

LIMITS OF NATIONALISATION

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The point I wish to make is that there is no case for general application of the principle of nationalisation and that private or, as I prefer to call it, free enterprise should be the rule, state enterprise being confined to cases where there is proved necessity for it. In such cases, the decision should be based not on 'a priori' considerations applicable to industries generally or to categories of industries but to particular industries on the merits of each. The Government's statement of industrial policy relies on both state and free enterprise for industrial development, but it places greater stress on state enterprise. I agree that there are conditions in which state enterprise is required for developing industries in India, but I would reverse the order of emphasis and make free enterprise the normal practice, but if an industry is to be nationalised, the case for it should be established beyond doubt.

The recent statement of Government's industrial policy in its preamble puts forward two grounds for nationalisation, one is the acceptance of a Socialist Pattern of Society and the other the need for speedy and planned development.

The impression that nationalisation is an essential element in socialism is not supported either by socialist thinking or by socialist practice. As regards the latter, the British Socialist Party having experimented with nationalisation while in office for five years is now reacting against it. The feeling is growing that none of the objectives of a socialist society are necessarily served by nationalisation. On the other hand it is felt that regulatory and fiscal legislation by a Parliament, which represents the whole community, can achieve this better.

As regards socialist thinking, if Karl Marx is to be accepted as the father of theoretical socialism, there is no doubt that he gave the central place in his thinking to the socialisation of the means of production. At the time he wrote, partly through increase in population and partly through the substitution of machinery for manual labour, there was an excessive supply of labour and the employer by his ownership of plant and machinery held an unfair advantage in bargaining with labour, which reduced wages to subsistence level. But in most countries in Europe then, government was despotic; such franchise as there was, was based on property rights. Karl Marx assumed therefore that the state was identified with the propertied classes and could

not be depended on to judge fairly between capital and labour. Karl Marx could not anticipate the vast progress of political democracy since his days and that a time would come when government would be based on adult franchise. That has now happened in many countries and legislative measures for controlling industries and safeguarding the rights of labour have been adopted by them. The need for socialising the means of production as an instrument of social justice in the sense of a fair distribution of rewards, the removal of gross disparities of income and the provision of satisfactory conditions of work no longer exist in democratically governed countries, since all these projects can more conveniently be secured by appropriate legislation. It is significant that in Russia at the time of the Bolshevik revolution, there was no democratic government worth the name and it was because of this that the thesis propounded by Karl Marx came to be universally put into practice. In India with a Parliament based on adult franchise and having sovereign powers, nationalisation as a necessary agency of socialism has little place.

Lord Keynes in his book "The General Theory" regarded government participation in industry as a means of relieving economic depression like the one in 1929 by providing a spur to the revival of economic activity. His thinking in effect amounted to a scientific vindication of President Roosevelt's New Deal. It is worth observing that although the policy of New Deal led to a revival of economic activity, the suspicion it caused in the minds of business men

generally that it was an indication of government's intention to take a progressively larger share in business made capital shy and delayed investment. The New Deal experiment of government participation in industry provides therefore both a lesson and a warning. The lesson is that there are circumstances in which nationalisation will serve a useful purpose. The warning is that it will do so subject to limitations which must not be overlooked. The general view that Keynes held is stated in his book in the following words—" it is not the ownership of the instruments of production which it is important for the state to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic reward to those who own them, it will have accomplished all that is necessary".

The **definition** of the state's essential part as the determination of the aggregate amount of capital resources to be devoted to development and the basic reward to those who own them means that the primary business of the state is to provide the framework within which resources are allocated and rewards are determined. In other words, the state's business is to lay down a general plan and all economic activities whether by state or by free enterprise must conform to the plan.

India has just come to the end of the period covered by the first Five-Year Plan and is about to enter on the second Five-Year Plan. The first Five-Year Plan in my judgment was not a plan but would

be more accurately described as a programme of piecemeal development. With the exception perhaps of the Community Projects, every project included in the first Five-Year Plan had been designed and partially erected before the National Government came into power.

Two changes occurred since then. In consequence of the improvement in the food supply and stabilisation of food prices, due to the American Wheat Loan, to successive good monsoons and to the progress of irrigation, it became safer to supplement available resources by deficit finance. Secondly the latter part of the first five-year period was marked in most countries by a revival of economic activity unprecedented since the cessation of war. Partly aided by the Plan, India shared in this revival and was able to fulfil most of the moderate targets laid down in the first Plan.

