INDIAN PLANNING AND THE COMMON MAN

PROF. B. R. SHENOY

FORUM OF FREE ENTERPRISE
SOHRAB HOUSE, 235, Dr. D. N ROAD, BOMBAY-1

> "People must come to accept private enterprise not as a necessary evil. but as an affirmative good."
>
> —Eugene Black
>
> President, World Bank

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I

WHAT SHOULD BE THE OBJECTIVE OF PLANNING?

The Prime Minister. initiated the Third Plan debate in the Lok Sabha last month, spoke with pride of the "exciting pilgrimage" of the nation, along the path of statist planning, towards the twin objectives of economic progress and social justice. He cited statistics to show that the achievements of ten years of planning were already remarkable. Indian national income had gone up during the period by 42 per cent. This indicated that the first two Plans had taken the economy out of "its old stagnant ruts". Though population had gone up by 77 million, per capita national income had risen from Rs. 284 to Rs. **330.**

A generation ago, the average expectation of life of the Indian people was 24 years. It "rose to 42 years during the Second Plan period and now it was 47.5". This "remarkable increase" represented many factors— better health, better food and better living conditions. Specific sectors of production had recorded great strides forward, output in agriculture going up by 41 per cent, in industries by 94 per cent and in power by 148 per cent. The number of students attending schools and colleges had risen by 29 million to 46 million and the number of engineering colleges from 134 to 380.

Though impressive at first sight, this is a rather misleading bunch of statistics. The per capita national income figures given by the Prime Minister vary from the statistics issued by the Central Statistical Organisation, New Delhi. According to the latter,

per capita income rose during the past decade from Rs. 248 to Rs. 284. The minor case of a bad slip in the data of per capita income apart, the objection to unprocessed national income figures being cited, in the prevailing Indian context, as evidence of economic development is a fundamental one.

A distinction must be made between the expansion in the physical volume of the national product and the increase in the living standards of the people. The test of economic development is in the latter. The measure of it, therefore, is the consumer goods content, not the aggregate volume, of the national product. An expansion of the national product is meaningless if it does not provide "the masses of the Indian people" with "a good life", the avowed objective of planning as stated in Chapter I of the Third Plan, reported to have been written by the Prime Minister.

During the decade ending 1960, the output of capital goods rose from 2.2 times (machine tools) to 4.1 times (commercial vehicles) and the output of intermediate products from 1.6 times (coal) to 9.0 times (caustic soda). By contrast, the output of consumer goods used by the masses and the middle classes rose by much smaller multiples, from 1.1 times (matches) to 1.8 times (soap). The output of cotton cloth in universal use rose to 1.4 times.

On the other hand, the output of luxury and semi-luxury goods, which are generally curios to the masses, rose steeply — electric lamps to 2.9 times, electric fans to 5.1 times, radios to 5.9 times, sewing machines to 9.6 times, and rayon yarn to 21 times.

This pattern of production, which is rather artificial, reflects, firstly the overwhelming plan bias for heavy industries and, secondly, the heavy shifts of income which have taken place in favour of the upper-income groups — traders, businessmen, industrialists and the corrupt functionaries of the state— as a result of inflation and statist controls.

For a correct measure of economic development— of the opportunities for "good life" open to the masses of the people—the increase of 42 per cent in the Indian national product must be modified for the excessive output of capital goods and intermediate products, which can neither fill empty stomaches nor cover naked shoulders, and of luxury and semi-luxury goods, which do not enter into mass consumption. It must be modified, too, by two other deflators, the piling up of idle production capacities and the additions to inventories.

While both activities inflate the volume of the national product, they detract from the current well-being of the community. Idle production capacities are estimated at an order of 40-50 per cent in 40 industries and 35 per cent in the major and minor irrigation works. The additions to inventories are unascertainable for the economy as a whole. But it is a commonly observed phenomenon and is inevitable under inflation and controls.

When national income statistics are rid of these three items of ballast, the developmental gain of the past decade of planning becomes a matter for speculation. Until the utter poverty of our people is overcome, economic development in India must be assessed by the consumption of food and cloth. Since the intensification of planning in 1955-56, according to the "Economic Survey", issued with the Union budget papers, the per capita availability of foodgrains has fluctuated well below the nutritional norm of 18 ounces per day.

