NATIONALISATION AT THE CROSSROADS

PROF. AMUL DESAI

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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WHEN Karl Marx wrote "Das Capital", and propounded his theories of capital accumulation, labour exploitation, class conflict and capitalist crisis, ultimately leading to a socialist State, wherein the means of production, distribution and exchange would be socialised, social, political and economic conditions were totally different from to-day. Labour in those days had neither the right to organise trade unions, nor to strike. Parliament was dominated by vested interests since the right to vote was denied to a major section of the community. Social legislation in the form of unemployment insurance and health insurance was yet to come on the Statute Book. The functions of the state were limited to the maintenance of law and order, and protection of the country against external aggression. The idea of the Welfare State had not been conceived. In this socio-political set-up, a violent overthrow of the capitalist society was perhaps the only remedy which attracted the mind of Marx. The establishment of a socialist society, with state ownership of the economy, appeared to be the only way to eliminate exploitation of labouring classes. in the operation of the economy. However, with the growth of trade unionism, social legislation, parliamentary democracy and adult franchise, a violent shake-up of the society or class conflict has ceased to be the inevitable corollary to the socialist philosophy. As a matter of fact, a number of countries in the world has witnessed labour parties returned to power by the verdit of the ballot box. Class conflict or brake-up of the capitalist society are not considered today as the logical sequence of socialism.

The Author is Head of the Department of Economics in Bhavan's College, Bombay

Similarly, economic equality and full employment, the cherished ideals of the social philosopher and the political practitioner, are no more considered to be possible only by nationalisation of industries. The period before and after the second World War has witnessed the emergence and evolution of monetary and fiscal techniques through which these ideals can be more easily and effectively realised. To be called or labelled as a socialist, it is now no longer necessary to pin one's faith on nationalisation of industries. Thus every ideology or philosophy may justify a particular institutional apparatus or a particular strategy during a given period of time, during a particular set of circumstances. But with the changing conditions, they become outdated, superfluous and perhaps dangerous to the very philosophy itself.

Socialism may have implied nationalisation in the past. Today it has become an outdated instrument of socialist philosophy itself. As a matter of fact, a dogmatic faith in nationalisation may endanger the objectives of socialism itself. Unfortunately, however, there is ill-informed public opinion in underdeveloped countries about the implications of a policy of nationalisation. Being late in their march towards industrialisation, the people of these countries lean heavily in favour of state enterprise, anticipating rapid industrialisation. Being harassed and oppressed by acute poverty and unemployment, the people of these countries tend to believe that state enterprises can bring about an end to these evils. Being reminded of war-time shortages and experience of black markets, these people wrongly ascribe those evils to the presence of private enterprise. Private property and profit motive, the two dynamic forces which brought about rapid economic transformation in Western countries, are considered to be no more necessary for economic development. The politician replaces the entrepreneur. In the beginning a strong sense of nationalism drives the people to clamour for the nationalisation of foreign firms. Later, the demand is directed towards the nationalisation of industries owned by the citizens of the country. It is very curious that when, because of low rate of savings and investment and acute pressure of population, the promised goals of

equality and full employment are not realised, they extend their open hands for foreign capital. This is what exactly happened in countries like Burma. Burma, in the period after the Second War, followed a policy of nationalisation of certain industries and imposed severe controls over foreign investment. Realising the mistake, later the Burmese Government under the same leader, gave guarantees against nationalisation to foreign enterprises. In a policy speech delivered by the Burmese Premier, U. Nu, before the parliament of his country, on April 5, 1960, he made it categorically clear that "our policy must, therefore, be one of gradual withdrawal of the State from economic activity until its scope becomes narrow enough for our available manpower resources to handle it with efficiency.... In concrete terms, we propose not to nationalise existing industry or enterprise which is in private hands. We propose accordingly to hand back to private enterprise such of the existing state enterprises and organisations as after due inquiry appears to be incapable of efficient operation by state agencies."

The same type of reaction against nationalisation was manifested in Ceylon. Mr. Dudley Senanayake, the then Prime Minister of Ceylon, in a policy speech, on March 26, 1960, said that "nationalisation as an end in itself is something to which my Government is certainly not wedded to. We realise and we have seen that nationalisation on a large scale leads to ... the ushering in of slavery on large scale."

Let us examine the facts about nationalisation in western countries. In England, nationalisation came about only as a last resort. When other measures had failed to rationalise depressed industries like coal, and iron and steel, the government thought that it had no choice but to take them over under its own fold. In fact, nationalisation of coal industry was recommended by Sanky Commission years before the Labour Party came to power.

