DEFENCE & DEVELOPMENT WITH STABILITY

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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"Any improvement in the economic conditions of the country postulates an increase in national wealth: a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution." Thus the First Industrial Policy Resolution of 1948 set before the country the goal of **rapid and** large-scale economic development. With communist Chinese aggression of India in 1962, a new dimension of Defence was added to this. With the upswing in prices during the last year, a further dimension of stability has been added. So, the problem before the country now is: Defence and Development with Stability.

In fact, Chinese aggression has thrust upon our national consciousness the paramountcy of defence which was not sufficiently appreciated hitherto. Edward Mead Earle, a commentator on military strategy, has pointed out the close interrelationship between defence and economy as follows: "Only in the most primitive societies, if at all, is it possible to separate economic power and political power. In modern times—with the rise of the national state, the expansion of European civilisation throughout the world, the industrial revolution, and the steady advance of military technology—we have constantly been confronted with the interrelation of commercial, financial and industrial strength on the one hand, and political and military strength on the other. This interrelationship is one of the most critical and absorbing problems of statesmanship. It involves the

* Text of presidential address at the eighth annual general meeting of the Forum of Free Enterprise on December 9, 1964, in Bombay.

security of the nation and, in large measure, determines the extent to which the individual may enjoy life, liberty, property, and happiness."

Even economists as far apart as Adam Smith, who advocated maximum individual enterprise, and Friedrich List, who stood for statist economic policies, have seen eye to eye on the paramountcy of defence in national affairs. "The first duty of the sovereign, that of protecting the society from the violence and invasion of other independent societies, can be performed only by means of a military force," declared Adam Smith. Hence. "defence is of much more importance than opulence."

List, a forerunner of present-day statist economic policies, was equally categorical. "Power," he observed, "is of more importance than wealth ...... because the reverse of power—namely feebleness—leads to the relinquishment of all that we possess, not of acquired wealth alone, but of our powers of production, of our civilisation, of our freedom, nay, even of our national independence, into the hands of those who surpass us in might."

Drawing a parallel from the early days of the American Republic, once again we find that Alexander Hamilton and Thomas Jefferson, who held divergent views, agreed on the importance of defence. To Hamilton, "a nation despicable by its weakness, forfeits even the privilege of being neutral." Only strength will enable a country to "choose peace or war as our interest guided by justice shall dictate." Jefferson, who called for universal military training—"we cannot be safe till this is done"—shared the belief with Hamilton that military power can be neglected only at the cost of national integrity.

We in India should appreciate this close interrelationship in view of the enemy we face. For communists have adopted Clausewitz's dictum that "war is politics continued by other means". Lenin made it clear that, "The Marxists have always considered this axiom as the theoretical foundation for the meaning of every war."

Thus the political, psychological and economic foundations of our defence—security, to use a more appropriate

term—deserve the closest study and attention. I shall deal with the economic aspectdevelopment with stability.

The outstanding feature of the economic scene in 1964 is the persistent rise in prices. A Reserve Bank of India survey has pointed out that this 14% rise in prices for the period ended September 4, 1964, has been the highest for any 12-month period since the Second World War. Prices of food articles have risen by 23.6%, of industrial raw materials by 21.9%, of manufactures by 4.7%. But to realise the impact of the price rise on the common man, one has to look at the increase in prices of food articles—wheat, 51.7%; rice, 11%; gram 108%; groundnut, 37.8%, —and consider this against the background of the fact that middle classes spend over 40% of their income on food, and those lower down the income scale spend considerably more.

This price rise cannot be dismissed as due to hoarding and profiteering by traders and/or producers. While no doubt there is some hoarding and profiteering by anti-social elements, of which the business community naturally has its share as other sections of society, even such hoarding and profiteering is the consequence of a deeper economic malaise. The very fact that the price of highly perishable goods like vegetables has gone up indicates that the price rise is general, and stems from some basic malaise afflicting the economy. In fact, the present price rise is the cumulative result of economic policies pursued over the last few years. To understand the reasons for the price rise, one has to analyse these policies and test them on the touchstone of inexorable economic laws.

The economy of the country has been dominated by Five-Year Plans since 1951. The First Plan was a mere collection of projects, some of which had been launched well before 1951. But it gave a sense of growth and direction to the economy. The Second and Third Plans were based on ideological considerations. Soviet planning techniques were used in drawing up these plans.

