

# National and International Challenges of the Eighties

By

Dr. Surinder P. S. Pruthi

LALA LAJPATRAI MEMORIAL LECTURE SERIES  
(Ninth Series 1980)

16045 .



309.2

Pru

LALA LAJPATRAI INSTITUTE, HAJI ALI, BOMBAY

Library  
Lala Lajpatrai College  
Commerce & Economics  
Bombay-34.

Date: 31/3/1982

## **PROFESSOR RAIRIKAR DR. BRAHMANANDA**

### **LADIES AND GENTLEMEN**

It is indeed a matter of great joy and honour for me to be here in the midst of a very select group of people to honour the memory of one of the greatest patriots of India, late Lala Lajpat Rai.

When Prof. Rairikar requested me to be the recipient of the coveted honour of being the speaker for the Lala Lajpat Rai Memorial Lecture this year, he explained to me that the audiences on such occasions normally vary from 60 to 80 people, unlike as he very deferentially said, what I was used to. I do admit that I have occasions to address a large number of audiences in this city and elsewhere but I always believe that it is the quality of the audience that matters and not the quantity. I am, therefore, particularly pleased to see in this audience today many faces whose presence encourages me to share some of my views on what I think is likely to emerge as the pattern of things to come in the years ahead.

Before I begin to talk about the national and international challenges of the 80's, I should like to say that the challenges of tomorrow do, in a large measure, emanate from the realities of today. And reality is rather like pregnancy; it cannot remain hidden, after a while it must proclaim itself. ANDRE BETEILLE in his book IDEOLOGIES AND INTELLECTUALS has said :

"No intellectual solution can be found satisfying today if it addresses itself, as it often did in the past, to a world beyond the earthly one or even to a remote future. It has to relate itself to the present world of day-to-day realities, to this generation or at most the next. Hence the immediacy of the link between ideas and the realm of power". I shall therefore, share with you, at the outset, if I may, what I regard as the major realities of contemporary times, which in my view, are bound to have a profound impact on the subsequent happenings of future years.

### **MAJOR REALITIES :**

#### **1. Growing International Interdependence.**

Mr. Chairman, although we are today a world of 200 nations and more, yet I think we all live in one single global system of trade and monetary relations. Whether it is a question of trade or technology, food or famine, energy or ecology, population or prices, pollution or travel,



the world is becoming highly interdependent. So to my mind, the growing international interdependence is among the foremost realities of contemporary times. When Athenians and Spartans used to be engaged in Peloponnesian wars, one learnt it only through the pages of subsequent history. But in this age and day, when there is either a Vietnam war or hostages are taken into captivity it creates reactions simultaneously in Washington, Moscow and London; it exerts an effect on the Stock markets in New York, New Delhi, London and Zurich. Such is the state of acute interdependence which has come about in the last 25 years or so. Gone are the days when either a rich or a poor country could afford to laugh in its sleeves about the fortunes or misfortunes of the other.

Although we are living in a world of continuing conflicts, proliferating weapons, ideological rivalries and economic compulsions, yet throughout human history I don't know of any past parallel when the compulsion to co-operate has been greater than it is today. And it is my guess that in the future years, the political will and consensus to arrive at a mixture of rivalry and co-operation will, if anything, increase. Management of interdependence, to my mind, is therefore, one of the major challenges facing mankind in the future.

## **2. Foreign Aid & Investment. – Powerful Catalyst of Growth.**

Although academics, pundits and politicians alike criticize the role of foreign assistance, foreign investment and foreign aid, yet I think that the entire developmental process during the last thirty years is a tribute to the key role that foreign assistance can play. The second reality, about which I should, therefore, like to talk about is the role of foreign aid and investment in international co-operation and economic development. Foreign aid made a considerable contribution initially in assisting the war-shattered economies of Europe and subsequently in helping the third world economies to accelerate their plans for economic growth. Mind you, foreign Private Investment has a much greater and a more positive impact on the growth process than government to government aid. This is fully borne with by the experience of recent years as reproduced below. Jay Dubashi in a well documented article has recently shown that between 1970 and 1979 aid to Pakistan increased by 80 percent but this did not prevent its growth rate from slumping by 33 percent (from 6.7 percent to 4.5 percent). In Argentina, there was a six fold increase in aid but the growth rate was virtually halved from 4.2 percent to 2.5 percent. In Israel, the aid flow trebled and the growth rate was down by 40 percent. In Bangladesh, a tiny country compared to India, the current aid volume is half that of India and probably 10 times that before it became free but its growth rate is

actually less than what it was in the 1960s. In Ghana, the picture is even more eloquent, and disturbing. The aid volume has trebled in the last nine years but the rate of growth has actually turned negative – the country is eating up its resources leaving virtually nothing for development. And in Portugal, aid has increased 50 fold (from nearly Rs. 16 crore in 1970 to Rs. 800 crore in 1979) and how has it affected the Portuguese economy? The growth rate is down from 6.2 percent to 4.5 percent, a 30 percent decline which must be mocking the aid-givers.

