

THE ECONOMIC WEEKLY

Vol XVII No 27 July 3, 1965

EDITORIALS

- Panic Measures 1047
In Lieu of Foreign Policy 1048

WEEKLY NOTES

- Resisting the Funeral — Lesson
of Jowar Procurement —
Portion against Capitation Fees
— Insurance Kick back —
Extending Deposit Insurance
State Bank's Ten Years —
Census Publications 1049

CAPITAL VIEW

- Shastri's Doubtful Triumphs
— Romesh Thapar 1052

FROM THE LONDON END

- Commonwealth's Economic Links 1054

LETTER FROM AMERICA

- The Illusion of the Student
Revolution
— Philip G Altbach, 1056

OFFICIAL PAPER

- Gaps in Co-operative Movement 1058

BOOK REVIEW

- National Integration, et al*
— S K Nath 1059

SPECIAL ARTICLES

- Changes in Literacy and Educa-
tion: Study of Villages in U P
and Punjab
— P C Joshi
M R Rao 1061

- "Indian Economic Growth: Per-
formance and Prospects":
Some Comments
— Ashok Rudra 1069

- Foodgrains Storage Will Con-
tinue in the Fourth Plan
— M J K Thavaraj
A Vasudevan 1072

FROM THE CHAIR

- The Metal Box Company of India
Ltd 1076
The Oriental Fire and General
Insurance Co Ltd 1079

BUSINESS NOTES

- 1080

CURRENT STATISTICS

- 1082

THE ECONOMIC WEEKLY

Co-operative Insurance Building,
Sir R M Road, Bombay.1

Grams: ECONWEEK

Telephone : 253406

Annual Subscription: Rs 36

Foreign : 70 s or \$ 10.

Panic Measures

WHEN New Delhi delayed its import policy announcement by three months with the barely-concealed intention of enforcing a reduction in imports, the least one would have expected was that the time gained would be used to formulate a well thought out policy which would rationalise import control and check abuse of the export incentive schemes. These schemes have, if press reports are to be given credence, now been made to appear the villains of the piece; the lag in export receipts, the over-invoicing of exports to obtain larger import entitlements and the failure of the much-publicised increase in exports to yield correspondingly higher foreign exchange receipts have all been ascribed to them. But evidently the breathing space offered by what has been graphically, though not accurately, described as an 'import holiday' has not been used to set things right. Instead, official concern on a weekly or perhaps daily basis with the state of exchange reserves has led to a series of piecemeal measures of which the notification requiring importers to deposit 25 per cent of the value of imports in advance and the announcement of a further cut in established importers' licenses are typical examples.

What the real intention of the authorities was in requiring advance deposits against imports it is difficult to make out. The usefulness of this device either as a measure to regulate import demand or as a tool of monetary control in any system is open to question, not to mention in a planned economy. Several Latin American countries have tried it with varying degrees of ineffectiveness. In any event, it made more sense in their case as they rarely had severe physical controls on imports and advance deposits were politically more acceptable than import taxes. In these countries advance deposits have formed part of stabilisation measures *a la* IMF which aim at reducing pressure of domestic expenditure along with a liberalisation of direct restrictions on trade and payments. In our economy where imports are severely rationed in accordance — isn't it taken for granted? — with Plan priorities the use of the advance deposit device makes little sense unless it is suggested that we are going to simultaneously loosen the physical controls. This, one hopes, is not the intention!

What advance import deposits would do is to raise the cost to importers of importing goods. It is not clear whether the authorities intend the regulation to apply also to imports on deferred payment terms, imports for the private sector under aid agreements and imports by the private sector of PL 480 goods like cotton and soya beans. The increase in costs of imports would in our economy only increase the overall price index, without any effect to the level of actual imports, for, given the gap between import demand and supply it would be fairly simple for the importer to pass the added burden on to the consumer. If the intention of the advance deposit is to tax the element of windfall profit accruing to importers, it is not certain that this is a device preferable to fiscal levies or monopoly imports by the State Trading Corporation of those commodities where there is profiteering. Nor can the device be regarded as an effective monetary instrument. The amount of funds likely to be drawn out of the system has been variously estimated but in no case is it likely to exceed Rs 35 to Rs 40 crores which is not large enough to make any significant difference to the level of money supply.

If the purpose of the advance deposit requirement is obscure, the net effect of the cut in import quotas of established importers and the total ban on imports of a number of commodities by this category of importers will be so small as to be of practically no relevance to the foreign exchange crisis. Established importers account for less than 2 per cent of the country's total import bill and impressive as the act of banning imports of 60-odd items may seem, its actual impact on import payments will be negligible though it will be a windfall to those who have stocks of these goods and to the manufacturers of Indian substitutes.

It has been repeatedly stressed in these columns that what is necessary to face our balance of payments problem is a careful and thorough review

of the possibilities of import substitution and an objective assessment of export promotion schemes. The tax credit certificates scheme for exporters proposed in the Budget has, after four months, yet to be spelt out and implemented; the case for other incentive devices which may be more effective

and less easy to abuse has to be examined; and, at the same time, the present regulatory import surcharge needs to be reviewed with the objective of assessing the justification for a selective stepping up of the rate of surcharge. In short, what is needed is a policy, not a series of panic measures.

