

Indian Gov't Split On Economic Policy

The Bombay stock market, the largest funnel for speculation and black market currency operations into the Indian economy, dropped to its 30-year low two weeks ago when Prime Minister Morarji Desai announced the first major cabinet reshuffle in his three-month old government. Desai removed Industries Minister Brijlal Varma, under attack on charges of incompetence, and replaced him with the fiery trade union militant George Fernandes. Business circles were quick to note that it was Fernandes who, as Communications Minister, consistently lashed out at them for being the chief supporters, endorsers and promoters of ousted Prime Minister Gandhi's state of emergency policies.

Desai's cabinet reshuffle barely kept the lid on the controversies on economic policy that have divided the ruling Janata party, the cabinet and the government. The divisions are centered on economic policy: whether to accept the World Bank sponsored Aid-India Consortium prescription and swallow huge doses of foreign aid for labor-intensive agriculture, or whether to maintain the traditional Indian planning view of concentrating first on the development of state sector heavy industries. Within these two options fall virtually every major debate now taking place, including what the role of multinationals will be and what the role of the private sector itself will be in relation to the state sector development priorities.

The rough breakdown of constantly changing political alliance in this battle is as follows: Janata party chairman Chandra Shekar has allied himself with left-wing and centrist pro-growth tendencies in the party and government, making public his complete opposition repudiating the notions of planning Jawaharlal Nehru pioneered in India, specifically the prominence of the state sector over all private concerns. Opposing Chandra Shekar is a zero-growth "bloc" led by Home Minister Charan Singh, advocating a ruralization policy to progressively move more people in the cities out into the countryside where agro-based labor-intensive jobs will "solve" India's unemployment problem. Singh would open existing industry to multi-national looting. The muscle behind Singh's policies in his own Kulak based Bharatiya Lok Dal and elements of the right-wing Jan Sangh party. Both formally merged into the Janata May 1 but it is well known that they have maintained a separate identity. Singh has bargained for backing with other factions inside the Janata in exchange for the chief ministerships and top state level positions.

Singh's position was assisted generously by the Aid India Consortium at its July 4 meeting. India was awarded \$2.4 billion in assistance on only two conditions: that imports be liberalized generously to "open up the market," and that the government center its develop-

ment policy exclusively on agriculture, draw down on its foreign exchange reserves, and accept huge doses of foreign aid. This strategy buries any notion of self-reliance, upon which the Indian Planning Commission's five-year plans are founded.

What is the Money For?

The fight on economic policy came to a head with the presentation of the annual budget by Finance Minister H.M. Patel. In his address to parliament June 17, Patel essentially kept the ousted Gandhi government's "export-oriented growth policy" but failed to mention the role of the public sector even once in his presentation. Patel also conspicuously avoided mention of land reform heavy industries development, productive employment, or continued expansion of science and technology — all hallmarks of every budget since independence.

The common man who voted the Janata government to power found his hopes shattered. The compulsory deposit scheme, the freezing of wages and bonuses remained intact, as the government pleaded that it does not have the funds to pay back deposits. No provisions were made for price policy, giving a free hand to speculators and grain dealers to artificially create scarcities throughout the country. The reliance on exports to maintain the huge \$4 billion in foreign exchange holdings is to be held up by a continued holding down of domestic consumption.

The missing link in the formal budget presentation was made clear informally by Home Minister Charan Singh, airing his views at a symposium sponsored by the Ford Foundation supported-Gandhi Peace Foundation. Singh's prescription for the economy is as follows: big economic units, for instance textiles, should export production to keep foreign exchange up. Heavy industries growth should be sacrificed to divert resources to cottage industries. An enforced cutoff of the domestic market from anything exportable, thereby maintaining consumption only in marginal low-energy goods.

Desai took sides in this raging debate with the elevation of Singh to a top advisory capacity in the Indian Planning Commission. Singh's protege, Industries Minister Varma, called for repeal of the longstanding restriction on uncontrolled growth of monopolies. Chandra Shekar lashed back: "a national consensus exists on the need to reduce the concentration of economic power and curbing monopolies, two reasons for the increase in disparities in income and distortion of the production pattern in favor of a few wealthy people."

