initiated for certain definite purposes. Hence a longer term of, say, five years is suggested.

The remuneration of councillors of metropolitan cities also varies. There are certain corporations which pay fixed honoraria plus some allowance for attending meetings; there are others which do not pay any honoraria but only allowance for attending meetings. In this matter obviously it is difficult *to* achieve uniformity since resources of The corporations vary as does the cost of living. But one principle which should guide all the corporations in this respect is that the honoraria and allowances should be sufficient to ensure that councillors do not have to pay too heavy a price for devoting their time and energy to civic affairs.

OFFICIAL PAPER

A Debtor Nation

India's Foreign Liabilities and Assets 1961 — Survey Report; Reserve Bank of India, Bombay, 1964; vii +105, Rs 3.50,

AT the close of 1961, India was a net debtor to the outside world for an amount of Rs 1,800 crores (in round figures), that is, just a fraction over Rs 40 a head of the population. If net short-term liabilities are excluded from this estimate, this latter figure would drop to a little over Rs 30 a head. Even considering the extreme and widespread poverty of the country, by itself this is not an alarming figure. In the context of the economic history of India of the last hundred years also it does not stand out at all disproportionately. Ever since foreign investments began to be made in India in the last century—almost overwhelmingly by the British we have been a net debtor nation except for a brief period after the last war. As far back as 1887 the following statement appeared in an address which the Bombay Presidency Association presented to Queen Victoria: "India has become the chief customer of British manufacture and it affords a safe investment for the employment of nearly £500 million of British capital in the development of Indian agriculture and trade,'. Since then various attempts have been made by scholars at different times to estimate the amount and nature of foreign investments in India, in particular long-term investments.

Per Capita Foreign Investment

As some of the basic data were not available for the pre-1939 years, these estimates had often to rest on somewhat imperfect basis. Further, for foreign investments in the ordinary shares of joint stock companies in India the study under review has adopted a basis of valuation which evaluates such investments at a higher figure than *in* most of the earlier non-official estimates. Making allowance for these facts, the broad conclusion emerges that, quite apart from the changes in the price level since the pre-war years, on a per capita basis total foreign investment in *the* country at the end of 1961, which year marked the end of the Second Plan, was perhaps just about as large as at the close of Inter-war years—even after we had repaid a good part of our sterling public debt in the early 'thirties. This is a sobering thought.

What are, therefore, the developments of major significance in this sphere in the last decade and a half? Of the many very interesting findings of this Survey Report, which is a veritable mine of information on the question of the country's assets and liabilities on short as well as long terms account in mid-1948 and a, the close of 1955 and 1961, for reasons of space we can only select a few which are more outstanding than the others. Perhaps the foremost of these findings is the almost sea change that has taken place in the net assets position of the country between 1948 and 1961.

Change in Net Assets Position

For the first time in a hundred years India was a net creditor on official as also non-official account to the tune of Rs 1,504 crores in 1948. In 1961 it was a net debtor for Rs 1,798 crores. During these thirteen crucial years, the net long-term liabilities of India increased by Rs 1,846 crores, and net short-term assets deteriorated by Rs 1,456 crores. In 1948, the official sector had net short-term assets of Rs 1,153 crores—the famed sterling balances of the Second World War—accumulated ruthlessly at heavy cost to the Indian economy not only *in* terms of the physical shortages due to supplies having had to be made to the Allied Governments but also of the low, controlled prices for such contractual supplies. Thirteen years later the official sector had a net liability of Rs 317 crores a movement of the order of Rs 1,470 crores net. Add to this, the eighteen hundred odd crores of increased liability on net long-term account, almost three quarters of which was on official account, and we get the total change of Rs 3,302 crores between these two dates, mid-1948 and end-1961. The average annual change is Rs 254 crores over-all, Rs 142 crores on net long-term account, and Rs 112 crores on net short-term account.

Role of Foodgrain Imports

The more substantial portion of these changes took place during the period of the Second Plan. A comparison of the net position of India's assets and liabilities as at the end of 1961 with the position as at the end of 1955 reveals that during these six years there was a net change of Rs 2,324 crores. This is compounded of a deterioration from a net creditor position of Rs *527 crores* to that of a net debtor of Rs 1,797 crores. About a third of this change is on short-term account where an increase of liabilities and a decrease of assets had a net effect of Rs 760 crores which was largely on official account. These represented the utilisation of balances accumulated earlier, and a contraction of fresh liabilities—largely for the import of commodities under PL 480 and PL 665. On the long-term account the increase of liabilities of Rs 1 ,303 crores was a major factor in the turn of the balance by Rs 1,564 crores net. Of this latter amount the official sector accounted for as much as three, quarters, representing official borrowings from foreign governments and institutions. The long-term liability of the non-official sector went up by no more than Rs 305 crores in these six years. As compared with the net total growth of liability of Rs 254 crores a year during 1948-1961, for the six years period 1955-1961, the corresponding total is Rs 387 crores a year. Almost exactly two-thirds of it, namely Rs 260 crores, were on long-term account, and the balance on short-term.

