Recd.
21/6/66

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B. R. SHENOY
DIRECTOR
&
Professor of Economics

4058

UNIVERSITY SCHOOL OF SOCIAL SCIENCES
GUJARAT UNIVERSITY
AHMEDABAD-9 (INDIA)

20 June 1966

My dear Masani,

Your express delivery letter of 18 June reached me only today. I hasten to return your draft with pencil jottings in the margin, to make sure that it reaches you to-morrow in Bombay. As a precaution, I am wiring to your New Delhi address, care of your sister, Miss Mehra R.Masani, the text of the sub paragraph on export duties. I hope you have received the text of my statement on devaluation, which I made at the press conference. This was sent to your Bombay address on 18 June.

With best wishes,

Yours sincerely,

B.R.Shenoy
(B.R.SHENOY)

Mr.M.R.Masani, M.P.
148, Mahatma Gandhi Road
BOMBAY-1

Encl:

P.S.

I am glad to say that my office has been able to take a copy of the draft with my suggestions incorporated in it, these suggestions being underlined. I am sending a copy of the amended version also to your Delhi address. Please find attached herewith a copy of the sub-paragraph on export duties. It is a matter of detail whether you put it as part of paragraph 2 or of 3. My own bias is to put it as part of paragraph 2, in view of its importance to the corrective mechanism of devaluation.

B.R.Shenoy
(B.R.Shenoy)

THE MAJOR PART OF THE BENEFITS OF DEVALUATION HAS BEEN NEUTRALIZED BY EXPORT DUTIES IN RESPECT OF TRADITIONAL

SEMI-COLON

EXPORTS; AND IN RESPECT TO NON-TRADITIONAL ITEMS BY THE ABOLITION OF THE IMPORT ENTITLEMENT AND OTHER EXPORT PROMOTION INCENTIVES STOP THE NET RESULT IS THAT THOUGH DE JURE DEVALUATION IS 57.5 PER CENT DE FACTO DEVALUATION MAY BE OF THE ORDER OF 10-15 PER CENT STOP THIS IS FAR TOO INSUFFICIENT FOR EXPORTS TO BE STEPPED UP SUFFICIENTLY STOP THERE IS THEREFORE URGENT NEED TO ABOLISH EXPORT DUTIES INTRODUCED WITH DEVALUATION

-SHENOY

Not to be telegraphed

Post copy for information.

(B.R.SHENOY) 20-6-66
School of Social Sciences
Gujarat University, Ahmedabad-9

EXPRESS

To

M.R.MASANI
9 C.1, PANDARA ROAD
NEW DELHI

The economic collapse of which the devaluation of the currency is only one aspect is the cumulative result of the mistaken economic policies miscalled 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 processes of devaluation may operate fully and the economy derive the fullest benefit of devaluation, 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) Drastic 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 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 such as the laying of the infrastructure (including education, the provision of irrigation, roads and communications) 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 which is of an exceptionally costly and wasteful nature.

(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 the production and lowering the cost of domestic goods.

(f) The complete dismantling of the structure of permits, licences and controls, including import licensing and exchange controls and Gold Control, so that the machinery of production and competitive enterprise come under the direction, and cater to the needs of, the common man, instead of being manipulated arbitrarily by the Administration to gain sectoral and party ends, as this is the only effective way of increasing production and lowering prices.

3. Pending the introduction of these measures and their beneficial effects materialising, the following measures should be taken immediately to prevent dislocation of the economy and reduce hardship on those concerned:

(a) Ensuring an adequate supply of imported raw materials to exporters of non-traditional exports who have lost their import entitlements.

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

(c) 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 im import duties.

The section relating to export duties, which may go either in Para 2 or para 3 :-

"The major part of the benefits of devaluation has been neutralised

(contd..2).

by export duties in respect to traditional exports; and, in respect to non-traditional items, by the abolition of the import entitlement and other export promotion incentives. The result is that, though <u>de jure</u> devaluation is by 57.5 per cent, <u>de facto</u> devaluation may be of the order of 10-15 per cent. This is far too insufficient for exports to be stepped up sufficiently. There is, therefore, urgent need to abolish export duties introduced with devaluation."

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.

miscalled

2. In order that the sacrifices entailed in the process of devaluation may not be wasted and the gains that may be possible as a result of this step are not lost, it has now become necessary for the Government to come forward with a Declaration of Policy on the following lines:

corrective processes

~~may to operate~~ fully and ~~let have the~~ the economy derive the fullest benefit of devaluation

(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) Drastic 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 civil service and clerical recruitment to be stopped.

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(c) The restriction of foreign loans on a government-to-government basis only to such legitimate purposes as 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.

fall as within the natural duties of the State such

education

[ ] 8

(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 which is of an exceptionally costly and wasteful nature;

(e) A sharp reduction in both direct and indirect taxes so as to make available a larger supply of rupee finance for productive enterprise so as to lower the cost of producing domestic goods. In order to prevent dissipation of savings that may thus accrue, provision should be made to credit additional savings in a reinvestment account in the assessee's own hands.

increase the flow of national savings and thus

expanding the production and lowering

[ ] 8

[ ] 8

(f) The complete dismantling of the structure of permits, and competitive enterprise

so that the machinery of production may come under the direction of and cater to the needs of the common man, instead of being manipulated arbitrarily by the Administration to gain electoral and party ends, as this is the only effective way of increasing production and lowering prices.

licences and controls, including import licensing and exchange controls and Gold Control, so as to allow full play to competitive enterprise to increase production and bring 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.

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note: These should meet our obligations in full; Swatantra should not be a party to scaling down debt obligations. That is my personal view.
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3. Pending the introduction of these measures and their beneficial effects materialising, the following measures should be taken immediately to prevent dislocation of the economy and reduce hardship on those concerned:

(a) Ensuring an adequate supply of imported raw materials to exporters of non-traditional exports who have lost their import entitlements.

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

(c) 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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