

as a whole is as high as the level of fertilizer consumption in the State like Punjab which is the highest user of fertilizer on per hectare basis, then such wild assumption and calculation that I have, shows that there would be an increase of Rs. 7/- per quintal in the price of paddy, Rs. 8/- in the price of wheat, etc. This is the range. I am not saying that these are the final figures, but roughly this is the order and magnitude, and in recent years, fertilizer prices have increased much more than this. But we can take care of it while fixing procurement prices.

श्री भूपेन्द्र सिंह मान : मंत्री महोदय ने पूछा जाहता हूँ कि किसान को रिग्रल टैम्स में कितनी सबसिडी मिलती है ? यह सबसिडी रिग्रल टैम्स में किसान को मिलती है, कंज्यूमर को मिलती है या इंडस्ट्रीज को मिलती है ? दूसरा सवाल यह है कि यह जो फर्टीलाइजर अब तक पाइपलाइन में है वह कितने दिनों में खत्म होने वाला है और उसमें जो सबसिडी में कमी की है वह किसानों को कैसे मिलेगी ? तीसरा सवाल यह है कि इन्टरनेशनल मार्किट में फर्टीलाइजर की कीमत भारत के फर्टीलाइजर की कीमत से कम है और भारत के किसान को कहा जाता है कि वह इन्टरनेशनल मार्किट में एक्सपोर्ट करने की बात करे तो यह कैसे होगा ? जैसे पाकिस्तान ने फाइन राइस एक्सपोर्ट करने में इन्टरनेशनल मार्किट को क्लोज कर रखा है इस कारण भारत का किसान बड़े मार्किट में फाइन राइस एक्सपोर्ट नहीं कर पा रहा है क्योंकि यहां कास्ट आफ प्रोडिक्शन ज्यादा है तो मैं यह जानना चाहता हूँ कि आपके पास एक्सपोर्ट करने के लिए किसान को मदद देने के लिए क्या योजना है जबकि यह कहा जाता है कि एक्सपोर्ट करना बहुत जरूरी हो गया है। यह कहते हैं कि सिर्फ कास्ट आफ प्रोडिक्शन में जो फर्टीलाइजर की कीमत है वह पकड़ी जायेगी तो फर्टीलाइजर की कीमत बढ़ने से जो इनफ्लेशन हो रहा है उसका बाकी चीजों से भी संबंध है या सिर्फ फर्टीलाइजर से ही है ?

SHRI MANMOHAN SINGH: I would like to say that the question about the effect of the increase in the fertiliser prices on the international competitiveness for the agricultural exports cannot be viewed in isolation. In fact, what I have done on the exchange rate front—the adjustment of the exchange value of the rupee—plus what has been done in excise concession on agro processing, I think, have greatly increased the incentive for agrarian exports, in totality. These were not done before.

श्री भूपेन्द्र सिंह मान : मैंने यह पूछा था कि यह जो सबसिडी की बात कहल है यह रिग्रल टैम्स में फार्मर को जा रही है या नहीं ?

श्री सुरेन्द्र सिंह : माननीय सदस्य ने जो सवाल किया है उसका जवाब नहीं आया है। मंत्री जी इसका जवाब दें।

श्री सुरेन्द्र सिंह ठाकुर : यह महत्वपूर्ण सवाल है इस पर आधे घंटे की दिसक्शन हो दीजिए।

श्री सभापति : आप लिख कर दीजिए।

श्री भूपेन्द्र सिंह मान : मेरे सवाल का जवाब नहीं आया।

श्री सभापति : सब सवालों का जवाब द दिया है। दस्तावेज नं० 223।

West Bengal Proposal on Balance of payment Crisis

*223. PROF. SOURENDRA BHATTACHARJEE;†
MISS SAROJ KHAPARDE:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the West Bengal Government has come up with an alternative approach to resolve the balance of payments crisis as per the news-item entitled "Bengal Proposals on BOP Crisis" which appeared in the 'Hindustan Times' of the 6th July, 1991;

†The question was actually asked on the floor of the House by Prof. Sourendra Bhattacharjee.

