Foreign Capital-Our, Estimated Need

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\V/ITH the announcement of the " Government of India's policy with regard to foreign capital, the controversy about the advisability or otherwise of inviting foreign capital has been finally set at rest. But many other issues still remain to be settled. Will the economic development, which foreign capital is supposed to aid, be planned or unplanned? There is no evidence so far that a plan is being chalked out except in the field of agriculture. And who will direct the investment of foreign capital, the Government of India or the foreign investors? However, in view of the proposed targets and the all-important problem of repayment of foreign loans, it seems that some over-all decisions will have to be taken before long.

The first major decision concerns with the rate of economic development. Planning does not guarantee the fulfilment of wishful thinking. It would make a vast difference whether we aim at a rate of economic development twice that at which the German economy expanded during 1935-39 of whether we are content with a more modest pace. In this connection, it is interesting to study the estimates of some noted economists.

According to Mr. Colin Clark, India's "capital per worker will need almost to double by 1961 to allow a rise of *2%,* per annum in productivity; and due to the increase in numbers employed the aggregate of capital in existence must be more than double." He has also calculated the rates of growth per annum in the real product per man hour in some countries:—

Country	Period	Rate of growth in c
U.S.A.	1850-1941	1.6
U.K.	1860-1945	1.3
Sweden	1881-1939	2.0
Germany	1890-1935	1.0
	1935-1939	8.4
Japan	1908-1922.	7.9
	1922-1937	4.3

The rates of increase in Germany and Japan are spectacular. Mr. Robert W. Tufts has giver, an idea of our capital requirements if we wish to emulate Japan. According to him if we should try to develop with the speed of Japanese reconstruction during 1900-1940, we shall require 5,513 million dollars (1936 prices) during the first decade, 11,332 million during the second decade and 21,445 million 'and 24,559 million during the third and the fourth decades. (These figures are calculated from his original estimates from undivided India in Eugene Staley's *World Economic Development*—I.L.O.) The prices in the United States have more., than doubled since 1936. Thus we shall require $11,026 million worth of capital at current prices during the next ten years. This comes to little less than Rs.' 3,700 crores. The Bombay Plan required Rs. 10,000 crores of capital spread ever a period of fifteen years, for undivided India.

The above estimates give an idea about our capital requirements. The Government will have to take a major decision on this point.

It seems that our need for foreign capital has been under-estimated. One reason for this is the tendency to over-estimate the future rate of savings. The pre-war rate of savings in Great Britain was 7 per cent of the national income. Mr. Mandelbaum criticised the Bombay planners for assuming an exaggerated rate of savings:—"Recent plans for the industrialisation of India envisage an average rate of home savings (including the, creation' of money and the assumed export surplus) of 12% over a period of 15 years. It is, however, unlikely that this high rate of savings is obtainable in India without a large measure of inflation, unless tight controls can be instituted."

The following estimates about the financing of the Bombay Plan need drastic revision:—

External Finance	Rupees Crores
(1) Hoarded wealth of the country, mainly gold	300
(2) Sterling securities	1000
(3) Favourable balance of trade	600
(4) Foreign borrowings	700
(5) 'Savings	4000
Internal Finance	
(6) Created Money	3400

In the Bombay Plan only 7 per cent of the capital is required to be raised from foreign borrowings. As mentioned above, savings are largely over-estimated. Secondly, creation of money, for some years to come, will only worsen the present inflationary situation. In fact,' it would be necessary to keep a close watch on the inflationary forces which will be released while the development projects are under way. Thirdly, partition has given a severe blow to our balance of payments and we can hardly expect any marked surplus in our foreign trade. Hence, the foreign capital needed' will be much larger than estimated above.

It is true that Japan's economic development could take place without any appreciable help from foreign capital. The Japanese saved nearly 50 % of their Rational income by keeping down wages drastically while created money was pushing up all prices. The Soviet development also took place on similar lines. Severe regimentation alone can hope to achieve any thing by such methods. It is anathema to democratic planning, which can proceed smoothly only when it allows a reasonable increase in the standard of life. Hence those industries which produce consumer goods within a comparatively short period will have to be given a place of pride in the order of priorities. In this connection the recent loan invited from the International Bank for agricultural development is a step in the right direction.

The above discussion makes it abundantly clear that any attempt at underestimating our need for foreign capital should be discouraged. If this is so, the problem of repayment assumes all importance. Some have expressed the view that the repayment of foreign loans will place a heavy burden on our economy so that we shall eventually be reduced to the stage of bankruptcy. However, the prospects are not *so* bleak as it is some times believed.

It is possible to ensure a smooth repayment of loans if we plan for repayment right from the inception of the development programme. What is needed is a permanent body to look after the most economical use of our foreign borrowings and our export position.

The most economical use of the foreign capital will require a scale of priorities in the first instance and technical readjustments. The Bombay Plan stressed that the capital per newly employed worker should be small, more emphasis being placed on light: industries and the reorganisation of handicrafts for rural areas. Mr. Mandelbaum is of the opinion that this will result in a loss of productivity. "A preferable alternative would be to introduce double or multiple shift working in as many industries as possible. Since the same equipment can serve a larger number of workers, capital requirement per head would be reduced without a corresponding loss, in productivity." This is a laudable proposal as a supplement to the Bombay Plan. However, its value as an alternative cannot but be questioned. In view of the problem of over-population, it is highly doubtful whether this method alone could increase adequately the number of gainfully occupied persons-

Repayment will depend on our ability to export goods to the lending countries. For this purpose a permanent body to explore new possibilities, to watch the periodical balance of payments position and to gauge the possible changes in the direction of trade should be constituted. A proper reorganisation of the Tariff Board may serve this purpose without adding to the large number of committees and commissions.

Our increasing capacity to produce more goods should be adequately utilised for the development of export industries. Our export industries should be encouraged in every possible way to pave out the way for repayment. Mr. J. J. Polak in an article in the *Quarterly Journal of Economics* (Feb. 1943) suggested that part of the new investment must go into industries which turn out export goods or replace, imports.

A proper allocation of resources between the existing and the prospective export channels would go a long way to reduce the difficulties presented by the transfer problem. The development of tourist traffic in India should be given a priority in view of the fact that an exclusive reliance on export goods might affect the terms of trade. Again, the highly developed countries may find it possible to produce more cheaply goods they import from us; they may also find substitutes.

A danger to the terms of trade may come from internal inflation which is very likely in the period of development, While investment may continue to run high, there would be no immediate increase in consumers' goods at the time when incomes will increase all round on account of large new investment. The increased incomes may push the demand for consumers' goods resulting in inflation. In order to avoid this difficulty it will be necessary to (1) control essential consumer goods; (2) to avoid monetary inflation; and (3) to increase the production of consumer goods.

Lastly, the possible effects of changing conditions on our export industries will have to be keenly watched. Our prevailing monopoly in jute is strongly affected by partition. In the same way other industries may face similar danger for one reason or the other. The efficiency in such industries should be increased in order that costs may come down. After a few years, we shall have to face competition in possibly every field; this calls for action long before it will be too late,