Inflow of Private Capital has, however, a different impact. Wherever this is sizeable in relation to capital receipts on government account, there is a perceptible hike in growth rates, though this is not a universal rule. In Egypt, for instance, there was considerable increase in aid but also a substantial hike in private investment which accounted for more than 50 percent of aid in 1979. The growth rate of GDP went up by 80 percent, from 4.2 percent to 7.6 percent. In Malaysia the increase in foreign aid was accompanied by an even more rapid hike in private investment, and the growth rate improved by 25 percent. Similarly, in Brazil, there was a five-fold increase in foreign Private Investment (along with a 10 fold hike in aid) and the growth rate went up by more than 60 percent. There is, ofcourse, not enough evidence to prove that it was the private investment that made all the difference, but the correlation is quite strong and makes one wonder whether things in India would not have improved substantially had not foreign investment been kept at bay. In the final analysis, it is not aid but trade that will ultimately make all the difference between growth and stagnation, between perpetual poverty and decent living standards. The countries which have been really well and escaped the poverty trap are precisely those which have been able to strengthen the business element in their economy, either in the form of increased exports or bigger foreign business involvement. Take tiny South Korea with a population no more than a third of that of Uttar Pradesh; it has maintained an average exports growth rate of about 30 percent per year over the last two decades and last year had a foreign trade equal to a third of India's national income. India and South Korea were more or less in the same income league immediately after World War II. Within a generation, while India continues to languish at the bottom of the league, Korea has pushed way ahead with a per capita GNP that is eight times India's. South Korea does not fight shy of foreigners – neither of IMF nor of multinationals and can take care of both. On the other hand, Indians believe that everyone who knocks at their door is a big bad wolf to be avoided at all costs. The result? India is a country in which only beggars are honoured and which has a permanent wolf at the door.

Leave alone foreign aid and foreign investment controversy the real question is the ability of a nation to augment investible resources at its disposal at any given point of time. What are the resources at the disposal of any nation? The resources at the disposal of a nation are -

- (i) The savings of its people;
- (ii) The capacity of its Central Bank to print money (and we know there are severe limits in this regard) and
- (iii) The ability of a free nation to import savings from elsewhere (a feature of recent times) i.e. imported savings of other nationals which may take the form of either grants or aid or commodity transfer or Investments or loans or whatever.

Given this definition of availability of resources at the disposal of a nation i.e. a sum total of a combination of the above three components, foreign assistance has played a key role and indeed can play an even more significant role in aiding the growth of developing economies provided there is no slackening of effort on the part of the developed countries. Those people who advocate zero foreign aid (and Mr. Chairman when our planners drafted the Fourth Plan in 1974, they stipulated the vision of a zero foreign aid by 1979 and in 1978-79 alone aid authorisation from world Banks and others was about 2400 crores) indulge in a kind of self-defeating economic romanticism. Self-reliance is completely different from dependence on foreign assistance; in fact the latter, if judiciously used, can enable the attainment of the former. Economic romanticists would have you believe that the cow-dung can substitute capital, that bicycles can move faster than the boeings, and that hand massage is a better palliative for a failing heart than an intensive care unit. I personally feel that in the altered circumstances of the world of today, accepting foreign aid does not tantamount to the surrender of sovereignty anymore than the acceptance of abortion tantamounts to the surrender of morality. Donors of aid are not wicked people, only they need to be guarded against, like women, one should be careful while dealing with them to make sure that while falling into their arms, one does not fall into their hands.

Aid can and should be more and not less if the developing economies have to attain the 2nd Development Decade objective of six percent growth rate per annum at least during the course of the third development decade of the eighties. Last year, the official Development Assistance that the developing countries received was barely .33 percent (instead of the target

of one percent of the combined GNP of OECD countries) which is rather dismal.

### 3. **Burgeoning Population Growth : Menace to Peace and well-being.**

The third feature of contemporary times that I should like to share with you concerns the question of population growth. The population explosion is overwhelmingly pernicious. Those of us in this hall who are around forty should recognise the stark fact that when we retire i.e. by the turn of the century the world will have approximately 7,000 million people. Whereas it took 2 million years, Mr. Chairman, for the world to get its first billion in 1830, it took 100 years thereafter for the world to get its 2nd billion in 1930. It took 30 years from that point on for the 3rd billion to arrive in 1960. The fourth billion arrived in fifteen years by 1975 and it does not require a great mathematical genius to calculate that by 1986 the 5th billion will have arrived. The sixth billion is expected to arrive in 9 years time after that i.e. by about 1995. The question that then arises is as to which men will play God in such a situation. What took two million years is now taking 9 years to add to human race. What kind of problem this poses for a world society as a whole. Taking a view of the parallel population problem at home, we are today about 680 million people which, in aggregate, is larger than the combined populations of America, Russia and Japan. According to the 1981 census, our population count is 683 million. It stood at 345 million in 1947 when we attained independence. It has thus recorded an increase of 338 million in 35 years, which averages a growth rate of about one million every month. 65,000 babies are born each day i.e. a baby every other second or 13 million a year which means one more Punjab or one more Australia we add to our population each year. There is an addition of about 5½ million to 6 million people to the labour force each year. Now what kind of a task this poses to any nation and its government? How is one to cope with a problem of such staggering magnitude?

A few factors alone demonstrate the menace that the population problem poses for us for the future.

- a) The Census of 1981 reveals a decennial growth of 24.75% i.e. an average growth annually of 2.47%. It had been believed that the growth rate was only 1.9% in 1978. This means that by the year 2000 (less than 20 years ahead), the population of India could reach 1000 million.
- b) In spite of vast Government efforts—large allocation of Rs. 10,650 crores for Family Planning for the Sixth Plan (1980–1985), an expend-



iture annually of sums of the order of Rs. \$ 200 crores (240 million) the establishment of a force of 70,000 people, over 7,000 clinics, 5400 Primary Health Centres in rural areas and 2000 Urban Family Welfare Centres in towns—the growth rate of population has decreased only marginally from the decennial growth of 24.80% between 1961 and 1971 to 24.75% between 1971 and 1981.