(b) if so, what are the details of that alternative policy approach; and

(c) what is the reaction of Government thereto?

THE MINISTER OF STATE IN
THE MINISTRY OF FINANCE
(SHRI RAMESHWAR THAKUR):

(a) Yes, Sir.

(b) A statement is laid on the Table of the House; (Statement-I)

(c) A statement is laid on the Table of the House. (Statement-II)

Statement-I

A note on an alternative policy approach to resolve the balance of payments crisis

Confronted with the present severe balance of payments crisis demonstrated by sharp downward adjustments in the rupee and reported negotiations of the Government of India for external loan from the IMF and other agencies, the following questions naturally arise: (a) What are the factors primarily responsible for this balance of payments crisis and this increasing need for the external loans including the IMF loan even after taking a massive quantum of loan from the IMF in 1981? (b) Who have suffered and who gained over this process of perpetuating the crisis? (c) How to guarantee that the past mistakes are not repeated and the country not forced into an international debt-trap?

In the following note, we shall try to answer these questions and suggest, in the interests of the common people, and alternative approach, both for short as well as the long run, to resolve to an extent the present balance of payments crisis.

This balance of payments crisis and the ever-increasing dependence on the external (particularly the IMF) loan are not an isolated phenomenon. These are inseparably connect-

ed with the very strategy followed by the Congress-I Government at the national level over the past several years, and particularly in the 1980's. This strategy begins by making no serious attempts at altering the existing unequal distribution of productive assets, particularly of land in agriculture and capital in industry. As a consequence, in this strategy, planning for production has tended to be viewed through the eyes of the landed gentry in agriculture and big industrialists in industry. As a result, given their interest, there has also been a tendency to adopt technology which is overly capital-biased and import-intensive with inadequate absorption of labour force in production, causing widespread unemployment. The stalled land reforms and the widespread unemployment have been major factors behind inadequate purchasing power of the common people.

This inadequate purchasing power of the common people got further eroded by the increasing burden of indirect taxes (now reaching about 85 per cent of the total taxes, while the direct taxes falling to 15 per cent of the total) and continuous inflation, particularly fuelled by hikes of administered prices of essential commodities and inputs.

On the other hand, due to unequal ownership of land and industrial capital, and adoption of this overly capital-biased technology, there has been a selective increase in incomes of upper income classes. This erosion in purchasing power of the vast majority of common people coupled with selective income increases of the minority of upper income groups have distorted the entire scenario of industrial growth in the country-tilting it from the mass consumption goods to the selected elitist consumption goods industries which are known to be specially capital-biased and also import-intensive. This has further aggravated the problems of unemployment and lack of purchasing power of the masses,

which in turn, have restricted the domestic market and acted as a major bottleneck on the overall industrial expansion in the country.

Confronted with this situation of limited domestic market, salvation has been sought in the policy of the Central Government in terms of exports by ignoring the vast sections of domestic population. The data on foreign trade, however, indicate that exports have not increased in a significant manner. But due to adoption of capital-biased and import intensive technology, particularly to meet the sumptuary aspiration of the upper income groups, there has been a massive increase in imports-capital-goods imports now accounting for nearly 25 per cent of the import bill. The objective of national self-reliance has in the process been sacrificed. Not only has there not been any determined policy towards oil-exploration*, with the result that our dependence on POL remains high (again nearly 25 per cent of the import bill); but even what can be produced within the country has not been produced. Domestic fertiliser plants, for instance, have been allowed to lie closed or underutilised while the import of fertilisers continuously increased, reaching almost three per cent of the total import bill. There has been in effect a deluge-an indiscriminate rush towards import liberalisation. And, this entire strategy was adopted when the IMF loan was taken in 1981. It was a strategy which was designed to make the vast majority of the common people suffer and only a minority of upper classes benefit, and open the door overly to imports, relating particularly to the needs of the richer sections and, in the process, worsen the balance of payments situation further. This was an overall strategy to make our country increasingly dependent over the years on the external loan. In fact, recourse was taken to indiscriminate and ever-in-

creasing commercial borrowing, particularly during the years 1987-88—1989-90 and the external debt of the country increased sharply from around Rs. 18,400 crores in early eighties to way over Rs. 1 lakh crores now, with a severe accompanying balance of payments crisis.

