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speeches file

Devaluation - What next

Transcript of speech delivered by Mr.M.R.Masani M.P. to the Progressive Group, Bombay, on June 15,1966.

Mr.President, Ladies and Gentlemen:

I would like to congratulate the Progressive Groupon having taken the initiative to encourage discussion in public about this topic which is at the same time a burning topic of discussion and a mystery of a rather technical nature to most people. It speaks volumes for the intelligence of the members of your Group that such a large number of them should be here to follow a discussion on what is a rather difficult and obscure and technical subject. In fact I marvel at my own courage in agreeing to try to explain this technical subject to a popular gathering.

What is Devaluation ? Let us say that it is the recognition of reality. That it faces the fact that the value of a particular currency in terms of other currencies is at a certain level.Just as everything has a price , so the Dollar, the Pound and the Mark and the Franc also have a price in terms of the Rupee. When the value of the Rupee goes down when just/as all other prices go up the value of the foreign currency which we can buy with our Rupee also goes up. Similarly if the value of our currency were to go up then all prices would come down and the price of the Dollar, the Pound, the Mark and the Franc would also come down. What happened a few days ago ~~thereafore~~ was nothing new. It was not something that was created, something ~~xxx~~ that was done by our Government. It was simply that our Government at last decided, for reasons which we shall go into presently, to accept the fact that the Rupee was no longer worth 20 cents of the American Dollar as was the officia theory till last week - 4.75 Rupees make a Dollar, that is what our School children were being taught. But even the brightest school children knew by this time that this was not so. The Finance Ministers had not discovered it but they discovered it last week. Now actually as has been the case for some months now, the value of the Rupee in the free markets of the world (which are published every week in Newsweek in a little box, in case anyone wants to check up on them) was round about 10 Cents, when this development took place. Half, roughly of what the Rupee was purporting to be. What the Government of India did with the approval of the International Monetary Fund a few days ago was to peg the Rupee at about between 14 and 15 American Cents. In other words the Devaluation is partial. It is about 2/3rds or thereabouts of what the reality was.

There has been a certain amount of confusion and difficulty about the extent of the devaluation. On the one hand our Government announced that the Rupee had been devalued to the extent of 36.5% of its value in terms of Gold. That is correct. On the other hand if we want to buy a Dollar, or a Pound or an air passage we find that the cost has gone up not by 36.5% but by 57.5%. This naturally is a little confusing because there looks as if some trick. But actually there is no trick. It all depends on the angle from which you look at it. Some has been brought down from 1.5 to 1.From the point of view of the~~x~~ man who is ~~isxat~~ looking from 1.5 which is the Dollar or the Pound the depreciation is 33%. But from the point of view of the man who is at one Rupee, 1.5 is 50% more than where he is. In other words ~~xiex~~ from the point of view of the foreigner the Rupee has gown down by 33%, from the point of view of the Indian, the other currencies have goneup by ~~50%~~ 57.5%. Both are perfectly correct.

