D. R. Pendse

ıhe 'Internal Debt Trap' is a situation when the interest burden in any given year itself exceeds all the new loans obtained in that year. In other words, all that is borrowed is spent in paying the interest. In the following year, interest on the loans taken during the current year has to be added; and the gap becomes wider and wider. Trap is thus the correct word – once in it, it is mighty difficult to get out of it.

When Shakespeare's Polonius delared in Hamlet 'And borrowing dulls ıe edge of husbandry', little would he ave realised that the Budgets of the iovernment of India merrily marching ɔ enter an internal debt trap by 1992 ould prove how dull the edge could ecome.

he Debt

This *'Internal Debt'* refers collectively ı all that our Central Government borɔws from within the country. There are ıree main parts:

(i) Market loans and bonds, floated by the Government and traded in the stock market ("11.5 Government of India Loan 2015" and all that). These are mostly subscribed by banks and other institutions.

(ii) Other borrowings, like the various small savings schemes, the Provident Funds etc. These are not traded, and largely the lenders are individuals.

(iii) Deficit financing. Technically this is borrowing from the Reserve Bank by means of treasury bills which results in printing currency notes and is a traditional measure of deficit financing.

Government's borrowings from road — known as external debt — re naturally not included in these interıal borrowing figures but the two ogether would give what is officially ıown as 'Total Net Liabilities of the iovernment of India'. Needless to say, ıorrowings by the State Goverments, ɹunicipal or other *quasi*-official bodies re not included either.

Looked at from any angle — the eviıence of the edge of husbandry being ʼulled is all over:

'Internal Debt' of Government of India

	1950-51	(Rs. crores) 1989-90
(1) Market Loans & Bonds	1,664	62,366
(2) Other Loans [Small savings, P.F.s etc.]	551	100,934
(3) Loans from RBI [Treasury Bills or 'Deficits']	358	61,450
Total Internal Debt [(1) + (2) + (3)]	**2,533**	**224,451**
Add, External Debt	32	34,978
Total Debt	2,565	259,429

First, each of the three elements of internal debt has been growing very fast indeed as is shown in this Table

The debt has grown out of all proportion to the growth in the GNP. For every Rs. 100 of GNP at the dawn of the 20th century, our borrowing, roughly, was a mere eight annas. By 1950-51, it was Rs. 27; now it is over Rs. 60.

As happens with a compulsive borrower, the average interest rate offered by Government on its market borrowings has increased to 11.4% from a mere 6.75 % less than a decade ago.

Government prohibits the private sector from paying to the public more than 14% as interest on deposits or on non-convertibles, but itself offers a higher interest — 14.8% on its Indira Vikas Patras; and the IVPs are permanently open for subscriptions!

Many reputed and successful business concerns have shown that what matters is not so much the size of the debt, or the rate of interest, but rather the capacity to service debt. Government's internal debt is a problem more because of Government's inability to service it. As a past Finance Minister reportedly said, "We borrow at over 12% and invest to yield 4%."

The Trap

The 'Internal Debt Trap' is a situation when the interest burden in any given year itself exceeds all the new loans obtained in that year. In other words, all that is borrowed is spent in paying the interest. In the following year, interest on the loans taken during the current year has to be added; and the gap becomes wider and wider. Trap is thus the correct word — once in it, it is mighty difficult to get out of it. This road does not go very far before it leads to the slopes of mounting deficits — because that remains about the only 'in-house' method for Government to continue its borrowing spree — and the consequent hyper-inflation.

We are already close to it. In 1989-90, total interest payments on internal loans would be Rs. 15,552 cr. and the total of the internal loans will increase by Rs. 27,947 cr. Thus, 56% of our fresh internal borrowing will be used in just paying the interest on total internal borrowing. From an analysis published by two senior RBI officials, it is clear that we will enter the trap by 1992. Unless the edge of our fiscal husbandry sharpens very fast, I suspect the entry will be sooner.

What does it mean for the citizens? Will the Government repay all its internal debt obligations or not? Our Government's repayment record even on its external loans so far has been first class. Not a dollar not paid when due. There is every reason to hope therefore that the same first class record will be maintained by our Government in respect of its internal borrowing also.

But history's pages on the consequences of debt traps and hyper-inflation are not altogether blank. Remember, that forty years ago, the West German currency had to be scrapped. Government securities were declared worthless; and as from June 20, 1948, today's 'Deutschmark' was born when every head of household received 40 Deutschmarks, for every member of the family, and every employer 60 DMs for every employee.

In Argentina, the resource-hungry Government promised 82% of the last salary drawn as a pension to retired people and forced them to pay mandatory retirement dues while employed. But the Government could not keep the promise, and, when sued by the people, declared a 'state of social emergency' claiming the money was 'gone'!

Root Causes

The root of all this 'debt crisis' is the simple fact that Government's budget-making process has gone haywire. Expenditure has been rising too fast, and the revenue is not catching up fast enough. A borrowing spree is the politician's quiet but costly response.

Government's expenditure has two broad components: (i) The day-to-day or the consumption expenditure of running the Government and (ii) Expenditure for the 5-Year Plans or, roughly, the investment needs of the country.

Fiscal prudence requires that Government revenue should meet fully the consumption needs and as large a portion as possible of the investment needs of the country. That has been left behind. In fact, our consumption expenditure is itself rising so fast that all the revenue that Government gets from all sources is not enough to meet it, and a substantial part of the borrowed funds (about Rs. 3,900 cr. in 1988-89) is being used to meet such consumption needs! Even in 1989-90, this capital account surplus will remain large at Rs. 1,975 cr., but it is camouflaged into a capital accounts deficit of Rs. 325 cr. by the Government indulging in an unfortunate statistical jugglery and hoping that people will never find out.

Why is this consumption expenditure rising so fast? There are several factors, but two need specific mention here:

First, eighty per cent of the consumption component is made up of four items: (i) Defence expenditure, (ii) Interest payments on past outstanding loans, (iii) Subsidies and (iv) Administrative Expenditure. And, we are told, that there is no scope for reducing any of these items.

'Defence' becomes a sacred cow because the security of the country is involved. Interest must be paid because Government must after all honour its commitments. Subsidies help the needy: The food subsidy, at one go, gives remunerative prices to farmers and yet gives foodgrains at reasonable (*i.e.* at highly subsidised) prices to the urban consumers. The fertiliser subsidy helps reduce the input costs of the farmers. The export subsidy helps Indian producers to sell abroad and gives us the much needed foreign exchange because otherwise our goods are being increasingly priced out!

Secondly, there are massive leakages of Government funds. The Government-sponsored Report on Aspects on the Black Money in India, published in 1985, highlighted, by many telling illustrations, increasing public expenditure as a major source of black money generation. The leakages pervade all areas of expenditure, be they capital goods bought abroad, civil works carried out in the country, or the so-called poverty-alleviation schemes.

Why is revenue not rising fast enough? Here again, two reasons are particularly noteworthy:

First, tax evasion again. The same Report on Black Money estimates that for every Rs. 100 of incomes assessed to tax, about Rs. 243 is not assessed. In indirect taxes also, evasion is claimed to be running into thousands of crores of rupees every year.

Secondly, the Government's investments of over Rs. 71,000 cr. in the Centre's commercial enterprises give a poor overall return of barely 3.4% after

Government Could Even Make Some Money if...

Most economists expects India's GNP to rise by around 11% this year in real terms. Government revenues, however, are going down. The central government's deficit on current spending rose to 110.3 billion rupees in the 1988-89 financial year. This was well over 3% of GNP, and almost 12.3 billion rupees more than the government predicted. An unexpected spurt of GNP growth should have raised revenues above target; it lowered them.

The paradox is not new. Industrial output in the 1980s has been growing on average by more than 8% a year — 2% faster each year than in the 1970s. But tax revenue grew more rapidly in the 1970s than in the 1980s. The reason is simple. More and more people are evading taxes, and the higher the government pushes tax rates, the more revenue it loses.

Direct taxes can be evaded only by concealing income. In India, where four out of five income-tax payers are self-employed, this is a cinch. Indirect taxes are avoided by not declaring all of one's output. Indians have learned to be masters of this art as well. Cloth merchants keep two sets of books, soft-drink bottlers send out four truckloads of their drinks for every three on which they pay the excise duty, cigarette makers, who are supposed to pay more than 400% in excise duties, arrange with their dealers to mark down the prices on the cartons.

India's parallel economy is generally reckoned to cover a quarter to a third of all output. In fact, it may now be larger than the above-ground non-agricultural economy... The cities are bursting with money. The price of urban land is rising by 30% a year. It is good news that India's grassroots economy is doing so well. It would be better news if the next Indian government recognised why and tried to fix its laws and regulations accordingly. It might even make some money from it.

COURTESY: The Economist

Down to Earth

Did you hear about the visionary farmer who wanted to plant his fields in 40% cotton and 60% polyester?

— Shelby Friedman

erest and tax. Exclude the oil sector, ..d the rest is mostly a splash of red .. which, far from generating sur-..ses for the Budget, is a continued ..ain on the Budget.

Far more competent authorities than ..yself like the Planning Commission, .. Ninth Finance Commission, and ..e Controller & Auditor General, have ..w pointed out the dangers implicit in ..ese trends, but with little effect. The ..t result is that our Five Year Plans are ..w being financed totally on borrow-..gs and deficits. A very high Govern-..ent official in a key economic policy ..aking position said recently in a can-..d article on the debt problem (alas, ..ter his retirement) ".... Against this ..ckground, the planning exercise is at ..st an exercise in futility and at worst ..n elaborate hoax on an unsuspecting ..ublic."

..orting it Out

The problem is of our own making, .. we have to sort it out ourselves. ..re diagnosis, more dithering, and ..oking for soft options will not bring us ..y nearer to a remedy. Only hard op-..ns and drastic actions can see us out, though I see no sense of urgency at all among the policymakers:

On the contrary, we see Ministers proclaim far too often in the context of several causes, whose nobility is not in doubt, that 'resources will not stand in the way'. I am puzzled: In the absence of decisions to make a matching cut somewhere else, from where will we get these resources? Do we not have to be obsessed by the need to cut expenditure and to raise revenue?

One soft option popular among the policymakers, is to borrow abroad, for local needs. Hundreds of crores of rupees are being borrowed in foreign exchange for projects like highway development and drainage of metropolitan cities, when there is neither an appropriate foreign exchange component in their cost, nor a prospect of earning more foreign exchange on their completion. This option only brings us nearer to the external debt trap. We need to avoid this deceptive option.

Instead, it is time Government appreciated the fact that more than 75% of Government's revenue comes from industry, including the corporation tax and the applicable excises and customs. The best bet for a practical Government in search of resources is to do everything possible to accelerate industrial growth. Are we *really* doing it?

Similarly, as families in acute financial distress have occasionally to sell some family silver to tide over a crisis, Government should also be willing to sell upto 49% of the shares of some of their profitable and prosperous commercial enterprises. Government will get a good price and significant revenue which can be used for other high priority purposes — reducing the internal debt itself being one of them. Yet, Government will continue to retain full control over their management and the enterprises will become more truly public.

Indeed, it is by no means beyond our collective ingenuity to get this dreadful internal debt trap out of our way. We need the will to act. And as the first step, we need the courage to accept that a dangerous trap looms large which deserves to be avoided with all our might.

Mr. D.R. Pendse is Economic Adviser, Tata Industries Limited, Bombay.

Revised from an earlier article

Much of the voluminous data published in the various Budget documents is dull and difficult to comprehend more so this year because significant changes in classification re. debt data seem to have been introduced. Figures used in this article are based on my own understanding and interpretation. I consider them reasonable, but would be happy to be corrected.

Is The Central Government Fiscally Viable?

P.R. Brahmananda

1. The first requirement of a fiscally viable or provident government is that the tax-revenue accruing to it in a year should at least finance the minimal, inescapable expenditures of the government during the year. This is the canon of minimal viability. Does the functioning of the Central Government in 1988-89 and 1989-90 satisfy this canon?
2. What are the minimal, inescapable functions? General functions like law and order, defence, fiscal, social and economic services, pensions, committed grants to state and union territory governments and to foreign governments, and interest payments on debt may be deemed as minimal and inescapable. In the 1988-89 Revenue Estimates (RE) and the 1989-90 Budget Estimates (BE) the outlays are as follows:

Minimal and Inescapable outlays (Rs. crores)

	1988-89 (RE)	1989-90 (BE)
Defence	13,200	13,000
Police	1,166	1,222
General Services	1,892	1,924
Social Services	1,322	1,499
Economic (including fiscal) Services	1,840	2,128
Grants to State and UT governments	2,238	2,640
Grants foreign governments	181	182
Net expenditure in UT without legislature	646	740
Postal deficit	83	180
Pensions	2,041	1,879
Interest payments	14,150	17,000
Advance provision for DA	—	1,000
Total	39,059	43,314

Thus for 1988-89 (RE) minimal and inescapable outlays were Rs. 39,059 crores and for 1989-90 (BE) Rs. 43,314 crores.

3. The own tax-revenues of the Central Government were Rs. 31,652 crores for 1988-89 (RE) and Rs. 38,387 crores for 1989-90 (BE). The government was falling short of Rs. 6,407 crores and Rs. 4,927 crores respectively for the two years to meet the minimal commitments. In other words the government's tax-revenues did not fill the bill of minimal and inescapable expenditures. It may be noted that barring interest payments, the rest of the expenditures would be on the Establishment in the Central Government itself and on the necessary commodity outlays relevant to the same and on those expenditures of a similar type by governments receiving grants from the Central Government.
4. My general contention has been that the Central Government has ceased to be fiscally viable. It has to make good the shortfalls by drawing on surpluses of public enterprises and by borrowing from the Central Bank. The major cause of the revenue deficit of Rs. 11,030 crores and Rs. 9,812 crores in 1988-89 and 1989-90 arise from the above shortfalls.
5. The government must first earn enough tax-revenues to meet minimal obligations. This is not being done. If a concern has no current flows out of its sales to pay the minimal establishment and other expenses, we say that the concern is sick. And if this picture persists year by year, we recommend retrenchment of staff and even partial closure. What do we do when the government itself is minimally financially non-viable? As per the RBI's own criterion applied to business units, the Central Government is sick, very chronically sick. It is spreading the sickness to banks and public enterprises, even those viable.
6. The problem is very serious. If the fiscal crises persists the government will start first postponing repayments on loans due for repayment, then it will recontract obligations at lower interest rates; alternatively, it will make borrowers stand in long queues day by day to claim repayments and interest.

   The community has a stake in introducing minimal fiscal viability. The government employees will become old some time; they must see that their organisation does not incur huge deficits. Government is already raiding its capital receipts. The government employees do not know that it is out of current receipts that it pays claims of provident funds and pensions.
7. We have another indication of the growing non-viability of the Central Government. According to the analysis of the economic-cum-functional classification of the Central Budget between 1984-85 (Accounts) and 1988-89 (BE), tax revenues of the government went up from Rs. 24,366 crores to Rs. 48,701 crores. The increment in current expenditure was Rs. 24,335 crores whereas the tax-revenues increased only by Rs. 18,787 crores indicating an increase in the shortfall by Rs. 5,548 crores. The analysis notes that the savings of the government administration were negative in 1984-85 by Rs. 1,906 crores; and this negative amount went upto Rs. 7,514 crores by 1988-89. On government's own analysis of its affairs the Central Government is not able to meet its current expenditures out of tax-revenues. It is gobbling up the savings of the households and the corporate sector to meet its own current expenditures. •

'he Union Budget — 1989-90

.ı Exercise in Political Symbolism

N.A. Palkhivala

Mr Nani A Palkhivala, an eminent jurist, tax expert, former Indian Ambassador to the United States, Chairman of the Associated Cement ımpanies and Director, Tata Sons Ltd., is a legend in his life time. His annual analysis of the Union Budget explained in a manner which the nmon man can understand, attracts an audience of over 50,000 people in Bombay — an annual even without parallel. Since no auditorium can commodate such a mammoth gathering, his budget speeches are now held at the Brabourne Stadium He also delivers his budget speeches in her metropolitan cities.

A gist of his speech (spread over ninety minutes) delivered in Bombay on March 3 is published below.

— *Guest Editor*

Unfortunately, the last Budget of the present Government is purely an exercise in political symbolism. It takes the form of election rhetoric and party manoeuvre. There is no policy underlying the Budget. It merely bears out the criticism of a perceptive thinker that India indulges in gestures rather than policies.

On the contrary, the Budget goes against the four major planks of the policy with which the Government started in 1985 — (i) low rates of tax, (ii) simplification, (iii) stability, and liberalization.

The imposition of 8 per cent surcharge is patently wrong, and its constitutional validity is not free from doubt.

First, it virtually increases the tax by 4 per cent, reversing the avowed and proven policy of the Government to collect higher revenues by lowering tax rates and avoiding the incentive to tax evasion.

Secondly, it means that the whole amount of Rs. 500 crores collected as surcharge would be kept by the Centre, whereas three-fourths would have gone to the States if it was a straight increase of 4 per cent in the tax rate.

Thirdly, the proposal to use the moneys to finance a rural employment programme would establish a dangerous, unethical convention which would result in further degradation of our public life. In plain terms, it would mean that while there is no State financing of general elections in our country, the surcharge would be used for financing the ruling party at the next general election.

Fourthly, it would mean the creation of one more government organization and one more channel of corruption and waste of public funds. It would be so much wiser to follow the example of Britain and Brazil where the government gives a direct labour subsidy, for a specified period, known as the Regional Employment Premium (REP), for every man employed in an industrial unit in a backward area.

The Budget should have removed three crying injustices—

(i) It should have allowed banks to compete with one another in paying higher rates of interest on deposits and savings accounts. Such freedom is available in all free countries.

(ii) It should have abolished or reduced the tax on dividends received by shareholders from the company's taxed profits, as is the system in the UK, France, Germany, Japan and other countries.

(iii) It should have increased the threshold of tax exemption from Rs. 18,000 to Rs. 25,000 or above. The minimum taxable limit of Rs. 15,000, fixed in 1981, corresponds to Rs. 28,740 today; while that of Rs. 18,000, fixed in 1985, corresponds to Rs. 24,790 today.

The Government's total lack of a sense of public justice is proved by the fact that while rates of specific excise duties are increased to take care of inflation, the taxpayers are not thought worthy of any similar equitable consideration.

Simplification and stability are so wholly foreign to the culture of the Finance Ministry that perhaps the mistake was on the part of those who expected such qualities in the Budget. If taxpayers were dogs, the officials of the Finance Ministry would beyond doubt be convicted under the Prevention of Cruelty to Animals Act.

With eleven new Programmes, Schemes and Funds envisaged in the Finance Minister's speech, the bureaucracy will be larger and more intrusive than ever before.

Education and family planning which deserve the highest priority, are nowhere in the list. Even in 1989-90 we shall continue the unforgivable blunder of spending less than half of one per cent of the Gross Domestic Product (GDP) on education, and less than a quarter of one percent of GDP on family planning.

We still look upon gold as a dangerous problem like drugs when, in fact, it can be a solution and a cure for many of our economic and social ills.

The revenue deficit would have been Rs. 9,312 crores but for the fact that Rs. 2,300 crores has been taken from the oil sector on revenue account, departing from the past practice without a word in the Budget Speech to justify the change.

In 1989-90, the Government expenditure will further increase by 8 per cent over the previous year to Rs. 82,161 crores, and the total Government liabilities would increase by 13.7 per cent to the astronomical sum of Rs. 259,729 crores — the largest figure anywhere mentioned in the Budget documents — while the Government's interest burden will increase to Rs. 17,000 crores. We are moving dangerously close to the "debt trap".

Article 292 of the Constitution enables Parliament to prescribe by law the limits within which the executive can borrow upon the security of the Consolidated Fund of India. The fixing of such limits on the borrowing power of the Union Government was suggested by the Chakravarty Committee appointed to review the working of the monetary system. It was also recommended by the Public Accounts Committees in their Ninth Report (1962-63), Thirty-Sixth Report (1964-65), Fifty-Second Report (1965-66), and Sixty-Fourth Report (1968-69). The Comptroller and Auditor General has made the same recommendation in his Report published last year.

The people must put strong and sustained pressure on their MPs to ensure that such limits on borrowing powers are fixed by Parliament. The good sense of the Government has proved to be a non-existent substitute for legal compulsion

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I will not cut my conscience to fit this year's fashions

Arthur Miller

An Economy In Dire Straits

Y. Sivaji

A perestroika or restructuring of our public sector enterprises is urgently needed. A lot of dead wood which has accumulated in this area over the years is draining our resources. Each unit must be made accountable for its profitability and consistently losing units must be shut down for good.

An officially induced view currently ıaking the rounds is that despite the resses and the strains it has been sub- cted to, the Indian economy has ac- uitted itself creditably in 1988-89. It is aimed, for example, that the gross omestic product is likely to increase by) percent during the year, that indust- al output will go up by about 10 per nt and that in agriculture, the produc- on of both foodgrains and oilseeds is oised to make a breakthrough.

However on closer scrutiny one notes ıat the growth in gross domestic pro- uct, for instance, is apparently calcu- ted with reference to the unsatisfac- ry performance in the drought fected base year. Similarly, the in- eased industrial output is accounted r largely by the electronic and the itomobile segments of the economy. s such, the reported growth is unba- nced and lopsided when considered r the industrial sector as a whole.

As for agriculture, there is no evi- ence that the current year's produc- on is a result of any significant gains in oductivity or in the total area sown. he base year also is subnormal. In the rcumstances the enhanced agricultu- l out-turn for the current year can be tributed only to a favourable mon- oon and not to anything else.

Thus while we have nothing to be erly happy about the performance of e economy in 1988-89, there is a ood deal in the fiscal and monetary eas that causes considerable alarm. he overall picture one obtains here is mass poverty coupled with financial discipline and a predilection to live eyond our means. As a result of unre- ved inflationary pressures, the real in- omes of the large mass of our people e being constantly eroded. This is ore so in the case of small and marginal farmers who are groaning under the heavy burdens imposed by adverse weather that restrict the size of their crops and even more adverse market forces that deprive them of remunerative prices for their produce.

The plight of the farmers is made far worse by the patently discriminatory policies of the government, which is overprotective of the comparatively better off urban population as well as big business. For example, it is being assumed now by many in the urban sector that all would be well with the farmers because of the current year's normal monsoon. The presumption here is that the farmer would secure a larger income on a satisfactory yield. No thought whatever is given in this connection to his cost of production, which has been constantly increasing on account of unabated inflation. No consideration is also shown to the prices he is obtaining for his produce as such prices are meticulously pegged down to neutralise the effects of the inflationary forces on the non-farm sector.

Therefore, it is a matter of great concern that the government is doing virtually nothing to curb inflation as such and pave the way for better distribution of incomes. It is on the other hand busy siphoning off real incomes from the rural sector to pamper other favoured areas of the economy.

Speaking of inflation, we are at once confronted with the chronic problem of the financial profligacy of the government. Our avowed aim is growth with social justice. But what we witness these days is an unchecked growth in paper money with neither social nor any other justice. In our quest for a quick economic and social transformation we are wielding such double-edged weapons as deficit financing irresponsibly and achieving statistical goals of dubious worth. No wonder the rich are getting richer and more powerful and the poor, poorer and more helpless.

The menace of uncontrolled revenue expenditure is the hallmark of this government's inability to curb inflation. Revenue expenditure escalated from Rs. 55,165 crores in the revised estimate of 1988-89 to Rs. 59,642 crores in the budget 1989-90, an increase of 10 per cent in one year.

What is even more alarming, against the total expenditure of Rs. 82,161 crores in 1989-90, as much as 66% is for non-plan expenditure. This is a colossal drain on the scarce resources of the country, leave alone its potential for inflationary mischief. This is something a developing country like ours can hardly bear for any length of time. Yet deficit financing, open market loans and hikes in administered prices are being indiscriminately resorted to support this unsupportable level of expenditure.

Economists fear that we are on the threshold, if not already in the middle, of a deadly debt trap with all its vicious repercussions. For instance, the interest liability on the total borrowings of the government will be Rs. 17,000 crores in 1989-90. A recent study by some officials of the Reserve Bank of India has indicated that if the this liability increases at the current rate, by 1991-92 our annual borrowings would not be enough even to pay off the interest in that year. Also, in respect of external borrowings the debt servicing ratio is at a high of 26 per cent and by 1992 it is likely to be a highly critical 30 per cent. This fact underlines how we are living on borrowed money being repaid by more and more of borrowings.

Our external trade displays an equally dismal picture. The deficit in trade has increased from Rs 99 crores in 1970-71 to Rs. 6,658 crores in 1987-88. It is estimated that in the current year it would be around Rs. 8,500 crores. The frailities that continue to plague our economy are perhaps nowehere reflected more glaringly than in the pathetic performance of the rupee against all major currencies. This is another face of the internal inflationary pressures on our currency apart from the impact on it of external factors. During the two year period February 1988 and February 1989 the rupee has gone down against the U.S. dollar by 14 per cent, against the Pound Sterling by 15.4 per cent, and against the Japanese Yen by 17%. And indications are that it would continue to depreciate more as less at this rate annually in the next few years.

In such a desperate situation, what should Government be doing to reverse the rake's progress towards financial insolvency? The following suggestions are worth considering:

1. Strict ongoing check should be exercised over revenue expenditure at all stages to keep it to the bare minimum. If deemed necessary, an interministerial watchdog committee be appointed for the purpose to secure the co-operation and the united effort of all ministries in this regard.

2. There should be a moratorium on new employment in the government for a specified period and subsidies must be cut down as most of them are not serving the ends for which they were intended anyway. Borrowings by the government should be restricted to finance plan outlays. And ways explored to minimise the impact of interest on such borrowings.

3. A closer review of defence allocations and related expenditure examined and controlled carefully. That defence expenditure has been frozen at Rs. 13,000 crores in 1989-90 is indeed welcome. The prime importance of defence should not blind us to the need for the best spread of scarce resources in this vital area;

4. A perestroika or restructuring of our public sector enterprises is urgently needed. A lot of dead wood which has accumulated in this area over the years is draining our resources. Each unit must be made accountable for its profitability and consistently losing units must be shut down for good.

5. Wherever possible, in external economic relations, joint ventures must be encouraged to replace capital borrowing and avoid the interest thereon.