In the midst of this crisis, we are alarmed to note that two sharp downward adjustments of rupee have been effected twice within two days! Facts and rationale of this move are not at all clear. In particular, this two-step nature of the move has raised genuine doubts in the minds of the people about its possible relationship with the IMF loan. Moreover, such a two-step move can itself lead to a wrong kind of Keynesian destabilising speculative process. There are also reports about significant hikes of prices of non-ferrous metals and possibility of such hike of coal prices. Moreover, there are now further policy announcements on hike of the banks' landing rates and on trade liberalisation. All these sudden and extraordinary steps are being taken just before convening the parliamentary session and also when the vote of confidence is so shortly due, and particularly at a time when the Government of India is reportedly negotiating external loan with the IMF and other agencies. The common people are being kept totally in the dark about the basic facts behind these extraordinary steps and their possible relationship with the IMF loan. We have therefore repeatedly demanded that at this moment of crisis the Government of India must come into the open and take the nation into confidence about the basic facts of the situation and all conditionalities of the IMF loan, so that the right course of action can be democratically decided both for the short run as well as the long run in order to protect the interests of the common people and priorities of our country.

*From the experience of West Bengal, it has been noted, for instance, that our communications at the highest level regarding oil-exploration possibilities in the State have been left unattended even now.

In choosing the right course of action, we should learn from the past mistakes and must not repeat the same. The conditionalities of the present IMF loan negotiations are still not known to us. We are therefore considering only certain possibilities. It is possible, for instance, that the conditionalities may be directed towards domestic fiscal deficit reduction and structural adjustments. But, then, through which channels are the deficit reduction and structural adjustments being considered? If the fiscal deficit reduction and structural adjustments take the following course, namely, increase in the burden of indirect taxes, increase in administered prices of essential commodities and inputs, reduction in subsidies meant for poorer sections, particularly related to the public distribution system, dismantling of the public sector, relaxation of restrictions on the monopoly industrial houses, increase in the banks lending rates and liberalisation of import, then by following this course of actions, we shall only be repeating most of the past mistakes. For instance, increase in indirect taxation, onslaught of inflation through administered price hikes and erosion in public distribution system will not only pass on the burden of adjustment again to the poorer sections, but, what is equally worrying, all these steps, by unleashing further inflationary spiral, will discourage the growth of exports and become counterproductive in the present balance of payments crisis. Similarly, removal of monopoly restrictions will only worsen the existing market imperfections. Increase in the banks' lending rates will also put the smaller producers at a relative disadvantage *vis-a-vis* the larger houses, and again make the entire system less competitive. These moves toward further weakening the competitiveness are potentially inflationary and can discourage exports, and thus become once again counterproductive in the present context. Our experience also shows that liberalisation of imports, the argument of link-

ing imports with export-oriented production notwithstanding, has always, on the whole, worsened the balance of payments situation.

As against this approach, which has been followed in the past and has been self-defeating, we are suggesting an alternative approach. Since available information is inadequate, this is not an exhaustive statement, but only the outline of an alternative approach. If full information is made available, then, on the basis of further interaction, this note can be made more exhaustive.

To begin with, for achieving any desired extent of domestic fiscal deficit reduction, inflationary methods based on indirect taxation and administered price hikes or curtailment of public distribution system are not the only means. The same quantum of fiscal deficit reduction can be achieved through an alternative and better policy package consisting of an increase in income tax (particularly for the upper income deciles), better enforcement of the collection from existing taxes, including arrears, unearthing of black money, selective non-priority cuts in non-Plan expenditure of almost all the Ministries without affecting interests of the poorer sections. While achieving the higher targets of resource mobilisation as well as economisation of expenditure, new possibilities of realignment in the Centre-State relations towards more decentralisation may be seriously considered.

