THE IMF LOAN

AN EXERCISE IN MORTGAGE

ALL INDIA REVOLUTIONARY STUDENTS FEDERATION

(AIRSF)

JULY 1991

The IMF Loan

An Exercise in Mortgage

An AIRSF Publication

July 1991

For Copies :

Naveen
247, Kaveri Hostel,
JNU, New Delhi
110 067

Price : Rs. 2-50

INTRODUCTION

In January 1991 the government of India was allowed to have a loan of about 1.8 billion dollars (Rs. 3275 crores) and by July there was another request for a loan of 5 to 7 billion dollars (Rs. 9000 crores to Rs. 1,2000 crores). The loan results in serious short-run and long-run implications. Though there is a wide ranging news flow about the loan the real issues behind the loan are conspicuous by their absence. All India Revolutionary Students Federation would like to initiate necessary debate by throwing light upon some important aspects of the loan.

Basing on steady deterioration in the Balance of Payments position and the deepening crisis in the economy since mid '80s, the needle has always been pointing towards the IMF. That the government of India seeking a huge loan from the IMF is only a formal realisation of the long standing fears. In 1981 itself, when the earlier loan from the IMF was sought, an economist (who is Chief Economic Advisor at present!) noted that "we might have to borrow simply to service our earlier debts.... It is ironic that the loan, which has been taken to resolve our present Balance of Payments problem, might accentuate our Balance of Payments difficulties in the future". (Deepak Nayyar, *The IMF loan and Its conditions*, in The IMF Loan : Facts and Issues, Government of West Bengal, 1981, p.67)

Similar fears were raised again and again by concerned people. In May 1989, Manufacturers Hanovers, a top US bank based in New York observed that "despite the country's low reserve level, India is not expected to seek an IMF loan this year due to the upcoming elections. However, a further weakening of the current account deficit in 1990-91, would necessitate some form of IMF facility". (Indian Express, May 29, 1989) This view was corroborated by another organisation, Institute of International Finance, Washington. So, it was already clear by March 1989 that Indian economy should go for a huge external debt. But 1989 being an election year, the government played its usual game of cheating people by not presenting the facts. Instead it came with false information regarding the external debt. In the pre-budget Economic Survey, the government put the figure of total external debt at Rs. 55,000 crores. While it was Rs. 96,320 crores actually. The debt-service ratio was also wrongly shown as 24 percent instead of the actual 38 percent.

Ever since a new government came to power in November 1989 elections, the Finance Ministry became very busy in negotiating the controversial IMF loan. But then the severity of the loan lost its significance behind the political uncertainity on one hand and the Mandal-Mandir conflicts on the other. By August 1990 the Balance of Payments position declined rapidly and the writing on the wall was clear. As the Economic and Political Weekly editorially commented "the government may once again be tempted to take recourse to a sort of gambler's last throw : to approach the IMF for accommodation as much for the funds this would put at its disposal as in the hope that by placing itself under the Fund's tutelage and accepting its conditionalities and adjustment programme". (EPW, August 7, 1990)

With the developments in West Asia and the steep rise in oil prices, the Balance of Payments position was still more worsened and the government could use it as a pretext for expediting the loan. Within a short span of two months, September and October 1990, the foreign currency reserve declined by as much as Rs. 1830 crores. By the end of the year, the foreign exchange reserves gone down to such a level that the reserves were barely enough to finance 13 days' imports. India was almost on the brink of bankruptcy.

The government of Chandrasekhar, which was at the relm of the affairs at that time immediately approached the IMF and acquired a loan of 1786 million dollars (Rs. 3275 crores) in record time. This loan consisted of 777 million dollars under India's first credit tranche and 1009 million dollars under the Compensatory and Contingency Financing Facility. Even at that time it was estimated that India may have to go for an additional loan of at least 4 to 5 billion dollars by June. It was presumed that new government after elections would go for such a loan after presenting the budget. But due to the assasination of

Rajiv Gandhi and consequent delay in the formation of new government, Chandrasekhar's government has initiated certain steps towards pleasing the IMF bosses to acquire the loan.

After the new government under P V Narasimha Rao was formed, the Finance Ministry came out with its efforts to bring in the loan on time the government was so audacious that it claimed the loan was a progressive step to save India from the financial crisis, quite contrary to the available evidence.

All the parliamentary parties, whatever be their professed ideologies, supported the attempts of the successive governments to borrow a huge amount from the IMF. The bankruptcy of the opposition parties was once again demonstrated categorically in this act. Even when there was a criticism, it was mild and only a show of resentment against the manner in which the government conducted the affair rather than against the affair. Particularly CPI(M) which protested vociferously at the time of earlier IMF loan and held a seminar in the name of Government of West Bengal to make the people aware of the issues, now kept quiet and allowed the things to continue without any hindrance.

In the same way, the press, particularly the English press, did not raise any objection to the loan this time unlike the earlier occassion. While it should be given credit for its service in popularising the dangers involved in the IMF loan in 1981, this time, the same press wrote eulogies about the loan. That there was no single editorial against the loan in English press is an indication of collusion between the forces which appear to be opposing each other.

The situation became intriguing with all the dramatis personea-the imperialist financial agencies, the government of India, the opposition parties and the press – acting out their respective roles successfully in deceiving the people. But then the magnitude of the deception and its consequences are too large to be ignored. The Indian masses have a right to know all the details regarding this high-level conspiracy.