6. The rupee's market or real value internationally must be reflected in its official value.

7. In line with other major exporting countries in Asia preferential bank credit should be offered to exporters at 3 per cent to boost exports. The Reserve Bank of India should also liberalise foreign exchange allotment to exporters for market development abroad.

8. To ensure equity and justice all developmental expenditure between rural and urban sectors should be based on population.

9. The practice of administered prices must be given up.

10. The exemption limit for income tax purposes be increased to Rs. 25,000 to reflect the present real value of the rupee. Recovery of taxes should be streamlined and made more efficient.

11. Farmers should be extended cash credit for farm financing by the banks as in the case of industries and trade.

12. The following developmental measures to be introduced:

a) Atleast 10 per cent of bank lending must be earmarked for housing.

b) Measures taken to make Family Planning more effective.

Dr. Y. Sivaji is a Telugu Desam Member of the Rajya Sabha.

To Prosperity Through Freedom

The Swatantra Party believes that the free choice of the producer, the investor, the worker and the consumer must be given due place and importance. The Party believes in the incentives for higher production and expansion inherent in competitive enterprise, with adequate safeguards for the protection of labour and against unreasonable profits, prices and dividends in those cases where there is no competition or where competition is not adequate to secure the necessary corrective.

While the Party believes in a mixed economy where State and free enterprise work side by side in the service of the community, it stands for the restriction of State enterprise to such heavy industries as are necessary to supplement private enterprise in that field, such national services as railways, and the starting of new enterprises which are difficult for private capital and initiative to establish. The Party is opposed to the State entering the field of trade and disturbing free distribution and introducing controls and official management and monopoly which lead to the inefficiency, waste and corruption of an ever-expanding official army.

Wherever the State enters the field of industry of business, the Swatantra Party is of the view that it should not be given a monopolistic position but should show results facing competition on equal terms.

The Party would regard such government ownership of industry as has been undertaken as only a transitional and limited device and it would not hesitate, wherever necessary, to undo such harmful measures.

In particular, the Swatantra Party will aim at reducing taxes and loans by giving up many State enterprises which are neither essential nor remunerative. This will also have the effect of reducing the present high prices which are inflated by government levies and loans. To the extent private enterprise relieves State enterprise, the burden of finance will be properly transferred from the common people who are not qualified to bear it to the enterprising rich who are willing to bear it.

From The Swatantra Party's statement of policy adopted in March 1960

)eficit Financing

C. Rajagopalachari

o stop prices from rising, we must restore the balance between the flow of production and the flow of money. Inflation and excessive State interference are the two evils of the Indian economy of today. If and only when these two evils are removed, can we expect to be saved from rising prices.

In all low income countries, expanion of money put in circulation results uickly in price rises. Inflation is the ord used when we look at the cause nd discuss the situation in terms of noney. Price rise is the phrase used hen we speak from the point of view of ommodities. If the expansion of noney, whatever be the motive or eason for such expansion, outpaces e physical volume of output of comnodities, we have a state of inflation nd prices rise as a result.

The Ministry of Commerce[1] pubshes the average of wholesale prices. rom the hand-outs of the Reserve Bank of India we can obtain information bout money supply. There has been a ontinual rise in the general index of rices. We see also that money supply as considerably expanded, faster than e output of national products.

With 1938-39 as base, the general inlex of prices in August 1960 was 478, a ise of nearly five times. The present hange-over of the base from 1938-39 o 1952-53 obscures the enormous nagnitude of the price rise[2].

/hat is Deficit Financing?

Government collects funds from the eople by taxation, loan issues, small avings and profits of public sector ndertakings.

From these funds disbursements are nade for administrative expenditure, epayment of past loans, and Plan inestment outlay. When these and other ems of disbursements exceed the total eceipts, what is called budget deficit rises. These deficits are covered by notes printed at the Government Security Press at Nasik. This is called deficit financing.

This expansion of money is followed by what is called secondary expansion through credits given by commercial banks. For every Rs. 100 crores of additional Nasik money, there is usually another Rs. 100 crores of credit creation.

Inflation that now prevails in India began in 1955-56. Budget deficits rose from Rs. 97 crores in 54-55 to Rs. 225 crores in 55-56. In 57-58 the Plan outlay was so great that, with additional defence expenditure, the budget deficit that year reached a peak of 495 crores. These yearly deficits have a cumulative action[3].

The rise in prices due to inflation reduces the value of money and life becomes unhappy for people living on wages and fixed incomes. Their real income is reduced, and some of them would have to draw on past savings for current expenditure.

The rise in price corrodes all savings. This leads in the case of the better placed classes to the transfer of their savings to urban property, to gold and to concealed exports of capital. Speculative transactions acquire additional attraction. Hoarding of goods is encouraged, eating into savings. For a time production may be deceptively stimulated on account of higher prices, but soon it gets retarded on account of increased costs. Foreign purchasers of our goods will move to other markets. Imported goods rise in price, giving windfall profits to importers and smugglers.

As a result of inflation, income shifts from the masses to upper income groups. The middle classes are most hit. The strike of the Union Government employees was a symptom of this suffering. Industrialists and their labour force, who are able to extract a share in the receipts, do not suffer much but the condition of the vastly larger number of farm hands is worsened.

Inflation must be followed by price controls and import restrictions. These produce a great deal of economic and social disorder and injustice. The controls over steel, coal, cement, sugar, rubber, fertilizers and food-grains have cast a gloom over the life of the people.

Who Benefits From Control?

Far from equalizing incomes, the policy of controls makes the rich richer. The stagnant per capita consumption of cloth and of foodgrains is the best evidence of the condition of the people, and this has resulted from the misguided policies of the present administration. In the case of all imported goods including gold, there is a great gap between landed cost and market price, ranging from 30 per cent to 500 per cent, depending on the nature of the commodity. The difference between the landed cost of gold and the market price is seventy rupees per tola. The import markets are illegal and the gap between cost and market price is officially ignored but this does not nullify the reality. The benefit of all the gaps in cost of imports and market price goes to importers and smugglers. Excluding government imports where the difference may be treated as a concealed tax, according to a reliable estimate, the ill-gotten gains on imports during two years would be of the order of Rs. 1,000 crores. This amount has several co-sharers — corrupt officials who handle the issue of licences, the recipients of the licences, including both those who just sell them in the black market and real importers. The accounts of cost are falsified by inter-sales and the like, so as

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his article, brilliant in its simplicity of style as written by Rajaji almost three decades ago September 24, 1960) Its message is still re evant in todays India — in fact even more so to bring the declared cost to near the market price, and so as also to replenish the importers for their payments for the purchase of the licences and for corrupt transactions with officials and go-betweens. All these incomes are tax-free, being illicit in nature. It is these earnings that enable some people to give large political donations to the ruling party and also to other groups for purchasing peace. The beneficiaries of the illegal gain, on account of import controls, are the upper income groups and the money is obtained from those who consume the imported commodities or articles into the production of which such imported materials go. The total anti-social money that goes thus from consumers' pockets to upper income groups has been estimated as being of the order of Rs. 300 crores per year. Inflation, import restrictions and other controls have affected the moral standards of the nation, and have led to the emergence of a new undesirable profession engaged in touting for obtaining licences, permits and contracts, in illicit trafficking in import licences, and in smuggling gold, diamonds, watches, cigarettes, fountain pens, razor blades, photographic accessories, etc. The talent for enterprise tends to gravitate around officialdom and to practices to become rich quickly without spending energy*.

In the absence of inflation and controls, the talent and resources would be actively engaged in adding to national wealth under the free play of competition, the normal road to progress. Inflation and controls discourage efficiency and progress and honesty.

Keynesian Deficit Financing

Martin Feldstein

It was deficit spending that was the explicit centerpiece of Kenynesian fiscal policy. In place of the traditional virtue of financing government spending on a pay-as-you-go basis, Keynesian economics made a virtue of budget deficits that would leave it to future generations to pay those costs. Early Keynesians argued that those costs were not real because, as they said, we only owe the national debt to ourselves. We now recognize that is wrong. Because of past budget deficits, we now have a smaller capital stock, lower productivity, and lower real incomes. We and our children will pay the very real costs of past deficits. Moreover, just paying the interest on the national debt now requires 40 percent of all personal tax revenues; without that inherited obligation, our tax rates would be 40 percent lower today and the incentives of after-tax compensation that much more favourable.

Unfortunately, several decades of Keynesian instruction on the virtues of budget deficits have left the public and our political leaders confused about the costs of running persistent deficits. Keynes once wrote, in an often quoted passage, that: "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." Keynes has been that influential defunct scribbler for the past generation. But who would ever have thought that the politician hearing Keynes's voice in the air might be Ronald Reagan?

The use of deficit spending to reduce unemployment led inevitably to the idea that government could manage the economy to eliminate the business cycle. The experience in attempting to do that in the 60's and '70s has demonstrated clearly the inherent inability of economists to provide the kind of information that would be necessary to forecast and fine-tune the economy in this way. It is a useful bit of humility, but we paid a high price for it.

One final word about fiscal policy. I believe that the apparent legitimacy that Keynesian economics gave to the idea of an activist fiscal policy aimed at reducing unemployment also encouraged the growth of other types of activist and counter-productive government interference with the market economy. The United States was certainly not alone in going down that route. Now, decades later, economists and governments around the world are waking up to what George Schultz has described as the understanding that the "structural rigidities imposed by governments are the main obstacles to economic growth."

Martin Feldstein, Professor of Economics, Harvard University

(Extracted from Keynesian Economics and Harvard, *Challenge*, July-August 1988

Easy money being available to some under controls and inflation, they favour continued 'planning' which to them means continued inflation and controls which provide them opportunities to amass money. Political parties in power also favour controls, as these give an opportunity for the exercise of power and for acquiring personal and political gains. Conscience pricks are quelled by the thought that it is all done in the national interests, and the gains are only an incidental by-product.

Never were the interests of the anti-social elements so well looked after as under the present administration. These controls must go or the Government should change, if the country is to be extricated from the morass it has got stuck in. It is not true, as is argued sometimes, that rising prices and controls and import restrictions and exchange controls are inherent in a developing economy. The experience of other countries — Canada, Belgium, West Germany, Mexico, Japan, Italy and France — have demonstrated the untruth of this plea.

High Prices — Why?

It is not true, as is sometimes stated, that prices all over the world have risen. West German national income rose in real terms at 13 per cent per year in each year of the period 1951 to 1958. But prices rose there by less than one per cent per year, 5 per cent only in all seven years. And West Germany was in the forefront to remove restrictions on imports and on payments abroad. In ever so many countries price stability and surplus in balance of payments, and abolition of restrictions on imports and payments, have gone together with rapid economic growth.

Since 1955, Indian price-rise stands out almost alone. Prices in May 1960 in India were 33 per cent higher than in 1954. In France and Italy prices declined during that period. In Germany, Belgium and Japan and other countries the annual price rise was 1 per cent or at most 2 per cent.

There is a notion that curtailing bank credit will reduce inflation. Bank credit is so closely related to deficit financing that keeping the latter going and reducing inflation by control over credit is a tility. It only adds to the confusion. To strict credit against foodgrains and :rtain other commodities would raise e cost of banking services generally, ıd in particular the cost of credit to the ade in those commodities, which are ısential for the economic life of the ɔmmunity. Naturally, such policies en- ɔurage advances against assets out- de the banned list and drive the busi- ɛss of credit from scheduled banks to hers which are not under control. The ɔlicy of credit controls has demonstr- ɔly failed. Tampering with the credit- ıachinery will not achieve anything as ng as deficit financing is continuing.

The fact is that the attempt to 'invest' ɔn-available resources — which is hat deficit financing amounts to — is wrong and futile policy. No plan can ɛ larger than the resources available ır investment, be it internal or that ɔtained from generous outsiders. ven as water is no substitute for milk, flation is no real resource. The fallacy ʼoduces high prices and distress. A an based on inflation will retard prog- ɛss instead of accelerating it.

The Third Plan is tremendously infla- ɔnary. The overt deficit financing of ıis Plan is Rs. 550 crores. This is mis- ading. Without totalitarian and physic- suppression of consumption, in order ı mop up people's money by reducing ɔnsumption, the amount of supposed ʼailability of savings estimated at Rs. 200 crores is an over-estimate. The ver-estimate is at least of the order of s.1,300 crores.

Thus what the Plan requires by way of ɔreign aid, (over and above the mount required for repayments due) is ot Rs. 2,700 crores but Rs. 5,350 rores. The deficit financing therefore ill not be only Rs. 550 crores as plan- ed but six times that figure. If the fore- ȷn aid does not arrive according to the me table, whatever the causes may be, ıe gap will be much greater. And there re good reasons for apprehending ıis.

We know that deficit financing to the xtent of Rs. 367 crores during the five ears ending 59-60 led to a price rise of 2 per cent. The deficit financing inhe- ɛnt in the Third Plan will certainly in- olve 'runaway inflation', like the one ıat swept over Germany after the first Vorld War. During the five months en- ing August 1960, prices have been ris- ıg at a rate computed at 14.2 per cent per annum. This is an indication to take note of. Deficit financing has already gone too far. Foreign aid and drafts on currency reserves, cannot go on inde- finitely. Holding the price line, which is continually promised, would be just King Canute's command to the waves of the sea.

The High Cost of Inflation

It is pathetically argued that inflation will be stopped by increase in produc- tion. Inflation retards production. It drives up costs and the commodities manufactured must be sold at higher prices. Prices and costs rise simul- taneously with inflation, and will con- tinue to rise with continuing inflation. Inflation is the disease and the prices only indicate the temperature. There is no good attempting to reduce the symptom while keeping the disease going. Fair price shops of any kind or number cannot achieve control of prices. Even if buffer stocks released for sale depress food prices artificially, this will shift agriculture to other than food- crops, and render the food position worse. Any commodity distribution at arbitrary prices will fail, because the stocks will be bought up as soon as they are put on the market, and go to feed the black market. The cost of any remedy put in action by way of sub- sidies will ultimately fall on the shoul- ders of the tax-payers. The net result, so far as the price level is concerned, will be nil. The price problem resulting from inflation cannot be corrected by a change in the machinery of distribution. The diagnosis must be kept in mind when treatments are attempted. The money let loose being the cause, re- medies other than reducing the money flow will not avail.

The favourite notion that prices result from traders' conspiracies is stupid. Such conspiracies are impossible. The prevailing price rise is not the outcome of either monopolies or impossible conspiracies but of deficit financing. Prices have risen despite bumper crops and heavy annual import of food-grains of three million tons for four years.

To stop prices from rising, we must restore the balance between the flow of production and the flow of money. Infla- tion and excessive State interference are the two evils of the Indian economy of today. If and only when these two evils are removed, can we expect to be saved from rising prices.

1 At present, the Office of the Economic Adviser, Ministry of Industry publishes these figures.

2 With 1970-71 as base year (i.e 1970-71 100) the wholesale price index was 48 in 1950-51, 55 in 1960-61, 405 in 1987-88 and over 434 in December 1988, the latest figure available. This means a 9-fold increase in the wholesale price index in 37 years.

3. The overall budget deficit rose from Rs.5,816 crores in 1978-88 to Rs.7,940 crores in 1988-89 (revised estimate and Rs.7,337 crores in the Budget 1989-90. It is not difficult to imagine how Rajaji would have reacted to the present Government's fiscal mismanagement!

4. According to the report of the National Institute of Public Finance and Policy on *Black Money in India*, black money generation was atleast Rs.36,786 crores in 1983-84, about 21% of Gross Domestic Product (factor cost at current prices). Experts tell us that this is an under-estimation.

5. Average annual rates of inflation of these countries during 1965-80 and 1980-86 were:

	1965-80	1980-86
West Germany	5.2	3.0
Italy	11.2	13.2
France	8.0	8.8
Belgium	6.6	5.7
Japan	7.8	1.6
India	7.6	7.8

COURTESY: *Swarajya*

Statement about ownership and other particulars about Freedom First.

Place of Publication	: Bombay
Periodicity of its Publication	: Quarterly
Printer's & Publisher's Name	: J.R. Patel
Whether citizen of India	: India
Address	: 285, Javji Dadaji Marg Adenwalla Baug Bombay 400 007
Editors' Names	: S.V. Raju
Whether Citizens of India	: Indian
Address	L/9/72 Tilak Nagar Bombay 400 089
	R. Srinivasan
	: Tarun Sadan Kings Circle Matunga Bombay 400 019
Name and address of individual who owns the newspaper and partners or shareholders holding more than one percent of the capital	: Democratic Research Service 127, Mahatma Gandhi Road Bombay 400 023

I, J.R. Patel, hereby declare that the particulars given above are true to the best of my knowledge and belief

Dated 1st April 1989

J.R. Patel
Publisher

A Tale of Two Deficits

Swaminathan S. Anklesaria Aiyar

Does a big budget deficit lead to a big trade deficit? In some countries, like the USA, it may. In others, like Japan, it may not. In India's case, neither economists nor government planners have usually seen any direct link between the two deficits. After all, the two have sometimes moved in opposite directions. However, with the liberalisation of the economy, it now appears that the two have become linked. That is bad news for the Government and the public. For years politicians have been printing notes merrily to finance expenditure, confident that this will not create balance of payments problems. They need to think twice now.

Any deficit is a sign of over-consumption. A budget deficit means that a Government is spending more than it gets through revenue. A trade deficit means that a country is consuming more than it produces. Are the two sorts of over-consumption directly linked? Not necessarily. The Japanese are a thrifty lot, saving up to 30 per cent of GNP. Such massive savings are enough to finance all domestic investments as well as the budget deficit. So there is no over-consumption at the national level, and hence no trade deficit.

Things are very different in the USA. Americans have increasingly become spendthrift, and now save less than five per cent of disposable household income. This is insufficient to finance domestic investment as well as the budget deficit. So they are consuming too much, and have to finance this over-consumption by borrowing cash to buy goods from abroad

What about India? Indians are fairly thrifty — our savings rate has varied from 21 per cent to 24 per cent in recent years. However, the Government has become terribly spendthrift. Back in the 1960s and 1970s it had a revenue surplus, a positive contribution to the country's savings. But in the 1980s this has given way to a revenue deficit, which means dis-saving (which eats into the national kitty of savings).

The implications of our over-consumption are ominous. We are having to rely increasingly on foreign money and foreign goods to meet our over-consumption. This cannot continue long. It will, if unchecked, lead us straight into an external debt trap.

The Government has depreciated the rupee considerably in the last few years to promote exports. The policy has yielded results — exports have risen 24 per cent this year. But imports have also shot up by something like 27 per cent. This has been a puzzle. Devaluation usually means a fall in imports because of higher import prices. Why then are imports rising so fast in India? One answer is, simply, over-consumption. Deficit financing is pumping so much demand into the economy that the demand for imports is rising fast despite the higher import prices.

> Any deficit is a sign of over consumption. A budget deficit means that a Government is spending more than it gets through revenue. A trade deficit means that a country is consuming more than it produces.

Every undergraduate learns at college that a trade gap caused by over-consumption cannot be corrected by devaluation alone — this must be accompanied by a shrinkage in the Government's deficit. Only such a shrinkage can correct the underlying problem of over-consumption. In India, the Government has consistently ignored this undergraduate lesson.

One answer lies in import controls. In the 1960s and early 1970s, imports were very strictly controlled because foreign exchange was even scarcer than today (There was no borrowing from foreign banks in those days). So even if more purchasing power was pumped into the economy by deficit financing, this led to inflation rather than a surge in imports. Secondly, in the 1960s and early 1970s, the growth of GNP was modest, and this also checked import growth.

In the 1980s both factors have changed GNP growth has become distinctly faster, and tends to suck in more imports. And the gradual easing of import barriers means that a surge in demand is more likely to lead to a surge in imports too. In the other words, liberalisation has created a link between the two deficits, a link which was cloaked earlier by stringent import controls.

Some observers have blamed the imports boom on large imports of components for luxury items like automobiles. A look at the detailed import figures shows that the problem lies elsewhere. In the first five months of 1988-89, imports of transport equipment actually fell by Rs 31 crores, and overall imports of machinery rose by only Rs 68.8 crores. On the other hand bulk imports — such as petroleum, steel, cereals, edible oils, fertilisers — shot up by Rs 991 crores. Project imports rose by Rs 251 crores. Imports of "other items" — a wide miscellany — rose by another Rs 569.4 crores. This suggests that imports are surging because of a general rise in demand, not just because of cars or electronics. The increase in imports is spread over an extraordinarily wide range of items.

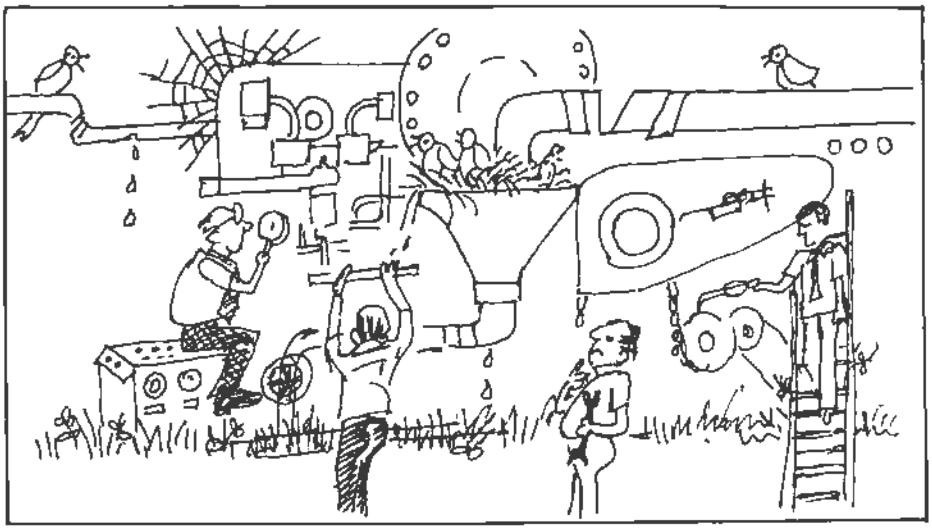
What is the way out? Some economists want to clamp stringent controls on imports again. That will certainly cut imports, but the excess demand will then spill over into much higher inflation. The proper answer is not to tackle the symptom (import growth) but the disease (over-consumption) by slashing deficit financing. The Centre is fond of lecturing the States on financial profligacy but is guilty of gross profligacy itself. It must curb its over-consumption. Otherwise the people will have to pay a great price for it

COURTESY: ***Financial Express*, March 1. Mr. Swaminathan S. Anklesaria Aiyar is Editor of the *Financial Express*.**

Those Honourable Men and their Planning Machine

Jay Dubashi

The same Establishment men will bring out a new plan this year, as they have been doing regularly every five years or so since 1950. And when the plan is over, someone among them will get up and say that the poor are increasing, the slums are growing, and the debt trap is closing upon us. The plans and the economists who drew them up were supposed to provide a solution to our problems. Now, they have themselves become the problem.



Over two hundred economists and ·lanners met in New Delhi in February ıis year to discuss, as an official re- ease put it, the planning strategy, de- elopment process and methodology f planning adopted in the country over ıe past forty years. The purpose was to lentify the future course of action in ıe country's planning process and to uggest alternative planning models. ‹o far, so good, but what did they do? Ve shall probably have to wait for the apers — which will no doubt be pub- shed *in extenso* in due course, for that ; generally the main purpose behind ıese meetings — to find out what ex- ctly was achieved during the confer- nce, but we have an inkling of the likely utcome in a report filed by a reporter 'ho covered the conference.

The poor fellow must have been con- ısed at the end of it all, for the report eads like the final paragraph — which as not changed in all these forty years – of the annual economic survey the overnment brings out religiously be- ɔre the budget. Implementation is as nportant as planning, agriculture hould receive priority in plan projec- ons, there should be more stress on fficiency in the use of resources, scien- e and technology should not be over- ɔoked and the public sector should oncentrate on infrastructural areas. ınd, yes, there is a parting kick, which ıust be a high water mark of the con- erence: chief executives in the public ector underakings should be given ıore autonomy, whatever that means.

iagnoses but No Prescription

As Macaulay's schoolboy would have aid, we have heard it all before. You ıight wonder whether it was really ecessary for two hundred able-bodied men to have come all the way from London, Cambridge and Oxford — where planning economists proliferate, though Mrs Thatcher's government does not care for them — not to speak of the usual crowd from umpteen government departments at home, just to list the above well-worn cliches in alphabetical order, without a single down-to-earth prescription for our current ills. Do these platitudes add up to an alternative planning model? What exactly is meant by priority to agriculture, which is almost entirely in the private sector? Does it mean higher or lower prices for farm commodities? And who is responsibile for the present resource constraint, not just in the public sector but all along the line, and of which poverty is the most visible symbol?

We all know what is wrong with us. Even the *Sarkari* economists, men who have been very close to the Establishment all these years, are slowly beginning to realise that things are not what they should be, and even more important, what they could be. Yet our economists, usually a loquacious lot when it comes to holding forth on what is wrong with the economy, are suddenly struck dumb when it comes to prescribing a cure for the ailment. Books after books, research papers upon research papers, seminars after seminars tell us what ills afflict the Indian economy, but not a pip about how to tackle them.

Take the question of poverty. The subject has been done to death, not poverty, only the subject. I am told that it is impossible for anyone in the world to write about poverty — not universal poverty but poverty in his own country — without a reference to the abundance of literature on the subject by Indian economists, some of whom have done very well for themselves, not in India but abroad, where it really matters. A few years ago, a friend attended a seminar on poverty at Berkeley, California, the most unlikely place for such a depressing topic, but he and his fellow participants enjoyed it. For three full days, they discussed, after an Indian expert had showed his computerised print-outs, whether the percentage of

e poor in India was 34.5667 or 1.5776 per cent, a matter of consider- ·le importance apparently when deal- g with poverty. When you deal with ›mputers, even the fourth decimal ace matters. And after the seminar ev- y day, there were lush meals and nes under a balmy California sky, and ey all went home, including the Indian .pert, pleased as punch at the success their deliberations.

ur Establishment Economists

A day or so after the Delhi confer- ıce, a Delhi economist who has been th the Planning Commission for years ıd still heads a body that is supposed advise the prime minister, said that ·eralisation — which was obviously in- ›duced against his advice and which : does not fancy — would perpetuate e two Indias — one called Bharat and e other called India — though he did ›t explain how the two Indias were cre- ed in the first place. For years, another ·onomist, now a veteran in the field, of. V.K.R.V. Rao, an establishment ·onomist who has worked with the ›vernment in nearly every capacity it is ›ssible for an economist to do, has ·en going round saying that the plans - in the preparation and implementa- ›n of some of them he has had a hand - had done nothing to remove poverty distribute wealth, though to an out- der like myself, this would appear to : implicit in the kind of top-heavy ans Prof. Rao and his colleagues in elhi School have not only supported ıt done everything to promote over e years. The top-heavy model was an dian version of the Stalin model inus the terror — a kind of a vegeta- ın version of the Soviet model — ough a quarter century after the first an, the terror bit did show up during e Emergency. I do not know what of. Rao and others were up to during e Emergency and whether they were er able to make out the link between · two — their own highly centralised anning models and the tyranny of the nergency that followed them as ıturally as night followed day.

