EFFICIENT PLANNING IN A DEMOCRATIC SOCIETY

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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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By

Dr. F. A. Mehta*

Not since the days of Adam Smith, who in waging his war against mercantilism laid the intellectual foundations of capitalism, has the world witnessed such a lively economic controversy on the factors and forces that make or mar economic growth. In this controversy, the biggest single consideration of the utmost consequence to three-fourths of the world's present population spread out in over 105 under-developed countries of the world is *whether or not rapid economic development can be secured, stimulated and sustained within a framework of political democracy* with its essential attributes of individual liberty, the rule of law and freely elected governments.

It is necessary at the very outset to study in the correct perspective the areas of co-operation and conflict between rapid economic development and political democracy. Individual liberty cannot long exist without political democracy, which, in turn, cannot long exist without political stability. The inter-relationships between economic growth and political democracy need, therefore, to be studied most carefully in order to prevent our suggestions for securing a system which assures economic growth with the greatest degree of efficiency and freedom from degenerating into an academic treatise of little or no relevance to the actual situation prevalent in the world.

First, it should be noted that the majority of the under-developed or developing countries of the world have not inherited a background of democratic traditions. This need not be a tragedy ; the tragedy is that they do not even make a conscious and honest effort to build up such traditions. Many African states mean by "freedom" not "individual freedom"

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but "national freedom". Again, a number of developing states got their train moving right and fast off the platform of colqnial independence, but subsequently, there has been a sliding-off from the rails. In their case, one hears of all sorts of democratic labels, but little of democracy itself : "basic democracy", (Pakistan) ; "guided democracy", (Indonesia) ; "military democracy", (Burma) ; and so on.

It has been sometimes argued by international commentators that one very important reason for the failure of political democracy in several areas of the world is the failure of their governments to achieve a really rapid rate of economic growth. Had such a rate been achieved, the tensions between the various linguistic and racial and tribal groups — which are a major factor of political and economic disorganisation in almost every developing country — would have slowly, subtly and subconsciously been submerged in a battle for economic growth. What is more, governments would be able to command the constitutional respect of their people, and peace and order could be maintained, if the people were convinced of the bann *fides* of the government in conducting rapid economic growth, if the powerful traditional forces of riches and reactions were not allowed to obstruct the implementation of economic planning, and if the gains of increased productivity were diffused on an egalitarian basis throughout the various layers of the society giving them a vested interest in promoting economic growth.

In this argument, a rapid rate of economic growth is, thus, essential both for political stability and for political democracy. As John P. Lewis has said in "Quiet Crisis in India" :

> "I see no reason to dispute the considered judgment of India's leadership that the attainment of a rate of growth in real per capita income of 3 to 4 percent annually is essential if constitutional processes are to survive. This, of course, does not mean that the rural and urban masses have any direct comprehensions of this statistic, but the figures indicate the expansion in production that will be needed to provide clearly perceptible, continuing, broadly distributed improvements in diet, clothing, public services, and other categories of private and public consumption. However, if the country *should* manage to achieve this kind of economic performance, it is very unlikely that it would abandon constitutional processes in quest of still more accelerated performance......"

This view reveals an interesting diagnosis of the crucial, if not conflicting, relationships between rapid economic development and political democracy. It is entitled to respect because obviously there are so many elements of truth in it. But this type of reasoning seems to mix up cause and effect. In the manner of economic determinism, it is argued that rapid economic development is the sure pre-condition for political stability, but surely one would have thought the lesson of history was the other way about. Of course, social processes are circular and cumulative, and we can always dispute indefinitely whether the egg came first or the chicken. But here, it appears that the verdict of history is in favour of political stability preceding rapid economic development.

Moreover, it is a gross over-simplification to rely upon the gains of economic growth to solve all problems of tensions and conflicts. In the long run, the probability is that they will, but in the short-run, the tensions and conflicts might actually increase. There are at least three reasons why this is likely. Firstly, economic growth is not all honey and milk, or more accurately, the honey and milk come after the sweat and tears have been shed. It means rising prices, severe taxation, perhaps shortage of consumer goods and longer and harder working hours. Of course, these penalties can be less with better development strategies, but that does not mean they do not exist. Now these penalties provide a fertile seed-plot of agitation : in fact, it has even been seriously argued by an eminent Indian thinker, Mr. Ashok Mehta, that these penalties — "compulsions of economic development" as he calls them — should not be a subject for debate between political parties. Irrespective of whether this thesis is acceptable or not, it correctly recognises that, in the short-run at any rate, economic growth brings not a reduction but an increase in tensions and conflicts, endangering political stability and driving people to seek agitational rather than constitutional methods of redress.

