

# Devaluation

## THE GUILTY MEN



*What is the Swatantra Party's attitude to devaluation? Was it inevitable or was there an alternative way out? Why did devaluation become necessary? What are the motives behind the decision to devalue our currency? If devaluation is to achieve its purpose, what are the steps that should be taken to follow it up? These and other questions are the subject matter of this pamphlet.*

*The text is based on speeches delivered in the Lok Sabha by the Party's General Secretary and Joint Secretary, Messrs. M. R. Masani and N. Dandekar, during the discussion on the economic situation.*

### **M. R. Masani**

Mr. Speaker, Sir, I am very sorry that some Benches on this side are empty at this moment. I deplore that, because we had hoped that, when the Government come forward to invite a discussion on the very crucial economic developments that have taken place in the last few months, there should be something of a National Inquest in which Members of all parties could have joined to analyse what had happened. But one thing has come out from the proceedings of yesterday and this morning, and that is that, when some sections of our press refer to some such thing as "the Opposition," they are not being very accurate. The unfortunate thing in this country at this stage is that there is no 'the' Opposition. There are several oppositions, which is undoubtedly a weakness in our Democracy, and some of us are trying to put it right.

But the fact still remains that today there are several oppositions of very different kinds.

We, Sir, belong to a democratic opposition, an opposition that tries to create an alternative government which can take over power through the peaceful, constitutional means of the ballot box. We have nothing in common with those who showed their devotion to democracy in a very peculiar manner yesterday and this morning! We want to draw this line between a democratic opposition and those others who do not subscribe to the parliamentary institutions which we hold dear.

Now, on the midnight of 5th June, there was a moment of truth for this country. This country, which had been living in dreamland, cloud cuckoo-land, under the leadership it had thrown up, was brought down to firm earth with a thump. The moment of truth was the moment when reality could not be ignored any more and, as in a flash, that reality dawned on our people: that our money had depreciated, that our credit was impaired, and that we as a nation were bankrupt. These things had been true for several years, but the people had not sensed them, because those in authority had made it their job to hide these things from the people and throw dust in their eyes.

There were a few discerning people who had sensed what was happening. Among economists, there was Prof. Shenoy, the finest economist this country enjoys, with the highest international reputation. For years he had warned us that our currency was going down and down and something should be done about it. My esteemed chief, Rajaji, had written week after week in *Swarajya*, showing how the country was drifting to bankruptcy. And there were smaller people like myself who had been warning the authorities in this very House, if only those in authority had cared to listen.

### Our Warning

Since we are sometimes misrepresented by saying that we welcome devaluation, let me read my own words in this house in my Budget speech last year, when Shri T. T. Krishnamachari was the Finance Minister. On the 22nd March, 1965, I said:

“...When foreign aid starts drying up”

and this has already happened —

“there will be only two alternatives left to this country. It can shamelessly go bankrupt,”

as it has done —

“or it can put its house in order. If it is going to put its house in order, there are two ways of doing it again. One is to stop these inflationary policies and to scrap the Fourth Plan as it is at present devised, and create a stable measure of value in this country, an honest rupee. If you do not do it, I shall tell you what you will have to do, and what hon. Members would not like, and that is, to see the Finance Minister of their party doing in the next two years”

and only 15 months have passed —

“and that is to devalue the rupee. It is a very painful expedient to cut down officially the value of our currency. If you do not listen to our warning today and stop this inflationary and reckless way in which you are doing things, you yourself will have to come to the country and this House and say,”

as the Finance Minister has done —

“Let us face facts. Our rupee is worth only half of what it is today; let us now pretend that it is three-fourths of what it was before.”

It is amusing that the hon. Finance Minister, in this devaluation, has gone exactly to the extent that I forecast 15 months ago. Our rupee, which was 10 U.S. cents as against 20 cents, has now been officially pegged at 14 or 15 cents, justifying my forecast as to what Shri T. T. Krishnamachari and his successor would do.

Then I had gone on to say:

“I am not advocating that; it is a very painful remedy. It will hurt the rich and the poor, the honest and the dishonest alike, and I would like to avoid it. But as things are developing today, with this budget and the proposed Plan, I can say that devaluation is round the corner, and even my hon. friend will one day have the courage and the honesty to come forward and admit it.”

It has happened. The then Finance Minister was kicked out of office, quite rightly, and his successor

was asked to hold the baby. He is not here now to recall the stupid reply, that dishonest reply that he gave in this House. Shri T. T. Krishnamachari, when faced with my statement, said that Mr. Masani was imagining things. Our rupee was still exactly what it always was. There was only one price for the rupee; 4.75 rupees make a dollar. There was no other price. In any other country, such a man would have been thrown out of office on the spot. But he survived for a few months and in ignominy had to go out, having done incalculable harm to this country. Luckily for himself, he is out but his successor is having to face the music.

The point is that economic laws do not follow the liklihtats of Planning Commissions or even fleeting parliamentary majorities. They have their supervening force, and so, at last, on the 5th June this year, even this Government had to accept reality. The Finance Minister told the bitter truth to the nation in his broadcast. What he said then, and some of what he said this morning, was very sensible. But then, why was all this denied earlier? When some of us said it on the floor of the House, why were we told that we were talking in ignorance? The Finance Minister's broadcast was nothing but a rehash of what some of us had been saying for the last two years. Why did not Government then put its house in order and avert this declaration of bankruptcy — because that is what devaluation is — a confession of failure; a confession of bankruptcy?

#### Real Issue

The real issue is not whether devaluation is good or bad — as some people in their ignorance try to make out. That is like asking: is a surgeon's knife good or bad? These are things that are neither good nor bad. They are neutral. They are instruments. Devaluation is like a surgeon's knife or like a strong drug. They are good if the disease requires an operation or a strong drug, and if they are used by qualified surgeons or doctors. They are bad if they are meant to tide over a temporary crisis and then the patient persists in his bad old ways. They are bad if they are out in the hands of quacks.

