
Report from New Delhi

The economy of India: It's time to go back to basics

by Susan and Ramtanu Maitra

Two years after the first salvo of "liberalization" was fired in 1985, the Rajiv Gandhi government's application of economic pragmatism has forced the underlying distortions in the Indian economy to the surface. The elixir of a "quick fix" by relaxing controls and regulations on private sector businesses, and infusing blood into the private sector, is now receding into the distance. Once again, the necessity of taking tough and sustained policy measures in the areas of basic infrastructure, including manpower development, and agriculture to raise the economy's productivity and efficiency is becoming more and more urgent.

While the public sector's performance has been poor, the private sector has done little better. In fact, a government economic survey report raised alarm about the mounting number of bankrupt companies and the sector's increasing debt to the commercial banks. In reality, the sorry state of the private sector is part and parcel of the problem in the public sector. In 1985, the new administration started lifting the shackles of regulations from the private sector and eased the licensing procedures for expansion and diversification. The denizens of the private sector licked their chops and dreamed of the spoils from areas from which they had been barred for so long by the licensing restrictions.

More than 1,000 licenses to would-be television manufacturers were issued; more than 80 brands of color television are now available in the market. Some 52 companies make telephone instruments. Over 80 companies are producing computer hardware, and another 100 hold licenses to produce the same. About 30 companies are selling photocopiers and another 20 are selling electronic typewriters. The same headlong rush was visible in the auto and two-wheeler industries.

It was a rude awakening for Indian businessmen to find out that it is much easier to make profits when they are protected by the government than when facing open competition. The shoddy products which had been the profit-leaders were challenged by better products in the same price range, manufactured by unknown "upstarts." Indian manufacturers, who never bothered themselves with the notion of after-sales service, suddenly found their competitors offering some such facilities. The shock of liberation from licenses and regulations was indeed great, as the rate of conversion, or recon-

version, to "socialism" among these layers indicates.

The fact is that a restricted market, where only a tiny fraction of the population has any buying capacity, cannot begin to support the type of "boom" that was launched. And meanwhile, the new investment only put more pressure on existing facilities which require fresh input of capital for modernization to keep pace. The lack of new capital in old facilities is turning them into "sick industries"—a quaint economic terminology that could only be coined in a society where government is an all-pervasive nanny. To meet the rash of "sickness," the government introduced legislation in 1986 to ensure that after the entire net worth (share capital plus reserves) of a unit is exhausted, that unit must apply to a new Board for Industrial and Financial Reconstruction (BIFR) for reorganization, a management change, or merger.

The pre-budget survey which Prime Minister Gandhi presented Feb. 25 before the Indian Parliament itself shows that it is high time that the fundamentals of physical economy are given a heavy push. Energy, water, related infrastructure, and manpower development continue to be the critical "weak links" in the economic machine. A large amount of new investment is required in these areas, but simply pouring in money will not do the trick. Productivity and efficiency is the key to making good on such investments.

Since basic infrastructure and manpower development will continue to depend mainly on public sector investments, such investments should be specifically directed to solve complex macro-economic problems. Large projects associated with land and water development must be undertaken, with the benefit that available surplus manpower can be employed usefully, and receive training in the process.

Good news, bad news

The provisional statistics on the Indian economy for fiscal year 1986-87 show that while the economy is moving forward, there is little evidence that the ground has been stabilized for sustained, rapid growth. The basic indicators, such as growth rate of GNP, production increases in the agricultural and industrial sectors, performance of the energy sector, trade performance, and others, show modest to satisfactory growth (Table 1). But wholesale prices have risen sharply

TABLE 1

Selected economic indicators

(percentage change over previous year)

	1983-84	1984-85	1985-86	1986-87*
GNP (at 1970-71 prices)	8.0	3.7	5.1	4.5-5.0
Agricultural production	13.7	-0.9	1.9	1.0
Industrial production (revised index)**	5.4 (6.7)	6.8 (8.6)	6.3 (8.7)	6.4 (7.8)
Electricity generation (utilities only)	7.6	11.6	8.6	10.3
Wholesale prices	8.2	7.6	3.8	5.9
Imports (at current prices)	10.8	8.5	15.1	1.4
Exports (at current prices)	11.0	21.3	-7.1	17.3
Foreign exchange reserves (including gold and SDRs in \$ billion)	4.98	6.04	6.52	6.4

* Provisional or part year's figure.

