'Indian government in our pocket,' say British bankers, IMF/World Bank

by Kathy Wolfe

Despite the outcry in India against the International Monetary Fund/World Bank-run budget cuts in infrastructure and health spending which hospitalized thousands with bubonic plague recently, London bankers and their World Bank advisers are bragging that India's International Monetary Fund (IMF) "reforms" will continue. Finance Minister Manmohan Singh, bankers say, plans to do their bidding.

"I don't think there will be any U-turns" away from the IMF shock therapy policy, said Will Mansa, chief spokesman for the London headquarters of Standard and Chartered Bank, the British Empire's oldest bank in India since the 19th century. Finance Minister Singh and his men, he told a journalist on Oct. 20, "realize that those objectives are onerous on the economy and politically unpopular, but one of the most impressive things about the Indian government, is that it *is* sticking very hard with liberalization" because they "need the major foreign banks in a very big way. . . . Banks such as ours, and also Citibank, Bank of America, Hongkong and Shanghai, are absolutely vital to this process."

"The plague is not that big a deal. It's all done with," World Bank India economist Anandarup Ray told an investigator on Oct. 21. "We can forget about the plague. That really is not a significant factor. . . . The reform program is not going to be reversed. . . . I have confidence," he said, that Singh will do as the global bankers wish.

"From the private investors' standpoint, I think the time to go in is now," Ray urged. "They have reserves of $19 billion, the stock market is absolutely booming. . . . So to make a fast buck, India is a good bet!"

London bankers laugh at Singh's claims that India's program is homemade and independent. The plague won't stop further budget cuts, said Papan Datta, chief India economist at London American Express, "because reform is being driven by India's IMF program. The plague hasn't much effect on that. . . . The reform program in '91 was begun under IMF aegis, and although the balance of payments has improved, the underpinnings are very much IMF-World Bank. . . . To backtrack on that would send out the wrong signal to everyone, not just to the IMF, but also to foreign investors, bankers, and exporters."

In fact, IMF and World Bank advisers are still in New Delhi helping run the program. "They are very, very actively involved in most of the important policy questions," Datta said. "The IMF's leadership remains, and it's running along on IMF/World Bank lines."

It was 40% cuts in the disease prevention budget, put forward by the IMF in 1991, which lead to the plague wave. Plague last hit India in 1966, at which time Prime Minister Indira Gandhi expelled the IMF from the country.

Damn the bacillus, full speed ahead

As the bankers spoke, a wave of fatal cerebral malaria hit 4,000 victims in Rajasthan, as many as contracted plague, the *Indian Express* reported on Oct. 21. Malaria insect control has also been cut by 40% under World Bank demands, charged Dr. D. Banerji, professor emeritus at Jawaharlal Nehru University.

EIR has been all for overhauling India's dilapidated postwar socialist system (see *EIR*, April 24, 1992, "Economic Reforms to Unleash India's Potential"). As the health situation shows, however, the IMF/World Bank brand of "reforms" introduced by Minister Singh in 1991 have destroyed the *physical economy*.

The Singh reforms consisted of lifting financial restrictions and cutting the budget. While new foreign regulations have created large inflows of volatile "hot money" and made some rich quick, nothing has been done about production. The largest budget cuts have been in physical infrastructure: power, rail, and health.

Without infrastructure support, India's industry looks like the plague hit it, too. Industrial production was flat at 2% in the fiscal year ended April 1994, and growth is not enough to stop rising unemployment. The IMF is demanding India sell off public sector heavy industry, and even the private sector, losing money for the last four years, was unable to invest in new technology and is now in terror of mass takeovers by foreign firms.

The Singh clique brags that India's 1991 bankruptcy has been reversed and the rupee is rock solid, but even these financial accomplishments are a sham. Out of the $5 billion in annual foreign exchange inflow the last two years, less than $1 billion has gone into industrial fixed investment. Most of India's touted $19 billion foreign reserves are hot money, such as that in the volatile Bombay stock market, which could flow out any minute. The trade deficit has mushroomed from $1 billion in fiscal 1994 to a projected $2 billion this fiscal year, and the IMF crowd is demanding a big rupee devaluation.

