The Doctor's Bedside Manner

WHAT ASSURANCES Dr. John Matthai has received from the British Government are not known, though he seems satisfied with them. But what he told Parliament on Tuesday during the debate on India's current and prospective foreign exchange resources and balance of payments position was hardly re-assuring. Neither Mr. Clement Attlee nor Sir Stafford Cripps has, as yet, announced the British Government's decision to scale down India's sterling balances and Sir Stafford Cripps has repeatedly assured New Delhi that the Labour Government have no such intention but this is a possibility if the Conservative Party comes to power.

Events subsequent to the Indo-British Sterling Agreement are no less important, but Dr. John Matthai skilfully skated away from these issues and their implications. Whether or not sterling balances are scaled down, there is not the least shadow of doubt that the volume of annual releases of sterling will be cut. Some weeks ago, the British Government announced their decision to this effect. That decision does not affect the terms and conditions of the recently negotiated Agreement, nor the volume scheduled for release during 1949-50, but it affects future releases of sterling. And, in the absence of a considerable improvement in the dollar or in the general economic position of Britain, annual sterling releases after 1949 -50 will be well below current levels. There is no doubt about that.

Nor does there seem to be any doubt that, even under the last Sterling Agreement, India's dollar position has worsened. Upto 1948-49, India was allowed a certain amount of sterling every year for multi-lateral conversion; she was, and is, entitled to borrow from the International Monetary Fund. Under the latest Agreement, India and the other Commonwealth countries have reverted to war-time dollar pool arrangements. Current earnings of Commonwealth countries plus their borrowings—as and when they borrow and are allowed to borrow—from the International Monetary Fund are to be pooled together for subsequent redistribution among the members participating in the pool.

If the sterling area's dollar imports increase as a result of devaluation, member countries' shares in the dollar pool will automatically improve—the more so, as they have already enforced drastic cuts in dollar imports. This apart, it is difficult to appreciate the argument that India has improved her dollar prospects by entering the dollar pool. And, yet, in his speech immediately after the conclusion of the Sterling Agreement and, again, in his speech in Parliament on Tuesday, the Finance Minister would seem guilty of undue optimism about India's dollar position under the Sterling Agreement.

Reiterating his earlier interpretation of the Agreement, the Finance Minister observes that "as the result of the removal of the quantitative limitation on the convertible sterling releases from the central reserve, we have once again assumed full right as a member of the sterling area." What does this, in concrete terms, mean? Does India get more than 160 million dollars—100 million of permissible borrowing from IMF and 60 million (that is, £15 million at the pre-devalued exchange rate) of convertible releases each year under the Agreement? That is highly problematic, in view of the world's deteriorating dollar position.

It is no use denying or glossing over the fact—for it is a fact that under the Sterling Agreement, India's foreign exchange position has deteriorated. Britain's subsequent decision to slow down the pace of annual releases of sterling in future has aggravated the position. That this is properly appreciated by the Finance Minister is apparent from the text of his speech in Parliament on Tuesday. He is aware that the deteriorating foreign exchange position makes it all the more imperative for India to create conditions favourable to a freer flow of foreign capital.

Whether or not India was in need of foreign capital immediately after the war, is not beyofid controversy. She had ample sterling balances; the annual releases were not inadequate; those releases could have ben more properly utilised to finance the framework which could have generated its own expansion and recovery. However, it is no use crying over spilt milk. That opportunity of financing reasonable industrial expansion without foreign borrowings has been missed for ever: India's current foreign exchange resources are of the equivalent of Rs. 800 crores; her annual trade deficit amounts to Rs. 250 crores; and even the Government do not expect that the annual deficit can be reduced below Rs. 130 crores even if and when India attains the target of self-sufficiency in food.

Because the Finance Minister is acutely aware of these trends and developments, he and his Government are determined to create conditions favourable to a freer flow of foreign capital. New Delhi's efforts to cajole and induce foreign capital into the country are bearing fruit. Immediately prior to his departure to the U.S.A. on a "goodwill mission" tour, the Prime Minister re-enunciated the Government's policy on foreign investment, assuring foreign capital that it will be treated on an equal footing with domestic capital: that, the Government would guarantee transfer of plant and funds irrespective of the prevailing foreign exchange restrictions.