Chandra Shekar's call forced Desai to take sides, purging Varma and bringing in Fernandes. Chandra Shekar and Desai have begun to work together to curb Charan Singh's powers. Desai's personal economic philosophy favors rural works programs but he does not share

Charan Singh's aversion to industrial growth. Echoing Desai's personal preferences, Fernandes, in his maiden speech to parliament enumerated the following five points as his goals: maximize production of consumer goods; optimal utilization of human and natural resources; prevention of concentration of economic power; employment oriented industries; and making industry responsible to social needs. As his stated policies demonstrate, Fernandes' appointment may serve as a stopgap measure against Charan Singh's policies, but in no way provides a real solution to economic problems. Fernandes has proposed basically a World Bank "industries" policy — labor-intensive small industrial growth, albeit in the public sector.

India's largest problem is unemployment an issue the

budget has inadequately addressed. Desai has himself endorsed a food-for-work program, to utilize the overflowing grain reserves as wages to build irrigation and other infrastructure. These projects differ little from the World Bank proposals that India take the "risks" necessary now and reorient her economic perspective around agriculture. A leading Indian daily, *Patriot*, incisively pointed out in an editorial that if India follows an agro-centered path of development in ten years, her heavy industries sector would not be able to produce the goods and services necessary to keep pace with her population. In turn, *Patriot* states, a basic difference of views underlines Chandra Shekar's position and that of Charan Singh. The conditions of the whopping \$2.4 billion are Singh's proposals.

Japan Election Returns Give Both Sides Breathing Space

Japan's ruling Liberal Democratic Party has won a surprise victory in elections for the Upper House of Japan's parliament, retaining 64 of the 65 seats the party had previously held and a razor-thin majority of total Upper House seats. The LDP's showing dashed the hopes of various Atlanticist press pundits, in particular the *New York Times*, which forecast a new era of political chaos and "musical chairs" coalition governments in Japan between a weakened LDP and its various competing "opposition" parties. In the vote the LDP held its ground against both its "left" opponents in both the Japanese Socialist and Communist parties as well as its erstwhile conservative rival, the recently formed New Liberal Club.

Although it will provide Japan's current pro-Wall Street premier Takeo Fukuda some political breathing space, the LDP's victory has also given Fukuda's conservative opponents in the LDP the political stability they badly needed to resist Carter Administration pressure. Japan's fight with the White House revolves around three principal issues: U.S. efforts to force an upvaluation of the yen which would weaken Japan's export oriented economy; Carter's opposition to Japan's development of nuclear energy; and U.S. maneuvering to force Japan into a military alliance with China — Washington's "second front" policy against the Soviet Union.

Japan's conservative opposition has been strongest on the nuclear issue. Before the elections the head of Japan's big business federation, Toshio Doko, called on Japan to ship part of its uranium supplies to the Soviet Union for enrichment, breaking Washington's monopoly over enriched uranium supplies to Japan. Doko made this threat in a front-page interview in the *Japan Economic Journal*, citing West Germany as the model country Japan should follow in its relations with the Soviet Union. Doko noted that West Germany now has 40 percent of its uranium enriched in the USSR and hopes to increase the figure to 47 percent very shortly. Doko also called on Japan and the Soviet Union to link energy questions with Siberian development.

Although the election campaign did not address these key issues directly, the national debate on the yen, nuclear energy and China will act as a check on Fukuda's own willingness to capitulate to Washington.

Fukuda

The Fukuda government has the lowest popular rating of any LDP government in history — about 27 percent approval. Japan's voters did not vote for Fukuda, but for a stable LDP-led government. There is every indication that the business pressure on Fukuda to pursue an anti-Carter policy after the elections will escalate. Japan's press reports that business until now was reluctant to move into an open attack on Fukuda for fear of damaging the LDP's fragile electoral position. That fear has now been greatly lessened.

Nonetheless the vote has given Fukuda some needed short-term political stability. Fukuda and his opponents in big business and the Miki and Nakasone factions inside the party had not expected the LDP to make such a strong showing.

The general press predicted that the LDP would wind up with 60 to 62 seats. The anti-Fukuda group intended to use this outcome to force an LDP cabinet reshuffle, starting first with the ouster of Fukuda's foreign minister Ichiro Hatoyama. With the returns in, Fukuda vowed there will be no cabinet changes.

The Economy

In addition to the nuclear fuel decision Japan will be faced almost immediately with two other major questions — whether to sign an anti-Soviet peace treaty with China and what to do about Japanese-U.S. economic relations. Many circles believe Japan's China policy will depend upon the outcome of U.S. Secretary of State Vance's trip to Peking in August. The more successful Vance is in wooing the Chinese, the more Fukuda's own position in pushing a PRC treaty is thought to be strengthened inside Japanese ruling circles. A Japan-China treaty would virtually wreck any chances of