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Not being in the mainstream of monetary arrangements in Europe would be particularly dangerous for Scotland. Financial services are our biggest industry in employment terms, and there is special expertise in insurance products and investment management that should, under the right conditions, find ready markets throughout Europe. In those markets customers will want their financial services products to be dominated in a familiar currency in which they have confidence. In other trade too, a common currency has obvious advantages. About 60% of Scotland's manufactured exports are destined for other EC countries and the biggest single market for Scottish goods, after England, is Germany.

The note issue is part of the whole, but the use of the major European currency in Scotland (if necessary in addition to sterling) would help demonstrate our European credentials.

Scottish banks should negotiate a new note issue which promises to "pay on demand" deutschemarks, not pounds.

Of course, EMU may not come about anyway. The widening of the Community by including more member states may distract attention and delay the process indefinitely. But the concern for money would still remain. The reason is the deepening of the Community by the Single Market measures. Ironically, it was Mrs. Thatcher's nominee, Lord Cockfield, who has been the principal architect of a situation in which changes of money cannot be avoided.

The Single Market is not just giving us the prospect of free movement of people, goods, and services. Money will move freely also. And for those services whose end product is measured in money terms (savings, investments, life assurance, pensions), there will be increasing attention to their deutschemark value.

The deutschemark is bound to be the standard because people or companies who are obliged to hold cash, even for quite short periods, will want to hold the cash that is least likely to deteriorate in value. Given free movement of money, avoidance of risk will be achieved by trading in deutschemarks whenever possible.

The lesson for Scotland is clear. Our future is European because the consequences of not participating fully outweigh the difficulties of adjustment. Experience of the United Kingdom's EMU has shown that European EMU will not necessarily diminish Scotland's identity. To keep one component of that identity, our money, the Scottish banks should be allowed to issue deutschemark-denominated notes.

A neglected economy: V.P. Singh's legacy

by Susan Maitra and Ramtanu Maitra

The 11-month-old V.P. Singh government of India went out in a puff of smoke on Nov. 7. But it left behind a host of socio-political issues which may take years to resolve. In addition, the government's abject disregard of basic economic matters coupled with expensive populist measures, has helped to further set back the debt-ridden Indian economy.

When former Prime Minister V.P. Singh came to power last December, few were aware of his missionary zeal for social reforms. He had promised the Indian population that he would do his best to arrest the fast price rise of essential commodities, and many had been impressed by his handling of the finance portfolio during 1985-87 under the Rajiv Gandhi administration. At that time, he had worked to loosen the Gordian knot of controls and regulations which have made the Indian economy a high-priced one, suffering from low productivity, poor utilization of available technologies, massive waste, and over-bureaucratization.

Eleven months later, following an ignominious exit, V.P. Singh has little to show as his economic achievement. On the contrary, confusion and paralysis in making policy decisions heightened during this period. With the Eighth Five-Year Plan (1990-95) on the anvil, fights broke out between cabinet ministers and the Planning Commission, who saw in it an opportunity to chart out an alternative development path. Their conceptual outline of a decentralized plan with no firmly defined targets met the wrath of one and all, including that of the prime minister.

After months of being disgruntled and generating plenty of news leaks, the planners came up with a $180 billion five-year outlay with little notion where the money would come from. Being strong advocates of rural development and employment generation, they allotted 50% of outlays to the rural and agricultural sector and cut back on such crucial infrastructural sectors as power, coal, and railways. Now the planners are concerned that with little infrastructure available, the rural and agricultural sectors cannot absorb the 50% outlay.

While it is obvious that money is tight, and the government wasted no opportunity to tell people so, the V.P. Singh

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government announced an agricultural and rural debt relief scheme to the tune of $4.5 billion—half of which is to be accounted for in this fiscal year. It gave a major boost to the burgeoning budget deficit. Now, the agricultural cooperatives are pointing out that the government's "generosity" will help them to lose another $2 billion this year because the loan repayment has fallen off significantly.

Despite repeated statements issued from various ministries, India's public sector enterprises, with a few exceptions, continued to show losses. The much talked-about improvement of productivity remained words, and the output of core sectors—power, steel, coal, railways, crude oil, cement, and fertilizers—showed a distinct slippage from the targets. The worst shortfalls were suffered by the coal and crude oil sectors—down 11% and 17.5% respectively—in the month of September, giving little comfort to the growing energy crisis exacerbated by the Gulf situation.