One characteristic of Soviet model of planning is what is called "physical planning." Planning targets are set out first, without consideration of availability of resources. Since needs of an underdeveloped country are unlimited, naturally the targets prove to be much beyond the capacity of the country to save, and thus there remains a large gap between targets and resources. Economic development without strains and stresses can be accomplished if investment is financed out of the genuine savings of the community. The genuine savings are available to the Government in the form of taxes, public loans, revenues from commercial undertakings of the state, and, finally, foreign aid which is in reality savings of other people. When these sources of genuine savings are exhausted, under physical planning the Government resorts to deficit financing. In simple terms, this means the printing of currency notes to pay off Government bills. Since planning was Initiated In India, deficit financing in 13 years has been of the order of Rs. 1,960 crores. Although a ceiling of Rs. 550 crores was set for the Third Plan, the compulsions of physical planning have led to deficit financing to the tune of Rs. 674 crores in the first three years of the Plan. As a result, money supply, which was Rs. 2,216 crores in 1955-55 increased to Rs. 2,868 crores in 1960-61, and had crossed the Rs. 3,700-crore mark in November 1964.

This increase in money supply is the basic factor in the price rise. It should be remembered that money Is valuable only in so far as it represents the stream of goods and services produced in the country. What a great Roman emperor, Hadrian, said centuries ago is still true: "Our currency has been dangerously depressed for a century; it is nevertheless by the exchange rate of our gold pieces that Rome's eternity is appraised; it behoves us to give them solid weight and true value in terms of commodities."

Today, the central bank of our country puts this economic fact in the technical jargon of economists: "The sharp rise in prices......reflected the imbalance between the rate of growth in the liquidity in the economy and the increase in real output and the rise in money supply......"

Another feature of Soviet model of planning which has aggravated the price situation is the heavy industry bias and consequent neglect of agriculture and consumer goods industries. The present food crisis is the result of years of neglect of India's fundamental asset, agriculture, and the unsettling effect of ideological land reforms. The neglect

of the agricultural sector, while the authorities were busy with prestigeous heavy industries, is best illustrated by the statement of the Plant Protection Adviser to the Government of India that crops worth Rs. 1,000 crores were lost in the country annually owing to incidence of pest diseases and inroads of rodents, etc. Even Communist China, after bitter experience, has shifted its emphasis back from heavy industry to agriculture, having had to import 11 million tons of wheat between 1960-63.

The food crisis on the production front has spread over to the distribution front because of dislocation of the normal market mechanism. State trading in foodgrains is often prescribed as a remedy. But experience of state trading does not indicate its efficacy. According to Audit Report for 1964, cumulative losses of state trading in foodgrains between 1943-44 and 1962-63 were over Rs. 131 crores. In the eastern region alone, according to a Press report, foodgrains worth over Rs. 1,56,000 were lost from Union Government depots in three years owing to inefficiency, malpractices, etc.

Another feature of Soviet model of planning is the expanding Public Sector. An objective review of this sector shows that it has been an important factor in pushing up the price level. The scarce resources, which would have fructified in the pockets of the people, have been diverted to the Public Sector where the returns have been disappointing, thus aggravating the imbalance between money supply on the one hand and goods and services on the other.

A report submitted to Parliament by the Comptroller and Auditor-General of India disclosed that for the second year in succession there was a net loss in their working. On an employed capital of Rs. 1,294.11 crores in 46 Central government companies in 1962-63, there was a loss of Rs. 12.38 crores. In the previous year, the loss was Rs. 10.60 crores on an employed capital of Rs. 1,090.75 crores. Thus, in two years, instead of earning Rs. 240 crores, according to the 10-per-cent-profit formula propounded by the Deputy Chairman of the Planning Commission, there was an invisible tax of Rs. 263 crores on the public. It is, therefore, not surprising that the Union Finance Ministry was reported to have ordered an inquiry into the working of Public Sector undertakings as it found that the Hindustan Machine Tools was the only "efficiently run and profit-making institution" in that Sector. The Mysore Government recently got permission of the Union Government to withdraw Rs. 67 lakhs from Hindustan Aircraft on the ground that it was not getting any return on its investment. A brief review of some Public Sector enterprises, of the Central and State Governments, gives a clearer picture.