The real issues are two: What has brought about the debacle and what are the causes of devaluation?

Secondly, how do we see that the sacrifices imposed on the people by this act are not wasted? How do we see that there is not another devaluation within two or three years? These are the real issues and I suggest that the House, in the 15 hours it has given to itself, apply its mind constructively to these problems.

I shall start with the causes which have brought about this bankruptcy and devaluation. I will list the fundamental causes; I have no time to go into every detail. They are five in number. The first and most basic cause was that we did not live within our means, that those in office led this nation to live beyond its means. We imported more than we exported. We spent more than we produced. When an individual does it, he goes bankrupt. The evil was to be found in the Second and Third Plans. The source of all economic evil in this country is to be found in these Five Year Plans — the second and third Plans. They are the source of the evil which has brought the country to this pass. First of all, what was wrong with them was that they were based on deficit financing. Deficit finance is just created money to spend when you do not have it. You can do it through printing currency notes or through bank credits or in a variety of ways. Money thus created is something that is poison to the economy. Very consciously the old Governments here went in for deficit financing and the result was inflation. The Third Plan even set a target for deficit financing — how much poison could the body absorb? It laid down what it called a safe margin of deficit financing. Only two weeks ago, it was announced officially that that margin had been exceeded by 100 per cent. The amount of deficit financing that took place during the Third Plan was actually more than double what had been allowed or estimated. That is the basic reason why the Second and Third Plans have brought the country to this pass.

The second thing wrong with the Plans was the obsession with heavy industry and steel and the neglect of agriculture and consumer goods. This again has an effect on inflation, because when you pump money into the economy in low-return and slow-rump projects like steel, you create inflation, because goods in the market do not come in quickly to compensate for the extra money you have raised. As we know, inflation and rising prices are the cruellest tax on all, cruellest on the poor who cannot afford it.

The third thing wrong with the Plans was excessive dependence on foreign aid and foreign loans. This made foreign loans crutches on which the nation was asked to depend. Then, we had PL 480, getting food from abroad for which we did not pay at all, a thing which has now at last come to an end. The result is that we are unable to pay these loans unless we borrow more money again. We are insolvent unless somebody will lend us money to pay for our present obligations. This is the stage at which we have arrived. We have mortgaged the future of our people in the pursuit of our foolish and idiotic Plans.

The fourth thing wrong with our Plans and policies was over-taxation. The phrase used was "let us mobilise resources." "Mobilising" resources meant taking away money from the pockets of the people and from the banks where it could be productively invested into the unproductive coffers of the Government. This has diverted such amounts from the pockets of the people to the pockets of Government that our production has fallen, both in agriculture and industry, and we have come to our present plight.

Finally there were excessive controls, controls killing enterprise, fostering corruption, creating profiteering and import licences, which Prof. Shenoy has rightly described as "the biggest portfolio of political patronage."

These are the causes which brought bankruptcy to the nation. It is nothing but the legacy of the past decade, the legacy of the two previous Governments and the few months of this Government. I am amused to see that those responsible for these follies are now trying to deny their share of the responsibility. One of these guilty men was Mr. T. T. Krishnamachari, who now makes out that it is those who brought about devaluation who are responsible, but not he — the man who made devaluation inevitable! Then there are the members of the Planning Commission — notorious communists like Prof. Mahalanobis who are still sitting there, guiding our Government, old-time fellow-travellers like Prof. V. K. R. V. Rao and a whole bunch of half-baked Marxists of various denominations who are still allowed to decide the policies of this Government. These are the charlatans in the Planning Commission who have brought this country to this pass. Yet they have the cheek to sit and devise a Fourth Plan.

### Our Stalinists

We read Press reports that in party meetings, Mr. Malaviya and Mr. Krishna Menon are trying to pin the guilt on the present Government. Goodness knows I am no defender of the present Government. I want to see it out of office but if the idea is that everything was beautiful till last year, that everything in the Stalin-Nehru era was perfect, and now in the post-Stalin-Nehru era everything has gone wrong, let me put it very clearly. As in Russia, the people have suffered from the economic follies and the economic planning of the Stalinist era, so in this country today the people are suffering from the follies and bad planning and Stalinist policies of the Nehru era. These are the most reactionary elements in our country. They want to take the country back to an era through which these two countries have passed. It is very interesting that two Ministers of the old Governments, who left those Governments in discredit, the old Stalinists of our own country, are now trying to exonerate themselves. These are the guilty men who have brought this country to this pass.

What is happening today? I was giving the causes which had brought the country to this pass. What are the ways to mend them? In Amendment No. 9 which was circulated this morning, we have tried to give our constructive proposals about how this crisis can be utilised to pull us out of the mess. The hon. Finance Minister's speech has made certain verbal concessions to that point of view.

I believe most hon. Members would agree with the five or six concrete proposals I am going to make. But the question is — is this Government implementing them, is it showing any signs of implementing them?

The first of these proposals is a clear commitment by this Government that it will eschew all inflationary policies of every kind, that there should be no deficit financing or overdrafts from now on. Unfortunately, Sir, even after devaluation, this has not been practised. The Finance Minister announced at the Chief Minister's Conference on 18th July that the States have overdrawn during the last three weeks — before July 18th — no less than Rs. 20 crores from the Reserve Bank. Now, if this is an indication of the economic discipline that this Government is going to be able to enforce on the State Governments, then the answer is that

our very first proposal, that from now on deficit financing and inflation should be avoided, is not going to happen.