There is the second reason why rapid economic development tends to activise tensions. In the early stages of economic development, resources are so limited that the economic system finds it extremely difficult to assure "fair shares for all". Certain factors of production must in terms of rewards be given precedence ; and so indeed must certain sectors of the economy. In the early stages of development of the advanced countries of the West, capital was rewarded liberally in relation to other factors of production, particularly wages and rent: in Japan, we know, thanks to the research of Bruce Johnston*, that agricultural productivity was systematically and consciously siphoned off in the form of higher rents or taxes imposed on the peasantry, and the proceeds used for industrialisation. Prejudicial terms of trade in favour of industry against agriculture has been a regular method of capital-formation in several countries, a method used most severely, if not savagely, in the Stalinist Russia of the Nineteen-thirties.

Now we know that in the long-term perspective of economic development, biases in rewards to certain factors and sectors of the developing economy can ultimately rebound to the good of all. For example, a higher rate of capital-formation in industry, which is rendered possible by initially low wages or initially low prices paid by industry for agricultural raw materials, can ultimately accelerate the process of sharply raising both wages and agricultural incomes. In the long run, these factors are operationally complementary though initially they are competitive. Once again, this is a long-term perspective, a long-term solution. In modern times, it will be very difficult to impress on the initially restrained sectors or factors of the inherent validity of this position. How many trade unions will accept the thesis of low wages for increased capital-formation?

Finally, we come to the third type of tensions that economic development generates to the possible detriment of both political stability and political democracy. As we have seen, a conspicuous feature of developing countries, whether it is India or Malayasia or Nigeria, is that local loyalties are dominant amongst the different racial, religious, linguistic, or caste groups, and these different groups are often at different levels of incomes, education and status. Almost always, there are the cries raised that one or two such groups are the principal beneficiaries of the process of economic development in the shape of increased employment opportunities, increased contracts awarded or increased investments made in their region. Demands are then formulated that the location of projects be determined on regional rather than on economic basis; that employment opportunities in each region be limited to "sons of the soil" and so on. Even if there is an improvement in the standard of living, it is not appreciated on the ground, fancied or real, that other groups have done better.

* *B. F. Johnston: "Agricultural Productivity & Economic Development in Japan", Journal of Political Economy, December, 1951.*

To conclude, therefore, though in the long run, the process of economic growth dissolves national conflicts and tensions, in the short-run, it aggravates, if not generates them, and in so doing creates problems for political stability and democracy.

But the pressure on democracy and political stability come not only from the *tensions* generated by rapid economic development ; they come also from the *mechanics and the methodology* of rapid economic growth, which can for purposes of exposition be summed up under the term "planning".

In possibly no developing country of the world does the light of liberty, the torch of democracy shine so brilliantly as in India. Indeed, many will agree that this was the biggest achievement of our late Prime Minister, Mr. Jawaharlal Nehru. Yet, even in India, it would be idle to pretend that the goals of rapid economic development and of political democracy have not often clashed. The dictates of rapid economic development induce a certain temper of impatience in the public at large and certain mood of omnipotence in those in whom power is vested. Nowhere is this more dramatically seen than in the fact that within 14 years of the passing of the Indian Constitution, there have been 17 amendments, while in the 275 years of the existence of the U.S. Constitution, there have been 24 amendments. Possibly, the Americans have been unduly conservative : equally possibly, we have been unduly radical.