In 1960, despite 17.8 million tons of foodgrains imports in the intervening years, it was (15.4 ounces) about the same as in 1955 (15.3 ounces). Simultaneously, the per capita availability of cloth, too, has steadily declined. Planning has produced a "good life?' not for the masses but for a thin layer of the parasitical minority of its beneficiaries.

It is sometimes argued that the creation of capital goods is part of the "accepted strategy" of economic growth, that in the gestation period of such growth a slower rate of increase in consumer goods is natural and that once the installed machinery goes into production, abundant consumer goods will become available. This is a treacherous fallacy. The problems before under-developed economies are poverty and unemployment.

To overcome them, the available resources of production must be utilised, firstly, to obtain the highest output and, secondly, to provide employment to the largest members at current wage rates. It has been estimated that an investment of Rs. 1 crore worth of resources will add an order of Rs. 57 to Rs. 69 lakhs in agriculture, Rs. 33 lakhs in consumer goods industries and Rs. 14 lakhs in iron and steel.

The same investment will provide, at current wage rates, employment for 500 persons in heavy industries, 1,150 persons in large-scale consumer goods industries and 4,000 persons in agriculture and the household industries.

This conforms to historical and contemporary experience and demonstrates that the twin problems of poverty and unemployment cannot be resolved better than by devoting the resources of production to the modernisation of agriculture and expansion of production of food, clothing and other consumer goods, heavy industries taking their due turn thereafter. To reverse this natural order and give line-clear priority for heavy industries is to reduce the expansion of output and employment to a fraction of their potential maximum. By choosing poverty and unemployment today we cannot have riches and more employment tomorrow.

Riches and employment today will ensure more riches and more employment tomorrow. Even after over 40 years of planning, the policy of over-riding priorities to heavy industries has failed to yield the

promised flood of consumer goods in Russia—scarcities of meat, clothing, shoes and house-room persist.

It is ridiculous to claim that the sudden increase in the expectation of life in India is a measure of the achievements of planning. Credit for this should properly go to the D.D.T. campaign and other health measures financed, among other bodies, by the T.C.M. Plan or no plan, such campaigns, as universal experience has shown, reduce infant mortality and the general death rate, and almost suddenly, extend the expectation of life.

In British Guiana, which had no "plans", the eradication of malaria, mainly through D.D.T., led to a population burst, the rate of increase of Indians rising to nearly 4 per cent and of the colony to 3 per cent. The suddenness of the change is currently reflected in 50 per cent of the population being below 20 years of age. To list among plan achievements the improvements in the expectation of life is to pride in feathers stolen from the crown of D.D.T.

Nor can a more than doubling of the number of students in schools and colleges be adduced as evidence of plan success. The expenditure on primary and secondary education in India during the Second Plan period (Rs. 135 crores) represents 0.96 per cent of the budget outlay of the Centre and the States (Rs. 14,107 crores). Over large parts of the enlightened world the percentages are seven to twelve times the Indian figure.

During the same period we spent much more on one steel plant and about four times as much (Rs. 526 crores) on the three steel plants in the public sector. With literacy in 1951 at 16.6 per cent of the population and in 1961 still at 23.7 per cent. it is difficult to enthuse over a ten per cent annual rate of increase in the numbers of school and college students.

The prospects of progress in overcoming poverty and unemployment under the Third Plan remain bleak. The investment outlay of the Plan (Rs. 12,100

crores) represents an increase of 57 per cent over that in the Second Plan and is much more than that in the first two plans put together. As in the case of the Second Plan, the largest bulk—Rs. 7,800 crores or about 65 per cent—of investment resources will be diverted into the public sector for turning out capital goods, intermediate products and social overheads.

No part of it will currently add to the output of consumer goods. Funds for the latter must be drawn from the private sector resources (Rs. 4,300 crores), though some of the latter, too, will be devoted to heavy industries. Thus, the Third Plan repeats the errors of investment policies which had caused the failure of the first two plans. Despite the jump in the volume of investments, a noteworthy increase in the living of the people or in employment is, therefore, exceedingly unlikely.