When a substantial part of the total change in liabilities during this six year period is on account of short-term obligations contracted for the import of foodgrains, etc, from USA, obligations which are represented to a large extent in deposit form with the State Bank of India, it is difficult to understand the following statement on page 20 of the Survey Report: "the counterpart of the change from creditor to debtor was, as mentioned earlier, the sizable capital formation in various fields, railways, irrigation and power—which constitute the infra-structure of development—as well as in manufacturing industry".

Foreign Private Investment

It has already been stated that the bulk of the movement of long-term capital to India 'luring last decade has been on Government account. During the thirteen years, 1948-1961, foreign investment in business enterpriser in the private sector increased by no more than Rs 416 crores. It is most significant that of the total increase of Rs 416 crores, direct investments, i e, foreign investments involving control of units in which such investments took place, increased by Rs 317 crores (including reinvested earnings). Expressed as a proportion of the total foreign business investment in India, direct investments accounted for 83 per cent of these investments in 1948, improving to '87 per cent in 1955 and falling to 79 per cent in 1961. The fall was largely because of an increase in the flow of creditor capital from official sources during the Second Plan period. Investments in controlled companies, mostly subsidies, have accounted for the bulk of such direct foreign investments.

As much as two-fifths of the gross inflow of foreign investments from private sources is represented by retained profits which perhaps benefit the balance of payment only in a negative manner, i e, by preventing any pressure for remittance of funds. But a substantial part of the benefits accruing from such retained profits of Rs 173 crores was off-set by the repatriation or private capital amounting to Rs 133 crores. It would have been of interest if the Reserve Bank Survey had been able to indicate the likely magnitude of the original value of such repatriated capital.

Over the thirteen years, 1948-1961, the net inflow of foreign investments in business enterprises in the private sector averaged only Rs 28 crores a year. The Survey has recognised this in its statement—"the growth in foreign investments of business enterprises in India over the thirteen and a half years has been modest".

Collaboration with Indian Capital

As in the case of the movements in the over-all balance, the six years 1955-1961 witnessed a somewhat larger trickle of foreign private investments than the earlier period. The average for this period is Rs 39 crores a year. This figure is 40 per cent larger than the average during 1948-1961. But inflows of this order fall short of the level of investments necessary to make any sizeable impact on the economy. After recognising that foreign investments so far have been modest, the Survey Report attempts to point to an extenuating circumstance. It is stated thus on page 18 that collaboration between foreign and Indian industrial entrepreneurship is a notable feature of such investments in business enterprises after 1958. To say this in support of collaboration arrangements in the year 1964 is, to put it mildly, somewhat astounding after all that has been said and written about the manner in which a very large number of such collaboration arrangements have been negotiated at excessive prices. Michael Kidron's, article on "Behaviour of Foreign Capital" in July 1964 Special Number of this paper contained a few striking revelations on this subject. A body of informed opinion has been growing up for quite some time now which would want a deeper probe into these arrangements in particular, and foreign equity participation in Indian business in general, in order to protect the broader interests of the country.

There are many other interesting as also significant types of information that the Survey has collected. Thus, the main industries to which foreign capital has been attracted are petroleum, metal and metal products, chemicals, transport equipment and machines, etc, which have high profitability and growth potential, and are vital for the industrialisation of the country. The major traditional industries are dependent on Indian capital and entrepreneurship. Among the countries from which capital for industrial projects has mainly come are still the U K and the U S A which together contribute 57 per cent of the total inflow. It has been a significant finding of the Survey that at least till 1961 the highly industrialised Common Market countries of Europe contributed very little.

Evaluation of Rote of Foreign Capital

Foreign capital is needed, fundamentally, as a source of supply of scarce foreign exchange as well as of know-how and technical personnel in the early stages of industrialisation. But it raises at least four major issues: the cost of such capital, both for servicing and repayment; its influence on the international competitive position of the country-—whether it is able to develop new export conunodities or provide effective substitutes for commodities normally imported; its influence on internal resource mobilisation in general; and the contribution it can make towards advancement of industrial research in general and the building up a growing body of highly qualified technical personnel of national origin. These are not criteria which can, or even should, be applied to every single transaction. They are necessary for an evaluation of the total impact of foreign borrowings over a period of reasonable length for the effects to be noticeable. But even then perhaps much of the foreign capital that has gone into our industries cannot be said to satisfy these criteria.

A major shift in foreign borrowings is perhaps soon to be witnessed. Apart from a more substantial flow in the Fourth Plan period, its terms and the nature of links with domestic capital and entrepreneurship will be different from what it has been so far. It is to be hoped that the lacunae that the developments in this field so far have disclosed will be less in evidence. But that needs, it must be stressed, an alert as also extremely knowledgeable and incorruptible civil service to protect the country's interests by keeping a vigilant eye on the domestic as also foreign entrepreneur.