** Figures in parenthesis based on the revised industrial production index (base: 1980-81).

Source: *Economic Survey, 1986-87*, government of India.

and are expected to be rising at a rate of 6.5% by the end of March. The consumer price index is now rising at a rate of 8% or more.

A 15.7% increase in the M_3 monetary base for 1986-87 has prompted warnings about inflation. Such warnings may have some basis in fact, but not for the reasons cited by the Brand Z monetarists. In an economy that sports glaring inefficiencies in some of the major basic sectors, the in-any-case-dubious idea of a one-to-one relationship between money growth and price rise is downright silly. It is not the amount of capital running around but its use that has put pressure on both the wholesale and consumer markets. For example, in 1986-87, a \$765 million planned outlay has resulted in only 1% growth in the agricultural sector. In earlier years, the same sector showed much more encouraging growth at a lesser investment.

India's foreign trade deficit for the year is expected to decline significantly, but it is a kind of monetary illusion in part. The April-November 1986 figure showed a decline of 18.3%, or about \$900 million. A wide range of measures have been undertaken to encourage indigenous production of key bulk import items such as edible oils, sugar, and fertilizers, but there is little indication that these have had any material effect yet (Table 2). There has also been a great deal of at least verbal emphasis on export expansion. What happened, it appears, is that while exports during this period did rise by 17.3%, the decline of international oil prices kept import costs to only a 1.4% rise.

TABLE 2

Principal imports & exports

(in million U.S. dollars)

	1970-71	1975-76	1980-81	1984-85
Imports				
Food and cereals	202	1,163	317	579
Raw and intermediate mat'ls	741	2,328	8,133	10,747
Capital goods	337	807	1,592	2,640
Exports				
Agricultural products	407	1,245	1,713	2,498
Ore & minerals	137	247	345	532
Manufactured goods	643	1,459	3,083	5,176
Mineral fuels & Lubricants	11	32	24	1,519

Source: *Economic Survey, 1986-87*, government of India.

The country's foreign exchange reserves have declined somewhat over the year, and are expected to be at \$5.9 billion by the end of fiscal 1986-87. This is generally adequate as it covers about four months' worth of imports. But there is no doubt that pressure exists here also. Domestic oil production has begun to level off at a time when world market prices are again firming. A bunching of loan repayments has pushed debt servicing to 17% of India's export earnings, while surging protectionism and increasing chaos in international money markets complicate the prospects for trade and concessional finance.

There is some good news on the industrial front. According to the newly revised Index of Industrial Production, industrial growth was 8.6% and 8.7% in the last two years, respectively, and is expected to come close to 8% this year. The old index, which showed growth several percentage points lower, did not include whole industries such as electronics, petrochemicals, and garments, which have grown by leaps in recent years. But since the agricultural sector still accounts for more than 70% of the workforce, a majority of whom are both underemployed and underpaid, nothing less than a steady 10% growth of the industrial sector for more than a decade will make a significant dent in the brutal and widespread poverty in the country.

In this context, a study prepared by the National Council on Applied Economic Research (NCAER) is noteworthy. NCAER carried out a longitudinal survey of rural households in 1981-82, returning to households visited in 1970-71. The surveyors found that the incidence of poverty declined from nearly 57% in 1970-71 to 48.5% in 1981-82. But most significant, the survey also showed that had households above the poverty line not descended below it over the same period, the incidence of poverty would have declined much further, to about 29.5% by 1982.