The second thing is a drastic reduction in civil non-developmental expenditure of both the Union and State Governments: that there should be a complete stoppage of this wasteful expenditure at the secretariat level. Sir, the amazing thing is that instead of stopping all recruitment to the civil services, the Government has done exactly the reverse. I was amazed, I could not believe my eyes, when in the newspapers on 1st July I saw a fantastic announcement — I hope it is wrong and I would be glad if the Finance Minister corrects it — I am quoting from the Press:

“Government has removed the ban on the creation of new posts which was in operation for the last five years as a measure of economy.”

It is fantastic. Just when all recruitment should be stopped and those who are in government services be spread over the jobs of people who retire or die, this very small restriction of creating new jobs which was in operation there for the last five years has been removed. This is the sense of responsibility of this Government faced with this crisis!

*Shri Tyagi:* This restriction remains intact. It is only in exceptional cases that some recruitment is allowed.

*Mr. Masani:* At a time of crisis there should be no exceptional cases. I am very glad Shri Tyagi has pointed out that this was probably done for specific cases of nepotism and jobbery.

The Finance Minister, I believe, has agreed that there should be a cut of 3 per cent on revenue expenditure and 5 per cent on capital expenditure which, the newspaper reports tell us, would yield a total saving of Rs. 50 crores. Is this really the best that the Finance Minister can do? Two or three years ago, Shri Krishnamachari said he could have saved Rs. 70 crores. He did not do so but he talked exactly like this. Is it only a saving of Rs. 50 crores from wasteful unproductive expenditure that you can bring about? Is that all? This big mountain of Government can bring forth only this little mouse.

Thirdly, we think that foreign loans in which we have indulged too much, like crutches, should be

restricted to essential purposes. Those essential purposes are two-fold. One is the emergency purpose of bringing in imports that can keep our agriculture and industry going to make up for the mess into which the Government has landed us. The other long-term and permanent purpose of foreign aid, Government-to-Government loans, should be for building the infrastructure — water, power, transport, communications, technical education, if you like, but nothing more.

*Mr. N. Dandeker:* Family planning.

*Mr. M. R. Masani:* I will accept that also. For the rest, we should rely on the savings of our own people and what foreign capital can come in on its own risk as equity capital.

Fourthly, I think we should consolidate the projects we have taken in hand before embarking on any new projects. Meanwhile, we should stop any new Five Year Plan. Let us postpone any Fourth Five Year Plan until we have put our house in order and created something out of what we have invested. The Finance Minister said something like that, but he said that at the same time we must carry out both objectives. This morning, he said, while not stopping new projects, let us concentrate on the old ones. You cannot do both. It is a question of priorities. You talk a lot about planning, but you do not practise it. If you want to plan, make up your mind not to have any new capital projects until those on which you have spent crores and crores, thousands of crores, give some more return to this country.

*Mr. K. D. Malaviya:* For you planning is sin.

*Mr. M. R. Masani:* No; planning is very good. But there is a complete absence of planning in this country. This is chaos. This is planned chaos. This is not planning. Go to France and see what planning means. Go to Britain and see what planning means. Your only planning is of the Soviet Union from which my hon. friend derives much comfort!

The fifth thing is a substantial reduction in both direct and indirect taxation to make a larger supply of rupee finance available so that people can invest in productive enterprises which alone can bring down prices. There is no other way to hold the price line

than to increase production. There is no other way to increase production in this country unless you leave with the people more money so that they can invest in productive enterprises. I will come a little later to what the Government proposes to do, but I do say that what the Government should have done this Session was to bring in a Supplementary Budget cutting down excise duties, direct taxation and corporate taxation. If the Finance Minister had come up with a Supplementary Budget of that nature, we would have supported him. It would have lessened the burden on the people and left a little more money with the people to invest productively. That would have been a good thing, but he has not done it.

### Decontrol

Finally, the entire structure of controls will have to be dismantled if this country is to emerge from the mess. There should be complete dismantling of the structure of permits and licences, quotas and controls, including Gold Control, which has been such a burden on certain sections of our community. Import licensing must go. It is the biggest source of political corruption in our country today — the sale of import licences and their re-sale at wide margins of profit.

I do believe, if these measures were followed, then whatever hardship devaluation may cast on our people, at least we will be justified in casting them, and we could ask them to take these hardships and shoulder them in the interest of the country. I believe most of the hon. Members here and the country will agree that these five things that we have suggested are not only sensible, but practicable.

The question that arises is this. Is this Government capable of carrying out these policies? Is it capable of making the radical changes that are required or is it too hidebound and too conservative to make these radical changes? Sir, I fear all the evidence is against the hope that this Government can ever save the country from the mess into which it has brought us. First of all, the very motive for devaluation is questionable. If it had expressed regret for their past misbehaviour, if it had said: "we shall now change and carry out these measures," one could have forgiven them. But I cannot help suspecting that this sudden concern for fiscal rectitude which came into evidence on 6th June was

not the result of change of heart or a genuine act of repentance for past follies.

Then what was the real motive that led this Government, which kept on saying "no devaluation", "no devaluation", suddenly to devalue? Sir, the cat was out of the bag on 8th June. In a note that the Finance Ministry is supposed to have prepared for Members of Parliament — I never got a copy of it, probably it was meant for Members belonging to the Congress Party only; I got only a summary of it from the Press — a note called "Devaluation — Some Questions Answered", this is the crucial sentence:

"The action could not be postponed as all further aid negotiations hinged on it."

This, Sir, is the grim truth. Devaluation was accepted in order to get foreign aid, foreign loans. That was the price. Devaluation is the price that this country has paid for getting loans from the World Bank and certain foreign governments. It was a bargain. Now, there is nothing wrong in a bargain. If it had been a good bargain from the national point of view, I think this House would sustain the Government in making that bargain. After all, economic policy consists of give and take on the international plane. But is this a good bargain?

