

THREE ESSAYS ON CONTROLS
IN A PLANNED ECONOMY



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

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

—Eugene Black
President, **World Bank**

INTRODUCTION

One of the many constructive facets of the activities of the Forum of Free Enterprise is the annual essay competition for college students in India. In 1960, an all-India competition on "Controls in a Planned Economy" was announced. The judges were: Prof. R. K. Amin, Professor and Head of Economics Dept., Sardar Vallabhbhai Vidyapeeth, Vallabh Vidyanagar; Mr. R. V. Murthy, eminent journalist; and Mr. M. R. Pai, Secretary, Forum of Free Enterprise.

The first three prize-winners were: Mr. K. S. Varghese of St. Berchmans' College, Changanacherry, Kerala State (Rs. 250/-); Mr. G. Ranga Rao of Delhi School of Economics, Delhi (Rs. 150/-); and Mr. S. Joseph of St. Joseph's College, Tiruchirappalli (Rs. 100/-). In addition six consolation prizes of Rs. 25/- each were awarded to others.

The first three prize-winning essays are presented in this booklet.

CONTROLS IN A PLANNED ECONOMY

I

K. S. VARGHESE

A discussion of this kind is most relevant at a time when plan-consciousness is driven home from all quarters, when it has become the subject for discussion in academic and political levels and especially when a new challenge has been thrown against the idea of excessive State intervention in almost all spheres of economic activity of man under the pretext of planning and the attainment of a "socialistic pattern of society".

A kind of planning, a framework of the mode of operation to be carried out, is desirable for the co-ordination and judicious execution of production in an under-developed country up to a stage. But if it encroaches upon the economic liberty of the people, kills initiative and enterprise which are vital for production and prosperity, it has to be checked and put within limits. A planned economy need not necessarily be a controlled economy in the full sense of the term. In under-developed countries like India the State will have to take an active part in the building up of overheads, heavy industries and other projects for which huge outlays are required. Thus there is a role for the State to play to bring the stagnant economy to a stage of "take-off", a stage of self-generating and self-sustained growth. All these presuppose a kind of planning which will help and stimulate private enterprise.

We all desire a "socialistic pattern of society" even though socialism is outdated and ineffective to achieve this end. In the words of Rajaji it puts a "ceiling on enterprise" and efficiency. The ideals of a "socialistic pattern of society" or Welfare State can be sooner and best achieved by private enterprise. The successful rehabilitation of West Germany must serve as a clear

documentary evidence to put before a still vacillating and doubting people, of the fact that only by firmly rejecting socialist dogmas, of whatever complexion, and by affirming a free economic order can mounting prosperity and genuine security be achieved. The economics of German miracle was nothing but the principles of modern national economics which all the countries of the West have evolved for overcoming the age-old antithesis of an unbridled liberalism and soulless State control, to find a middle way between out-and-out freedom and totalitarianism. Along the road of competition, the socialisation — in the best sense of the word — of progress and profit is best realised. A production-oriented policy rather than a distribution-oriented one is the prime need of the hour in India. The example and success of West German policy demonstrates how much more sensible it is to concentrate all available energies on increasing the nation's wealth rather than to squabble over the distribution of this wealth and thus be sidetracked from the fruitful path of increasing the national wealth. It is considerably easier to allow everyone a larger slice out of a bigger cake than to gain anything by discussing the division of a smaller cake.

The secret of market economy is that it enables the process of adaptation to take place almost daily and hourly, balancing supply and demand, national income and national product, both quantitatively and qualitatively. The social market economy does not recognise the freedom of the entrepreneur to exclude competition through Cartel agreements. It imposes the obligation to gain the favour of the consumer through one's own efforts in competition against rivals. The freedom demanded by business combinations to limit or remove freedom is not the concept of freedom for all. In this wrestling match for a position in the market the function of free price cannot be excluded. What is new in the economic policy of Germany is that the Minister of Economic Affairs no longer issues orders to businessmen; he has freed them from rubber stamps, permits, concessions and licences. This does not imply uninhibited behaviour or licentiousness. Instead of State's direct command, instead of renouncing all intervention, modern economic policy aims not only to utilise all available instruments granted by economic policy in order to free new energies continuously and open up new possibilities, but also to block all

inefficient paths. The Government should be there to watch and guide, to fill deficiencies and correct the maladies.