The industrial sector, which had performed remarkably well in the April-September 1989 period with 17.4% growth, has slowed down to about 10%. That slippage is more concrete but probably less far-reaching than the damage caused by the V.P. Singh industrial policy fiasco. Former Industry Minister Ajit Singh's inability to get action from the prime minister's office or the cabinet on the "New Industrial Policy," announced early on with great fanfare, confirmed the worst fears of potential economic aid donors and investors in the Far East and West. A potentially groundbreaking visit to Japan by Ajit Singh and a business delegation was sabotaged on this account, and the industry minister was subsequently forced to back out of a long-planned, high-level forum in Davos, Switzerland, devoted to investment opportunities in India.

Foreign exchange crisis

The politicization of every economic move and continuous shuffling of feet without going anywhere took perhaps the heaviest toll in the financial areas. According to latest estimates, India's budget deficit may go up to $7.2 billion in the present fiscal year—almost 80% more than the government had promised. This is despite the government's decision to raise petroleum prices by 15% to earn more revenues.

The Gulf crisis hit an already weak balance of payments position. India's imports of 20 million tons of crude oil and 9 million tons of petroleum products will cost at least $7 billion (assuming the crude cost remains $25 a barrel for the remaining months of this fiscal year which ends on March 31). The direct additional cost of oil and petroleum products import will amount to about $2.4 billion. In addition, India will lose some $200 million worth of exports; another $200 million foreign exchange loss has been incurred due to the evacuation of Indian migrant workers from Iraq and Kuwait.

India's foreign exchange crisis is now chronic. While foreign exchange reserves have gone down to $2.5 billion, the lowest in 18 months, export growth, which was estimated to reach 38% over last year's, has slowed down to register only 23% growth at the end of the first quarter. Although some curb on imports has been imposed, the trade deficit this year is estimated to increase by about $3 billion.

Such performance has already created ripples among foreign bankers. India already has a foreign debt of about $60 billion, and the Reserve Bank of India points out that the debt-to-export ratio rose sharply from 131% in 1980 to 218% in March 1989, and it is still going up. Equally disturbing is the news from the finance ministry that the debt-service ratio—overseas debt as a percentage of export earnings—which was 26% in March 1987, is now 30%.

The growing debt, the increasing gap between export and import earnings, and the yawning budget deficits have lowered India's credit rating in the American market. Moody's and Standard and Poor's rating revisions indicate that confidence in the Indian economy abroad is diminishing. Both these services place India within "investment grade"—but just one step above "speculative" or "non-investment" grade.

As a result of these developments, it is now almost a certainty that India will approach the International Monetary Fund (IMF) for a Structural Adjustment Facility (SAF) loan to the tune of $2.5-3 billion. The decision to approach the IMF is a turnabout: former Finance Minister Masdhu Dandavate had claimed on many occasions that the government will not seek any loan from the IMF. Recent reports indicate that the Indian executive director at the IMF is now negotiating with the IMF on the size of the loan and the issue of conditionalities, which the government feels are politically unpalatable.

Price rises will hurt the most

But the factor which is going to hurt V.P. Singh and his Janata Dal party in future electoral pursuits is the continuous rise of prices. The wholesale price index, which showed a decline in the last two months of the Congress (I) government last year, rose quickly beginning in December 1989, the month the V.P. Singh government took over. With 1981-82 as a base, it has gone up from 166 in December 1989 to 181.7 in October 1990. Similarly, the consumer price index has been rising steadily, throughout V.P. Singh's tenure. As a result, estimates indicate that inflation this year may hit the double-digit barrier, and even cross it.

The government admitted that its policy of steep hikes in the tax on petroleum prices and railway rates have added to the inflation. Also added to the inflationary price rise is the steep rise in foodgrain procurement prices, namely minimum prices of sugar cane, cotton, edible oil, cement, etc. The inflation will not only eat into the purses of the poor, but will have an impact on the export competitiveness of Indian products, which will lead to the further increase of balance of payments problems and depletion of foreign exchange reserves.