

**WILL DEMOCRATIC SOCIALISM
HELP INDIA?**

A. D. SHROFF



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

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THE Communist Chinese aggression has added a sense of urgency to our economic problems. The basic economic problem before our country today is the same one as pointed out by classical economists like Dr. Dadabhai Naoroji and Gopal Krishna Gokhale: the pressure of growing population on underdeveloped resources. In other words, the main task on the economic front is rapid and large-scale development in order to abolish poverty. This process should take place in the democratic context. That means, the freedoms of the people and democratic institutions like representative assemblies, voluntary political parties, a free Press, autonomous institutions like universities and an impartial judiciary administering the Rule of Law should be preserved intact and strengthened; and, there should be equality of opportunity for all. That the democratic way of life, cherished by our people, should not be sacrificed in the search for rapid economic development is fortunately a proposition which is, by and large, strongly held by the Indian people.

Democratic socialism has been offered as a solution. A scientific study of democratic socialism is, therefore, necessary. Fortunately for us, the experience of countries which have experimented with it is available.

Socialism has no commonly accepted definition. There are so many definitions that C. E. M. Joad observed that socialism was like a hat which had lost its shape because too many people had worn it. But, for a scientific economic analysis, socialism can be divided into two parts: its objective, and methods employed to achieve that objective. The objective: "a society of the free and the equal".

*Mr. A. D. Shroff's presidential address at the Seventh Annual General Meeting of the Forum of Free Enterprise on Tuesday, December 17, 1963 in Bombay.

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

—Eugene Black

The methodology ; state ownership of the means of production, distribution and exchange, by nationalisation of existing enterprises, and through the establishment of a Public Sector (or state enterprise); and centralised comprehensive planning of all economic activities under the auspices of the state. Democratic socialism uses this methodology through parliamentary means and relies on evolutionary changes. Communism, also described as "scientific socialism", relies on the dictatorship of one party and revolutionary changes.

Several European countries like Great Britain and Sweden have experimented with democratic socialism, while Soviet Russia, Poland, Yugoslavia, Communist China, etc. have experimented with Communism or "scientific socialism". Their experience is worth close study because the universally acceptable objective of human welfare itself is considerably affected by the socialist methodology.

The swing today is away from both state ownership and centralised comprehensive planning in socialist and Communist countries. A well-known British economist, Graham Hutton, has commented: "Private property, private enterprise and private enterprisers provide a democracy's dynamic. Take these away and you take away both democracy and its dynamic, as we have long seen in communist countries. This is a dilemma in which Europe's Social Democrats—called by Communists 'reformist socialists' today, but formerly termed 'capitalist lackeys'—have landed with what used to be called socialism." The changing ideas of European socialists are expressed in a remarkable book entitled "Socialism in the New Society". The author is Mr. Douglas Jay, a leading member of the British Labour Party and a close associate of the former party leader, the late Mr. Hugh Gaitskell. Having observed the effects of socialist methods, Mr. Jay concludes that "absence of private property is also a denial of freedom." Dismissing the socialist concept of "perfect equality" as impractical, he pleads for "not equal shares, but fair shares; not equality, but social justice".

Mr. Jay disagrees with the socialist methods of nationalisation and state or public ownership. He quotes one of

the leading lights of the British Labour Party, the late Mr. Aneurin Bevan, who had stated: "A mixed economy is what most people of the West would prefer. The victory of Socialism need not be universal to be decisive. I have no Patience with those Socialists, so-called, who in practice would socialise nothing, while in theory they threaten the whole of private property. They are purists and, therefore, barren. It is neither prudent, nor does it accord with our conception of the future, that all forms of private Property should live under perpetual threat. In almost all types of human society, different forms of property have lived side by side. Where the frontier between the public and private sector should be mixed, is a question that will be answered differently in different nations."

In the following passages, Mr. Jay illustrates the changed thinking among socialists in other European countries, many of which had in fact implemented the socialist methodology in all sincerity: "Nor is much disagreement to be found among socialists in other nations either. Swedish Socialists, not merely in practice as already pointed out, but also in declared principle, support the empiricist view. The Swedish Socialist Party in 1960 revised their 1944 statement of principles to read as follows:

"Social Democracy supports the demand for public ownership or public control of natural resources and enterprises, to the extent that it is necessary to safeguard important public interests. Social Democracy seeks to stimulate private enterprise in fields where it shows that it can combine efficiency and progressive thinking with responsibility towards the consumers, the employees and the community. Whether the economic structure is based on private enterprise or on varying forms of public ownership, it must be co-ordinated into planned management. Such management can only be brought about by the community itself."

"The Dutch Labour Party adopted a programme in 1959 stating that 'it is desirable for different forms of publicly owned and privately owned production to exist side by side... Public control must be exercised over the privately

owned undertakings if this should prove to be necessary in the interests of the community'. The Swiss Social Democrats declared in a new programme approved in June 1959 that 'in the case of monopolistic enterprises we must either establish the conditions necessary for fair competition, or place them under public control or actually transfer them to public ownership'. The Austrian Socialist programme, dating from 1958 states that Socialists' aim is the abolition of classes 'and fair distribution of the social products'. To achieve this aim the community must 'acquire full control over the essential factors of production; but this does not exclude wide scope for private initiative, competition and the price mechanism'. The German Social Democrats also adopted a new programme in 1959, which declared that private ownership of the means of production can claim protection by society as long as it does not hinder the establishment of social justice... Competition by public enterprise is an important means of preventing private enterprise from dominating the market... The most important means (of preventing abuse of economic power) are investment control and control over the forces dominating the market: Private ownership of the means of production is no longer identical with the control of power... Where sound economic power relations cannot be established by other means, public ownership is appropriate and necessary."