What is the case for devaluation ? The case for devaluation was put probably in its fullest by the Finance Minister, Mr.Sachin Chaudhary on the night of the devaluation~~xx~~ in his broadcast. He said there was a rise in prices over the last ten years of 80%.In other words the Rupee's value at home had gone down by 80% during the last ten years. Secondly because the home value had gone down similarly the foreign value of the Rupee had gone down also. As I see it has gone down by 100%. So the value of the Rupee had depreciated in the world market. This means that the official rate of exchange was not being practised over large areas of commercial transaction. I remember saying during the Budget debate in April in Parliament on the Tourist Ministry's estimates that as much as 75% of the foreign exchange brought into this country by tourists in the form of Dollars, Pounds, Travellers Cheques was lost to the country. It was not going through the banks at all. India was not getting the benefit of ¾ths of the tourists' income which it would have got. Why ? Because there were people available in all the cities of India to give for the Dollar to the foreigner twice as much in Rupees as the Bank or the Hotel would offer. In other words if the Imperial Hotel, or the Ashoka Hotel, or the Taj Mahal Hotel here were prepared to change their travellers' cheques at the rate of R.4.75 per Dollar there are people hanging about the footpaths and taxi drivers and shopkeepers who are prepared to give Rs.9 or Rs.10 for the same travellers cheque or the Dollar note. The result was that even the nicest people who came to India soon learnt about it, did not see why they should spend twice as much of their money when they could spend half as much and so they stepped outside or got into a taxi and the Sardarji or whoever it was promptly change their Dollars for them. This is how things were working till devaluation came. And so the Finance Ministry explained thiat this was not making any sense anymore, it was better to face facts. The third reason he gave was that India's exports were being priced out of the world market. Our prices were so high,our cost of production had soardd so much that India had become a very expensive country to buy ~~inx~~ in or to buy from. ~~Ths~~ The result was that even products where we were accustomed to export to the world we could not sell because were not able to have a competitive price in the world market. Fourthly he said our reserves abroad had declined to zero. The British had left us with a very large sterling balance and our Congress Government during the last 18 years had completely dissipated it. And since there were not reserves ~~wex~~ were unable to meet our foreign obligations. We could not repay our debts, we could not the interests on our debts anymore. This was the picture he presented. And he said that devaluation will act as a corrective to this distortion. He was right. Devaluation in certain circumstances accompanied by certain other measures could correct certain distortions. But as we know it also creates new hardships, new inequities. Innocent people get hurt in the process. People who are not at all responsible for creating this situation where devaluation became necessary are the ones to be hit most. Students who want to go abroad. People who want to travel abroad on legitimate,business.medical or other grounds. People who had contracted to buy machinery abroad and have not yet paid for it. We learnt the other day that one of our major Corporations will have to pay Rs.10 crores more to the world Bank simply because of devaluation, though what they had go was going to remain exactly the same. This is very unjust.It means that innocent citizens of India have got hurt through no fault of their own. It is the Government that had misbehaved, but thepeople have to pay the price.

Let me summarise my explanation of devaluation by saying that it is the filing of a petition of banckruptcy.When a man cannot pay his obligations, when he is in default, then either he can run away if he can or he goes to the court of insolvency and says to the court I am sorry, I made a mess of my affairs, I cannot meet my obligations anymore , this is all I have now do what you like about it, pay my creditors as best you can and tell me I forgiven and I can start life all over again. This is exactly what a nation does when it goes banckrupt. As you, Mr.President, reminded me , I addressed your group somewhere in May or June last year and I asked the question: "Can India escape banckruptcy ?" I ventured ~~tx~~ at that time to suggest methods by which this step could have been avoided. I pleaded with you, the audience and the Government to listen. But as usual, our voice was a voice in the wilderness. And therefore/today the answer is that India has already become banxkrput.And this bankrupt country now goes to the World Bank and the International Monetary Fund and says We made a mess of it, if you will forgive us now we will start again with a clean slate and as a price of this we agree that our currency, our credit, our prestige has gone down by 57.5%.

But as you probably know there are two kinds of insolvents. There ~~xxx~~ is the honest insolvent~~x~~ and there is the crook who files his petition as insolvent. And the result is that at the end of the process there are those who are honourably discharged from bankruptcy and there is the undischarged insolvent who remains like a ghost fleeting around the courts and the/civil prisons, there is one in Arthur Road, where people can be put there for not paying their debts. Now the honest insolvent declares his assets, discards his bad habits, his extragavance his attempt to live beyond his means and tries to live an honest life. The dishonest insolvent secretes his wealth, pretends that he is bankrupt, or at least more bankrupt than he is and tries to cheat his creditors. And then goes ~~xx~~ on again, having got out of the mess to the same bad old ways. Now the question before us ~~xk~~ is whether our Government today is an honest insolvent or a dishonest one.

Trying to be judicious and objective I would say that perhaps it is too early to pass a final judgement. But certainly the indications from Delhi are not very encouraging. Let us consider for instance what the real action for this action might have been. Now I have given you accurately and fairly, Mr.~~Rxxxidxxt~~ Sachin Choudhury's explanation. He is a good friend of mine, I have no desire to be unfair to him. That question that arises however is, are the reasons he has given the real reasons why this step was taken. Now let us consider what he said. Did he tell us anything new. Did he, Mr.President, tell you anything in his broadcast which I had not said 15 months ago. Well, now if that is so, if these same people ignored all the warnings which were given to them pretended that everything was all right and everything we said was nonsensical then when suddenly adopt our arguments and make to you the same speech that we havebeen making at them then certainly it begins to make one wonders whether this could be the real reason. Now here for the record is what I said in my Budget speech in Parliament on 22nd March 1965, fourteen or fifteen months ago when Mr.Krishnamachari was sitting opposite:

