Sent to Onlooker for Annual No. on 10-11-64

34

THE SAGGING RUPEE

by

M.R.Masani, M.P.

742

1964

The crisis the country faces today is not essentially a food crisis. It is a food crisis, but that is not the whole story. It is a general economic crisis. It has got nothing to do with gold; it has got little to do with food as such. It has to do with the Rupee. It has to do with our currency. There is a general economic collapse thratening us today.

During the last four years, there has been a 15 per cent rise in the general level of wholesale prices. The rupee today is worth exactly 17 paise of the old pre-War rupee. A laboured apologia recently published by Government and circulated to Members of Parliament says: That may be true; but that is not our fault because much of this inflation and depreciation of the rupee took took place earlier during the last War and after. It is like a doctor saying: "True, I killed the patient, but mine was only the last dose ; others had poisoned him earlier". If it was known that the rupee already was worth 20.6 nP three years ago, what business did anyone have then to further debauch the rupee by bringing it down to 17 paise in terms of the old rupee?

So, while it is partly a problem of failure of production, of being unable to keep up with our population rise, there is a bigger problem, that is, the food crisis today is a reflection of our monetary and economic crisis. What is wrong basically is our rupee. It is no longer ank honest rupee. Those in office for the last ten years have debauched and degraded the rupee.

Keynes, the man who is sometimes misquoted by half-literate people to say that he stands for inflation, was a man who saw this truth very clearly. He said: "Debauching the currency saps the foundations of society more subtly, swiftly and permanently than any other conspiracy".

The Guilt Is Clear

In this situation, when the guilt is very clear - it lies on the Government of this country for the past eight years, since the Second Five Year Plan started - there is a natural desire to look for scapegoats. The Food Minister let himself go by saying we must "break the producer-trader axis"; in other words, it is not the Government which created inflation all these years, it is not the Second and the Third Five Year Plans which were cokeyed, but the peasants and traders of India who are the real culprits!

It is said that the peasant eats too much these days, more than he ate before. I hope he does. It is time that the poor peasant ate more. For a hundred years we have been sitting on his back, as Gandhiji used to say. Gandhiji used to say that we of the cities would do everything for the peasant but get off his back. The rulers of this country since Independence have done exactly that. Surely, the peasant and his children have every priority over us in the cities when it comes to eating, because the peasant works on the land and grows the food with his toil.

Why should the peasant sell his grain when he does not get a fair price? The problem of the peasant today is that the parity of prices is all wrong. Industrial prices are allowed to go up, but the price that the peasant can get is controlled to the extent that there is monopoly procurement by the Government. This is a crying injustice. If there is any real proletariat in India, it is the peasants and not the industrial workers. The income of the industrial workers is many ~~the~~ times the income of the man in the villages. When the peasant goes to the market, he finds that the price of his cloth has gone up. Everything that he wants he cannot get at economic prices and then he is told to be patriotic and to sell his grain cheap because the people in the cities will starve. What kind of social justice is this?

Politician-Bureaucrat Axis

Let us then not label the honest peasants and the honest merchants of this country as hoarders and profiteers. The foult lies elsewhere. If an axis has to be talked of, what about the Politician-Bureaucrat Axis? Can anything more sterile and unproductive be thought of than the politician in office and the bureaucrat? The peasant and the trader at least perform some social and economic functions. What economic functions do the bureaucrat and the politician perform? What do they produce for the country?

Let us, as Gandhiji used to say, turn the searchlight inwards. It is the political class that has brought the country to this fix and not the peasants and the common people of the country. If the rupee has depreciated, let us not blame the profiteers. If food is short, let us not blame the hoarders. These are symptoms of the disease; they are the effects, they are not the causes. It is the shortage that produces hoarding. It is the fouling of the currency that produces profiteering and black money. Let us not fight the symptoms; let us look for the disease.

The Prime Minister has suggested that all prices should be fixed because he is aware that you cannot only fix food prices while letting other prices rise. His motive is good. But I would like to plead with him that he cannot fix all prices.

