4087

Smt. K. Dudha

File

<u>Devaluation</u>

I have in my press note following my consistent demand in Parliament given a cautious welcome to the devaluation of the rupee. My reasons for so doing are:

1. The inflationary policies pursued by the Government since 1956 have caused prices (as measured by the wholesale price index) to rise by about 73% till todate. The devaluation in terms of cross-currency rates resorted to by Government comes to about 57.5%, not 36.5% as officially declared. This indicates that full devaluation was not accepted but a partial devaluation. As such in my opinion the full impact of inflation has not been neutralised.

2. While accepting the suggestion to devalue the rupee we, I find, have not taken the precaution to renogiate the debt servicing burden of our past loan obligations on foreign account. At least we could have secretly bargained for funding our payment obligations from the present short to medium maturity debt to longer dated maturities. Otherwise the debt payment obligations which have risen overnight by 57.5 per cent will prove a drag on our balance of payments. I would therefore like to know whether we have made any arrangements with our creditors to alter the debt servicing conditions? If nothing has been done so far, I would like to know what steps are being taken to do so even now?

3. Past speeches of the Finance and Planning Ministers in Parliament make it amply clear that devaluation has been done with an intention to facilitating the inflow of foreign capital on government to government account. This will, it is held, justify a plan size of Rs.21,500 or more crores. I however feel that devaluation is a contradiction in terms of proposing a larger size plan. The fact of the matter is that prior to devaluation, the foreign exchange component in the Fourth Plan which was revised to Rs.4,800 crores will have to be revised still upwards by 57.5 per cent to Rs.7,560 crores. However, the tentative promise of aid comes to Rs.4,000 crores only. How then do we propose to cover the gap of Rs.3,560

crores? On the other hand,if foreign exchange of the order now needed is not forthcoming,what alternatives have been thought of ? Has the alternative of a cut in plan size been seriously considered? Press reports seem to indicate to the contrary;the Finance Minister and the Planning Minister seem to be quibling on the larger size of the plan.With devaluation this artihmetic exercise will take on a new urgency for the government. The increase in foreign exchange cost and the rise in prices since 1961 for instance would logically warrant a plan size of Rs.32,000 crores!

I however do not subscibe to this "big size" school of planning.If the required resources are not available, the size of the plan is reduced to a thalinomide child. I therefore lay down in no uncertain terms that devaluation if unaccompanied by cut in plan size will merely perpetuate the inflationary forces.In another ~~decades~~ five years time the pursuit of this policy will once again bring the nation face to face with another devaluation.I do not want this to happen.Rather I suggest that the inflationary form of financing be given up once and for all. In order to do this the Government must categorically declare the unequivocal pursuit of twin economic goals of growth accompanied by a stable price and incomes policy.

4. I tend to lay stress on the latter objective as for the last 15 years,we have completely capitulated it in favour of growth,which has been nonexistent.Insofar as the price policy is concerned,I refer to the desirability of wholesale prices being maintained stable.Stability further may be identified either with a zero movement in prices or a maximum rise of 2 per cent per annum average.I may point out that within this global concept,I am not opposed to offsetting price movements taking place,as they may be caused by changes in technology or by the shifts in market forces.

With respect to an incomes policy,our experience seems to indicate that we adopt a policy of promoting a higher share of wages in the national output.For instance we could lay down that before labour can demand a higher share,it must have contributed towards the higher production.This canbe done in the ultimate analysis only if wages move in line with the productivity of labour. If wages paid surpass the productivity of workers,then not only will there be a rise in the cost of production, but that there will also be fewer jobs created.While the latter is socially undesirable,a rise in the cost of production will also lead to a loss in our capacity to export.This will bring us back to the falling value of the rupee.

5. Once the need for a price and incomes policy is accepted,the next factor that comes up for discussion is the behaviour of production.After all prices and production do have an inverse correlationship.If one wishes to maintian a stability in prices and incomes, then one must raise the level of output.But how can this be done? There can be only one answer to thisposer.There must be a minimum amount of interference with the operation of the market forces. Our past experience has demonstrated the futility of planning through controls and permits and quotas.These rather than raise output have tended to distribute falling production.I therefore welcome the move to decontrol indistries as also the Swaminathan Committees recomendation to delicense certain industries.

6. Production could also be beneficially affected if adequate amount of foreign assistance was forthcoming. Devaluation by indicating a sense of realisim may speed up the inflow of private capital.On the other hand now that the rate of earnings on ~~such~~ existing investments has gone down, as it may also adversely hit it. Existing Foreign companies will in future have to earn more and distiribute miore to maintain their real earnings on investments.Under the existing fiscal laws this is not possible.I therefore suggest that suitable concessions be announced by amending fiscal laws.Devaluation however will "beneficially" affect inflow of foreign aid on governement to government account.But I am against such aid as it tends to

kill initiative and enterprise of the individual,as well as permit irresponsible spending by the government.I suggest that as the chances of raising foreign capital inflow on private account is slim,the inflow of government foreign aid should be channeled to the private hands.

7. But does the promise of larger foreign aid solve the problem of getting larger output? I do not think so. As Alfred Marshall used to say there must be the presence of a second limb to this deus ex machina namely the availability of rupee finance.Ever since 1962 this has tended to dry up as seen by the slothness in the stock markets.Meanwhile the institutional agencies specifically created for this purpose have failed to support new investments.The shortage of rupee finance may be traced to heavy taxation,which as I have often characterised nationalises the savings of the community.I hence plead for the restoration of the right to save in the hands of the individual.I therefore plead for the reduction of both the direct as well as the indirect taxes.As the former is well-known I shall not pursue the theme further,but my suggestion for reducing even indirect taxes may be questioned.I recommend this also as its reduction will leave a larger disposable income in the hands of the masses thus enabling them to save.Further, as in my view, indirect taxes assist in raising the cost of production,their lowering will also reduce the cost of production and thereby help in realising the goals of stability outlined earlier.

A lowering of taxes will lower the revenues of the public authorities.To that extent it may be considered undesiarable as it will tend to adversely affect growth since that is related mechanically to a certain size of investment.I deny that growth will be adversely affected.Under the changed circumstances investment will continue to take place at a higher level,with this difference that now investment will be done by individuals rather than the state.Thus by a shift in strategy the economic goal of higher investment is realised.