The study concluded that the low rate at which poverty is being eradicated, and particularly the descent below the poverty line of many who had not been poor before, can therefore be attributed in major part to the lag in industrial growth. The lag in industrial growth is linked in a kind of vicious circle with the fact that India's agriculture, although it has achieved a significant amount of success over the decades, continues to be highly unproductive. It is incapable of producing the surpluses with which to expand industry. Nor can it absorb the additional workforce coming onto the employment line. It is highly undesirable in any case that fully three-fourths of India's entire workforce continues to be agricultural. But failure to make the industrial sector grow at an appreciable rate has thrown this unemployed workforce back into the land-based households and is pushing them below the poverty line.

The 'resources' problem

Overall, failure to generate surpluses from invested capital is narrowing the government's chance of success in mobilizing additional resources. During the past year there was no dearth of government effort to tap private money or allow the private sector, through a large increase in capital issues, to soak up private savings. In 1985-86, permits for capital issues given by the Controller of Capital Issues reached \$2.15 billion—an 85% increase over the previous year. In fact, the boom in the capital market grew steadily over the last four years, and for a while, the amount of new capital issues seemed much less than the market demand.

A few public sector corporations, figuring it would be worthwhile to draw upon the capital market as well as budgetary support for mobilizing additional resources, also entered into the fray last year, but achieved limited success. According to reports, the offers by the Mahanagar Telephone Nigam, Ltd. and the National Thermal Power Corporation were oversubscribed only because of the massive support extended by the nationalized banking system and the financial institutions. In both cases, less than 10% of the funds came from private investors.

In addition, the government is getting heavily indebted to the domestic banks. The interest burden on government debt, which ate up 18.4% of revenue receipts in 1970-71, took away 27.5% of these receipts in 1985-86, and eroded about 30% of this year's revenue receipts. Meanwhile, the government's budget deficits are piling up and the government has to borrow more money each year to fund the widening deficit. A large part of these loans has been obtained from the banking system, which, on the basis of holding government securities, in turn became eligible for refinancing facilities from the Reserve Bank of India, the country's central bank.

Since, in fact, most of the new money mobilized by the government has come from the bank, the lending rate has been kept high and the potential for inflationary pressure stays

alive. The government can, of course, generate income from public sector enterprises by raising the administered prices of manufactured goods and services. But it will also have a cumulative inflationary effect.

In this context, the steady increase in non-plan, or non-developmental, expenditure, by the government is rightly distressing. The coming year's non-plan expenditure, the biggest chunk of which goes into defense, interest payments, major subsidies such as for food, fertilizer, export promotion, etc., but which also includes services and the government payroll in general, is expected to rise to \$33 billion—more than one-third of the total budget. Though the government constantly complains about "resource constraints," very little result has been achieved in curbing the burgeoning bureaucracy and plugging the numerous government "sink-holes."

What is becoming increasingly evident is that the economy will have a tight money situation in the coming years, in spite of one of the highest rates of domestic savings in the world and a respectable investment ratio overall. India's performance over the years in mobilizing resources has been laudable. In the 1950s and 1960s, domestic savings contributed to less than 10% of the gross domestic product. Now, the contribution of domestic savings to the national exchequer is more than 20%, one of the highest rates in the world and nearly as high as Japan had in the early phase of its development. There is nothing wrong with the investment share either, presently at around 25% of the gross domestic product. A more efficient use of this capital could certainly generate the needed increase in resources.

Indeed, it is the other side of the savings coin—the return on capital—that gives a disturbing picture. A slow-moving juggernaut, known as the public enterprises and plan projects, is eating up billions of dollars of investment annually and producing very little new money in return. According to a recent estimate by *India Today*, a fortnightly magazine published in New Delhi, 264 government projects with long time overruns are holding about \$54 billion of invested capital to ransom today. The amount is more than the Seventh Plan outlay for the entire organized sector of investment! The cost overruns of these projects alone amount to a tidy sum of \$21 billion—more than the total budget deficits of the last four years put together.