> "When foreign aid starts drying up(which has happened)there will only be two alternatives left to this country. It can shamelessly go bankrupt(as it has)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 this I will tell what you will have to do. And what you won't like to see the Finance Minister of your Party doing in the next few years (we did'nt have to wait that long, only fifteen months) and that is to devalue the rupee. It is a very painful expedient to cut down officially the value of one's currency.If you do not listen to our warning today and stop this inflationary, reckless way in which you are doing things you will yourself have to come to this house and this country and say 'let us face facts our rupee is only half of what it is today, let us pretend that is $\frac{3}{4}$th of what it was before(this is exactly where Mr.Sachin Choudhury has now put it - $\frac{3}{4}$ths of what it was before)That is what is called devaluation. I am not advocating it. It is a very painful remedy. It will hurt rich and poor, honest and dishonest alike. And I would like to avoid it. But as things are developing today with this Budget and the proposed plans I can say that devaluation is round the corner and even my hon. friend opposite will one day have the courage and the honesty to come forth and admit it.(Luckily for him he was thrown out of office). But his successor has to carry the baby.

I read this partly, Mr.President, because you like some others, seem to labouring under some misconception. Where you got the idea that I supported devaluation and Rajaji opposed it I cannot conceive. There is a communist gentleman Mr.Indulal Yagnik who has been shouting that lie in my constituency in Rajkot two days ago and I have contradicted it. Rajaji and I are a hundred precent in agreement on devaluation as we are on almost every other topic. We spent the last weekend together in Bangalore, we spoke together on the same platform and I had the satisfaction of hearing him tell my audience that he endorsed every word of what I had said. You cannot either like or dislike, support or oppose devaluation. It is like saying do you support a storm or oppose a storm. Do you support cancer or do you oppose cancer or an operation that becomes necessary. These are calamities. You neither welcome them nor do you deprecate them you face them. When you are faced with the fact that your rupee has lost its value it is no good taking sides about it.The question is what do you do about it. Can you avoid devaluing it. If you can't what should you do.So frankly this idea of supporting or opposing devaluation is beside the point. The Sunday Standard said last Sunday something very interesting. It said last March last year(when I spoke in Parliament) rather regretfully that the Reserve Banknow saythat if they had devalued the ruppee in March 1965 then the rupee could have been pegged at Rs.6 to the Dollar instead of 7.50 In other words, by not listening to our warnings, not listening to what the Swatantra Party had to say in the last two years,they had to peg the rupee further down. Now I mention this to ask this question how covincing is this sudden concern for fiscal rectitude. How genuine is this repentence. Can people who have flagarantly defied or denied the fact (as the Congress Party has done over these years saying 'no, no, no, the rupee is alright where did Mr.Masani get his facts from' Mr.Krishnamachari pretended two years running that the rupee had only one value Rs.4.75 per dollar, everything else was nonsense.) can such people be taken seriously when they come and repeat our argument to us and ask us to accept it. Particularly when there is talk of new Ordinances,new controls, new levies and a big Plan. These professions sound very hollow. I therefore frankly cannot accept at face value the reasons being given by government as being the real reasonfor their action.

Then what can be the real motive ? Here we do not have to guess too much because the cat was let out of the bag on the 8th of June. The Finance Ministry put out a note entitled "Devaluation-some questions Answered" supposed to have been issued to all M.P.s (I have not got my copy, the Congress M.P.s got theirs and the Press got them from the Congress M.P.s and I learnt from the Press that what the note says to the M.P.s is this:

> "This action could not be postponed as all further Aid negotiations hinged on it."

Now it is very clear then that devaluation came not because of the very high and noble reasons given by the Finance Minister but because the foreign loans and the aid they wanted were not forthcoming on any other basis.To put it very clearly it was a bargain. It was a bargain struck between our Government and the World Bank and the other

Governments on the other side that if we devalued our rupee they would make massive foreign aid available.

This evening as I was going home I read Arre Bhai which I don't normally read but I saw devaluation on top so I thought I would learn from Current as to what this was about and I think they have got the idea rather right. It discusses the kind of correspondence between Indirabehn on the one side and George Woods on the other. And when ~~the~~ Indirabehn wrote to the World Bank manager asking for loans and an overdraft Arre Bhai goes on to say:

> "So what he is replying
> He is saying 'dear behn we will agree to extra overdraft
> but you must sign pronote for 57.50% more "
> For what
> "It ~~must~~ is bank charges, must to be "
> "Jai Hind phor that and Jai Hind for Indirabehn.2"

Now this I think is a very good summary of the whole situation put in a nutshell.