The critics of the Indian economy are ten the very same people who have ·en advising the government year af- r year, but who suddenly turn upon her critics if they too join the chorus. ·ery year at the time of the budget ey ask the government to cut down on the budget deficit, without realising that their planning model with the stress on large government spending is itself responsible for the growing deficits. They want exports to be stepped up, even by devaluing the rupee if neces- sary, conveniently forgetting that the rupee has been devalued year after year since 1980 and will continue to lose its value as long as present policies con- tinue. But they do not relate the deficit with the inefficiency of the public sector which, for some reason, remains in- violate.

Have the establishment economists developed cold feet? Because the over- all effect of the kind of planning model we have adopted is so depressing — India is still among the poorest coun- tries of the world and accounts for near- ly the bulk of the world's poor — that I suspect that these economists and planners are slowly distancing them- selves from the entire planning process. They are interested or pretend to be in- terested in the technical aspects of planning but not in its functioning as a practical organic model, like a mecha- nic tinkering with an engine but with no intention of putting it into a car and make it run. And just as the mechanic periodically tears the engine apart and examines individual parts, these men analyse and study the economy in parts, someone dealing with poverty, another with budgets, a third one with income distribution and so on, but no one prepared to take responsibility for the whole. When cornered, they can al- ways turn round and say, I was dealing with poverty and had nothing to do with GNP growth or exports. This is intellec- tual cowardice, if not dishonesty, but while success has many fathers, failure has none.

All this would not have mattered if these people would only tell the govern- ment — and if not the government, their own colleagues — what should be done to put things right, rather than tell us what is wrong. We all know what is wrong. We know there are too many poor people, far more than there should be. We know that we are not growing as fast as we should, while those who have no hang-ups about planning models are racing ahead of us at twice our speed. It matters little whether the per- centage of the poor is 30 or 25 or 35, it is still very large. What matters or should matter is how to bring it down to 10 or 15 per cent. Everything else is irrelevant, though it might help our eco- nomists to get jobs at Berkeley and Cambridge — and remove their own poverty!

On Public Sector Undertakings

"Academicians have attributed several traditional strengths to the Public Sector. They primarily are

— ability to survive without profit.
— State ownership gives them immortality.
— Wages and high Bonuses can be paid even by continuously incurring losses.
— Government ownership gives full benefits of a monopoly."

Vasant Sathe in his book *Restructuring of Public Sector in India.*

Solutions Needed, Not Problems

There is little point in studying a dis- ease unless you want to eradicate it. There is no point in studying weaknes- ses in the economy — poverty, low GNP growth rates, slums, corruption — unless you want to overcome them. We need solutions, not problems. We need cures, not diagnosis. We know what is wrong with us, just as other countries know what is wrong with them. India is like any other country; there is nothing special about it or its problems. If we can borrow technology from others, why can't we borrow economic technol- ogy — the know-how necessary to im- prove the economy? Other countries have found solutions to their problems and pushed ahead. Even communists who for the last three-quarters of a cen- tury — long enough time, one should think — believed they had the keys to the kingdom, have suddenly realised they were wrong about most things and are prepared to make amends. For the last three years, Mikhail Gorbachev has been busy standing Marx and Stalin on their heads, and by the time he is through, these worthies may be con- signed to the dustbins of histroy where they belong. Gorbachev has gone beyond analysing his country's failures. He is leasing out land to the descen- dants of the very same *kulaks* his pre- decessors had put to death. He is open- ing up the economy, slowly but unm- istakably so. And he is prepared to accept foreign capital and technology, not on his terms but theirs.

The Chinese communists go even further. They have concluded that communism is dead but still have the problem of arranging a decent burial. The biggest difficulty, as the *Economist* (London) wrote recently (February 17, 1989), is that the two main weaknesses of the system — state ownership and distorted prices — worsen each other. No reformers have been bold enough to tackle both at the same time. But things are now changing:

> Three economists at the Chinese Academy of Social Sciences make the strongest case for a reform based on attacking state ownership. The main one, Mr Hua Sheng, a few years ago backed the present 'dual-tack' policy of half free, half controlled prices as the way towards reform. He now thinks price reform will not work without a huge divestiture of state enterprises — because this is essential to stop politicians interfering with business, and because inflation will otherwise be uncontrollable.
>
> Mr Hua and his colleagues have come up with a clever plan for privatising China. It is clever, partly because it deals one of the main obstacles to privatisation, the lack of even a rudimentary capital market in China. It also plays to one of China's strengths — the diffusion of political power among provincial and local bodies — as a way of attacking one of the economy's crippling liabilities: the strong role of local politics in firms' decision-making. It does something else which, as good communists, Mr Hua and his colleagues would deny: it introduces capitalism in a gradual way that can pass almost unnoticed.

Our Swadeshi Stalinist

While Chinese economists are enagaged in 'introducing capitalism' our own economists are busy defending the Stalin model of Soviet planning. This is what Sukhamoy Chakravarty, a former member of the planning commission and at one time a leading member of Indira Gandhi's think tank, told a New Delhi audience recently :

> Speaking at a seminar on political and economic transformation of India organised by the Krishna Menon Society, Professor Chakravarty said that the Russian model of planning worked well during the first three five-year plans. He also said that a political consensus was needed to accomplish growth with equity, the motive behind planned development.
>
> (*The Statesman*, February 19, 1989)

Comment is superfluous. Why is it so hard for Establishment economists to own up to what the communists are doing in their countries? Why are they so shy at prescribing cures for ailments they have been examining all these years? One, they may not have any prescriptions. Second, the prescriptions that will work are almost certainly the exact opposite of what these economists have been proposing all these years — less centralised planning, less controls and taxes, smaller public sector, in other words, less of government intervention at every level, instead of more. Start with the public sector — as even the Chinese economists are suggesting — and go on from there. Over a five-year period, a huge amount of over Rs 70,000 crores would be released from the dead clutches of the government and their flunkeys, and it will create enough waves to bring the rest of the bloated edifice crashing down. This is what Margaret Thatcher did in Britain — and even Francois Mitterand, a committed socialist, in France. In fact, this is what Gorbachev himself is trying to do in the Soviet Union, against heavy odds and against the opposition of entrenched Stalinists inside the regime.

And, what do our planners propose? They want more autonomy for chief executives. After two days of speech-making in New Delhi all they want is a new set of drivers for an engine that has all but come to a halt. In fact, this autonomy business is a brainwave of the politicians, and the economists are repeating it because that is what they believe the politicians would like to hear. Do not change the engine, they say; do not change the car; all you have to do is get a new driver and do away with back-seat driving. The engine and the car belong to the politicians, so do not mess about with it. The driver can be hired and fired, and no matter who drives the car, the vehicle itself will be firmly in the control of the politicians.

At a time when industries — and much else — are undergoing a thorough overhaul all over the world, all that our own Establishment economists and planners can suggest, with due apologies to the politicians present, is a new face at the wheel. They do not want to overhaul the engine for there is nothing wrong with it. There is, in fact, nothing wrong with anything, only a screw loose here and a nut to be tightened there. Thatcher, Mitterand and Gorbachev are fools. If only they hired our economists, there would be no need for Perestroika or Glasnost, no need for fresh trade union legislation or for the Big Bang at the stock exchange.

The same Establishment men will bring out a new plan this year, as they have been doing regularly every five years or so since 1950. And when the plan is over, someone among them will get up and say that the poor are increasing, the slums are growing, and the debt trap is closing upon us. The plans and the economists who drew them up were supposed to provide a solution to our problems. Now, they have themselves become the problem.

Mr. Jay Dubashi is an eminent economist and commentator on economic affairs.

Social Injustice

All in all, the Budget has something to offer for everybody one way or the other. Even tiny groups (for example, goldsmiths, pensioners freedom fighters) have not been left out of the Chavan largesse. While this is doubtless a neat exercise in public relations, all the structural weaknesses of our public finance remain. A very heavy outlay on defence, increasing outlays on subsidies (Rs. 7472 crores as against Rs. 6841 crores last year) and interest payments (Rs. 17000 crores as against Rs. 14,150 crores) a tax system skewed in favour of raising revenue through indirect taxes, all continue. No serious attempt to identify and curb unnecessary and wasteful expenditure is in view. Neither is any sustained effort visible to get the best out of every Rupee spent by the Government.

If the Budget achieves its real aim of pleasing the voters, the Ruling Party may hope to return to power. But that is about all. One should not, after all, take the Finance Minister seriously when he claims that his Budget marks; "a qualitatively new stage in our continuing quest for social justice" Alas! if anything, the Budget will have the opposite effect of increasing social injustice through more inequality. In the sort of high cost economy to which this Government is locking the country in, there can be neither development nor social justice

S. Ambirajan

The Hindu, March 7

The High Cost, Protected Market Syndrome

K.S. Ramachandran

We need to dismantle the high cost regime but this cannot be done through indiscriminate imports and revenue sacrifices by Government. Apart from the manufacturers, labour has a major responsibility. The regime of high wage costs and low productivity must end before we can launch a successful assault on the high cost, protected market syndrome.

The intended goal of various measures of liberalisation is the growth of a competitive environment — a goal justified by a general want of competitiveness, quality and cost-wise, of Indian manufactures. A regime of liberal imports has, *inter alia*, been introduced so as to make available inputs at international prices and to expose final producers to overseas competition.

It is perhaps premature to evaluate the effects of the liberalisation drive launched in 1985. But so far in the Seventh Plan period, although the liberal import regime has got reflected in a surge in imports, evidence is wanting of the latter contributing to export growth.

In the Seventh Plan, the annual volume of growth of exports and imports originally envisaged was 6.8 per cent and 5.8 per cent respectively and the aggregate current account balance of payment deficit was projected at 1.6 per cent of the gross domestic product over the Plan period.

But, in its mid-term appraisal made public in January 1988, the Planning Commission revised the export down to per cent and the import growth to 7.5 per cent and the current account balance of payments deficit upto 1.9 per cent of gross domestic product.

From the mid-term appraisal, it emerged that while exports during 1985-90 were to be of the order of Rs. 0,700 crores they would now be Rs. 5,900 crores. As for imports, against the earlier projection of Rs. 95,400 crores the Planning Commission expected these to reach Rs. 99,300 crores. Bulk imports were scaled down from Rs 47,400 crores to Rs. 46,300 crores, but non-bulk imports were revised up to Rs. 53,000 crores from Rs. 8,000 crores.

A significant admission the mid-term appraisal made in respect of engineering goods and chemicals, was a pointer to the inadequate contribution of the liberal import regime to export performance. The Planning Commission document made specific mention of a "small share of exports and flexibility of production made possible by input imports", in respect of the engineering goods and chemicals sectors.

Clearly, the beneficiaries of liberal imports of inputs were using these to exploit the protected market conditions further, though it is also possible that cheaper and better quality inputs were not contributing to the competitive production.

I have to refer in this context to a study released in January 1989. A comprehensive critique "Planning and Development in India" by Dr S.P. Gupta, Director of the Indian Council for Research on International Economic Relations (ICRIER) shows that in 1980, in respect of a number of manufactures India had a substantial price disadvantage.

Dr Gupta's book was reviewed by me in the *Financial Express* on January 15, 1989. The author has used data relating to four countries in the Asian region: the Republic of Korea, Japan, Malaysia and the Philippines and three leading Western economies: West Germany, Great Britain and the United States. Dr Gupta has based his comparative analysis on price differences between different countries worked out in the "International comparison of real gross product" conducted by the statistical office of the United Nations and the World Bank.

The prices of a large number of industrial and agricultural products of the same quality have been presented both in the national currency and in U.S. dollars for 1970, 1975 and 1980. These are conceptually inclusive of the full production cost plus all relevant taxes and subsidies on the respective commodities. Subsequently, these have been deflated by the respective country's dollar exchange rate to arrive at the dollar price differences of all goods, which Dr Gupta pertinently noted, "gave an idea of the price competitiveness between different countries, given their present fiscal structure, but excluding the respective export taxes or subsidies."

The data given in Dr Gupta's study relate to 1980, 1975 and 1970, but are by no means irrelavant in the present context. The predominance of primary commodities and manufactures based on agricultural inputs in the country's export effort and the Planning Commission's pointed mention in its mid-term appraisal of the Seventh Plan of a "small share of exports and flexibility of production made possible by input imports" in respect of engineering goods and chemical sectors would suggest that our manufactures have not reduced their price disadvantage significantly during the eighties.

It emerges from Dr Gupta's study that in 1980 it was only in respect of three items of merchandise that India enjoyed a price advantage, worked out in relation to the next highest price country South Korea (which, though, might have ceased to be so in the years that followed, considering the significant advances it has made in diverse spheres of industrial development). The price advantage enjoyed by Indian suppliers in 1980 was as follows: (i) Women's garments — 75 per cent, (ii) Children's garments — 71 per cent and (iii) Women's footwear — 53 per cent.

In regard to 24 other items considered by Dr Gupta, India had a price disadvantage. This was quite substantial in respect of 15 items of manufacture: Men's garments: 59 per cent Men's footwear: 38 per cent, Children's footwear: 89 per cent, Machine tools 79 per cent, Mining equipment: 213 per cent. Other machinery, 60 per cent, general industrial machinery: 148 per

nt, Motor cars: 177 per cent TV sets: '2 per cent, Radios: 116 per cent, wellery, Watches etc: 129 per cent, garettes: 48 per cent, Instruments: 42 r cent, Cooking ranges: 77 per cent d Heaters, Air-conditioners: 66 per nt.

There is one aspect of Dr Gupta's re- arch work which needs recalling — e price disadvantage (also advantage) is been worked out in relation to the xt priced country. Over the last few ars, in view of the steady drop in the ternal value of the U.S. dollar begin- ng with the Plaza accord of Septem- r 22, 1985 among member countries the group of five and gains of the panese Yen and South Korean Won, e price disadvantage of Indian manu- ctures should not have increased any rther. But the fact that India's adverse ade balance with both Japan and outh Korea has risen and even more , that the global trade surplus of these o countries has remained quite large though both have complained bitter- about the adverse effects of the preciation of their domestic curren- es against the U.S. Dollar — empha- ses the magnitude of India's own cost sadvantage.

The failure on our part to take any ade advantage of the sharp gains of e Japanese Yen and the South Ko- an Won is duly reflected in the small are of manufactures in the overall ex- ort effort.

A study by the National Council of plied Economic Research (NCAER) ad revealed that neither FERA com- anies nor the large domestic enter- ises were contributing any more than sidually to the export drive. Things ave not improved very much and the nion Commerce Ministry and the Industry Ministry rightly have warned of a dilution of the liberal import regime and a review of the present liberal approach to the MRTP Act and industrial licencing generally in the event of manufactures not demonstrating a resolve to improve their export performance in a big way.

Now, an obvious reason why the larger industrial undertakings in the country are inward-looking and are not very keen to venture overseas is the high cost, protected market here. The NCAER researchers noted that the general inclination was to use imported inputs to cater to domestic needs and exploit the craze for goods based on such inputs. Producers with an assured domestic demand do not have to seek foreign outlets. One can blame the Government for not being generous on export subsidies to neutralise the high costs, but basically it is the safety of the protected domestic market which keeps the manufactures tied to the indigenous consumer.

As for the high cost regime itself, an important factor is that basic inputs are not competitively priced. For this, the operational shortcomings of public sector suppliers are an obvious explanation. The discussion paper on administered prices circulated by the Union Finance Ministry conceded this. The paper suggested a policy of normative pricing as a remedy. But while this is good in theory, it demands a level of operational efficiency that the public sector generally is not capable of.

The liberal import regime and rationalisation of customs as well as excise duties are the right answer to this situation. The long term fiscal policy formulated in December, 1985 envisaged a differential system of customs duties with raw materials bearing lower levies than components and parts and the latter in turn attracting reduced imposts than intermediate goods. Under the scheme proposed by the policy, final products were to bear the heaviest levies. As for Modvat, the goal was to reduce the cascading effect of fiscal levies on inputs.

But, the rationalisation of customs duties has not been allowed to go the full distance because of problems faced by domestic producers. Even the more efficient public sector undertakings such as Bharat Heavy Electricals and Hindustan Machine Tools were having problems coping with the threat of cheaper imports. Similarly, in the case of excise duties, Modvat could not be allowed to provide set offs for the incidence of all levies on inputs because of fears of a decline in revenue. From the start, Government committed itself to the principle of Modvat being revenue neutral.

The solution to this state of affairs is not easy to find. We need to dismantle the high cost regime but this cannot be done through indiscriminate imports and revenue sacrifices by Government. Efficiency must be promoted all round and in this every one must play a part. Apart from the manufacturers, labour has a major responsibility. A system of wage and bonus payment quite unrelated to productivity is no way to promote a competitive environment. The regime of high wage costs and low productivity must end before we can launch a successful assault on the high cost, protected market syndrome.

Mr. K.S. Ramachandran is Senior Assistant Editor, *Financial Express*

Deficit Financing is Counterfeiting

On top of deficit finance amounting to Rs 26,339 crores during the last four years, this year another Rs 7337 crores of fabricated money is to be added to the money in circulation in the country. If you or I were to fabricate a ten rupee currency note, we would have to serve a sentence of rigorous imprisonment in jail. In my opinion, the Prime Minister and the Finance Minister should both be in prison because they are proposing to print Rs 7337 crores of bogus currency notes in the Nasik Government Printing Press and put this counterfeit currency in the hands of honest citizens. The result would be that the rupee, which has already become pretty worthless, will become even more worthless. This is the way in which the Union Government dishonestly took money out of the pockets of the poor citizens without even saying so.

It all started in the days of Pandit Jawaharlal Nehru. When some time in 1961 I complained in Parliament about the inflation being created by his Government, the Prime Minister remarked in his reply "I don't know why Mr. Masani is so agitated because a little inflation is a good thing". To this, in my next speech in the Lok Sabha I referred to a story about a war time price administrator in USA. He was visited by a friend whose knowledge of Economics was as limited as that of Pandit Nehru, who asked the administrator why he was so concerned about a little inflation. The administrator's reply was "you see John, the trouble is that a little inflation is like a little pregenancy. It keeps growing".

Minoo Masani

Poverty In India

L. K. Deshpande

Poverty can be defined absolutely or relatively.* The absolute approach defines some minimum necessities for survival. Hence it is also called the biological approach. Starvation is the most telling aspect of poverty and it should not be surprising that most studies on poverty in India and in other less developed countries (LDCs) follow the biological approach. In the developed countries (DCs) absolute poverty has been largely abolished but though no one may be starving, there would be some who would not be able to buy the goods and services considered customary by the society. Poverty becomes the tail end of income distribution.

> There is substantial agreement among economists that anti-poverty programmes are inadequate; not only because little is provided but also because not all that is provided goes to the target groups. There is many a slip between the cup and the lip.

Difficulties of the Biological Approach

The biological approach though more relevant to us as a poor country, raises many problems. Firstly, the concept of minimum nutrition required for survival is itself rather vague. People are known to have survived at very low levels of nutrition and expectation of life seems to improve continuously with every improvement in diet. Accepting any one level as *the* minimum tends to be arbitrary. Secondly the minimum nutritional requirement needs to be translated into the minimum food requirement. A large number of items of food such as rice, wheat, fruit, vegetables, milk, eggs, fish, meat etc. can meet the nutritional needs of the human body. We have to select a combination that costs the least. Experts can and very often do determine the minimum cost diet. Though incredibly cheap, the minimum cost combination turns out to be "monumentally boring". Thirdly specifying a minimum for survival in respect of clothing and housing tends to be far more arbitrary and questionable than specifying minimum nutrition.

The Poverty Line in India

It goes to the credit of the Planning Commission in India that it appointed a sub-committee to estimate the extent of poverty in India as early as the late fifties when poverty was being rediscovered in the DCs. The study group consisting of such stalwarts as Pitamber Pant, V.K.R.V. Rao, D.R. Gadgil among others estimated the poverty line at Rs.20 at prices prevailing in 1950-61. The minimum calorie norm underlying the specific poverty line was not known for a long time but is now believed to be 2250 k. calories. Later researchers like Pranab Bardhan, Dandekar and Rath and P.D. Ojha adopted this norm. The FAO/ESCAP recommended in 1973 2300 k. calories per person per day as the minimum for this region. Prof. Sukhatme disagrees with this norm. He argues that undernutrition starts at much lower levels of calories consumption. He relies on experiments which have proved that the calories intake of an individual often varies from day to day without affecting his efficiency at work. Hence he argues that the lower limit of the range of variation around the norm of 2300 k. calories should be accepted as the poverty line. This view has not been accepted so far.

Barring the Planning Commission's first attempt, other studies specify the minimum norm as well as the set of prices — used to translate the minimum into its monetary equivalence — as the poverty line. They distinguish between rural and urban India and evaluate the norm separately because prices in urban areas are usually higher. In doing the conversions, scholars use the set of prices most relevant to the poor e.g. the consumer price index for agricultural labour in rural India and that for the industrial workers in urban India. In a continental country such as ours, we need to calculate the poverty line separately for each state but such studies are rare. This brief account may explain why estimates of poverty differ from one researcher to another. The norms differ, the prices differ and the year to which the estimates refer, also differ. However once the poverty line is determined it is easy to measure the extent of poverty.

Index of Poverty

The index most commonly used is called the head count index because it counts the number of persons below a specific poverty line and expresses this number as a percent of total population. This index does not take into account the margin by which people fall below the poverty line. If, as a result of the anti-poverty programmes of the government, the standard of living of the poor improves from 50 percent below to say 5 percent below the poverty line, the head count index would show no fall in poverty but most of us would agree that poverty would be reduced in this case. The index that takes into account the changes in the distribution of poverty is called the Sen Index after its inventor Amartya Sen.

A few comments are necessary before I turn to the estimates of poverty in India. Firstly neither hunger nor inequality is coterminous with poverty though both are closely related to it. Secondly, to be poor is to be deprived. The poor go without food, they are ill-clothed and ill-housed if at all. These are conditions of poverty; what is more important is the feeling of deprivation. Economists fail to take this aspect into account in their studies and have a lot to learn from sociologists who, I am told, do so.

Extent of Poverty in India

Perhaps more important than the extent of poverty in a specific year is the direction of change in it over time. However, on this, findings of experts vary. For example the Planning Commission concluded that the extent of poverty has gone down considerably in

* Abridged from a paper on Poverty in India. Space contraints prevent us from publishing the text in full.

ecent years while M. Ahluwalia main-ained that the data did not show any ıend increase or decrease. On the ›ther hand V.M. Dandekar forcefully ırgued that poverty has increased.

Broadly speaking most of the studies ›n poverty are based wholly or partly on he consumer expenditure surveys con-lucted by the National Sample Survey)rganization (NSSO). When not based vholly, they draw on the Central Statis-ical Organization's (CSO) estimates of onsumer expenditure. It is known that he latter source overstates and the for-ner understates the movements in the verage consumption expenditure. hluwalia and Dandekar depend wholly ›n the NSSO while the Planning Com-nission depends on both. A. 'aidyanathan suggests that the differ-nces in the conclusions may be ex-lained by the biases of the basic ources.

On the whole the economic profes-ion is a bit sceptical of the Planning :ommission's claim though it finds upport from the National Council of pplied Economic Research. Professor .M. Khusro, ex-member of the Plan-ing Commission was very critical of ıe profession's "poverty of thinking on overty". He looked upon poverty as aving many facets and considered it rong to emphasize nutrition to the ex-lusion of others. He argued that ser-ices like education, health, transport tc. provided by the state have in-reased substantially since the sixties nd to say that poverty has increased in ıe context of a fall in mortality and an ıcreased expectation of life at birth is uite misleading. If the criticism implies ıat what we need is an index of quality f life even at the minimum level of liv-ıg, the point is well taken but if it ıeans that one could trade off educa-›n for hunger, a lot of eyebrows would e raised.

Unable to clinch the issue, some wri-rs look for supportive evidence. Those ho claim that poverty has increased, rn to the evidence relating to agri-ıltural/rural labour. Two enquiries ›nducted in 1965 and 1975 respec-ively show that the share of labour ›useholds as against rural households ıs increased; a labourer was em-oyed on fewer days in 1975 than in 965 and the real wages of these work-s were lower in 1975 than in 1965. anab Bardhan has shown that the percentage poor among rural labourers has increased from 52 percent to 56 percent between 1963-64 and 1977-78. We may conclude that the extent of poverty is unlikely to have changed over the planning period.

Poverty — Functional or Class Based?

Poverty is seen as arising from gross inequality and since inequality is inevitable in most societies, poverty too is inevitable. The sheer survival of any society depends upon some rare skills rather than others. Hence those who have these, earn more and those that have common skills comparatively little. You can do little about inequality and poverty. We need the large mass of the poor to make society ticking economically.

In the rural areas the third of the population that owns no land and the slum dwellers in the urban areas are those that form the bulk of the wretched poor. Here poverty is to be seen in its terrifying dimensions, infant mortality, high levels of illiteracy, disease etc.

Looking at economic development, it has been argued that inequality and poverty are primarily functional and inevitable. They stoke the fires of economic development, and provide incentive for betterment for the hard-working. With the development of the economy, poverty will gradually disappear — this is the price of economic development. This comfortable doctrine has been challenged —

a) rapid rates of economic growth have been achieved in countries that have *both low as well as high incidence of inequality*.
b) countries similar to India in terms of rate of growth have functioned with much less poverty or at least much less starvation. For instance, China.

The better known argument is that, in rural India the rich and the poor form distinct classes and the better-off soak the poor. All the benefits of government activities, and the economy flow to them and the poor stay low and dry. Every political game is indulged in which benefits them.