AIRSF, as a students' body concerned with the plight of the Indian masses, takes it as its bounden duty to equip the masses with the information in order to enable them to fight against the plot. What follows is a detailed account of the structure and character of the IMF, experience of the earlier IMF loan, particulars of the current loan, measures taken by the government on the prescriptions of the IMF and the alternative proposals to save Indian economy from the morass.

WHAT IS IMF ?

The International Monetary Fund (IMF) is a financial organisation that came into being out of a convention at Brettonwoods, USA in 1944. The convention, attended by 44 countries, prepared a plan "to root out the economic causes leading to the outbreak of War". The Brettonwoods plan consisted of two parts : (a) Establishing the International Monetary Fund (b) Setting up the International Bank for Reconstruction and Development (IBRD, popularly known as World Bank).

The declared objectives of the IMF are to establish monetary co-operation amongst the member countries, to ensure stability in foreign exchange rates, to eliminate exchange control in order to encourage the flow of international trade, to establish a system of multilateral trade and payments system instead of the old bilateral trade agreements, to promote international trade by removing all obstacles, to help member nations to achieve balanced economic growth, to eliminate or to reduce the disequilibrium in the Balance of Payments and to promote the export of capital from the richer countries to the poorer countries.

Though the objectives look liberal, the real character of the IMF was covered behind these vague terms. A neutral phase like "structural readjustment" is always used by the IMF in its conditionalities. According to Amiya Kumar Bagchi "the policies bracketed together as requirements for structural readjustment are inspired by an idelogy which can be recognised as a cross between the so-called supply-sided economies and rigid monetary policy, with the former being the dominant parent..." (The Ideology Behind the Maximum conditionality Demanded by the IMF and Its Implications, in The IMF loan : Facts and Issues, p 82)

To put it in other words, the IMF is just a weapon in the hands of the imperialist powers which interfere in the economies of the third world. The organisational structure of the IMF also strengthens the position of the imperialists. Seven super powers, the USA, the UK, France, Germany, Japan, Italy and Canada enjoy a status of permanent membership on the board of 21 members. It is very interesting to note that the IMF is almost dictated by the State Department of US and statutorily the US alone enjoys a veto power over all major decisions of the IMF.

There are a number of ways in which the imperialists operate with the third world countries through the conditionalities of the IMF. Generally the IMF makes its resources available to members by selling the currencies of other members or SDRs (Special Drawing Rights) in exchange of their own currencies. By this manipulation, the total reserves of the IMF would not change but only its composition changes.

The IMF's resources can be availed through permanent policies for general Balance of payments purposes (the tranche policies), parmanent facilities for specific purposes (the Compensatory and Contingency Financing Facility, the Buffer Stock Financing Facility, and the Extended Financing Facility) and temporary facilities (the Oil Facilities, the Supplementary Financing Facilitity and the policy on enclarged access to the IMF's resources).

More important than the technicalities of the IMF's lending are the attached conditions to the loans. Each kind of loan does have an implicit or explicit conditionality. All requests for loans other than those in the reserve tranche are subject to examination by the IMF to determine whether the proposed use of loan would be consistent with the provisions of the Articles and with IMF policies calling for adequate safeguards to assure the IMF that the member will adopt policies and take measures to overcome its Balance of payments difficulties.

After discussing the consequences of the IMF loan on some of the third world countries at length N. K. Chandra said "the IMF package of conditionalities are not so designed as to rectify the structural balance of payments deficits of Third World countries. These are mostly unsound in economic rationale, resulting quite often in an aggravation of the crisis. Besides, the terms are so stringent that there is every possibility of borrowers failing to meet them.

Secondly, to the IMF there is nothing sacrosanct about the conditionalities. It may seize on a trivial shortfall but can also overlook major transgressions. The primary objective is to compel the borrower as soon as possible to the IMF's version of laissez faire policy all around.

Thirdly, the IMF and the transnational banks generally, but not invariably, act in tandem.... Hence it is quite risky for a country to rely on the transnational banks alone for any large credit or to fight a battle with the IMF' *(IMF and the Third World* in the IMF Loan : Facts and Issues, Government of West Bengal, 1981, p. 94-5)

Sri Lanka had to pursue a number of anti-people policies for taking a loan from the IMF in 1979. Prior to the sanction of the loan it had introduced a set of economic policies in the direction of "liberalisation". Imports and price controls were scrapped, multiple exchange rates were abolished and the currency was devalued by 46 percent. After the loan was sanctioned in 1978 it had to abolish subsidies on the food ration and had to establish an export processing zone to attract foreign capital.

Jamaica was another sad example of the consequences of the IMF loan. Between Junuary 1978 and May 1979, the Jamaican currency was devalued to 49 percent in comparison with 1977. A massive dose of indirect taxation was imposed, price controls were lifted and real wage cut instituted.

Despite the dismal examples at hand the government of India sought to have a huge borrowing from the IMF in 1981, The roots for present malady, to a large extent, can be found out in the conditionalities of the earlier loan.

THE IMF LOAN - 1981

On November 9, 1981, the Board of Executive Directors of the IMF approved a loan of 5 billion SDRs (Rs. 5000 crores) to the government of India under its scheme of External Financing Facility. India's total external indebtedness was raised from Rs. 15,000 crores to around Rs. 21,000 crores. It was the largest loan agreement in the history of the IMF. The loan was extended over a period of three years and there were several stringent conditions attached to it.

