Indian Finance Minister creates stir at Davos

by Ramtanu Maitra

Indian Finance Minister Yashwant Sinha caused a stir among the financiers attending the annual meeting of the World Economic Forum at Davos, Switzerland, when he called for the immediate creation of a system of international rules to stop "the errant, wayward, and undisciplined" nature of capital before it causes further global financial crisis, and to prevent "globalization" from becoming a "13-letter dirty word."

Sinha said that among the issues to be considered were the need for a genuine global lender of last resort, the risks involved in cross-border lending and borrowing, the sequencing of capital account convertibility, and the need for information sharing.

Hard-core devotees of the free market system, who were in the vast majority at Davos, were not prepared to listen to Sinha's views on why it is necessary to curb cross-border capital flows. Sinha was not very insistent either.

U.S. Commerce Secretary William Daley, who was sharing the podium with Sinha, was not in the least willing to discuss what Sinha had to say. Instead, Daley pointed to the dangers of precipitating capital flight by the very action of trying to introduce rules. "It is well worth a long discussion, but any attempt to move quickly will have an enormous negative impact," he said.

There may be other reasons why the financiers were not interested. To begin with, Finance Minister Sinha is a lightweight, representing a government which has not even tried to take necessary measures to deal with India's continuing industrial recession. They are aware that the Indian Finance Minister is desperately looking for foreign investors, so that the International Monetary Fund and World Bank won't accuse his government of paying no heed to reducing the fiscal deficit.

These financiers know that the Vajpayee government, whose acolytes had long opposed opening up the insurance sector to foreign investors, is now gung-ho for opening up. They are aware that the government has made little effort to generate, through growth, the funds that are needed for development. They are aware that India's current account trade imbalance is growing, and may reach $10 billion in the current fiscal year. They are also aware that India's $30 billion foreign exchange reserves may dwindle to a piddling sum before this millennium is over, and that India would face a foreign exchange crisis the size of 1991.

India has fallen further behind

In 1980, an *EIR* team, under the guidance of Lyndon LaRouche, prepared a document for a 40-year development plan for India, centered on infusion of energy, an integrated national water management system, and education and enhancement of labor power. In all these areas, one finds that India has fallen further behind, and the shortfall has become much larger. What Sinha and his predecessors have done for so long, is to bring the country closer to economic disaster.

Since 1980, poverty and the disparity of wealth in the population have grown, and the physical economy has deteriorated. Today, when the Finance Minister claims that the country's industry will pick up soon, people snicker, and rightly so, because they know that the country's infrastructure will not permit that. They also know that there are no shortcuts, given the size of the problem that their leaders have created over the years. They also snicker when they hear the Vajpayee government repeating like a broken record: Hear ye countrymen—foreign investors will bring in baskets full of money and then, and then only, will India build the infrastructure it needs.

It is not that this country suffers from total intellectual paralysis—it is close to that, but not quite. In a recent article, for example, academic Arun Shourie pointed out that the future is technology-driven, and that to continue enmired in the prevalent, deep-seated complacency that India is invincible, is life-threatening. Shourie pointed out that natural resources no longer determine comparative advantage, brains do; the brains not of a handful of geniuses, but of ordinary people. The system in which these ordinary people live, think, and function makes them creative.

And yet, Sinha and his career bureaucrats keep intoning, "The fundamentals of our economy remain strong," when all indicators show that the money allocated for development leaks out systematically, producing nothing and pauperizing the nation. Development funds are regularly used to make non-developmental expenditures.

Prime Minister Atal Behari Vajpayee, in his recent book, has claimed that "the outer shell of [India's] democracy is intact but it appears to be moth-eaten from inside." He forgot to mention how moth-eaten the country's economy has become. In order to reduce the fiscal deficit, Sinha has raised foodgrain prices and planned a big fire-sale of public sector unit shares (PSUs). Finance Secretary Vijay Kelkar informs us that "a reduction in the fiscal deficit by 0.25% will bring down inflation by 0.5%."

There is no doubt in anyone's mind that, contrary to what the Finance Secretary claims, the only thing that will happen is that the poor will have to pay more to buy the essentials. And, in the present state of deep economic recession, the amount collected from such large-scale disinvestment will not amount to even 50% of what is anticipated by the accountants in the Finance Ministry.