Perpetuation of poverty arises also from conditions which make it impossible to escape its rigours through education (formal or informal). The culture of poverty as well as the environment make for a fatalistic acceptance of the in lot. Discrimination against the scheduled castes and women constitutes a distinct form of wretchedness and poverty.

Anti-poverty Programme in India

A revolutionary move whose significance has yet to be fully seen is the anti-poverty programmes of the government. In the late sixties and the early seventies study after study showed that growth in per capital income was accompanied by growing poverty and unemployment. This experience led to the formulation of specific programmes addressed to the target groups, the weaker sections which over time have come to include small and marginal farmers, landless labourers, scheduled castes and scheduled tribes, women and the physically handicapped. Currently there are three major programmes in operation namely: the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP) for the marginal holders of land and the landless who make up the bulk of the poor. It has been recently decided to merger NREP and RLEG as their operations are identical to some extent. The merger has been made also for more effective monitoring of the employment generating schemes. A fourth one, announced recently by the Finance Minister in his budget speech this year, is on the anvil.

During the Sixth Five Year Plan the government spent Rs.37000 million on the IRDP, NREP and RLEGP taken together. Prof. Dandekar estimates that this amounts to barely 2.15 percent of the net national income of the unorganized sector including agriculture where the poor are concentrated. He estimates that in 1985/86 and 1986/87, the expenditure on anti-poverty programmes formed 1.43% and 1.59 percent respectively of the relevant net national product. Going further, Prof. Dandekar estimated the expenditure required to raise all but the last decile to be raised upto the poverty line in 1986-87. He excluded the last decile because he thought that it would include the physically handicapped and the aged, in short, unemployable destitutes who would not be able to benefit from these schemes. According to his estimates, the expenditure required to achieve this goal was three times as large as the actual expenditure incurred. The inadequacy of the expenditure explains why despite there being enough food around to provide minimum nutrition for all, actual consumption is much less.

There is substantial agreement among economists that anti-poverty programmes are inadequate; not only because little is provided but also because not all that is provided goes to the target groups. There is many a slip between the cup and the lip and the Seventh Five Year Plan referring to evaluations done by Prof. Rath and others, puts the leakages at best at 45 percent of the provisions. For one thing, they could be reduced and for another, our fiscal policy cannot rob enough from Peter to pay all the Pauls in our economy. Hence the Planning Commission is not convinced that poverty alleviation programme should be abandoned in favour of an alternative that promotes growth as well as equity.

Does such an alterative exist? According to some it does. The alternative consists primarily of promoting growth based on relative factor endowments. Broadly the proponents of this alternative would want investment to be shifted to agriculture because agriculture is more labour-intensive and employs a disproportionately large labour foce. They would advise giving up the import-substitution policy which according to them has made India a high cost, inefficient country producing goods of indifferent quality she cannot sell at home and much less abroad. They suggest that since labour is plentiful and capital scarce, all policies that raise the price of labour and lower that of capital should be abandoned. In short, if the market were allowed a much greater say in determining prices and allocations of investments, and the government adopted appropriate macro-economic policies, employment would grow much faster and the poorer sections would profit more than they have done in the past. This does not mean a return to *laissez faire* but an active pursuit of a policy that puts the interests of the poor in the forefront.

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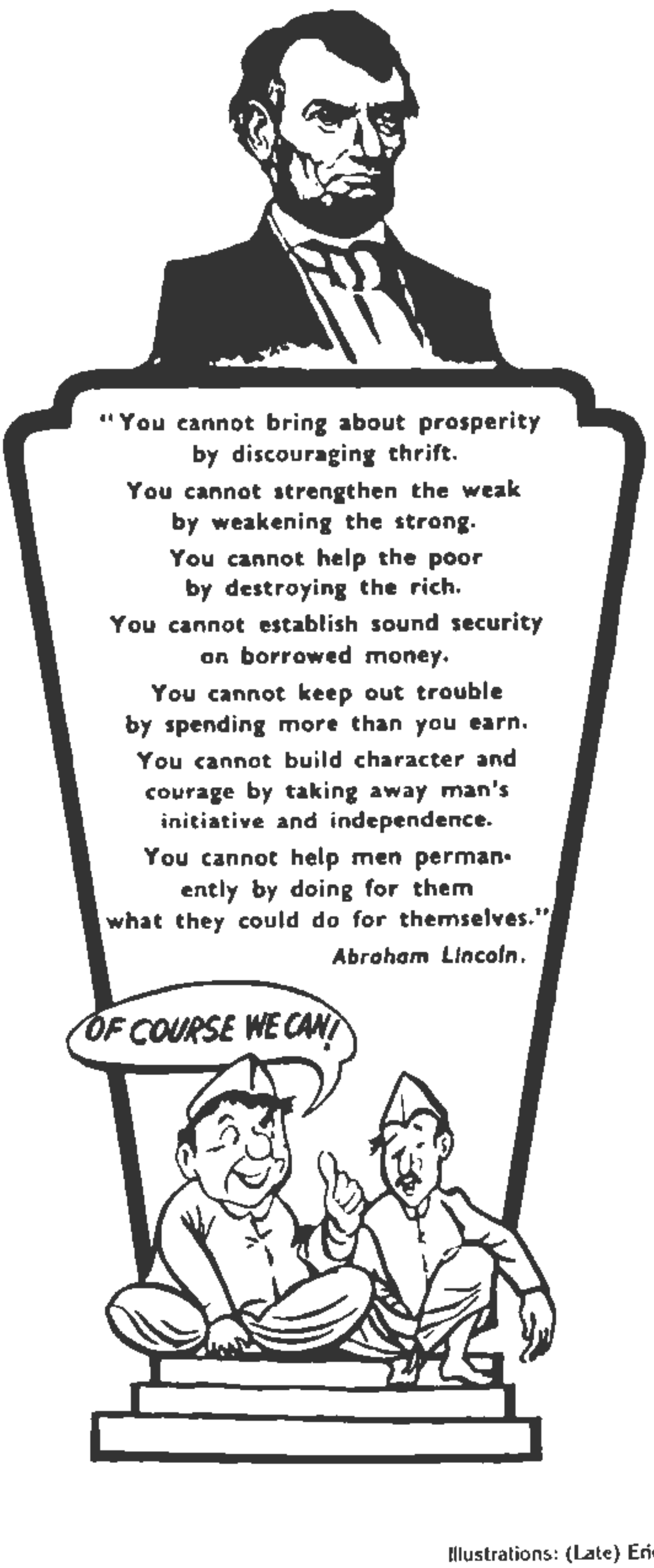

Illustrations: (Late) Eric Francis

Attracting Foreign Investment
– Are We Doing Enough?

Ramu Pandit

It is apparent that India lags far behind its other Asian partners in mobilising such funds (as attracted by countries such as South Korea, Thailand, Indonesia etc.) through collaboration ventures. Despite significant liberalisation and recasting of policy the country has achieved little success in this direction.

An increasingly flexible approach in the Government's policy for attracting foreign investment in the last couple of years has resulted in marked improvement in the flow of foreign investment into India which increased sharply in 1988 to Rs.2,380 million (mn) more than twice the level of Rs.1,077 mn. in 1987. During this period the number of agreements between India and foreign firms for technological collaboration and equity participation also increased by a little over 10 per cent from 853 in 1987 to 926 in 1988. The trend, undoubtedly, is a reflection of an improved investment climate in the country and a growing interest evinced by foreign investors — particularly those in the US, Germany, Britain and Japan.

The U.S. continues to lead foreign investment in India with an investment of Rs 971 mn. in 1988 compared to Rs.295 mn. in 1987, signifying a threefold rise. US companies entered into 262 tie-up agreements with Indian counterparts, of which 191 involved transfer of technology and 57 equity participation. Since 1981, US companies have signed as many as 1,250 agreements for technological collaboration and 372 cases involving equity participation. West Germany follows with 1,374 agreements since 1981, of which 225 were signed in 1988. Of these, 178 were for transfer of technology and 47 for financial participation. Total West German investment in 1988 was Rs.310 mn. as against an amount of Rs.99 mn. in 1987, registering a rise of 32 per cent. Japan's total investment in 1988 was Rs.174 mn. and is regarded to be among the fastest growing of all. Japanese concerns signed 112 agreements last year of which 96 were for technological collaboration and 16 involved financial investment.

British investment, which at one time enjoyed top ranking, has been moderate compared to the US, Germany and Japan, but is still substantial. In 1988, British investments totalled Rs.139 mn. the fourth largest. In 1987 such investments were of the order of Rs.85 mn. 170 agreements were signed between British firms and their Indian counterparts of which 134 were for transfer of technology and 36 involved equity participation.

Under the government's present investment policy, foreign equity participation is allowed where it is accompanied by transfer of technology needed by the country and also in export-oriented ventures. While a ceiling of 40 per cent has been fixed, the government does permit a higher share of investment by the foreign partner in priority industries provided the technology is sophisticated and not available in the country or if the venture is primarily export-oriented. Even 100 per cent foreign equity is considered in respect of wholly export-oriented units. Foreign capital should normally be contributed by way of cash without being linked to tied imports of machinery and equipment or payments for knowhow and trade.

Despite this apparently bright picture, the flow of investments into the country has not really been substantive when compared to foreign direct investment in several other Asian nations. The following table would interest readers:

It is apparent that India lags far behind its other Asian partners in mobilising such funds through collaboration ventures. Despite significant liberalisation and recasting of policy the country has achieved little success in this direction.

Several initiatives have been taken by the government in recent months to further streamline the policy guidelines and procedures to facilitate and expedite the approval and implementation of foreign investment projects. Recently a high-powered committee under the Chairmanship of the Finance Secretary and with representatives of the Indian Investment Centre, the Reserve Bank of India, Banks and Finance Institutions as members has been constituted for the pupose of monitoring and reviewing

Foreign Direct Investment in Select Asian Developing Countries.

(in millions of dollars)

Countries	1986	1987	1981-87
South Korea	354	1060	2667
Taiwan	705	1223	4159
Singapore	643	830	4162
Thailand	333	1000	3876
Malaysia	209	314	1287
Indonesia	826	1457	9516
India	85	83	509

issues and cases relating to foreign NRI investment. Important matters such as taxation, capital issues, bank loans, exchange control, clearances, term loans, etc. will be considered by this Committee. In a major shift, the government has now decided to allow foreign investment in existing Indian companies. However, such allowance is subject to participation only in high-technology areas and would be approved by the Foreign Investment Board (FIB) on a case by case basis. Also such investment may be permitted by the FIB upto the monetary limit of Rs.100 mn. or 40 per cent of the paid-up capital of the Indian company, whichever is less.

Foreign investors often complain about India's bureaucratic controls and inordinate delays in the clearance of projects. In a bid to remove some of the bureaucratic hurdles impeding the free flow of foreign equity funds, the government has simplified the procedures for approving projects with phased manufacturing programmes (PMP). Detailed scrutiny of indigenisation plans will no longer be needed in cases where imports are only 30 per cent of project costs initially. A similar approach will be taken in cases where the foreign exchange required is relatively low for the entire period of the indigenisation programme. Thus the Foreign Investment Board will now simultaneously give approval for the PMP as well as the foreign collaboration of the project in these cases.

The existing PMP policy has attracted considerable criticism of foreign collaborators. Foreign companies engaged in such projects have often pointed out that quality becoms a casualty while trying to achieve quicker indigenisation. The PMP level is fixed as high as 90 per cent for some industries and even lower than 70 per cent for other industries. Further liberalisation in the government's policies with regard to foreign equity participation, royalty payments and PMP Scheme are being pressed by the captains of industry and trade. According to them practically every proposal involving foreign investment is delayed due to "negotiations" which take place in the matter of the phased manufacturing programme (PMP) requirement, exports obligations, royalty, equity and others.

In the case of royalties, the Indian corporate sector would like a more liberal approach instead of the present blanket limit of five per cent. Royalties offered need to be appropriate to the level of sophistication of technology. It was irrational to treat all technologies on par and make them eligible for the maximum five per cent royalty, they contend.

It is encouraging to know that the Union Government may soon liberalise the technology import policy governing foreign collaborations. The Industries and Finance Ministries are currently studying a proposal to revise upwards the royalty rates allowed on foreign collaborations in high technology areas like electronics, petro-chemicals, synthetic fibres and pollution reducing equipment. This is a welcome development.

Another area which has been causing a lot of hardship to Indian business is the element of foreign exchange risk which has become pronounced in view of the sharp increase in the value of the Yen, Pound and D.Mark in the last three years. Hence, financial institutions should devise a scheme to minimise the losses already incurred and to proıde a cover against exchange risk in ıture. Also with the reform and reduc-on of tax rates in countries like the ISA and the UK, taxation of profits, di-ıdends and royalties remitted abroad as to be reviewed.

No one will fail to recognise the need ›r eliminating the delays involved in iving approvals to foreign collabora-on proposals. The 'Fast Track' system ıtroduced by the Government for ex-editious disposal of foreign investment pplications is significant in this con-ıxt. The move has already had the de-ıred impact as is established from the ıct that such collaborations during this ear have recorded impressive growth ı particular with Japan and West Ger-ıany with whom we are operating a ıst track system.

Under the present circumstances, it ‹ould be relevant to consider the opin-›n expressed by Mr. John Bohn, Chair-ıan of the Export-Import Bank of the Inited States. According to Mr. Bohn, ›olicies that encourage investment that re clear, that are as precise and trans-›arent as possible and which produce n atmosphere where the investor be-eves that the rules goveming the in-estment programme at the time of en-ering into a deal, will be the same rules joveming during the course of the in-estment, provide the best kind of in-estment climate. The most important ıing an investor looks for is a reason-ble opportunity to make a profit. Thus is the clarity and the consistency of ıe rules — far more important than ny short-term incentives — that will overn the investor's decision.

During his recent visit to New Delhi, ›ir William Ryrie, Chief Executive Offic-r of the International Finance Corpora-on (IFC), is reported to have said that, ‹ith a more welcoming attitude on the ›art of our Government, India could be ttracting more than $500 million Rs.750 crores) in investment in a year ıstead of a meagre $150 million Rs 225 crores) or so. Sir William did oncede the de-regulation and de-cencing process that had taken place ı India in recent months, but felt that ıdia continued to be "a pretty heavily egulated economy". According to him, ıe private sector could contribute nuch more if it were given more free-lom. These remarks, coming as they lo from a senior official of the IFC, ‹hich has been steadfastly promoting private investment in the developing countries over the years, are important.

While a balanced policy is a pre-requisite to motivating and enthusing the foreign investor, the role of the corporate sector is no less important. Each corporate unit wanting to attract a foreign partner into a proposed venutre needs to take up elaborate preparatory work and operate within a clearly de-fined strategy. It is not uncommon for foreign corporations holding reputed technologies to receive hundreds of en-quiries from interested Indian com-panies. In the absence of adequate knowledge about these candidates, some do not respond to any of them. In order to get a foreign company in-terested in a project, it is necessary that the potential Indian partners should im-press the foreign company concemed about their seriousness (by way of de-tailed and elegant project profiles/re-ports), advanced status (through a letter of intent that may have been issued by the govemment for the project), re-sources and resourcefulness (from corporate brochures, annual reports, audio visuals, video cassettes, etc.). Even the extent of perserverance is taken by foreign companies to be a yardstick of the degree of commitment. India's foreign investment policy is by and large well received and rational. We cannot afford to open our doors to alien capital indiscriminately. The policy needs to be selective in approach with foreign equity participation permitted in industries with highly sophisticated technology, export-oriented units and import substitution enterprises. At the same time, unless Indian industry makes a serious effort to absorb, adapt and improve upon the high technolo-gies imported from developed coun-tries, it cannot hope to sustain interna-tional competitiveness of its products on a long-term basis.

This is a challenging phase for India when it finds herself in the midst of stiff competition from several Asian as well as non-Asian nations, which have set off with a forceful drive to restructure their economies. The tempo of industrial de-velopment in our country in the coming decade would, therefore, either make up for the lost ground or force the country to resign itself to the grim situa-tion of being surpassed by these dyna-mic nations

Mr. Ramu Pandit is Secretary-General of the Indian Merchants Chamber

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The Good, And The Bad News On The Economy

Tanmay Datta

I am confident that in our own lifetime we will see the lesson in the bad news and the good ews being received loud and clear by most of our people. True, some of our intellectuals may require ear-trumpets; some will remain the dinasaurs in a world of brilliant evolving economic mammals.

First the good news. The people have two-thousand year tradition of enter-eneurship in agriculture, small indus-es and trade. They are profoundly laptable to innovation and change : itness the quick adjustment by the iterate to the decimalisation of the urrency, the weights and the mea-ires, and also their blind acceptance ' the propaganda on the radio, ubi-uitous posters, cinema, and even birth ontrol. Under pressure, they have the aring of the Vikings. Long before the on-resident Indian became a corpo-ite cult figure, our people have gone ; bonded labour to Africa, Southeast sia, the West Indies to build, within ree generations, solidly affluent usinesses. In the London telephone rectory, the Patels — most of who fled min's Uganda only about twenty years ack with just what they could carry on ieir persons — are already half as umerous as the Smiths, the com-ionest British surname. The people ave the industry of ants : go to any iom-and-pop farm, retailer or work-iop and you will find them slaving way twelve hours a day, seven days a eek. Nobody perhaps works so hard in ie whole world as India's landless age-labour does.

he Blind Leading the Sighted

Time now for the bad news. The eco-omy peopled, as above, runs to the ctates of the State. The State of ourse means a few people who, owever bright and well-intentioned nd dedicated to their paid government bs or careers in politics, have a mere ursory knowledge of the businesses ey dictate to. The lack is due to no ult of theirs. They have a job to do, the b calls for dictating to hundreds of tally unrelated businesses and since ey get transferred every two or three ears, it is not even the same hundreds ey dictate to year to year. The most onscientious among them are people who have taken a correspondence course in swimming and are thrust into careers of disciplining those who, daily, battle the waves.

There is worse news. This economy of the well-intentioned blind leading the sighted has in the course of its warped growth during the last thirty five years got entwined with the heart of our politics. To talk of decontrol is to put yourself on the side of the rapacious rich. Decontrol is unpopular, it loses your votes, power, pelf. So even if we are mired in its manure, *Control* is a sacred cow. Devotion to it unites our far right and our far left. Notwithstanding the garrulous Mr Vasant Sathe, the debate is foreclosed. As even the marxist world fumbles down uncharted waters to find fresh answers to social and economic problems, we feed on, and add to, soiled cliches. We are at a dead-end and we do not know it; never in civilised history, have so wise a people so ill-deserved its elite.

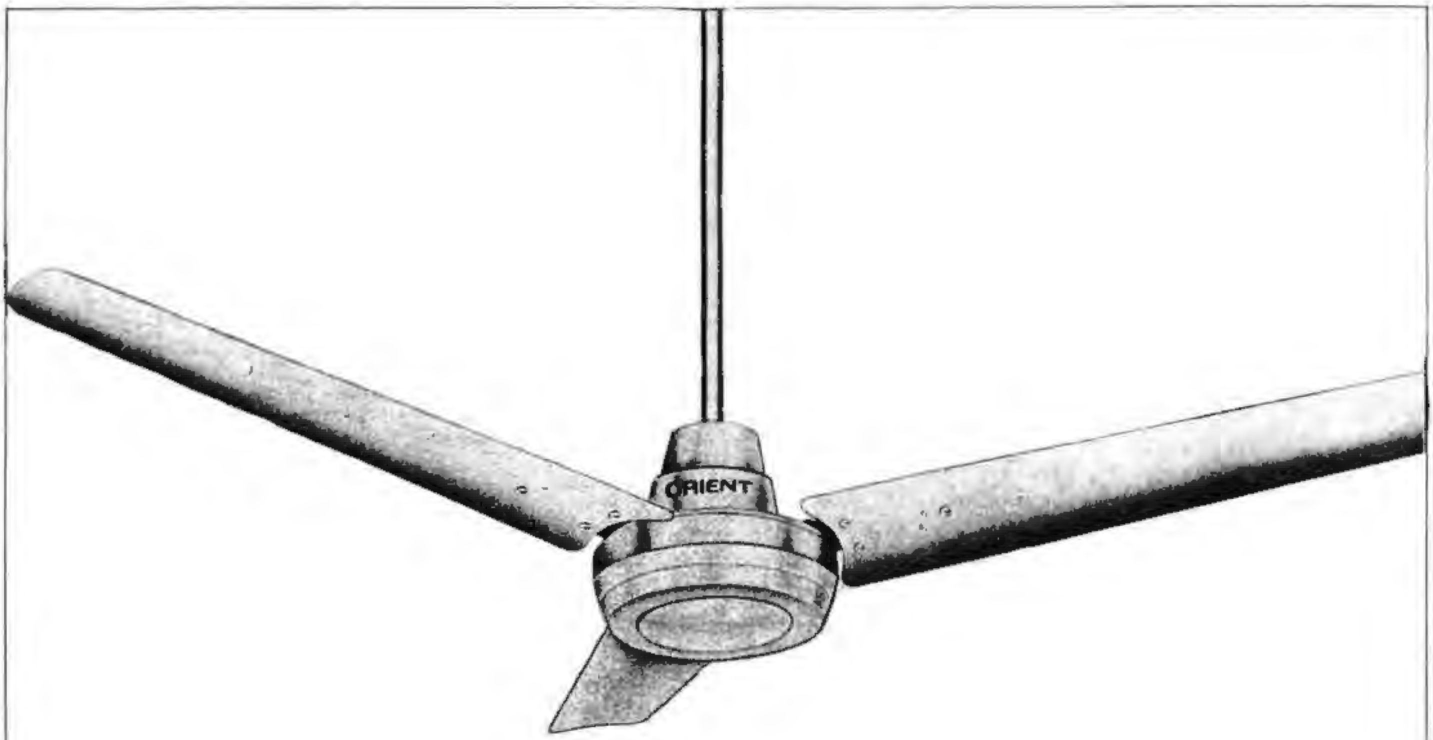
Now, for a close look at the cliches. The more vibrant, larger part of our economy is beyond the reach of the Control Regime — our agriculture. One would not think from the talk of our planners and economists that the bigger, better sector of the economy is getting along quite nicely without any benefit of their big-think.

The Two Keystones of State Planning

The development and growth of the industrial and service sectors of the economy are planned. The conventional wisdom of the planners is that the State will reserve to itself certain selected areas, the commanding heights (one has never understood the relevance of this military-sounding expression to economics. Is the state at war with the governed that it has to trundle up its artilleries to zero in on the ground from the top?). Action down on the field will be conducted by private citizens on tracks laid down — laid, uprooted, changed, shut-off, thrown open according to the decisions of the rulers of the day — by the State. The State will decide which industry, how much of it the nation needs and which of the applicants will be allowed the opportunity of so serving the nation. So you will have a public sector swivelling its guns around to discipline the rest of the non-agricultural economy and a cowed-down private industrial and service sector sternly guided by the State along desirable channels. These are the two keystones of state planning. Hundreds of thousands of highly thoughtful gifted Indians have been employed by the State for the last four decades to build a growth economy on these two keystones.

When Controls were Necessary

It is useful — and an antidote against ideological posturing — to remember that if something got started by common consent, perhaps there was some good reasons for it. Whatever might have been the rationale of the Industrial Policy Resolution of 1956, it largely put down as policy what was a *fait accompli*. Ventures that were to force the economic pace required huge capital, were technologically complex and promised uncertain returns. These were not likely to be started by private businessmen; there were not many Jamshedjis around. So the State became the pioneerng entrepreneur investing money in quick and huge doses in long-gestation, basic, infrastructural industries that would in time put wind in the sails of a growth economy. The implementation of the plan was often bad, delayed, botched. But an enormous number of productive assets was created which, left to private initiative, would certainly have been created more economically and fruitfully but inevitably over a much longer time. The re-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ently freed State could not afford the me.

There was also something to be said or the stern, planned guidance of the ndustrial and service economy in priate hands. Perhaps without controls, his agro-based economy would have gone for soft options and fed on imorts of consumers goods; perhaps like n Pakistan, many African countries and ome in Latin America, the economy iere as well would have received a coloiial comprador upbringing. The cometitive genius of this canny and ancient eople would certainly have redeemed ne economy one day from this degradation; but the fight would have een hard and long and, ironically, ought through the weapon of state ontrols. Perhaps, going by the Latin merica and African examples, the fight or controls would have been more and nore bitter than the fight we now have head of us against controls.

The scorched-earth policy against ree trade followed by our planners inroduced an economy of making do. raders denied the sweet option of reelling imported goods turned to nanufacturing. Go forty years back in ur economic history and you will find he grandfathers of today's large industrialists busy winding down their lourishing stock-and-sale business of nported goods and gamely starting to nanufacture prototypes of the stuff heir descendants do today on a huge cale. Both the quantity and quality of nanufacture were inadequate, shoddy. Market interests were sacrificed. The onsumer, willy-nilly, got used to bad goods and services, not getting what, when he wants. The seeds of an exceedingly inefficient, leaden-footed economy were sown. But what was gained, in the shade of protection offered by the planners and in the process of the economic forced-march vas at least as immense as the sacriice: a greatly diversified productive base, a huge pool of skills.

One reason why *laissez faire* economists have received such bad press s of course that we all know in our hearts that in the real world there are imes when control of the market is necessary. The doctrinnaire case against control is only marginally less silly than the case for control. I think we should grant our present bureaucracy and politicians their pride in what they have achieved — provided they take the rap for what we are missing out on. For the trick to control is of course to know when not to, to let go totally.

Every Indian, literate in economics, (except for the leftist variety who living very dull lives ache to bully people) is agreed that this regime of planning and control — set up and buttressed during the last forty years — has long outlived its utility. Then why can't we scuttle it? How is it the present Prime Minister, very far from being a socialist, with the most sweeping plurality in Independent India's history can only tinker with the control regime, loosening a nut here, a bolt there? Even as privatisation sweeps France under a socialist President, in Thatcher's admittedly capitalist Britain, the state-owned moribund British Steel Corporation leaps from making 1 million loss a day to 1.5 million profit a day, the productivity rising to the world's highest and now, in its privatised incarnation, shares its prosperity with millions of shareholders. Even as in Eastern Europe and China, the rulers dramatically comes to terms with market realities — slowed down only by the time taken to eat ther own words.