The rights of property, the economic foundation of individual liberty, have been in one important respect severely limited in India by declaring the question of compensation paid by the Government to be "non-justiciable" in case of land reforms, that is, outside the question of an independent judicial review; rates of taxation, both personal and corporate, are among the highest, if not the highest in the world, though in the case of corporate taxation, there are some Liberal exemptions. Estate duties, recently imposed, are so severe that in a number of cases, individuals owning industrial plants or urban properties may virtually have to hand them over lock, stock and barrel to the Government, making nationalisation a tame affairsince no legislation or compensation is involved here. While the Public Sector's growth has been, perhaps, the most phenomenal in any democratic country of the world, Government's own investments in the great majority of efficient private sector concerns are substantial, indeed in not a few cases predominant. In the case of the biggest private sector company in India, namely the Tata Iron & Steel Co., Government investments are much larger than those of the management itself. The voting power of Charitable Trust is not to be exercised by its Trustees, but by a Government official.

Such are the overwhelming powers now reposited in Government, said to be in the interests of promoting rapid economic growth, of protecting "the public interest" and of achieving "the socialistic pattern of society". In all fairness, it must be said that these colossal powers have, by and large, been used up to now with considerable care and a sense of responsibility. But with persons less conscientious in methods and less liberal in outlook, they may become the source of incredible mischief, if not of insufferable tyranny.

Does the historical experience of the advanced countries help us to solve this short-term potential of conflict between rapid economic growth and political democracy? Recent experience of countries like Germany and Japan with their "price-mechanism miracles" or of France with its "planning-miracle" is of little assistance as the stage of development in this situation is far advanced and, therefore, so completely different from that in which the developing countries find themselves. Their industrial factories and plants may have been destroyed, but their advanced industrial civilisation with its values and skills had remained intact. Nor again can we take the

case of Soviet Russia as our basic premise of individual liberty and political democracy is here missing. Nor again we can take into consideration the very specialised cases of Puerto Rico or Hongkong, though in their case the stage of development is relatively the same as that of most developing countries, and the premise of political democracy is also secured.

Firstly, allowing for the defects of a broad generalisation, it can be said that the rate of growth of the advanced countries in the early stages of their economic development was not so rapid as that currently required by most developing countries, especially those large countries which are the very countries which invariably suffer from population pressure. We know this not only from the recent works of "growth-economists", in particular those of Simon Kuznets and W. W. Rostow, but also from the known fact that these countries suffered from a continuous series of cyclical periods of prosperity and depression, a situation they could not possibly have tolerated in the manner they did if they were consciously committed to the dictates of rapid economic development. This is not surprising as "economic growthmanship" with its models and targets of developmental planning and with its "revolt of rising expectations of the masses" were cults then not in fashion.

Secondly, and perhaps even more importantly, political democracy with universal adult franchise came to most advanced countries after a solid conservative middle-class of "haves" had been built up, believing in the Victorian virtues of thrift and self-reliance, and in the price-mechanism rather than in conscious governmental economic activity. In violent contrast to all this, political democracy with universal adult franchise has come to important developing countries of the world at a time when over 90 per cent of their peoples are poor, often tragically poor, though a small middle-class is still politically articulate. Yet the poor have political votes, and in theory, therefore, political power. No government of the day, given the dictates of democracy, dare ignore this fact in the framing and execution of its economic policies. Nor is it that the masses are steeped in a Calvinistic faith of self-help; the truth is that the Government is literally "a parent" in their eyes.

Now, such a situation is obviously one in which Statism has a held day and in which equalitarian biases will permeate economic policies. Not only are the grave inequalities of income and wealth not tolerated, but an atmosphere is created in which riches are identified with reaction and profits with profiteering, and in which taxes are savagely imposed and prices severely controlled. The "public interest" requires a never-ending chain of controls of all sorts and at every stage. The deleterious effect of all these taxation and controls may be concealed for a time by the boom effects of an economy stimulated by huge governmental expenditures and by comfortably protected markets, but the overall psychological atmosphere remains one of egalitarianism.