But the prospects may get metamorphosed if the policies are reoriented to ensure the maximisation of the national product and total employment from the available resources. This demands, firstly, as the foregoing analysis demonstrates, a reversal of the prevailing investment priorities for the more natural precedence to agriculture and the consumer goods industries and, secondly a basic rethinking of the approach to planning.

A study of investment and production in 31 countries has shown that economic development does not result from a piling up of investments in the public sector; that when statist intervention in economic activity impedes the full use of human capital, economic development gets impeded, too, and that high rates of economic growth generally go Hand-in-hand with policies of economic liberalism. Freedom is the life-breath of progress.

The policy objective of the state should be to stimulate industry and enterprise by demolishing economic barriers and restrictions. The state makes the maximum contribution to economic development

when it devotes its resources and energies to its more natural functions and activities — the maintenance or provision of the rule of law, of defence from external aggression, of monetary and fiscal stability, of public health and education, of basic communications and of agricultural extension services. To quote from Colin Clark's **Growthmanship,** beyond this the state "should avoid attempting to force accelerated growth, since to do so is to risk impeding it and destroying individual liberties in the process."

Given this policy re-orientation, Indian national income may go up at an annual rate of 8-10 per cent, in place of the Third Plan target of 6 per cent and the Second Plan achievement of 3.9 per cent; the rate of increase in the living standards of the people may be commensurate with the expansion of the national product; and the expansion of employment may not only absorb the natural growth in the labour force but reduce some of the back-log of unemployment inherited from the Second Plan as against the Third Plan expectation of employment still falling short of the natural additions to the labour force.

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II

PLANNING & SOCIAL JUSTICE

The economic content of "social justice", a prime objective of planning in India, is broadly three-fold: raising the living standards of the people, liquidating unemployment and preventing concentration of economic power. To raise the living standards, economic activity must be geared to producing the consumer goods needed by the masses. In our background, the bias should be heavily in favour of increasing the production, among other necessaries, of food and cloth. This is a moral obligation, the consumption of foodgrains being well below the nutritional norm of 18 ounces per head per day and the consumption of cloth deplorably sub-standard.

When economic activity is subject to the sovereignty of the consumer, it would naturally subserve his needs; his daily purchases in the market will steer productive activity to match his preferences. If the sovereignty of the consumer over the market mechanism is tampered with, there is less guarantee that the consumption of the masses will go up commensurately with the national product. The consumption needs of the masses are often the first victims of statism, though statist slogans deify "public good."

Since the intensification of planning in India after 1954-55, the aggregate national product rose in six years by 22 per cent. But per capita consumption of foodgrains and cloth has fluctuated downward: the former, 15.7 ounces per head per day in 1954, was 15.4 ounces in 1960 and the latter. 14.63 metres in 1955; was 14.36 metres in 1959.

The principal factor responsible for this is that investment activity is dominated by the State and only fractionally or secondarily by reference to the needs of consumers. In the Second Plan the public

sector appropriated 58 per cent. (Rs. 4,600 crores) of the available investment resources for the production of capital goods, intermediate products and social overheads. The corresponding figure in the third Plan is 66 per cent. (Rs. 8,000 crores). Parts of the rest of the resources aye also directed arbitrarily into capital goods trades through the exercise of control over capital issues, import licences and the establishment or expansion of industrial undertakings.

Experience has shown that once control over investment is taken over by the State, the demands of the public -sector being insatiable, justice to consumers might get deferred indefinitely. The public sector outlay of Rs. 1,960 crores in the first Plan more than doubled in the second Plan (Rs. 4,600 crores) and is more than four times as much (Rs. 8,000 crores) in the third Plan. There lurks behind statism some built-in investment accelerator akin to Parkinson's law. In Russia, after 45 years of planning, acute scarcities of meat, clothing, shoes and house-room persist, because of the unabating demands of heavy industries, mammoth power and irrigation projects, rocketry, nuclear weapons and space science.

