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P.M's Acts & Speeches

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 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 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

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 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

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