The Audit (Commercial) Report for 1964 reported that the non-acceptance of the lowest tender for Ashoka Hotel construction "resulted in an extra expenditure of Rs. 3,26,000 approximately on the final cost." In the Praga Tools Corporation, "preparation of inaccurate estimates, poor performance in the shops and surplus labour" led to "substantial losses on account of the production costs being higher than the selling prices." Moreover, "out of the total plant and machinery of Rs. 88.69 lakhs (original value), plant and machinery worth Rs. 47.15 lakhs or 54% is surplus to the requirements on 31st March, 1963". The Auditor-General comments: "Apart from the blocking of funds and consequent loss of interest, such machinery is likely to deteriorate due to efflux of time and obsolescence."

In Heavy Electricals, an excess payment of 236,000 made to consultants had been commented upon by Audit Report 1961, and the Lok Sabha Public Accounts Committee Report. In January 1964, "the missing Ale of the Ministry is still not available." Moreover, another case of overpayment of 2320,000 had come to notice. As regards production, "the target prescribed in the project report and also those laid down under phased programme based on single shift could not be achieved by the Company even in double shift." The shortfall was 24% in 1962-63. This was. in spite of the fact that there was 80% excess staff than recommended in the project report. Between 1960 and 1963, accumulated losses were Rs. 611.60 lakhs.

The Hindustan Steel was found to have committed several errors costing lakhs of rupees. For instance, there was a loss of Rs. 2,83,500 in iron ore mine contract; about Rs. 25 lakhs in the power plant due to non-installation of dust catchers; Rs. 70,000 on an infructuous dairy scheme:

Rs. 30.10 lakhs by negligence to store iron scrap properly. In the Hindustan Shipyard, a loss of Rs. 9 lakhs was incurred on reconditioning imported machinery worth Rs. 10 lakhs because it was allowed to lie in the open without cover. In the Garden Reach Workshops, there was a loss of Rs. 19 lakhs on a fabrication work because of defective estimates. An item costing about Rs. 26 lakhs to manufacture had been quoted at only about Rs. 7 lakhs!

Periodic press and parliamentary reports reinforce this story of waste and mismanagement. For instance, a delay in clearing goods by the Heavy Engineering Corporation led to payment of Rs. 36.26 lakhs as rent and penalty to the Calcutta Port. "Mismanagement and inefficiency" were said to be the reasons for losses of Rs. 5 lakhs at Nahan Foundry in 1962-63, and anticipated further losses of Rs. 15 lakhs. The annual audit of the Oil and Natural Gas Commission disclosed "serious irregularities and lapses, financial as well as administrative, resulting in heavy losses." For instance. as on December 31, 1963, goods worth Rs. 10 crores could not be linked and accounted for.

Fertiliser, which the country needs urgently to increase food production, was not produced in sufficient quantities by the plant at Rourkela because of a dispute between the Hindustan Steel and the Fertiliser Corporation of India, both Public Sector concerns, about terms of transfer! In February 1964, the production had fallen to one-fourth of rated capacity. The Indian Railways lost Rs. 40 lakhs on unused loose steel jaws because of a decision to stop import of steel sleepers as it was found that wooden sleepers could be imported at a cheaper price.

The situation with regard to Public enterprises run by State Governments is more distressing. To cite only a few instances: the Estimates Committee of Madras Legislative Assembly was alarmed at the increasing losses incurred since 1959-60 by the Madras Dairy and Milk Project. The Maharashtra Public Accounts Committee (report for 1961-62) commented on the Nagpur Milk Supply Scheme as follows: "It is evident that the framing of the scheme and its execution were not well thought out and planned before it was accepted by the Government." The target of supply to the city of 1,080 maunds of milk was to be reached in four or five years, but was expected to be reached in 10 to 15 years. The Madhya Pradesh Government had decided in 1964 to discontinue five dairy farms on which nearly Rs. 35 lakhs had. been spent because only one of them had shown a profit of Rs. 584 whereas the rest had incurred a loss of Rs. 1,00,132. In Uttar Pradesh, 12 state mechanised farms had incurred a loss of Rs. 81.59 lakhs during last 15 years. In its 15th Report, the Estimates Committee of Rajasthan Assembly castigated the Government for its "unfortunate" neglect of the Public Sector. There "has been sheer wastage, heavy losses and mismanagement" in all industries or undertakings run by the Government, the Committee observed.