### No Alternative?

Before I come to that, there is another plea that there was no alternative, and I should like to deal with it. Was there no alternative? I venture to say that, even on the 4th of June, even on the 5th of June, there was an alternative open to this Government. That alternative was: no devaluation, no aid and no Fourth Plan; or, if you like, no devaluation, a little aid and a slower and smaller Plan. That was a self-respecting and honourable alternative. Why was it not accepted? Why did we not go and say: "we do not want so much foreign aid, we will do without it if necessary, but we will put our house in order, become solvent again and, maybe, in a year or two the rest of the countries will respect us, the respect which we have lost now, and they may come along and say: "You have put your house in order, now we will give you aid." What came in the way of our acceptance of this policy which, I am sure, many people on the other side would have liked to consider?

What came in the way was that this wretched Fourth Plan would not have been possible. And to save this wretched Fourth Plan — I shall discuss presently why it is wretched — we had to humiliate ourselves, we had to devalue our currency, we had to go down on our knees.

What is the Fourth Plan going to do? Where is the money that we are now going to get; if we get it, which I doubt, where is the money to go? The project aid is to go into the State sector, that most wasteful sector of our economy which eats up capital and gives nothing in return. I do not ask this House to accept my word. I will quote an eminent authority, my friend, Shri Asoka Mehta. Our Planning Minister said to this House on the 17th of May that 70 per cent of the foreign aid will go to the State sector. He calls it "public sector"; I call it "State sector." That is the only change I have made in his statement. The Finance Minister reiterated this on the 8th June. I am quoting his statement:

"To the extent larger aid is available the prospects of a bigger public sector plan will improve."

In other words, 70 per cent of the money that we are again borrowing is going into the State enterprises, not to raise production for the benefit of the people.

Our present Prime Minister said on the 11th of June something which is not correct. She said, the Soviet Union is aiding our State sector, while the Western countries are aiding our private sector. That is not true, and the Prime Minister should know this at least by now, if not when she said it, especially when some of us have drawn her attention to the fact that it is not true. The fact is that 70 per cent of the money from the United States and the West is also going into the State sector, along with the whole of Soviet aid.

Hon. Members will say: what is wrong with it, why should it not go into the State sector? I shall answer them: Because the State sector is wasteful, because it is unproductive, because it is not giving the country the kind of return which it is entitled to expect.

Here let me quote the hon. Prime Minister herself. I am quoting from the *Hindustan Times* of June 15. She made a very frank statement about what was wrong with the State sector. She regretted that, by and large, it has failed, and she answered the question why. Let me quote her words. What is wrong with the State sector is according to the Prime Minister: "Faulty

planning..." Somebody asked me: "Don't you like planning?" I do not like faulty planning any more than the Prime Minister. That is the key point. We have had faulty, defective, stupid planning.

*Mr. K. D. Malaviya:* You understand "fault", but you do not understand "planning."

*Mr. M. R. Masani:* She said:

"Faulty planning with regard to concept, size, location, raw materials, design, choice of processes, equipment...."

*Mr. Sham Lal Saraf:* What more do you want?

*Mr. M. R. Masani:* You may well ask: what is left? That is exactly the point. Let me continue the catalogue of what is wrong. Then you will know what is left. She continues:

"equipment, personnel, contractual arrangements, supervision, coordination, time schedules, etc."

She says "etc." at the end. These, the Prime Minister says: "has resulted in cost escalation and delay."

*Shri Tyagi:* Do you not admire her confession?

*Mr. M. R. Masani:* I admire her frankness. I have paid my tribute to her in the last Session when no member of your party stood to defend her.

#### **P.M.'s Indictment**

This was what was wrong with State planning according to the Prime Minister. Then she said: "But this is not all." She went on to say: this is not all, there is another set of problems. Then she gave another list of what is wrong. These are her words again:

"Over-capitalisation, over-staffing, incidentally adding to township-costs, inadequate work-study, lack of delegation, the application of secretariat codes and procedures to commercial undertakings, the system of financial control and audit and the lack of a well-thought-out personnel policy, constitute another set of problems."

This is the *Hindustan Times* quoting the Prime Minister. Then she said even this was not complete.

*Shri U. M. Trivedi*: Are you quoting exactly the words she used?

*Mr. M. R. Masani*: Yes. Then she went to the third category of problems. She said that there are, again, other factors. Those "other factors" are as follows:

"Other factors which had to be gone into were the proper programming of orders, price policies, quality and cost control, research and design development and the structure of management."

If anything is left that is right when all this is wrong, I hope the Finance Minister or the Prime Minister will tell us when they reply to the debate!

That is why I said that these foreign loans taken for this purpose are a dead loss to this country. It is a rotten bargain that our Government has made with the World Bank and the rest of the countries.

Now, what will happen when this Fourth Plan is put into operation? This morning it was announced that at last the Planning Commission, in its wisdom, with the Prime Minister in the chair — she, evidently, does not draw the right conclusions from her own remarks — decided on the size of the new Plan, the Fourth Plan. Now what is going to be its size? There is a proposed outlay of Rs. 16,000 crores for the State sector, Rs 16,000 crores for what we have just said. That involves an increase of Rs. 1,500 crores over the investment envisaged for the public sector in the Plan memorandum. In other words, one year ago we were told that a certain amount of money would be poured into the gutter. Now we are told that Rs. 1,500 crores more are to be poured into the gutter.

Is this the position that a responsible government can take? Can they say with one breath the State enterprises are not giving the country a proper return, that we must put our house in order and then, before doing anything in that direction, say that we propose to give the State sector Rs. 1,500 crores more than what we mentioned in the Plan memorandum last year?