Slipshod operation by the entire gamut of government projects is well known and on principle, as of now, has been largely overlooked. For political reasons (satisfying the local political bosses who are expected in turn to deliver votes), starting new projects has always been more important than finishing them. Moreover, prolonging the project is an easy way to guarantee that cash continues to find its way into the pockets the political bosses want to line. Such abundant funds are not available, nor is such a lackadaisical approach in attending to the investment possible in the case of private capital. It is the government projects—the exemplars of "so-

TABLE 3

Public sector contribution in total industrial production

	National production		Public sector production	
	1968-69	1985-86	1968-69	1985-86
Coal including lignite (million tons)	75.4	162.3	16.6	158.5
Petroleum crude (million tons)	6.1	30.2	3.1	30.2
Steel ingot (million tons)	6.5	9.1	3.7	7.0
Saleable steel (million tons)	4.7	7.8	2.6	6.0
Aluminum (thousand tons)	125.3	264.8	Nil	96.5
Copper (thousand tons)	9.5	33.5	—	33.5
Nitrogenous fertilizers (thousand tons)	503	4,328.0	391	2,052.0
Phosphatic fertilizers (thousand tons)	213.0	1,428.0	—	304.0

cialism”—which are the victims of the political bosses.

But that is neither the beginning nor the end of Indian politicians' efforts to usher in "social justice." Many projects get into the planners' blueprint not because of their merit, but simply because the political bosses want to create an "economic boom" in their area to snare future votes. Prime Minister Gandhi, fully aware of such hornets' nests, set up a ministry for program implementation in 1985 to monitor government projects. So far, it has yielded limited results—not surprisingly, since projects are rarely delayed for lack of attention.

The lack of concern about public money is truly scandalous in a country with such extensive poverty. But a deep-rooted belief that public money is meant simply for sustaining the population through day-to-day handouts has become a trademark in India. During the last two decades, as the government took more and more control over the nation's economy, two problems were created. First, a coalition was forged between hundreds of thousands of government servants and a horde of political bosses who often direct the government money to assure their own long-term political future. While both the government workers and politicians couch the perpetuation of their respective self-interests in promotion of "social justice," private entrepreneurs have been institutionalized as profit-hungry and anti-national—a phrase used loosely in India.

Second, big government became the big mother who plans, formulates, decides, and implements whatever is necessary. The government made the public enterprises what they are today, just as it also provided a kind of blanket protection to the incompetent entrepreneurs whose sole aim was to make money and use that money to wield influence in a poor nation.

The people have been getting the worst from both ends. Caught in a vortex of collusion between big government and powerful petty traders-cum-industrialists and handicapped

by lack of information, people became ignorant of the issues. "Whatever is important for the nation is to be taken care of by the government; I take care of myself," became the motto of millions who could otherwise have contributed effectively to nation-building. Petty local issues, religious issues, communal issues, and caste issues have remained the only subjects with the grasp of these millions.

As the problems multiplied, more and more people dipped their hands into the public fund to achieve "social justice."

The sacred cow

From the outset, the public sector enterprises, concentrated in heavy industry and basic raw materials, were warehouses for employment-seekers. Necessary, as well as a large number of totally unnecessary, jobs were handed out as political trade-offs. This might have worked had the decision been made to use excess labor only in labor-intensive industries and in the execution of large land-based projects. Many such large projects still need to be undertaken, for which manual labor is appropriate and which could also be used to impart technical skills to the labor force so employed.