The real advantage of this alternative package is that it can ensure the same quantum of deficit reduction without hurting the interests of the common people and without creating any inflationary pressure and, therefore, without having any adverse effect on exports. In this alternative package, it is again possible to achieve the same deficit re-

duction by retaining those subsidies which are directed towards the poorer sections, particularly the food subsidy in relation to the public distribution system or subsidies meant for small scale industries or common farmers. It must be clearly pointed out that subsidised public distribution acts as a counter-vailing force against inflation. By containing inflation, it tends to reduce the expenditure side of the budget and helps achieve fiscal deficit reduction and also export promotion. Similarly, subsidies and reduced lending rates of the banks for small-scale producers can inherently increase the competitiveness of the system, and thus again have an inflation-containing and also potentially export promoting effect.

So far as the working of the public sector is concerned, the approach should be one of combining its desired social orientation with drastic improvement in internal efficiency. Unnecessary bureaucratic delays should be systematically removed. All these can then be a part of expenditure reduction as well as growth (and also export—promoting exercise.

Comprehensive import curtailment is an essential part of this alternative approach. By going through each item of the import bill, it is indeed possible to reduce a significant quantum of import of all items unless they are connected with mass consumption goods, essential production, infrastructural requirements or exports. In addition, it needs to be categorically pointed out that rather than uncertain and frequent adjustments in the rupee a clear statement of facts may be made with a strong appeal towards the NRIs so that the NRI capital flow can be favourably reversed.

This outline of an alternative approach thus indicates how, even in the immediately short run, it may be possible to narrow down the gap in the external balance of payments

as well as in internal fiscal deficits, protecting at the same time interests of the common people at every step. In this regard, proposals of this alternative approach need to be contrasted with the policy measures self-defeatingly taken in the past as well some of the measures possibly being contemplated even now.

In the long run, however, this alternative approach has to be based on increase in the purchasing power of the common people, and on the concept of agricultural and industrial growth primarily on the basis of expansion of the domestic market, thus placing a significant emphasis on the much-important objective of self-reliance. For achieving all these, it is essential to begin with land reforms and with a wider dispersal in the ownership of industrial capital. We can then think of progress of a new kind of technology which will be both modern and yet be able to use and not displace labour and natural resources in a fuller manner. To sustain this long run alternative approach, there is of course the need for a different political process which can be developed on the strength of democratic movements of the common people across the country.

Statement-Ij

Reaction of the Government to the alternative policy Approach

The Government of India has made a careful assessment of the alternative policy approach. As a package it does not provide an effective way out of the balance of payment difficulties at the present juncture. The Non Resident Indians would not send large amounts to India so long as our reserves remain at the low level that they are now. As regards import compression, a severe cut has been imposed, and there is no scope for further import compression without serious adverse consequences for production and employment.

2. The Government of India has also taken a number of measures in areas which have been referred to in the policy initiatives indicated in the alternative policy approach. Firstly, a number of steps to maintain the reserves and thus the confidence of the Non-Resident Indians have been taken. Secondly, the reforms in the areas of exchange rate, Trade and Industrial Policy are also meant to add to the confidence of the Non-Resident Indians. The package of measures already taken have started showing results in terms of reversal in the trend of outflow of NRI funds. Thirdly, a scheme enabling Non-Resident Indians and their overseas corporate bodies to contribute to India Development Bonds denominated in US \$ to be issued by State Bank of India has just been announced to attract NRI funds. Fourthly, a review of policy and procedures bearing on Non-Resident Indians' investment has been proposed. Fifthly, maximum import compression is being achieved through a series of measures including those announced by Reserve Bank of India, changes in import policy and economies in canalised imports. In addition the recent exchange rate adjustment makes imports more expensive. Finally, the planned reduction in the fiscal deficit has been formulated in such a manner that it does not affect subsidies directed towards the poor.

