

absorption of liquidity, is not only inevitable but is, in view of the planned development envisaged, essential as well. Of that, the Finance Minister, and it would seem, his advisers in New Delhi are aware. But the trouble arises because of the unfortunate preference in the rarefied atmosphere of New Delhi for the term "disinflation". The White Paper gives one the impression—and this is probably because it is not, like the usual budgets, sandwiched between the Finance Minister's speech and the Explanatory Memorandum—that so far as the budget for 1952-53 is concerned, the main point is to take note of the 'disinflationary' trends. 'Deflation' is an ugly word, and it is best not bandied about.

'Deflation' is, to be sure, an ugly word. But as an event, it is uglier and therefore something has to be done to avert it. What, then, is the programme? We should hasten to add that avoiding deflation is not to be confused with letting the price-level go soaring as in the early part of 1951. The Government are entitled to congratulate themselves on partially insulating the domestic prices from world prices. But the come-down in world markets which helped the Government in this respect is adding to the balance of payments difficulties and the shortage of liquid resources. And at the same time, import prices are still on the upgrade and can still aggravate the difficulties. In so far as they do, it is to be regretted that instead of emphasizing the role of subsidies, the White Paper apparently blesses the Food Minister's policy of cutting food subsidies and—if we may say so—letting the food prices go hang. This is the dilemma; where 'disinflation' ends and 'deflation' begins, no one can say for certain. But when the nation's budget is presented, the question naturally arises whether it is intended to promote the former or prevent the latter. To that, there is no answer.

To the Finance Minister, the present position should be highly intriguing. When we had large budget deficits, he argued that the consequent inflationary effects were offset by the balance of payments deficits. In the same way, the 'disinflationary' effects of the budget surplus in 1951-52 are matched in the White Paper against the inflationary effects of

the balance of payment' surplus. Should it not, therefore follow that in 1952-53, when the balance of payments deficit is likely to be larger, its possible (deflationary) effects should be countered by a budget deficit of the right magnitude, especially in the context of the new credit policy of the Reserve Bank?

Admittedly, it is rash to run to conclusions on the basis of the White Paper, and perhaps even more rash to talk glibly about deficit financing. For one thing,

A New Deal in Mutual Aid

MR CHESTER BOWLES, the American Ambassador, has started working on a new angle. It is an ideological angle, more than somewhat different from the usual stuff ladled out by the USIS, through the weekly *American Reporter* and other propaganda sheets. And for once, for a change, Mr Bowles started with something in which Americans have failed, viz. in curbing monopolies, for example, or failed in the past, e.g. in checking the great slump of 1929, but will not fail again.

In his rotary club speech in Bombay, Mr Bowles spoke as an ardent New Dealer. As an advertising agent he had helped to sell the New Deal in his time. He does not hide the fact, however, that it is not the sharing of wealth which will beat off the next slump. The expansion of the American economy has been something fantastic of which there is no parallel in the earlier records of America itself, not to speak of those of other countries. All are agreed that this colossal scale of production can be maintained and a set-back avoided only if there is a continuous expansion of armaments or a steady outflow of exports. Whether such exports are induced by foreign loans or gifts is immaterial for the time being. Otherwise, despite the great sharing of wealth to which Mr Bowles refers, consumer spending alone will not be enough to absorb the flow of goods to the market.

So, just pure economics, as much as political strategy, demands that some outlet shall be found for the colossal volume of industrial production which is currently flowing out of the assembly lines in the United States. Another way of looking at it is perhaps simpler for those who do not see the economics

budget a deficits may be very unpalatable to the prospective Foreign underwriters of our development plans. For another, budget deficits cannot just be counted off arithmetically against balance of payments deficits. Yet, if the plan of getting the private sector to work alongside the Government in carrying out a development programme is to materialise, something will have to be done which, is much more unorthodox than what is indicated in the White Paper.

of it so very clearly. More than half of the industrial production of the world outside Soviet countries is now concentrated in the United States, which is suffering from a surfeit of all manner of goods, while the rest of the world is still hungry and starving. Not so much Western Europe where industrial production has been restored to the pre-war level—but Asia and the other undeveloped regions. There is a hold-up and goods are not flowing where they are most needed because those who need them do not have the dollars to buy. This is the familiar explanation for the dollar crisis. What makes it a continuing crisis, that waxes and wanes but never disappears altogether, is the pattern of distribution of natural resources in the United States itself. There are so few things in which America is deficient, not enough certainly to open up and keep up a steady two-way traffic between the States and the rest of the world,

But for the timely appearance of heavy rearmament programme, there is good reason to suspect that America would have headed for a slump before the Korean episode changed the face of things. The dominant position of America in the world market is brought out strikingly not only by its higher industrial production, compared to the rest of the world; others feel it in their bones whenever America starts buying in a big way or decides to go slow. The former produces a boom in world commodities, gives rise to a heavy export surplus in the primary producing countries with its attendant inflationary pressure and the rest of it. Slowing down of American buying initiates the reverse process of slump in commodities, fall in export earnings of the primary producing countries, balance of payments deficits and the rest of it.