While on the one hand state ownership and nationalisation thus stand discredited among socialists, on the other, communist countries, notably Soviet Russia, are progressively finding that the socialist method of centralised, comprehensive planning does not lead to rapid economic growth. To appreciate this changed thinking, one must understand what is meant by centralised comprehensive planning. Essentially it means (a) mobilisation of all resources by the state and their use on the basis of a comprehensive plan drawn up by a planning board or commission according to its ideas of priority; (b) the strategy of concentrating on heavy industries at the cost of agriculture and consumer goods industries; (c) management of industries through state enterprises and of farm-

ing through state farms or collectives, also known as joint co-operative farms; (d) and, finally, administration of all economic activities by the Government through a framework of extensive and intricate controls at every stage of production, distribution and exchange. This form of economic activity ignores some basic laws of economics such as incentives as a means of greater production, consumer preference as a source of investment decision and rational allocation of resources in the economy, and the cost factor in production. But these factors are slowly finding their entry into the Soviet economic system.

A recent objective survey by Dr. Margaret Miller, a leading expert on Soviet economics, has disclosed that ordinary free "market influences in the USSR although relegated in theory to the limbo of the capitalist past, remain remarkably lively." She concludes that "taking a conservative view, it would be by no means unreasonable to estimate that something like one-fourth of all forms of economic activity in the USSR is in private hands or move through non-official channels." Among several interesting examples she cites, in a book entitled "Communist Economy Under Change", is the following one: "In the town of Gomel, in the west of Russia, one Dolbeshkin was said to have made himself indispensable over a wide area as a building contractor, serving government co-operative associations and local industry committees. In two years he had been responsible for putting up seven new factories, and carrying out capital repairs in five existing factories. The committees of local industry had to approve supplementary estimates to cover their expenditure on his services. He hired labour, specifying their qualifications and wages on his own authority. At Mogilev, about 50 miles away, another man Aladyev, was making large profits by building electricity sub-stations, putting up high voltage overhead lines and bringing electricity to farms and local hospitals."

Apart from Dr. Liebermann whose reasoned plea for reintroduction of the "profit motive" in the Soviet economy has attracted world-wide attention, other Soviet economists are also criticising the present system. For instance,

"an eminent Soviet economist is quoted as criticising the 'chronic rigidities and bottleneck' of planning and maintaining that the rigidity of Soviet planning techniques has accounted for a waste of anything from a quarter to a third of potential output." More forthright criticism has been emanating from the Soviet Premier, Mr. Khrushchev, himself. Addressing the Communist Party Central Committee meeting in November 1962, he asked: "Why don't we make use of the things that the capitalists have, that are rational and economically profitable?" He has debunked the idea that heavy industry should receive priority in planning. He told the members of the Central Committee that it was old-fashioned to regard steel as the only measure of a modern economy. Addressing a meeting in Bucharest, in June 1962, he observed: "It takes brains and capital to catch up with the United States." Very recently, at a meeting of agricultural workers, speaking on the new Soviet emphasis on raising farm output, he declared: "The more important thing is to make people interested in the realisation of this task, to create material incentive for them."

A report, after the heartsearching party conference in 1962, is illuminating. It said: "Premier Khrushchev, who outlined the latest scheme in a five-and-a-half hour speech suggested that it may even be necessary to forget certain unworkable communist economic theories and imitate those 'Capitalist' methods which have proved so successful in free enterprise societies." The same report illustrated the waste and mismanagement, which had reached classic proportions under the present system of "mass party planning and right disciplinary control", as follows: "Machinery often is delivered to non-existent factories and left to rust in the open while officials debate the actual construction of manufacturing facilities. Large and expensive machines stand idle for the lack of replacement parts. A heavy crane, shipped to a Yerevan glass factory four years ago, is still at the plant although it was found useless on arrival. An expensive steam turbine is still awaiting disposal seven years after it was erroneously supplied to a synthetic rubber plant. An electric power

plant near Tashkent receives its coal from the Krasnoyarsk region, some 3,400 kilometers distant, although ample coal is produced in the mines at Angren, less than four kilometers from the plant. Coal from the Angren mines is shipped to distant points. A cement plant was built so far from needed raw materials that it could not function and a fruit canning factory was constructed in an area which produces no fruits."

