Political forum

INDIA'S PROBLEM IS ECONOMIC: SOLUTION IS POLITICAL

By M. R. MASANI, M.P., General Secretary, Swatantra Party

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 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 [illegible]. [illegible] one day have the courage and the honesty to come forward and admit it."

The point is that economic 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, inflation and rising prices are the cruellest tax of all on the poor who cannot a'ord 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.

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 hide-bound 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 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

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 the free market, will drop to 5 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

as saying in August/September 1960, that "A number of textile mills is not industrialisation. It is playing with it. Industrialisation is a thing that produces the machines. It is a thing that produces steel." I remember that occasion since, as it happens, Mr. Nehru was replying to my own observations a little earlier in the debate. ~~Mr.~~ Clark goes on sadly to observe: /Profess
"Before long, the world is going to be littered with unwanted and obsolete steel mills, built at great sacrifices by poor countries suffering emotional political leadership, with money which could have done far more good if it had been devoted to other industries."

The third fallacy is that Government should produce more and more, the people less and less. Hence, while these plans actually collect from the taxpayer in the form of taxes and loans, resources for the State sector, the free sector is left to fend for itself by raising money in the market. The allocation of resources shows a set pattern despite the failure of the State to fulfil its targets, of a larger and larger slice going to the State sector, leaving a dwindling balance for the free sector of the economy. Thus, while in the First Plan, the share of resources allocated to the State sector was 46.4 per cent, it rose to 54.6 per cent in the Second Plan, and 60.6 per cent in the Third Plan. It is now proposed to raise it to 65.05 per cent in the Fourth Plan.

[The wasteful nature of this investment can be judged from the figures available in regard to 46 Government-owned companies (along with two subsidiaries) for the year 1962-63. These enterprises had a capital employed of Rs. 1294.11 crores. The net result of their operations was a loss of Rs. 12.33 crores.

It would be disingenuous to be surprised at these figures. The business of government is to govern. Governments are not made to produce efficiently. The ancient Stoics had a theory that "the nature of something is defined by its purpose." Thus the eye is for seeing, the stomach for digesting and the lungs for breathing. You can no more get a government efficiently to produce manufactured goods or grow food grains than you can breathe with your stomach, hear with your eyes, or digest with your lungs.]

The fourth fallacy is that the National Planning Commission and the Government should have the right to dictate what shall or shall not be produced and at what price it shall be sold. This has created a Command Economy which is modelled on Soviet planning and has little in common with the "indicative" planning of France and Britain which is advisory and voluntary in its nature. It has also created a veritable jungle of controls, licences and permits, which kill incentive and breed corruption.

c/e/

What then is the way out of the mess in which we find ourselves? To me the answer appears inescapable that what is called for is the abandoning of the Four Fallacies in which we have been indulging and a radical reversal of the faulty economic policies and planning in which we have indulged for the last ten years.

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This cannot be done overnight, particularly with a Government as lacking in decisiveness and a sense of direction as the one this country is blessed with at present. What is immediately necessary therefore is a pause – a period of heart-searching, of introspection, of direction finding, so that, as Mr. S. K. Patil, ~~the Union Minister,~~ said the other day, we may go out of the "blind alley" in which we find ourselves. As early as March 22 this year, opening a discussion on the Budget in Parliament, I had urged the need for making the Third Five Year Plan a Seven Year Plan and giving the country a badly needed two year holiday from Planning. I had cited the example of Khrushchev who, when he took over from Stalin, had said that there was no need for a new plan until the target of the existing one were achieved first and he had, therefore, made that Five Year Plan into a Seven Year one. As Mr. Patil jocularly remarked, there are "planning pundits" who are apt to regard any criticism of their plans or any suggestion for a pause or holiday as "an act of sacrilege"! I am glad that, in such an act of blasphemy, I now find myself in good company. ~~The World Bank, India's best friend already have given advice pointing in the same direction and~~ If reports are to be believed, no less a person than the Prime Minister has made a similar suggestion, though it is likely to be publicly denied.