Social injustice is writ large in the trend of our pattern of production. During the decade ending 1960, the output of capital goods rose from 2.2 times (machine tools) to 4.1 times (commercial vehicles); and the output of intermediate products, from 1.6 times (coal) to 9.0 times (caustic soda). By contrast the output of consumer goods rose by much smaller multiples, from 1.1 times (matches) to 1.8 times (soap). The output of cotton cloth in common use rose to 1.4 times. On the other hand, the needs of the comparatively well-to-do people, a fraction of the population, have been very well looked after. The output of goods entering into their consumption, which are mostly curios to the masses, generally rose steeply—electric lamps 2.9 times, electric fans 5.1 times, radios 5.9 times, sewing machines **9.6** times, and rayon yarn 21 times.

Social injustice is reflected too, in the price structure. The output of consumer goods being unduly restricted through the forced transfer of resources into non-consumer goods industries, the prices of food articles during the past six and a half years rose by 48 per cent., of cereals by 53 per cent. and of textiles by 23 per cent. The prices of luxuries and semi-luxuries generally, on the other hand, remained comparatively steady until recently, raising only latterly and by a much lesser order.

Social justice through the liquidation of unemployment demands the maximisation of output from the available resources as expansion of employment rests on the expansion of aggregate production, not on the rise in the volume of investment regardless of the additions it makes to the national product. The choice of policy for maximising output is largely determined by the prevailing production set-up and its occupational pattern. Fifty per cent. of the national income ensues from agriculture and 70 per cent. of the population draws its living from it, manufacturing industries accounting for less than 20 per cent. of economic activity. Peasant farming dominates agriculture, the number of farm families being 67 million and the average holding per family 5.5 acres. The rest of the economy, too, has tens of millions of independent production units. Cotton textiles, which account for 36 per cent. of industrial activity, comprise two million hand-looms, 80,000 to 90,000 power looms and 478 large-scale mills. This occupational set-up cannot change overnight. First, it rules out centralised control of investment and production; secondly, it prescribes that modernisation of agriculture offers the surest means of accelerating production.

To this must be added a more fundamental consideration. Each consumer represents a unique (and changing) scale of values and demand. In a community of several hundred million consumers production must comprise an innumerable and changing variety of wares, if popular well-being is to remain the prime objective of economic activity. The best results in production—and consumer satisfaction—may be generally achieved only through a numerous body of independent entrepreneurs dispersed over the country—not through statist planning—especially as the production process reaches the final act of consumption.

During the past decade we have utterly disregarded the compulsions of both policy guides. Under high-sounding slogans and pretences, we have been regimenting economic activity more and more; forcing into the public sector and the non-consum'er trades unconscionably large amounts of investment resources; developing heavy industries at the expense of consumer goods industries and developing both at the expense of agriculture, where the production and employment potentials are the highest among the three. The result is that despite phenomenal expansions of investment, our national income has risen, since plan intensification, at an annual rate of but 2.9 per cent. whereas unemployment rose from 5.3 million at the close of the First Plan to 9 million at the close of the second and might be as much as 12 million at the close of the third. Under policies of economic freedom, national income might have risen at an annual rate of 8-10 per cent. and unemployment, Instead of mounting up, might have tapered and, in due course, disappeared.

Statist policies have led to the concentration of economic power with the administration. All the imports, much of the exports, the bulk of investment resources and a great deal of economic activity are subject to State control and direction. This has endowed privileged groups of people—State functionaries—with arbitrary rights of disposal, directly or indirectly, over the employment, livelihood and well-being of virtually the entire nation. This is a potential source of ruthless social injustice—ruthless,

among other reasons, because arbitrariness is backed by police powers.

Continued social injustice under all three heads is apt to co-exist with statism. Growing social justice cannot be ensured better than through policies of economic freedom on the pattern of the E.E.C. countries and Japan, where state planning is confined to its natural sphere.

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III

PLANNING & INFLATION

The "Economic Survey," 1960-61, issued with the Union budget last February, reiterates the official view that, "up to a point", because of the natural upward "pull of demand" a price rise was not only inevitable but was "the very condition of economic advance." A more dangerous and misleading economic untruth was not spoken

Recent experience of a number of countries, Canada, West Germany, Mexico, Italy. France and Japan among them. and, to some extent, our own experience, demonstrates the untenability of the official thesis. From 1953 to 1959, West German national income rose at an annual rate of over 12 per cent. And yet, prices in Germany rose only by about 1 per cent per year during this period.