Then, how is the money to be found for this? It is true that foreign loans or foreign capital will give some part of this money. But the Planning Commission realise that foreign loans are not going to come to that extent. So, what do they suggest? They state that the

public sector investment envisaged by the Commission will entail mobilisation of additional resources to the tune of Rs. 1,800 crores, and this will be raised by taxation and other measures. So, in place of the cut in direct and indirect taxation that I have suggested as a correct solution, the Planning Commission is going to incite or bully the Finance Minister to come with Budget proposals for Rs. 1,800 crores of additional taxation.

#### A Forecast

Now I forecast, if this Government remains in office next year and if they cling to this kind of Fourth Plan, a plan of this nature, I forecast that the price of the Indian rupee, which is now 10 cents of the American dollar in the free market, will drop to 5 cents within two or three years. I gave a warning fifteen months ago, and I give it again. If you do not mend your ways, and the present indications are to the contrary, you are going to take this country lower and lower until you come again to this House and say: "we are now doubly bankrupt, what do we do?"

What will they do at that stage? The Finance Minister has very accurately described devaluation as "the ultimate remedy." He has called it the ultimate remedy. He is quite right. When all other remedies fail, the doctor resorts to the ultimate remedy or a surgical operation. The Finance Minister has brought in this dose of medicine as the last remedy for our economy. If they persist in their ways and the rupee goes further down, as it is doing already and will do under their dispensation, to what are we going to turn next time? When the ultimate remedy has been used up, what will the doctor do next?

In this context, the Shah of Iran has given very good advice. According to an interview in a recent issue of the *London Economist*, the Shah of Iran's advice to developing countries is: "Listen to what the economists say and then do the opposite." If the Prime Minister had been here just now, I would have said to her, in good faith, "Listen to what the Planning Commission says and do exactly the opposite; you cannot go wrong" (*Interruption*) Unfortunately, after her performance yesterday, when she presided over the doom of this country, when she sat in the chair and sanctioned this new Fourth Five Year Plan, I have no hope left. Till now I had hopes.

When my chief, Professor Ranga, and I saw her last month, we gave her a note containing the very proposals that we have put in our Amendment. We pleaded with her to take the country in the right direction and save it. We pleaded with her: before Parliament meets, please make a declaration that we will not go in for inflation any more, that we have learnt our lessons, that we will live within our means and that we shall do the following things. The decision yesterday to go ahead with this wretched Fourth Five Year Plan has destroyed the last hope that anyone of us might have had.

The fact is that the Prime Minister evidently knows the facts. She is very frank and has expressed them, but it would seem that she is not in a position to carry through to the logical results what those facts lead to. I can understand her difficulty. She has got the old Stalinists breathing down her neck and threatening vengeance just as Khrushchev and Kosygin had their old Stalinists threatening vengeance. The new Prime Minister has people watching her for the least act of deviation.

On the 27th June, our newspapers reported that the Prime Minister in an interview with *Look* magazine, a very reputable magazine not given to misquoting and very friendly to the present Prime Minister for many years, was supposed to have told the correspondent of *Look*:

"If I feel that a departure from Nehru's policies is necessary, because India's future calls for it, I will not hesitate to suggest such changes."

I was delighted when I read it. I said to myself: "This woman has guts; she is going to stand up to the Stalinists and is going to pull our country out of the mess as Kosygin and Khrushchev are trying to do from the mess that Stalin left behind." But my hopes were dashed the very next day because, on 28th June, an official spokesman announced that she denied that she ever uttered those words.

What does this mean? What was there in the statement to deny? What had she said? She had said what any Prime Minister of any country should be proud to say and should say every day, namely, that if the interests of the country demand something, he or she will not hesitate to propose it. A denial can mean only one thing. It can only mean that, even if

the interests of this country demand, even if the future of this country cannot be saved otherwise, she will cling to her father's policies! If this is what she wants us to believe, then indeed she is unfit to be the Prime Minister of this great country.

That is why I am sadly driven to the conclusion that there is no hope for this country unless this Government is thrown out of office. There is no hope for this country unless the monopoly of power that this disintegrating party has now enjoyed for fifteen years is ended. Unfortunately, that cannot be done for another six or seven months, and one has to endure it.

My revered chief, Rajaji, gave some good advice as an Elder Statesman to the Prime Minister. He suggested to her the formation of "a government of all the talents" from all parties and no parties, getting the best men in the country together, whether they were in Parliament or not, creating a kind of government where all the best brains of India could be put together. That advice was turned down. I was not surprised; I never expected it to be accepted.

I have always held the view, even before she turned it down, that there can be no "government of all the talents" in this country while this bogus parliamentary majority is still intact, which is based on 44 per cent of the popular vote, which is a minority of the votes polled. Therefore, I say, the only solution to this economic problem is unfortunately a political one. There is no economic solution while these men sit in office. They must go. It can be done, and it must be done. It can be done because the majority of the people of this country have never supported this Government. The Congress Party never got 50 per cent of the votes polled in any parliamentary election since Independence. In the coming elections I do not give them 40 per cent of the popular vote... (*Interruption*) Unpalatable facts will have to be faced. This is not the Communist Party they are fighting; they are fighting the voice of Indian democracy.

I was saying, Sir, that I do not think — I shall stand corrected next March — this party is going to get 40 per cent of the popular vote. What I fear is that owing to the primitive electoral system that we have taken over from the British and the multiplicity of the Opposition parties to which I drew attention in the very beginning of my speech, if sufficient wisdom, sanity and patriotism do not come to the democratic Oppo-

sition parties in time — I am not referring to my totalitarian friends — even that 38 or 39 per cent of the rump may come to occupy a majority of the seats here. I shudder to think what would happen to Indian democracy, a tender new plant which needs nurturing carefully! What will happen to our parliamentary democracy if a government that 60 per cent or more of our people have rejected comes to occupy an accidental bogus majority in this House?