- c) At this moment, there are 135 million women at risk which will increase by between 2 and 3 million each during the next two decades at least.

To put the problem in further perspective, to achieve even the present Government target of 30 births per thousand by 1984 will mean raising the present acceptor rate from 22% to 35%. In bold terms, this means that 44,000,000 of the women at risk must be motivated to acceptance within the very near future—1984 is only 4 years away—and services must be available. The contraceptive cost alone, excluding motivation, clinical or administrative costs could be \$ 120,000,000 per annum. The gravity of the situation calls for a package of measures which should include the following if the problem of burgeoning population has to be effectively tackled.

- a) The necessity to increase acceptance at the lower age levels ;
- b) The necessity to maintain maximum service availability to new acceptors,
- c) To give maximum motivational support to Government programmes by concentration on the dissemination of population education and in human sexuality, particularly to the age groups 13–25.
- d) To maximise the use of community groups and their leaders to incorporate strongly a family planning component in their developmental programmes ;
- e) To encourage industrial organisations to assist in the fuller motivation of males to support the small family concept ;
- f) To encourage the improvement of the status of women, increase their effectiveness in decision making at the community level, through the development of social and income-generating activities ;
- g) As far as possible, within the limits of the resources available to continue to support the Government service and supply programme

through the efforts of voluntary bodies like the Family Planning Association of India ;

- h) To take all possible measures to maintain the tempo, increase active volunteer participation and constantly improve the cost effectiveness of voluntary bodies engaged in the work of population control & Family Planning.

It has taken three decades to bring the birth rate down to 35 percent per 1000 from 43. If the rate has to be reduced to 21 per, 1000 in the next two decades, there has obviously to be an invigoration of the family planning programme.

The challenge, therefore, ladies and gentlemen in the eighties, as far as we in this country are concerned in particular and the world in general is how to control the merciless growth in numbers. What we need is a stationery level in population growth if we wish to effectively solve the poverty problem of teeming millions. This, incidentally, is the thesis also propounded by the Chairman Dr. Brahmanand and this is why he and I are such mutual admirers because we both continue to echo a thought process which we feel constitutes a vital prerequisite for solving the menace of burgeoning population which poses a grave threat to our peace, well-being and institutional stability.

#### 4. World Poverty.

One more feature, a reality if you like, of contemporay times that I should like to share with you is that though we are living in a world of 4000 million people and more, it is tragic but true that 2/3rd of the world, i.e. nearly 2,500 million people are really poor (earning less than 300 dollars a year) and nearly one million people of these are desperately poor (less than 50 \$ a year) and they are mostly to be found in South East Asia. I would therefore, ask myself a simple question : What is the single most important and stark reality of our times ? Is it Russia or America ; is it capitalism or communism ; is it Atom Bomb or inter-continental ballistic missile. My answer would be an unhesitating no to all of these. The single most important reality of our times is the world poverty. Although two thirds of the people who live in this world are poor, yet the revolution of expectations unleashed on mankind during the last two decades or so has compelled many a government to hold out tall promises.

Let us not forget that it was the inflation of the twenties and the depression of the thirties that gave rise to the most pernicious dictatorship man has ever known, dictatorship so pernicious that when the dictator



committed suicide all sensible men and women around the world sang hymns. By the same token it was the prosperity of the fifties and the continuing capitalistic boom of the sixties that made it possible in the seventies to talk of zero growth rate, to talk of quality of life and to de-emphasise GNP as a measure of growth.

This appalling senerio of world poverty makes the demand for a new economic order imperative. There are five clear augments that should force the emergence of a new economic order (which has been talked about since 1974) as a live reality during the eighties.

a) Of the approximately 4000 million people living in this world today, roughly 2,500 million people are living in the developing world. Of these 2,500 million people, 1000 million are hopelessly poor, Consequently, there is need for a new framework which will not permit the continuance of an appalling situation like this.

b) Although we are living in the late seventies, the global economic power and its disbursement still reflect the balance of power of the forties. For example, if one looks at the voting right situation in the World Bank one finds that U. K. has more voting power than West Germany ; Belgium and Netherlands put together have more voting than the entire OPEC world. Pakistan has twice as much voting strength as Saudi Arabia. In view of the changes that have taken place, this calls for a renewed look at the balance of power in forums which are primarily engaged in the task of helping the poorer countries come along.

c) Also, the need for earning through exports has never been greater, but then there are very few developing economies today that are diversified enough to be able to supplement their growth process only through export earnings. In the next five years and beyond, therefore, there will be a great need for concessionary aid from the developed world to the developing world.

d) The emergence of OPEC has meant additional burdens for both the developing world as well as the developed world. The export earnings of OPEC Countries have shot upto 300 billion dollars in 1980 as compared to 208 billion dollars in 1979. As a result the current account surplus of the OPEC Countries has shot up from 68 billion dollars in 1979 to 116 billion dollars in 1980. This has had serious impact on the oil importing countries throughout the world. Whereas the deficit of the OECD Group more than doubled (from \$ 3.5 billion to \$ 7.3 billion), the deficit of the

non-oil developing countries rose from \$ 37 billion in 1979 to \$ 50 billion in 1980. This world-wide soaring of deficits of the non-OPEC countries has found its reflection in the dramatic increase in the lending operations of IMF.

e) The world economy which has been in a state of disequilibrium, recession, inflation, raw material shortages, rising unemployment and so forth during the seventies, has been due largely to the reaction to oil deficits, squeeze on profits and the downward trend in exports. And today, the fate of the developing world is so intimately tied up with what happens to the developed world, that this has obviously been reflected in the overall performance of the developing world. (See Exhibits).

