Interview: Indian Finance Minister V.P. Singh

'International action is urgent to revive the world economy'

Vishwanath Pratap Singh, India's minister of finance, is an unusual man. At fir
from V.P. Singh's youthful dream of being a scientist at the Bhabha Atomic Research Center, a wish he pursued through chemistry and physics and a B.S. degree from Fergusson College in Pune, even after completing Arts and Law at Allahabad. But in the political courage and rigor with which he has tackled the complex and highly charged issues associated with getting the Indian economy moving, the spirit of the scientist and problem solver is unmistakeable.

A disarmingly unassuming individual, V.P. Singh is a tested politician and administrator. As chief minister of Uttar Pradesh, he established a unique record of competence and integrity in public office, resigning on principle in 1983 over an outbreak of banditry in the state. His rejection of the type of petty politicking that characterizes politics-as-usual in India has won him wide respect and a loyal base in India's most populous and politically crucial state. In 1983, V.P. Singh was brought into the Union Cabinet as minister of commerce, a post he held for two years before returning to Uttar Pradesh to take charge of the state Congress Party.

Since assuming the finance portfolio, V.P. Singh has taken a lead in the government's initiatives to generate more rapid economic growth domestically, modernize industry, and improve efficiency and quality. V.P. Singh has represented India at a number of international economic forums in the past, including the last two IMF-World Bank meetings in Washington and Seoul. He took time out from his busy schedule to discuss international economic issues with *EIR*'s Susan Maitra on Nov. 23.

EIR: Since 1983, talk of economic recovery being in progress has been making the rounds in the United States and elsewhere. This talk does not appear to be congruent with facts. What in your view is the real position of the world economy?

Singh: The mid-year review of the world economy made by the International Monetary Fund staff and assessment made by several other international agencies presents a gloomy picture. The first half of 1985 has witnessed increasing signs of faltering in the pace of economic growth. Growth has declined in the United States. The recovery process has been subdued in other industrial countries.

There has been a deterioration in the position of developing countries. The debt position of a large number of developing countries has become grave. Over half of all developing countries now have per-capita income lower than in 1980. All this is a source of deep concern for us.

The recovery witnessed in 1984 has been uneven in distribution between groups of countries and among countries in the same group. Protection combined with inadequate resource flows from commercial banks and international organizations has made the task of adjustment extremely difficult in the indebted developing countries. The high level of real interest rates in international capital markets associated with the massive budgetary and current-account deficits of the United States has aggravated the debt burden of many developing countries. There has been no effort to ease the world liquidity problems through a fresh allocation of SDRs.

We believe that the world economy may face another recession unless international action is immediately initiated to improve the prospects of flows of real resources to developing countries and free access to markets of industrial countries.

EIR: In some quarters, relief was expressed over the Seoul World Bank-IMF meeting. It was said that there had been some reconsideration and recognition of the importance of continuing concessional lending and foreign aid to developing countries, and so forth. Is this relief warranted in your view? What is your assessment of the Seoul meeting? What was accomplished?

Singh: The outcome of the Seoul Fund-Bank meeting has been disappointing. We in G-24 [the Group of 24 Non-Aligned nations] had demanded allocation of SDRs at the rate of SDR 15 billion per annum, but because of the negative attitude adopted by some major industrial countries, no decision could be taken about the fresh issue of SDRs.

Replenishment of the Seventh International Development Assistance had been agreed before the Fund-Bank meetings, at a level of $9 billion, which had been considered highly inadequate both by the low-income countries and the World Bank management. There were hopes for increasing the size of IDA-7 replenishment by the time of the Fund-Bank meetings. But we were informed, to our disappointment, at these meetings that there had been no progress in augmenting the size of IDA-7. It was, however, agreed in the Development Committee meeting that IDA-8 should be effective in due time and negotiations for the same should start immediately.

We had maintained that access limits for 1986 under the Fund's Enlarged Access Policy should be restored to their 1983 levels; in any case they should not be reduced from their existing levels. It was unfortunate that the Interim Committee decided to reduce access limits under the Facility further in 1986.

The Interim Committee had preliminary discussions on the reports on the G-10 and G-24 on the functioning and reform of the international monetary system. The G-10 report does not find any need for a major reform of the existing system while the G-24 report calls for some important changes. We had suggested a joint examination of these reports by a Joint Committee of the Interim and the Development Committees. It seems that these reports will now be largely discussed in the Interim Committee forum.

EIR: In the context of the Seoul meeting, the U.S. Treasury, State Department, and other officials expressed the view that the World Bank should play a greater role in the crisis in developing countries, with the clear implication that the IMF's role has been problematic. Is a distinction between the World Bank and the IMF's approach to economic policy warranted in your view?