Let us contrast this with the now advanced countries of the world, say Japan. In drawing lessons from its growth for the developing countries of the world, an American economist, prof. Hugh T. Patrick, says :

> "Japanese growth brought with it an extremely unequal distribution of wealth and income. It appears that this inequality was a stimulant to growth in the Japanese case, since the rich saved, invested in productive enterprise and promoted the adoption of Western technology. A real conflict in goals emerges for the underdeveloped country; it must decide how much income inequality it will tolerate in order to achieve more rapid growth."[*]

All this may be significantly contrasted with what is currently happening in India. Far from accepting inequality as a tool of rapid economic development, the Government of India appointed four years ago a high-powered committee to study statistically and scientifically whether inequalities of income and wealth had increased during the first two Five Year Plans in the decade of the 1950's. This Committee, which incidentally was dominated by avowed leftists, came to the conclusion that it was difficult to prove on the basis of existing statistical data whether inequalities had, in fact, increased over the period but there was no doubt that these inequalities were already enormous. To prevent any further inequalities, it suggested that a permanent body be set up to keep track

* *Hugh T. Patrick : "Lessons for Under-developed Countries from the Japanese Experience of Economic Development" — The Indian Economic Journal, Oct. 1961.*

on a systematic basis of such inequalities, and to draw the attention of the Government to any deterioration in the situation. Largely in response to this, the Government is now actively considering the possibility of setting up a permanent Monopolies Commission, the task of which unlike that of its counterparts in the U.S.A. and in the U.K., will not only be to curb monopolies, but also to curb inequalities of income and wealth. Hence, far from tolerating economic inequalities as did the governments of the advanced countries of the West and Japan, the Indian Government has firmly dedicated itself to destroying them.

But there is also, further to all this, the positive side of the attack on inequalities, which demands free education, free health service and subsidised foodstuffs, in short, the eating of the cake before it is made. It will also be argued, as indeed labour courts in India have done on several occasions, that wages should be fixed not on economic but humane considerations, and that they should at least be as high as to cover "minimum need-based" level. Thus, what came to the advanced countries after a fairly high level of economic growth was achieved is demanded in the most matter-of-fact manner in the developing countries even before the process of economic growth gets going.

To conclude: the case of a Twentieth-century country which wishes to secure rapid economic development within the humanistic and individualistic framework of political democracy is unique. The countries which have secured rapid economic growth in the early stages of economic development did so without political democracy, and the countries that had political democracy during the early stages of their economic development neither had a full-fledged democracy with universal adult franchise nor secured rapid rates of economic growth. One eminent Indian economist is led by this situation to proclaim :

> "The pioneering honour and the privilege of ushering economic development without the conscious aid of slums and Siberia will belong to the underdeveloped countries of the world. 'The Robe' has fallen on the underdeveloped countries"."

But how ? On that Prof. Dantwala becomes more poetic than practical.

The great majority of developing countries wish to solve this unique but mighty problem of development with and within democracy through one magic word, through one Open Sesame, and that is Planning. Indeed, it is not only the planners and the politicians, it is not only the intellectuals, it is also the businessmen who almost all unanimously accept "planning" as the sovereign tool and technique of rapid economic development, though as is to be expected, they are not all agreed about the exact definition and exact mechanism of Planning.

In this connection, it is interesting to note that the first Plan to be published in India with a fairly detailed set of targets of income, production, resources, employment and other key indices of a growth-economy was prepared in 1944 by none other than eight most eminent businessmen of the then undivided India, of whom as many as three were from the House of Tata, pioneers and promoters of Indian industrialisation. Among the intellectuals and economists the persons who oppose planning as the ultimate "road to serfdom" on grounds of political liberalism are comparatively few, and though economists are known to criticise the speed and the priorities and the machinery of planning, there is hardly any eminent economist with the conspicuous exception of Prof. B. R. Shenoy who oppose planning as such as against the price mechanism.

To many European liberals, who have seen with their own eyes the miracles of the "price mechanism" in unleashing waves of human energy by the incentives it offers, all this may seem not only surprising, but shocking. Yet the price mechanism is with the great majority of developing countries almost a word of abuse. To them, it is an irrational, anti-social and wasteful means of allocation of their scarce resources ; it appears to them as a lottery — the "invisible hand" of Adam Smith, they say, is invisible — and the fate of the teeming millions cannot be left to a system in which things somehow will work themselves out ; in a temper in which equalities are yearned for, the price mechanism is seen as an instrument par excellence for making the rich richer and the poor poorer; it is based on competition, cruel competition, that throws the weak and the poor to the wall ; it is, runs the chargesheet, a fraud based on self-deception since those who preach economic freedom do not hesitate to ask the state for protection or believe in freedom for their trade unions ; and last but not least the price-competition in reality, as distinguished from the text-book model, has never existed, since the upsurge of gigantic monopolies on the one hand and the continuously growing role of Government have rendered it either ineffective or have tamed its worst excesses and evils.