The prospects of the developing world are dependent on the kinds of resources that can be mustered locally and internationally, particularly because three of the key elements which determine the growth of the developing world today are outside its jurisdiction and control viz., weather, aid (and we know what happened to aid each time hostilities broke with our neighbours) and the international price for our exports.

These, therefore, are the circumstances which call for a new international economic order; the lot of 2,500 million people; the need for additional billions of developmental dollars over the next five years; the need for the OECD and the OPEC countries to cooperate with each other to help the developing economies; the growing imbalance between food and population growth; the need to arrest the deterioration in the economic position of the developing nations (you will be shocked to know that five of the six South Asian countries viz. Bangla Desh, Burma, India, Pakistan and Sri Lanka have been for long on the U.N. list of most seriously affected nations); and above all the need to cope with the realities of the eighties.

What are these realities? To give you just one example: There are 142 seats in the U.N. out of which 105 belong to the developing world with only 14 percent contribution in terms of world economic output. Either one or the other must change. The first, I am afraid, is an unalterable fact the other must change in order to ensure durable peace on this planet. It must be said to the credit of Aid Giving countries that their efforts are praiseworthy and it is also well known that far too frequently they get brickbats rather than bouquets. It must also be admitted that several desirable initiatives have been taken in the last few years viz. the joint Ministerial Committee of the Board of Governors of the IMF and the World Bank to consider the transfer of resources; the

creation of the Third Window (in the World Bank), the world food fund and so forth. Before I present to you what needs to be done, I would like to place before you what already exists at the moment. The major constituents of the present International Economic Order are as follows :

1. The present resources transfer from the rich to the poor is purely voluntary. As we are all human beings, this system is subject to human whims and fancies.

2. The volume and terms of assistance are influenced by short term considerations, eg. cold war, special relations with former colonies and so forth.

3. The interesting thing is that so far resource transfer in the post World War II period has been considered as the sole responsibility of the Western advanced countries ; the centrally planned economies have played a rather small role in this process during the last 25 years.

4. Although the OPEC world has emerged as a strong donor it has not yet been quite integrated in the overall scheme of things. This needs to be rectified.

5. When the negotiation power of the donors and the receivers is unequal, it results in a haphazard pattern certainly always less advantageous to a party with a weak negotiation power. The developing world has accumulated over the years a debt burden of about 130 billion dollars, the servicing impact of which alone is paralysing from the standpoint of the developing world. The attitude of those who have extracted rather high debt servicing charges can be compared to that of the wife who tells her husband, "ofcourse I spend more than you earn because I have great confidence in you".

What then, are the kind of features that we must look for in the new framework ? Before we discuss this, I would say that a great deal needs to be done in the developing world at the domestic level. Two of these factors are purely within our control. Three of them are outside our control and for these we need international help. The first two are : Sound domestic policies and population control (the developing world is adding to its population about 200,000 mouths a day). The other three factors in which international help can be useful are : liquidation of debt, renegotiation of past contracts and leases (especially with multinationals who have otherwise a very useful role to play) and the eschewal of the use of force against the third world countries.

## Desirable features of the New Economic Order :

- \* There is need today, to build into the process of resource transfer from the rich to the poor, an element of automaticity. This is vital. Man to man, country to country, bilateral aid is fraught with several inbuilt elements of error.
- \* International taxation of the rich to help the poor is absolutely inevitable. For example, there are ways whereby the larger share of liquidity created by the IMF can be given to international agencies to diavert it towards the development of the developing world. One can think of several new and ingeneous sources of international finance like tax on pollutants, tax on multinationals, tax on activities arising from natural resources like ocean beds, outer space and what have you. For example, it is estimated on good authority that even a one dollar per barrel developmental levy by OPEC countries can create a Developmental pool of ten billion dollars plus a year.
- \* The focus must shift to the poorer countries and from the poorer countries to the poorest sections in them. This is very important.
- \* It is not merely the transfer of incomes which is going to help but it is the transfer of real resources with a view to increasing the productivity of the poor nations.
- \* The pattern of future aid and transfer of resources must take the form of grants and not loans which impose a perennial burden in the way of debt servicing.
- \* Reliance must be placed on a multilateral agency—and this is the key to the whole process—rather than on bilateral aid. This is the only way to ensure :
  - a) automaticity of transfer;
  - b) aid based on need and not “special consideration” and
  - c) orderly system of burden sharing.

It is well known that slow horses and fast women can ruin individual fortunes. It is also well known that slow men and fast machines can ruin the fortunes of corporations. Let it not be so that slow international action and mounting needs of the developing world may not ruin the prospect of man on this planet.

Library  
Lala Lajpatrai  
Date: 21/12/88



## DOMINATING ROLE OF IDEOLOGY :

The fifth reality that I would like to share with you is that as we move into the future the force of ideology as a guide to the conduct of nations will diminish in its vigour and application. Each country can have a different way of coping with urban decay, slowing the population growth rate, curbing inflation, surviving the energy crisis, but I don't think that it can be labelled either a capitalistic or a socialistic way of doing it. I remember, Dr. Brahmananda saying from one of the platforms that we shared together not long ago, it is not angles which transform society, it is not Divinity which delivers one more Brahmaputra or one more Ganges to any nation each year, it is economic statesmanship that makes a country great. Economic Laws, I am afraid are immutable and they do not stop applying to us just because we are Indians. One of the big challenges, therefore, facing us in the future is to seek an adjustment with the world of the 1980s which is significantly different from the world of the 1970s. Let me deal with that first.