TABLE 4

Profitability profile of public enterprises

(in billion dollars)

	1976-77	1980-81	1985-86
No. of enterprises	149.0	168.0	211.0
Capital employed	10.0	15.2	35.9
Gross profit	0.9	1.1	4.4
Percentage of gross profit to capital employed	9.29	7.79	12.34

TABLE 5

Public enterprise employment and average annual wage

(in dollars)

	No. of employees (in millions)	Average per capita wage
1976-77	1.58	750
1981-82	1.94	1,346
1984-85	2.11	2,027
1985-86	2.16	2,172

For instance, millions of hectares of arable land remain non-productive due to inadequate command area development. Millions of dollars are spent annually on flood-relief while mighty rivers like the Brahmaputra remain uncontrolled and the highly fertile Ganga River basin, which houses 150 million people, remains neglected and poor. The major rivers of India, which all flow east-west, remain to be connected from north to south, thus opening an extensive inland waterway system. These are only a few projects among many, but they are the type of projects that India must undertake and complete if it is to realize its potential as an agro-industrial nation.

Instead of investing manpower on such projects, the capital-intensive production centers that are the core of the public sector have become labor dumping grounds. Stuffed with hordes of non-working personnel, the public sector's wage expenditure has been pushed up steeply. In the process, high-

cost, capital-intensive plants, which the first prime minister of India called "the temples of modern India," have become perpetual loss-makers (Tables 3-6). Union Energy Minister Vasant Sathe, who has been crusading against the wasteful nature of the public sector units for some time, has aptly described them "a sacred cow that produces neither milk nor calves." Sathe points out that Indian steel costs twice the international price, and notes that while South Korea employed 14,000 people to produce 9 million tons of steel, the Indian public sector employs 125,000 people to produce 5.5 million tons!

Big government has not ushered in "social justice" in India because the emphasis was never on effectively using the public money. The *Public Enterprises Survey (1985-86)*, an annual report on the industrial and commercial undertakings of the central government, is a painful reminder of a problem which has grown 40 years old and accumulated awesome dimensions. The survey shows that a \$42 billion investment in the public sector has netted a reinvestible profit of less than \$1 billion—a measly 2.5% return on capital. If the two oil corporations are excluded from the 211 operating enterprises, most of which enjoy absolute monopoly control over pricing and marketing, then the overall balance sheet runs sharply into the red.

Ironically, treating the public enterprises as employment troughs has had exactly the opposite of its intended effect. The inefficient and wasteful use of capital that has resulted has decisively undercut the country's capacity to produce a growing economic surplus, the only basis for steadily expanding meaningful

What is necessary, and Japan can be cited as an example, is to develop lighter industries extensively as a back-up as well as a user for the capital-intensive core units. The capital-

TABLE 6

Employment in public and private sector industry

(in millions)

	Public sector			Private sector		
	1976	1980	1985	1976	1980	1985
Agriculture, dairy, etc.	0.36	0.43	0.50	0.83	0.86	0.82
Mining & quarrying	0.72	0.80	0.97	0.13	0.13	0.11
Manufacturing	1.13	1.45	1.76	4.16	4.42	4.43
Electricity, gas, & water	0.54	0.66	0.76	0.04	0.03	0.04
Construction	0.99	1.06	1.15	0.09	0.07	0.07
Wholesale & retail trade	0.06	0.11	0.13	0.29	0.27	0.28
Transport, storage, & communications	2.42	2.85	2.91	0.07	0.07	0.06
Financing, insurance, etc.	0.49	0.69	0.99	0.18	0.21	0.22
Community & social services	6.64	7.22	8.15	1.06	1.17	1.31

Source: *Economic Survey, 1986-87, government of India.*

intensive manufacturing units, on the other hand, must be trimmed of their excess fat and modernized with the most efficient technology so that they can be highly productive, producing both "milk and calves." Lighter industries, expanded and provided with financial incentives, will be the major employers. Large-scale projects where manual laborers can be trained and made economically useful, must be undertaken at the same time as the backbone of a nation-building program.