This is, by all counts, a very unstable position. And not only the primary producing countries but even those which are much better off suffer in consequence'. Speaking about Britain's difficulties Prof Robbins complains in despair: "American prices fall a few points and we are compelled to devalue 20 per cent. American prices rise and we are again in utmost embarrassment." If this be the plight of Britain, how much worse must be the plight of others who have not got Britain's resources?

The normal corrective for a situation like this, judging from the experience of Britain in the 19th century, and according to the classical formula, is foreign investment. This prescription has been offered for well over three decades not without any appreciable results. At first it was complained that America had become the world's greatest creditor country and yet had not outgrown its debtor psychology inherited from an earlier and leaner day. The final quietus to this disputation has now been given by Mr Chester Bowles himself. Domestic returns on investments are so high in the States that there is little possibility, in the near future, of American capital seeking investment abroad on its own. This does not, of course, dispose of the possibility of inducing such investment by means other than that of the attraction of private gain. This was the genesis of the Marshall Aid Plan, divested of its obvious political content.

The American Ambassador addressing the students of the School of Economics here was obviously embarrassed in explaining away why such assistance could be readily procured for Western Europe which had, it is true, suffered war damage but no such aid programme has yet been worked out for other countries, particularly those in Asia, which had suffered equally, if not more, from the war.

Thoughtful Americans in the State Department as elsewhere the species is not entirely extinct, notwithstanding popular supposition in this country to the contrary have been looking for a suitable outlet through which the necessary flow could be canalised. But after the unhappy experience with the Kuomintang Government of China, it has not been easy to find suitable propositions which promise results and would be acceptable to Americans. Mr Chester Bowles, one must remember, has to keep one eye on New Delhi, jealous of its neutrality,

and another on the Republican Senators who control the purse strings. Between the two he has to strike a compromise. May he, he has found one in the community development centres like Faridabad, Nilokheri and Etawah which have suddenly sprung into lime light.

While things can be done without money, there is precious little that can be done with money alone. This is not a copy-book maxim but a hard fact of every day experience. Any one can check it up for oneself by examining closely its background where development has taken place on a considerable scale. That some people are still not impressed by the role of foreign capital in the country's development is because of this reason. There is very good evidence for it too in the history of recent times. China has achieved miracles without the help of foreign aid on any appreciable scale. So did Japan in an earlier period with little of foreign capital. The feat was performed in excel sis by Soviet Russia in a series of five-year plans.

When UN Agencies declare that the main handicap for development in backward countries is not so much capital as the absence of certain necessary preconditions for such development—well thought out projects that could be carried out if capital were forthcoming, come a long way behind—though this may sometimes be only a cloak to hide their own helplessness, it is, nevertheless, honest truth. For the real reason for the backwardness of a country in the last analysis is the backwardness of the people, of their inability to organise for purposeful action. This basic deficiency appears outwardly in the corruption and administrative inefficiency and ineptitude of its Government, lack of education, trained personnel and various other deficiencies with which multitudes of UN reports have made us familiar. But these reports do not tell us anything that is quite new. Everyday experience tells us volumes more of inefficiency, of the woeful lack of the right people to do the right jobs, from which follows the rest of the evils. This is not to suggest that there is an deficiency in the basic human material. What is needed is the ability to mould this material and organise it for purposeful action. The analysis suggests the disturbing conclusion that nothing short of a revolution can change the existing order of things in the backward countries. The inspiration for it naturally comes from China, which has overnight

changed the face of things without the help of any foreign capital.

Now an American Ambassador out to win over India for democracy of his way of understanding cannot find this sort of reflection comforting. But he may find in it the means for purposeful action.

If we can build from bottom upwards, we should be able to dispense with or do with such help as can be had from either camp just as well. 'The liberated man of our scriptures neither craveth nor refuseth. Had our economic position been strong enough to breathe more reality into our foreign policy, others would abide our question but we would be free'. Since it is not so, a little more light on the classification of the American Aid, such as the one that the American Ambassador successfully negotiated the other day, would help to clear the air. The contribution of \$50 million which we received from the US Government under the Indo-US Technical Aid Co-operation Agreement does not come from the Point Four programme. If it is not an allocation under the Mutual Security Act either. Pandit Nehru wins with flying colours. The country has voted for him and expects him to win of course.



Founded by Acharya J. B. Kripalani

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The VIGIL is an independent political weekly devoted to the service of the nation. Edited by Shri Manoranjan Guha, it contains articles and editorials of enduring interest and provides the liberal approach to the political problems of the day. Besides, it contains reviews, cartoons by a staff artist and Correspondence from London, Bombay, Bengal, the South and from Pakistan.

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