Though the loan was of a consequential nature, the proposal was not open for discussion before the agreement. Even the parliament was kept in dark about the details. A fortuitous happening brought the proposal into open debate. An executive director of the IMF handed out the confidential 69-page document to N. Ram, the then Washington corresp ndent of The Hindu and basing on it, N. Ram had filed nine dispatches in the newspaper. The reports immediately caught the attention of Indian people. The dispatches included the Letter of Intent written by the then Finance Minis er, R Venkatraman and the priscriptions and the assesment of the IMF, While in Britain and Italy such loan proposals were discussed in detail on their respective parliamentary fora before approaching the IMF, in India the whole exercise went on unannounced and only the conclusion of the agreement was told to the people. Though belatedly, The Hindu dispatches initiated a much needed debate.

The government of West Bengal organised a seminar to elicit all aspects of the loan and the papers presented by eminent economists such as Amiya Kumar Bagchi, NK Chandra, Prabhat Patnaik, Amit Bhaduri, Ranjit Sau, Deepak Nayyar and Asim Das Gupta brought out the dangers involved in the loan.

In fact, the conditionalities of the IMF would not be spelt out explicitly always. As the loan negotiations continue for months together the borrowing country is made to change its policies gradually. Even the overt and stringent conditions are camouflaged in attractive and vague terminology. That is why when the actual loan agreement is being signed there would not be much scope to show its anti-people nature.

But then, the loan of 1981 was seen through by the eminent scholars and was criticised thoroughly. As Ashok Mitra observed in his introduction to the seminar papers "several economic decisions in the recent period such as raising the administered prices of a number of key, essential commodities, lowering the rate of direct taxation and increasing the burden of indirect taxes, relaxing the provisions of the Monopolies and Restrictive Trade Practices Act, the Foreign Exchange Regulation Act and the Industrial Development (and Regulation) Act, enacting legislation prohibiting strikes in certain sectors etc, were perhaps preconditions insisted upon by the Fund, for approving the Extended Financing Facility arrangement. Over the period during which the loan is to be disbursed India's monetary and fiscal policies including the size of the internal money supply, the structure of taxation and the quantum of budgeted deficits would be formulated not in New Delhi, but in Washington". (IMF Loan : Facts and Issues, Government of West Bengal, 1981, p. 7)

The IMF conditionalities touched several areas of Indian economy. The conditionalities can be divided as (i) "measures to encourage investment and production in private sector", including "steps to ease excessive regulations and restrictions", (ii) "considerable liberalisation" of procedures relating to foreign collaboration and royalty payments, (iii) an export orientation that reverses "the previous directions of economic development and policies which made the domestic market more attractive than exports", (iv) a "liberalised" import regime (v) a "reform", that is an upward revision of the price structure in agricultural and key industrial fields. (vi) action on "the need to contain subsidies on public food grain distribution" and on other items. (vii) a fiscal policy which is tight in terms of expenditure but which promises "to raise indirect taxes further and to lower direct taxes" "with the aim of promoting savings and stimulating investment" (viii) the pursuit of "a realistic policy in regard to exchange rates" which means that a large scale devaluation though not immediately demanded is not ruled out in near future, and (ix) a tight monetary policy.

There were two additional conditions which drastically hampered the sovereignty of India in economic matters. The first condition was a celling on non-concessional foreign loans. By stipulating such a ceiling the IMF was curtailing the option of commercial borrowing of India and was monopolising its position as a lender so that India remains a bonded client. The second condition pertains to the restriction put on bilateral payment agreement, which means that India could not move away from the imperialist stranglehold.

The manipulating power of the IMF was so strong that India had to clarify a sentence in its letter of intent. The questioned sentence was "consistent with the national policies accepted by our parliament" ! The IMF felt disgusted with the expression and the Executive Director of India on the board of IMF has to clarify that the expression was "not in the least intended to exclude from the consultation process...... any policies which the Fund considers are and would be consistent with achieving the objectives of the programme". To put these high sounding words in layman's language, if a policy of the Indian Parliament comes into conflict with the prescription of the IMF, the later would prevail.

Actually the need for the loan was not so severe in 1981. This fact was established by a number of economists giving plausible alternatives. But the government of India under the Prime Ministership of Mrs. Indira Gandhi went in for the loan. As some economists noted the loan might have been a cover to the anti-people policies which the government wanted to bring in with vengeance. The changes in Industrial Policy, the taxation and the hard dicipline option like Essential Services Maintainance Act were the real concerns of the government. In the same way hundreds of crores of subsidies were cut down due to which the poor and middle classes suffered.

While the results of the loan were broadly against the people, neither the IMF loan achieved its professed goal of solving the Balance of Payments crisis. In fact the proportion of external debt to national income rose from 11 percent to 15 percent.

To quote Prabhat Patnaik "while the IMF programme had drastic effects on the living standards of the bulk of the people, it does not necessarily improve the underlying payment disequilibrium. In fact it often worsens the situation. But any worsening leads to even stricter conditionality, to an even heavier dose of the IMF medicine. Not only does the country lose its economic sovereignty to the Fund, but the people are squeezed even harder". What had happened was exactly the same.

The IMF loan of 1981 played havoc with the people of India and it did not improve the Balance of payments position. It was a cruel joke to see that the government of India did not avail the full amount of loan on one hand and followed all the prescriptions on the other. Though 5 billion dollars loan was agreed upon, only 3 billion dollars were utilised and the agreement was terminated in 1984. The loan, added with Rajiv Gandhi's craze for the so-called modernisation worsened the situation further on Balance of Payments front. India had to go for even heavier dose of the IMF loan within 7 years after the last loan. As AK Bagchi put it, "what is wrong with the strong version of the IMF medicine ...... is that it seeks to cure the decease by killing the patient". Now the patient seems to be on the death bed again and the treatment of the IMF started again.