Are we not seeing enough symptoms in this country of what happens when the Government has lost its mandate, its moral authority, when people no longer believe in the integrity and the honesty of those in power? Let me not be misunderstood. There are friends of mine sitting opposite for whom I have great regard. I see several of them here. I am not for a moment suggesting that the whole party is a party of crooks. But I do suggest that, by and large, that party has lost the moral authority that a democratic government enjoying the confidence of the people should have.

The scenes which happened yesterday and which I deplore, as you know, as much as you, would never have happened if this Government had really enjoyed that moral prestige and authority. These men would not have dared to behave the way they did. See how people are behaving in the streets today. They are having *bandhs*. They are sabotaging the railway lines. They are doing it because, in some devious criminal way, they are appealing to the people who are out of tune with the Government. If they do not listen to those who are sitting here today, who are a loyal, democratic Opposition, who want a peaceful change in this country to new policies and new people, then they will get what happened in Ghana and Indonesia, where they had bloodshed, massacre and civil war.

Therefore, I say, I shudder to think of what will happen if next time the electorate does not deliver the country . . . . (*Interruption.*)

#### **Kosygin's Advice**

Sir, I do not normally agree with Mr. Kosygin, but there is one thing he said recently with which I am hundred per cent in agreement.

*An Hon. Member:* Thank God.

*Mr. M. R. Masani:* I do agree with him occasionally. I have quoted him in this House and I propose to do so again, because, in many ways, Tito and Kosygin, are more progressive than our friends in the Planning Commission today. They are the Stalinist junk, the intellectual junk, that should be thrown out if this country is to be liberated from the old Stalinists of the Menon-Malaviya type.

Sir, I was going to say that I agree with one remark that Mr. Kosygin made recently. That was a remark he made to our Prime Minister at the end of her visit. As she was leaving, our newspapers report that he said to her: "Madam, you need a holiday." This is exactly what the Indian people think today. Shrimati Gandhi misunderstood the advice and took three days off! Neither three days nor three months are going to serve. What the whole lot of them need is a five-year holiday.

*Based on Mr. M. R. Masani's speech in the Lok Sabha on July 27, 1966, in the course of a discussion on the economic situation.*

## N. Dandekar

Mr. Deputy-Speaker, Sir, I am afraid this debate has been dragging on and on and I personally feel somewhat stale about this. I will however endeavour to do my best because, I feel, the subject is of great importance and this debate is of tremendous consequence because of what we do today in terms of what will happen a year or two later.

The Supplement to the Economic Survey recently issued by the Finance Ministry admits for the first time over the last four or five years, the dreadful situation that has developed in this country, — a situation that I can only describe as one of multiple crises in almost every sector of the economy, a state indeed of economic shambles. But when I say this to anybody opposite the question is asked: What about all the achievements that we have made over the last 10 or 15 years and they give me imposing figures of cement production, steel production, imports, exports of textile and so on and so forth. I say to them that it would indeed be odd, if over a period of 15 years after spending thousands and thousands of crores of rupees and bending over backwards and submitting our economy to the most unheard of strains, we did not make *some* progress. Instead of rattling off a large number of statistics of various kinds, I have always invited their attention to the final measure of economic progress which is of course the rate of growth of national income.

### Poor Performance

In the excellent handbook published last year by the Government of India, called the "Pocket Book of Economic Information", I find among the international statistical comparisons a statement which takes the position upto 1963, of the rate of growth in various underdeveloped countries. And I find to my horror, looking at the position upto 1963, that India is the third last in the rate of growth; we were better only than Morocco, which achieved a 0.6 per cent rate of growth per annum, and Argentina, which achieved a 2 per cent rate of growth per annum. We, over the period 1952-63, achieved a rate of progress of 2.5 per cent per annum. All other under-developed countries have done much better, some of them comparatively

better, but most of them have done much better than what India could achieve. Among them are countries like Pakistan on our west, Burma on our east and Ceylon in the south; and even Indonesia, upto 1962-63 at any rate, had a rate of progress far better than ours.

Moreover, as regards the last three years, I have no doubt that the rate of progress in 1963-64 and 1964-65 in India was considerably better, but there was a complete setback, by something like *minus* 5 per cent rate of growth, in the year 1965-66. So that, really what we ought to be doing is not patting ourselves on the back, saying, "look at our cement plants, look at our textile plants, look at this, that and the other", but we ought to be taking an honest look at our affairs and asking "what is the state of affairs today despite 15 years' planning in which we have spent enormous sums of money ranging from Rs. 2,500 crores in the First Five-Year Plan to something like Rs. 13,500 crores in the Third Five-Year Plan".

### Neglect of Agriculture

Let us therefore take a quick look at the situation. If you look at Agriculture, you find that it is in a state of terrible crises. Let not any one think that an adequate explanation of this is provided by the dreadful monsoon we undoubtedly had last year; the adequate explanation goes very much deeper. If you look at the figures of imports of foodgrains, which are a very good index of our rate of progress in agriculture, you have figures like this: in 1961, as far back as five years ago, we had to import 3.3 million tonnes of foodgrains; in 1964 when there was no question of famine or drought, we had to import 6.3 million tonnes of foodgrains; in 1965, following a good monsoon we imported 7.5 million tonnes; and this year I suppose we should be importing 12 million tonnes. I am prepared to accept that the differential between what we were importing in 1963 and 1964, for instance, and what we are likely to import this year is attributable undoubtedly to the drought, but these figures indicate not a state of drought as the only explanation, but a state of continued neglect of agriculture as the basic reason for our continued dependance on imports.