Just as the economic waste of centralised planning and the price of ignoring incentives are being realised, the failure on the agricultural front and in the production of consumer goods is also making a dent on doctrinaire thinking in the Soviet Union. The emphasis has shifted from heavy industries to agriculture. Having been put to the necessity of importing foodgrains from free enterprise countries like Canada, "the Central Committee of the Party is presently planning to carry out such measures which will make it possible to lay a stable foundation for our country to obtain big guaranteed harvests, especially of grain". Years of experimentation with joint co-operative or collective farming has had disastrous results on production of foodgrains. Once again, principles of free enterprise have been vindicated even in this sphere. A survey by the UN. Food and Agricultural Organisation, in October 1962, revealed that private small holdings accounted for about a third of Soviet agricultural output. It said that the family plot of farmers of every collective or state farm represented not only a "compromise between the persistent individualism of the peasant and the communist doctrine" but also met current Soviet economic needs. A recent article on Soviet agriculture has documented the big contribution of private enterprise to agricultural production. It says: "In the Soviet Union in 1961 there were 204.6 million hectares of land under agricultural cultivation; of this, 4.27 million hectares consisted of private plots of kolkhoz workers and 2.47 million of private plots of other categories of workers, making a total area under private cultivation of 6.74 million hectares, or 3.3 per cent of all cultivated land in the USSR. The proportion contributed to the national food supply by this

negligible portion of the Mtal area can be estimated from certain Soviet statistics. In 1961, 8.9 million hectares of potatoes were sown in the USSR and 84.3 million tons of potatoes were harvested, making an average yield of 9.47 per hectare. The comparative yields per hectare for State and private farming were, very different :

	Socialist sector (State and Collective farming)	Private Sector (Land belonging to Kolkhoz workers, etc.)
Area sown (million hectares)	43 (48%)	46 (52%)
Harvest (million tons)	30.8 (36.6%)	53.5 (63.4%)
Average yield per hectare (tons)	7.1	11.6

The mistake of neglecting consumer goods is also being realised. In January 1963, a Soviet publication wrote bitterly that bronze age craftsmen produced better quality articles than some modern Soviet factories manufacturing light consumer goods. The paper illustrated its complaint: (i) a bed which collapsed under the weight of a man sleeping on it; (ii) A pair of shoes which split wide open in 10 days; (iii) oil paint which took a whole summer to dry! A "Pravda" report similarly referred to the bad quality and shortage of children's exercise books. It reported that the Ministry had admitted that copybook production targets had not been fulfilled for four years, and in two years the state paper industry had piled up a debt equivalent to 232 million copybooks. Children in some areas were writing on newspapers and leaves torn out from old registers, and angry parents were writing letters demanding "Why is there a crisis of copybooks in the Russian Federation?"

With growing realisation of such inadequacies under centralised planning, Russians are introducing free enterprise features in their economy. For instance, trade marks and advertising have been introduced. One Soviet economist says: "The Trade-mark makes it possible for the consumer to select the goods which he likes. This forces other firms to improve the quality of their own product in harmony with the demands of the consumer. Thus the trade-

mark promotes the drive for raising the quality of production." Dr. Marshall Goldman, of Harvard's Russian Centre, has disclosed that in 1963 Soviet enterprises would spend about 40 million dollars (about Rs. 20 crores) on advertising. There were already over 30 advertising agencies as a link between the producer and the consumer.

Thus free enterprise features are not only changing socialist economic institutions in Russia, but also finding vigorous proponents there. It is amusing to read the advice offered by Soviet economists to Communist China. Recent Soviet Press articles have chided Chinese leaders for ignoring "objective economic laws" A Soviet economist is quoted as saying that Chinese leaders had ignored "all laws of economic development" and had sought to replace "planning and cost accounting" by "volitional decisions." These policies and the setting up of communes, he declared, had led to an "abrupt drop in the living standard" of the Chinese people.

II

Nationalisation, state ownership and socialist planning are thus on the retreat elsewhere in the world. Against such a background, an objective review of nationalisation, state ownership (the Public Sector) and socialist planning in our country is essential.

The Comptroller and Auditor-General of India has rendered a distinct service to the country by making available to the public, for the first time, a consolidated picture of state enterprises. The "Audit Report (Commercial) 1963" analysing the financial results of 46 Government companies (with two subsidiary companies) as on March 31, 1962, says that on an employed capital of Rs. 1,090.75 crores, "the net result of operation of all these companies shows a loss of Rs. 10.60 crores during this year, as compared to the profit of Rs. 6.34 crores during 1960-61." Then, on the consideration that "it takes time to set up factories and get them on full production," the Report analyses only 25 companies, which have been in operation for more than five years. It adds: "Out of 25 companies.

23 companies showed a profit of Rs. 11.48 crores before providing for taxation and 2 companies incurred a loss of Rs. 0.08 crores during 1961-62. After making provision for taxation and adjusting the profits and losses etc. of the previous year of some companies, the total net amount available for appropriation was Rs. 8.85 crores. Out of this amount, a sum of Rs. 6.55 crores was appropriated towards various Reserves. The total dividend declared by these companies was Rs. 1.32 crores, which works out to less than one per cent of the paid-up capital of Rs. 156 crores."

A major objective of planning is the employment of scarce resources to yield maximum returns. The yield on the Public Sector is, therefore, a matter of concern since the resources employed there would have yielded better results elsewhere had the money remained with the people. But what is more alarming is the carefree way in which the Public Sector enterprises are set up and operated. The same report, for instance, points out the estimate and actual expenditure on the Hindustan Steel Plants as follows :

Estimates	Bhilai, Durgapur & Rourkela Plants	Township & Ancillaries
Original	Rs. 353 crores	Rs. 119.36 crores
Revised in 1957	Rs. 439	- - -
Revised in 1961	Rs. 478.35	Rs. 129.07 "
Revised in 1963	Rs. 479.19	Rs. 136.76 "
Actual till March 31, 1962	Rs. 474.74	Rs. 118.48 "

The report lists grave irregularities and delays ranging from 12 to 18 months in commissioning various units. Over and above all this, up to March 31, 1962, the three plants had incurred a total loss of over Rs. 40 crores. A recent statement in Parliament brings the picture up to date. Investments in three Public Sector steel plants amounted to Rs. 698 crores on March 31, 1963, and the losses had mounted up to Rs. 61.5 crores.