While it is a matter of gratification that the first Plan has generally proved a success, it is unrealistic to feel complacent on that ground about the prospects of the second Five-Year Plan. The second Five-Year Plan unlike the first is a real plan—a comprehensive overall plan—which seeks to co-ordinate and integrate the different segments of the economy; it is not like the first a patchwork of isolated projects. Its scope is much wider and the finance it requires is correspondingly larger. It is obvious that the necessary finance cannot be provided wholly by taxation and borrowing and therefore must be supplemented by a large measure

of deficit finance. Deficit finance entails serious risks. But, apart from this, there are other difficult problems to face. For a plan so comprehensive and calling for inter-adjustment at so many points, the statistical data available are grossly inadequate and have had to be almost entirely improvised. In the circumstances, it must be expected that maladjustments will come to light at various points in the course of its implementation. Some of the maladjustments which will require to be resolved are those between employment and output of consumer goods, heavy and light industries, large-scale and small-scale industries, state enterprise and free enterprise, production on the one hand and transport and social services on the other and the effect of inflation and high prices on people of fixed and variable incomes.

I draw attention to these aspects of the second Five-Year Plan because it is not sufficiently realised that the task involved in directing and focussing economic development in the country to the policy requirements of the Plan would be so enormous that direct participation in the ownership and management of industries, in addition to it, will place a large and, in my opinion, unnecessary burden on the administrative and financial resources of government. I am not suggesting that the Plan will not work. With sufficient concentration of effort and with a reasonable measure of luck, I expect it will. But it means that government's resources in both finance and personnel should be carefully conserved and not dispersed.

'This brings me to the second general consideration in the industrial policy statement which has influenced government's approach to nationalisation, namely the need for speedy development of industries. The question that arises here is whether government's organisational and administrative resources are capable of meeting the demand for speedy development through nationalisation. My view is that they are not and my reasons for this view can be briefly stated.

First, for its population and area, India, I believe, is one of the most under-administered countries in the world, even for the normal purposes of government. Secondly, if the Government of India have done well so far as a government, as they undoubtedly have, as compared for instance with neighbouring Asian countries which have newly achieved independence, it is largely because, unlike them, we were able to take over from the previous government a first-class going concern. The administrative momentum of the old government is still active. Although in recent years this momentum has perceptibly declined at almost every level of administration, the decline has been off-set by the dynamic leadership provided by the present government. But it is unrealistic to think that the natural term of those who form the present leadership can last much longer.

Thirdly, taking the principal instrument of administration, namely, the permanent civil service, making the fullest allowance for the high order of

intellectual ability and of personal integrity which by and large prevail in the service, it is common experience in most countries that civil servants "are too slow in their decisions; too much governed by precedent; too legalistic; too fearful of change and experiment ever to provide the elasticity, flexibility, initiative and the willingness to take risks, make mistakes and lose money, which are called for in successful industrial enterprise". In this context it is worth while to take note of the changes which have occurred in India in recent years in the character and quality of civil servants. The old practice of rotating civil servants working at the top level between the central and state governments has now practically ceased. There is consequently among those who man the services at the centre a serious lack of personal contact with problems on the spot and an increasing tendency to deal with them in a routine, mechanical way. The diminution in real terms of the remuneration paid to civil servants and of the prospects open to them have resulted in a noticeable tendency to look for satisfaction in work not so much to the work itself as to the exercise of bureaucratic authority. With the emergence of political chiefs, civil servants are getting into the habit, while advising Ministers, of anticipating the opinion of Ministers and adopting it as their own rather than stressing their own independent judgment. I agree also with the Prime Minister that the rules of procedure in government departments which answered the requirements of a foreign bureaucratic government are out of keeping with those of a national democratic government.

Lastly, I want to say a word about the Planning Commission. Frankly I have never been happy about the institution of the Planning Commission and the place assigned to it in the structure of government. A Planning Commission logically is or ought to be a body of experts subordinate to the Cabinet. But through adventitious circumstances into which I do not wish to enter, the Planning Commission has become a body of amateurs with whom for all practical purposes final decision rests in matters of economic development. The result is that the Cabinet Ministers concerned with economic affairs have lost much of their initiative and sense of responsibility. This is unfortunate because if it is decided to nationalise industries, it is the initiative and sense of responsibility of the Ministers concerned which must tell.