It is very interesting that this bargain seems to have been arrived at by no other than our Minister of Planning. It was on his return that this discussion on whether or not to devalue, started. The amusing thing is this that the Minister of Planning Mr.Asoka Mehta while he was discussing devaluation in Washington issued a statement for our benefit through the Indian Express, the Indian newspapers and news agencies of the most valiant and courageous kind. He said "I have not travelled 10,000 miles in order to discuss the exchange value of my currency. What we do with out rupee is a matter for the Government of India to decide. We shall not ~~be~~ discuss it with anyone. " Now, it is perfectly clear that among the things he was discussing and probably more than anything else he was discussing was precisely thevalue of the Rupee. When I spoke in Parliament after this vainglorious speech I was said 'What impertinence ! You offer a man a piece of paper and say This is 20 cents of your Dollar and the man says No, but Mr.Mehta it is not 20 cents but only ten cents. He says How dare you talk about the value of my money. I know what it is worth. You damn well take it for 20 cents.So I said this was impertinance on his part to take this line. Well, now it was proved that this was a lie. It was an impertinent lie. He was trying to throw dust in the eyes of the Indian people. It was precisely because he was discussing devaluation he was striking this posture of mock heroism.And these are the people whom we are now told are to be trusted with seeing the country out of the wood.

The Government had two alternatives last week.One, as you know, they have taken. The other would have been a much better alternative. It would have been the alternative of not taking massive foreign aid of cutting our coat according to our cloth, of cutting out this wretched Fourth Plan and going about in a decent, democratic, civilized manner with whatever resources we have. There was a better alternative than devaluation. And you will see from this Mr.President, that far from welcoming it, I am pointing out the circumstances in which this particular devaluation has come does not justify what they are doing. They could have said, alright no devaluation no aid ? We accept that. You can give us what little you can, we shall manage. We shall manage by cutting our coat according to our cloth, by balancing our budget, by putting our house in order.Maybe after a year or two you will feel like giving us more aid. That would have been a self respecting, decent alternative. But then ofcourse the fourth Five Year Plan would have had to be scrapped. And perish the thought that can never even be thought about. So, in order to save this wretched Plan this country had to go through devaluation. The real motive of devaluation is to save the fourth Five Year Plan.

The Fourth Five Year Plan as you will remember was to be of 21,000 crores of rupees. One would ha ve thought that ashamed with their own enormity the Planning Commission would have been agreeable to keep it at that or cut it down. But, oh no ! Mr.Asoka Mehta and his colleagues now want to increase it to 28,000 crores of rupees on the ground that the rupee is now worth less. And they are right. In real value a 21,000 crore Plan which will be carried out now will be worth 28,000 crores. And at present as you known, the poor Finance Minister is now fighting with his back to the wall to prevent further disaster. So devaluation was brought in to save this wretched, disastrous Plan. Now there are two possible difficulties we face. One is that the World Bank and the others concerned seeing that our Government does not seem to have learnt anything and is talking of a bigger Plan will not give the massive aid that our Government thinks they are getting. In other words, that the bargain will fall through. This will be a minor disaster. But the much bigger ~~xixxtxxxwill~~ disaster will be if that aid really comes through. And if the World Bank and other Governments are unwise enough to underwrite this Fourth Plan. In case you think this is a harsh remark let us consider why we are in our plight. Why did we go bankrupt ? Why did we have to devalue ? What are the wrong policies of Government which have brought us to this pass ? The first undoubtedly was living beyond our means; spending what we did not earn or possess. Importing more than we exported, spending more than we produced. The second and third Plans were the vehicles by which this was done. Each had deficit finance as a necessary part of it. And only last week it was announced that the deficit financing or created money (printing of currency notes to put into our hands)was twice that what was budgeted under the third Plan document. In other words the third Plan had said so much deficit financing is legitimate. Nothing is legitimate. But they said that so much cheating will be legitimate.Well they cheated twice as much on their own admission last week. The second thing wrong with the Plan was that these plans are Stalinist, communist Plans. They are taken from the Stalinist phase of Soviet Russia where the obsession was with steel and heavy industry and starving the people of food and consumer goods. Our second and third Plans are obsessed with heavy industry and steeland leave very little money for spending on agriculture, water, roads and consumer goods. The third thing wrong with the Plans was heavy indebtedness. Depending too much on foreign loans which we are now unable to repay.The fourth thing was over-taxation, both ~~i~~direct and indirect. Now what is wrong with over-taxation in terms of inflation is that when people have money in their hands, banks or pockets they spend it fairly productively, they invest where they get a good return. They entrust it to good businessmen, entrepreneurs and industrialists who give them a good dividend. But when Government takes the money away from the private people into its own coffers, it is incapable of investing it productively. It wastes it either on the Army, or the civil service or in big Steel works where the country loses crores of rupees like Bhilai, Durgapur and so on. Fourthly these plans devise a system of controls which has stifled all enterprise, which has made hard work unremunerative which has created a massive amount of corruption because every control means more corruption. This was the second and the Third Plan. Now the Fourth Plan is just as bad and worse. There is nothing in the fourth Plan/document as now proposed which is in the slightest diffxerence from this fixxt second and third plans. In fact it is x worse than the third Plan, because it is bigger, x with no more money to show for ourselves, it would be a more inflationary plan, it is as much biassed in favour of heavy industry as the last Plan, and it is as much biassed xgx in favour of State enterprise as against the people's enterprisex as the third Plan. Now you don't have to take my word for it. I shall quote Mr. Asoka Mehta and Mr. Sachin Choudhury. On 17th May the last day when Parliament adjourned, Mr. Asoka Mehta told Parliamentx that of the foreign aid he was going to negotiate (he had just come back) after trying to negotiate) 70% would go to straight enterprises. More than two thirds was going into this wasteful public projects which Mrs. Indira Gandhi has this morning lamented of not giving the country a fair return. And Mr. Sachin choudhury repeated this on 8th June when he said: "To the extent larger foreign aid is available the prospects of a larger public sector plan will improve." God forbid. That is why I said, let us hope, the money will not come after all. Because 70% of it is going to be wasted on bureaucratic State enterprises.