## HOW HAS THE WORLD CHANGED SINCE 1945 ?

The economic framework devised in 1945 which served the mankind so well for several years all but crumbled during the seventies. The anxiety today is not that the old order has disappeared but that nothing viable has quite yet replaced it. The eighties are, therefore, going to be a period of painful adjustment.

## HOW DID IT ALL HAPPEN ?

A series of events took place during the decade of the 70's which gave deadly body blows to the framework which had been worked out at Bretton Woods in 1944. The world wide double digit inflation of the early 70s in the wake of Vietnam war and expansive fiscal and monetary policies ; speculative rush on commodities in the wake of crop failures in Russia in 1972-73 ; fantastic rise in prices of foodstuffs and manufactured goods and the sharp rise in oil prices in 1973-74 combined to plunge the world in a diabolic circle of rising prices, growing unemployment and lingering recessionary conditions. The result was obvious. There was widespread clamour for increases in wages and prices which eventually led to the decline in the value of US dollar apropos other currencies. This led to two formal devaluations of the dollar, suspension of dollar convertibility, introduction of floating rates for major currencies, abandonment of fixed exchange rates systems and finally the abandonment of the official price of gold. All these events took place in such rapid succession

and with such mandatory impact that within a short period of time the institutional framework which had served the free world for nearly thirty years collapsed in front of its eyes. In sum, what happened was that the three major planks of the post war system had evaporated in quick succession : the fixed exchange rates were gone, the currency convertibility became a story of the past and the official price of gold just did not exist anymore. In other words, the whole world witnessed a nasty spectacle of the gradual collapse of the house in which it had gotten used to living for thirty long years.

At the global level, these series of events had the following major consequences :

1. Rapidly advancing economies like Japan and Germany started staking their claims for the supremacy of the free world and several new economies with spectacular growth record like Brazil, Mexico, Korea etc., gained considerable economic leverage.

2. The developing countries of the world started clamouring for the need for a new international economic order. Special resolutions passed at the U N General Assembly, the North-South dialogue, UNCTAD Conferences, the appointment of the Group of 24, the Brandt Commission and several other measures manifested the allround concern to narrow the gap between the advanced and the developing world.

3. Recycling of Petro-dollars shifted to the international Banks the major role for channeling funds which meant higher costs and lower maturities.

4. There was an all round deceleration in the exports of developing economies owing to the recessionary conditions in the advanced societies and the adoption of protectionist policies by the latter. This led to an acute balance of payment difficulties for the developing world.

5. Together with 3 and 4 above, the second oil crises of 1978-79 further increased the piling-up of external debt for the developing economies.

In short, the decade of the seventies ended with a :-

- i) collapse of the institutional framework which had kept the world going since 1945 ;
- ii). generalized surge in inflation ;

- iii) deeprooted unemployment ;
- iv) slackening of the growth of the third world as a group (from 6% in 1967-72 to 5% since then).

One of the major challenges facing the free world in the eighties is, *therefore, to devise ways and means to effectively cope with the changed realities of an altered international situation and indeed a vastly different economic and financial milieu.*

## IMPLICATIONS FOR INDIA

The implications of the above events for us are many but I shall confine myself to the following few major ones.

### 1. Balance of payments difficulties :

As we move into the eighties we are in for a serious balance of payments difficulties due to the sharp rise in oil prices and prices of manufactured goods, especially capital goods. It is more than likely that 1980-81 will end with a deficit in our balance of payments of close to Rs. 5000 crores.

In politics there is a balance of power, in war there is a balance of terror and in economics there is a balance of trade. It is important to watch out our balance of payments situation carefully instead of just believing that all is well with us just because we are God's chosen ones !

We will face the inevitable accentuation of protectionist tendencies on the part of the advanced economies owing to the lengthening shadows of recessionary conditions which will make it that much more difficult for our exports to register any spectacular increase during the eighties. Imports will be hard to restrict beyond a point unless, of course, we wish to throttle the growth process itself.

Businessmen wanting to expand ought to place orders for capital goods right now, the earlier the better. Prices are likely to shoot up and so will the restrictions !

### 2. Debt Burden Difficulties

Our debt burden is likely to increase in consequence of our need to raise more funds overseas to finance our current deficits as well as to take of mounting interest payments. Our foreign exchange position which has been comfortable thus far will consequently undergo a complete change.

Eighties will most likely witness a serious foreign exchange crisis and consequently clamping of import controls, with myriad of deleterious, ramifications for the economy.

Imaginative ways to earn foreign exchange via exports, remittances, Tourism, foreign capital inflow etc., will have to be thought through.

### 3. Currency Fluctuations Difficulties

There will be acute uncertainty in the exchange markets owing to fluctuations in the major currencies. This will pose problems for our exporters who need to develop skills for forecasting as to what are the likely trends to emerge in this regard. ECGC'S new scheme to cover the risk in currency fluctuations is an imaginative one. More such bold measures will be needed to cope with the altered environment.

### 4. Foreign Aid Difficulties

Foreign aid prospects look dim. Despite Brandt commission and the Group of 24, there has been no worthwhile increase in the flow of concessional aid from the developed economies to the third world countries. The official aid today stands at 0.33% as against the stipulated target of 1% which was subsequently reduced to 0.70% of the GNP of the advanced countries. There will, therefore, be a positive need to attract foreign capital from rapidly advancing countries like Nigeria, Indonesia, Malaysia, Mexico, the OPEC countries and the like. Whereas the Government of India have recently made a refreshing departure from its ill-advised policies apropos foreign investment there exists a need to put more teeth into it.