THE IMF LOAN - 1991

The earliest indication of approaching the IMF for a fresh loan came to fore during September 1990. The world Bank in its annual report of 1990, adviced India and the other South Asian countries to strive for "fiscal consolidation and reform". These prescriptions mean nothing but a harsh treatment against people and revision of welfare measures in the economy. The request of Government of India for a loan should be seen in the back ground of this prescription only. Though Madhu Dandavate, the then Finance Minister said later that there was no "hard conditionality" when they approached the IMF in September 199o, the statement was incorrect. For the proposed loan was of a tranche facility and it was not attached with a "hard" conditionality. And also, VP Singh's government did not remain in powter to see whether they could opt for the loan without any conditionality.

As the Balance of Payments position was becoming precarious during November 1990, Chandrasekhar's government became jittery over the immanent danger of bankruptcy. There were speculations of India going the way of some Latin American countries as a defaulter. But, at the same time, the IMF decided to extend financial "assistance" to India and other countries hit by the Gulf crisis. VP Singh government itself is understood to have estimated the "assistance" required to meet the extra burden consequent upon the oil crisis as 1 billion dollars.

In january 1991 the foreign exchange crisis still declined to the low level where the reserves were barely enough for two weeks only. In the third week of January, the IMF has approved the loans to India because of the stringent economic measures taken by the government. The increase in petrolium prices, raising of additional revenues and reducing government expenditures were some of the measures which made the IMF sympathetic towards India's request. Ultimately 1.78 billion dollar loan was granted.This roughly amounted to Rs. 3275 crores. This loan was divided into a first credit tranche and later stand by arrangement. The first credit tranche was only for three months after which India could sign a regular standby arrangement. So, the January loan itself paved the way for a larger loan by April–May.

In March another news came to the effect that the IMF was going to grant a loan of 2 billion dollars by June. According to the report "the IMF was satisfied with the 'corrective measures' in fiscal and economic policies pursued by India which if carried through in a full-fledged budget session, had virtually guaranteed India of another 2 billion drawing. The elections, the assasination of Rajiv Gandhi and the postponement of elections delayed the process of presenting a full-fledged budget and the Balance of Payments position deteriorated unhindered.

In April, the Finance Minister Yashwant Sinha had discussions with the IMF managing director Michael Camdessus and the World Bank president Barber S. Conable and got an assurance of getting the IMF loan upto 5 billion dollars by September.

In May, the World Bank prepared a documant 'Strategy for Trade Reform in India', ostensibly at the suggestion of the government of India. The document blamed "the inconsistent macro-economic policies, specifically the appreciation of the exchange rate in the early 1980s and the rapid growth of domestic demand led by the growing fiscal deficit fuelled by the growth in Government consumption expenditures" for the deterioration of the balance of payments position. Logically the remedy was "consistent" micro-economic policies of market economy, devaluation of exchange rate and the cut in subsidies and other government expenditures!

While the prescriptions of the international institutions were becoming more and more stringent, the balance of payments position was going down to the depths. In June the caretaker government decided to raise a loan of 200 million dollar on the strength of swap arrangement involving 20 tonnes of gold to operate the foreign payments smoothly.

The new government under P. V. Narasimha Rao with Dr. Manmohan Singh as its Finance Minister started wooing the IMP from the day one. The finance ministry put the IMF loan on top of its agenda and within a week of coming over to power the government sent a Letter of Intent to the IMF. Actually, Camdessus and Barber Conable made a joint statment that they "remain committed to India's economic development", in the wake of the assasination of Rajiv Gandhi. So, the efforts of the government of India were only a continuation of the ongoing relationship between the Brettonwoods institutions and India.

Cutting down subsidies and raising taxes were two major remidies proposed by the IMF officials team during the negotiations. According to the report "while India has recived a pat on the back for running a cost-related price policy for oil by passing on the rise in world prices to the consumers, fund experts believe it must follow a similar policy in other areas like fertilisers and by doing so it is possible to make the ends meet in budget-making".

Even before the negotiations, the interim budget of the previous government proposed a beginning in the privatisation of state enterprises. Quite naturally the IMF wanted this "reform" to be done in a larger framework.

The real intent of the discussions between the IMF and the government of India would come out when formal budget is tabled on June 24. But even before the formal parliamentary procedures, the several stringent actions are being taken by the executive itself, evidently on the advice of IMF. Devaluation of Indian currency in relation with Pound Sterling, Dollar, Mark and Yen is one such action in the series.

DEVALUATION AND OTHER MEASURES

During the first week of July, Indian rupee was devalued successively against the foreign currencies. The total devaluation in the week amounted to about 20 percent. Though the Finance Minister vehemently denied the hand of the IMF in the devaluation, it became evident by the reactions from the IMF and comprador bourgeoisie in India. The opposition parties, appex business chambers, and leading industrialists said the step was inevitable and even welcomed it. Even when the opposition leaders criticised the move, the cirticism was not against the move itself but against the manner in which it was conducted.

It is true that the government acted arbitrarily in devaluation process. While the parliament session was due in a week, the government resorted to an executive decision. The devaluation decision was not thoroughly discussed anywhere even in the cabinet, but accepted fait accompli. But then the improper manner pales into insignificance when compared to the real consequences of the move.