To find an explanation — and find we must for without that we will not understand the mystique of this squalid control regime — perhaps we ought to go back in history a little. We must not forget that in post-1857 India, order and justice came in the person of the British Collector. What was private enterprise, then, was almost without exception rapacious, destructive, amoral. The only protection the poor had against this enterprise was in the immense imperial power present in the village in the person of the Collector. The power was always exercised in the interests of the Empire. But it is a matter of historical record — and part of our racial memory — that the interests of the empire rarely coincided with those of the usurious moneylender, or with those that took flood, famine and pestilence as a matter of course. The Empire was, as empires are, profoundly exploitative; but, then, the poor Indian, long used to ruthless exploitation by men of his colour, did not mind it as long as he was spared the attentions of petty tyrants (and as long as his inevitable resentment against foreign domination was not aroused to hurricane force by Mahatma Gandhi).

The Populist Appeal of the Public Sector

This is not idle speculation. Nehru's legacy today is limited to this permitlicence regime, this sordid non-doing thing. His secularism, much more instinctive and believed in with passion, has no place in our politics. His faith in a rational, disarmed Third World is made ridiculous not only by the bloodiest fightings of the last forty years having taken place only among the nations just freed from colonialism but also by India's swaggering armed search for a frog-in-the-well role in South Asia. But socialism has endured. If we aim to dismantle it one day by a democratic process — which is the only process we can believe in — we must know the roots of this endurance.

Look around and you will meet hundreds of common people with a profound emotional stake in the public sector and the controlled economy. They belong to the literate middle class, members of which individually talk scathingly, even ribaldly of how State businesses they happen to know, work. Nevertheless they believe in the power of the State in economics. They believe that the State with its unbounded resources should make fertilisers, steel, bread, lemonade, watches, to make them freely available at affordable prices. It is, they believe, an extension of the State's power to make just laws. It is their notion of justice and equity. If the State cannot do these things well it is obviously because people who run these businesses — bureaucrats and politicians – are saboteurs. (In fact it is this firm conviction that informs our financial journalism).

The politician, and the jackal in his wake, the bureaucrat of the eighties, know that the public sector will not produce; that the regime of controls is horribly destructive. The knowledge has not come easily and not without a profound degradation of our political and economic debates. At the beginning the planning process had considerable innocent erudition to it. While the innocence lasted, the erudition did accept that the grand vision of a clockwork economy had not delivered. In the public sector there had been overruns in cost and time. Technologies had been chosen wrongly and irresponsibly. Productivity had been abysmal. Perfectly good machines had been ruined by indifferent maintenance. Quality was shoddy. Consumer interest was the last priority. Even labour relations were bitter. In the private industrial-service economy, growth often came not by muscle in the market place but by fancy footwork in Delhi.

There is no arrogance like the arrogance of good intentions. The answer to the failure of planning was found in far closer bureaucratic-political control of the implementation i.e. more planning. The people at the top in the public sector were kept on short leash, without tenure, subject to periodic bawling. People are survivors, they will protect their careers. Producing well, cutting costs, bringing up quality, building a team and morale take time, and long nose-to-the-grindstone labour. Not given time, subject to snap judgements by bureaucrats and politicians who have the most fleeting stake in such judgements, nailed to an archaic procedure-bound management style, the public sector manager has survived by writing creative accounts, putting deals in the way of powers-that-be, by sucking up to the formal-informal power centres. It is the survivors who man the top today: the fighters have been long ejected by the system. One should laugh at their cry for autonomy. They have come to be where they are by the grace of the bureaucracy and politics: they will die if the grace is withdrawn and autonomy is given. It is not merely that the public sector units are not making adequate profits or none at all. More significantly, they belong to a profound subculture of mismanagement. The managers, being survivors, are mutants of this subculture. They — chief executives, managers, workers — know, rightly, that any fundamental reform can only affect them adversely. So all proposals for reform of the public sector are really proposals for the personal betterment of its existing clients.

The Vested Interest in Controls

Private business also acquires an equally intimate vested interest in the regime of controls. Large businesses had been born and grown feeding on political and bureaucratic legerdemein. But what favoured one business inevitably harmed another: the control that protected one put fetters on another. As business begged for freedom, one part of it also begged for control, its sustenance. The bureaucrat was happy to umpire this sordid cross-lobbying: it added to his power and he also had the pleasure of feeling contempt for the brazenly lying cross-lobbyists. The populist appeal of the public sector and controls was always there. The thing that rose to meet this appeal and quickly grew squalid had now a growth-dynamic of its own.

Enter Rajiv Gandhi, typically one of the affluent members of the video-generation, with no deep conviction — as it gradually became clear — underpinning the fascination for electronic geegaws. He was all for freeing the economy till he found out what a vote-getting thing this public sector and the permit-licence raj were. So, in Delhi, it is now all wink and nudge: like pandering to Hindu or Muslim fundamentalism, like caste-based electoral politics, like collecting hot money for the elections, it is terrible, but — a wink here, a nudge there — necessary, you know, inevitable. The wink and the nudge cut across party lines. All politicians speak vociferously for more of the same planning we have practised for the last forty years. Rajagopalachari, the most prescient Indian politician was also the last one to ask for votes on a platform of repudiating this catastrophic nonsense. He and his party were, you will recall, taken to the cleaners by the electorate.

The Success of Indian Agriculture

Back to the good news. This horrible scenario is true only of the smaller part of our economy. The great silent powerhouse of Indian agriculture is nipping along all by itself. Its profound success — in twenty years the nation proudly moving from begging bowls to bursting silos with the democratic fabric intact — is one of the momentous economic landmarks in recorded history. The success is gravely flawed, the vaunted self-sufficiency cohabits with widepread malnutrition. The lot of the landless remains bleak. It is nevertheless a great economic success and came about only because of the terrified abstinence of the big-thinking babus. My God, how the clerks must have itched to make rules! But they were allowed to try only once and were quickly ordered to scuttle their grand design. Remember the food grains wholesale trade nationalisation and its practically instant rescinding, the only case of de-nationalisation in India. Held on leash (due to overriding political compulsions), they practised the wisest of economics bringing science and extension services to the door step of the farmer, assuring him of the inputs at reasonable prices, a fair price for his harvest, roads down which his produce could move to the market, guarranteed buying, low-interest loans, a low rate of taxation on his profits. The political and bureaucratic masters replayed the historic protector role of the State from a distance. The racial memory of the State as the benefactor and an immensely more ancient tradition of entrepreneurship helped the farmer, when left to himself, to perform the miracle of self-sufficiency in food.

I am confident that in our own lifetime we will see the lesson in the bad news and the good news being received loud and clear by most of our people. True, some of our intellectuals may require ear-trumpets; some will bitterly play deaf. They will remain the odd dinosaurs in a world of brilliantly evolving economic mammals.

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Incumbent politicians, government officials, and the public-sector unions in general would vigorously oppose any reduction in government intervention in the economy for fear of losing the rents and sinecures of the status quo. Indeed, professional politicians in general could be expected to be averse to any lessening of the politicisation of economic life.

In other countries, a political party proposing such a reduction in government intervention would usually enjoy the backing of private industry. In India, however, private industry in general would probably see it in its own interest to support only the reduction of internal controls, whilst vigorously opposing reductions in the neo-mercantilist external controls. In July 1981, for example, I asked a prominent industrialist to imagine first a free-market regime at home: 'That would be very welcome indeed', he replied enthusiastically. I then asked him to imagine a policy of free trade: 'That would wipe us out', he replied gravely. His answers indicate very well what is perhaps the single most important feature of the equilibrium that has emerged in India: by accepting without significant protest the constraints and costs imposed upon it by the government and its 'planners', the private corporate sector has traded the freedom of enterprise for mercantilist monopoly profits in the home market.

Subroto Roy, *Pricing, Planning and Politics*, Occasional Paper 69, The Institute of Economic Affairs, London, 1984.

Testament to Young India

Geeta Doctor

An Illustration by R.K. Laxman in Minoo Masani's book 'WE INDIANS'

Almost half a century separates the wo books by Minoo Masani, "Our In- lia" that was published in September 940 and the book under review, "We ndians" January 1989. It is tempting to xclaim, "What a difference!" The iopes, dreams, attitudes that were pro- ected in the first book that drew a pic- ure of a young and vibrant India free rom the colonial bonds that still held it lown, when seen in the context of what ias actually happened, recalls Ezra 'ound's lines, "And all the rest of her a hifting change/ A broken bundle of nirrors...!"

Yet the mood is not one of despair, ven if the situation around us might be ne to cause anguish. If the picture was haotic when Masani first undertook the dea of taking stock of the still-to-be- orn country, the situation is no less onfused now. If in the first book, he vas both the maker of the map and the romoter (amongst others of course) of he expedition to discover the source of new India, he is no less a guide in the resent circumstance. A wiser, sadder, uide perhaps, but one who still per- eives with all the fiery enthusiasms and ersuasiveness at his command, the ieed to search for the ideal of a truly ree and great country. More than at any other time there is a need for plain peaking.

In both cases, what is immediately ppealing is the size of the book. The atest book has the friendly quality and right liveliness of one of Enid Blyton's 'Noddy" series, so one hopes that it will ppeal to the young audience for which t is intended. Whereas the drawings in he earlier book by C.H.G. Moorhouse vere more powerful and were interes- ingly full of graphic devices that de- icted the country's natural resources, ie drawings here, are full of Laxman's vell known quirky charm. Laxman is articularly good in deftly depicting the arious ethnic types that makes up the ordinary Indian, without managing to vound or insult

This is just as well. For whereas in the first book Masani is almost lyrical, when he says, "Now the land and the mountains and the rivers and the climate of a country are its face, while its men and women are its mind and soul," here he cannot but ask, "Can we really say that our behaviour today lives up to our heritage? Most of us would be honest enough to say that it is not so and the picture we present today as a nation is not an altogether pretty one." Presenting a picture of the Indian mind and soul, while sticking to the need to be honest and yet not getting cynical or negative is a daunting task. Yet Masani plunges straight in, with Laxman providing the necessary visual support, that makes it seem like fun. Though the book under review stands quite well on its own, it is even more salutary to read it as a companion to "Our India".

The first chapters deal with the Indian heritage, the mixture of races, religion, traditions and ideas that has produced the rich brew in the Indian melting pot, or should that read cauldron. The manner in which Masani very swiftly separates, examines and explains each of the different religions, demonstrates his gift for clear thinking and the clarity of expression that is the hallmark of a true prose style. While simplifying the basic tenets of the different religious sects, he never becomes simplistic. Nor does he fall into the trap of taking sides either by sounding mildly embarrassed or superior, or worse by becoming unduly sentimental. He begins with Will Durant's quotation, "In no other country is religion so powerful and important as in India", and then traces the path of its strengths.

Having taken the broadest possible overview, Masani then swiftly takes into stride the lesser units of the Indian social organization, beginning with the Family and progressing beyond it to the village, the city and into kingdoms and republics as the chapters are named.

This brings him to the kernel of the book with a chapter entitled, "A Contrast and a Balance sheet" wherein he lists all the positive traits of the Indian way of life as against the negative results that have manifested themselves. If in the first book he spoke of the freedom around the corner, here he talks of

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WE INDIANS by Minoo Masani, Oxford University Press, Bombay: 1989; Pp 110; Rs. 35

ıe responsibility that is an often ɲnored aspect of that same freedom. 'r as he puts it; "It is of course wrong to lame others for our misfortunes as we ften do. The fact is that most of our roblems are of our own making. The ey is in our hands."

The remaining chapters suggest his leas for a "Reformation and Renaiss-nce" in the country. His remedies are both practical and simple. At the personal level he talks of the need for a work ethic, of good neighbourliness, which includes care and cleanliness of our environment, besides a commitment to the Gandhian values of truth and non-violence, which manifests itself by self-control, self-discipline and self awareness. At a more public level he hopes for a reformation in thought that would lead religious heads to start a process of change by means of an open dialogue with the people of their own community. "This in turn would allow them to take a fresh look at the world in which they live and to find a new expression for their talents in all fields of life. It would pave the way to a Renaissance which would cover the entire community and would not be confined to a small group of privileged people as is the case today."

In the context of the political, social and private ethos today, when there is not just a lack of ideals, but a perversion of them, which has left everyone, both victims and aggressor, both the ruled and the ruler, both child and the parent, in a state of hopeless non-belief, Masani's words are a clarion call for action. They recall the sanity of Gandhi's wisdom, no less than the clear call of Roland's trumpet summoning Charlemagne to awake and take arms against the treachery around him. Characteristically it is a call of hope and not one of despair. It is a call of adventure to a fresh young generation of Indians who are about to embark on their own journey of discovery.

It is the distant call of truth.

Dhiren Bhagat

It is sad that a precious life has been cut short by a fatal road accident to young Dhiren Bhagat. Dhiren was not only a good writer but his attitude to things was a healthy one. He was, I would say, a conservative and he found my own liberalism somewhat sloppy. He had an irreverent attitude to things and possessed a waspish sense of humour which is rare in this country. No wonder he was a successful contributor to worthwhile journals in the UK like the *Spectator*. We shall miss Dhiren Dhagat and his comments on current affairs.

Minoo Masani

Tamil Nadu — The return of the prodigal?

R. Srinivasan

One of the most remarkable political developments which will be noticed as significant by future chroniclers of Indian politics is the re-emergence of Mr. M. Karunanidhi and the knockout blow that the Prime Minister received in the recent Tamil Nadu elections. Never was Governor's rule used more sedulously than that of Mr. Alexander to cultivate the public and give a good account of itself. The cynical Tamil knew that the administration was a showpiece to convince the people of how much good was in store for them, if they voted for the Congress (I). The many visits of the Prime Minister to the State and the calculated courting of Tamil votes gave a sense of euphoria to the Congress.

Karunanidhi was in the political wilderness for thirteen long years. His last administration was a by-word for corruption and the DMK cadres were not known either for political restraint or for the niceties of civic politics. Very often they engaged in cheap demagoguery and were totally mindless when it came to programmes or policies. The bankruptcy in ideas or innovations in the State were well-known. The only thing that mattered was spectacle and drum-beating on ancient Tamil cultural values. But such exhibitions did little to provide employment or to open opportunities for the down-trodden. Concealed arm-twisting of dissent was not unknown whether it be of independent trade unions or of dissenting newspapers and journals.

Clever Political Skills

These were not political virtues calculated to endear the former Chief Minister to the electorate. But the years in political exile seemed to have chastened him. There must be some unknown magnetism in him to inspire the rank and file to be loyal to a man who, when out of office, could do little by way of rewards. He had no great political past to fall back upon. He played no part in the freedom movement; had been to prison for brief periods in independent India, but had clever political skills. Yet, he kept the rank and file united and behind him — a unique record which cannot but elicit admiration. To keep oneself in the limelight *sans* power and not allowing oneself to be forgotten is remarkable. This is particularly important because M.G.Ramachandran would fain not let anyone steal the stage and brooked no political rival.

What were the factors that contributed to the victory of Karunanidhi? First of course, was the absence of MGR and the resultant bickerings among the members of the two factions of the AIADMK — a clear demonstration that the 'leaders' were keen on the pickings than on anything else. That they were corrupt was a well-known fact. Also, a great deal was tolerated because of the MGR charisma. The people around him did not matter; that they were worthless was known. The party was divided into two factions, with MGR's wife as a puppet, manipulated from behind and a *prima donna* whose unpredicability might be becoming in a film star but was certainly not calculated to produce any confidence.

The Congress Worthies

The Congress camp too was not free of bickering. Their infighting; the walking out of Shivaji Ganesan and the muted rivalry within the state leadership had its reverberations in the whispering gallery that is Tamil politics. The people who seemed to matter in the Congress included a fading film star past her prime, another who was notorious for enormous land holdings and not particularly known for rectitude; and a Harvard graduate with little or no grassroots. To make matters worse they were not united but rivals. The granddaughter of a former chief minister too joined these 'leaders' adding further to the confusion. None of these worthies could stand on their own but leaned totally on Mr. Rajiv Gandhi for support.

Other parties like the Muslim League(s) and the Leftist parties could only help to splinter the vote and could survive only if they aligned with one or the other of the dominant parties.

In contrast, Karunanidhi had an image of being a good administrator quick to grasp and firm in decisions. He had a reputation for corruption but in the 1980's this did not seem to matter. In our dear land is there any leader free from corruption? Compared to Bofors, the DMK corruption was but an ant hill. Under the MGR dispensation the people lived under no administration worth the name for years on end.

> Traditional areas antagonistic to the Party, as in the deep south, have returned the DMK. In more ways than one, the DMK can now claim to represent the whole of Tamil Nadu.

The Elections

Initially, everyone envisaged a four-cornered contest in every constituency and there was apprehension that none would emerge victorious and President's Rule would continue for some more months. However, as the day of polling drew near it was clearly evident that the DMK had an edge and the *Hindu* survey revealed that the Party would romp home with 35% of the votes and a clear majority of the seats. It was also argued that a 30% polling would be enough for a decisive victory. Its predictions turned out to be surprisingly close.

It was a matter for surprise that the elections were held at all, for the Vanniar community — a power to be reckoned with and influential in the northern districts of the state had boycotted the elections. Their agitation to protest against government's indifference to their demands had, a two months earlier, totally disrupted all civic life for a few days. But voting in the Vanniar dominated districts was poor in the rural areas though it was good in the urban. Also the apprehended violence (arising from the Vanniars' call for a boycott of the elections) did not meterialise.

The ease with which Karunanidhi onducted the National Front conclave ı Madras was a feather in his cap. He ıas able to get national leaders ɔgether and its success was due to the ıork of the DMK and its leadership. Vith no state or central government upport, he was able to mobilize a conerence that took everyone by surprise ɪus giving further evidence of his orgaıizing capacities.

'he DMK Campaign

In contrast, to the electoral tactics of ʔajiv Gandhi and his innuendoes which vere cheap and personal, the public :onduct of Karunanidhi was dignified. ɪe indulged in no personal attacks; was urprisingly moderate in his statements ınd did not promise the moon. His ɪropaganda machinery did a magnifiient job and the message of the Bofors leal reached the distant corners of the tate. The Party indulged in no comnunal slogans, attacked no castes and ven the Brahmin who was antagonistic eemed to have extended muted supɪort for the party. The DMK did not ave to malign the rival AIADMK; they meared mud on one another's face ffectively enough and thoroughly discredited themselves.

It will be of interest to note that the DMK which was regarded as mainly an urban party now seems to have reached the rural areas as well. Traditional areas antagonistic to the party, as in the deep south, have returned the DMK. In more ways than one, the DMK can now claim to represent the whole of the state. Also, unlike the AIADMK under MGR which had an unenviable record of having some very poor specimen as members of the Assembly, the DMK's candidates were educated professional men — lawyers, doctors, teachers and the like.

Since assuming office, the Chief Minister has played a moderate role. He has been extremely reticent and has conducted himself with dignity. He has tried to gain the support of the Vanniar community by giving party nominations to a large number of them for legislative seats to such an extent that it could be argued they are now over-represented! He called for a conference of religious heads to explore ways and means of once again putting the innumerable temples and other places of worship on a stable economic footing. This is bound to leave an extremely good impression.

Problems

But his difficulties are many and it will take a great deal to make a success of his responsibilities. He finds the exchequer and the food stocks practically empty. The central government is certainly not going to rush to his aid financially, if Andhra and West Bengal are examples to go by. Sri Lanka will cause ripples; already one of his party members embarrassed him by secretly flying to Sri Lanka in total contravention of the laws of the land. The Vanniars have threatened another agitation on the 1st of July and if earlier history is any guide, this could lead to internal strife. There are signs of discontent that he is trying to groom his son to succeed him. Above all, DMK party members will soon be asking for recompense for their long years of deprivation when they kept him company in his years of wilderness.

The coming years will severely try the skills of Karunanidhi. Time alone will tell whether a thirteen year spell out of office has had a chastening effect. If it has, then Tamil Nadu can heave a sign of relief. If not .... ●

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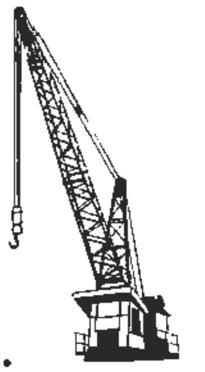

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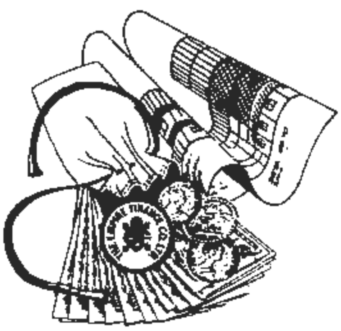

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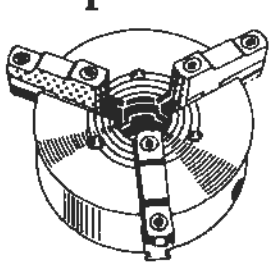

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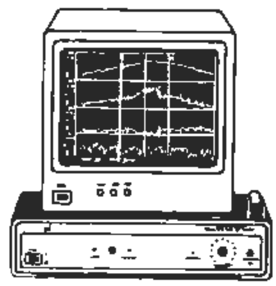

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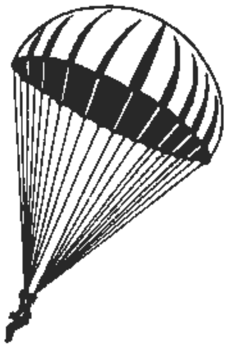

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The Masani Viewpoint

Apartheid — The Indian Version

It is often alleged by those who are critical of the South African Government that the white police there shows partiality for people of the white race and that blacks cannot expect justice.

In case we think that our own police in this context is better, it would do us good to know what happened recently in Rajasthan.

"On 2nd October 1988 an attempt to murder Mahendra Chaudhury, Srilata Swaminathan and Pannalal Rawal, three leaders of the Rajasthan Kisan Sangathan, was made by the Vishwa Hindu Parishad, the RSS and the Bharatiya Janata Party. When this attempt failed, the house and offices in Ghantali were ransacked, thousands of rupees worth of books, medicine and equipment systematically destroyed."

This is quoted from a statement put out by the State Committee of the Rajasthan Kisan Sangathan and signed by Mrs. Srilata Swaminathan, a daughter of Mr. Govind Swaminathan, former Advocate General of Madras and grand daughter of Mrs. Ammu Swaminathan, who was a colleague of mine as a Congress Member of Parliament.

The point of the lengthy statement put out by Srilata Swaminathan is that the Station House Officer (SHO) of the *Thane* Peepalkhunt, who was also a caste Hindu, sat watching these murderous proceedings along with six or seven police constables and allowed the armed outsiders who had arrived in the village to carry out acts of murder and destruction.

The statement goes on to say that the Vishwa Hindu Parishad meeting began at about 1.00 p.m. with blaring loudspeakers. While the meeting was in progress some of the outsiders went to inspect the premises where Mahendra and Srilata live. They were shown around by their local contacts. First they went to the well and tried to break the pipes and electric pump. The group went to the house where two tribal youths, Mavji and Udaykant, were in charge and demanded to know where Srilata and Mahendra were. This group was armed with swords and *dharias* and threatened them to reveal where Srilata was hiding. They searched the premises for her and then left to go back to the meeting. But first they broke both the main gates and cut up a long rubber hose pipe that was used for watering saplings. At the meeting they conferred with the leaders on the dais who then gestured to some persons in the crowd. Promptly about fifteen men in the crowd got up and left in the direction of Srilata's residence These too were armed with swords and *dharias*. Again Mavji was threatened by them to reveal where Srilata was hiding. When they did not find her they broke into the workshop and systematically hacked to pieces a sewing machine, looms, trunks, blackboards, furniture, and knitting machines.

They next turned their attention to the main house, attacked the doors, broke windows, ripped open cupboards, ransacked the whole place, destroyed about Rs 15,000/- worth of medicines, smashed every medicine bottle, smashed typewriters, an amplifier, microphones, two solar cookers, ripped apart books, and files of the Rajasthan Kisan Sangathan and made off with the only things of value of them, a cassette tape recorder and Rs 1680/- in cash.

While these acts of vandalism were being perpetrated, the Vishwa Hindu Parishad meeting in the *maidan* continued. The speakers made highly inflammatory speeches. The most severe attacks were made by Nandlal Meena and Indrajit Singh who invented all sorts of lies and slander and incited the crowds to get rid of Srilata and Mahendra.

Meanwhile the SHO and police had not stirred out of the police chowki nor taken any steps to stop the armed gangs from roaming through the village and striking fear in the *adivasis*. It was impossible for anyone to reach the *chowki* and ask for help. Also the SHO seemed to be in collusion with the demonstrators and so very little help could be expected from him.

All this goes to prove that we have our own *apartheid* which consists of the caste Hindus occupying the place of the whites and the scheduled castes and tribes occupying the place of the blacks in South Africa. So let us not adopt a "holier than thou" attitude. As Mahatma Gandhi would have put it, "turn the searchlight inwards". "Physician, heal thyself" is an old saying one is tempted to recall on reading the story of this horrible incident from Rajasthan.

The Truth about Krishna Menon

Not long ago there was a bit of bally-hoo in New Delhi about that great patriot, Mr. V.K. Krishna Menon, and what he had done for India. Naturally the Prime Minister joined in this charade. In view of this, it becomes relevant to refer to a book written by a former Chief of Staff, Lt. Gen. Varma, whose encounters with Mr. Krishna Menon, according to a newspaper report, at once make hilarious and depressing reading. Gen. Varma's book is entitled "To Serve With Honor" but what he has to say about Krishna Menon is not one that justifies the hypocritical nonsense that was talked about him in New Delhi. One of the incidents Gen. Varma reports is that the Defence Minister once in the absence of the then Chief of Army Staff wanted army policy to be changed and when Gen. Varma said he would discuss it with the Chief first, Krishna Menon shouted "Haven't you got an opinion of your own?" "I said I had" replied the general, "but in the army we did not work the way he wanted us to do and we do not stab our colleagues in the back. I was never forgiven for that".

Since some friends have blamed me for my action in introducing Krishna Menon to Jawaharlal Nehru in 1935, it is perhaps well to explain how this happened. Some time in the summer of 1935 I joined Jawaharlal Nehru at his invitation in Badenweiler, a health resort in Germany, where his wife, Kamala, who I esteemed highly, was slowly dying of tuberculosis. Towards the end of her days in Badenweiler, Kamala Nehru was moved to Lausanne in Switzerland and subsequently passed away on 28th February 1936.