* *Prof. M. L. Dantwala : "Development with Welfare Premise" — Paper appearing in "Tensions of Economic Development in South-East Asia", p. 82.*

It is a bit pathetic, if not pathological, that such an intellectual situation should determine the framing of most economic policies of developing states. This is emphatically not because the price mechanism has not its battalions of defects and dangers, but because its basic and positive virtues of securing an efficient allocation of resources and of dynamising and harnessing the enthusiasm, skill and hard work of people are so real that it is a thousand pities that developing countries are so dogmatically and ideologically brushing aside these virtues. Indeed, the Liebermann thesis increasingly accepted by the rulers of Soviet Russia that the price system be applied to as many sectors of the economy as possible — a system of capitalism without capitalists, as it is called — is no freak of accident : Liebermann would have suffered the fate of Boris Pasternak if it were so. The fact is that the economic rulers of the Soviet Union have realised what the economic rulers of many developing countries have yet to realise, imprisoned as they are in a Victorian conception of the price mechanism, namely that to-date it is the only invention of the human mind in which the maximum incentives are offered to human beings on this supreme condition that such efforts will be rewarded only if they serve the consumer.

Indeed, our question : "How to assure economic growth with the greatest degree of efficiency and freedom", were it asked five or six decades ago, would have been answered with confidence and precision thus : let the price mechanism work itself out. Here is a system that simultaneously secures the maximum freedom of choice for the consumer and the maximum incentives for the producer, and in so doing ensures by the principle of competition that no profits are made without efficiency, and that resources are automatically put to the most efficient use. Above all, it is in theory a sovereign system of the diffusion of political and economic power. To the founding fathers of economic liberalism, the charge that the price mechanism ignores the "social good" which planning enthrones would have been horrifying : for the very blood and breath of the price system was to secure the "social good" by combining maximum political decentralisation with maximum economic efficiency.

We know that this system has not achieved all its ideals : which human system has? Has planning, for instance? But are planning and the price mechanism mutually exclusive? Cannot economic systems in developing countries in the interest of combining maximum efficiency with maximum individual freedom combine planning and the price mechanism each mitigating the evils and maximising the good of the other ?

Of course, there is totalitarian planning which cannot go with the price mechanism, and there is unbridled price mechanism which cannot go with democratic planning, but there are in-between various shades and shapes which democratic societies of developing countries can choose.

There is the planning framed in the capitals of the U.K., France and Japan and there is the Planning executed in the capitals of the Communist countries — the one based on democratic ideals, the other based on totalitarian goals.

There is the planning which rejects almost altogether the price mechanism and relies exclusively on controls of all sorts and at every stage, and there is the planning which relies as far as conditions permit on the price mechanism.

There is the planning which even when it has to rely on controls fixes these controls on a liberal, expansionist basis and recognises that their existence must be temporary, and there is the planning where controls are of a restrictive, penalising nature, and where these controls multiply endlessly.

Last, but not the least, there is the planning which aims at liberating the energies of the masses, respects and

rewards the contributions made by individuals or private groups, and seeks to measure its own success by the prosperity it has brought to them, and there is the planning which aims at dominating through its bureauracy the masses, penalises at every stage their initiative, their hard work and their thrift, and measures its success by the growing share of the public or Government sector.

In the words of one of the finest theorisers of modern democratic planning :

> "In fact , the central issue in the discussion of planning is not whether there shall be planning but what form it shall take, and in particular whether the state shall operate through the price mechanism or in supercession of it . . . The fundamental difference is between methods that achieve their result by persuasion and those that achieve it by command."*

There are sound economic and political reasons why planning needs the price mechanism. Firstly, from the economic angle the biggest danger of planning is the waste of human and material resources. This may seem ironical as the very aim of planning is efficient allocation of scarce resources through priorities; indeed, priorities constitute the religion of planning.