The West Bengal Audit Report, 1963, noted instances such as a loss of about Rs. 6 lakhs by the State Forest Department in its charcoal manufacture project. A special committee of the Orissa Assembly set up to investigate state enterprises found that excepting a few pilot project units where private entrepreneurs were managing directors, and the state transport, the rest were in a financially sick condition. In fact, 5 out of 40 companies under pilot project scheme were under liquidation. The State Audit Report (1964) noted that even by the end of September 1963, the accounts of six state enterprises for 1960-61, 4 for 1961-62 and 23 for 1962-63 were not available, and they had not held annual meetings under the Companies Act. In spite of this experience, the zeal for Public Sector expansion continued. and in September 1964 it was reported that after spending Rs. 27,09,000 on "preliminary arrangements" and "procurement of material" for a factory, the Orissa Government had wound it up!

The Maharashtra Exchequer incurred a loss of Rs. 7,31,000 on two grossly defective text-books which it had to withdraw in the face of vehement public protest. Although the Education Minister admitted that the text-books contained "certain major errors, such as incomplete and wrong information, wrong maps, and few confusing statements, and did not come up to the standard laid down for state-produced text-books", the Government was determined to persist in its policy of state monopoly of text-books.

A bicycle factory run by the Mysore Government had attracted countrywide attention a few years ago as it had produced the costliest bicycles in the country. The Audit Report for 1964 disclosed that between 1959-60 and 1962-63 only 322 bicycles, being 1.8 per cent of installed capacity, had been produced while the cost incurred was Rs. 7.07 lakhs thus enabling the factory to maintain its cost record.

The Slate Trading Corporation, which came in for severe criticism from the public and Parliamentary Estimates Committee for its profiteering in cement, continued to attract unfavourable attention. It was flayed once again by the Parliamentary Estimates Committee in March 1964 for incurring a heavy loss of Rs. 2.13 crores in 1962-63 in earning Rs. 3.44 crores of foreign exchange in the export of groundnut oil and oilcake. The Committee called for an inquiry into this deal. In December 1963, a bungling by S.T.C. in lemongrass oil export, with unsold stocks of over one crore of rupees, came to public notice. It was also found that STC made an unjustified profit of Rs. 5,28,000 on imported betelnut costing Rs. 3 lakhs! It was disturbing to learn that STC, in its anxiety to earn foreign exchange, was exporting groundnut oil to Burma In large quantities even though it was known that the commodity was being re-exported to Communist China. Disclosing this, Mr. Devji Rattansey, Vice-president of Bombay Grain, Rice and Oilseeds Merchants' Association, said, in July 1964: "We are thus feeding the very people who are hostile to us."

It is seldom realised that waste and mismanagement of Public Sector enterprises are not their only deficiencies. When such enterprises are monopolies, indirect losses to the economy could be very heavy and consumer exploitation a reality. For instance, the frequent cancellation of Rights and chronic delays in departure and arrival of planes run by the Indian Airlines Corporation constitute an impediment to smooth functioning of India's economic life. The loss of tourist revenue on this score is well known. Delivering a judgment in an appeal filed by a widow, the Madras High Court deplored that the Life Insurance Corporation was putting "up a fight on the pattern of ordinary litigants" to resist claims "on frivolous pleas and reckless allegations."

When the Public Sector expands by nationalising private enterprises, there is the additional danger of political considerations submerging all economic considerations. The Supreme Court, in a judgment in January **1964,** in a case of nationalised bus transport in Kurnool, Andhra Pradesh, observed: "We are constrained to hold that the allegations that the Chief Minister was motivated by bias and personal ill-will against the appellants (private owners) stand unrebutted."

A discussion of the Public Sector cannot be complete without a reference to their personnel policy which has been a matter of serious concern as it has a bearing both on human welfare and production. A recent strike in the Sindhri Fertiliser Factory, for instance, resulted in production loss of Rs. 54 lakhs. What the Union Minister for Petroleum and Chemicals described as the "chapter of misunderstanding that had lasted some years" between employees and management of Hindustan Antibiotics had led to frequent disputes. A seven-day strike in **1964** resulted in a loss of Rs. 8 lakhs.

The views of labour leaders, who cannot be accused of hostility to the Public Sector on ideological grounds, are interesting. Mr. Satish Loomba, Secretary of **AITUC,** in an article in "New Age", Communist Party's official organ. wrote:

"Some problems are peculiar to the public sector.

"Police verification of all employees, which leads to easy victimisation, is an obnoxious practice in public sector. It must go. Most enterprises are in new places which poses the problem of housing and transport. Standing order, leave rules, promotion policy, etc.. are in a chaotic condition. And then there is the question of status: many workers in public sector are not treated as industrial workers but as government servants, depriving them of many rights of industrial workers.