You cannot defeat the law of supply and demand. Prices are like water and they find their own level. If you stop the price of one commodity, the prices of all other commodities will rise proportionately. If you fix the prices of six commodities, then the prices of commodities other than the six will go up proportienately. If you fix the proces of 50 commodities out of 100 commodities, then the prices of the remaining 50 commodities will go up proportionately. You cannot fix the price of everything under the sun without destroying the entire economic apparatus of supply and demand and stop giving the consumer a little chance to say what he wants.

The Lady's Double Chin

Graham Hutton, the British economist, puts it very well. He says the lady goes to the plastic surgeon to remove her double chin. He performs the operation and the double chin goes, but the darned thing comes out at the back of the neck in a bulge! I would ask my friend the Prime Minister to think a little and find out if this is not so. I want to warn him. If he tries to control in good faith the prices of the commodities of daily use, the danger is that it will distort the whole pattern of production which will send up the prices of other commodities. You cannot go on pursuing this to the bitter end because you will come to a reductio ad absurdum. How many articles will you control? Very soon this would backfire because the commodities of which you fix the price will be in short supply; there will be a shortfall in production. When a man finds that he cannot sell his commodity freely, he will divert his investment to those commodities which are not controlled, and the very things which we need most, cloth kerosene and the needs of the life of the peasant, will go in short supply.

LURE OF GOLD

Similar considerations apply to gold. The desire for gold or the "lure" of gold is partly due to its aesthetic qualities and traditional prestige, but primarily as a secure form of the investment of savings.

The continuous erosion in the value of the rupee in terms of purchasing power has increased the value of all other articles and commodities and raised prices all round. Because of the prestige of gold and its high value in terms of bulk, this particular metal has been favoured over other objects of value as a form of retaining savings. For the peasant in the villages, where there is hardly any alternative due to the absence of banking facilities, gold provides the most important security for credit. The refusal to allow imports to meet indigenous demand has created a black market and this, in turn, has provided a tremendous incentive to smuggling.

There is agreement on the proposition that it would be all to the good if people would invest their savings in industry and business by buying shares instead. But for that to happen, incentives are needed, such as a sense of security to the entrepreneur and a good rate of return on the investment. Today, such security is conspicuously absent in India because of the threat of nationalisation, the network of controls and the vindictiveness often underlying Government's policy towards people's enterprise. The return on capital is inadequate because of excessive and savage taxation. Unless these basic policies change, no power on earth can stop people from wanting to hold gold and others from smuggling it to meet the demand. The only way to make people lose the glamour of gold is to offer an Honest Rupee whose value tomorrow and ten years hence will be the same as it is today.

~~Lure Of Gold~~

Far from creating any such sense of security, the Gold Control Bill now before Parliament, by seeking to create a near monopoly in gold in the hands of Government, will make people feel that the Government, which gives them such sermons about the uselessness of gold, is itself trying to lay its hand on all the gold in country!

In such a situation, the present Bill is an exercise in futility. Worse, it reeks of hypocrisy, since even its sponsors must know at back of their minds that every one of its provisions will be violated. Tempted by the huge profit to be obtained from buying gold abroad and selling it here, the smuggler will continue his activity with an added margin of profit balancing the added risk of punishment. Dealers and goldsmiths will continue to make 22 carat ornaments on the sly, instead of making them openly and honourably, so long as the women of India prefer the real article to the 14 carat variety enjoined by this law. All that this measure would succeed in doing is to tempt honest people to be dishonest. It will lessen respect for the law. It will help to create opportunities for further bureaucratic harassment and corruption.

Even to the extent that the law is obeyed, it will do little good to the country and the economy. People will instead keep their savings in diamonds, silver, grain or other articles whose value may be expected to appreciate, while the rupee pursues its Rake's Progress downwards.