The industry had lost its competitive position and being an export industry, its failure in the inter-war period, not only created balance of payments difficulties, but also brought about chronic unemployment on a large scale. In the period after the Second World War, nationalisation of coal was adopted "only after numerous other experiments to improve the economic and technological condition of the industry had been tried and failed."*

In the case of transport, development of road transport had virtually threatened the solvency of the Railways. Falling business and revenue constituted a major problem for the railways. Coordination and integration of road transport with railway transport was the motive behind nationalisation of all forms of transport services.

In the case of air transport, the government was already saddled with the burden of paying heavy subsidies even before it was nationalised. With such a financial stake in the industry it was quite normal for it to go a step further and bring it under its own ownership.

In the case of gas, the Heyworth Committee had already indicated the impossibility of the industry making progress in supplying gas under the existing structure. It was pointed out that the grouping of small undertakings into larger operating units would lower the costs by raising the carbonising efficiency, by reducing the burden of maintenance, by improving the load factor and so on.

Moreover, from the proprietory point of view, nationalisation of gas and electricity undertakings was just a transfer from one form of public ownership to another. This is so because **36%** of gas was supplied by municipal undertakings and 66% of electricity undertakings were similarly owned by municipalities. Thus, even before nationalisation, a substantial part of both gas and electricity undertakings were already in the Public Sector. Nationalisation was thus a less drastic act in the case of these two industries.

Beneath the waters of socialist ideology, there were already

* W. Robson.

hard pebbles of problems which were posing a serious threat to every nationalised industry. Nationalisation was born more out of pragmatism and less out of idealism, a fact which is ignored by hard-boiled and dogmatic socialists all around the world. It is, of course, a different thing, that nationalisation as a suggested solution of problems of industries reflected a lack of proper diagnosis. It did not solve the problems in industries like Railways and coal. Even in others, although it solved old problems, it created new ones in an acute form. Perhaps *rationalisation*, rather than *nationalisation*, was the real answer. If the industries would have been assisted by the state financially in rationalisation without being taken over, they would have gained the lost ground.

It should also be noted that most of the industries were losing concerns and the motive behind taking them over was not to expropriate the profits. Commercially successful enterprises like banks and insurance companies were not touched at all.

In countries like Canada, Italy and Sweden, the policy of nationalisation was based on pragmatism with the result that adverse effects of the policy on investment decisions in the private sector could be avoided. "The question of nationalisation of an industry or specific firm should not be one of ideology," declared the Finance Minister in Canada. A sector of the Railway Transport was nationalised because the weak finances of the railways in which foreign capital was involved created a fear in the minds of the foreign investors.

Southern Italy remained underdeveloped inspite of development in other parts of the country. The motive behind extension of the Public Sector in those regions was the failure of the private enterprise to initiate economic development.

In the case of Sweden, when the Social Democrats came to power for the first time in 1920, they had formulated a policy in favour of nationalisation. "One of their first acts was to set up a Socialisation Commission. However, the party was defeated in the elections of that year and many Social Democrats believed this was due to their nationalisation plans."[1] In 1932 when the Social Democrats came to power once again, the doctrine of nationalisation had lost all its popularity, and in 1936 the Socialisation Commission was wound up. Inspite of this absence of large scale nationalisation and a definite apathy towards it, Sweden could claim a more egalitarian society. "In Denmark, Sweden and Switzerland, the income of a street sweeper varied between 1/3 to 1/7 of a Senior Government Officer."[2] In Britain, in 1939, a street sweeper received £145, whereas in Sweden the minimum for him was £ 210, and the salary of a senior civil servant was 20 times as much and that of a High Court Judge was 35 times as much. Welfare State became a reality in Sweden much before than in Great Britain, and it was made possible without nationalisation. Nationalisation in Britain was the product of "a mood of intellectual frustration for some and class bitterness for many" during the 1930's, when Britain's basic industries remained depressed and stagnant. Such a situation in acute form did not develop in Sweden, which accounted for the lack of enthusiasm for nationalisation in Sweden.

The argument that existence of a large number of small units leads to inefficiency, an argument which was advanced in Great Britain, was not relevant to Sweden. With its tradition of "pooled resources, rationalisation and integration", consumers co-operative offered an effective answer to monopolistic price rings and thus made it unnecessary for the State to nationalise them on the grounds of eliminating exploitation.