PROF. SOURENDRA BHATTACHARJEE: Mr. Chairman, Sir, so far as the economic reform blue-print of the Finance Minister is concerned, it has been finalised. In spite of the politeness, it shows that the alternative had not been given even a consideration. Had it been shown, the question of inviting foreign capital, multinationals and accepting loans from the IMF, etc. would not have been incorporated in the manner in which it had been done by them both in the Budget and in the Industrial Policy Statement. The main object of the memorandum submitted by the Chief Minister of West Bengal was to avoid all these foreign tentacles on our economy

thereby avoiding the Grip of the multinationals, International Monetary Fund, World Bank, etc. Of course, the entire gamut of the policy cannot be discussed under the head of one question. My specific question is; ...What are the circumstances which were in his mind in really turning down the alternative proposals which were put forward by the West Bengal Chief Minister?

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Sir, I have very great respect for the hon. Chief Minister of West Bengal as well as for his Finance Minister. I can share this information with the House that as soon as I took over as Finance Minister I invited the hon. Chief Minister of West Bengal to come here and discuss with us the state of the economy so that we could all put our heads together to find a way out. Now, they chose not to come. But that invitation is still there. In reply, the hon. Chief Minister of West Bengal sent me a memorandum

Now, Sir, some of the things in the memorandum are not implementable. For example, the Chief Minister of West Bengal has suggested that we ought to get money from the NRIs. I honestly submit that at a time when our reserves are an all-time low and when there is great nervousness all over the world including the NRIs, the NRIs are not going to put any money into this country.

Then, the hon. Chief Minister, in the memorandum, says that we should compress on imports. I gave the hon. leaders of opposition, when they met the hon. Prime Minister a table of imports and asked their suggestion as to which imports they thought could be cut. In fact, the import compression that we have put into place is so severe that if it is left intact, it will seriously hurt industrial production as well as employment. I honestly feel, therefore, that there is not much scope for further import compression. The memorandum talks of

imports having been too liberal years before. Now, that is a thing of the past. That, certainly, is not the situation in the year 1991.

At the same time, I would like to point out that we do take seriously this memorandum as well as any other memorandum submitted to us by any other Government. In fact, there are several things in this memorandum which we have taken seriously and, to the extent possible, we have tried to implement.

For example, I would like to refer to page 6 of the memorandum which says:

"To begin with, for achieving any desired extent of domestic fiscal reduction, inflationary methods based on indirect taxation and administered price hike or curtailment of the public distribution system are not the only means. The same quantum of fiscal deficit reduction can be achieved through an alternative and better policy package consisting of increase in income-tax, better enforcement of collection of existing taxes including arrears, unearthing of black money, selective non-priority cuts in non-plan expenditure of almost all the Ministries without affecting the interests of the poorer sections."

Now, I would like to submit, Sir, that in all these areas, we have responded positively to what is stated in this memorandum.

Then the memorandum says about the public sector:

"So far as the working of the public sector is concerned, the approach should be one of combining its desired social orientation with drastic improvement in internal efficiency. Unnecessary bureaucratic controls should be systematically removed. All these can be a part of expenditure reduction as well as growth and also export-promoting exercise."

I think, we have taken note of this and what we have done, I believe goes considerably towards meeting this particular point.

Then, the memorandum goes on to say:

"A comprehensive import content is an essential part of this alternative approach. By going through each item in the import bill, it is indeed possible to reduce a significant quantum of imports of items unless they are connected with mass consumption goods, essential production...."

This is precisely what we have done in the new trade policy.

SHRI PRAMOD MAHAJAN: Sir, his long reply must be taxed.

PROF. SOURENDRA BHATTACHARJEE: Mr. Mahajan, you can give the percentage on the basis of which he will work out.