It seems that even the Prime Minister's suggestion has not been well received and I saw a headline in a local paper of 24th July saying "Planning Commission's 'No' to PM's Plan Holiday Move". Who are these men who, between them have not produced anything comparable to what a single businessman in front of me has contributed to the country's wealth, men who do not have to stand for elections and face the electorate, men who do not have to stand up in Parliament and answer for their activities, who presume to turn down the Prime Minister's suggestion? This proves the point that some of us have been making that there is no room for a super-government miscalled the National Planning Commission in a Parliamentary Democracy such as ours. Such a body is part of the Communist system of government and the best thing that can be done to it is to wind it up.

The implications of making the Third Plan a Seven Year Plan would be: (1) that we would have time to fulfil the targets of the Third Plan, completing unfinished business and projects and fully utilising installed capacity: (2) there would be no additional wasteful investment in the State sector for two years and (3) there would be time to think things over and get a better sense of direction. Such a plan holiday can also be utilised for progressive decontrol and the cutting out of a lot of red tape in which we have enmeshed ourselves. It would give time to concentrate on agriculture, roads and power – essential elements in the infrastructure which have been wilfully neglected all these years.

I venture to suggest that the result of this step would within a period of two years, be nothing short of a miracle.

The first and most striking result would be that the stopping unproductive expenditure on new projects would facilitate the completion and fuller utilisation of Third Plan projects at different stages of completion. Fuller utilisation of capacity would result

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I venture to suggest that the result of this step would within a period of two years, be nothing short of a miracle.

The first and most striking result would be that the stopping unproductive expenditure on new projects would facilitate the completion and fuller utilisation of Third Plan projects at different stages of completion. Fuller utilisation of capacity would result in increased production which in turn would have a favourable impact on the price level. Increased production would increase the tax returns at the existing level of taxation. As there would be no fresh investment on new projects, this would facilitate a cut of 30 per cent to be made in expenditure and the tax revenues required. This in turn would make it possible for the incidence of all taxes, both direct and indirect, to be halved.

The second result would be that more money would be left in the pockets of people for saving. With appropriate changes in the interest rates, these savings could be channelled into productive investment. This would lead to a tremendous spurt in industrial activity, the like of which this country has not seen for many a year.

The third result of a Plan holiday would be that additional purchasing power would be left in the pockets of agriculturists and the rural population. Through cuts in excise duties and decontrol, the agriculturist would get more manufactured goods by selling a given quantity of his products. This world serve as an incentive for him to produce more and bring more on the market.

Our rate of growth would accelerate, the size of the cake would expand and everyone of our people would get a bigger slice. Before this, the paltry achievements of the Second and Third Plan would pale into insignificance.

There is a neighbouring country of ours, little Ceylon, which used to follow the same kind of economic policies as we do today. The result was the cutting off of U.S. aid and a rapid drift towards bankruptcy. Last March, the people of Ceylon showed
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that they had had enough, with the result that today there is a Liberal government there which has embarked on sound economic priorities, and foreign aid has been resumed. Only the other day, the Government of Ceylon invited our finest Tax expert, Mr. N. A. Palkhiwala, to visit Ceylon to guide them in regard to their fiscal policies. Is it not an irony that our fiscal experts are invited by foreign governments while being neglected by our own?

The result is to be seen in the excellent Budget proposals introduced in the Ceylonese Parliament only two days back which not only provided for a cut in income tax, removal of import duties on certain goods and the reduction of import duties on others, but also various measures to attract both indigenous and foreign capital and provide the necessary incentives. The example of Ceylon has shown that these economic problems have a political solution. Are we as a nation less intelligent than the Ceylonese?

Big tasks and small minds go ill together. There are too many people in key positions who lack faith in the people, daring, imagination and vision. There has been a niggling attitude to prosperity and the enjoyment of the good things of life that is succeeding in driving away scientists, educationists, engineers, doctors and nurses in a regular flight of talent from in increased production which in turn would have a favourable impact on the price level. Increased production would increase the tax returns at the existing level of taxation. As there would be no fresh investment on new projects, this would facilitate a cut of 30 per cent to be made in expenditure and the tax revenues required. This in turn would make it possible for the incidence of all taxes, both direct and indirect, to be halved.

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