Remedies

What then has to be done? Certain long-term and ~~certain~~ short-term measures which ~~alone~~ can alleviate the present situation can be suggested. Among the long-term measures, the very biggest is to correct the order of priorities embodied in the Second and Third Five Year Plans. The First Five Year Plan was all right. But since the Second Plan this is not the position. I recall that the Planframe, the document on which the Second Plan was based, was prepared by a Communist fellow traveller named Prof. Mahalanobis, still a member of the Planning Commission, with the cooperation of a group of Soviet and Polish Communists sitting for a year in the Indian Statistical Institute in Calcutta. That is where we started going wrong. We got wrong advice and we went off the rails. Since then, our entire pattern of priorities has been unbalanced.

I am not against heavy industries as such. I stand for all-sided balanced development. We need heavy industries, but we do not need them as much as we want food, clothing and shelter for our people. We do not nedd them as much as we need roads to move the food and other things for our people. So, what we want is a balanced development. The ~~other~~ order of priorities in the Plan has been unbalanced. ~~They~~ It needs to be balanced. If you starve agriculture in this manner, it will starve you. If you feed agriculture, it will give you a bumper crop. Therefore, this undue priority, this concentration on wasteful, heavy engineeting projects has to stop. I will give only one example. ~~Take~~ the Heavy Engineering Ltd. in Ranchi. Rs.120 crores have been spent on that particular plant. What is the output? It is a miserable output. The output, I understand, is Rs.1.20 crores per year, that is, 1 per cent output on the national capital invested! To put money into projects which give one per cent output in a year on the capital invested is disgraceful. So, I am for a balanced development where heavy industry, light industry and agriculture all have their proper place.

Let us consider the example of Communist China. Communist China, which made the same mistake that we have made in a more accentuated and exaggerated form, climbed down last year. Mr. Chou En-lai went to the Chinese Communist Congress about a year ago and said: The Great Leap Forward has failed; we are now changing our order of priorities. I shall quote him. He said: 'From now on, we shall have agriculture, small consummer goods industries and heavy industry, in that order'.

The Path To Bankruptcy

Another thing we need to do is to cut our coat according to our cloth, to stop deficit finance and inflation. During the years of the First Plan, money supply went up by 12 per cent, and the national income went up by 18 per cent. That was all right. Our production and supplies went up, and money supply also went up but not so much. In the Second Plan, the tide turned because of Mr. Mahalanobis and his friends; money supply went up by 29 per cent, while national income went up by only 20 per cent. So, we are already starting on the path to bankruptcy. The Third Plan has completed that process. The money supply went up by 31 per cent and the national income went up not even by 10 per cent; but only eight to nine per cent was the increase in national income during the Third Plan. This is the path to insolvency.

If we go on living on resources which we do not possess and if we go on fabricating money which is worthless and putting it into the hands of the people, we have a crisis of confidence in the money. Why do people want to hoard grain or gold and something else? It is because they do not trust the rupee any more. Government have debauched our currency, and we are facing the consequences today. In the third Plan target, it was laid down that a safe margin of deficit finance for the Third Plan was Rs.550 crores. I warned at that time that it was too much. I would have been very content today if we had st~~r~~uck to that! But what is the position? In the last three years, we have already had deficit finance of over Rs.600 crores. The safe limit has been passed.

Is there any improvement now? No. We are going worse and worse into the disease. We have become addicted. During the past year, that is, during the period from August 23, 1963 to August 21, 1964, the supply of money in the country went up by 12 per cent. The output of goods and services has gone up by 4.3 per cent. Therefore, we have gone in for deficit finance or excess money to the extent of 7.7 per cent even during the last twelve months.

And even today, it has not stopped; but it has got worse even in the last few months. During the six weeks ending 10th July ~~this year~~ 1964, the report of the Reserve Bank says that Treasury Bills rose by Rs.149 crores, and most of this is deficit finance uncovered by goods and services. This figure of Rs.149 crores in six weeks is the highest so far of inflation and deficit financing that we have had since our Independence.

Finally, among long-term remedies, let us reduce taxation. The excise duties are a direct inflationary influence. Similarly overtaxation at the direct level also brings about unaccounted money, an evil which can only be reduced by reducing taxes to a reasonable level.

There is so much to put right. When shall we start putting our shoulders to the wheel?