There are two fundamental issues to be discussed regarding the devaluation and other measures which followed it. One is the erosion of economic sovereignty of India and the other is the effects of devaluation to be borne by the Indian people.

In the foregoing discussion it was well established that the devaluation is a conditionality attached to the IMF loan. There is circumstantial evidence to show that the present devaluation is also a condition laid down by the IMF. The government did not come out with any evidence to counter this charge. On the other hand spokesman of the IMF observed that the devaluation "is an appropriate measure under the circumstances". Keeping the history of the IMF in view, one can easily understand that the devaluation of Indian currency is nothing but a consequence of India seeking the loan.

Inevitability or otherwise of the devaluation is one thing and some external force twisting our arm to resort to devaluation is another. If the devaluation was the only alternative before the Indian ruling classes and that was duly discussed on open fora, it would not be a wrong move. But instead, the powers that be wanted to mortgage the interests of Indian people at the altar of the imperialist financial agencies. This is a serious violation of economic sovereignty of India in the international arena. The Indian rulers, whatever be the colour of their flag, collided with the imperialists to denigrate our sovereignty.

Sacrificing self respect may be an abstract result of the devaluation but there are more serious concrete results to it. Though the devaluation was intended to boost export earnings, it will definitely lead to domestic price increases. Even the desired objective becomes an uncertain one if the previous experience is any indication. Devaluation leads to an increase in import costs and which in turn lead to the rise in price of related goods. Similarly, with devaluation, India's bill for import of crude and petroleum products will go up and consequently prices of all goods increase. So, devaluation invariably leads to more inflation. Even the pressure of inflation is to be borne by the poor and middle classes.

After the successive devaluations, the government went on with several changes in industrial and monetary policies. Bank rates were hiked with a pronounced objective of curbing the imports and reducing the aggregate demand in the economy, which will only lead to lesser lending from banks. Reserve Bank of India had taken steps to keep a part of its gold reserves with the Bank of England. The chief of RBI shamefacedly accepted that "we can borrow 220 million dollars roughly for 25 tonnes of gold. Discussions were also being held with the IMF and World Bank leaders in Delhi. They are very helpful to us. Once the budget is passed, we will get the full IMF loan" !

But even before the loan the Indian economy had to be fully opened up to foreign investment. The government of India announced a liberalised trade policy which practically conforms to the recommendations of the World Bank as set out in its document called 'Strategy for Trade Reform'. It was suggested that new Industrial policy was also in offing.

While this kind of liberalisation, delicensing, opening doors for imperialists and multinational corporations was going on, the apologists of the market economy started filling the columns in the big-bourgeois English press. Editorials openly advocating for such changes, the mood was almost set to invite the socalled "free trade" market mechanism leaving out all the nominal facade of "Nehruvian Socialism". This idea was brazently put forth by none other than the Finance Minister of the same Nehru's congress party. In the interviews to New York Times and Hindi Service of Voice of America he said that the nation's elite must forget their ideological hangovers because India has no viable option except to open its doors to the West.

He argued that it was time "to launch a process of changing mind-sets of our people". India, he said, hoped to attract multinationals to look upon India as an opportunity for investing and an opportunity for profitable business. He said the government was willing to liberalise its rules governing foreign investment and also consider privatisation wherever necessary.

He was audacious enough to say that "we do want to become a thoroughly well-functioning market economy. We are already a market economy where government regulates a great deal, where the public sector is very important ...... the public sector will remain important, mixed economy will still be there, but I think market processes, market signals will increasingly determine the allocation of resources. But it will be a market economy with a social conscience". But the phrase "social conscience" becomes empty when he said that he was expecting the multinationals to come in flood. Inviting Bhopals and speaking about social conscience is clear indication of the dubious nature of Indian rulers.

India's efforts got the approval of imperialist bosses also. World Bank, in its 1991 World Development Report criticised India for "unusually comprehensive and restrictive regime of regulation". So when the changes started taking place, the World Bank officials not only invited them but also sought more changes. They maintained that the devaluation had to be followed by a series of other measures like elimination of various kinds of subsidies, reduction in budgetary deficit, dismantling licensing and other regulatory regimes, and grant of greater autonomy, if not whole-sale privatisation to the public sector units. What the imperialists wanted and the Indian rulers prepared to give have become one and the same.

In such a whole-sale cheating game where the local rulers and imperialists collided, the people have to bear untold sufferings. Almost all the sufferings are engineered by the Indian ruling class–imperialist nexus.

EFFECTS OF THE IMF LOAN

The actual conditionalities attached to the current IMF loan can only be grasped fully when all the related documents are made public. But given the past experience, it is almost impossible to expect the government to come out with the details. There is already a lot of disinformation : The Hindu reported on June 29 that the Letter of Intent from the Union Finance Minister was received by the IMF Director "a few days ago". But on July 1, Dr. Singh said that "no such letter has gone to IMF". The government did not even table the letter of Intent in the parliament. Not even a single MP cared to ask what was in the letter of intent and how the government had accepted to the conditionalities of the IMF.

While the government was not forth coming with the facts, press could have played an important role in digging up the hidden truth. But most of the newspapers are congratulating the government for the "bold" steps of "opening up" the economy. Editorials, comments of apologists and planted news are brimming with praise for the government.

As things stand, another source of information would be an analysis of the successive measures taken by the government. The consequences of the conditionalities of the IMF loan may come out to a large extent in the forth coming budget. But, even before that, the new government had been announcing a "reform" each day and presumably the trend may continue even after the formal budget is tabled. Hence the effects of the IMF should be guaged basing on the experiences of the earlier loan as well as the past three weeks, leaving enough rope for more effects in store.