It must be noted also that at the time of launching the new Plan, some disturbing factors have come into play which will add to the difficulties of carrying it out. First is the dislocation, not merely administrative but psychological, caused by the re-organisation of the States. Next is the deterioration of our relations with certain neighbouring countries which is bound to increase the expenditure on defence. Lastly a fresh inflationary trend has begun to appear in most countries of the world and its reaction upon India may have consequences which it is difficult to forecast.

I have dwelt at this length on the Plan in order to enforce the point that the Government of India

have their job in the near future fully cut out for them in seeing that economic development conforms to the general policy laid down in the Plan without going further and undertaking direct participation; in specific industries.

It may be objected that these considerations apply only to departmental management of nationalised industries, but that if management is entrusted to public corporations, the responsibility of government would be lessened. In practice it will be found that the responsibilities that fall to government in the case of a public corporation would not be any less. The funds held by public corporations are: borrowed from government, or invested or guaranteed by government. Whatever the degree of autonomy vested in a corporation, the responsibilities, inherent in the management of public funds would oblige government to keep a close watch on its operations, including the not very helpful intervention of the Audit Department. Besides, it is the usual practice in public corporations for government to have the right of issuing directives on matters of general policy affecting the public interest. Where the line is to be drawn between day-to-day working and public interest is a moot point in every country which has adopted the device of public corporations. In a country which has achieved sovereignty for the first time, the tendency generally is for government to place too wide an interpretation on public interest and issue directives on matters which strictly speaking affect only day-to-day working. This situation arises also with regard to interpellations

in Parliament. A convention has grown up in the British House of Commons that interpellations regarding public corporations, like directives, should apply only to matters of policy. But at the present stage of public corporations in India, an unjustifiable measure of latitude appears to be allowed. The wide interpretation placed on public interest leads Ministers to assume a degree of responsibility for the working of public corporations which constitutes an abuse of the right to issue directives and to answer questions in Parliament. In certain matters with which I happen to be personally acquainted, replies by Ministers have been not merely unwarranted but almost invariably factually incorrect,

I therefore come to the conclusion that it is in the government's interest at the present stage to proceed slowly and with caution in the matter of nationalisation. If the experiments in nationalisation meet disappointing results, the reaction on the pattern of society that government are trying to build will be serious. I suggest therefore—

- (1) that nationalisation should be strictly limited in scope,
- (2) that it should be applied selectively not in regard to categories of industries but to specific industries,
- (3) that the approach to it should be empirical,
- (4) that, as far as possible, it should be decentralised.

There has recently been a tendency on the part of government spokesmen to pronounce in favour of state enterprise generally on the ground that concerns run by free enterprise have been guilty of serious lapses and irregularities. Free enterprise has been at work in India for nearly a century and it is easy in view of the long period and the wide range it covers to find material for allegations as compared with state enterprise. But this is a poor way of judging so important an issue. To one who for some time as Minister of Railways was in charge of the largest public enterprise in India and who at another time as a business man was in charge of the largest free enterprise in India, the Tata Iron and Steel Company, comparisons of this kind carry little conviction.

I do not for a moment deny that in a developing country, there is a case for public ownership and management of certain industries. As an illustration, I would mention transport—railway, road and air. Transport is fundamental to economic development and there is no form of business in which there is greater need for co-ordination. Similarly there are industries, the products of which are required solely for defence purposes and for which a prima facie case for nationalisation exists. On the other hand, as an illustration of a business for which no such case exists, I would mention insurance. I have read every statement made by those in authority justifying the nationalisation of life insurance and I must confess I am as unconvinced as ever. Another case is the nationalisation of the Kolar Gold mines. The Kolar Gold fields are not a new enterprise;

gold is a speculative commodity; the use of currently produced gold as a means of strengthening exchange reserves is diminishing; India's contribution to world production is negligible; the low levels at which gold is now extracted in the mines in question makes it expensive. It is difficult to imagine a case less suitable for nationalisation.

Two things are important where an industry is sought to be nationalised. First, it must be established that in the national interest there is a good case for it. Secondly, the public as well as the interests concerned should know **definitely** what are the grounds on which the final decision is taken. The policy of government would on this basis be one of discriminating nationalisation. The tests by which the discrimination is exercised should be clearly laid down and the necessary enquiry should be made not by government but by an independent body with requisite knowledge and experience whose judgment would command confidence.

I regard with growing concern the loose talk of nationalisation going on in high places today. I do so not merely because the country needs all the free enterprise now available for its development but because I see no **justification**, either practical or ideological, for the decline resulting from Government policy in freedom of enterprise, which in reality is one of the greatest freedoms in a democratic community.