I remember at breakfast one morning Jawaharlal threw a letter across the table to me and asked: "who is this Krishna Menon?" In the letter, Krishna said that he could, with the collaboration of Victor Gollancz of the Left Book Club, arrange meetings for Jawaharlal who was to visit England later that year. I told Jawaharlal about Krishna's hunger strike and the low state of his morale and said it would revive him greatly if Jawaharlal was to extend to him his patronage. Jawaharlal said: "In that case, I shall do so".

Krishna Menon was not then a communist. Little could I imagine the change that was to come over Krishna Menon later and the unfortunate influence he was to exercise over Nehru and, through him, over India's international relations and destiny.

The Tamil Nadu Elections

Many newspapers have described the result of the Tamil Nadu Assembly elections as a "landslide", "massive" and a "wave" for the DMK. It is nothing of the kind. The figures that are available show that the DMK increased its vote, compared to the last elections, by only four per cent. It cannot, therefore, be described by any of the adjectives which have been used by the Indian Press. Rajiv Gandhi's election in 1985 was similarly described. He only got 49 per cent of the votes polled and is therefore a minority leader, who in many countries would have had to form a coalition in order to become Prime Minister.

Funnily enough, on this occasion it was Doordarshan which interpreted and educated its listeners better. I myself listened to the election analysis on Doordarshan where the following points were made:

(i) The shifting of four per cent of the vote is nothing to shout about, even though it resulted in a bogus majority in the Assembly;

(ii) The DMK is a minority party with a bogus majority just as the Congress party has been in the Union Parliament with an artificial majority.

So for once Doordarshan gave a better picture of the results than a section of the Indian press, who should have known better. What has not been explained either in the Press or Doordarshan is that this distortion of the popular will is the result of the stupid and archaic system of elections, "first past the post", which is what we adopted from Britain. If we had a system of proportional representation, as in most of the civilised countries of the world with the exclusion of Britain and USA, Mr. Karunanidhi would have been forced to form a coalition by entering into a partnership with Ms. Jayalalitha, which he does not have to do because of the British electoral system. The Tamil Nadu elections have therefore once again proved the undemocratic and absurd nature of the electoral system which does not allow the voters concerned to reflect their will.

Though Mr. Rajiv Gandhi at this time has suffered from this absence of proportional representation, I do not imagine he is going to amend the Representation of Peoples Act, since he has got the benefit of the undeserved seats in Parliament that comes to the biggest single party which is short of a real majority in terms of the percentages of votes polled.

Licencing of Politiical Parties

India is inching its way step by step away from democracy towards authoritarianism. A major step in that disastrous direction has just been taken by the requirement of an amendment to the Representation of the People Act requiring political parties to register their adherence to the Constitution of India before they can be recognised by the Election Commission and allowed to contest elections. Sounds innocent. Doesn't it? But it is not.

In a letter to political parties, the Election Commission has drawn attention to the insertion of Section 29A in the Representation of the People Act, 1951 amended in December last, which requires that even existing political parties already registered with and recognised by the Commission under the Election Symbols (Reservation and Allotment) Order 1968 shall seek fresh registration under the new law.

Mrs. Indira Gandhi, when Prime Minister, smuggled into the Preamble to the Constitution two dirty words, namely, 'socialist' and 'secular'. This means, as Mr. A.G. Noorani has quite rightly pointed out, that a political party which does not subscribe to secularism or to socialism cannot possibly function as a recognised party in India. By that token, the Swatantra Party, which had some forty four members elected to the Lok Sabha in 1967, could not have been recognised as a legitimate party. In my opinion, the Bharatiya Janata Party is not eligible for registration because it is neither secular nor socialist.

The licensing of political parties is contrary to democracy. Now we are making it impossible for a party that is not wedded to socialism or secularism to contest an election in India. What kind of democracy is that?

My advice to the BJP, for whatever it is worth, is that they should refuse to register under this obnoxious provision and appeal to the courts to strike it down as a violation of the Constitution.

Tibet — The Second Betrayal

Minoo Masani

So Rajiv Gandhi'svisit to Peking has ›roved to be an unmitigated flop. Not hat anything good was to be expected rom it. The Chinese are astute nego-iators and could be expected to make nincemeat of the Indian Prime Minister.

Mr. Gandhi's insistence on a time rame for the settlement of the border ssue has been coolly ignored by Mr. Deng. Instead there is the inane propos-il of a working group to discuss not the ›order issue but the boundary issue, vhich is something else.

All this could have been ignored but or the cruel betrayal of Tibet, which has iappened now for the second time at he hands of the Delhi government. The irst was in 1950 when Prime Minister, lawaharlal Nehru betrayed our peaceful ıeighbours of Tibet by making the Indi-ın representative in the United Nations ɔ oppose any intervention by the UN ın behalf of Tibet. In other words, lehru became an accessory to the :hinese aggression in Tibet. Now his grandson has gone one step further. Contrary to Jawaharlal Nehru's insist-ɛnce that Tibet should enjoy autonomy, he Indian Prime Minister, instead of de-nanding such autonomy and the with-lrawal of Chinese troops and nuclear ıases from Tibet, has accepted the arce that Tibet already enjoys such ıutonomy. No wonder Tibetan groups ı Indiaa gave protested against the In-lian Prime Minister's disgraceful sur-ender.

> In 1950 Prime Minister Jawaharlal Nehru betrayed Tibet by making the Indian representative in the United Nations oppose any intervention by the U.N. on behalf of Tibet. But he at least insisted that Tibet should enjoy autonomy. Now his grondson has gone one step further. He has accepted the farce that Tibet already enjoys such autonomy.

The Tibetan Youth Congress have severely criticised Mr. Rajiv Gandhi for remarking while in Beijing that "India holds Tibet to be an autonomous re-gion of China", and held that "this amounts to a political knowtowing to his Chinese hosts".

Lama Ghospel Zatsoa, President of the Himalayan Committee on Action on Tibet, and Mr. Tashi Phuntsok, Joint Secretary of the Tibetan Youth Con-gress have said in a statement: "While this does not come as a surprise — af-ter all how can anyone expect him to differ with the grandfather on such an important issue at a time when Nehru is being glorified in the year of his birth centenary — it brings deep sorrow to millions of Tibetans and to people all along the Himalayan region. "What is more", the statement said, "in an effort to outdo his grandfather, Mr. Gandhi has added that India would not allow any political activity directed against China on Indian soil, and that whatever happens in Tibet is on internal affair of China"

The statement continues: "It would appear that Mr. Gandhi is more con-cerned about China's interests than in furthering India's long term interest. It is obvious to all that there can be no last-ing settlement of India's border and security problems without a satisfactory solution to the problem of Tibet".

Deputies of the Tibetan People's

བོད་མི་མང་སྤྱི་འཐུས་ལྷན་ཚོགས།

ASSEMBLY OF TIBETAN PEOPLE'S DEPUTIES

Dated 13th March 1989

H.E. Javier Perez de Cueller,
Secretary General,
United Nations Organization,
New York, New York – 10017
U.S.A

Your Excellency,

Since March 5, 1989, non-violent Tibetan demonstrations against the Chinese rule in Tibet have led to the unfortunate imposition of Martial Law in Lhasa, the capital of Tibet. The brutal suppression of the non-violent Tibetan freedom movement by the Chinese authorities is against all norms of international law. The renewed Chinese suppression and repression of the Tibetan people which coincides with the 30th Anniversary of the Tibetan People's National Uprising against the Chinese occupation of Tibet compelled us to approach Your Excellency to intervene on behalf of the Tibetan people and condemn Chinese state terrorism against the Tibetan people.

It is naive on the part of the Chinese authorities to charge that the non-violent demonstrations which have left hundreds of Tibetan freedom fighters dead, thousands seriously wounded and many thousands arrested, were staged by a few 'Separatists'. We assure you that the ongoing independence demonstrations and rallies in Tibet represent ths aspirations of the entire six million Tibetans whose irrepressible urge for truth and justice have once again been brought home to the Chinese. It also highlights the measure of an ever increasing alienation between the Chinese and the Tibetans.

We are deeply concerned at the imposition of Martial Law which has been closely monitored by the international media. The violent crackdown in Lhasa is a clear indication that China has no intention whatsoever of respecting even the most basic human rights of the Tibetan people, let alone restoring the normalcy that is so important to the preservation of human dignity. The imposition of Martial Law enforced by an additional 60,000 para-military forces airlifted into Lhasa city as well as the expulsion of foreigners from Tibet will enable the Chinese Government to unleash a reign of terror against the Tibetans, unchecked and unreported.

Time and again the Chinese have thwarted peace initiatives from H.H. the Dalai Lama which shows the lack of confidence and nervousness on the part of the Chinese. We are determined to abide by non-violent methods to achieve our goal. If, however, such methods fail to receive recognition and support from the rest of the world, the Tibetan people may be compelled to look for an alternate course of action. We harbour no ill feelings or hatred towards any person, people, or country including the Chinese people. All that we want is the restoration of Tibet's rightful place in the comity of nations so that the Tibetan people can live in peace, dignity and freedom.

We have great faith in the World body as a harbinger of peace in our troubled world, and the recent major breakthroughs achieved by it have become a source of encouragement to us.

We, therefore, urge Your Excellency to address yoursellf to the Tibetan crisis by calling upon the Chinese leadership to:

i) lift Martial Law immediately;
ii) release all political prisoners including those arrested earlier;
iii) restore basic human rights to the Tibetan people;
iv) halt the arrest, intimidation, imprisonment and execution of Tibetan political activists.

We also appeal to the UN to kindly:

i) send a UN sponsored tribunal to investigate the Chinese atrocities in Tibet;
ii) send Amnesty International & other human rights organizations to investigate the gross violation of human rights in Tibet;
iii) enforce the implementation of the three UN resolutions of 1959, 1961 and 1965 passed on Tibet.

We request Your Excellency's urgent consideration of the matter.

Yours sincerely,
C.N. Gyatso
CHAIRMAN

In a similar letter addressed to Mr. Rajiv Gandhi the Chairman of the Assembly of Tibetan People's Deputies pleads:

"We, therefore, look to you to reconsider your government's position on the Tibet issue and take a strong stand against this blatant manifestation of Chinese imperialism, which we feel would have a catalyzing effect on humanitarian reasoning in the global community.

It is our earnest hope that Your Excellency and the government of great India take this appeal with utmost urgency and waste no time in using your good offices for the immediate realization of the above request."

Assembly have said: "When a quarter of China's nuclear arsenal is located in Tibet, it cannot be China's internal affair. It concerns the whole of Asia .... China has sacrificed nothing to get such a public statement from India. India has sacrificed Tibet".

The Indian Prime Minister got a left-handed compliment for his betrayal of Tibet in the form of a pat on the back from Peking. "China expressed its admiration for the Indian Government's principal position on Tibet". (*Statesman*, 30.12.88).

According to the Chinese News Agency Xinhua, "Mr. Li Peng told this to Mr. Rajiv Gandhi during their first formal meeting on December 19." "The Chinese Government is noted, Mr. Li said, all India Governments" have stuck on the following positions on the Tibetan issue:

(1) Tibet is a part of China and India will not interfere in China's internal affairs.
(2) Nor will it allow "Tibetan separatists" in Indis to conduct political activities aimed at splitting China up.

All this is a gratuitous loss to India's national interest. There was no need for the Indian Prime Minister to visit Communist China at this stage. He went without any invitation. China said on 12th November 1988 that the December visit of Rajiv Gandhi was taking place at his own initiative.

In other words, the whole visit was entirely unnecessary and uncalled for and India and the world would have been spared by any further humiliation if this visit had never taken place.

So, we are back to the idiotic days of 'Hindi Chini bhai bhai'. There is an old proverb 'once bit, twice shy', but evidently it does not apply to the stupid men in Delhi. They went to go through the same disastrous mistake a second time. Shall we never learn?

●

The Dalai Lama's Five-Point Peace Plan

1. Transformation of the whole of Tibet into a zone of peace;
2. Abandonment of China's population transfer policy which threatens the very existence of the Tibetans as a people.
3. Respect for the Tibetan people's fundamental human rights and democratic freedoms;
4. Restoration and protection of Tibet's natural environment and the abandonment of China's use of Tibet for the production of nuclear weapons and dumping of nuclear waste;
5. Commencement of earnest negotiations on the future status of Tibet and of relations between the Tibetan and Chinese peoples.

Democracy — What is It?

Part I)

Raphael Kazmann

This is the first of a three-part essay on Democracy to be serialised in Freedom First. The essay is based on a book now being written by Mr. Raphael G. Kazmann entitled Democracy in the Nuclear Age — A Guide for the Perplexed.

Mr. Raphael G. Kazmann is Emeritus Professor in the Department of Civil Engineering, Louisiana State University. He has specialized in the study of water resources and water policy. "My interest in democratic organisation was the natural outgrowth of my studies of water policy. Water policy is probably the most politicized area of civil engineering" writes Prof. Kazmann, explaining how a civil engineer came to interest himself in the politics of democratic organisation.

Politicians love to use the word 'democracy". Most political regimes wish to be identified as "democratic", even the most oppressive ones. For example, Lenin characterized his political organization as "democratic centralism". More recently, Soviet General Victor Matsulenko (in the *Soviet Military Review* of March, 1988) wrote, "... in that (Koreaan) war imperialism sought to topple the people's *democratic system* in North Korea (North Korea!) and undermine the socialist camp ... The United States intended to grab the Korean People's Democratic Republic (KDPR) with the aid of their South Korean puppets ...". I wonder what he thinks the word means.

We need to define democracy so that we can point out the difference between the political system of the Democratic People's Republic of Georgia and the State of Georgia (USA). We need a definition by which we can evaluate all sorts of private organizations and public, tax-supported organizations. A definition should enable us to say: this practice is undemocratic, this organization is undemocratic either in theory or in practice and then cite chapter and verse. Without such a definition we are in a political Alice-in-Wonderland, where words mean just what the speaker wishes them to mean and meaningful communication becomes impossible.

Many Definitions

Defining democracy is not an easy task. The authors of the Declaration of Independence and the subsequent Constitution of the United States did not even use the word. And even when Alexis de Tocqueville, after travelling in the United States in the late 1820's, wrote a book entitled, *Democracy in America*, he did not define the term. Yet Tocqueville's book is still considered to be a prime reference as to democratic practice and the United States is considered to be the world's premier democracy. So the object of this essay is to define democracy unambiguously. And if I fail, maybe the attempt will inspire others to improve on my work.

What does the dictionary say about the word? Webster's New Collegiate Dictionary defines democracy as "government in which the supreme power is retained by the people and exercised either directly or indirectly through a system of representation. A community or state so governed. ... Belief in, or practice of, social equality; absence of snobbery." This doesn't help us solve any problems.

Tocqueville sometimes considered it to have the characteristics of social equality, at other times he seemed to think that it was synonymous with political equality. Salvador de Madriaga once wrote an essay for the old *Saturday Review* and said, "Democracy consists basically of two things: the right of the majority of the adult population to choose their leaders, and the right of the minority to continue to function legally, to attempt to become a majority." Stevan Didijer, a Yugoslav scientist, writing in the *Bulletin of the Atomic Scientists*, defined democracy as "an invention made by the developed countries for the efficient growth and life of society."

It is plain that with such a variety of definitions any discussion of democracy will be fruitless. Ever since Tocqueville, profound arguments and violent disagreements have taken place with each participant having a different idea of the point at issue. The Soviets and their political proteges use the word widely, for their own purposes. Governments with widely different political philosophies and organizations all use the word "democracy" because it has acquired a historically appealing aura that would legitimate their claims to power.

The Influence of Customs

Pragmatically we should start with the Preamble to the Constitution of the United States, as written by its Founding Fathers. Any definition of democracy must be in harmony with this Preamble because of the historical record.

They evidently did not believe that the Declaration of Independence's claim, "men are created equal" was a statement of observable fact. Look at the apportionment of representatives: Indians weren't counted, a slave was counted as three-fifths of a person, but an indentured servant counted as a whole person. Nor did they believe that all of the "equally created" men should vote, for they accepted the existing Colonial restrictions on the franchise. At the time franchise was restricted to men who owned property, people who we would now characterize as "people of substance".

The record shows that their work was sound and that they, indeed, created a political democracy. The American Constitution has been a model for similar documents in many "developing" countries. None the less, recent attempts to establish democratic forms of government have generally been disasters of one sort or another. For examples we have to look no further than the experience of Nigeria or Zimbabwe. Such disasters have probably been due to the customs of the people at the time that they adopted their new constitutions. Tocqueville had long since pointed out the importance of customs in political and social life:

The customs of the Americans of the United States are, then, the peculiar cause which renders that people the only one of the American nations (meaning the nations of the Western Hemisphere - RGK) that is able to support a democratic government; it is the influence of customs that produces the different degrees of order and prosperity which may be distinguished in the several Anglo-American democracies... Too much importance is attributed to legislation, too little to customs." (pages 332-334, Vol.1, Vintage Books edition, 1954, *Democracy in America*)

To further confuse matters, "democracy" has been tried among people who did not have a substantial number of educated, cultured people. In neither of the African countries was there a middle class. Moreover the people did not accept or practice essential moral codes and basic morality. Tocqueville considered these so essential that he has a sub-chapter headed "Religion Considered as a Political Institution which Powerfully Contributes to the Maintenance of a Democratic Republic among the Americans" and another "Indirect Influence of Religious Opinions upon Political Society in the United States". One of the most significant passages argues:

But the revolutionists of America are obliged to profess an ostensible respect for Christian morality and equity, which does not permit them to violate wantonly the laws that oppose their designs; nor would they find it easy to surmount the scruples of their partisans even if they were able to get over their own. Hitherto no one in the United States has dared to advance the maxim that everything is permissible for the interests of society, an impious adage which seems to have been invented in an age of freedom to shelter all future tyrants. Thus, while the law permits Americans to do what they please, religion prevents them from conceiving, and forbids them to commit, what is rash and unjust. (Vol. 1, p.316)

Tocqueville also commented:"It may be asserted, then, that in the United States no religious doctrine displays the slightest hostility to democratic and republican institutions." (Vol.1, p.312)

How shall we define "democracy"? Part of the definition must, of course, include some form of representation for the people. But the founders of the United States did not stress this, even though there now is great emphasis on "one-man, one-vote". In the newly established African states this phrase has been modified: "one-man, one-vote, one-time". There is no indication that the men who drafted the U.S. Constitution spent any time worrying about universal franchise. Even today, in Swiss Cantonal elections, even though only men vote, Switzerland is regarded as a good example of democratic organization.

The Preamble to the U.S. Constitu-ion seems to have something to say ıbout the purposes of democratic orga-ıization. We note that the purposes set orth directly benefit every member of he population, that the enjoyment of he enumerated benefits by any person ı *no way reduces* the bene-its available to his immediate neigh-our or any other member of the opulation. Moreover, there is no in-ication in the document that the social r economic relationships between the itizens is to be changed by the central overnment. It would seem reasonable › state that *the purpose of democratic rganization is to achieve for each of s members the goals that each holds ı common with the others. More pre-'sely, to achieve the common extrin-'c goals of the membership.* The reamble defines these extrinsic goals s "form a more perfect Union, estab-sh Justice, insure domestic Tranquilli-, provide for the common Defense, romote the general Welfare, and se-ɹre the Blessings of Liberty to urselves and our posterity".

We can conclude that the word democratic" is an adjective that de-cribes a method of organizing people. he distinguishing characteristics of a emocratic organization (both private nd political) are these:

1. Its purpose is to solve problems that are common to each member of the group.
2. The areas in which the combined powers of the group are to be exerted are determined by qualified members of the group, or their representatives, by majority vote.
3. The relationship between members of the group, and between members of the group and the organization itself, must be governed by principles of morality, and the justice produced by applying these principles.

This definition of democracy is basic r any meaningful discussion. It is also strictive. Many groups, by their very ıture, cannot be classed as democra-: simply because they do not under-ke to solve problems common to, and trinsic to, each member of the orga-zation. Armies, corporations, gov-nmental administrative agencies at all vels, libraries, school and university lministrations, and similar executive ganizations are executive, not democratic. They are not democratically organized, although the purpose of the organization may be to serve some greater body, possibly one organized on the democratic principles outlined above.

Democracy Based on Moral Principles

Some persons may argue that the proposed definition is vague, especially point three. They would say that the principles of morality are not well defined, that morality or moral principles are religious matters and that each must decide his beliefs to satisfy his own conscience, that justice is an ideal, unattainable in practice. Admittedly, the last of these criticisms has some merit: perfect justice is an unattainable ideal for a number of reasons, but it does serve as a goal toward which we should strive. The question of moral principles, upon which justice must be based, is another matter, far more basic. It is so fundamental to any analysis of democracy, that it merits special attention. In the writer's opinion, moral principles are of the same order of reality as are the principles of chemical combination or Newton's laws of motion. Before we try to generalize, let us apply our definition to the organization of private groups. In the final analysis, the sole purpose of any voluntary group is extrinsic: the solution of a problem that each member of the group has encountered and wishes to solve. Whether it be stamp collecting, enhanced education, folk dancing, neighbourhood crime watch, gourmet cooking, or fire fighting, a majority vote can enable appropriate decisions to be made. Everyone benefits when the goal is achieved and no member benefits at the expense of his neighbour.

Private Associations and Governmental Organisations

There are many differences between private associations that are democratically organized and governmental organizations whose powers are democratically derived from a vote by the citizens. In a private organization, a member who is seriously dissatisfied with his treatment by the organization can leave or appeal to the courts for justice. This applies to all private organizations from professional groups, partnerships, and cooperatives to fraternal organizations, square-dancing groups, and gourmet clubs. Internal disputes are not decided arbitrarily by majority vote since a decision that hurts a fraction of the membership may force these members to leave and this may so weaken the group that it would be difficult for the remaining members to achieve the purpose of the organization. In addition if majority decisions result in failure to achieve the organization's goals, the group can be expected to lose membership and dissolve. Thus in a voluntary organization there are objective, real world constraints that protect the membership from what Tocqueville termed "the tyranny of the majority" that he feared in governmental organizations. One of these constraints is the competence of the membership and its representatives, the other is moral behaviour: the group must not injure its members.

There is only one type of organization that can utilize force against its members: a government or organizations operating under special, governmentally granted powers, such as labour unions or industrial cartels. When force can be used to hold the group together at the will of the majority, majority rule can become insupportable tyranny. As Tocqueville said (Vol. 1, ch.15, p.279):

"If ever the free institutions of America are destroyed, that event may be attributed to the omnipotence of the majority, which at some future time urge the minorities to desperation and oblige them to have recourse to physical force. Anarchy will then result, but it will have been brought about by despotism."

To sum up: for private organisations without governmental powers the question of moral principles never arises because if the organization acts inappropriately to its members, it will lose members and disintegrate. The other objective criterion is competence: an incompetent organization will disintegrate by loss of membership because it has failed to achieve its extrinsic goals.

The question that must be answered is this: in what way do governments that claim to operate on democratic principles handle the problem of moral principles and competence? But before we try to answer this question, a discussion of item 3 of our definition is in order. What moral principles are involved and on what basis are they necessarily legitimate?

TO BE CONTINUED

Soviet Union: Boosting Joint Economic Ventures

Ramnath Narayanswamy

Since an essential ingredient of the Gorbachov initiative in the economic domain centers around increasing productivity, Soviet planners have finally begun to display a few promising signals. While the new legislation is unambiguous in declaring its firm desire to trade with the West, a number of institutional obstacles need to be removed before Western investors are stimulated to undertake joint ventures. The main challenge for the Soviets will consist in persuading the lower administrative echelons of the foreign trade hierarchy to cooperate in implementing the provisions of the new legislation.

One of the major planks of the Gor-achov reform consists in streamlining nd simplifying the complicated foreign ·ade structure with a view towards sti-nulating Western commercial interest ı joint economic ventures. Towards ıis end, a new legislation on joint eco-omic ventures was published early last ear to which a number of amend-nents designed to remove the adminis-·ative hurdles of earlier years were dded. These amendments were rompted by poor Western response to ıew Soviet legislation on joint enter-rises and now appear from all ccounts to have succeeded in having ıeir desired effect: Western commer-ial interest has since certainly in-reased and dozens of companies anging from small firms to multina-onal corporations have been dispatch-ıg their representatives to Moscow to xplore possibilities of mutually benefi-ial cooperation.

Western response to joint ventures ith the Soviet Union has traditionally een poor. Western investors complain ıat the Soviets fail to understand West-rn business priorities. Specifically, Vestern fears center around the possi-ility of arbitrary and illegal proceedings y the state, the lack of contact with nd-users as a result of which Western rms have difficulty in assessing de-nand and negotiating directly with ioviet technicians on product speci-cations, ambiguities in legislation con-erning currency exchange and repat-iation of profit and laws relating to the ıanagement of the enterprise. As of ow, the Soviets have signed no more ıan six joint ventures with West Ger-ıany, Britain, Finland, France and apan — how modest this figure is can e gauged from the fact that Hungary has over sixty joint ventures — far more than any other Comecon country.

Allaying Western Fears

Since an essential ingredient of the Gorbachov initiative in the economic domain centers around increasing productivity, Soviet planners have finally begun to display a few promising signals. While the new legislation is unambiguous in declaring its firm desire to trade with the West, a number of institutional obstacles need to be removed before Western investors are stimulated to undertake joint ventures. The main challenge for the Soviets will consist in persuading the lower administrative echelons of the foreign trade hierarchy to cooperate in implementing the provisions of the new legislation. As a recent business publication in the West observes: 'Initiatives from the top of the party structure are still not filtering down properly, as enterprises are reluctant to engage in new forms of trade. The enterprises need more incentives: being given the right to possess foreign currency reserves was a first step; enterprises now need to be convinced that actual currency will be forthcoming. More importantly, the authorities will also have to set out clearly the whole foreign trade structure. Then they must stop chopping and changing it around. Only then will Western companies and Soviet enterprises be able to do what they are supposed to be doing: getting down to business'. Despite these problems, what is encouraging about the latest Soviet version of the joint venture code is their growing recognition of Western business problems.