Bitterness in industrial relations which culminated into the General Strike of 1926 in Great Britain and resulted in class consciousness and clamour for eliminating the capitalists was non-existent in Sweden during the inter-war period. In Sweden, the General Strike of 1909 opened up an era of healthy relations between management and labour and the living standards of the working class remained much higher than in Britain during the

1. Vemey : Public Enterprise in Sweden
2. Sir E. Simons : Smaller Democracies

inter-war period. And, hence, inspite of the presence of state monopolies in tobacco and wine, a "general policy of public operation doctrinally inspired and involving large-scale transfer of undertakings from private to public ownership" never found favour. In the absence of such a doctrinaire approach, the relation between the Public Sector and Private Sector has always remained cordial. This remained so even when private railways when found technically backward were amalgamated with state railways.

Thus we find that in Sweden nationalisation was based on practical considerations, that it was brought about only when private enterprise had failed or was unable to solve the problems. No such problems exist in India. Past performance of the private sector should be a major consideration in framing the policy regarding not only nationalisation, but also extension of the state sector. Whereas the state sector outlay in the First Five-Year Plan fell short of the targets by about 15% and state sector investment in the industry was short by 40% of the targets, the targets in the private sector were more than realised. Against the target of Rs. 2,400 crores fixed for the Private Sector in the Second Plan, the actual investment by the end of the Plan came to about Rs. 3,100 crores. The vitality and the vigour of the Private Sector is an asset which should not be sacrificed at the altar of socialist ideology.

On the other hand, with ten years of experience, the Public Sector has not been able to put its own projects on sound footing. Project after project has shown operational lapses and even those which are relatively better, show poor financial results. For example Indian Telephone Industries entered into contract with a British firm for technical advice and participation. Without even a project report, a royalty of Rs. 87 lakhs was fixed up which surprised the Estimates Committee and led it to pass severe strictures. Similarly, in the absence of a project report purchase of machinery and equipment was based on rough calculations and estimates which is not consistent with utilization of scarce resources on a rational basis. Hindustan Shipyard is not able to sell the ships because ships are available at a lower price from abroad. The result is that in order to offer a competitive price, the shipyard has to sell the ships at a price which does not even cover the cost. In order to cover the losses, the Government had to pay a heavy subsidy from year to year. The total amount of subsidy received by the shipyard by 1960-61 was Rs. 456 lakhs, which indicates the burden which the tax-payer has to bear in order to enable the state enterprise to remain in existence. And inspite of this subsidisation, the actual production and sale is below the actual capacity of the yard. Whereas the yard's capacity is 25,000 to 35,000 DWT the actual production in 1959-60 was only 17,000 DWT. At no stage an effort was made to develop ancillary industries which would provide spare parts and components to the yard so that not only the costs could be lowered, but also a sizable saving in foreign exchange would have been possible.

The Sindhri Fertiliser Factory presents another curious example of how financial solvency was ignored. At a time when the production of ammonium sulphate fell from 332,000 tons to 285,000 tons, during 1957-58 and 1959-60 the staff was increased by 13% and non-technical supervisory staff increased by 100%. One fails to understand the logic behind increasing the staff in the face of falling production. Not only that, but when the book debts of the company stood at Rs. 358 lakhs in 1958-59, the company had the wisdom of distributing Rs. 16 lakhs as *ex-gratia* payment to its staff.

In the case of Hindustan Aircraft, although the production increased by 34% over the period of 1955-56 to 1958-59, expenditure on salaries, wages and bonus increased by 51%, expenditure on welfare schemes by 79%, expenditure on travelling by 176% and operational expenses by 55%. This inflated expenditure was incurred at a time when the company's reserves were abnormally low and the rate of profit (net) was just 3.3% in 195859. Such examples are innumerable which go to prove that the task of running an enterprise is the task of a specialist, that so far the Public Sector projects have failed to show a businesslike attitude and it is the tax-payer who has been penalised for the extravagance of these enterprises. The poor performance

of the Public Sector projects should be consideration for reassessing the entire policy of extending the state sector in general and nationalisation in particular.

As a matter of fact, nationalised concerns have always to face a dilemma from which they can hardly escape. If they try to economise in the costs by pegging down wage rates which may be warranted by its financial weakness, labour would resist the policy and industrial relations may be spoilt. If they pay high wages and charge high prices to the consumer, the consumers would protest. If high wages are paid, but losses due to low prices are covered out of Government subsidies, the tax-payer is penalised. At no stage, a nationalised concern will be able to please all sections of the community. In democratic planning, people's confidence and co-operation in the mechanism of planning are essential. Failure of nationalised concerns will shake the confidence and thereby affect the implementation of the Plan itself.

There is nothing sacrosanct about either the Private Sector or the Public or State Sector. Both are means to an end. If the end can be realised by the Private Sector, pre-conceived notions about socialist ideology should not be allowed to come in the way. Whatever evil effects on the distribution of income are generated by the operation of the Private Sector can and should be rectified through fiscal measures like taxation of the rentier class and subsidisation of the poor through welfare measures,

Nationalisation is a poor instrument for establishment of an egalitarian society. In Italy, nationalisation even on a large scale has not brought about social and economic equality. On the other hand, as mentioned earlier, Sweden could realise the aim even without nationalisation.