The Japanese record is even better. During the same period, the Japanese national income rose at an annual rate of 12.3 per cent, a world record for a sustained rise at this high rate. But the Japanese price index showed a rise of only 2 per cent over the whole period.

In France and Italy, though national income during the six-year period went up by **73** per cent and 49 per cent respectively, prices fell, instead of rising, in France by 8 per cent and in Italy by 1 per cent. So far from economic progress generating inflation, in the post-war world generally, rapidity of development has been in proportion to the achievement of monetary and fiscal stability.

During the first four years of the First Plan, Indian national income grew at an annual rate of 4 per cent. This was accompanied by a price fall of about 14 per cent. During the five years ending 1959-60, Indian national income rose at a much slower

annual pace of 2.9 per cent; but prices went up by about 32 per cent. If the official view had a rational basis, prices should have risen in the earlier years as well and at a rate higher than in the later years.

Economic development, even like the growth of an infant into manhood, is not a disease to cause an inflationary upset. Development must be a weird phenomenon, indeed, if, as it progresses, the fixed and sticky money income groups—the masses of the people—must suffer their real incomes to fall continually for the benefit of the upper income groups, traders, businessmen and industrialists, a fraction of the community. And yet this is what would happen if prices rise with development.

The fact of the matter is that prices rise not because of development but from the futile attempt to invest non-existent resources. This provides almost the sole explanation for the price rise of 42 per cent. during the past six years, when plan investments far exceeded the available resources.

The relationship between over-investment and inflation is easily seen. When Plan outlays are balanced by savings, the moneys issued out through such outlays would be but moneys flowing into Plan coffers, the savings of the community. We have then a simple case of moneys being taken out of the pockets of the savers and put into another set of pockets, the recipients of Plan outlays. These transactions **per** *se* would leave the monetary circulation unaffected.

The same would apply when investments are financed from past savings held as currency reserves or from imported savings (foreign aid). Investments, however large may be their magnitudes, would not cause inflation.

When Plan outlays exceed savings—current, past or imported — more moneys get issued out than are gathered in, the excess moneys issued out being found through money creation—deficit financing, in the case

of the public sector, and commercial bank credit creation, in the case of the private sector. The created moneys cause an artificial upward "pull of demand" and inflation results—the money incomes of the public grow faster than the national product and prices rise.

Though, theoretically, inflation may originate in private sector over-investment, inflation during the past six years resulted mainly from over-investment in the public sector, private sector over-investment being a by-product of it. Investments in the public sector—Rs. 4,600 crores or 60 per cent of Second Plan resources—having exceeded the sum of current savings, which accrued to it, drafts on currency reserves and foreign aid, inflationary deficit financing was resorted to. During the five years ending 1959-60, such deficit financing amounted to about Rs. 450 crores, being the sum of the net budget deficits (Rs. 350 crores)—i.e., budget deficits less foreign aid and less drafts on currency reserves—and the covert deficit financing through the investments of, and disbursements from P.L. 480 counterpart funds (Rs. 100 crores).

A part of the moneys issued through deficit financing, in the normal course of banking business, accrued to the credit of commercial banks and added to their monetary reserves. This led to extended commercial bank credit—through loans, advances, discounts and overdrafts—and a secondary expansion of bank money. Total expansion of the monetary circulation went up, as a result, by Rs. 783 crores and prices rose by 32 per cent.

Foreign aid and drafts on currency reserves in the first two years of the Second Plan and foreign aid almost solely thereafer, have played a pivotal part in controlling the inflationary situation. Foreign aid accounted for 22 per cent (Rs. 1,000 crores) of Second Plan investments in the public sector. In the absence of foreign aid, inflationary finance might have been

larger by the full amount of it, if the public sector had still persisted in the same amount of the outlay (Rs. 4,600 crores).

The mechanics of how foreign aid and drafts on currency reserves control inflation is simple. During the five years ending 1959-60 the Union Government issued in circulation Rs. 1,550 crores of money through deficit financing of the public sector. Part of this (about Rs. 654 crores) returned to the Reserve Bank through the purchase of foreign exchange representing foreign aid; another part (Rs. 433 crores) was likewise cancelled against foreign exchange sold by the Reserve Bank from the currency reserves.