### Why should India go global ?

India must go global in the 80s for the simple reason that it must acquire sufficient teeth and muscle to be able to effectively compete in the highly competitive international markets of today and tomorrow. Keeping our economy as an insulated cubicle is no answer; it only encourages high costs, low quality and overall economic mis-management. Whatever be the nature of our problems; be it balance of payments, external debts, languishing exports, or whatever, they all basically emanate from the trauma of sluggish growth rate of the economy. The latest World Bank report has developed the theme of Poverty and human Development. We have tried practically everything suggested in this report viz : Land reforms, better roads, employment guarantees, more irrigation and so forth and yet half of the people in absolute poverty



ive in South Asia, mainly India and Bangladesh. Why? There is nothing in economic theory text books that we have not made use of in our Plan documents, yet we seem to be using more and more capital to produce the same unit of output, as years go by. We do not lack in any way in mouthing patriotic slogans or in expressing nationalistic concern, yet more production loss occurs in this country due to strikes and lockouts than anywhere else in the world. It is well known that there are five or six major generators of black money in the economy viz ; steel, cement, sugar, real estate, exports and controls and yet there is nothing we can do about it. Why? This list can multiply endlessly. It is my firm belief that the only answer India has for preserving its freedom, polity, plurality and democracy is the need for economic statesmanship and sound and scientific economic management. If we cannot learn it the easy way, let international pressuress teach us how to hold our own, in a world of growing competition, ruthless advances in technology and productivity and the great need for pragmatism rather than fads to govern our lives and indeed our destiny.

### NATIONAL CHALLENGES : SOME THOUGHTS

When we started planning nearly 30 yeary ago our principal objectives were :

- \* Removal of Poverty ;
- \* Elimination of unemployment ;
- \* Reduction of disparities in Income ;
- \* Doubling of Per Capita Income in 25 years through rapid and and balanced development of the economy

Besides the above major objectives there have been several subsidiary objectives which acquired key significance from time to time like food self-sufficiency, import substitution, foreign exchange conservation, foreign aid, emphasis on heavy industry, rural development, population control, export promotion, combating inflation, avoidance of balance of payment deficits, infrastructural build-up and the like.

What is the result that we find to day after three decades of planning ? The answer is that whereas in the last 30 years we have invested colossal amount of money through various Plans and have built up a great deal of potential for progress, the results emanating from our efforts so far have been extremely poor. Viewed in the context of national objectives we find that;

- \* Nearly 50% of Indians live below the poverty line;
- \* There are 20 million and more unemployed Indians today as against 3 million odd in 1951;
- \* Inflationary pressures have become rampant;
- \* Agriculture depicts a story of languishing growth rate;
- \* Industry is hamstrung owing to infrastructural bottlenecks and labour problems;
- \* Wage goods are scarce and have become out of reach of the common man ;
- \* Exports show a decelerating trend ;
- \* Parallel economy is threatening to destroy the very foundations of our institutional framework ;
- \* Respect for authority, moral values and sensitivity to the interests of others have all taken nose-dive and on and on and on ;

The obvious question that arises is : Why are we in such a jam ? The answer is simple. We are refusing to come to terms with the realities of contemporary India. In other words, we are managing our affairs badly. Sound management, therefore, assumes key significance in any plan to retrieve the situation which is fast deteriorating into a state of a drift and chaos. My recommendations to manage the economy has the following key components :

### **1. Reduce stranglehold of bureaucracy.**

Let me say this without any fear or shame that I believe in the supremacy of the market forces of demand and supply and the role of competition as a reliable instrument for safeguarding the consumer sovereignty. Controls, permits, reservations, allocations, canalisations etc. have a limited relevance while dealing with the problems of a scarcity-ridden society. In fact beyond a point controls are counter, productive anti-social and corruption fostering.

### **2. Encourage Entrepreneurship.**

Incentive and reward are essential pre-conditions for and honest effort. Artificial restraint or imposition on incentive and reward for managerial talent or entrepreneurial ability will only help stifle initiative

and creativity. History shows that wherever legislation comes in conflict with life itself, it is inevitably the latter that prevails.

### **3. Reduce the role of government.**

Apart from perpetuating inefficiency and an endless draw on the national exchequer, the all-pervasive role of the government in terms of intervention in the economic life of the nation tends to lose its role as a referee, as it were; its role as an appellate authority and a watchdog.

### **4. Reduce population.**

Fiftyseven thousand babies a day and nearly 6 million more people added to the labour force each year makes the task of providing gainful employment and ensuring growth extremely difficult. Public has to exert itself to ensure a zero growth rate in our population for at least 20 years. Otherwise our reckless capacity to procreate will overwhelm us.

### **5. Change in policy mix.**

I put it to you that a policy mix which relies on the ever expanding public sector, blind reliance on heavy industry, irrational nationalization, all pervasive-controls, ruthless import-substitution, neglect of agriculture, lip-courtesy to foreign investment, punitive taxation, burgeoning state monopolies, lack of accountability, disdain of profit motive, the role of market forces, competition, comparative costs, and so forth as national allocation of resources ought to be abandoned. It has failed. It is bad economics and unwise philosophy of development.

### **6. Need for modern technology.**

If trade was the vehicle for growth in the 19th century it is technology for the 20th. Any nation which shuns modern technology will remain poor in wealth as well as in outlook. Technical possibilities exist which can double our per capita income in about 10/12 years instead of 45 years.

### **7. Sound Management which is key to development and which implies optimisation will remain irrelevant to our society :**

- \* in which entry in to a profession is not by merit but through patronage or chromosomes ;
- \* where absence of competition makes cost and quality totally subsidiary considerations.