Barring a few exceptions, the same story of what Union Minister C. Subramaniam has described as "guesstimates".

delays, wastages and losses is repeated in other enterprises. For instance, it was recently reported that the Rourkela fertiliser plant, built at a cost of Rs. 26 crores (original estimates Rs. 16 crores) "is standing practically idle". Another report says that "as a result of the closure of the kerosene unit of the state-owned Gauhati Oil Refinery the loss in production is likely to be as high as Rs. 30 lakhs. What is more, the country may have to increase the imports of kerosene, which costs valuable foreign exchange." In the National Goal Development Corporation, another major Public Sector concern, while sales went up from Rs. 282.30 lakhs to Rs. 1,317.65 lakhs between 1956-57 and 1961-62, profits in the same period declined from Rs. 25.92 lakhs to Rs. 11.89 lakhs, i.e., 9.1 to 0.9 per cent of profit to sales. A machine imported at a cost of Rs. 22.88 lakhs had not been assembled fully and commissioned even ten years after receipt. Delay in paying bills worth Rs. 38 lakhs resulted in a loss of rebate of Rs. 97,000.

The state of affairs in enterprises run by state governments are equally alarming. For instance, the Orissa Audit Report for 1961-62 said that by the end of September 1962, the accounts of one state enterprise for 1959-60, of 11 for 1960-61 and 27 for 1961-62 were not made available for audit. The West Bengal Audit Report noted delay in preparation of working results of state enterprises. While private enterprises are penalised for even minor delays, observations like the following one on the Durgapur Projects Ltd. were found in the audit report placed before West Bengal Assembly in March 1963: "Share certificates for the entire capital of Durgapur Projects Ltd., amounting to Rs. 15 crores, have not yet been issued. Further, the sanction of the Controller of Capital Issues for such issue was not obtained. The shares were apparently issued in consideration of the transfer on the understanding through the agreement for such transfer of the undertaking though the agreement for such transfer was not executed. The situation, therefore, remains anomalous and no return under Section 75 was filed with the Registrar of Companies. The matter should be regularised immediately." Another project in the same state incurred a loss of Rs. 58 lakhs.

The Minister for Forests and Fisheries admitted that the loss on Deep Sea Fishing project was "horrible". Two vessels, bought for Rs. 5.91 lakhs, after consuming Rs. 10 lakhs on repairs, were finally auctioned off for Rs. 25,000! In Mysore State, of 34 departmentally managed undertakings, the audit report for 1961-62 could account only for 24 concerns. Of these, 13 showed a profit to Rs. 141.64 lakhs, working out to 5.5% on Government capital, while 11 incurred a loss of Rs. 29.04 working out to 12.8% on Government capital employed.

Of special interest is the story of nationalised enterprises where comparison with previous ownership is available. The nationalised Bangalore Transport Service incurred a loss of Rs. 13 lakhs in 1961-62. The Minister for Transport admitted that whereas under private management the concern had shown a profit margin of 14.2 nP per mile during 1956-57, after nationalisation the loss had gone up to 16 nP per mile in 1961-62. In Maharashtra, it was reported that municipalised BEST was spending 25% more on printing its tickets after it transferred the work from a private press to its own new unit. Moreover, a breakdown of a "vital part" of the new plant had resulted in the printing of only 5,000 tickets per day, which is 2.5% of the daily requirements.

The nationalised air transport industry is also showing poor results in terms of efficiency. In the last four years, the Indian Airlines Corporation has raised fares three times. Delays in departure and arrival of planes are common, and last minute flight cancellations not infrequent. The deteriorating service and efficiency was highlighted by a recent press report to the effect that the last-minute cancellation of the winter schedule had upset plans of hundreds of tourists. The report added: "An irate travel agent remarked, IAC has perhaps created a new world record—of being the last to announce its winter schedule and the first to change it. Besides, IAC is one of the few airlines in the world which makes air-minded people travel by trains." The operation of the State Trading Corporation, which is extending its sphere and operates as a monopoly in the export or import and

distribution of some of the commodities is doing incalculable damage to India's foreign trade. A news item in February 1963 disclosed that STC and Atomic Energy Commission had created a muddle trying to outbid each other in Japan over the export of ilmenite. The result was a loss of one crore of rupees worth of foreign exchange every year, and prospect of unemployment for 3,000 workers in Kerala. It is worthwhile noting that "while India, which once held the monopoly in ilmenite, has almost lost all its traditional buyers, countries like Brazil, Canada and Ceylon are stepping up their exports." The harm to the economy and small people in trade, through the monopolistic dealings and bureaucratic ways of the State Trading Corporation, are seldom realised. A letter from a dealer, in a Bombay daily of November 24, 1963, illustrates this point. It said: "The air is even now thick with the news about the bungling over the purchases of lemon grass oil by the State Trading Corporation in Kerala and the struggle to export it. The State Trading Corporation, it is reported, has a stock of 700 tons of lemon grass oil worth more than a crore of rupees. Has this purchase helped the national exchequer or the country at large? The producers might have benefited to some extent by the price support, but at what cost to the country? Rich exporters have been enriched a bit more by the monopoly buying entrusted to them by the State Trading Corporation, but what about the hundreds of dealers ousted from the business, who have been a necessary link between the basic producers and ultimate exporters? The poor have been made poorer by the introduction of this monopolistic purchase. The State exchequer has lost a few lakhs by way of sales tax, and the country has been prevented from earning the hard currency required for other purposes by the virtual stoppage of exports to a free market. Even without any price support, the agriculturists were getting double the present prices; dealers were busy meeting the exporters' demand, and exporters could export without undue interference." In view of these disturbing trends, it is a matter of concern that STC now proposes to enter into the manufacturing line, in the first instance, by financing a pilot project in Tuticorin.