Since planning relies on an endless chain of price controls, directly or indirectly administered, the economy does not have the economic criteria of judging the true scarcity of resources. Foreign exchange desperately short is pegged at a high rate of exchange, which makes it cheap : internal financial resources which in reality are tragically short — indeed, under-developed countries are by definition countries in which capital is short — are made available at low rates of interest : the prices of several basic items of industrial production, particularly power, steel and cement, are kept low so that economy in their usage, and short-circuiting of their uses are not encouraged, and so on. The whole economy runs the danger of an artificial and uneconomic rating of resources, when prices are reduced to posters. Recently, terrified by these huge though invisible losses, socialist

* W. *Arthur Lewis: "The Principles of Economic Planning", pp. 14-15.*

economists are playing around with the theory of "shadow-prices" to make prices more "realistic". To-date, however, the Government has an idea of the true worth of resources only through the grace of blackmarket prices of foreign exchange, of basic commodities and so on. But this allocative function of the blackmarket is dearly purchased.

The fact that large-scale black marketing on an organised scale exists defeats the aims of price-controls. The producers are penalised by low prices and low profitability and the consumers are penalised by having to pay fanciful premiums over and above the so-called "controlled" prices. The biggest beneficiaries are the middlemen who hog huge profits for doing nothing and for taking no risks; some government officials who are the recipients of all favours, monetary and otherwise; and a parasitic class of touts and spivs known euphemistically as "contact-men."

Nor is this all. The human resources utilised in administering controls in an attempt to conserve physical resources is an item of huge expenditure. Desperately short as underdeveloped countries are of talent and experience, an agonisingly large part of it is locked up in the routine of administration of controls. The waste of enthusiasm and of time are other severe penalties inflicted: till recently, when the Government of India simplified the procedures of industrial licensing, an applicant who wished to start a new industry was lucky if he spent less than two years getting the licences from the scores of Government departments. Time is what the developing countries are racing against: enthusiasm is what the developing countries desperately require; yet controls do everything to impose maximum delays and to paralyse and frustrate enthusiasm.

All this does not mean that planning has to be abolished: it does mean, however, that planning has to have economic criteria for making the use of scarce resources: that it must in the interest of conserving its limited administrative talent rely as far as possible on the impersonal forces of the market; that in fixing its price controls, it must make liberal provision for producers rather than provide illgotten gains for black marketeers, bureaucrats and the bribers; and that, in the interest of flexibility and rapidity, it must establish as far

as possible islands of freedoms, which those in desperate need of resources can tap at a price far higher than the current artificially pegged Government rates. In short, planning for efficient and rapid economic development urgently and desperately requires the price mechanism.

But it is in the field of unleashing the creative enthusiasm of the people that, as the rulers of Soviet Russia have found out, the price mechanism embodies what we may call an "incentive-technology". We do not say that planning or governmental activity, nay even governmental enterprise is by definition bad. Surely, far more important than the "quantity" of Governmental efforts is its "quality"—its sense of direction, complementary or competitive to the activity of private individuals. But the first thing for the Government to do is to see how it can provide incentives and institutions which will enable the Private Sector to deliver the goods within the framework of the agreed priorities and goals of development; next, failing this, how physical controls can be used where they must, and in so doing use them in a liberal, persuasive manner rather than in a harsh, penalising manner; and only where all this has failed, to embark itself on the area of economic activity. Even here, cases of Japan, and recently of Pakistan, exist where the Government after building up factories and plants hands them over after a while to the Private Sector.

Developing countries are short of all things — of good administration which they need more than the advanced countries, of foreign exchange, of internal financial resources and of skilled labour. But even such limited resources as they have, they neither tap nor utilise fully. Here is the problem of "motivating" each factor of production to give its best, and to the extent that such motivation lies in the realm of economic science, only one system has yet existed with all its defects and dangers, namely the price mechanism. Planning needs for its success this price mechanism.

The question arises as to what are the characteristics of an economic system which combines efficiency and individual freedom. It must be a system, which freely recognises the role of profits in stimulating the factors of production and in allocating resources to those sectors of the economy where they can be most profitably used. At the same time, it must restrain monopolistic tendencies, in order to avoid concentration of economic power in particular industries.