- \* where price support, subsidies and aversion to let weak units wither away provides an all-pervasive alibi for inefficiency and mismanagement.

**8. Economic laws are immutable. Let me give you few examples;**

- \* Can you induce savings and honesty by taxing people upto the eyebrow ?
- \* Will new investments take place if project costs become preposterous ?
- \* Will foreign aid flow in when you budget for zero aid (1974 plan) document ?
- \* Will foreign investment come in when domestic investment faces hostility ?
- \* Can you avoid brain-drain by placing arbitrary ceiling on remuneration ?
- \* Will civil servants perform diligently on constantly shrinking pay packets ?
- \* Can we break the link between reward and efforts and still get the effort ?
- \* Will production increase if labour lawlessness is politically motivated ?
- \* Can you accuse a nation of hard work when the so called organised sector is on a holiday for 178 days in a year ?
- \* Can you contain costs when getting off the ground takes eternity ?
- \* Can every loss be covered by a subsidy ?
- \* Can basic economic laws be suspended simply because we are Indians ?

There is a great deal to be said in favour of parliamentary form of democracy. At the same time having experimented this form for 30 years offers us sufficient evidence to conclude that unless we seek appropriate modifications in the present system of governance it will be nearly impossible to come to grips with the economic problems of contemporary times.



## HUMAN PASSION

The motive force behind human history is human passion and not capacity for cool calculations. Cool calculations in trade, commerce, industry and other branches of human endeavour are certainly important. But such calculations without a passion for achieving a larger purpose than one's own profit and personal salvation do not create history. It is because Lala Lajpat Rai was a man of passion that I find him of interest. For, collectively, we, as a nation, are in urgent need of some all consuming passion transcending mere cool calculations.

Our country has been swayed by the passionate vision of a Tagore, a Gandhi, a Nehru and of men like Lala Lajpat Rai. Let me try and fill the spiritual vacuity of our own daily lives by summing up some of the thoughts of these great men. Tagore said: "This is a wonderful country; How many thousands and thousands of years have God's purpose been working to make it surpass all other countries in the world? How many people from other lands have come to make this purpose complete? How many great wars have had their scenes laid here? What great austerities have been performed? From what a variety of stand-points has religion been studied? And how many solutions to the mystery of life have been found in this land? This is our India....." Such then is the vision of Tagore expressed in poetic terms. Let us recall also the words of Nehru: "For my part I wish to say that, in spite of everything, I have a firm faith in India's future. Indeed, if I did not have it, it would not have been possible for me to work effectively. Although many of my old dreams have been shattered by recent events, yet the basic objective still holds and I see no reason to change it. That objective is to build up a free India of high ideals and noble endeavour where there is equality of opportunity for all and where many variegated streams of thought and culture meet together to form a mighty river of progress and advancement for her people".

May I now come to Gandhiji telling us in his simple style which way to turn when we stand at the cross-roads of the destiny of this country: "According to me the economic constitution of India and for the matter of that of the world, should be such that no one under it should suffer from want of food and clothing. In other words every body should be able to get sufficient work to enable him to make the ends meet."

Gandhiji said:

"No principle has yet been found able to work without faithful agents."

I should like to repeat the last sentence that no principle has yet been found able to work without faithful agents. In the post-independence era of our country, this lack of linkage between what we seek to achieve for our people and the faithful agents who would achieve it has been the one single cause of our disappointments and of our heart-breaks. During the period of our struggle for Swaraj, the mother earth of India produced a vast army of "faithful agents". Lala Lajpat Rai was one such agent. He articulated the aspirations of freedom. Lalaji said : "every blow aimed at us is one more nail in the coffin of the British imperialism in India."

All the competing and creative impulses of Indian life during the first quarter of the century were fused in the person of Lala Lajpat Rai. Recalling Lalaji's services to the cause of India's emancipation Mahatma Gandhi said : "It is impossible to think of a single public movement in which Lalaji was not to be found. His love of service was insatiable. He founded educational institutions. He befriended the suppressed classes. Poverty, when found, claimed his attention.....In the political field he was indispensable. He was fearless in the expression of his views. He suffered for it when suffering had not become customary or fashionable. His life was an open book. His extreme frankness often embarrassed his friends; it also confounded his critics. But he was incorrigible."

## EROSION OF VALUES

We must improve ourselves as men to build a healthy society, if we want to do justice to the memory and example of men like Lala Lajpat Rai.

During the last quarter of a century, let us face it, there has been a steady erosion of values and standards. We have been passing through a phase of good reasoning and bad conduct, sound rules and corrupt manners ; when independence of principles consists in having no principle, when modesty is more ashamed of detection than delinquency. Learned commissions and committees in our own country have outlined the reasons for this state of affairs, Rising, high taxation, numerous controls, and the close relationship between unaccounted money and political funds, have been adduced as causes for the weakening of social ethics. In addition, there is dissipation of energies on side issues. There are endless controversies on almost every question, and, often, the debate has no rational basis save self-interest. Governmental decisions are taken too slowly or too hastily. Every segment of society seems to be getting increasingly into the grip of indiscipline. Any reason appears to be good enough for our students to go on strike. Industrial workers, teachers, engineers, doctors and the like are equally willing to join in the game.

Idealism which had its baptism of fire during the movement for Independence has to be restored its primacy of place. While the relatively more affluent should come to strongly feel that additional wealth is of no avail in this world or the next if conscience is bartered away, the authorities should pause to think whether the present economic policies are conducive to strengthening the honest way of life. Theories of extended State action imply not merely infinite wisdom and super-character on the part of administration, but also infinite time to use it. Actually, the position is quite different. What is called for then is that the State should exercise precise controls at precise points and effectively implement the chosen programmes. This means more selfcontrol, than extension of controls.