Hopes of the Public Sector enterprises proving themselves as model employers have also not been realised so far. In November 1963 it came to light that production at the Rourkela steel plant had suffered a serious set-back. The management attributed this to "deliberate slow-down, disregard of orders and refusal to act in higher capacities" by some workers. According to a report of the Orissa State Labour Laws Implementation and Evaluation Officer, 46 instances of violation of labour laws, tripartite agreements and settlements by the management at Rourkela had come to his notice. Some instances of breach of law were so serious, according to the report, that if they had occurred in any private industry "it will have meant the closure of the industry." A veteran trade union leader, Mr. Khandubhai Desai, has castigated the Public Sector for possessing a "feudal mind" and for being "deficient in human values." He said at a meeting in April 1963 that Public Sector enterprises were now in that stage of development out of which the Private Sector had emerged three generations ago.

The Consumer fares no better at the hands of many Public Sector enterprises. A national daily reported in July 1963 that the Railway catering establishments in the South had put up prices of all edible articles. "While the increases are sharp in the case of certain items like coffee and meals, no item appears to have escaped this upward revision." At one prominent station, whereas in former days the people of the city used to visit the railway restaurant, now even railway officials were avoiding railway catering in favour of hotels in the city! The Public Accounts Committee of Parliament has mentioned an interesting case. It condemned the pricing policy of state-owned Hindustan Antibiotics. On an essential life-saving drug, the company was profiting to the extent of 32 nP on production cost of 18 nP per mega unit. A state monopoly, the Life Insurance Corporation, has not taken account of increase in longevity to reduce premia rates. In the meantime, malpractices, of which the Private Sector is constantly accused, are coming to light in the Public Sector. The Vice-president of the Association of LIC

Agents has complained that since nationalisation of life Insurance, the "evil of rebating" had been on the increase.

The gilt is off the Public Sector gingerbread today in view of all these grave deficiencies in terms of use of resources, return on capital, labour policy and consumer satisfaction. The intelligent public has not been slow to appreciate these facts. Several indignant letters in the Press are but one indication of such public disappointment with the Public Sector. Reproduced below are but two of such numerous letters :

"Sir—Now that we are all having to bear heavy taxation plus compulsory savings so as to make the country strong, the question whether these levies are being efficiently used assumes paramount importance. I believe it is the duty of every Indian to see that the people's money is not wasted, and give below some examples of such waste in one of the biggest public sector undertakings, the Heavy Engineering Corporation at Ranchi :

"1. The Foundry Forge Plant (a part of the HEC) is behind schedule because of delay in laying the foundation for the workshops. This is because the original soil data furnished to the Central Government and through it to the Czechs who are planning the project were false : instead of granite it has turned out to be clay and loose soil. As a result, the Corporation has to go in for about 3,000-deep pile foundations at an extra cost of about Rs. 80 lakhs. Those responsible for giving the original report have not been brought to book. Had a correct report been received at the beginning, the plant could have been sited a short distance away and a great deal of money saved.

"2. The Central Government and through it the Czechs were given another false report, namely, that the bricks available at Ranchi were so poor in quality that a two-story structure could not be built out of them. As a result, factory buildings are built of ex-pensive RCC frames.

"3. Recently a 65 mph storm caused a huge steel shed to collapse like matchwood—even though the

shed was designed for storms of 80 mph. The loss (including stores) was about Rs. 8 lakhs. A few weeks later a Are in the same shed (now collapsed) consumed another few lakhs worth of stores. No action has been taken against those responsible for such negligence.

"4. A large number of beams and walls of the newly constructed HEC buildings have cracked, causing a loss of about Rs. 2 lakhs. Here again no action is being taken.

"5. A large number of temporary A-type quarters have been built each with a garage. It is well known that in India scarcely one in a 100 has a car. Over 90% of the garages are lying unused. The waste on them is about Rs. 3 lakhs.

"6. Officers of the Corporation having a salary of over Rs. 1,200 p.m. are being housed in luxurious bungalows each of which includes servants' quarters, garage, etc. Surely this goes ill with our Emergency and socialistic pattern of society?

"The Prime Minister has rightly called upon the nation to make every sacrifice to fight the invader, and the public are only too ready to do their part, but unless the Government itself makes a beginning by enforcing austerity in its own sphere and by ensuring that inefficiency and waste are immediately penalised, public confidence will soon disappear."

Another letter says : "One is just astonished to learn that the rent for office accommodation occupied by the State Trading Corporation is Rs. 73,900 per month. Even if the STC occupies 100 rooms it means that the monthly rent for one room is Rs. 739. That Rs. 73,900 is thus being spent per month as rent for one department of a Ministry seems an outrageous waste of public money. This is only one instance of its kind and, I fear, there are many more. If I am not mistaken, the STC is paying this rent for the last four years or so. More restraint on the part of administrators in handling public money will lighten the common man's burden..."

