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Political forum

INDIA'S PROBLEM IS ECONOMIC: SOLUTION IS POLITICAL

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Midnight of 5th June was the 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.

Reality could not be ignored any more and, as in a flash, it 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. Since we in the Swatantra Party are sometimes misrepresented as welcoming devaluation, let me quote my own words in my Budget speech last year, when Mr. T. T. Krishnamachari was the Finance Minister. On the 22nd March, 1965, I said:

"When foreign aid starts drying up, there will be only two alternatives left to this country. It can shamelessly go bankrupt, 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 to see the Finance Minister of their party doing in the next two years, 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

which have brought about this bankruptcy and devaluation. 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. The source of all economic evil in this country is to be found in these Five Year Plans—the Second and the Third Plans. 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.

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 had an effect on inflation, because when you pump money into the economy in low-return and slow-return 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,

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 leave with the people more money so that they can invest in productive enterprises.

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.

We 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.

QUESTIONABLE

The question that arises is whether the present Government is 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? We 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

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 Prime Minister herself. She made a very frank statement in June about what was wrong with the State sector. She regretted that, by and large, it had failed, and she answered the question why What is wrong with the State sector is, according to the Prime Minister: "Faulty planning with regard to concept, size, location, raw materials, design, choice of processes, equipment, personnel, contractual arrangements, supervision, co-ordination, time schedules, etc." This was not all. There is another set of problems. 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 audite and the lack of a well thought out personnel policy, constitute another set of problems."

Then the Prime Minister went on to a third category of problems. Those "other factors" are: "Other factors which had to be gone into were the proper programming or orders, price policies, quality and cost control, research and design development and the structure of *management.*"

What then is left that is right when all this is wrong? That is why 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.

ULTIMATE REMEDY

I forecast that, if this Government remains in office next year and if they cling to this kind of Fourth Plan, the price of the Indian rupee, which is now 10 cents of the American dollar in yourself will have to come to the country and to this House and say: "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. 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."

The point is that economic laws do not follow the diktats of Planning Commissions or even fleeting parliamentary majorities. So, at last, on 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 was very sensible. But then, why was all this denied earlier? When some of us said it, why were we told that we were talking in ignorance? 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. 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 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 put 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?

Let us start with the causes have raised. As we know, inflation and rising prices are the cruellest tax of all 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 P.L. 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.

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 Professor Shenoy has rightly described as "the biggest portfolio of political patronage."

SWATANTRA PROPOSALS

The Swatantra Party has made five or six concrete proposals to pull the country out of the morass. The first of these proposals is a clear commitment by Government that it will eschew all inflationary policies of every kind, that there should be no deficit financing or overdrafts from now. Unfortunately, even after devaluation, this has not been practised. The Finance Minister announced at the Chief Ministers' Conference on 18th July that the States had overdrawn during the last three weeks before July 18th no less than Rs. 20 crores from the Reserve Bank.

The second thing is a drastic reduction in civil non-developmental expenditure of both the Union and State Governments: a complete stoppage of this wasteful expenditure at the secretariat level. The amazing thing is that instead of stopping all recruitment to the civil services, the Government has done exactly the reverse. In the newspapers on 1st July, we saw a fantastic announcement: "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."

Thirdly, 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 building the infra-structure—water, power, transport, communications, technical education, but nothing more.

Fourthly, we should consolidate the projects we have taken in hand before embarking on any new projects. 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.

brought us. First of all, the very motive for devaluation is questionable.

What was the real motive that led this Government, which kept on saying "no devaluation," "no devaluation," suddenly to devalue? The cat was out of the bag on 8th June. In a note that the Finance Ministry prepared called "Devaluation—Some Questions Answered", this is the crucial sentence: "The action could not be postponed as all further aid negotiations linged on it." Devaluation, then, was accepted in order to get foreign loans. 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 is a good bargain from the national point of view. But is this a good bargain?

It is claimed that there was no alternative. We feel that, even on 4th June there was an alternative open to our Government. That alternative was: no devaluation, no aid and no Fourth Plan; or no devaluation, a little aid and a 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? What came in the way was that the Fourth Plan would not have been possible. And to save this Plan, we had to humiliate ourselves, we had to devalue our currency.

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, the most wasteful sector of our economy which eats up capital and gives nothing in return. I shall quote an eminent authority, my friend, Mr. Asoka Mehta, Our Planning Minister said in Parliament on 17th May that 70 per cent of the foreign aid would go to the State sector. The Finance Minister reiterated this on 8th June: "To the extent larger aid is available, the prospects of a bigger public sector plan will improve."

In case I am asked: "What is wrong with it, why should it not go into the State sector?" my answer is: Because the

cents of the American dollar in the free market, will drop to 8 cents within two or three years. What will they do at that stage? The Finance Minister has very accurately described devaluation as "the ultimate remedy." 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. When the ultimate remedy has been used up, what will the doctor do next?

In this context, the Shah of Iran has given some 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." I would say to our Government: "Listen to what the Planning Commission says and do exactly the opposite; you cannot go wrong."

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. 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 one is 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.

The only solution to our economic problem is thus, 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.

What we fear is that, owing to the primitive electoral system that we have taken over from the British and the multiplicity of Opposition parties, if sufficient wisdom and patriotism do not come to the democratic Opposition parties in time, even that 38 or 39 per cent of the rump may come to occupy a majority of the seats in the Lok Sabha. I shudder to think what would 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 Parliament.

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 honesty of those in power?

I do not normally agree with Mr. Kosygin, but there is one thing he said recently with which I find myself in agreement. That was a remark he made to our Prime Minister at the end of her visit to Moscow. 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 will do. What she and her Government need is a five-year holiday—leave without pay—and the Indian electorate should grant that leave.