Power shortage

In all of this, the fundamentals have not changed a bit over the years. In spite of repeated talk of catching up with the technologically developed nations, the capability of India's basic sectors remains inadequate to the task. The shortcomings are dramatic. For example, India does not produce enough electricity at any given time to allow every household to switch on three 100-watt bulbs. It is a hypothetical proposition at this point in any case, since the vast majority of households do not have any electrical connections at all.

Yet this striking portrait of drastic energy shortage and corresponding low living standards is routinely glossed over by pointing to the 8-10% annual rate of growth in the energy sector (Table 7). The government spends a significant amount of financial resources for energy development—more than ever at 35% of the current plan outlays—but day-to-day performance remains slipshod and the gestation period for new power plants is much too long.

Another major constraint of the energy sector is official reliance on coal as the centerpiece of the country's power program and a reluctance to push nuclear energy—whose technology has been fully mastered indigenously—into the central position which only it is capable of filling. The coal industry was nationalized in the early 1970s as a basis for India's long-term energy planning and growing steel demand. When the mines were nationalized, India's coal production was 71 million tons and declining. The amount of investment that was necessary to modernize the old mines

and make them productive and to open new mines was not forthcoming from the private sector. Left with little choice, the government formed Coal India, Ltd. (CIL).

Since then, coal production has gone up significantly, reaching 134 million tons in 1985-86. However, from the financial point of view, CIL is a chronically sick organization, having lost money every year since its formation. It is one of the largest employers in India, with 668,000 employees, and since its nationalization, more than \$4 billion has been poured into CIL. This in itself is not the problem: The problem is in the incredible assumptions the government is apparently making about the coal industry. By the turn of the century, according to government projections, Coal India's output will be over 300 million tons annually. Looking at prevailing coal-mining technology, it is unlikely that that target will be met. In a large number of mines, the output per man-hour shift is way below one ton, and the cost of production significantly exceeds the selling price.

To base India's future energy installations on coal will invite many problems there seem to be very little hope of solving. First, movement of coal by railroad is putting strain on the creaking railroads. Year-end pit-head stocks are increasing, and reached 27 million tons by the end of fiscal year 1985-86. If India proposes to mine 300 million tons of coal for meaningful purposes, expensive revamping of the railroads and installation of efficient coal-handling facilities in the mining areas is a prerequisite.

Second, the poor quality of non-coking coal used for power generation requires a fundamental re-design of power plants. According to CIL officials, the older power houses, which had been designed for better quality coal, need to be phased out.

All these problems have *already* made electricity generation with coal-based plants a tenuous economic proposition. As Dr. N. Tata Rao, chairman of the Andhra Pradesh State Electricity Board and an acknowledged expert in the power industry, told an Indian business magazine in 1984: "Presently for us, when it comes to generation it is a hand-to-mouth existence. We have to depend on coal, the railways, and indigenous equipment—all of which leave much to be desired. We ask for coal—we get muck. The indigenous equipment manufacturers have experimented long enough on us and made us bankrupt in the process."

Water management

Agricultural productivity has also continued to remain low—whether it is looked at from the standpoint of land productivity or labor productivity. This is one sector which needs to be more productive than any other if India wants to generate new employment. Only a highly productive agricultural sector can give momentum to the agro-industries, which have already shown some signs of life due to surplus food production in certain areas. Agro-industries can open

TABLE 7

Electricity (installed plant capacity in Mw)

Year	Hydel	Thermal	Nuclear	Total
1970-71	6,383	7,906	420	14,709
1975-76	8,464	11,013	640	20,117
1980-81	11,791	17,563	860	30,214
1985-86*	15,481	29,984	1,330	51,898

* Tentative

Source: *Economic Survey, 1986-87*, government of India.

up a large employment potential both in the manufacturing and service sectors, and their proliferation would also create a demand surplus for the basic industries.