It must be a system in which planning errs neither on the side of over-cautiousness nor on the side of over- ambitiousness. Most, if not all, Governments err on the latter side. The trouble is not only that an over-ambitious plan invites severe and insufferable doses of taxation and inflation, but that it seldom reaches anywhere near its ambitious targets. A low rate of economic growth may be incompatible with the dictates of political democracy in developing countries but a pretentiously fast rate only too easily leads to discontent and demoralisation as thepeople find that after all the sacrifices they have made they are far from reaching the goals.

It must be a system in which the rate of savings must be gradually stepped up to ensure a "take-off", but the Planning authorities must never forget that the best way of raising savings is not so much from taxation or deficit financing, but from a right ordering of priorities of investment in which returns from investment come in both early and on a large scale.

It must be a system, in which planning even though it may be based on physical controls in certain key or core sectors must be, by and large, directional, using skilfully the fiscal, monetary and other indicative policies; but even where physical controls may be permissible in core-centres, they must be liberally conceived and administered, and in any case it is desirable to set definite "time-limits" to the operation of such controls.

It must be a system in which the rates of taxation, even though high for the sake of raising resources and securing a certain measure of equality politically desirable, should not be confiscatory. As a rule of thumb, income-tax rates in isolation should not exceed 60% of any taxable income, and if combined with other rates of taxation, like Wealth Tax, should not exceed 45% of total assessable income.

It must be a system in which inflation must not, like taxation, rob the people of the fruits of their hard-earned income

and investment. As a rule of thumb, inflation must, in no case, exceed 2 to 3% each year in a developing economy, provided the growth-rate is at least in the vicinity of 6 to 7 %.

It must be a system in which the prices of all non-essential commodities should be completely free from controls, but the prices of the basic commodities, if controlled, must be liberal enough to encourage existing producers to increase production and to encourage new entrants to the industry.

It must be a system in which the State takes up only such areas of economic activity as would be beyond the proven resources, financial or mangerial, of the Private Sector, and as far as possible concentrates on building up the visible and invisible base of rapid economic growth.

It must be a system in which the rate of interest must be high enough both to encourage savings and to ensure the most efficient use of capital.

It must be a system in which the maximum incentives are created for maximising the "marketable surplus" of food from the agricultural areas to the urban centres : the incredible brutalities and ghastly failures of the Communist economic systems are largely due to the attempts to force rural areas to be the "economic colony" of the relatively more prosperous urban centres which house the aristocratic bureaucracy of the cities.

Governments of developing countries, particularly those which have political stability, wield mighty powers over their people. This is all the more reason why they, in the interest of respecting minority opinions, should exercise greater care and circumspection in the exercise of these powers. Now our thesis is this : that great though be the powers of government to tax, to impose controls of all sorts, to extend its area of economic activity, to make extensive land reforms, to impose industrial legislation, and so on, it is only by the exercise of "limitations" on these powers that these powers achieve their maximum success, that governments secure the maximum respect for their laws and their taxes, and that the maximum good is secured. Laws are not made to be broken; controls are not framed to be bypassed; taxes are not imposed to be evaded or avoided. Yet all this is precisely what happens when "the limits" are crossed. We have no mathematical systems of precision or infallibility to determine these limits; to determine them at the "optimum" or at the "golden mean" level is the genius of political leadership.

This is an age in which the goodness of a system is judged by the goods it delivers. Too long have the underdeveloped countries idealised poverty and treasured "spiritualism". They now awake like slumbering giants to overtake the lags and the shortfalls of centuries. Yet, ironically, economic growth can be at its fastest when something like a spiritual fervour and a fanatical zeal is brought to bear on it. Whether it is called idealism or fanaticisim or patriotism is immaterial. Being human beings, we require monetary and material incentives, but we must also know that "faith works miracles" — miracles in which human beings consider no sacrifice too great, no sweat too much and no tears too many. May be, after all, that behind the miracles of economic growthmanship, of which we read so much, lies that faith; without it, let the developing countries know that they cannot be helped by Almighty God, still less by the Almighty Dollar.

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

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

—A. D. Shroff

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