Singh: It has been our view that coordination between the IMF and the World Bank should help further their respective roles. Closer contact between the management and staff of the two institutions could help in better understanding each other's points of view.

However, we feel that it would not be advisable to seek some kind of uniformity of advice. Such a step would be counterproductive and could lead to cross conditionality and would dilute the respective responsibilities of the two institutions and become a means of exerting a concerted pressure on borrowing developing countries.

We must understand that the Fund is primarily concerned with the stabilization problems of member countries in the short and the medium term. The Bank, on the other hand, is charged with the responsibility of providing development finance over the long term. These institutions have thus distinct functions to perform. They could well exchange information and consult each other as they have been doing in the past. But we are opposed to any symbiotic relationship developing between the two to the detriment of the interests of developing countries.

EIR: The World Bank's Multinational Investment Guarantee Agency (MIGA) is one expression of the type of "debt-for-equity" arrangements which have been mooted among private bankers and monetary officials as a solution to the debt crisis. In Seoul, you publicly announced the Indian government decision not to join such an enterprise. Please spell out the government's thinking on this.

Singh: We have followed the efforts being made by the Bank management to evolve a consensus on the establishment of MIGA. We recognize that private direct investment has a role in the development process. We feel that such investment should necessarily subserve national objectives and priorities of host countries.

Although we are not fully convinced about the utility of MIGA, we have participated in the deliberations relating to it. We find that some of the provisions transgress the jurisdiction of our laws and our courts. We therefore continue to have reservations on our membership of the MIGA.

EIR: Efforts over the past year or so to bring national control over banking, insurance, shipping, and other "services" under the authority of GATT, the Bretton Woods' third leg, would seem to constitute a similar serious breaching of sovereignty in economic matters. India, together with Brazil, Egypt, and other developing nations, has opposed these efforts firmly. Please explain your thinking on this.

Singh: Some industrial countries, the United States in particular, have been zealously propagating a new round of trade negotiations covering what they call "services" under the discipline of the GATT.

We are opposed to the proposal because, in our view, there are much more pressing problems facing the world trading environment. These include: a rollback in protectionist measures in industrial countries; liberal access to markets of developed countries for products such as textiles, steels, tropical products, footwear, light engineering products, certain electronic products, and agricultural and agro-industrial products; removal of discriminatory restrictions and grey-area measures by building reliable and non-discriminatory safeguards; discipline and concretization of the differential and more favorable treatment in favor of developing countries. We believe that implementation of the 1982 GATT Ministerial Work Program, to which industrial countries were also signatories, would take care of these concerns of developing countries.

We see no reason to ignore the implementation of the 1982 Ministerial Work Program and initiate action to cover "services" under the GATT discipline instead.

The concept of "services" is, in any case, confusing. Are

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we talking of "trade in services" or "investment in services"? Does the proposal contemplate an agreement under which countries will get the freedom to open branches of banks and insurance companies in other countries (which would be a case of investment), or whether the intention is that the residents of one country should be able to bank or insure with companies in other countries (which would be a case of trade)? If the former, then we enter into a field totally outside the GATT, and the framework of domestic legislation applicable to banking and insurance would be also come into the picture, which we do not find acceptable. If, on the other hand, the second interpretation is taken, then the questions of balance of payments and exchange control would come in, which are, obviously, matters for the IMF and not for the GATT. In any case, the protagonists of the proposal have no clear answers to these questions.

It is important that, when we speak of services, we should at least have a list of them, preferably exhaustive rather than illustrative, since agreement covering services in a general sense is bound to lead to endless arguments. Unfortunately the protagonists of the proposal have failed to do so.

EIR: Efforts have been under way within the Non-Aligned Group and the G-77 to bring the world economic crisis into the U.N. General Assembly in a purposive manner during the present session. How do you view these initiatives? What, in your view, is the chance for progress? What did India find in probing to convene a "mini-summit" on the issue?

Singh: We are of the view that piecemeal and ad hoc solutions to the global financial and monetary crisis shall prove inadequate. The seventh Non-Aligned Movement Summit had demanded that an international conference on money and finance should be convened with universal participation with a view towards totally restructuring the system in order to meet effectively the development financing requirements of the international economy, particularly those of developing countries, and the need for growth-oriented structural adjustment.

We would prefer the proposed conference to take place under the aegis of the U.N. General Assembly. We have an abiding faith in the U.N. system for all international initiatives towards peace and prosperity. We are at the same time conscious that major industrial countries place more faith on the specialized agencies for any reform, where they have a brute majority under the weighted voting system.

For reasons indicated in the preceding paragraph, the U.N. declaration for Global Negotiations has failed to make any progress during the past five to six years. As things stand, I see little prospect of negotiations taking place in the near future.