Now I fear our poor Prime Minister does not quite know her facts yet. She said on 11th June that Soviet Russia was helping us to build the public sectorand America was helping us to build up the private sector. I wish it was so. If that so I would not be opposing foreign aid comingfrom the West because I believe that people's enterprise should be helped. But the fact that as I pointed out is and she should learnx it from her own colleagues, the Planning and the Finance Minister 70% of Western aid is going into the coffers of the State to spend on these wasteful and other projects. Now, this if I may say so is utter madness. If a man has gone insolvent he asks to be forgiven and then resorts to the same measures which was doing for the last ten years then he cannot be a sane or responsible person. And I do not mind saying Mr. President, and you can quote me next year when I come to speak to you again that if this Fourth Five Year Plan in its present shape and dimension is imposed on this country by Mr. Asoka Mehta and the Congress Government then our Rupee which is today 10 cents in the free market will sink to 5 cents of the American Dolla r. I venture to make this flat forcast here and now. Now what will we do then. Again devalue, somebody said. But at that time it won't work because people won't trust you a second time. Mr. Sachin Choudhury has described devaluation as the ultimate remedy. Now when you try the ultimate remedy nothing is left except completecollapse and chaos. And what I am worrying about is this that this will prove to be in the hands of these people only a short term stimulant. And when the effect has faded away we shall be worse off than we were before. I am not opposing devaluation again, let me make it clear, just as I can't support it. Devaluation is an acceptance of fact. What I am saying is is that devaluation is like a strong drug. It is like a surgeon's knife. There is a disease, you are in a horrible condition and you have to resort either to a very strong drug or we have to get a surgeon's knife to operate on us. ~~N~~ Now as I say a surgeon's knife or a strong drug are neither good nor bad. They are neutral.They are a remedy for your condition. You have got to accept that. But it makes all the world of difference whetheryou put that Surgeon's knife or that drug in the hands of a qualified surgeon or physician or in the hands of a quack. I consider the present National Planning Commission and the Cabinet to be a set of quacks. I said on the floor of Parliament last year that they were a group of charlatans for playing ducks and drakes with the people's well being , their money and their credit. Rajaji in Bangalore the other day gave a very good analogy. He said ' I had a doctor. Under his kind care my leg got worse and worse and festered more and moreuntil I got gangrene which was poisoning my whole body. So a surgeon was sent for , the world Bank, and the surgeon said, I am very sorry Rajaji but you willhave to amputate your leg. It is beyond repair now, it has been neglected very badly I will have to perform an operation. And at that stage he said, my doctor chimed in and said yes, yes sir you must have an operation.He said I said to my Doctor, yes I will listen to the surgeon, I will have the operation, but you get out from here you have brought me to this mess and you are not going to ~~get out~~ look after my leg after the amputation otherwise my other leg will get gangrenous.Now I think this is altogether apt parallel and Rajaji is a great master of this kind of parallel. I think this is exactly the position. If the charlatans of the Planning Commission are going to be in charge of this operation then nothing good will come of it there will be a further disaster for this country. I was reading the London Economist last week there is an excellent article on the Shah of Iran who is doing a great job single handed to pullhis country out of a similar mess. And the Shah's advice to developing countries as reported in the London Economist is "Listen to what the Economists say and then do the opposite. If only the Prime Minister would listen to me, I would advice her listen to Mr.Asoka Mehta and the Planning Commission and then do just the oppositex. You can't go wrong.