In my view, it is upto the leaders in every walk of life to keep their sights high and to constantly turn the searchlight inwards. The question that requires to be asked and answered by every one of them is whether he has been able to synthesise emotion and reason, goodwill and efficiency. This is not an once-for-all exercise. It is a continuous one. Only then, we can see and foresee ourselves and things around us, and how they can be altered for the better. Only then we will be able to construct an ideal of a just life, independent of history or probability. The urge to glimpse ultimate reality should become not only the pastime of seers, but of ordinary men like you and myself. Religion and science are the two wings upon which man's intelligence can soar to bring about progress of the individual as well as of the world. Should we try to fly on the wing of science alone, we will fall into the despairing slough of materialism. If we fly on the wing of religion alone, we may fall into the quagmire of superstition.

The future years carry a responsibility and an unequalled challenge. To accept this responsibility and challenge would be a true way of honouring the memory of a legend like Lala Lajpat Rai.

# FOOD AND OIL IMPORTS OF THE OIL IMPORTING DEVELOPING COUNTRIES

	1972	1973	1974	1975
<b>OIL IMPORTS</b>				
Volume	In millions of barrels a day			
Low-income countries	0.4	0.4	0.4	0.4
Middle-income countries	3.3	4.0	4.2	4.5
Total	3.7	4.4	4.6	4.9
Price per barrel, c.i.f.	In U.S. dollars			
	3.0	4.2	12.4	12.3
Cost of net imports	In billions of U.S. dollars			
Low-income countries	0.4	0.6	1.8	1.8
Middle-income countries	3.6	6.1	19.2	20.3
Total	4.0	6.7	21.0	22.1
<b>FOODGRAIN IMPORTS</b>				
Volume	In million of metric tons			
Low-income countries	6.5	11.4	11.7	14.8
Middle-income countries	19.8	21.2	26.0	23.3
Total	26.3	32.6	37.7	38.1
Price per ton	In U.S. dollars			
Wheat <sup>2</sup>	70	142	193	160
Rice	147	350	542	363
Cost of food imports	In billion of U.S. dollars			
Low-income countries	0.7	2.5	3.4	2.9
Middle-income countries	1.7	3.7	6.3	4.4
Total	2.4	6.2	9.7	7.3

Source :- Finance and Development March 1981



# CHANGING PERCEPTIONS OF THE THIRD WORLD ECONOMIC SITUATION 1978-80

	World Development Report 1978	World Development Report 1980.
	in per cent per annum.	
INDUSTRIAL COUNTRIES'		
GDP	4.2	3.7
WORLD TRADE		
Increase in world trade	6.4	5.5
Increase in developing countries	6.3	6.0
NET CAPITAL FLOWS		
Commercial	4.8	
Concessiõnary	4.3	
THIRD WORLD GDP		
Middle Income countries	5.9	5.5
Low Income countries	5.0	4.6
PROJECTED 1990 GDP		
THIRD WORLD GDP	In U.S. Dollars.	
PER CAPITA.		
Middle-Income countries	1,740	1,620
Low Income countries	255	240

Source :- Finance and Development March 1981

# DEVELOPING COUNTRIES' INDICATORS OF ECONOMIC PERFORMANCE, 1960-90

	Low income		Middle Income	Oil exporters	All developing countries	Developed countries
	Africa	Asia				
1. Population in million (1980)	141	992	701	456	2,290	671
2. GNP per capita (1980) dollars	239	212	1,638	968	791	9,684
3. Growth performance			In per cent of GNP per annum			
1960-70	4.4	4.0	6.0	5.7	5.6	4.6
1970-80	4.0	3.4	5.4	6.4	5.3	3.0
1980-85	2.7	3.3	4.2	5.8	4.3	3.0
1985-90	3.1	3.7	4.6	5.8	4.6	3.0
4. Growth performance			In per cent of GNP per capita per annum			
1960-70	1.6	1.6	3.6	2.8	3.1	3.9
1970-80	0.9	1.1	3.1	3.5	2.9	2.4
1980-85	0.3	1.1	2.0	3.0	2.0	2.5
1985-90	0.1	1.5	2.4	3.0	2.3	2.5
5. Population growth			In per cent per annum			
1960-70	2.8	2.4	2.4	2.9	2.5	0.7
1970-80	3.1	2.3	2.3	2.9	2.4	0.6
1980-85	3.0	2.2	2.2	2.8	2.3	0.5
1985-90	3.0	2.2	2.2	2.8	2.3	0.5

6. People living in absolute poverty

The low-case scenario

In millions

1975	630	140	770	
1980	110	570	100	780
1990	150	550	100	800

The high-case scenario

1975	630	140	770	
1980	110	570	100	780
1990	120	520	80	720

7. Current account deficits

In billions of U.S. dollars

1970	1.2	7.1	8.3
1973	2.3	4.4	6.7
1975	6.1	38.3	44.1
1978	5.7	21.4	27.1
1980	10.0	51.0	61.0
1985	18.6	59.7	72.7
1990	32.0	72.2	78.4

8. Current account deficits

In per cent of GNP

1970	1.6	2.5	2.3
1973	2.2	0.9	1.1
1975	3.8	5.3	5.1
1978	2.7	2.2	2.3
1980	3.6	4.0	3.9
1985	3.8	2.6	2.8
1990	3.9	1.8	2.1

Source :- Finance & Development March 1981.