The net effect of these transactions was to moderate the expansion of money from deficit financing to Rs. 783 crores. Since 1958-59, with surplus currency reserves nearly all gone, we have been saved from hyper-inflation by foreign aid alone.

The "Economic Survey" for 1960-61 has advanced the queer view that the prime protection from hyper-inflation has come from the increase in the time deposits of commercial banks, which, we are told, "offset" the expansionary effects of deficit financing and credit creation by commercial banks. Though appearing in a super-serious official document, this is a howler.

Time deposits are one of several ways in which an individual may hold his savings. But time deposits are not a monetary sink down which may disappear from circulation inflationary funds. Like other resources accruing to banks, these deposits too, get restored into circulation through the banks acquiring against them investments and other assets.

The error seems to have escaped detection through the circumstance that foreign aid—excluding P.L. 480 imports—approximated, during this period, to the increase in time deposits (Rs. 711 crores). The anti-inflationary effects of foreign aid got illegitimately attributed to the increase in time deposits.

The inflationary potential of the Third Plan contrasts with the inflationary impact of the Second. This potential is measured by the gap between the available resources and the contemplated investments. The Draft Outline of the Plan has placed total Third Plan outlay—the relevant figure here is the Plan outlay, including the cost of foodgrains buffer stocks and repayments of past loans, not the smaller sum of Plan investments—at Rs. 11,950 crores, Rs. 7,950 crores in the public sector and Rs. 4,000 crores in the private sector.

The same document has estimated current domestic savings of the period at Rs. 7,200 crores. This latter figure is a gross over-statement, the result of inflated assumptions regarding first, the rate of saving and, second, the expansion of the national income.

Judging from performance in the immediate past, the rate of saving may rise from the current rate of 7.5 per cent to 8.5 per cent in the final year of the Plan and national income from Rs. 13,000 crores to Rs. 15,400 crores. We, then get a figure of savings of Rs. 5,625 crores, or Rs. 1,575 crores lower than the official estimate.

Foreign aid visualised in the Plan is Rs. 3,200 crores. With currency reserves currently at Rs. 252 crores as against the legal minimum of Rs. 200 crores, there is little room for Plan finance from currency reserves. The uncovered gap in resources of the Third Plan may be, therefore, of the order of Rs. 3,125 crores.

The gap may be even larger. Foreign aid on the scale visualised may not arrive. First, it is too big a jump from the aid granted for the Second Plan (Rs. 1,725 crores). Secondly, the persisting balance of payments difficulties of U.S.A. and the repeating threats to the stability of the U.S. dollar may impair the capacity for foreign aid of U.S.A., the largest dispenser of such aid.

Thirdly, with the increasing tempo of the cold war and the claims of the newly independent African countries, the demands on foreign aid may rise. Fourthly, as evidence of the misdirection of foreign aid gathers force, the flow of foreign aid may get retarded. Finally, we seem to be nearly committed to a stepping up of the public sector outlays by Rs. 250 to Rs. 750 crores. This must widen the resources gap correspondingly.

It follows that, if we persisted in implementing Third Plan investments, the amount of deficit financing and credit creation it will call for may be of, the order of Rs. 3,125 crores or more. The overt figure of deficit financing given in the Third Plan document, namely, Rs. 550 crores, is wholly misleading as a measure of the gap in resources.

Considering that an increase in money supply of Rs. 783 crores during the five years ending 1959-60 caused a price rise of 32 per cent. money creation on so large scale may cause runaway inflation, which will not only turn back the hand of economic progress but, what is worse, may engender social and political instability.

The National Development Council has appointed a high-powered committee to examine the issue of stepping up Plan resources. It is little use pretending that the resources gap may be covered by some financial sleight of hand or institutional reforms or readjustments.

The largest bulk of the resources must come from within the country. This rests primarily on the rate of saving. The rate of saving, in the best of circumstances, rises but slowly. It was about 6.9 per cent. in 1950-51 and currently, at the close of a decade, is still about 7.5 per cent.

