**From New Delhi** by Susan Maitra

# Fixing for a fight with the IMF?

*To save its modernization drive, India may have to take up the cudgels for basic monetary reform.*

There is no indication that New Delhi is as yet prepared to take a new initiative on the vexed issue of international monetary reform, but the government's own effort to accelerate growth may compel it to do just that in the not too distant future.

It is noteworthy in this regard that during the late-September International Monetary Fund-World Bank annual meeting in Washington, D.C., Indian Finance Minister S.B. Chavan bluntly and repeatedly called the basic premises of prevailing economic orthodoxy into question.

In contrast to the plaudits for the "favorable world economic climate" issuing from the U.S. and other representatives, Chavan said the 1980s were a "lost decade" for most developing nations. In fact, their prospects are *declining* year by year, he said. Payment imbalances persist, the debt burdens increase, and a net transfer of resources out of the developing nations continues.

The Indian government warned in a detailed paper prepared for the secretariat and member countries of the World Bank, that if aid flows are not forthcoming, the government may be forced to return to a regime of strict trade and exchange controls.

India is in the process of moving its economy toward a higher rate of growth through a more open policy regime with a priority on modernization, an undertaking which has been universally applauded in advanced sector capitals. But, as the government paper explains, this has triggered a balance of payments problem, as imports of high technology capital goods necessary to boost industrial productivity and exports increase sharply.

If the payments gap has to be financed through commercial borrowings on hard terms, it will certainly lead to a crisis, which will, in turn, necessitate either a return to relative autarchy and associated slower rate of growth, or a deflation that would defeat the very purpose of the effort to modernize and speed up growth in the first place.

This is a dilemma that is not unique to India. It is the failure of international economic policy to address precisely this dilemma over the past 20-odd years, that has produced the present debt crisis.

In seeking to maintain an accelerating growth path, Indian officials have increasingly found themselves in trench warfare with contemporary economic irrationalities—from the International Monetary Fund's (IMF) demands to terminate all subsidies for the farm, fertilizer, food distribution, and export sectors, to the U.S. Trade Representative's demand that the national criteria for foreign investment be ripped up.

India's official refusal to entertain the U.S. Trade Representative's demands has inspired threats of trade war under the American "Super 301" law, and the subsidies issue figured as a major topic in a paper prepared for the IMF-World Bank. The government's paper showed just how costly the summary elimination of subsidies in these crucial areas would prove to be.

At the IMF interim commitee meeting Sept. 27, Finance Minister Chavan went to the heart of the matter—the "free market" ideology that spawns these demands.

"Let me turn to another aspect of adjustment—the belief that the answer lies in the free play of market forces," Chavan told the policymaking body of the IMF. "Developing countries are being asked to deregulate, reduce subsidies, and allow market mechanisms to work. I have no doubt that much of this advice is well taken, and many of us have come to similar conclusions without any prompting from the outside.

"The error lies in believing that this is all that is required. This is shown by the failure of many structural adjustment programs," Chavan continued. "Markets function when demand and supply respond reasonably quickly to market signals. *In developing countries, this response is often constrained by the lack of physical and institutional infrastructure.*

*"That is why substantial investment in energy, transportation, land, water development and human resource development is very necessary both for adjustment and for growth.* Any adjustment program which fails to reocgnize this is necessarily incomplete," Chavan stated (emphasis added).

This appreciation of economic fundamentals would certainly be understood in Japan, where the proposal to set up a "Global Infrastructure Fund" to meet this urgent need emerged in the early 1980s. Though the quota issue, which among other things involves Japan's bid for greatly increased authority in the IMF-World Bank, was postponed, India had declared before sending its representative to Washington that it was working with Japan on this and other economic issues.