4053

A Note on Devaluation and the measures by which it should be followed

The economic collapse of which the devaluation of the currency is only one aspect is the cumulative result of the mistaken economic policies and planning of the Union Government over the last decade and a half. If the repeated warnings sounded by the Swatantra Party spokesmen, both in Parliament and outside, had not been ignored, the country would not today be in its present plight.

2. In order that the corrective effect of devaluation may operate fully, the economy derive the fullest benefit and the sacrifices entailed in the process of devaluation not be wasted, it has now become necessary for the Government to come forward with a Declaration of Policy on the following lines:

(a) A clear declaration that from now inflationary policies of every kind will be scrupulously eschewed and that, subject to whatever foreign assistance may be made available, the Indian Government will live within its means.

(b) Appropriate reduction in civil non-developmental expenditure of the Union Government and the observance by the Union and State governments of fiscal discipline by eschewing deficit finance and overdrafts. All further recruitment to the civil service and clerical recruitment to be stopped.

(c) The restriction of foreign loans on a government-to-government basis only to such legitimate purposes as fall within the natural duties of the State like the laying of the infrastructure (including the provision of irrigation, roads and communications and electric power) and, as a short-term measure, for maintenance imports; and the creation of conditions that would encourage indigenous and foreign capital to produce the goods that are required by the people.

(d) A postponement and recasting of the proposed Fourth Plan by dropping all new capital projects in the State sector (including the proposed Bokaro Steel project), except such as fall within the area indicated in (c) above.

(e) A sharp reduction in both direct and indirect taxes so as to increase the flow of national savings and thus make available a larger supply of rupee finance for expanding production and lowering the cost of domestic goods.

(f) The complete dismantling of the structure of permits, licences and controls including import licensing, exchange control and Gold Control, so that the machinery of production and competitive enterprise comes under the direction, and caters to the needs, of the common man instead of being manipulated arbitrarily by the planners and the Administration, as this is the only effective way of increasing production and bringing down prices.

(g) The commencement of negotiations with India's creditors designed to secure a reduction in the debt servicing charges on foreign debts already incurred.

3. These are long-term measures and it is realised they may take some time to be implemented. Pending their introduction and their beneficial effects materialising, the following measures should, however, be taken immediately to prevent dislocation of the economy and reduce hardship on those concerned:

(a) Orphaned industrial projects stranded in mid-stream should be helped out by easy loans from public financial institutions.

(b) An adequate supply of imported raw materials should be ensured to exporters of non-traditional exports who have lost their import entitlements.

(c) The new export duties introduced with devaluation should be withdrawn, as they are likely to obstruct the corrective effect of devaluation by reducing the incentive to promote exports, hinder the necessary encouragement to a shift of production to the export industries and impede the solution of our difficulties in regard to the balance of payments.

(d) Import duties and surcharges and countervailing excise duties on raw and intermediate materials, fuels and spare parts should be completely abolished, in place of the present illusory reduction in import duties.

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