

The BRICS Bank

The announcement of the establishment of the New Development Bank at the last month's BRICS summit, coincided with the 70th anniversary of the Bretton Woods conference which gave birth to the International Monetary Fund and the World Bank. The two chief negotiators at the conference were John Maynard Keynes of UK and Harry Dexter White of the US. While the former was perhaps the greatest economist of the 20th century, and one who remains as relevant in the 21st, the latter represented by far the largest economy. One point of disagreement was the headquarters of the two institutions. Keynes argued strongly for a location other than Washington: he was worried that the institutions' policies may be overly influenced by the Washington ideology. He was overruled.

It was also expected that White would become the first Managing Director of the IMF. Before this could happen, however, White was suspected of being a spy of the USSR, and this ruled out his being given any position of responsibility. Since the beginning, the Europeans have nominated the head of the IMF, and the US that of the World Bank.

The voting power in the institutions was broadly based on the share of each member country in the global output and trade. In recent years, with the faster growth of many emerging economies, their share of the global output has gone up sharply but their voting power in the two institutions does not reflect today's reality: the BRICS countries together account for more than 28% of the global output in purchasing power parity terms, but their voting power is barely 11%. A proposal to reduce these distortions was agreed in the 2010 G20 Summit, but is still to be implemented.

Over the last few decades, Keynes' apprehensions about the market fundamentalist Washington ideology influencing IMF policies do seem to have come true. One example: a May 2011 report of its Internal Evaluation Office titled "Research at the IMF: Relevance and Utilisation" concluded that *"there is a widely held perception that IMF research is **message driven... more than half of the staff indicated that they felt pressure to align their conclusions with IMF policies and positions. Policy recommendations** provided in some research publications **did not follow from the research results** ...a number of country authorities and researchers noted that IMF research tended to follow a pre-set view with predictable conclusions that did not allow for alternative perspectives."* In my view, the advocacy of liberal capital accounts and floating exchange rates is a prime example of the "message driven" IMF.

On this issue, our policymakers should read what Keynes said in a speech in the House of Lords after the Bretton Woods conference: *"We are determined that, in future, the external value of sterling shall conform to its internal value as set by our own domestic policies, and not the other way round. Secondly, we intend to retain control of our domestic rate of interest, so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money. Thirdly, we abjure the instruments of Bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors."*

While the BRICS bank would be headquartered in Shanghai, India is expected to nominate the first chief executive. One hopes that he/she would not be as "message driven" market fundamentalist as the IMF.

NDA's first three months

The first few months of the National Democratic Alliance in power have been somewhat disappointing for those who had better hopes. Apart from the budget, which was mostly a continuation of the previous policies, an increasing worry is whether the Sangha

Pariwar would play the role which the un-elected National Advisory Council did in the previous regime. One manifestation is the anti-English pressure group, which is finding support. English today has become the language of global business. (Our software and other services export growth could not have come about without our familiarity with it – nor does everybody in India understand Hindi, notwithstanding Bollywood!) The language of the European Union debates is often English despite the UK being perhaps the most recalcitrant member of the Union.

Another example: the field trials of genetically modified seeds have been postponed as the Swadeshi Jagran Manch has objected to them. They perhaps do not know that an estimated 3 trillion (yes, trillion!) meals containing food produced by GM seeds have been consumed in the US with no ill effects. They also forget that the Green Revolution was the result of hybrid seeds invented abroad; that, before it, India was totally dependent on US PL 480 foodgrain imports to feed its population.

Mr. Govindacharya wants Facebook and Twitter to be banned (Google and gmail tomorrow?). And Dina Nath Batra (and even the new head of the Indian Council of Historical Research) wants mythology to be treated as history. They forget that Europe's enlightenment and progress began in the late seventeenth century, only after it started questioning the then accepted dogma, like the earth being the centre of the universe! The religious dogma was questioned even earlier, in the 16th century, by Martin Luther.

Hopefully, we would have a better perspective on the government's thinking on some of the issues in tomorrow's Independence Day speech of the Prime Minister.

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