Nationalisation has affected the growth rate of underdeveloped countries in two respects. By reducing the marginal efficiency of capital, i.e., expected rate of return on investment, it has discouraged investment of capital on private account. Every threat of nationalisation, apart from nationalisation itself, creates an atmosphere of uncertainty about the future. When future becomes foggy, it is not possible to make calculations about the long-term trends of the future with the result that investment decisions are dampened by a feeling of pessimism. In India, from 1948 to 1951, irresponsible talks and threats of nationalisation from responsible quarters shattered the confidence of the business and industrial community to such an extent that even incentives provided through tax concessions failed to lift up the investment rate in the Private Sector. Taxation on income was reduced to such an extent that the percentage of tax revenue of Central and State Governments from this source fell from 48% in 1954-45 to 28.2% in 1950-51. Similarly excise duties on industrial raw materials were likewise reduced. Inspite of this policy of tax relief which went to the business community to the tune of Rs. 3.87 crores in 1948-49, Rs. 6.45 crores in 1959-50 and Rs. 17.65 crores in 1950-51, the net investment rate fell continuously during this period. For instance, the amount of new capital issues which amounted to Rs. 162.99 crores in 1947-48 fell to Rs. 111.93 crores in 1948-49, Rs. 74.75 crores during 1950 and Rs. 59.55 crores during 1951.

More important is the fact that percentage of long-term investment to total investment fell from 65.33% during 1945-47 to 37.38% in 1947-48, to 30.82% in 194849, and 22.20% during 1950. Thus apart from fall in the overall investment activity, a tendency to invest funds in short-term, semi-commercial undertakings as against long-term investments gained ground during this period. One of the factors responsible was the fear of nationalisation!

Similarly, the inflow of foreign capital on private account is adversely affected by a policy of large-scale nationalisation. A U.N. report cites nationalisation as a factor which has inhibited the flow of capital from surplus countries to under-developed countries of South-East Asia in the period after the Second World War. As a matter of fact, this has led many countries to clarify their position regarding nationalisation.

In conclusion, one could point out the trend of rethinking

in regard to nationalisation in Great Britain with a view to drawing lessons from it. "Socialism will suffer a set-back in the west if the nationalised industries show disappointing results." Such was the prediction made by W. Robson when the Labour Government launched a programme of nationalising basic industries in Great Britain. The prediction has come true today. The general failure of the programme not only resulted in dethroning the Labour Party from political power by the adverse verdit of the ballot box, but has also led the rank and file of that party to give a second thought to the validity of nationalisation as a part of socialist programme.

The leadership of the Labour Party has more than realised that the form of public ownership suited to the conditions of earlier phase of the 20th Century cannot be made applicable to the dynamic conditions of the sixties. More than that, since nationalisation has failed to realise the objective of equitable distribution of income and wealth, other means are needed in place of nationalisation for the realisation of those objectives. Actually, nationalisation accepted the principle of compensation and, therefore, in place of owners of shares with fluctuating dividends, a new rentier class came into existence to whom interest on their bonds had to be paid every year. On the other hand, if adequate compensation would not have been paid, business confidence in the Private Sector would have been shaken, resulting in steep fall in the rate of investment. The Government could not afford to face such an eventuality and since nationalisation of all industries at a time would never be possible, it was necessary to minimise the shock to private enterprise by paying adequate compensation. This meant an annual drag on the Exchequer and creation of a rentier class. It is true that total interest charges paid to the former owners were smaller in amount as compared to the profits they used to earn. But at the same time, it should be noted that the earning of profit was conditional on the prosperity of the industries. With nationalisation, interest payments became fixed liability and even when industries were running into losses, the bondholders received the fixed income. This diversion of income was far away from the socialist dream of an egalitarian and classless society. Similarly, it was felt that the other objective of nationalisation, viz., full employment, depended more on the rate of investment in the economy rather than on the fact of ownership. High level of employment could be found in West Germany and U.S.A. as in U.K. and that was achieved without nationalisation.