Inflation not only eats into savings; it misdirects savings into less productive investments and, therefore, reduces further the flow of savings in the second round, through its adverse effects on national income.

Damage to savings has also resulted from the steep rise in taxation, and the undue expansion of the public sector, statist policies and measures.

Between 1951-52 and 1959-60 the steep rise in the annual revenue collections by the Centre and the States (Rs. 598 crores) was wholly eaten up by the rise in the annual consumption expenditures (Rs. 727 crores), which was even steeper. No part of the increase in revenues went into capital formation. Heavy taxation, therefore, has been instrumental in converting potential savings of the public into consumption expenditures of the State. Extended state activity and the increasing control of the economy through permits, licences and contracts—the instruments of statism—have led, through corrupt practices, to the conversion of savings, supposedly "invested," into private incomes and, therefore, into consumption expenditures on a larger scale than we may readily admit. Such inroads into savings, unless, we stop inflation and abandon statism might increase under the Third Plan.

Logic and experience have demonstrated that inflation is an unmitigated evil. It is a commentary on the monetary enlightenment of the Indian people that, nevertheless, we have pursued inflationary policies and propose continuing them under the Third Plan. The principal factor at work is that planning, with its abundant patronage of permits, licences and contracts, has created all too powerful vested interests around it.

The bigger the Plan, the larger becomes the portfolio of patronage. The emergence of inflation from too big a plan, instead of hurting the vested interests which have gravitated around planning, brings in a second round of unmerited gains.

In such a context, unless economic statesmanship intervened to call a halt to this financial insanity before it may become too late and enforced a policy reversal, there seems to be no escape from errors

mounting upon errors until the whole edifice, since it rested on insecure foundations came crashing to the ground. Foreign aid — presently, a disservice in disguise — by patching up the ill-effects may defer the crash for a while, but not for an indefinite period.

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[The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.]

APPENDIX

Prof. B. R. Shenoy recommends the following books for further study.

1. *Collectivist Economic Planning ed. by F. A. Hayek (Routledge Kegan Paul, 1936).*
2. *Bureaucracy by Ludwig von Mises (Yale University Press,* 1944).
3. *Planning for Freedom by Ludwig von Mises (Libertarian Press, South Holland, Illinois, U.S.A.* — 1952).
4. *Socialism by Ludwig von Mises (Yale University Press,* 1951).
5. *Human Action by Ludwig von Mises (Yale University Press,* 1949).
6. *Capitalism and the Historians ed. by F. A. Hayek (University of Chicago Press,* 1952).
7. *The Road to Serfdom by F. A. Hayek (University of Chicago Press,* 1944).
8. *Economic Policy for a Free Society (by Henry C. Simons (University of Chicago Press,* 1948).
9. *A Humane Economy by Wilhelm Roepke (Henry Regnery Company, Chicago,* 1960).
10. *The Constitution of Liberty by F. A. Hayek (Routledge and Kegan Paul,* 1960).
11. *Economic Planning and International Order by Lionel Robbins (Macmillan,* 1937).
12. *The Economic Basis of Class Conflict by Lionel Robbins (Macmillan,* 1939).
13. *The Anti-Capitalistic Mentality by Ludwig von Mises (D. Van Nostrand Co.* 1956).
14. *Indian Economic Policy and Development by P. T. Bauer (Allen & Unwin,* 1961).

15. Growthmanship by Colin Clark (Institute of Economic Affairs, London, Hobart Paper 10, published by Barrie and Rockliff, 1961).
16. The Case for Capitalism by Hartley Withers (London, 1920).
17. Prosperity Through Competition by Ludwig Erhard (Thames & Hudson, London, 1958. Also Asia Publishing House, Bombay).
18. On Freedom and Free Enterprise ed. by Mary Sennholz (D. Van Nostrand Co. 1956).
19. Individualism and Economic Order by F. A. Hayek (University of Chicago Press, 1948).
20. The Free Man's Liberty by Henry Hazlitt (D. Van Nostrand Co. 1956).
21. The Failure of the "New Economics" by Henry Hazlitt (D. Van Nostrand Co. 1959).

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff

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