Salient Features of the New Legislation

Some of the salient features of the new code include: (1) Joint enterprises now come under the jurisdiction of Soviet foreign trade planning in contrast to earlier legislation where they were considered independently of the plan. Planners are now required to accord priority to enterprises engaging in joint ventures. (2) Enterprises have now been given the right to export finished manufactured products once their plan targets have been fulfilled. This is a consequence of the Law on State Enterprises — arguably the kernel of the Gorbachov reform of industry — which came into effect on 1st January 1988. (3) The same law also enables enterprises to hold their own foreign currency earned from sales abroad. This is an important amendment because it serves to act as an incentive to Western companies as they can be paid in hard currency. Also, Western firms dealing on the domestic Soviet market can earn revenue from internal sales which can be repatriated without problems of conversion. (4) A Soviet enterprise now has the right to dispose its foreign currency reserves independent of the Foreign Trade Organisation. But while the resolution explicity states that methods of sale and delivery and the currency used can be agreed upon by the enterprises themselves, the question whether significant foreign exchange reserves can be made available to the enterprise remains unclear. (5) The resolution also provides ministries as well as the council of ministers of each republic with the right to take independent decisions on the establishment of joint enterprises — under the old system, potential partners had to go through the cumbersome process of applying through the Soviet council of minsters. (6) The need to take immediate steps to improve the training of foreign trade personnel. It is highly probable that highly qualified Soviet staff will be sent to advanced Western schools for further training. Similarly, exchange of managers will be encouraged, though whether Western firms take them up is another matter. (7) The amended law also exempts joint enterprises from paying tax for two years after the receipt of first profits.

Greater Soviet Flexibility

It can be easily gathered from the above provisions that the Soviets are making a genuine attempt to come to grips with Western notions of profit, cost effectiveness and incentives. Western officials report that their Soviet counterparts are rapidly becoming more flexible. Over forty joint enterprises have been set up since the new legislation and it is reported that many more are in the pipeline. What the Soviets hope to achieve in the short-term is to encourage competition among Western businesses seeking to establish segments in the Soviet market. Just how serious Soviet intentions are can be gauged from several recent indications. The ministry of foreign trade was overnight transformed into the ministry for economic ties. About a third of its officials were either compulsorily retired or sent to enterprises in the countryside. Visa applications have been speeded up. Information is easier to obtain as a result of a new consultation centre that has recently been set up in Moscow to advice both Soviet and Western firms on how to set up joint enterprises. It is now possible to get through Soviet customs in less than ten minutes. Entire ministries are being relocated, amalgamated or reconstituted. Yet a better climate is being established and in some cases, former working relationships are even being strengthened.

Despite these developments however, some major problems remain unresolved. The most important of them is the problem of currency convertibility and repatriation of profits. The Soviet objective behind the establishment of joint enterprises is to transform the USSR from an exporter of raw materials and spender of hard currency into a net exporter of finished manufactured goods and earner of hard currency. Such an objective is not necessarily suitable to Western businesses which do not want more competition in existing markets.

Given Soviet objectives, the problem of repatriation of profits is being dealt with in ingenious ways. The Soviet suggestion consists in creating an internal hard currency market. State enterprises endowed with foreign trading rights would purchase the output of joint enterprises for hard currency through their exports to the West. But this assumes that there is a ready market for goods that are often shoddy. Another possibility is total rouble convertibility or the formation of special economic zones such as that occurred in China. Several possibilities exist and as of now there is no saying which option the Soviets will eventually favour.

Interest in Management Education

Last but not the least is management education which still remains one of the most formidable obstacles to the implementation of reforms in the foreign trade sector. The Soviets intend to acquire management expertise through the operation of joint enterprises. But the latter cannot become fully operative until the Soviet partner is fully cognisant of the fundamentals of economic management. Soviet managers are not well conversant with the importance of the profit motive, price formation and employment policy. While a large part of these problems can be confronted with reforms being initiated in other sectors of the economy, the fruits of education in the skills and techniques of modern management cannot be restricted to an elite of chosen technocrats, but must at some point be able to filter down to other levels in order that the entire process be meaningful and productive. In the Soviet context, this might involve an inordinately long time, long enough at any rate to be disquieting.

(This research was assisted by an award for the Social Science Research Council of an International Fellowship Programme for the development of Soviet Studies. The author is currently a Visiting Research Fellow at the Centre for Russian and East European Studies of the University of Birmingham.)

Truth is not always the best basis for happiness... There are people who perish when their eyes are opened.

WILHELM STEKEL

Nelson Mandela and the African Experience

Barun Mitra

July 18, 1988 marked the 70th birth-ay of Nelson Rohihlahla Mandela. It as commemorated around the world ith much fanfare under the banner of 'reedom at 70'. But two unrelated vents that occurred on the eve of his irthday once again brought to fore a gnificant but unpublicised dimension f the situation in southern Africa.

As the South African government as mobilizing its forces to prevent any athering to mark the occasion, a court iere ruled such blanket ban orders to e illegal. Of course, the government of resident P.W. Botha could still crack own on any individual gathering under mergency powers that are now in orce there. It is significant to note that i three-fourths of the nations of the 'orld today, courts are hardly in any osition to give rulings against their wn governments.

In neighbouring Zimbabwe, Mr. Neil innock, the leader of the opposition in ritain, and his party were detained at un point when the plane carrying them om Mozambique mistakenly landed at military airport in eastern Zimbabwe ear the border with Mozambique. Sub-equently, the Zimbabwean President Ir. Robert Mugabe apologized for the icident and Mr. Kinnock declared the iatter closed. However it cannot be de-ied that these later developments vere, more than anything else, guided y the political compulsions of both the ides. The question is why did the Zim-abwean military behave in such an un-ivilised manner. The answer can be ound in the behaviour of Mr. Mugabe, ie latest messiah on the African scene. s the same reason that made him de-lare his country a one-party state and is attempts to snub out dissent in the orm of institutionalised opposition.

ouble Standards

Anti-apartheid campaigners accept uch developments as "internal affairs" of a sovereign state! Obviously, the same standards do not apply in the case of South Africa.

> The primary focus of the anti-apartheid campaigners is "power sharing" and a question of the vote rather than "the freedom to exercise individual rights, including property rights." Without first establishing the most basic of rights, the right to vote is meaningless. Democracy is not a licence to enslave the dissenters even if the dissenters constitute the minority.

Nelson Mandela

In the last quarter century, as the continent of Africa gradually freed itself from the colonial rulers, the continent has witnessed innumerable 'revolutions'. Millions of people have lost their lives and property, as messiahs have appeared and disappeared with frightening frequency leaving behind a continuous trail of blood. The admission by Dr. Julius Nyrere, former President of Tanzania, that three decades of socialism had failed to deliver on its promises is most revealing and symptomatic of the ills affecting Africa. Not only have such 'revolutionary' regimes failed to protect the fundamental rights of their people, but have also singularly failed to provide the promised material necessities. These regimes have deflated the myth of "socialism with a humane face" by negating one of the essential tenets of a free and democratic society – "to secure these rights Governments are instituted among Men, deriving their just powers from the consent of the governed". The bullet and not the ballot, coercion and not consent are the hallmarks of most regimes in the continent of Africa.

Mr. Mandela's courage to uphold his ideals against great odds is very admirable. But it is only one among other equally desirable human qualities. That is why it is very important for Mr. Mandela, Mr. Oliver Tambo, Bishop Tutu and others to state explicitly the fundamental requirements of a civilized colour-blind society. Historical evidence for these much used slogans like "humane socialism" does not evoke much confidence. Whatever may be the achievement of socialism, justice is definitely not one of them. This is evident from the growth of such new forms of justice like "economic justice", "political justice", "social justice", etc. The aim of this exercise seems to be to diffuse the concept of the "inalienable rights" of man, and thereby undermine the very basis of 'Justice'.

Is 'Real Freedom' Discriminatory

The system of apartheid which severely restricts the freedom of choice for all non-whites regarding where to live, to work, to travel, to own property, to pursue education, etc. deserves to be condemned without any qualifications. But is the attack on South Africa based on the denial of fundamental rights to its citizens irrespective of race? On the contrary, the liberals of today oppose the "inequal" treatment of blacks on the ground that it is worse than the treatment meted out to whites. (South Africa being a mixed society some rights of the whites too have been infringed). The liberals do not oppose racism *per se*, since they are willing to support preferential treatment of blacks to promote "equality" on the basis of race alone.

If the Indian experience is any guide to go by, then the system of reservation on the basis of "caste", instead of dissolving the caste divide, has led to its being strengthened. Notwithstanding the claim of non-discrimination on the basis of age, sex, caste, religion and language enshrined in our Constitution, like the much abused system of apartheid, the system of "reservation" too is a form of institutionalised "discrimination". So if individualism is abolished and all are equally oppressed by the state, these liberals will remain satisfied. "Only absolute slavery is truly "non-discriminatory". To them freedom is "discriminatory" since it allows each individual to flourish according to his ability and the best is free to progress the farthest.

Despite attempts to distort the real issues, no practical and just solution can ever emerge unless some of the fundamental realities are understood; why is South Africa the strongest economy in sub-Saharan Africa; why is it that despite the racist system hundreds of thousands of blacks come to South Africa from neighbouring countries in search of jobs; how is it that the opponents of apartheid continue to voice their opposition and are allowed to travel abroad to propogate their views by the South African government, while most other regimes in the region leave no stone unturned to silence their opponents; how is it that South Africa continues to be a vibrant pluralistic society by all accounts, whereas this cannot be said of any of the "frontline" states apart from, possibly, Botswana.

No Clear Answers from Mandela

Mandela has not provided any clear answers to these issues. He said in 1964: "Today I am attracted by the idea of a classless society, an attraction which springs in part from Marxist reading and, in part from my admiration of the structure and organisation of early African societies in the country. The land, then the main means of production, belonged to the tribe. There were no rich or poor and there was no exploitation." What he innocently ignores is that these tribal societies were neither free nor democratic. The 'club' of the "chief", who at best was a benevolent, at worst a malevolent despot, was the supreme arbiter. Indeed there was no "exploitation" as it was the "right" of the chief to guide his people, by force if need be, and the people possessed no rights other than the right to serve him! And the history of tribal warfare has survived the test of time as evident from the blood letting in so many African countries today.

The primary focus of the anti-apartheid campaigners is "power-sharing" and a question of the vote rather than "the freedom to exercise individual rights, including property rights". Without first establishing the most basic of rights, the right to vote is meaningless. Democracy is not a licence to enslave the dissenters, even if the dissenters constitute the minority. In the absence of the recognition of the "inalienable rights" of the individual, democracy will inevitably lead to the fragmentation of society into warring pressure groups each manoeuvering to out-flank the other. No amount of balloting can prevent the inevitable slide of such "democracies" into the abyss where the baton and the bullet are the final arbiter. As for proof, witness the contradictions that are tearing apart so many alleged "democracies" in the world today. The much vaunted 'Freedom Charter' of the African National Congress completely ignores this aspect.

Release Mandela

Nelson Mandela should be released unconditionally, if for nothing else than for the fact that his 25 years in prison is more than adequate for any "crime" he may have committed. It is plainly self-defeating for the regime in Pretoria to continue to hold him. But it is equally far-fetched for his admirers to claim that he is the symbol of "freedom" in the world. Nothing that he or his supporters have so far said provide an answer to the tragedy in South Africa.

Mr. Barun Mitra is a Calcutta businessman and edits the *Ayn Rand Radicals' Newletter*.

A Government that Works!

I was very busy in 1958 with my work as Secretary, Planning and Panchayati Raj – a very heavy charge. Brahmananda Reddy, who was Minister for Local Administration, was unhappy with the set-up and performance of the Corporation of Hyderabad. Its reputation was stinking and the unanimous public opinion was that the Corporation authorities and staff were corrupt, inefficient, unequal to perform the tasks assigned to them and that a drastic surgical cure was urgently called for. Brahmananda Reddy wanted that I should make a thorough study of the functioning of the various departments of the Corporation and submit a report to Government.

Since Government were not prepared to relieve me of my charge as Secretary to Government, I was to do the Corporation work in addition to my own. I struggled hard for six months and in the light of my vast experience of municipal administration, I gave a very detailed report for Government's examination and quick implementation so that the City Corporation might function as a strong, healthy and responsive representative public body.

The only action which the Government took was to print copies of the report and then lock them up safely in steel shelves. It was a wonder that they were not supplied even to those who were directly connected with the Corporation. Thus nobody except the author knew what the contents of the reports were!

– From C. Narasimhan's *'Where We Failed.'*
(Courtesy: *Bhavan's Journal*)

ſhe Reagan Presidency

Nitin G. Raut

In the 1964 U.S. Presidential Elec- ɔns when Senator Barry Goldwater's ltra conservative plank crashed to ban- h the American Conservatives to poli- cal wilderness, few believed that the onservatives would be able to stage a ɔmeback. But two years later Ronald eagan, the future heir to the Goldwater onservative legacy, won the Califor- ian Governorship to keep alive the agging Conservative morale. So when n January 20, 1981 Ronald Reagan de into the White House, he set the ne for the thrust of his presidency hen he said in the course of his inau- ural address: "Government is not the olution to our problems. Government the problem." It also succinctly epito- ised the political personality of a man ho is an antithesis of a leviathan admi- istration that smothers individual en- erprise and initiative.

In his two four-year terms President onald Reagan blazed a new trail in a orld where populism and not states- anship, dogma and not pragmatism led the roost. But Reagan achieved here others failed as critics gaped hile admirers went beserk with uncon- ealed glee.

It is in U.S. foreign policy, that Reagan as left an indelible impression. Far om being a cold war gladiator, which is detractors accused him of, Reagan chieved where others like Carter only reached and conceived in their uto- ian dreams. A shrewd and pragmatic bserver of communist strategy as he , Reagan challenged Soviet expan- onism with an accelerated U.S. de- ence buildup.

Reagan, though he adopted a hard- ne approach, avoided a direct con- ontation with the Soviet Union. Yet by eefing up the Afghan freedom fighters, e forced the Soviets to withdraw or tleast talk of phased withdrawal. eagan succeeded through his inimit- ble diplomacy where gunboat policy ad proved ineffective or counter- roductive.

Reagan's swift and strong measures ı Grenada and his response to Gadda- 's terroristic adventurism, were not just for symbolic effect. It was rather a peace offensive — a desire for peace that could not be construed for weakness. More, it was a warning to the Soviet Union to keep its client States on a tight leash. Even Reagan's domestic critics including those from the Democratic Party realised that achievements like that of signing the Intermediate Nuclear Force Treaty were possible only when a nation has the necessary military clout to negotiate peace. However, unlike in Afghanisthan where with the full backing of the U.S. Congress, the Afghan freedom fighters could be backed to the hilt, he could not achieve his goal of liberating the Nicaraguans from the communist yoke as his support to the Contras was fettered by the Democratic dominated U.S. Congress still haunted by the nightmare of Vietnam.

It is to Reagan's credit that after many years he reversed the U.S. policy of propping up right-wing dictatorships under the misguided plea of warding off communist threat. Reagan's administration, however limited its effect may have been, backed democratic elements in South Korea, the Philippines and Haiti even at the cost of incurring the displeasure of the pro-U.S. regime of South Korea or even if it meant ditching the Philippino despot Marcos.

Reagan's achievements on the economic front have had their share of criticism. But economic marvels are not achieved like a rabbit pulled out of a magician's hat. Often, bold economic measures are preceded by fiscal hardships before any worthwhile result can be achieved. Reagan's tax cut measures to revive the U.S. economy had a salutory effect on the U.S. economy. Reagan's Presidency saw the creation of 19 million jobs an unparalled feat.

> It is in U.S. foreign policy, that Reagan has left an indelible impression. For from being a cold war gladiator, which his detractors accused him of, Reagan achieved where others only preached and conceived in their utopian dreams.

Politics often has its own ironies and tragedies and Reagan's two terms are no exception. An unrepentant anti-communist he has signed a nuclear arms reduction treaty with the Soviets. His successful economic policies also saw the century's worst collapse at the stock exchange. The Iran Contra scandal left a blot on his spotless credibility. But then if Reagan is to be perceived only through the tinted glasses of the Iran Contra affair, it might as well be said that 'Glasnost' and 'Perestrioka' are just flashes in the pan of Soviet history otherwise smeared by endless violations of human rights. Again time will judge Reagan's wisdom in opening a dialogue with the P.L.O. Abadallah Al Khouran, a member of the P.L.O. Executive Committee has already said: "The proclamation of the Palestinian State is the first step towards obliterating the Zionist Fascist State."

Ideologically, from the conservative point of view, Reagan may not have projected an unchallenged U.S. global supremacy but by his deft handling of international crises Reagan has achieved where others have failed. At home, Reagan leaves behind him a conservative coalition more consolidated and cohesive than when he took office eight years ago.

The election of George Bush as U.S. President is a mandate for continuing Reagan's policies and strategies. Indeed there was cause for satisfaction when in his farewell television address Reagan told the American people: "The way I see it, there were two great triumphs that I am proud of: One is the economic recovery, in which the people of America created — and filled — 19 million new jobs. The other is the recovery of our morale. America is respected again in the world, and looked to for leadership."

Nitin G. Raut is an advocate by profession.

"Comrade Editor"

Letters to the Editor in the Soviet Press

Michael Dobbs

Grachev was fed up with empty stores and declining living standards. So he did what millions of other Soviet citizens do when they want to voice their frustration: He wrote a letter to his favourite newspaper.

"Comrade editors," began Grachev, a survivor of Stalinist terror and the Great Patriotic War with Nazi Germany. "Now that the iron curtain of silence has at last been lifted, we have the possibility of comparing ourselves with others. Why can't we also have access to such commodities as women's cosmetics, soap, washing powder, shaving cream and eau de cologne? In the '50s and '60s, you used to be able to buy condensed milk, dried cod, even crabs. Today there is nothing."

Then came the punch line, a warning to the Kremlin that even the legendary patience of the long-suffering Russian people has its limits: "All we have is glasnost — but you can't eat glasnost and you can't clothe yourself in it."

Grachev's letter to *Lenin's Banner*, a Moscow daily, was part of a record crop of mail received by Soviet newspapers and magazines in 1988. The glasnost, or openness, campaign spearheaded by Soviet leader Mikhail Gorbachev may have done nothing to improve food supplies, but it has certainly encouraged millions of ordinary Soviet citizens to express their opinions about everything from politics to sex.

Many Soviet editors regard the number of letters they receive as a kind of barometer of public trust and compete with each other in providing year-end statistics. Both the volume of correspondence and the range of subjects regarded as suitable for discussion have expanded enormously over the past two years.

The government newspaper *Izvestia* announced proudly this week that it had received more than 450,000 letters in 1988. It was promptly put in its place by the weekly magazine *Ogonyok*, a standard-bearer of glasnost, which boasted that its mailbag had expanded ten-fold since 1985 to 600,000 letters. *Literaturnaya Gazeta*, which is aimed at intellectuals, felt it was doing well with 110,000 letters.

Only a fraction of this epistolary avalanche makes it into print. But all the letters are carefully read and collated. Soviet newspapers all employ large staffs to sort through readers' correspondence and forward specific complaints to the relevant government and Communist Party institutions.

"Traditionally, Soviet citizens have regarded newspapers as their best hope of redressing their grievances," said Yuri Orlik, who heads *Izvestia's* 76-person letters department. "If we forward a complaint to a local Communist Party official, he is likely to do something about it, if only because he wants to avoid public embarrassment."

The nature of the correspondence has changed greatly over the past two years as both editors and letter-writers test the limits of glasnost. Last year, the KGB security police was still off-limits for public discussion. This year, some newspaper readers have raised tentative questions about the role of such a huge apparatus of repression in a modern state.

"Every time I pass by the solemn facades of the building that houses the KGB, I experience a feeling of vague anxiety, uncertainty and even fear," O. Fisher of Moscow wrote to *Ogonyok*.

The letters columns have reflected the furious historical debate that has raged here during the past year over Stalin, who ruled the Soviet Union from 1924 to 1953. Many letter-writers have denounced Stalin as a tyrant and a murderer. Others have praised him as the architect of the world's first socialist state.

"I support the opinion that Stalin's body should be removed from Red Square [the burial place for Soviet heroes].... Only then will we be able to claim that the Communist Party has decisively and irreversibly broken with its tragic and shameful past," read a letter in *Moscow Pravda* signed "S. Goncharov, participant in the Great Patriotic War."

A. Volkova of Briyansk replied indignantly to an article in the weekly magazine *Smena* describing the opportunities open to women over the age of 30 in an age of sexual liberation. Describing herself as a typical Soviet housewife, she said her life was so exhausting that her only desire was "to lie down and sleep."

"We have an eight-hour working day. Many of us don't even get to relax at lunch: We chase around shops. After work, another $1^1/_2$ hours are spent standing in lines. Then the second shift begins at home: preparing a meal, doing the laundry, washing the dishes, looking after the child. At night, I collapse from tiredness," she said.

Describing how she and her husband lived in one room with their mother and 5-year-old child, Volkova continued: "What kind of intimacy can we possibly have? Under these conditions, neither psychologists, nor philosophers, nor gynecologists are of any help to us."

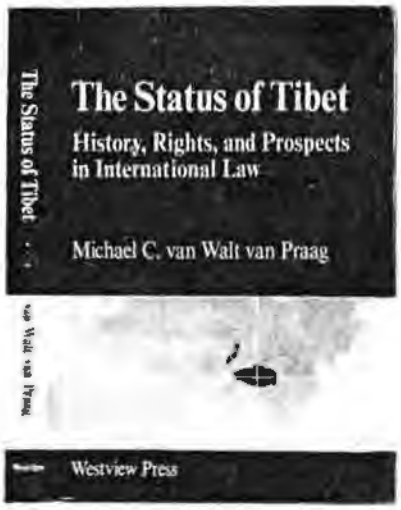
Soviet editors acknowledge that there are still taboo areas. Speculation about the relationships between Kremlin leaders, or call for their removal from office, remain off-limits for discussion. Calls for the one-party state dominated by the Communist Party to be replaced by a multi-party system are also routinely censored.

"Right now, we have a kind of semi-glasnost," said Nadein, the former letters' editor of *Izvestia*. "You develop a feeling for what's acceptable. Two years ago, we were unable to publish letters questioning the way the government allocated public holidays. This year, it didn't even occur to me that this might be a problem."

COURTESY: *Washington Post*, January 1, 1989

BOOK REVIEWS

THE STATUS OF TIBET: HISTORY, RIGHTS, AND PROSPECTS IN INTERNATIONAL LAW by Michael C. van Walt Van Praag; Westview Press, Boulder, Colorado; 1987; Pp 381; Price not indicated.



Michael van Walt van Praag's book deals with the legal status of Tibet, past and present. The study is concerned neither with strategic considerations nor with questions of a purely political or ideological nature. It provides a comprehensive analysis of the legal questions that have been raised by the Chinese annexation and violation of Tibet's territorial integrity and independence.

The author examines the historical evolution of Tibet since the seventh century, when Tibet's status and its relations with other states including China, were, according to the author, clear and unambiguous. The source materials used by the another are quite extensive.

According to the author for some three hundred years after the fall of the joint Mongol-Sakya rule, Tibet was left to reassert itself as an independent State. It was not until the early seventeenth century that Tibet had a significant political role to play in Asia. In the eighteenth century, Tibet possessed the essential attributes of statehood. During the nineteenth and early twentieth centuries the Tibetan government exercised effective control in Tibet, free from outside interference. It opened relations with the Russian government and effectively obstructed the implementation of the agreements concluded by the Imperial government on its behalf.

The second decade of the twentieth century marked a new phase in the political history of Tibet. The events that occurred from 1911-1913 set the direction of Tibet's development for the next forty years. According to the author three occurances helped determine the international status of Tibet: the Simla Conference and the Anglo-Tibetan agreements of 1914 were the first of these, and the position taken by Tibet during World War II and the active diplomacy that its government pursued following the war constitute the other two. The legal interpretation of these factors, according to the author, demonstrates that Tibet had fully recovered its independence by 1913 and was, throughout the four decades that followed, a State in international law in the fullest sense of that term.

In the view of the author, Great Britain and later India made contradictory statements with respect to Chinese suzerainty over Tibet. The United States, which had never before committed itself to an official view on the status of Tibet, took a cautious political attitude. When the Peoples Liberation Army crossed into Tibet, India dissuaded the United States government from supplying military aid to Tibet. The main consideration was Nehru's belief that friendly relations between the two biggest Asian countries was essential to the welfare and security of Asia as a whole. India thus washed its hands off Tibet.

Tibet appealed to the United Nations for help. The Indian Government did not support a discussion of Tibet in the General Assembly as Indian criticism of Communist China would adversely affect India's mediation efforts in the Korean conflict. The author rightly observes that India took a fatalistic attitude towards the events in Tibet and accepted the new situation created by the Seventeen-point Agreement of 1951 as a *fait accompli*. According to the author Tibet was coerced into concluding this agreement and as such was devoid *ab initio* of any legal effect. Even the seal affixed to the document was allegedly "a forgery".

The 1954 Sino-Indian agreement, containing the five principles of peaceful co-existence (*Panchsheel*) put the seal of India's approval upon the destruction of this ancient nation. Tibet, it was clear ought to have been allowed its independence; that it was not.

The Chinese ruthlessly suppressed the abortive 1959 uprising for the restoration of Tibet's independence. The Dalai Lama lost no time in establishing a government-in-exile. India felt that recognition of the government-in-exile would seriously endanger Sino-Indian relations. India's concern for China's friendship was also displayed in India's abstention on a resolution co-sponsored by Malaya and Ireland in the General Assembly in October 1955, condemning the flagrant violation of the Universal Declaration of Human Rights by China. The author quotes Alexander Solzhenitsyn who described the Chinese illegal occupation of Tibet as "more brutal and inhuman than any other communist regime in the world."

From the review of post-1951 developments presented in this well documented study, the author comes to the conclusion that despite the fact that Tibet is not recognised as a sovereign nation by a large majority of countries, the Tibetans' fight against China's occupation of Tibet is legitimate in international law. The Dalai Lama is the ultimate symbol of both the religious and the political sentiments of Tibetans. The continued support for the Dalai Lama among the overwhelming majority of the Tibetan population, the active resistance to Chinese illegal rule in Tibet and the functioning of a government-in-exile are all factors that contribute to the continuity of the Tibetan State.

The author's bold conclusions should stir the conscience of the international community that has been a helpless spectator to the destruction of Tibetan independence by brute force. The geographical location of Tibet at the heart of Asia and its close proximity to the major powers of the continent make Tibet not only one of the most strategically placed countries of Asia, but also the ideal country for neutralization. The suggestion of the author that the high tensions between China and India and the Soviet Union and China could be considerably reduced if Tibet were permanently neutralized, merits serious consideration especially in the light of the present process of normalization of relations.