### Growth Retarded

I now go on to the state of crises in industry. For the first time this official Economic Survey admits that

the public sector projects are yielding hardly any return at all and that the private sector industries were starving for essential raw materials and components. The rate of industrial progress, which is again the final measurement of all the talk that goes on about planning and achievements in the industrial sector, gives us figures something like these: the highest we reached was in 1962, namely, 9 per cent rate of growth; in 1963 it was 8 per cent; in 1964 it was 7 per cent and in 1965 it was 4 per cent.

If, now, you take a look at the infrastructure, again it is a case of both inadequacy and poor equipment of our infrastructure; whether it is Power or Railways, Communications or Posts & Telegraphs, or in any other sphere, that is the kind of picture that appears in regard to the infrastructure.

If you look at our fiscal and monetary structure, you will find the monetary expenditure going beyond all bounds, financed by mounting savage taxation; because that is not enough, there are excessive borrowings, both internal and external; but even that is not enough and, therefore, we resort to deficit financing on a vast scale; even this is not enough and, so the States go in for deficit financing on their own by way of overdrafts. This vast field of deficit financing is of an extraordinary character; much of it is concealed by way of loans subscribed to by the Reserve Bank of India, by way of money borrowed from the PL 480 funds, and by way of various other direct credits by the Reserve Bank of India to the economy.

As for the capital market, it is dead. Savings and investment, this Supplementary Report admits, are at a record low ebb.

And overhanging the whole structure, overhanging the entire economy, is the poisonous cloud of inflation which has now assumed alarming proportions. In 1960, 1961 and 1962, indeed whenever I spoke here or elsewhere about the economic situation, the one thing that I used to emphasize was the menace of inflation overhanging this country. And now it has caught up with a vengeance today.

#### **Balance of Payments**

Finally, Sir, there was the deepening crises of balance of payments, a crises which descended upon us in spite of the massive apparatus of import controls, licences, permits, quotas etc. and in spite of the so-

called rupee payments trade which at one time was held out as an el dorado; in spite also of the massive apparatus of export promotion, tax credits, straight export subsidies and various things of that kind. In the midst of these, a whole lot of Smart Alecs were taking advantage of this very apparatus both on the import and the export sides, and amassing enormous sums of money both in this country and abroad; and they were the only people, the dishonest ones, in respect of whom the Government thought it necessary to make various attractive concessions, tax concessions: for bringing out the unaccounted moneys, and the National Remittance Scheme where no question is asked, so as to bring in concealed foreign exchange earnings entirely free of tax. Also, in the midst of all these schemes this business about the export promotion assumed such ridiculous proportions that anticipatory imports were also allowed in the hope that people importing would also be exporting; and the resultant frauds reached gigantic proportions to the level at which, — this is a charge I made last year, — there is every reason to believe, — and it was a common talk in Bombay last year, — that there were something like Rs. 60 to 80 crores worth of anticipatory imports for which there were no exports or there were a good deal of exports of which the foreign exchange never came here. I did suggest then, to the then Finance Minister, and I repeat it now, that this called for an inquiry, not by the Commerce Ministry, but by the Economic Affairs Division of the Finance Ministry and the Reserve Bank of India, to ascertain whether it was or was not true that something like Rs. 60 to 80 crores of foreign exchange went down the drain.

#### **Deliberate Concealment**

I could go still further to describe the current state of economic shambles, but I want to go on to the resultant situation as it was in the months of April and May, but which was completely and deliberately concealed from this House. I do not accuse the Government of concealing their thinking on the subject of devaluation. Obviously, as Mr. Patil says, one does not make an advance announcement about devaluation. That would be stupid to expect. But I did expect that, in the course of those debates in March, April and

May on the Budget, on the Finance Bill, on the Demands for Grants of the various economic Ministries, some occasion would have been taken by the Government to warn the country that we were on the brink of a very difficult and high economic precipice.

#### Five Alternatives

However, in the situation in which the country was then placed, the problem was: what should the Government do in those circumstances? And on thinking this over, Government must have had ahead of them five possible difficult alternatives to choose from. The first alternative was 'Do nothing' or 'Business as usual'. I am glad they did not accept it, because the destination of that kind of approach would have been Indonesia. The second possible alternative was a "Closed economy", an economy that would shut out from the rest of the world, relying on more and more controls, more and more regimentation and more and more Statism. I am glad Government did not choose that alternative either, for the destination of that path would have been Russia. The third alternative possibility was that of "deflation", that is, lowering the internal price level by something like 50 per cent, so that the external value of the rupee at the pegged (old) rate of exchange and the internal value of the rupee could again correspond. I am glad Government did not choose that one either, because the destination of that approach would have been economic paralysis in this country, for we would never possibly have hoped to cope with a deflation of that magnitude and yet make any kind of economic progress. A technical fourth alternative was what Professor Shenoy had called the "floating rupee", that is, a free market for the rupee, which virtually allowed a free foreign exchange market to develop in this country except for certain specific transactions. I am glad Government did not adopt that either, because the destination on that path would have been "destination unknown". Devaluation was the inevitable consequence of the ruinous economic policies adopted by the Congress Government over the past ten years. Hence, I 'approve' the decision to devalue the Rupee only in the sense in which I would approve a declaration of insolvency by an insolvent who was at last determined to mend his ways so as not to default again or so as not to go

bankrupt again. On that footing, and I hope that it is the intention of Government to start afresh with an honest purpose, not keep on talking a whole lot of vague nonsense any longer but to plan for solvency and not for insolvency — on that kind of basis, I agree that devaluation was the only possible decision in the circumstances.