EIR: Private banks and monetary officials have insisted on a case-by-case treatment of the debt crisis. This has certainly helped to prevent concerted action on the problem, and, in particular, has reinforced the idea that the most heavily indebted nations, those of Ibero-America, have brought their problems on themselves (a view which has fit comfortably with other, political prejudices, longstanding with regard to the Ibero-American nations). Recently, however, Peru's President Alan García has taken some initiatives which strengthen and at the same time bring to light new, substantive momentum in Ibero-America among the Cartegena group to tackle the crisis in a more concerted fashion. What is your evaluation of these developments? Will they make an imminent summit on these matters possible?

Singh: Many developing countries, mostly in Latin America, have for the past few years been facing severe problems of external debt servicing. Multi-year debt restructuring under the initiative of the IMF has solved the problem of bunching, but failed to provide a viable solution in the medium term. The economic and social costs of adjustment of these countries have been enormous.

We must also note that the external debt situation of some low-income developing countries, particularly in Africa, has become very difficult since 1984 and no viable solution to the problem has so far been devised by the international community.

I am not aware of the specific proposals advanced by President García of Peru to relieve the debt problem of Latin American countries. I would, however, like to spell out our position on the debt issue:

1) The issue of external debt should not be viewed in isolation. The problem is the manifestation of the larger problem of inadequate flows of real resources to developing countries, and a trade policy pursued by industrial countries which has been increasingly protectionist.

2) Any summit among developing countries, or for that matter among industrial and developing countries, should consider the debt problem in its larger perspective of adequacy of flows of resources to developing countries and international lending environment.

3) A viable solution to the debt problem in the medium term should be based on the recognition of shared responsi-

bilities of the borrowing parties/countries, the lending parties/countries, and international institutions.

4) The deteriorating debt situation of low-income countries, which are predominantly official borrowers, deserves immediate attention.

EIR: What, in your view, is the main stumbling block to international monetary reform? How can it be dealt with? What new initiatives are possible?

Singh: Until a few years ago, industrial countries did not recognize that there was a need to reform the international monetary system. The Williamsburg Summit of major industrial countries in 1983 recognized the need to "define the conditions for improving the international monetary system," and the London Summit of 1984 decided to carry forward the work initiated in this direction by the finance ministers of these countries.

In pursuance of the directions of the two summits mentioned above, the deputies of the G-10 prepared and submitted a report on the "Functioning of the International Monetary System in 1985." As I have stated earlier, this report does not find any need for major changes in the existing system. We do not agree with their perception of and approaches to the monetary system.

The G-24 has also prepared and submitted a report on the subject which reflects the major concerns of all developing countries in the G-77. We would like the international community to consider both the reports and initiate action urgently. As I said earlier, we would like the reports of G-10 and G-24 to be considered by a joint committee of the Interim and Development Committees, to begin with.

EIR: Some believe that the substance of a necessary international monetary reform should consist of a change in voting ratios in the Bretton Woods institutions, increased issuance of SDRs, expanded capital base, achievement of IDA targets, etc. Others contend that the basic economic-policy approach embedded in the Bretton Woods institutions—namely the monetarist, Keynesian, and other doctrinal variants of British "classical political economy"—is the real problem. It is this more fundamental problem, for example, which accounts for the perverse "conditionalities" policies which sacrifice long-term real growth potentials for short-term cash gains, and so forth.

In this latter view, we need urgently what you might call a "New World Economic Science" to underpin any effective "New World Economic Order." What are your thoughts on this?

Singh: The IMF may consider its policy presciptions to be more eclectic than theoretically pure. But I find the IMF's economic philosophy largely founded on the basic premises of what economists call "international monetarism":

- the law of one price and universality of purchasing power parity (which means that the rate of domestic inflation is equal to world inflation plus exchange-rate depreciation);
- existence of a stable relationship between demand for money and income; and
- monetary identity, i.e., the national money supply equals the sum of international reserves and domestic credit.

The Fund's stabilization programs, therefore, suffer from the same limitations as those of the monetarist theory:

- an application to the short-term what are, at best, long-term equilibrium conditions;
- inadequate attention to the components of balance of payments and concern only for a bottom-line total; and
- focus on macro-economic equilibrium rather than on economic development.

Fund programs emphasize the role of real devaluation as a source of expenditure switching as well as expenditure reduction via lower real incomes (monetarist theory insists on internal restraints, exclusively), and recognize that there is time lag in adjustment and that internal markets are not perfect (which the monetarist theory doesn't). In spite of these, Fund stabilization design suffers from its continuing insistence on excess demand diagnosis in all countries at all times.

We strongly feel that the Fund needs to reorient its present economic philosophy to be really helpful to the majority of its members. We also feel that, without the various reforms mentioned in the first part of your question being put in place, it would not be possible for the Fund to bring about the necessary reorientation in its economic policies.