C.A.R. Crosland, leading Labour Party theoretician, in a very illuminating article, points out that reasons of economic inequality are to be found in unequal distribution of property and the capital gains which accrue to the holders of property under the conditions of economic growth and full employment. "These inequities can most quickly be corrected not by a change in ownership, but by taxation; for this can be made to bite more deeply and more fiercely." Moreover, "state ownership is an inferior form of public ownership." Of the alternative forms of social ownership, the Co-operative movement is potentially the most attractive; for it provides the additional benefits, much to be valued in our centralised, bureaucratic and producer-dominated society, of local autonomy, member-participation and consumer control. A venturesome, progressive co-operative movement could, while expanding the frontiers of social ownership, at the same time provide a splendid example of competitive social enterprise and much needed countervailing power to producer interest. Lack of enthusiasm for nationalisation in Scandinavian countries is due to the strength of co-operative movement in those countries.

Municipal ownership is also suggested by R.H.S. Crossman, British Labourite, as an alternative to state ownership. Similarly, in some countries like Sweden and U.S.A., construction of housing facilities in the post-war era was brought about by trade unions. In short, instead of centralising the economic activities in the hands of the state, decentralising economic activities in the hands of the state, decentralising economic power in favour of other social and economic institutions and groups is

suggested as a way to bring about social ownership of the means of production.

It is also to be noted that in the west, public income and public expenditure form a large portion of the national income. In U.K. itself, the Government controls 50% of total national investment and 30% of total spending. With such a control on the flow of income and investment, desired results in the field of production and distribution can be brought about without going into the formal ownership of means of production and exchange.

During the last twenty years, advanced countries have developed a technique of applying controls at strategic points such as discriminating taxes or subsidies, licensing of industrial projects, power to make large-scale purchases from the market, inspection and direction of industrial enterprises etc. In view of these new efficacious techniques, traditional arguments for nationalisation have lost their edge. Without owning the industrial field, it is possible for the state to regulate it in social interests with the help of positive inducements and negative deterrents.

Compelling private industry to face competition from similar state enterprise is another alternative to nationalising existing firms. "The government would acquire or establish one or more individual firms in an industry; and these would be expected, by the force of example and competition to galvanise the whole industry into raising its standards of research, efficiency and innovation. Avoiding as it does the problems of vast scale and centralised monopoly, the competing public firm is an attrative notion," says Crossman developing this theory of competive public enterprise. On this score, it can be said that instead of nationalising the existing life insurance companies in India and amalgamating them into a monolithic state corporation, it would have been far better to leave alone the existing insurance companies and to start a number of regional small-sized, state-owned life insurance corporations, which would have acted as a corrective to the insurance companies in the private sector. A large number of small autonomous corporations would have introduced an element of healthy competition among themselves and would have avoided the dangers of a monopoly, irrespective of whether it is private or public. It would have been then possible to compare the results of private insurance companies and the state corporations.

In the words of W. Arthur Lewis, "The nationalisation of industry is not essential to planning; a Government can do nearly anything it wants to do by way of controlling industry without resorting to Nationalisation. Nationalisation is merely one of the ways of achieving ends, better for some ends and not so good for others."

Socialism is a very fascinating philosophy whose vagueness has the beauty of morning dew. But with the first rays of reality neither the dew remains nor its beauty. A poet can afford to look at the sky and the moon and stars, and forget his surroundings. A scientist cannot. He has to look at the moon, look at the muddy soil on which he is standing, measure the distance between the two and make necessary calculations to reach the moon. That sort of scientific attitude and pragmatism are required in our approach to the main problem of raising the standard of living of the masses, and not blind faith in outmoded dogmas like nationalisation.

The views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise.

Based on a lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on December. 19, 1961.

Appendix

The following books are recommended for study to gain an insight into some major problems of private enterprise and socialist economies.

Title and Author	Publishers
1. Inflation & Society by Graham Hutton	George Allen & Unwin 1960
2. The Foundations of Economics by Walter Eucken	William Hodge & Co. 1950
3. This Unsuccessful Age by Walter Eucken	William Hodge & Co 1951
4. Nationalisation in Gt. Britain by R. Kelf-Cohen	St. Martin's Press 1959
5. Parkinson's Law on the Pursuit of Progress by C. Northcote Parkinson	John Murray 1958
6. Prosperity through Competition By Ludwig Erhard	Asia Publishing House 1959
7. Ordeal by Planning by John Jewkes	Macmillan & Co. 1949

8. **The Constitution of Liberty**
by F. A. Hayek — University of Chicago Press **1960**

9. **Indian Economic Policy and Development**
by P. T. Bauer — George Allen & Unwin

10. **Socialism**
by Ludwig Von Mises — Jonathan Cape

11. **Humane Economy**
by Wilhelm Roepke — Henry Regner Co **1960**

12. **The Road to Serfdom**
by F. A. Hayek — University of Chicago Press

> "Free Enterprise was born with
> and shall survive as long as man
> survives."
>
> —A. D. Shroff

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