"The question of settlement of disputes is another sore point. In the Public Sector, arbitration is accepted very rarely, if at all. Reference to adjudication is also difficult to secure. With bureaucratic managements, involvement of many ministries in a dispute, non-recog-

nition of representative unions, disputes have very little chance of settlement.

"So either the workers have to go on suffering patiently or when patience is exhausted, take to some form of action. The managements, which are too lethargic to consider any grievance ordinarily, pounce upon any attempt to organise action by workers in defence of their rights, as has recently happened in the Heavy Electricals, Bhopal.

"Unless a realistic labour policy is adopted, industrial relations in Public Sector enterprises are not likely to be very happy."

Mr. George Fernandes, Socialist trade union leader, said in Bombay in January **1961,** that the Central Government "is not only the biggest employer, but also a damned rotten employer."

A Parliamentary Estimates Committee Report and a Government investigating officer's report on the Heavy Engineering Corporation seem to confirm these views with documented evidence. The Estimates Committee noted that the Public Sector undertakings were openly defying Parliament's wishes that departmental secretaries should not be chairmen of such enterprises. An oft-repeated complaint that Parliament was being kept in the dark was underlined again. The Committee "regret to place on record that, despite repeated reminders, the information called for in their written Questionnaire dated 7th September, **1963,** has not yet been received from Garden Reach Workshops Ltd., nor have they intimated any reason for their inability to furnish the requisite information."

The "public undertakings are invariably overstaffed," the Committee observed. In the three steel plants alone, as against project estimates of **18,666,** the strength on December **30, 1963,** was **50,814.** there being an excess of **32,148.** Some disturbing aspects brought out by the Committee were: **18** undertakings, some started as far back as **1952** and **1954,** had not laid down terms and conditions of service; some had not classified their posts; **28** undertakings had not framed recruitment rules (**"It** is not surprising that in the absence of these rules there have been allegations of favouritism and nepotism," the Committee observed); 31 undertakings had no promotion rules ("It is noticed that there have been quite a few cases of quick promotions in many undertakings" the Committee noted: in one instance, a junior engineer appointed on Rs. 380 in February 1960 was drawing Rs. 900 in April 1963); 17 undertakings in contravention of the Industrial Employment (Standing Orders) Act, 1964, had not either framed standing orders or not had them certified; 28 undertakings had no grievance redressal procedure; 19 undertakings had not framed disciplinary rules. The Committee concluded that "labour-management relations are not very cordial in a number of public undertakings." and recommended that outsiders should not be allowed to act as office-bearers of unions.

Mr. Mukerji's report on the sorry state of affairs in the Heavy Engineering Corporation said: "There was, I am constrained to say, almost a criminal lack of supervision and control." Some lapses listed are: (1) The Chairman was unable to work his team to the best advantage of the undertaking; this fact very adversely affected every sphere of the undertaking's activity. (2) There was a complete lack of co-ordination where such co-ordination was essential: there was almost a chaos in certain departments of the administration due to many reasons, which led to a state of affairs where anything could have happened. (3) The security arrangements were pathetically inadequate: there was no adequate security consciousness.

State patronage of co-operatives has virtually converted them into the Public Sector. Their performance, therefore, makes an impact on the price structure. It is a matter of regret that the genuine co-operative movement, built up by dedicated men like the late Mr. Vaikuntlal Mehta, is today in danger of being wrecked by state-dominated co-operatives whose record of wastage of public funds is alarming. The Union Minister for Cooperation and Community Development, Mr. S. K. Dey, himself was constrained to admit in June, 1964, that bogus co-operatives and vested interests were crippling the growth of the movement. "Non-genuine cooperatives in India today are the most powerful ones because of the political strings attached," he added. "I am forced to bend my head in shame" in the area of marketing

of foodgrains by cooperatives, Mr. Dey admitted. Reports from different states bore witness to his admissions. A New Delhi co-operative affairs frequently figured in Parliament because reportedly it had profiteered to the extent of 36 per cent whereas its legitimate proflt should have been 2 per cent in the sale of gur. In Punjab, 5,000 or almost one-sixth of registered societies had to be wound up recently as they were moribund. In Kashmir, the Audit Report stated that out of 1,401 societies, on March 31, 1962, 139 were running at a loss and 554 were dormant. The time has come for a review of state policy with regard to use of public funds to bolster up such co-operatives.