Swaran Singh decided not to go to Algiers because Bhutto was keeping him company in London. This was a negative response in tune with the rest of Indian activities. When, at the last moment, the Pakistani Foreign Minister flew out by a chartered plane to Algiers, we felt cheated; it is as if an act of perfidy has been committed by the Pakistanis. Petulant immaturity has obviously taken over our external policy-making.

In Lieu of Foreign Policy

THINGS continue to be in a state of flux in Algeria. It is yet not quite clear whether the new regime is on top of the situation; stray reports of demonstrations and disturbances in Algiers are filtering through. Even the political character of the regime is in doubt. One would have assumed that, given the agrarian roots of the Army of National Liberation which masterminded the coup, at least Fidel Castro would have acquiesced in the change-over: after all, in many respects, the assumption of power by Boumedienne has been in the nature of a supplanting of a bourgeois set-up by people who have sprung from the rural soil. But Castro has proclaimed himself against the coup; to him, the coup is an opportunistic manoeuvre which no 'true Marxist-Leninist' can support. At the same time, the correspondent of the French Communist newspaper, *L'Humanite*, has been expelled from Algiers for sending out allegedly scurrilous reports, and the organ of the Italian Communist Party has published some despatches which will be legitimately considered to be defamatory of the new regime. Even the Chinese, after their hasty move to recognise Boumedienne — presumably because they were anxious to salvage the Afro-Asian Conference — have been lying low. Those who rush in with snap judgments regarding the allegedly 'revisionist' or allegedly 'sectarian' character of the new Government are therefore more likely to come to grief than not.

Since sporadic disturbances are still continuing in Algiers, it was but inevitable that the Afro-Asian Conference should be postponed. There is scarcely any cause for expressing jubilation over the postponement; rather, it is a setback for the whole of Afro-Asia, and particularly for those who were anxious that the forum of the Conference could provide the opportunity for evolving a formula for resolving the Vietnam tangle. Thus the antics of a number of Indian diplomats and

journalists over the postponement of the Conference seem bizarre. It is an index of how much we worry about relatively inconsequential matters and tend to overlook the substantial issues of foreign policy that our representatives have attempted to turn the question of postponement into a major point of diplomacy. Early in the week it was trumpeted that the decision to postpone the Conference was a great victory for India and, therefore, a major defeat for China and Pakistan. Soon, however, a change of note occurred, and the tenor of the assessments during the past few days is as if victory has been snatched away from us at the last moment. The reason for this reassessment of the position was the co-sponsorship by China, Pakistan and Indonesia of the resolution postponing the Conference, which India was not asked to sign. Apparently the Indian diplomats did not even know that such a resolution was being drafted in the preparatory committee of the Conference, or even that the committee was meeting somewhere in Algiers.

Let us repeat, the postponement of the Conference can hardly be a major Indian conquest. Nor does the fact that India missed being one of the sponsors of the actual resolution deferring the date of the Conference have to be considered a loss of face. In either instance the Indian responses have been expressions of hasty, snappy and ill-considered judgment.

True, in Algiers Indian diplomats have been out-manoeuvred by the smart Pakistanis. This has been a continuing story for some years, and cannot be reversed unless and until our basic deficiencies are analysed and cured. The first deficiency is that we cannot see beyond our noses, and our decisions are heavily coloured by our short-period emotions. Doing the reverse of whatever China and Pakistan do might be exciting cocktail talk, but it cannot constitute foreign policy.

The Government of India has set up a committee to review the working of the country's foreign service under the chairmanship of N R Pillai, who was Secretary-General of the Ministry of External Affairs for a number of years. But it is unlikely that the Committee's deliberations will lead to any fundamental revolution in the working of the foreign service. A committee of ex-civil servants and civil servants is bound to miss out the political element which should in fact be at the centre of the review. Given the composition of the committee, its conclusions would largely pertain to the mode of recruitment, the working conditions, the salary scales and such relative trivialities. The committee is most unlikely to deal with political issues because that would be going outside its frame of reference. But the crucial question in Indian external policy-making is the political question: the mode of recruitment and the types of people that are recruited are heavily influenced by this element.

In the reorientation of India's foreign policy, the first task naturally is to lay out a firmly-based framework of policy. This is a matter for the politicians. It is only when the guidelines of policy have been determined that it will be possible to discuss the quality of the permanent civil servants who will conduct the day-to-day operations of external policy. In the matter of recruitment, a careful judgment indeed needs to be exercised. The Indian foreign service has been Indianised, but it cannot be said that it has been nationalised. By and large, given the social background of the recruits, the foreign service consists of persons whose political orientation is towards the Western countries.

So long as Pandit Nehru was at the helm of affairs and Krishna Menon had a say, while the permanent civil servants grumbled at some of the decisions reached at the top, they did not dare to sabotage the broad frame of policy. Since the Chinese imbroglio, and especially since Nehru's death,