It is heartening to see that an awareness of the draw-

backs of the Public Sector and the importance of the Private Sector is dawning even on the authorities. For instance, the then Union Minister for Mines and Fuel, Mr K. D. Malaviya, in a speech in Calcutta on November 16, 1962, praised Private Sector collieries for doing a better job in increasing production to meet the needs of the Emergency than the Public Sector enterprise, the National Coal Development Corporation. Mr. S. K. Wankhede, the then Industries and currently Finance Minister of Maharashtra State, declared in July 1963 that private enterprise deserved praise for setting up new enterprises while the Public Sector had lagged behind. The Prime Minister of Kashmir admitted in the State Assembly in September 1963 that the Government had "bungled" in running Public Sector enterprises in the state. A Union Minister, Mr. C. Subramaniam, observed at a management conference in Ahmedabad in February 1963 that he had come across an instance where a decision which could be taken in 24 hours was not taken for two years in a Public Sector undertaking run by I.C.S. managers. Even the Planning Commission, in its report on Third Plan progress (May 1963) has expressed concern over the fact that in the Public Sector costs had considerably exceeded original estimates and time schedules had been upset. The Mid-term Appraisal of the Third Plan by the Planning Commission has again stressed "continued attention" towards efficiency in the Public Sector. The credit of taking practical steps in this matter, however, goes to the Andhra Government which has proposed to hand over a Public Sector paper mill, running at loss, to private enterprise. On a previous occasion, two mills had been transferred to the Private Sector with the result that production had gone up in one paper mill from 14 to 100 tons.

Thus, our experience of Public Sector and nationalised industries confirms the pattern in other countries. The lesson is that while the Public Sector has an important role to play, it should not be set up merely on ideological grounds. Only where people by themselves cannot set up an enterprise, or national interests dictate the setting up of a state enterprise as in the case of armaments, the

Public Sector should step in. Similarly, **nationalisation** should not lead to state monopolies, nor even mere transfer of ownership from private hands to the Government. There is need for an independent Nationalisation Commission, which should give an opportunity for all affected interests to be heard before making a recommendation to the Government for final decision whenever nationalisation of any industry is proposed.

Rethinking needs to be done on the allied field of cooperatives also. In principle, cooperation is to be welcomed. The finest example of cooperation in modern economic life is provided by joint-stock companies. But when under ideological compulsion cooperatives are started in agriculture, trade and industry, under state auspices and patronage, they not merely go against the very rationale of cooperation, but also seem to result in loss of production and waste of public funds, according to the performance so far. A recent report of the National Cooperative Union of India, surveying cooperation between 1956 and 1962, concluded that while the number of cooperatives had considerably gone up, the movement had neither made a direct impact on agricultural production, nor had been able to check the exploitation of cultivators by money-lenders. Mr. S. K. Dey, as the Union Minister for Community Development, admitted recently that "the strategic programme of cooperative farming has still not caught the fancy of the people". The Chief Minister of Mysore, Mr. Nijalingappa, in August 1962, expressed his anger at the sight of "dust-ridden, bandicoot-infested" cooperatives. He said that many of them had been working for years without any audited accounts or general body meetings. Mr. Dey himself has criticised the cooperative department which, he said, existed more on signboards than in reality. Speaking in Shillong in April 1963, he said: "All assistance from Government including money is wasted on these cooperatives." Reports of misuse of public funds in cooperatives are a matter for serious concern. For instance, in one cooperative society in Nagpur, of the share capital of Rs. 12 lakhs, Rs. 11½ lakhs were contributed by the Government, and repeated reminders from the Government

to increase share capital of member primary societies and individuals had no effect. In the meantime, losses had accumulated, and half the directorate had become disqualified. In another society, although it had received Rs. 1,66,000 as loan, not a single house had been constructed.

The moral is that, whether it is farming or trade or manufacture, cooperatives cannot be set up artificially on state patronage without running the risk of serious mismanagement and waste of scarce resources raised from the general public. Ultimately, this state of affairs may lead to even genuine cooperatives being distrusted by the public.

III

While ideas on nationalisation and state ownership have undergone radical changes abroad, and the Indian experiment seems to endorse such experience the rethinking in India on centralised, comprehensive planning, the other major constituent of socialist ideology, has also reached an advanced stage. The mid-term appraisal of the Third Plan presented to Parliament in December 1963 has occasioned furious thinking on the subject. But rumblings of change were heard much earlier. Speaking in New Delhi on October 7, the Prime Minister said of the Planning Commission: "It is frightening—you see the building itself frightens one. A closed body of people, who think and advise Government, has grown into a huge organisation with all the departments of Governments almost duplicated there, and each one sending papers to the other—That is the normal habit of Government." Speaking at the National Development Council, on November 8, he commented on the very rationale of socialist planning, i.e., concentration on heavy industries at the cost of agriculture. He said: "I find there is a passion in many areas of India to have an industrial plant. People seem to think that an industrial plant solves all the problems of poverty, etc., which it does not. It has a long-term effect, helps in that no doubt... At the present moment in India which-

ever way you start, you **come** back to agriculture. We dare not be slack about it, **as** we have been, **I am** afraid."