This assurance, as well as the sympathetic assessment of India's economic needs and potentialities by the President of ,the World Bank, is having the desired results. India has secured two loans from the World Bank; negotiations for a third loan are going on. In Britain as well as in America, there is now a better appreciation among industrialists and capitalists of the risks involved in venturing out to India. These are desirable developments for more than one reason. For one thing, it is now apparent that earlier optimism about Point Four is unwarranted, that Point

Four is getting bogged through undue insistence on technical assistance in preference to encouraging the flow of foreign capital. Besides, it becomes increasingly obvious that it may not be possible for India to secure foreign help on a government-to-government basis.

There is a school of thought—and Dr. John Matthai belongs to that school—which prefers private to public foreign investment. One of the main arguments for private foreign investment is that it does not involve any net burden of transfer of funds in the event of loss, while public foreign aid has to be paid back—interest as well as principal—whether or not utilisation of such aid leads to loss or profit. Another argument for private investment is that it will enable India to secure foreign technicians more easily and quickly, as foreign capital venturing out to India will be naturally interested in the execution of projects by trained foreign technicians.

In a free and independent India, there is no reason why foreign capital should be suspect, History may be replete with instances where the flag has followed trade. But the circumstances have now changed. Today the Government of India are a sovereign authority; they are free to pursue an independent political, fiscal and financial policy. They may have, according to the Government's economic programme, given up detailed interference with private initiative, but they have not divested themselves of overall control over the national economy.

Therefore, apprehensions that the entry of foreign capital would lead to foreign domination of the country's economy and polity seem unwarranted. Besides, replies of the Ministry of Industry and Supply to queries relating to conditions under which the entry of foreign capital is to be encouraged are reassuring. Foreign capital will be encouraged to enter into partnership with domestic capital on conditions that the controlling interest and management of such joint ventures remain in Indian hands 'and that, foreign technicians undertake to train up Indian technicians within a reasonable period of time.

It is reassuring to know that, since the Prime Minister's reenunciation of the Government's attitude towards foreign capital, there have been many inquiries from foreign capital to start industries in partnership with Indian capital. However, an examination of such projects so far sanctioned by the Government indicates that though British industrialists are in a mood to venture out into India, American capital is still unresponsive. Besides, and this is more significant, the projects so far sanctioned are not likely to minimise India's dollar imports and to expand dollar exports. Whereas, as the Finance Minister emphasises, what India needs most is to secure a surplus on the dollar section of the country's economy.

Weekly Notes

More light!

LITERACY MAY NOT be the test of education; it is depressing, nevertheless, to find that India enjoys pride of place in the matter of illiteracy among all the countries of the world for which the United Nation's Statistical Office has been able to collect figures. The first issue of *The Demographic Year Book* published by them, collects statistics on the number and percentage of literacy in 43 countries. The point, to be noticed is that the usual system of enumeration is reversed, and that instead of recording the percentage of those who were able to read and write, thecompilation is that of illiterates. India not only ranks first in the latter, but beats Egypt, which comes second by lengths, with a percentage of illiteracy, for both sexes, of 85.2. Third comes Turkey with a percentage of illiteracy of 79.1

Leaving out the Islamic countries our nearest competitors are to be found in the Central American States.—El Salvador, Gautamala and the Honduras. Besides these three, the only other country with a percentage above 60 ½ is Korea.

Our only consolation is that there are still other countries with relatively high degrees of illiteracy which have not been included in this publication due to the absence of official census data. If the illiteracy figure for Korea is an indication, perhaps China would be within the 60% range compared to our 90.9.

The above figures relate to both sexes. In India, as in other countries, the percentage of women unable to read or write is higher than that of men. In our case, it is 97.6 for women as against 84.7 for men. In the matter of feminine illiteracy, we have almost rivalled our competitor Egvot with 83.9, and Turkey with 89.7.

Ceylon, however, has a moderately low degree of illiteracy, namely 42.2 for both sexes, and 29.9 in the case of men, compared to 45.2 and 32.7 respectively for Yugoslavia or 48.7 and 40.3 for Portugal. *The Demographic Year Book* does not give the statistics for Burma which would also perhaps show a fairly high percentage of literacy, and yet none of these countries arc more developed than India. The reason for this difference, however, though well-known, is worth noting. They have not lost the social customs of the old times as much as we have done. The Buddhist priests who live on their begging bowl, take the responsibility of teaching children to read and write. Hence primary education is not limited by the budgetary difficulties of the Government. Things were very much similar *in* this country also, as late as the early days of the Company's rule when the percentage of literacy used to be fairly high, thanks to the poor Brahmin teachers who were responsible for education and held their school under the