And now, Mr.President, I come to the last part of my discourse and that is what are we going to do about it. The elections are far away. We can't throw these rascals out, much as we would like to , not till then. What is the country to do meanwhile.And if the Government were prepared to listen to our advice, what would we advice them to do now that they have done this. I would like to spell out the answer before I conclude. There are two or three things that need to be done as measures of immediate relief. Relief for those who have been injured by this act . I would mention three such measures of reliefwhich are immediately required to lessen the hardship and the blow that has been struck at various sections of our people by the act of devaluation. There are many exporters of non-traditional exportsx who were using imported raw material.They were getting it through their import entitlement, if you understand what that means - in return for your exports you are allowed to import given import licences for a certain value and which you can cash for whatever you need. The Import entitlement schemes have been scrapped, quite rightly. But where are these people going to get the raw material with which we can make something that they were exporting. And since we need imports ~~these~~ this is of national interest. I am not talking of the hardship of the individual but of what the country needs. So the first relief should be that adequate supply of raw material must be ensured for exporters of non-traditional goods to replace the entitlements that they have lost. Second is ther are many industrial projects which were just about being launched, orders have been placed for machinery worth crores of rupees payment had not yet been made or not made in full and suddenly the price of that machinery has gone up by 57.5 %, and crores of more rupees are required if that contract has tobe carried out and the factory established. Obviously here is a case where easy loans from public financial institutions like the IBD and the ICICI and all the other initials should be made availablex for these rather orphaned projects. And the third thing is there should be a complete abolition of all import duties and/countervailing excise duties on certain categories of goods required by the country. Raw materials, intermediate projects, fuels and spares. Now this is so because the present reduction of import duties is a fraud.All it does is tocharge you a slightly lower rate for Rs.157 instead of Rs.150. In other other words you pay the same import duty as you did last ~~xxxx~~ week. There should be no import duty on these essential goods for the country. If there is any sincerity in the talk of liberalising imports , because these things are needed by the country and the devaluation will take care of the additional cost that has been imposed.But these are minor reliefs.

The major thing is this . Basic economic policies of this country and the Government have to change. First of all we must learn to live within our means. Now this means that all kinds of inflationary policies so far followed must be eschewed. There can be no more deficit finance for the Central Government, no more overdrafts from the Reserve Bank for State Governments. They must earn what they want to spend. This will involve a drastic reduction in civil non-developmental expenditure. And the army of clerks that the Government has employed , under-employed underpaid people , all further recruitment to Government services shall have to stop for two or three years~~x~~ at least, so that those who are in the job can be dispersed over the whole field taking care of those who retire, die and so on. The second thing will be to postpone and recast its Fourth Plan which as I saidwould be a bigger disaster than the third and the second Plan and this can be done by dropping from it all new capital projects~~x~~ in the State sector, because they are always wasteful. And the first of them that should be dropped from the Fourth Plan is this Bokaro Steel Plant. The biggest of the white elephants which we are asked to feed. When it was dis covered that the Bokaro Project was more expensive than anything they had gone in for and even the Government was forced to admit it the reason given for not dropping it was a very peculiar one. It was said that we must not be ungracious to the poor dear Russians. Then again Government to Government loans which are a drain on the country's resources be restricted to only two things. In the immediate they should be used for importing the raw materials , the parts and the fuel ~~x~~which are need and which are called maintenance ~~xxxxx~~ imports. This is not a good thing. But it is a desperate necessity. Otherwis e the wheels of our industry will grind to a halt. Many of us will get unemployed and the whole country will go down. And for this particular emergency which has been caused by the misdeeds of Government certainly maintenance imports should be imported.