In a frank appraisal of current methods of development, Mr. T. T. Krishnamachari, the then Union Minister for Economic Affairs and Defence Production, said in February, 1963, that it was better to have fewer projects, which could be completed quickly, than "more projects which would give more political satisfaction to the politicians." He deplored the predominance of political considerations, **as** is bound to happen with centralised planning. He cited the instance of the Damodar Valley Corporation Act, which he said had failed because "politics have taken precedence over technique." Complaints against controls and **paperwork**, which **are** inevitable with centralised planning, are mounting. Mr. C. Subramaniam, Union **Minister** for Steel and Industry, on more occasions than one has complained **against** controls. In August 1963, he pleaded for the "altering of our framework of detailed controls." On December 7, he again declared that the time had come to "review thoroughly the operation of existing controls." Mr. S. K. Dey, another Union Minister, at the annual conference on community development and panchayat raj in **July** 1963, blamed centralised planning for lack of progress in rural development. He complained that the village level worker had to spend most of his time **filling** forms and **pro forma**. A World Bank Mission, headed by Mr. Peter Wright, which made a study tour of India, arrived independently at **simi-**
Bar conclusions. It warned that price controls were distorting the pattern of investment, and **making** rapid progress and **industrialisation** difficult. Restraints on private enterprise were impeding flow of Indian and foreign private capital, while the Public Sector had undertaken too **many** projects beyond its capacity for **efficient** management.

IV

I advocate the replacement of present socialist method of planning by realistic planning in the interests of rapid economic growth and in order to enable millions of our people to have a better life. Observations of **two eminent**

economists need close study in this respect. Prof. Milton Friedman, a world-famous economist, says of Indian planning: "There is a right way and wrong way to do **most** things. Planning is the appropriate use of means for the achievement of objectives. In this country, planning is taken to mean the attempt by a centralised agency to establish a pattern for the economy as a whole and to enforce it by a host of specialised and detailed controls, including Government engaging in certain enterprises and so on. This whole paraphernalia, which in this country goes by the name of planning, is in fact bad planning, because it is almost guaranteed to defeat rather than to promote your objectives. On the other hand, a Central Government which maintained law and order, provided for the national defence, secured people in the enforcement of private contracts freely entered into, provided a stable monetary framework, fostered the spread of elementary schooling and the improvement of road communication and, for the rest, fostered a free market to enable millions of individuals in this country to use their own resources in accordance **with** their own objectives — such a Government would be engaging in good Planning, in planning which was suited to the promotion of economic development in the sense of the improvement of the lot of the ordinary men."

Mr. Graham Hutton, British economist, in a recent publication entitled, "Planning and Enterprise", observes: "Just as the opposite of communism is not capitalism but freedom, so the opposite of private enterprise is not planning but totalitarianism. Planning and private enterprise are not incompatible. (How could they be incompatible, when no private business can be successful without initiative and enterprise, which are realised by planning?) The term 'economic planning' has been debased in democracies to mean 'authoritarian State planning', the control of enterprise, production, labour, transport, exchange, and trading, by agents of the State empowered by politicians: But such regulation of economic activity by the State drags every economic decision into politics. The decisions — the plans and their execution — are hardly ever made on grounds of economy, productivity, efficiency. They are nearly

always made on political grounds according to a tug-of-war between vested interests and pressure groups. Experts—able public administrators and scientists and functionaries at best, bureaucrats at worst—ultimately decide what businessmen should do, and tell them to carry it out. Such planning is thought to be modern, up-to-date. Yet the 'experts' are not experts of running business, and successfully, and in competition. But the rapid advance of science and its techniques demands decentralisation, not overcentralisation, of decisions. It demands diversification of initiative, experiment, enterprise, investment. It certainly demands the ablest top management where ultimate decisions are taken. It does not demand monopoly, top-heaviness, monolithic rigidity. Yet monolithic, rigid overcentralisation at the top is what State economic planning of an authoritarian kind must involve, because of political and administrative impediments. You need better managements in more competitive private enterprise in order to make the best use of modern techniques. Those enterprises may merge, become fewer and bigger; but they must remain competitive, experimental, adaptable. And this the democratic State can, and should, ensure."

When we consider the tasks of the Government in India in the light of such practical advice on planning, the shortcomings are glaring. Socialist planning, with its emphasis on heavy industries and centralisation, has overlooked basic amenities required by the people, particularly in the rural areas. One of the most pressing needs for instance is good drinking water. The Director of the Central Public Health Engineering Research Institute recently disclosed that nine out of ten Indians drink unprotected, disease-spreading water. In August 1963, a Madhya Pradesh minister revealed that of 70,000 villages in the State, the Government had been able to supply drinking water facilities only to 10,000 villages. He added that there were still places where people had to go as far as 14 miles to fetch drinking water. In Gujarat, the Deputy Minister for Agriculture has reported strange cases of avoidable human misery because the basic amenity of drinking water was unavailable. In one village, ropes

were hung over every bed to enable people to get up in the morning because polluted water supply had caused an ailment of acute pain in the joints. In another village, the filthy tank water had caused the epidemic of guinea worm. In yet another place, people had lost their teeth by the age of 30, because of the unsatisfactory water in the village tank. A survey has disclosed that water in 80 per cent of wells near the capital city is below international standards. The recent cholera toll in Orissa had much to do with foul water. A team of experts found in one place that two wells had been "nurseries of cholera germs for the last 14 years". It is, therefore, not surprising that recently the Union Health Minister said that the crying need of the hour was to provide at least safe drinking water to the villages.