The constraints in enhancing agricultural productivity are few and basic. India has experienced a poor monsoon for the last four years. Lack of sufficient electrical power and the high cost of diesel has put a crimp on pumped-water use. Huge tracts of cultivated land still depend heavily on inadequate rainwater. Although fertilizer use among farmers is increasing—and the government provides a tidy sum in subsidy to this area—the crop productivity of land has not gone up. Another NCAER study points out that the problem lies in the mix of fertilizers. For instance, against a recommendation to use (N) and phosphates (P_2O_3) in the ratio of 2:1, the average ratio in India is 5:1. As a result, nitrogen's effectiveness is reduced, and if the trend continues, productivity could become negative—for a double loss. Similar deficiencies can be pointed out in the case of other critical inputs—irrigation, quality of seeds, use of pesticides, etc.

For example, water management—perhaps the most basic problem, and a matter of gross neglect for years. Dr. B.B. Vohra, head of the government's Energy Advisory Board, has highlighted India's water problems extensively in recent papers, where he repeatedly points to the "tunnel vision" in water management policy. Since independence, 20.8 million hectares of land have been developed for their irrigation potential. Out of that, fully 5.2 million hectares still remain to be utilized. At the going cost of \$3,000 per hectare to develop, it would take another \$16 billion to make the "potential" utilizable! Due to lack of groundwater management, canal irrigation has resulted in water logging and salination that has already affected about 7 million hectares of land. In some places canal irrigation has turned into a curse.

The ministry of irrigation limits its concept of groundwater management to pumping up the water for farm work. Pumped groundwater in fact accounts for irrigation of about 26 million hectares of land, about the same that the large dams and canals have achieved so far—and at a fraction of the large projects' cost. However, pumping groundwater with systematic recharging of the aquifers has caused salination and a lowering of the groundwater table.

India receives annually about 330 million hectare meters (mhm) of water, excluding 70 mhm which evaporate immediately after precipitation. Of these, 330 mhm enter the soil, where about 110 mhm are retained as soil moisture and the remaining 40 mhm enter the deep strata in the form of groundwater. Of the remaining 180 mhm of water which do not find their way into the soil, only 17 mhm are impounded as run-off to the reservoirs. The rest—163 mhm of water, or 90% of the run-off—goes to the sea and is lost. After four decades of massive irrigation projects and expenditures reaching \$30 billion, only 10% of India's annually renewed water resources can be captured for use!

The European Community

Malthusians plan to cut fertilizer use

by William Engdahl

The European Commission, the 12-nation bureaucracy of the European Community (EC), is preparing a secret plan which would force drastic cuts in the world's second-most-important food-producing region. This would be implemented in the midst of the deepest depression in European farming since the 1930s. The cuts would be the result of centrally mandated cuts in fertilizer use, on the basis of the fraudulent claim that nitrates from animal and chemical fertilizers are "polluting" European water.

According to high-level EC sources who prefer to remain unnamed, the plan has already won the "green light" from the office of the Director General for Agriculture DG VI, Guy Legras of France. The plan is considered so sensitive politically, that its circulation is limited to six copies. "We want the action to be as drastic as possible," confessed one senior EC planner. But potential "political problems" mean that the measure is being carefully introduced first as an "environmental" issue for "sensitive land areas."

The discovery of the new plan comes just as the finance ministers of the 24 OECD countries, meeting in Paris, approved a resolution calling for elimination of some \$100 billion in government supports to agriculture; elimination of so-called surplus stocks of grain, meat, and butter, and decisive steps to bring national farm production into "free market orientation." Sources inside the OECD reveal that that plan is simply a propaganda ploy to loot desperate developing-sector debtor nations such as Brazil or Argentina, by allowing multinational cartel trading giants like Cargill or Archer Daniels Midland to set up "run-away" factories at low wages, to export super feed concentrates such as soyacakes. The scheme benefits neither developing nations nor industrial countries; but Cargill enjoyed a 66% net profit increase last year, as a result of such maneuvers.

By July of this year, the European Commission in Brussels plans to have a full 12-member EC "experts' review" approved, in which each member country will send up to two