Two more important features of the Soviet model of comprehensive centralised planning as applied to a democratic set-up such as ours are rigid controls and heavy taxation on productive private enterprise of citizens. The multifarious controls and the jungle of administrative regulations frustrate the objective of greater production. The Estimates Committee, after hearing evidence, came out with a strong plea to eliminate multiplicity of forms and applications to be filled in by a joint-stock company. It mentioned an instance of a non-official organisation which had to submit applications and enclosures weighing 90 pounds to get the Company Law Division's approval of the appointment of a secretary and treasurer! Mr. S. G. Barve, Maharashtra's Industries Minister and a veteran administrator, has observed that the sum total of our laws, procedures and practices was such that the rewards of productive investment were nothing like the gains reaped by speculation or trading activities. He admitted that the country's economic system "does not encourage productive industrial enterprise sufficiently."

It is pertinent to repeat in this context what I have pointed out a number of times—the social costs of controls. The Santhanam Committee Report on Corruption confirms these fears. It observed: "It was the unanimous opinion of all witnesses who appeared before us that administrative delays are one of the major causes of corruption. We agree with this view. We have no doubt that quite often delay is deliberately contrived so as to obtain some kind of illicit gratification."

The heavy hand of fiscal authorities is pushing down the tempo of economic development and production, thus aggravating the imbalance between money supply, and goods and services. The Directors of the Reserve Bank, in their Annual Report, 1964, have pointed out that "additional taxation during 1964-65 is expected to raise the ratio of Central and State's tax revenue to national income from 9.6 per cent at the end of Second Plan to 14 per cent." This increased taxation is mainly borne by the already heavily taxed assessees numbering less than ½ per cent of the entire population. Two recent surveys of the Reserve Bank of India clearly prove how the additional tax burden has retarded production and growth. According to a Reserve Bank survey of some representative companies, while their pre-tax profits increased by Rs. 22.8 crores over the previous year, tax provision rose by Rs. 28.5 crores. As a result, dividends declined by Rs. 3.8 crores. According to another RBI survey of 1,015 small public limited companies, while profits before tax in 1962-63 increased to Rs. 4.8 crores from Rs. 4.2 crores in the previous year, profits after tax declined to Rs. 1.53 crores from Rs. 1.85 crores. Retained profits likewise declined to Rs. 24 lakhs from Rs. 50 lakhs. "The rate of dividend, as indicated by the ratio of dividends to paid-up capital, showed a fall from 6.1 per cent to 5.7 per cent."

Considering the fact that "additional taxation at the Centre in the first three years of the Third Plan is estimated to yield about Rs. 1,900 crores over the entire Plan period. thus exceeding the five-year target of the Plan (Rs. 1,100 crores)", it is time that the Union Finance Minister heeded the wise counsel offered to Alexander the Great when he was not desisting in his march in India despite reluctance of the troops to follow him: "Sir, if there is one tiling above all other a successful man should know, it is when to stop."

While I have been an enthusiast of planned economic development long before the authorities thought of the subject, I have repeatedly stated that the Soviet centralised. comprehensive planning is not suited to India. Eight years of such Planning have brought distress to millions in the fixed income groups. One important deficiency in Indian

planning against which I have warned is the inadequacy and inefficiency of the administration.

So far as Public Sector enterprises are concerned, government servants, by temperament and training, are not suited to run them efficiently. Lack of personal stakes, political interference, and weak Parliamentary control worsen the situation. In Indian economic development, the scarcest factor is time. Administrative delays have made this factor still scarce. The Chief Minister of Mysore, Mr. Nijalingappa, has pointed out that out of every 100 files which came to him 50 attracted his attention because they were delayed. He cited the case of a government servant whose pension had not been received by his family for 18 years.

A few instances of chronic administrative delay indicate the inability of the administration to deliver the goods in a comprehensively planned economy: a scholarship sanctioned by the Punjab Education Department to a primary class pupil in 1957 had not been paid till early 1964. Over 100 reminders by the boy's father had no effect excepting to elicit finally a reply from the District Education Officer saying: "No use writing cards daily as the matter has been taken up and early action is likely." The Union Education Minister, Mr. Chagla, has disclosed that an International Students' Hostel, proposed to be built in 1955 with 300 rooms at a cost of Rs. 8 lakhs was delayed, and finally had been built with only 100 rooms at a cost of Rs. 9 lakhs. In Kerala, a government guest house built at a cost of over a lakh of rupees had remained unused for four years for lack of electrical and sanitary fittings. The Chief Municipal Auditor of Bombay Municipal Corporation recently complained that one department had not submitted quarterly returns for 11 years, and 10 for over flve years! The Orissa Public Accounts Committee was "surprised" that audit objections for the year 1947-48 had not been disposed of even after 14 years. The Committee observed: "Departments of Government are not sincere and keen in their efforts to dispose of their outstandings quickly." The following report perhaps gives a clue to this situation. The correspondent of a Calcutta daily reported from Jabalpur:

"Quite a sensation prevailed In the office of the Chanwarpatha Development Block when the Collector of Narsinghpur paid a surprise visit and found almost the entire staff away from their desks.

