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"Devaluation of the currency is like a potent drug or the surgeon's knife which may safely be entrusted to a qualified physician or surgeon, but which, in the hands of a quack or a p honey can play havoc. What causes concern is that the operation is being performed by the Congress Government in New Delhi, which has brought the country to its present plight and has demonstrated its unfitness to hold office a day longer," observed Mr. M.R. Masani, M.P., General Secretary of the Swatantra Party, while addressing the Progressive Group this afternoon on "Devaluation- What Next?"

The speaker wondered whether the cogent reasons given by the Finance Minister in his broadcast for taking this step were in fact the decisive factor in Government's decision. There was nothing new in the case that Mr. Sachin Choudhry had presented. In fact, Mr. Masani himself had warned the Government as far back as March 1965 in the course of his Budget speech in the Lok Sabha that, if Government did not listen to their warnings and stop resort to inflationary policies, the day would come when the Finance Minister himself would have to come before Parliament and announce the devaluation of the rupee. This sudden concern for fiscal rectitude was, therefore, not altogether convincing.

The fact seems to be that it was the price to be paid for obtaining foreign loans to finance the proposed Fourth Plan. It was a bargain that had been struck by the Planning Minister who, during his visit to the U.S., had tried to throw dust in the eyes of the people by boasting that he "had not travelled 10,000 miles to discuss the value of our currency."

If this interpretation proved to be correct, disastrous days lay ahead of the country, because the proposed Fourth Plan in its present shape and dimensions would prove to be even more inflationary and more catastrophic than the Second and Third Plans had been.

According to Mr. Masani, devaluation was a declaration of insolvency by the Congress Government brought on by persistence in fundamentally wrong policies which involved living beyond one's means. The inflationary features of the Second and Third Plans were the resort to deficit finance, the obsession with steel and heavy industry to the neglect of agriculture and consumer goods, overdependence on foreign loans, excessive taxation and crippling controls. According to Mr. Asoka Mehta, seventy per cent of the foreign aid which India now seeks would nonetheless go to the State sector, which had already proved wasteful and eaten up tremendous amounts of the nation's scarce resources.

Mr. Masani's advice to the Prime Minister was: "Listen to what the Planning Commission say and do exactly the opposite."

Mr. Masani forecast that, if the Fourth Plan in its present form was imposed on the country, the value of the rupee, which was now 10 cents of the U.S. dollar in the free market, would drop to 5 cents within twelve months. Now that what the Finance Minister had described as the "ultimate remedy" had been tried, to what device would the country then be asked to turn?

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Since devaluation had taken place, the important thing was to make sure that the hardships and sacrifices imposed on the people were not wasted by a continuance of the present policies which had brought on this disaster. As measures for immediate relief to those sections of the people who were affected, the speaker suggested the provision of an adequate supply of raw materials to those exporting non-traditional goods to replace the entitlements which they had lost, and the provision of easy loans from public financial institutions to orphaned industrial projects stranded in mid-stream as a result of devaluation. He also advocated the outright abolition of import duties and countervailing excise duties on raw materials, intermediate goods, spares and fuels in place of the present illusory reduction in import duties.

The fundamental and long term counter-inflationary policies which were called for, according to Mr. Masani, were:

(1) A drastic reduction in civil non-developmental expenditure both at the Centre and in the States and the scrupulous eschewing of deficit finance and overdrafts.

(2) The restriction of Government to Government loans for purposes of building the infrastructure, and, as an emergency measure, for bringing in maintenance imports.

(3) Postponing and recasting the Fourth Plan by dropping all State sector capital projects, including the wasteful Bokaro steel plant.

(4) A sharp reduction in taxation, both direct and indirect, so as to make a larger supply of rupee finance available for productive enterprise and for bringing down prices.

(5) Decontrol and the dismantling of the entire structure of import licensing, exchange controls and Gold Control and the restoration of competitive enterprise.

It was only if these measures were taken that resort to devaluation would prove to be justified. The country would then have its self-regained respect and won the respect of the world and would be in a position, as Rajaji has suggested, to renegotiate with the World Bank and foreign countries debt servicing charges on existing loans.

While Mr. Masani was prepared to believe that the Prime Minister and the Finance Minister might be doing their best according to their lights, he doubted whether the Congress Government as a whole had either the integrity, courage or capability to put through a programme of the nature that was necessary.

M R Masani

(M. R. Masani)