And the other fundamental, long term purpose for Government loans should be for what is called the infra-structure which in plain language means the foundatéon of our economy. Supply of water,for drinking and irrigation purposes, supply of roads transportation and communications supply of electric power to make our oil pumps in the villages and the machinerȷꝑ in the factories run. Beyond that we should not go in for foreign Government to Government loans at all, because these loans come at our risk. Even if our Government spends those loans very badly and unwisely this country has to repay capital and interest. They are bad for the countryand I think those ~~gi~~ who give us these advances and loans are doing us no service except for these limited purposes. All the rest of foreign capital should come in as risk capital at the risk of the man, the industrialist who brings it in. If he makes a profit in India then he can take away his profits. If he makes a loss, let him go empty handed .Let not this country bear the loss. These are some of the anti-inflationary measures which we should demand that the Government announce their acceptance.

Then I think that the next thing should be a sharp reduction in direct and indirect taxation. No amount of foreign aid will save the country and no rupee finance to develop this country. Today there is no rupee finance. The capital market ~~tx~~ has had its bobèom knocked out. The only way to put rupee finance in the hands of those who produce is by cutting down the direct taxation and the excise duties, so that there is more money in the hands of the people which they can invest . When it is invested there will be more goods and when there are more goods prices will come down andnot any other way.

Now this would involve in my view the introduction of a supplementary budget during the monsson session of parliament when it meets on 25th july . If the Government knows its job it will bring forward a supplementary budget drastically to cut down income tax, scrap the annuity deposit scheme and to cut down the exeise duties. And finally just as important as anything else this mass of controlsin which this country has been fettered ~~gi~~ will have to be discarded. The entire structure of import licensing and foreign exchange controls will have to be dismantled. I know there are people who come short on this. There are two reasons for it.There are some people who are interested in import licenses.They are the

the politicians and the officials who seel these licenses and take bribes and there are those who buy these licences and make huge profits of several hundred per cent by selling these licences to others who really need the goods. Prof. Shenoy, one of our finest economists, has described importlicencing as the biggest portfolio of political patronage in this country. There are too many ministers and too many civil servants and too many businessmen involved in this racket. And the real test of the sincerity of this Government will come as to whether or not they abolish exchange controls and import licences. If they don't then I will be convinced that my thesis that devaluation has been brought in not to make India an honest country not to have clean hands but entirely to get the foreign aid so that this Government can tide over the next twelve months and somehow tide over the next General Elections. And when I say that decontrol must come I say that Gold Control must go,restrictions on foreign travel must go,exchange control must go and important licencing must go. The Whole thing must be scrapped if the vital energies of the Indian people are to be released , if they are to made to harnessed to the productive needs of this country. If these things are done then production will go up and the whole purpose of the operation must be to produce more. It is only then that prices can be stopped from rising if we produce more and sell more abroad.It is only when you do this that you have a right to go to the rest of the world and say 'Now I am an honest insolvent, please forgive me my debts. It is quite obvious that this country will not be able to pay back its debts. The future of the country has been hopelessly mortgaged by the Nehru, Lal Bahadur Shastri and Indira Gandhi Governments. But we can't go to the rest of the world and asked to be forgiven if we don't put our house in order first . I have tried to indicate, Mr.President, the steps which are necessary to make us honest insolvents. If we do that then I think as Rajaji has suggested, our Government will have a right to go abroad and say Look we have done all the hard things , now will you forgo part of the interest on the capital on these debts or will you allow us a postponement for a few years. Now the 64,000 dollar question is will our Government do all this? I do not think I am being unduly cynical or sceptical when I said that I doubt it. I am prepared to believe that the Prime Minister and perhaps the Finance Minister would like to do the right thing by the country according to their lights and within their capacity.But when I look back at the Treasury Benches as we have them in the Lok Sabha and recall all the faces on it my hopes fade. Somebody once wrote rather aptly that the most underdeveloped territory in the world lies under the hats and caps that men wear. And of that territory the most underdeveloped territory is that which lies under the white capxx in our country. Therefore one sadly comes to the conclusion that it is very doubtful whether this government has either the integrity or the courage or the capability to carry through this very difficult operation. It may be therefore that we shall once again go through disaster, that the rupee will sink tofive cents and that the only solution to this problem of our economy may after all turn out to be a political onex a change of Government.