Medical facilities likewise leave much to be desired. Early in 1963 an Union official said that nearly 3,700 posts of Government doctors were vacant all over the country except in West Bengal, during the first quarter of 1962. In the field of education, the inadequacies should occasion serious thinking. Typical is the situation in one major city, Calcutta. As against a demand for three lakh seats, the Corporation could provide facilities only for 50,000 children in the primary schools. A Press report quoted a veteran headmaster as describing the admission rush: "They came like human waves." Even in spheres where an effort has been made to expand educational facilities, the quality is lacking. The Union Education Minister, Mr. M. C. Chagla, has deplored the wastage of capacity in technical institutions. He said that wastage took place to the extent of 25% in engineering colleges and 50% in polytechnics. In this context of negligence and waste in education, their effects on economic development deserve close study. The eminent economist, A. K. Cairncross, has made the following thought-provoking observations on the role of education. He says: "In the last resort, the problem of international poverty is only superficially an economic one: in a deeper sense it is an educational one. The poverty that has to be destroyed is far less a deficiency in the external assets of modern industrial

society than in its intellectual and spiritual endowment... Education is not, as we are sometimes tempted to think, something that goes on exclusively in schools and universities. Indeed, **what** goes on in these places may yield **educational** results that actively interfere **with economic** development. But our experience in Britain strongly suggests that a good educational system is closely linked with rapid development and that investment in schools and universities may offer large returns in economic **terms**, apart from any other merits by which it may be justified. If this is true of Britain, how much more true it is likely to be of under-developed countries."

Several other important functions of the Government are likewise neglected today. For instance, following the scare of spurious and sub-standard drugs, the West Bengal Government appointed an inquiry committee. One of the startling revelations was that in that State out of 253 manufacturers only **69** possessed valid licence! The reason was that the Government could not get all units examined! as there were only one licensing officer and nine **inspectors**.

If the Governments at the Centre and States **turn** their full attention to these basic functions which are their primary concern, they would find their hands full for many more years to come and will also be enhancing the welfare of the public. Over and above the performance of these functions, realistic planning would concentrate on providing the infra-structure of the economy such as an honest and efficient administration, good and adequate roads, power supply to industries—a classic example of failure on this front is the recent closure of **35** major industrial and **400** small-scale units in Kanpur following a total power cut, the second crisis in three years—and a stable currency, and economic development would receive an impetus which no amount of **centralised** planning can hope to achieve. However, the maximum attention should be given to the development of our agricultural asset to the fullest instead of wasting scarce resources on heavy industries. Prof. W. W. Rostow, eminent economist, has outlined the importance of agriculture in clear terms: "Agriculture has three distinct but essential roles to play

in promoting growth. First, agriculture must supply the food required by rapidly expanding urban populations in the developing countries. If the demand is not met, there may be hunger — even starvation; or food must be acquired from abroad, which depletes the foreign exchange needed to import industrial equipment and raw materials. Second, agricultural expansion is required as working capital for non-agricultural development—to generate raw materials for industry, to earn foreign exchange, and to free labour from agriculture and make it available for industrial construction and operation. Third, a rise in agricultural incomes stimulates other aspects of development. It provides the capital accumulation needed for further growth, through savings required for investment or as a critically important source of increased tax revenues. It also provides expanded markets for industry—chemical fertilisers, agricultural equipment, and manufactured consumer's goods. Communist China is an example of what happens when these dynamic interactions between industry and agriculture are ignored **or are** inadequately respected."

If socialist planning techniques have failed, how can India develop her economy with this new orientation towards the basic needs of the people and agriculture? The answer is provided by the French model of planning. In **1965**, France will complete 20 years of what is known as "planning by consent". The objective of French planning, in the words of Pierre Masse, head of the French Planning Commissariat, is: "The foundation of the French Plan is a collective reflection on the future. It leads to conclusions which are concerted between the representatives of **the** various groups in society and correspond to a middle way between the traditional liberal market economy and the detailed, Centralised and authoritarian type of planning which existed, and still exists, in the Eastern European countries."

The plan is a flexible one, and is **drawn** up in consultation with all interests concerned. It sets up broad **targets** of achievement. The Planning Commission itself has a small staff of about **140**. But about **3,150** persons were associated with the drawing up of the Plan through "**verti-**

cal" (according to sectors of the economy) and "horizontal" (finance, personnel, etc.) commissions composed of employers, farmers, trade unionists, civil servants, university teachers and independent experts. The average rate of growth of gross national product since the war has been 4.5 per cent. "The Plan is a way of providing permanent arrangements for a collective and systematic reflection on the problems and prospects of the economy with a view to action," say John Hackett and Anne-Marie Hackett, in their latest study on the subject entitled, "Economic Planning in France". Again, "If one runs through the list of weapons used by the Plan for influencing the behaviour of the private sector, one is struck by the small role played by coercion. Between the carrot and the stick, the French authorities choose the carrot whenever possible."

The moment of decision has arrived for India. We cannot afford to persist in the errors of the past, nor repeat the mistakes of others. Economic laws are inexorable and as Dr. Ludwig Erhard points out even though suppressed for some time, they "ultimately erupt with elemental force." Objectives of human welfare can be achieved **only** by respecting economic laws, trusting the good in every individual and encouraging the spirit of enterprise. With her noble traditions of upholding the highest human values, should not India fulfill her manifest destiny on such realistic considerations?

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

—A. D. Shroff

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