"It is stated that as Mr. Rajput, Collector, was wearing a turban and dhoti, nobody could recognise him and he was considered as an ordinary common villager. Clerks, peons and other staff were either busy gossiping here and there without caring to work or were in adjoining tea-stalls. Certain members of tho staff were found playing cards under a tree while others were slumbering."

A corrective to the economy is required at this stage if national aspirations of prosperity and social justice are not to be scuttled by runaway inflation. In the light of experience gained, the suggestions made by Prime Minister Lal Bahadur Shastri are sound economic commonsense. He has rightly recognised that "the farm sector is, and will remain for many years, decisive in Indian development". Therefore, he has suggested a shift away from heavy industries. Besides agriculture, the need to develop consumer goods industries to supply the basic needs of the people has been proposed. Such meaningful production of goods and services required by the people will not only reduce inflationary pressures, but also make Indian planning democratic instead of being bureaucratic as at present. The West German experiment holds a lesson for us. The Economic Miracle took place as "the consumer regained control over the economy because with a stable currency planning passes from civil servants to the people."

The Prime Minister also suggested consolidation of exisiting projects before launching new ones. Since the idea of **consolidation** is confused with **stagnation** by some, it needs some elaboration. Consolidation is a logical step in the operation of any enterprise since it means extraction of best value from scarce resources invested. As applied to our current economic scene, it will halt inflationary pressures, and give a fillip to economic growth on healthy lines. To take the case of river valley projects: The Bhakra-Nangal project, estimated at Rs. 132.91 crores in 1950, had actualy cost Rs. 202.91 crores by March 1963. But receipts in 1961-62 were only Rs. 44.88 lakhs as against estimates of Rs. 184.5 lakhs. The annual loss on irrigation wing was two crores

of rupees and on electricity side, Rs. 2.76 crores; Rajasthan Canal Project work being incomplete, water cannot be released from Punjab portion of the feeder canal; Mysore's major irrigation projects with an investment of Rs. 86 crores had not yielded any revenue to the Government till 1962-63; the Damodar Valley Corporation has reported that the irrigation potential created by it has not been utilised for want of water courses and field channels; a press report in October 1964 says that a DVC 80-mile navigation canal, linking Durgapur with Hooghly, built at a cost of over Rs. 3.7 crores, had remained unused for months; the Hirakud Project, built at a cost of Rs. 85 crores, was causing an annual loss of Rs. 65 lakhs to the Orissa Government.

Consolidation would mean proper utilisation of these assets already created and making them economically viable. The economic base would be strengthened by consolidation of existing projects rather than embarking on more ill-digested ones.

Apart from this shift in Plan strategy. the economic situation demands that the Government devote its exclusive attention to its basic functions: defence, law and order, regulation of economic activities, and provision of basic amenities and infrastructure, i.e. education, roads, ports, postal communications, etc. It is not uncommon to read news items like that of acute shortage of drinking water in Yeotmal, a town of Maharashtra, resulting in sale of water at 50 paise per tin. The Union Education Minister's disclosure that India is the most backward country in the world so far as expenditure on education is concerned underlines the deficiency of this important item of the infrastructure. A major obstacle to economic growth is the dearth of adequate and efficient postal, telephonic and telegraphic facilities. There are periodic reports of shortages of postal stationery. A Union Minister who recently inaugurated a Rs. 50-lakh factory in Bombay confessed that he was "ashamed" to learn that the factory had no telephone! In 1962-63, 2.3 million telegrams—6 per cent of the total booked—were disposed of by post! Inadequate port facilities accentuated India's food crisis. In July 1964, 12 ships with a load of 2.5 lakh tons of wheat were berthed mid-stream in Bombay port while there was an acute shortage of wheat in the city. Meanwhile, the government was paying a demurrage of Rs. 50,000 daily in precious foreign exchange!