A list of changes that were effected during the last three weeks demonstrates the mood of the government :

June 27 : An all - party meeting was convened in New Delhi to discuss the current economic situation. "According to available indications, while the opposition parties did not openly endorse the course of action charted out by the government, they were more or less reconciled to the fact that the country would have to go in for the loan". (This tacit agreement is to be kept in mind while reading the seemingly "harsh criticism" of some of the opposition leaders). The meeting was attended by L K. Advani (BJP), George Fernandes, Madhu Dandavate (JD), P. Upendra (TDP), Somnath Chatterjee, Harikishan Singh Surjeet (CPI - M), Indrajit Gupta (CPI) and Yashwant Sinha (SJP) among others. Though some of them wanted to know the conditionalities of the IMF, they did not press for an answer when the Prime Minister and the Finance Minister were evasive.

June 29 : India has sent a letter of intent to the IMF.

July 1 : Indian rupee devalued by 8. 76 percent against pound sterling. Finance Ministry played down the devaluation. The Finance Minister denied the letter of intent being sent to the IMF. The Ministry of Industry has begun work on formulating a new liberal industrial policy. Probable aspects of the new industrial policy were (i) Delicensing of industries in terms of investment in plant and machinery might be increased to Rs. 75 crores. (ii) raising of financial equity limit from 40 percent to 50 percent for purposes of determines whether a company came under the purview of FERA. (iii) raising the asset criteria from the existing Rs. 100 crores to Rs. 500 crores for attracting MRTP provisions. (iv) loosening of the rules governing dominance and inter connections.

July 3 : Rupee again devalued by 11.83 percent aganist pound sterling. Bank's deposit and lending rates increased.

July 4 : Rupee value further went down by 0.26 percent. Foreign trade freed from controls. An new 13-point programme for a free trade regime was announced. 4.8 tonnes of gold from RBI reserves was sent to the Bank of England.

July 5 : More details of the changes in industrial policy were leaked out.

July 7 : Commerce ministry considers a 'total package' to cater to the requirements of Export Processing Zones and the 100 percent Export Oriented Units.

July 8 : RBI sends another 20.01 tonnes of gold reserves to the Bank of England.

July 11 : 10.01 tonnes of gold sent to the Bank of England.

July 14 : All ceiling on investment and locational restriction for setting up industrial units are to be withdrawn in the new industrial policy.

July 16 : Railway budget was announced with considerable hikes, particularly 10 percent rise in freight charges.

July 18 : 12.09 tonnes of gold sent to the Bank of England.

These changes will certainly lead to a host of problems to the Indian people. It is important to remember that the changes are only the tip of the iceberg and the real consequences of the loan would be known in the budget of 1991-92 and the post-budget notifications. The repurcussions of the loan can be (i) inflation, (ii) cuts in subsidies, (iii) restrictions on wage-rise and assaults on collective bargaining, (iv) privatisation (v) growing external debt, (vi) presenting Indian market on a platter to imperialists and multinational corporations.

(i) Inflation : Though the economic characterisation of inflation has a variety of meanings, people experience it mainly in the form of soaring prices of essential commodities. The purchasing power of the people falls down gradually due to inflation. On the other side of the coin, inflation gives rise to super profits to the sellers on the one hand and wide spread black marketing and speculation on the other. The "structural readjustment" programmes prescribed by the IMF and followed by the government of India try to bring in an "engineered" inflation.

A double digit inflation situation is a dangerous phenomenon and always the governments tend to underplay the real rate of inflation. In the same way the government of India has been putting the inflation rate at 9.1 percent to 9.7 percent, a figure just below the double digit figure. In fact, in the retail markets all over India, the rate of inflation has always been over and above this. Even the government had to accept that the rate of inflation has gone up to 10.2 percent in the first week of July 1991. According to Dr. Subramaniam Swamy, the rate of inflation may be around 35 percent in the coming months.

The measures taken by the government in the past three weeks will certainly contribute to the rise in rate of inflation. The first measure in the series was the devaluation of Indian currency with respect to foreign currencies. The external devaluation of rupee will invariably lead to the internal devaluation also since the declined purchasing power of rupee will have its effect in an economy where imports exceed exports. Particularly capital goods, components of manufactured goods and some of the consumer goods become costlier with the devaluation. The effect of rise in cost of capital goods will be noticeable in all the finished products.

Yet more significant aspect of the devaluation is the rise in the import bills of crude oil and petroleum products. It was estimated to be about Rs 1000 crores. Already the import bill of India on crude oil and petroleum products has been rising in leaps and bounds. From Rs 3965 crores in 1987-88, if went up to Rs 10,890 crores in 1990-91. As most of the transport system in India depends on imported oil, the devaluation would ultimately hurt the poor and middle class sections.

At the same time there were a host of changes in trade policy and a wide range of "reforms" were mooted in industrial policy. Delicensing, deregulation, enchancing the ceilings of FERA and MRTP Act, loosening the restrictions of government control and opening the doors for multinational corporations and imperialist agencies were in offing. The measures will not only give rise to inflationary prices but also erode the economic sovereignty of India, where the government will not be able to check inflation.

In the name of mobilising domestic resources, the government may indulge in 'price reforms', which bring in a higher rate of inflation.