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INDIA WINS FREEDOM: The Complete Version by Maulana Abul Kalam Azad; Orient Longman Paperback; 1988; Pp 282; Rs. 75

More than two thousand years ago, the Oracle at Delphi proclaimed Socrates to be 'the wisest of the living mortals'. Were Maulana Sahib living then, Socrates would have faced tough competition and most probably would have lost the title. The re-publication of the Maulana's autobiography has been necessitated because nearly thirty pages of his manuscript were kept away from public gaze for thirty years. This indeed was a safe period because the then contemporary controversies have lost their cutting edge and the contemporaries who could have embarassingly refuted or corrected the Maulana are now silenced by death.

An autobiography is hardly a proper vehicle for history but it could certainly provide a record of contemporary events as observed or felt by a person, especially a person of the Maulana's calibre, who had the rare privilege of a ring side seat during the momentous drama of the transfer of Power. One does not expect hundred per cent accuracy or objectivity from such narrations. An active participant in a power game or even in a sports event does not see as much as a referee does or the cold eye of a camera does. One ought to be content if the narrative, by and large, matches the information available from other sources. That, however, is not the case here and the Maulana Saheb's story, unfortunately suffers from very wide credibility gaps.

The publishers of President Theodore Roosevelt's autobiography complained that they had to place with the type foundry a special order for supplying the alphabet I. Orient Longman may in future confess to the same predicament, because the first person singular overshadows everything else in the book. Nothing seemed to happen in Indian politics during the forties without the Maulana Saheb's active guidance and advice. We learn with some astonishment that it was the Maulana and Maulana alone who singlehandedly carried India from frustration to freedom. His judgement of events and their consequences is always uncannily accurate and his predictions come cent per cent true everytime. He instinctively knows when he will be arrested (1942) and freed (1945). It is *his* opinion to which his lesser colleagues meekly subscribe to after being enlightened by the Maulana Saheb. He was the real and sole author of the Cabinet Mission Plan, conceived during a grand vision in search of the Final Solution to our communal problem. He surprises and stuns everybody by his wisdom and insight during negotiations. This man, whose command of the English language was so poor that he required help in writing his autobiography, carried on, unaided, momentous and delicate negotiations with Sir Stafford Cripps (1942), with General Lord Wavell (1945) and with the Cabinet Mission. If these worthies talked to other Congress leaders, such talks were of marginal utility, unworthy of being noticed in the grand sweep of events. He drafts several Congress resolutions often in impressive — even majestic — English prose.

His portrayals of his contemporaries and colleagues makes strange but fascinating reading. Gandhi is a stupid bum who obstinately refuses to imbibe the superior wisdom of the Maulana, abjures the path of negotiated truce and embarks on the Quit India movement. After a series of knockouts, though, he does improve in his performance and tows the Maulana line It would be an irritating question to ask why the Maulana accepted Gandhi's leadership and joined the movement. Even during his last Fast, Gandhi does not know what exactly are the conditions he should lay down for ending his fast and tamely accepted what he is told to do. Jawaharlal Nehru is a good boy, a bit sentimental, perhaps, and rather impetuous in handling explosive situations. But then, he is quite submissive to the Maulana's admonitions and advice. Rajendra Prasad, Rajagopalachari and Kripalani hardly exist except as flitting shadows and Sardar Patel, of course, is a pervert communalist, who came to hate Gandhi so much that he allowed him to be murdered by neglecting his security. He blandly asserts that both Rajendra Prasad and the Sardar were mere Gandhi creations, overlooking the fact that he himself and many others also fall in the same category. Maulana Saheb even dares to suggest that Gandhi's attachment to non-violence was ephemeral and was washed out by 1945. Men and matters emerge as grotesque figures and are presented with such brazen cussedness, that the book makes irritating reading to any one who is even remotely acquainted with the ground realities of Indian politics during the period covered in the thirty pages.

All this is not meant to suggest that Maulana Saheb is deliberately deceiving readers and distorting facts. He is possibly the victim of that greatest of deceptions, self-deception. The fortuitous circumstances which prolonged the period of his Congress Presidency, are probably the reason which make him forget his true position in the Congress hierarchy. He was at the tail end of the Congress High Command and had limited say in shaping Congress policy. He himself often deplores the decisions arrived at. He had neither the masses nor the classes as a support base and was, to borrow the cruel and biting adjective from Jinnah, a mere showboy of the Congress party.

The only part of the book which has a ring of sincerity is that which narrates his efforts to oppose Partition and his failure in preventing it. To point out numerous errors of facts and chronology would hardly serve any purpose, because nobody who knows India of the 'forties would take Maulana Saheb's word for it. But this exercise in political autobiography — there is hardly anything about his personal life, except the death of his wife whom he does not even name — is a valuable document from two diametrically opposite angles. It reveals the stuff which went into the making of the leadership in our public fe and if this was one of our heights ıen, we need not be unduly perturbed bout the calibre of our third generation eaders today. If this opinion appears to e a bit more harsh than it should be, et us remember that Maulana Azad was nfortunately not an exception but the eneral rule. As Nehru puts it in his picuresque phrase, 'We are small persons tanding in the shadows of giant vents'. This of course does not apply o Nehru but it does to Maulana Saheb. he second and far more important ssue is that if we could win our struggle or independence with such an army, ur struggle and its fruition needs a reised analysis to put the events in corect perspective.

Nagindas Sanghavi

XPLORATIONS IN ECONOMIC HEORY OF SOCIALISM by Dr. hrikant Jichkar; Central India Reearch Foundation for Socio-Economic and Political Affairs, lagpur; 1987; Pp 175; Rs. 100

Mr. Jichkar's book is primarily an exloration in economic theory, as his title romises. He correctly diagnoses, right n the first few essays, that both Keyneianism and Marxism are going through heir most trying phases and have been ound wanting. But, from the fourth ssay onwards he takes off into a world of theoretical *abracadabra* that has to e read to be believed.

His initial analysis of the place of the ecent economic reforms in the Soviet Jnion is theoretically sound. The introduction of competition in the economy, of autonomous industries, market rices, profits and the payment of vages to labourers out of the incomes of their respective enterprises have all eriously challenged the orthodox comnunist conceptions. After this he proceeds to analyse the rut that bedevils Market systems. All production, he says, can be categorised into production for rofit and production for living. The forner which is the motor of the capitalist system engenders the artificial largescale exploitative regime with its concomitant business cycles and depressons. However, if the competitive structure is maintained even during depressons i.e. if the law does not intervene to stem the falling price-line, these large rofit centres will collapse. People who produce only for a living will however continue to do so, since for them it would be a question of survival. Thus if the depression is allowed to run its course, "organisations of profit, will be transformed into organisations for living" (P 59). Thus 'free competition transforms the capitalist economy into Gandhian economy peacefully' (P 146).

With this bewildering piece of deduction, Mr. Jichkar turns to the sector which he believes has maximum potential for the coming social revolution – the unemployed. In an entire essay on this class, he argues that Capitalism with its inevitable labour saving fallout creates a huge army of unemployed who are not, in reality, unemployed because they seek some employment. They should hence be categorised as self-employed, or, better still, as family-labour units. Political and economic theory have largely ignored this group, explains Mr. Jichkar, although 57% of the total non-agricultural work-force in Maharashtra is in this category of the self-employed or family-employed. Additionally 95% of the farm holdings have less than ten hectares. These too fall in the category of family managed units. When the large capitalist organisations for profit both in agriculture and industry whittle under depression, these family units will continue to survive. Being non-exploitative, they will be the ultimate bulwark of the coming Gandhian order. Eventually, if conditions of competition are allowed to prevail the large sector will also disintegrate into family units.

Mr. Jichkar's strong plea is, therefore, for more competition and he quotes, in his support, the recent farmers' agitations for the removal of all privileges to industry such as patents, brands and tariffs. Besides the capitalists, organised labour too has become a privileged class with its protected tenure and inflation adjusted salaries. This monopolistic element should be abolished, says Mr. Jichkar, and labour should be rendered perfectly competitive. In the post depresssion economy, that will comprise only of family-centred units, those rendered surplus by the 'Social/govemmental' sector may always be employed by their families.

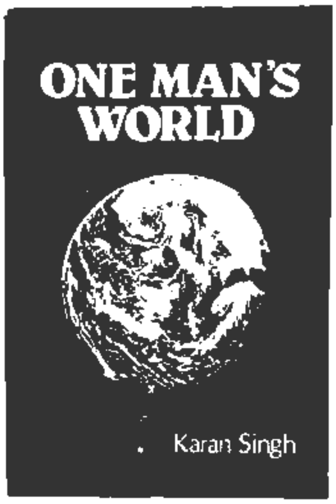
Mr. Jichkar concluded his grand theory with the thumping assertion that what is needed to achieve this Gandhian goal is the introduction of the competitive element in every sphere, and this, he argues, is precisely what Mr. Rajiv Gandhi has sought to do with his liberalisation policies even as his mother sought to rehabilitate the unemployed (sorry, self-employed) through her 20-point programme. Economic bliss is thus just round the comer.

Given the fact that the private corporate sector is the most organised sector, economically and politically, one wonders, how Mr. Jichkar expects it to stand back and "let the depression run its course". Even more difficult is it to imagine how a politician with his experience can glibly talk of abolishing the privileges of organised labour and the professional classes.

The national political scene today suffers seriously from want of missionary zeal while the economy suffers from a poverty of policy. Under the circumstances it would be in the best interests of all if Mr. Jichkar refrained from confusing the youthful members of his Youth Congress to whom these lectures are supposedly addressed. Last, and by no means least, Gandhi, Keynes and Marx, for all their shortcomings, certainly deserve a better deal.

Lata Janardhan

ONE MAN'S WORLD: Karan Singh. Ed. Kishore Gandhi. Allied Publishers Pvt. Ltd; First published 1986; reprint 1988; Pages xvii, 326; Rs 40



This is a collection of Dr Karan Singh's writings over the past three decades. There are in all 38 selections arranged in three parts – Part I titled

'New India': II 'The Convergence of Science and Religion'; and III 'Around the World'. The selections are very readable and written in excellent and flowing style.

Dr Karan Singh's advocacy of moral and spiritual values in life and politics, commitment to the basic truths of Indian culture; to the eternal principles of Hinduism and to the urgency of preparing the spiritual foundations of human unity and reconciling the claims of science and religion, may be regarded as the common concern of these essays.

His philosophy of life is succinctly and eloquently stated in the essay entitled 'I Believe'. This collection can be read with profit by any one who desires to have an easy and summary account of the various aspects of Indian culture and philosophy. He may gain valuable insights into the moral predicament which challenges humanity and realise the urgency of bringing about a moral and spiritual revolution which alone can deliver us from the "moral wasteland" and ensure a future worthy of man's higher mission.

The author holds the faith that great as is man's present achievement, greater achievements await him in the future; that evolution does not stop with man and that the goal of evolution is the realisation of spiritual supermanhood.

The travelogue, Part III, is engaging and delightful. Karan Singh's versatile interests and deep spiritual outlook speak through each piece of this collection.

The essay 'Books: The life-blood of a civilisation' is a contrast to the general tone and quality of the collection. The reader will not fail to notice the jarring personal (egoistic?) tone of the essay. It is marred by grave inaccuracies in the citation of Milton and in the reference to Everyman's Library. This series is neither defunct, as the author would have it, nor does it carry the lines of Milton which the author cites inaccurately. The reference should have been to the King's Treasuries rather than to Everyman's Library, both published by J.M.Dent. The book has no index and none of the collected pieces bears the date of writing.

G.N. Sarma

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INTEGRATED HEALING ARTS by J.M. Jussawalla; Popular Prakashan; Bombay; 1988; Pp.96; Rs.25.

Dr.Jehangir Jussawalla is well-known in his native city of Bombay and outside it as a practitioner of nature cure of many years' standing. I know many persons in my family and among friends who rely entirely on him to deal with their health problems.

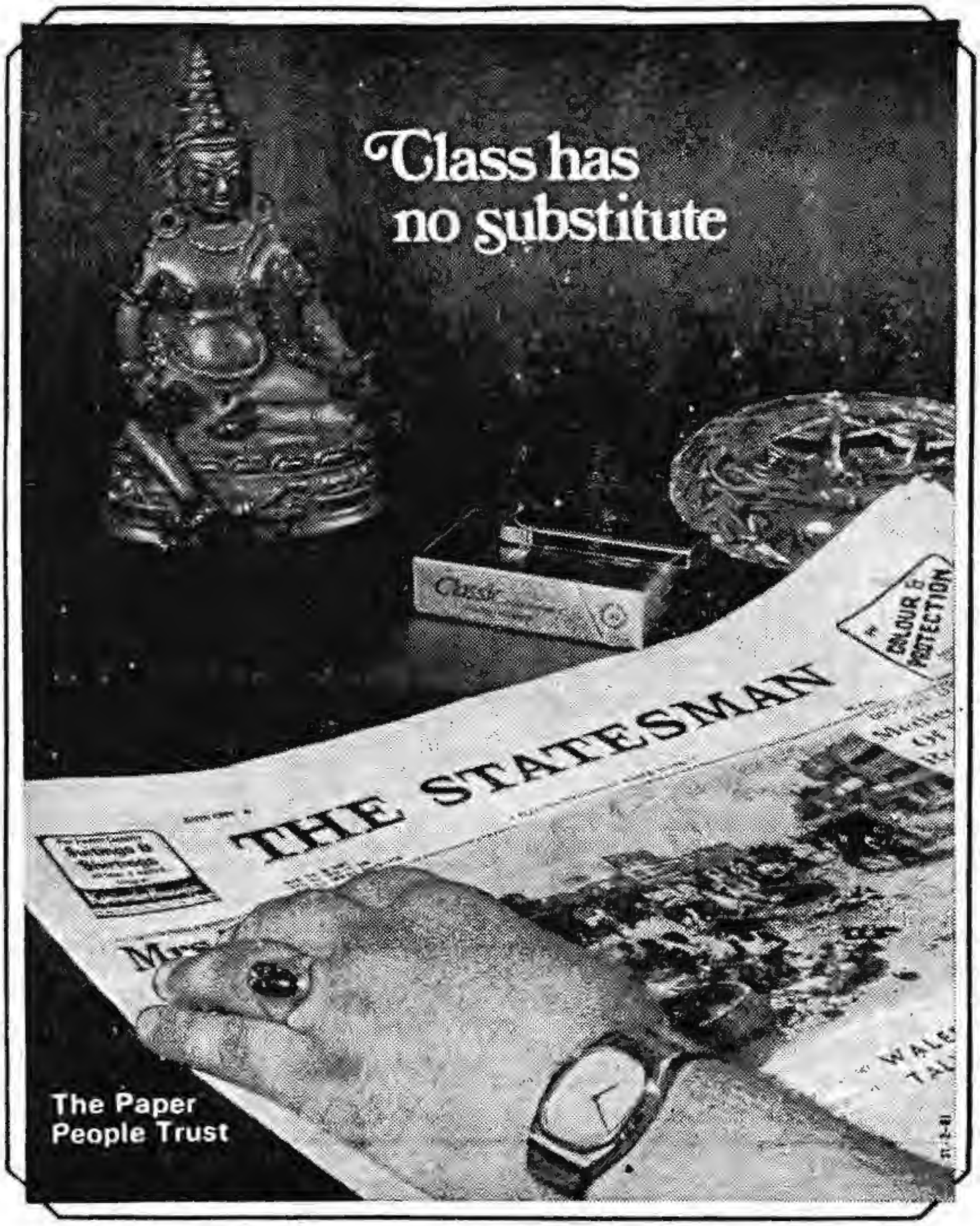
He has published a number of books on nature cure and health problems and some of these, which deal with diet and vegetarianism are invaluable for the detailed information they give regarding the caloric value and the vitamin and mineral content of individual fruits and vegetables, cereals and other foodstuffs and the beneficial effect of consuming them.

The book under review aruges that the healing arts are to be considered as a whole. Each system of medicine has its own contribution to make for our health and any narrow minded adherence on the part of medical practitioners to any one system is wrong and unfair to the patient. He quotes Hippocrates, the father of medicine: "Use every available means necessary for the particular case. The first aim in the practice of the healing art is how to make the patient well and if the patient can be made well in more than one way, choose the least troublesome."

Against this background Dr. Jussawalla examines briefly the different systems of treatment including some unheard of by us even 20 years ago – invaluable for medical students. He takes up such treatment as hydrotherapy, Colonic-therapy, psychology among the healing systems which should be used most appropriately. Exercise, rest, massage and other essentials for good health are also tackled.

In conclusion Dr. Jussawalla discusses the art of healing and suggests that the human body has self-curative forces. "Nature heals and cures – the physician lends intelligent assistance and interprets Nature's laws for the patient." The true art of medicine is not only to cure disease but to prevent it by fortifying the individual so that his capacity and power of resistance are increased, concludes the author.

Mehra Masani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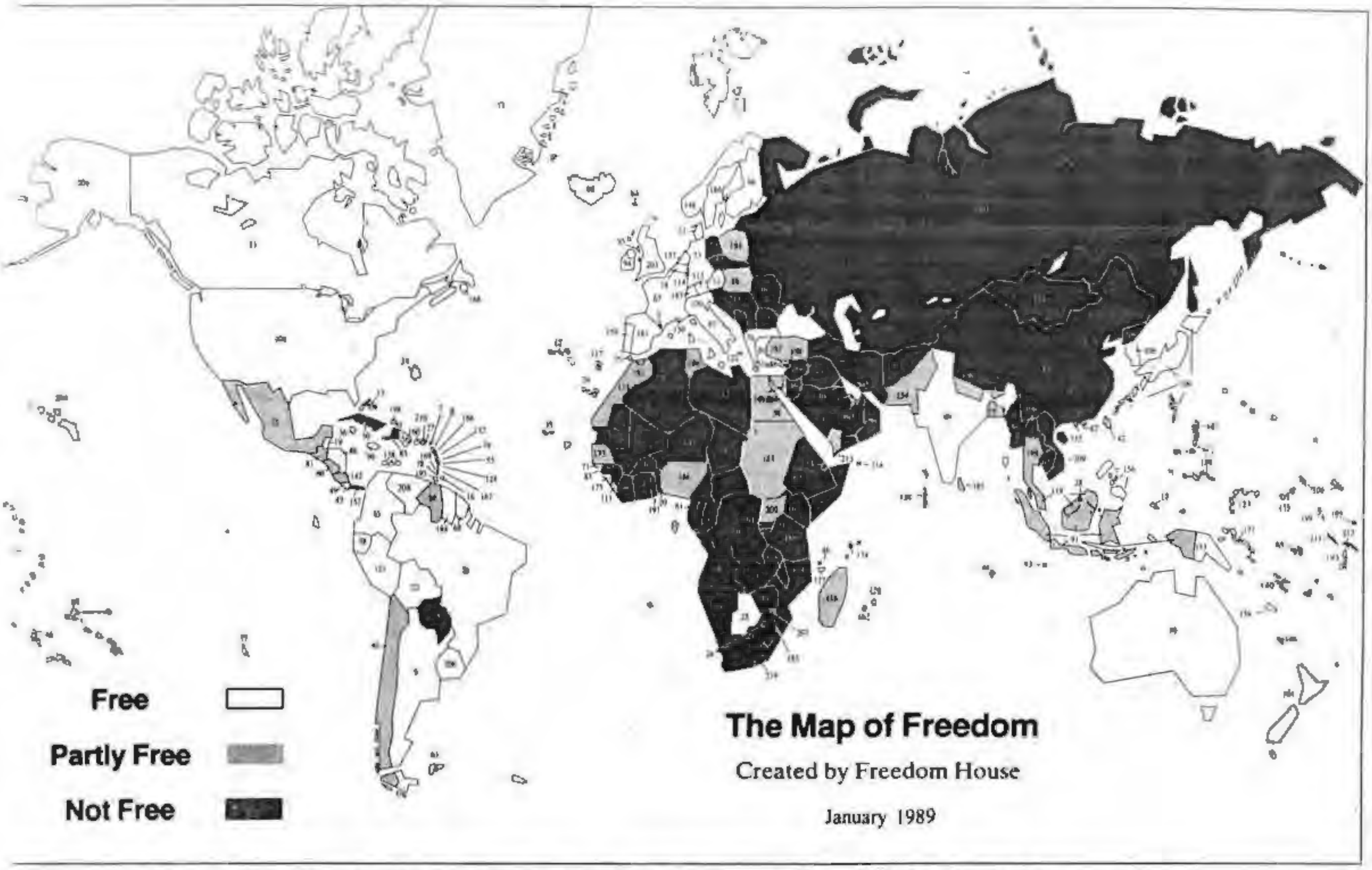
THE STATESMAN
The Paper
People Trust



This map is based on data developed by Freedom House's Comparative Survey of Freedom. The Survey analyzes factors such as the degree to which fair and competitive elections occur, individual and group freedoms are guaranteed in practice, and press freedom exists. In some countries, the category reflects active citizen opposition rather than political rights granted by a government. More detailed and up-to-date Survey information may be obtained from Freedom House.

Free States (freedom ratings 2-5)

8 Antigua & Barbuda
9 Argentina
10 Australia
11 Austria
13 Bahamas
16 Barbados
18 Belgium
19 Belize
23 Bolivia
25 Botswana
26 Brazil
33 Canada
45 Colombia
49 Costa Rica
51a Cyprus (G)
51b Cyprus (T)
53 Denmark
55 Dominica
56 Dominican Republic
58 Ecuador
66 Finland
67 France
73 Germany (W)
76 Greece
78 Grenada
86 Honduras
89 Iceland
90 India
94 Ireland
96 Israel
97 Italy
99 Jamaica
100 Japan
104 Kiribati
106 Korea (S)
114 Luxembourg
122 Malta
126 Mauritius
135 Nauru
137 Netherlands
141 New Zealand
148 Norway
153 Papua New Guinea
155 Peru
156 Philippines
159 Portugal
166 St. Kitts-Nevis
167 St. Lucia
169 St. Vincent
177 Solomon Isls.
181 Spain
184 Suriname
186 Sweden
187 Switzerland
195 Trinidad & Tob.
199 Tuvalu
203 United Kingdom
204 United States
206 Uruguay
208 Venezuela

Related Territories

4 Amer. Samoa (US)
5 Andorra (Fr-Sp)
7 Anguilla (UK)
138a Aruba (Ne)
12 Azores (Port)
17 Belau (US)
21 Bermuda (UK)
27 Br. Vir. Is. (UK)
34 Canary Isls. (Sp)
36 Cayman Isls. (UK)
157a Ceuta (Sp)
39 Channel Isls. (UK)
48 Cook Isls. (NZ)
63 Falkland Is. (UK)
64 Faroe Isls. (Den)
68 French Guiana (Fr)
69 French Polynesia (Fr)
75 Gibraltar (UK)
77 Greenland (Den)
79 Guadeloupe (Fr)
80 Guam (US)
95 Isle of Man (UK)
113 Liechtenstein (Swz)
117 Madeira (Port)
127 Mahore (Fr)
123 Marshall Isls. (US)
124 Martinique (Fr)
157b Melilla (Sp)
129 Micronesia (US)
132 Montserrat (UK)
138 Ne. Antilles (Ne)
139 New Caledonia (Fr)
145 Niue (NZ)
147 No. Marianas (US)
160 Puerto Rico (US)
162 Reunion (Fr)
165 St. Helena (UK)
168 St. Pierre-Mq. (Fr)
170 San Marino (It)
198 Turks & C. (UK)
210 Virgin Isls. (US)

Partly Free States (freedom ratings 6-10)

14 Bahrain
15 Bangladesh
22 Bhutan
40 Chile
42 China (Taiwan)
59 Egypt
60 El Salvador
65 Fiji
71 Gambia
81 Guatemala
84 Guyana
88 Hungary
91 Indonesia
111 Liberia
116 Madagascar
119 Malaysia
128 Mexico
133 Morocco
136 Nepal
142 Nicaragua
144 Nigeria
151 Pakistan
158 Poland
161 Qatar
173 Senegal
175 Sierra Leone
176 Singapore
182 Sri Lanka
183 Sudan
190 Thailand
193 Tonga
196 Tunisia
197 Turkey
200 Uganda
202 United Arab Emirates
140 Vanuatu
212 W. Samoa
213 Yemen (N)

Related Territories

43 Christmas Is. (Austral)
44 Cocos Isls. (Austral)
57 Easter Is. (Ch)
87 Hong Kong (UK)
115 Macao (Port)
130 Monaco (Fr)
146 Norfolk Is. (Aus)
149 Occupied Trs. (Isr)
192 Tokelau Isls. (NZ)
Vatican (It)
211 Wallis & Futuna (Fr)

Not Free States (freedom ratings 11-14)

1 Afghanistan
2 Albania
3 Algeria
6 Angola
20 Benin
28 Brunei
29 Bulgaria
205 Burkina Faso
30 Burma
31 Burundi
102 Cambodia
32 Cameroon
35 Cape Verde Is.
37 Central African Republic
38 Chad
41 China (Mainland)
46 Comoros
47 Congo
98 Cote d'Ivoire
50 Cuba
52 Czechoslovakia
54 Djibouti
61 Equatorial Guinea
62 Ethiopia
70 Gabon
72 Germany (E)
74 Ghana
82 Guinea
83 Guinea-Bissau
85 Haiti
92 Iran
93 Iraq
101 Jordan
103 Kenya
105 Korea (N)
107 Kuwait
108 Laos
109 Lebanon
110 Lesotho
112 Libya
118 Malawi
120 Maldives
121 Mali
125 Mauritania
131 Mongolia
134 Mozambique
143 Niger
150 Oman
152 Panama
154 Paraguay
163 Romania
164 Rwanda
171 Sao Tome & Principe
172 Saudi Arabia
174 Seychelles
178 Somalia
179 South Africa
185 Swaziland
188 Syria
189 Tanzania
191 Togo
194 Transkei
201 USSR
209 Vietnam
214 Yemen (S)
215 Yugoslavia
216 Zaire
217 Zambia
218 Zimbabwe

Related Territories

24 Bophuthatswana (SA)
219 Ciskei (SA)
180 SW Africa (Namibia) (SA)
207 Venda (SA)