Happenings in communist countries reinforce this plea for a change in our economic policy. After decades of experimedting with centralised comprehensive planning, recently, Soviet Union has adopted a modified free enterprise system as the best way to produce more and better consumer goods. "Pravda" has called for less central planning in light industries. "It is time to give more independence to the enterprise so that they will be economically interested in producing high quality goods popular among the customers," it declared. A Vienna report on Communist Czechoslovakia, considered to be a Stalinist country, said that that country had embarked on a radical course of economic reform. "In essence," the report said, "the proposed economic measures call for the disappearance of complete centralised planning at all levels of industry, allowing individual factory managers to make their own production decisions and forcing them to become financially self-sufficient." Mr. Walter Ulbricht, of Communist East Germany, indicated the same new economic policy for his country to replace communist economic practices. He said: "Petty, narrow-minded bureaucrats, divorced from the realities of life and of the workers, who have lost the taste for novelty and human contacts, are as little wanted as leaders as are the men who hang on to outworn routines and will not recognise that it is impossible to lead men with old-fashioned dogma of the past." His new economic policy was designed to create "an economic lever operating on the principle of material interest which will encourage the manufacturers, collectives and individual workers towards the goal of scientific-technical progress." The new prices under this policy "will differentiate between goods of varying quality and will allow manufacturers to sell at profit after covering their costs of production, thereby encouraging increased production."

The need for material incentives and the indispensability of the profit motive as a measure of efficiency, a rational allocator of resources, a source of internal capital formation and above all an incentive for greater production have now been recognised by communist countries. For instance, "Pravda" has argued that "it is not the machines and technology but human beings" who are the principal productive force and who "are not disembodied angels deprived of individual needs and personal interests." An economist and authority on automation, Mr. Tiapeznikov, writing in "Pravda" in August 1964, upheld the profit motive as follows: "To work up an efficient economic influence on economic activity, it is necessary to select an indicator, which characterises the work of the enterprise to the highest possible degree, but also is in line with the interests of the national economy and of the employees of the enterprise. We think that such an indicator, besides other quantitative and qualitative indicators, is represented by profits..."

Mr. Lev Leontyev, a member of the Soviet Academy of Sciences, has pleaded for "economic methods of planned management" (i.e., market mechanism of profits, etc.) in place of "administrative methods" which he ridiculed as being concerned with "production, distribution and the use of every nail."

On the farm front too, a radical shift has taken place. The former Soviet Premier, Mr. Khrushchev, disclosed in March, 1964, that the Soviet leadership had "borrowed a little from the practices of running farms in tne U.S." in reorganising Soviet agriculture after Stalin's death. He praised U.S. farming for its "concreteness" and "business-like efficiency". The Government of Ukraine announced in November 1964, that it had decided to abolish ceiling on private lands and ownership of cattle. Even doctrinaire communist China disbanded the communes and about 9 per cent of land in China was distributed among peasants as private plots according to the policy of "economic revisionism."

With such convincing evidence from communist countries a change in our planning techniques and economic policy are overdue to stop inflation and give a stimulus to development. But such a change cannot be contemplated without a change in the Planning Commission's composition, power and functions. A recent study by Mr. H. K. Paranjape of the Indian Institute of Public Administration has brought out some interesting facts. In 14 years of its existence, the Commission's membership had undergone many changes, there being 24 appointments. The staff has increased from 244 in 1951-52 to 1,025 In 1963-64. Expenditure on the Commission has gone up from Rs. 8,56,536 in 1950-51 to Rs. 67,02,000 in 1964 Budget Estimates.

Dominated by politicians and government officers, its functioning has naturally revealed a lack of appreciation of the actual working of the economy. But constitutionally, none of the members can be held accountable for the lapses and consequent repercussions on the economy. In fact, the country has witnessed the amusing spectacle of ex-members of the Commission attacking it when the tide of public criticism has waxed strong! Thus, the Planning Commission, as at present, happens to be an unsound instrument for economic development and democratically an anachronism because it enjoys power without accountability. The Commission should be remodelled on the lines of its French counterpart and made a purely advisory body. If this change is made and a shift effected from "imperative planning" of Soviet type to "indicative planning" of French type, the vast. untapped human and natural resources of our country can be easily mobilised to meet the challenge of defence and development while ensuring stability. Realistic planning based on the inexorable economic laws of the market and respect for individual freedom in economic as well as political spheres leads to economic prosperity and social justice.

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

—A. D. Shroff

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