To sum up, the overall level of prices will be more than what it was before the loan, obviously, the effect of inflation will be felt more by the poor and middle classes where as the rich would be insulated.

(ii) Cuts in subsidies : 'Discipline in monetary - fiscal policies' is a favourite prescription of the IMF. This conditionality requires restraining the rate of monetary expansion reinforced by high interest rates, and keeping the budget deficits down to "manageable proportions" by reducing public expenditure, particularly on subsidies. It is learnt that the IMF has asked the government to reduce the fiscal deficit to 6.5 percent of GDP in 1991-92 from 8.4 percent in 1990-91. It is to be reduced further to 3.4. percent in coming years.

A part of this conditionality has already come into force with the RBI's instructions of July 3. The reduction in public expenditure will be announced in the budget on July 24. But in view of the history of the IMF, the cut in public expenditure means the cut in subsidies. The most likely areas for cuts are the budgets on health, education and social welfare programmes meant for the poor. The IMF always look at the food subsidies and fertiliser subsidies apprehensively and a huge cut is being advocated in these areas.

Food subsidies in the form of Public Distribution System (PDS) through fair price shops have been a show piece of "social welfare" approach of Indian state. The food subsidy was Rs. 2450 crores in 1990-91. In fact the PDS has been permeated by corruption, inefficiency and it never reached the targeted population to a large extent. But then, even that facade is going to be shed by the rulers now. They want to cut down the subsidies more and more on the food items. The cut in food subsidies means a rise in prices of PDS, which leads to yet more rise in open market. More number of people would be thrown out of PDS and the size of black market would grow further.

The other cut advocated by the IMF is regarding the fertiliser subsidies whatever be the reasons, generally the price of fertilisers is very high for the farmers and if they are asked to bear the burden totally, the cost of agricultural production would go up. Hence, there was a need for government intervention and it has been subsidising the fertilisers. The subsidies were Rs. 4,400 crores in 1990-91. Generally a cut in these subsidies since the subsidies cater the needs of the rich peasantry. With the cut in fertiliser subsidies, food prices are bound to go up. But, even here, the effect of the cut ultimately comes down heavily on the poor and middle sections only.

Thus, the cut in food subsidies and fertiliser subsidies changes rise in price and consequent social and economic problems. In addition, cutting down the budgets on health, education and other social welfare programmes, will make the lives of the poor and middle classes more miserable.

(iii) Restrictions on wage-rise and assaults on collective bargaining : In the name of reducing the public expenditure, the government indulges in all kinds of restrictions on wage rise. Delaying the constitution of wage boards, haphazard implementation of the recommendations of wage boards, arbitrary and compulsory deposit schemes, and ceiling on wage rise are the most probable steps the government may take in near future. While following this type of indirect policies on the one hand, the government may also try to curtail the rights of workers through ordinances and legislations. Already apologits of the IMF loan started blaming organised labour and recommending the anti-worker policies. One should remember that Essential Services Maintainance Act, one of the draconian laws in the history of collective bargaining, was pushed through during 1981 IMF loan. Similar measures may be contemplated by the government even now.

(iv) Privatisation : The "socialistic pattern" and "planned development" of Nehruvian politics have come such a long way that, after four decades, the words 'Socialism' and 'planning' have become untouchables ! All the while, the rulers have been putting forth the public sector as one of their major planks. It is true that the public sector was never allowed to develop freely and efficiently. It was always looked down. It was treated like an appendage of the private sector. It has become the "government sector" when the government was run by the bosses of private sector. But the ruling classes have degenerated to such a level that they no longer think it necessary to have a cover like public sector. This desire of the rulers was translated into practice by Chandrasekhar government when it's vote-on-account budget proposed a 20 percent disinvestment in selected public sector units. This disinvestment was estimated to be around Rs 2500 crores. Now, on the advice of the IMF, the government wants to disinvest 40 percent and there are plans to privatise key sectors also. Though this is not the proper place to discuss the efficiency, the public sector was prevented from achieving efficiency and then the inefficiency was shown as a reason for its removal. But, leaving apart efficiency-inefficiency debate, the public sector was an out come of a particular ideology concerned with tha well-being of the people and now the ideology is being given up.

(v) Growing external debt : Rise in external debt of a nation will have serious repurcussions. The debt trap is a vicious circle where the debtor nation has to borrow more and more to repay the old debts. A number of countries in Latin America stand as sad examples for the debt trap and some of them have become defaultors also. External debt damages the credit worthiness of the country in economic sphere and it is turn erodes its political stature in international relations. On the other hand, the sovereignty of the nation and self-respect of its citizens become vulnerable. India was on the way of this vulnerability and the IMF loan has completed the process. India had an external debt of Rs. 131000 crores prior to the devaluation in July and the devaluation enhanced the debt to Rs. 162,000 crores. This staggering figure can be put in other way; each and every Indian, whatever be his or her age, owe about Rs. 8,500 to imperialist countries and financial agencies ! The IMF loan would further increase the debt.

(vi) Presenting Indian market on a platter to imperialists and multinational corporations : This is a conditionality which the IMF insists always. As an imperialist financial agency, the IMF attempts to turn all the independent national markets into dependent and open markets vulnerable to the imperialist and multinational corporations. A complete package would be recommended for opening up the market and deregulating the import–export policies. This kind of "liberalisation" has got a phillip during Rajiv Gandhi's tenure and the present economic crisis is a result of that policies only. Now, the government wants to accelerate the process of "liberalisation" and it is not even ashamed of openly accepting it.