#### Revival of Cliches

But I have a dreadful fear about the revival of one of these cliches that are being repeated by various people and certainly by members of the Government and of the Congress Party, and so I had also said, in answering the enquiry to which I have referred:

"One often hears the cliché that the Indian economy is inherently sound, provided certain measures are taken to correct past errors. This makes about as much sense as to say about a man with high blood pressure, a dicky heart, chronic diabetes and enlarged liver, that but for these he was in good shape. If only he had proper medical attention!"

I submit, Sir, the economy is *not* in good shape; the economy is in a very bad shape. And so, I had then gone on to say that the economy

"... is overheated with inflation, overburdened by debt and taxation and very much distorted. It is steadily grinding down to a slow halt. It needs prolonged, sober and complex treatment, of which devaluation is only the first step, if it is to be saved from ending as a Greek tragedy, i.e. known from the outset to be relentlessly destined for a tragic end."

And I warn the Government now that it is not enough merely to say that they are thinking about follow-up measures and this and that, but those follow-up measures have got to have a very clear purposive end in view.

#### Swatantra Suggestions

That is why, Sir, we have tabled an amendment which sets out quite clearly and precisely some of the essential things that require to be done. I will not read out the amendment itself, but I would like to translate some of our suggestions into somewhat specific terms,

because that is what everybody demands we must do. Everybody says 'Please do not make vague suggestions; let us have something concrete'. Something concrete is this. In the first place, there must be drastic economies in public expenditure of the order of at least Rs. 500 crores in the aggregate in the 1966-67 budget of all the governments in this country, which means approximately a saving of 10 per cent. Unless there is this across-the-board saving of ten per cent, there is no possibility of the economy recovering. Public expenditure must be frozen at that reduced level for at least three years more. Capital expenditure except for agriculture and on infra-structure programmes in so far as public capital expenditure is concerned, must come to a halt for the time being. The surpluses resulting from this kind of economy must be used in two directions; the first and foremost direction is that something like half these economies, of the order of Rs. 200 or Rs. 300 crores must be utilised towards reducing the burdens and the incidence of taxation. Taxation has now reached monstrous proportions. It has reached a point at which, in so far as the ordinary man is concerned, nothing is left with him on which to live decently; and so far as the investing public is concerned, no savings and investments are possible except only small dribbles into what the Supplementary Economic Survey describes as safe investment in preference to equity and so on.

Secondly, the balance of the budgetary surpluses resulting from drastic economy should be utilised in repayment of the inflationary borrowings from the Reserve Bank. Unless these measures of a very specific kind are taken, namely drastic economy in expenditure, drastic cutting down of capital expenditure on non-infrastructure projects I would like to say that mere professions of stopping deficit financing will not get us anywhere. There must be concrete modes of approach to the problems which will result in the absence of the *need* for deficit financing. Deficit financing is a consequence of "planning" expenditure on a huge scale and over-enthusiastic approaches to the possibility of resources which do not materialise; it is these which require deficit financing. Mere promises that we shall not resort to deficit financing are mere assertions, not practicable undertakings; practical approaches must consist in reducing expenditure, reducing taxation and borrowings, or utilising, in other words, the opportu-

nity afforded by devaluation not for a budget that is planned for a deficit but a budget that is planned for a surplus.

#### **Reserve Bank Governor's Advice**

I would like to end my speech with a little quotation from the admirable statement which the Governor of the Reserve Bank made the other day to a group of bankers. He said:

"The size of the Plan has indeed to be judged not by what is desirable but rather by what is possible. A seemingly smaller Plan in terms of financial outlays but executed without experiencing a price inflation may, indeed, in terms of physical content, be no smaller than a larger financial Plan whose size contains a sizeable element of price inflation traceable to significant credit creation.

A moderation of the pace of investment growth would, along with an effective check to non-Plan expenditure, help to relieve the pressures on the economy. A control on the budgetary expenditure and avoidance of inflationary finance would itself help to augment the flow of genuine savings into investment both directly and via the capital market. A control of expenditure and the achievement of budgetary balance would also help up to view the problem of mobilisation of tax resources in a different perspective, as it would offer a respite from the constant pressure towards raising tax levels.

I do not wish to be misunderstood as arguing for slower growth. Quite the contrary. In fact, the emphasis must be on a sizeable acceleration of the rate of growth in the years ahead and for a purposeful advance towards the equally important desideratum of external viability. These objectives are not indeed inconsistent with a Plan whose magnitude is determined by the availability of non-inflationary resources. What they do suggest is a restructuring of the pattern of investment so as to emphasize additions to output rather than the pursuit of investment targets in financial terms. In fact, the higher income levels would, by raising the savings quantum and ratios over time, help to expand investment on a more enduring basis."

### **Gearing to Realities**

What I am suggesting, Sir, is that the Fourth Five Year Plan and the annual budget etc. must be specifically geared to the realities of available resources. This continuing talk by Shri Asoka Mehta that he must make another drive for mobilising resources is simply going to mean expenditure beyond resources financed by deficit financing.

I would, therefore, end up by saying that while I agree that devaluation was the only way out, I insist that it is the only way out if, and only if, Governments are determined to be honest, an honest insolvent and to start again on a clean slate.

*Based on a speech delivered by Mr. N. Dandekar, M.P. on 10-8-1966 in the Lok Sabha on the motion moved by the Minister of Finance regarding the economic situation in the country.*



*A Swatantra Party Publication*

Printed by S. R. Krishnan at Inland Printers,  
55 Gamdevi Rd., Bombay 7 and published  
by S. V. Raju for the Swatantra Party,  
Central Office, 143 Mahatma Gandhi Road,  
Bombay 1.

Price 20 P.