Mr. Chairman, Sir, I listened very attentively, like an attentive student, so to say. The teaching experience is not new to Dr. Manmohan Singh. I belong to the same profession, but I will digress a bit from what has been read out. The underlying point of the alternative programme, that is what is sought to be done in the name of economic reforms, really puts many of the goals and objectives to an extent followed by the country so long upside down. Even a few weeks earlier to the formation of the new Government....

MR. CHAIRMAN: Put your question. Come to your point only.

PROF. SOURENDRA BHATTACHARJEE: The Finance Minister took so long to reply. I may be allowed a few minutes to elaborate.

Our Prime Minister said that they would follow the Nehruvian policy. I am not one who is in total agreement with what Pandit Nehru did, but the question is he has brought about such changes, taken such steps

over a period of three months just taking the plea of a desperate situation, that the economy can go topsy turvy in this fashion.

SHRI MANMOHAN SINGH: The answer to the question is simple that in terms of objectives of economic and social policy laid down by Panditji and other great leaders there is no reneging on our side. These objectives are: working towards a dynamic agricultural and industrial economy, working towards poverty elimination, working towards self-reliance. These objectives remain as they are. What has changed and must change is instrumentality. In a dynamic society instrumentalities have to change with the changing times.

SHRI SUBRAMANIAN SWAMY: Sir, I wanted to ask the question on the next question.

SHRI JAGESH DESAI: Mr. Chairman, Sir, I would like to know, what are the deposits of NRIs as on 31-3-1991? In 1989 the deposits were to the tune of Rs. 14000 crores. In March 1990 it was Rs. 17737 crores. What was the figure of NRI deposits in India as on 31-3-1991? I am happy to hear from the hon. Minister that confidence has been restored in NRIs. After you announced this, how much mero NRIs deposits you have received in this country?

SHRI MANMOHAN SINGH: I do not have the information with me right now. I would make that information available but I can state that on a qualitative basis the net outflow is now a thing of the past. In the previous month there was a positive indication of net outflow of non-resident deposits. That net outflow has now been stopped.

श्री सभापति: श्रीमती सरला माहेश्वरी; (व्यवधान) आप मवाल नहीं पूछ रहे हैं?

श्रीमती सरला माहेश्वरी: सभापति महोदय, एक कहावत है कि पंचों का हुकूम सर माथे पर लेकिन परनाला तो उसी तरह बहेगा। माननीय मंत्री महोदय कहे

रहे हैं कि उन्होंने पश्चिमी बंगाल सरकार द्वारा राज्याये गये प्रस्ताव को बड़ी गंभीरता से लिया है। तो मैं माननीय मंत्री जी से पूछना चाहते हैं कि निर्यात के लिये आयात और आयात के लिये निर्यात, इस गोरखधरे में हमारा अर्थ-नीति जो फर्स हुई हैं, इस दृष्टिकोण से हमारी अर्थ-नीति कैम निर्यात ?

इसका पार्ट बी यह है कि आयात में दलालों के माध्यम से होने वाले आम-दणियों का बहुत बड़ा हिस्सा पूंजीपतियों द्वारा विदेशी बैंकों में रखा जाता है, उसको वापस लाने के लिये मंत्री महोदय क्या कर रहे हैं.... (व्यवधान)

MR. CHAIRMAN: Question Hour is over.

WRITTEN ANSWERS TO QUESTIONS

Development of free ports in the Andaman and Nicobar Islands

*224. **SHRI KRISHNA KUMAR BIRLA:** Will the Minister of COMMERCE be pleased to state:

(a) whether Government have considered the desirability of developing Free Ports in the Andaman and Nicobar Islands; and

(b) if so, what decision has been taken by Government in this regard?

THE MINISTER OF STATE (INDEPENDENT CHARGE) OF THE MINISTRY OF COMMERCE (SHRI P. CHIDAMBARAM): (a) and (b) Government have set up an Advisory Committee to examine the desirability and the feasibility of setting up a Free Port in India. The Report of the Committee is awaited.

†Basically Starred Question No. 144 transferred from 24th July, 1991.