The dangers involved in the "liberalisation" and allowing Multi National Corporations have been well researched and a number of studies demonstrated how the pillage of third world takes place through MNCs.

Here, we confine ourselves to a single case of Union Carbide Corporation, a Multi National Corporation which created havoc in Bhopal. It stands as a remarkable example to the powerlessness of the government against the Multi National Corporations. The government of India could not close down the plant. It could not make the corporation pay the reasonable compensation to the victims. It could not get the actual information on what had happened on the night of December 2, 1934. After seven years it is still a mystery what was the gas that killed about 5000 people and maimed thousands of others. While the previous regime of "regulations and apprehensions" was in operation, the UCC could get away with illing and maiming thousands of Indians without even giving the information needed to correct the health disorders, it would be anybody's imagination what will happen to our people with the present policies of deregulation and opening the flood gates for multinationals.

Non Resident Indians seem to be disappointed by the new governments' "initiative" to being in all the imperialist forces.

But, behind their disgruntlement, an arrogance of their role right to export Indian market is evident.

The list of the ill effects of the IMF loan can never be completed. Imperialism will have a host of atrocious policies to exploit and suppress the people of the third world countries. Only a resolve to fight out imperialism and an endeavour to find out alternatives can rescue the people from the clutches of imperialist forces.

NEW DEMOCRATIC REVOLUTION IS THE ONLY ANSWER

From the point of view of the ruling classes, the IMF loan is only alternative. Since the economic strategy followed by the rulers for the last forty years is only an instrument to loot the people to serve the interests of the affluent few, it is quite logical to go in for a loan of such huge proportions. The people in general were blamed for the present impasse by many apologists saying that "we have been living beyond our means". But it is high time to ask the pertinent question : Who lived beyond their means ? It was never the agricultural labourers, poor peasants, workers in organised and unorganised sectors. It is the ruling classes which are plundering Indian people and "living beyond their means".

Gradually people are realising the game of the rulers and started questioning the basics. To keep the people's righteous anger in check, the ruling classes are more and more depending upon the imperialists, military and feudal options.

Rising fundamentalism and increased importance to the feudal practices, enhanced defence outlays and militarisation and bringing in multinationals are measures inevitable for the rulers for their desperate survival. Rama Janma Bhoomi, Sati, phenomenal increase in defence budget from Rs. 281 crores in 1960-61 to Rs. 17,565 crores in 1990-91, and the "liberalisation" are the logical outcome of the present ruling class' bid to stay in power.

But from the point of view of the people, there are a lot of fundamental questions. Who is souring and who is reaping the harvest? How the sweat and blood of Indian people are being wasted to satisfy the greed of upper 10 percent in India and their bosses in Washington, London, Moscow and elsewhere ? Why the people of this land with abundant resources have to die in starvation and deprived of basic necessities ? Who is responsible for the whopping external debt ? Whose interests are being served by the ever increasing imports ?

As the manifesto of AIRSF pointed out "The rule of big-bourgeois, landlord classes, in collusion with imperialism has become a stumbling block to progress and in order to perpetuate their unbridled exploitation and plunder, they are protecting and maintaining and in some pockets moulding the rotten and decadent feudal system in India. With the continuing onslaught of landlordism, poverty and indebtedness is increasing in leaps and bounds, causing pauperisation of the peasantry and increase in the number of agricultural labourers. Shortage of foodgrains has become acute and the erosion of purchasing power of the people has assumed alarming proportions".

"This crisis in agriculture is hampering the development of industry. To escape this stagnation and crisis, the bourgeoisie is heavily relying on loans and aids (including the so-called 'Socialist Aid' of Soviet Social Imperialism) from the various imperialist countries. The recent IMF and World Bank borrowings are a significant case in point. However, this increased stranglehold of imperialist debt only further aggravates the economic crisis..."

Though everybody agrees that there is a serious crisis in Indian economy, different views are put forth about the reasons of the crisis and solution to it, AIRSF believes that the present crisis is a conservance of the policies pursued by the ruling classes the big-bourgeoisie and landlord classes. Hence, AIRSF understands that overthrow of the ruling classes through new democratic revolution based on the revolutionary alliance of the workers and peasants led by the proletariat.

Thus, it is the historical task of the Indian masses to take a political stand against imperialism and their henchmen here, and fight them out in order to build up a new India where such economic crises will be solved according to the wishes and interests of the people.

AIRSF

The All India Revolutionary Students Federation (AIRSF) was formed at its inaugural conference held at Hyderabad in February 1985.

Prior to that a number of student organisations from different states had come together at a meeting held in September 1981 at Madras to form the Revolutionary Student Organisations Co-ordination Committee (RSOCC).

The AIRSF asserts that the present education system in India is elitist in nature and unscientific in method and content. Though the student movement will fight for the creation of a genuinely scientific and democratic education system, such a change is not possible without a fundamental transformation in the semi-feudal, semi-colonial nature of Indian society.

The AIRSF therefore stands for a student movement which will integrate closely with the workers and peasants to form an integral part of the New Democratic Revolution.

The constituent organisations are : Andhra Pradesh Radical Students Union (APRSU), Vidyarthi Pragati Sanghatana (VPS) Maharashtra, Progressive Students Union (PSU) Goa, Punjab Students Union (PSU), Pragatipara Vidyarthi Kendra (PVK) Karnataka, and Tamil Nadu Radical Students Union (TNRSU). Progressive Students and Youth Front (PSYF) Bihar, Revolutionary Students and Youth Front (RSYF) U.P.