Nevertheless, Finance Minister Singh himself told a Singapore audience on Oct. 12 that the IMF shock therapy will continue. Reforms "require a broad consensus and political acceptability. Therefore, we have to move at a pace at which our system can sustain the pace of reforms," he told the World Economic Forum. "Having said that, there is no basis for conclusion that reforms are slowing down," he said. "Our revenue is broadly on target." Singh said the government had a five-year agenda to implement the reforms, and that he intends to move forcefully to bring India's deficit down even further. He also promised to cut state subsidies to agriculture.

Debt before lives

As for the future, the IMF has tried to lock India out of expanded spending on health, infrastructure, and vital services by continuing budget cut pressure and by prioritizing payments on India's huge national debt. Under IMF deregulation of interest rates the government pays on debt, World Bank India loan officer Gregar Dolenc said, India's Treasury now pays 11-12% to borrow on the markets, whereas before it had gotten credit more cheaply.

Plague? "So what?" Dolenc told an investigator on Oct. 21. "The reforms are on course. . . . What must be looked at now is the fiscal deficit in India," he insisted. "The public debt entails problems not dissimilar from those of the United States. About one-third of the budget is interest payments on the debt, and the servicing costs are even higher, quite substantial. . . . The government has little room to increase social spending because their existing revenues are earmarked already at the gate as to on what they will be spent."

"We want them to implement the hard budget constraints," said Ray of the World Bank, calling for extensive firings of workers from both public and private sector industries which, he said, are "overmanned."

The IMF and World Bank want the critical agriculture sector deregulated next, the bankers insisted, although millions of Indians barely have enough to eat. "That will mean getting rid of fertilizer subsidies, power subsidies, and water subsidies," said Mr. Datta of American Express. "Politically it is very difficult. The fertilizer subsidy causes enormous repercussions when they cut it; they haven't reduced it to the extent it was originally thought possible, but there are plans to do so."

The bankers are optimistic that the Indian people will suffer with this politically, because the only alternative to Prime Minister Narasimha Rao's ruling Congress Party is the chaos of former times and racial warfare such as championed by the fundamentalists in the opposition Bharatiya Janata Party, who brutally destroyed the Ayodhya mosque in 1991. "If Rao has a clear win" in the Dec. 1 and 5 elections in his home state Andhra Pradesh, said Ray, "the future is bright for accelerated reform."

"There is enough consensus that the alternative is far worse," said Datta of American Express. The banking community is counting on Prime Minister Rao to keep Singh and his IMF reforms no matter what. "There's really only one person" on whom the bankers can count, said Datta, "and that's the finance minister. Ultimately if it were not for his total commitment to this new economic policy, the edifice would be in great danger."

Despite the bankers' beliefs, however, the Indian population is furious. Prime Minister Rao's electioneering claims that he has brought the economy back to health fool no one, and are viewed as a hoax. Finance Minister Singh must go, and the Congress Party must move reform away from financial manipulation toward infrastructure and high-technology development of industry.

Interview: Will Mansa

Mr. Mansa of Standard and Chartered Bank was interviewed by telephone at his London office by a journalist.

Q: How does your bank feel about investing in India, given public anger at the reforms and the plague?
Mansa: Really, all these things are very short term. India is about entrepreneurism; and if there's a riot or a problem with the plague or whatever, after 2-3 days most Indians get back to making money. It doesn't have any bearing on business sentiment locally or internationally.

There's a broad section of opposition to the government's reforms. There are very archaic restrictive labor practices in India. Probably more than any other country in the world there is overmanning in all sectors, with a labor union movement which has brought this about and seeks to make sure it prevails. So it takes bold management to cut across union doctrine to eliminate this.

Q: And Finance Minister Singh and Prime Minister Rao agree with what the IMF wants done?
Mansa: They realize that those objectives are onerous on the economy and politically sometimes unpopular, but one of the most impressive things about the Indian government, even with all these areas of unpopularity at the moment, is that it *is* sticking very hard with liberalization.

Q: What about IMF calls for deregulation of agriculture through the removal of subsidies? Will they go ahead?
Mansa: They're determined to do so, and the underlying strength of the economy should allow them to carry it through in a way they couldn't have done several years ago. There's been a sea change in sentiment, particularly in the business community. They've decided that they're going to