Indian economic policies are moving steadily and progressively in the direction of State intervention in the economic life of the community and State participation in trade and industry. As elsewhere in the world, where similar policies have been tried, this is tending to have a wet blanket effect on enterprise and output. In the field of agriculture which accounted for 45 to 51 per cent of India's national income in recent years, to the already existing restrictive legislation against credit (money-lending), land transfers, interest rates, foodgrain prices and the movement of foodgrains, are threatened to be added to other measures such as ceiling on land holding, co-operative farming which may lead to the termination of family farming and private ownership of land, full State trading in foodgrains, etc. These measures and policies have had an adverse effect on production. The division of national market in foodgrains into zones has accentuated regional price variations and has caused smuggling of foodgrains by circuitous routes at wasteful transport cost. This involves a relative price penalty on the producers of foodgrains in the surplus areas and is a factor making for a shift in production away from foodgrains. Purchase of foodgrains by the State through State Trading Corporation has driven up its prices unduly and has caused the trade and the farmers to withhold stocks, which again has accentuated market scarcity conditions. The record of State Trading Corporation is not encouraging. Its profit rate was 3 per cent and that of the Sindri Fertilisers and Chemicals less than 1 per cent. In other Government undertakings profits were either nil or the data were not available. In the same year, the all-India average of dividends on industrial securities was 6.27 per cent after tax.

The industrial sector is subject to a wide range of governmental intervention and regulations. The position in the cotton textile industry which accounts for 36 per cent of industrial production is illustrative of the general character. For the import of certain goods the industry hangs on the Government's import licensing policy. Calculations of costs and availability of supplies to maintain a programme of production may get out of control and eat into profit margins with an adverse turn in the import licensing policy. A tightening of imports may involve a hasty and costly

search for substitutes. When production limits are below the optimum size for full economy in management and efficient functioning, units cannot add to the number of their spindles or looms in an effort to reach the optimum level if they are located in the larger textile centres. Some kinds of production are subject to upper limit.

Considerable damage has also resulted from continued exchange control and import restrictions which have lasted for two decades. The experience of the working of these controls confirms the observation of Prof. Erhard that exchange control is the "worst form of disorder" and that it is "utterly ridiculous" to speak of its being necessary to maintain "order". According to Prof. B. R. Shenoy, these controls have introduced three sets of fundamental disorders in India. Firstly, a cut in imports has led to fabrication of domestic substitutes at high cost to the detriment of national product; intensified import restrictions, by impinging on essential supplies, have slowed down industrial output. Secondly, it has caused a gap between the internal and external price of imported goods and of gold which inflation had widened. This has led to a scramble for traffic in import licences and gold smuggling; these transactions have involved concealment into "black" earnings from the tax gatherer to incomes of the order of Rs. 200 to Rs. 300 crores each year and to anti-socialistic shifts in income distribution. It has made a heavy dent on national morals. Thirdly, this purposeless activity has diverted scarce resources of the State into futile administrative and policing expenditure while reducing tax receipts. To the dampening effects of these measures on enterprise must be added the effects of inflation and the heavy tax rate.

Thus we see that the bearing of controls on economic development is such that it cramps efforts on the part of ablest men in the country and it is diametrically opposed to the democratic way of life. Democracy and free economy are as logically linked as are dictatorship and State controls. Freedom is indivisible. Political, economic and human freedoms are a complex unit. It is impossible to detach one part without making the whole collapse. The inverted pyramidal industrial policy of the Government causes great concern and alarm to the industrious and enterprising people of Independent Sovereign Democratic Republic of India. The logical consequence and the rational conclusion of the gradually widening

Public Sector is the ultimate annihilation of private enterprise and initiative of the citizens thus encircling the whole economic field with its "octopus fingers".

The industrial policy of the Government should be recast on the following lines: Industries can be divided into three groups: the first, consisting of strategic industries, currency and coinage, atomic energy, post and telegraph, railways, social services, etc., in the Public Sector. The second group consisting of heavy industries which require huge capital outlays such as iron and steel, coal mining, oil exploration, etc., which are also to be undertaken at the present juncture by the State. But private enterprise should also be allowed to take part in this group on equal terms. Competition should be allowed and fostered between private and public enterprise on equal terms for efficiency. In the third group are all the other industries. This group should be left entirely for the Private Sector. If private enterprise in this field is lacking, the State can come in to fill in the deficiency. Thus private enterprise should be encouraged and instead of gradually expanding the Public Sector, as the economy grows, Public Sector should gradually diminish in its spheres giving place to private initiative and the Government's role should assume the shape of a pyramid as the economy becomes self-generating and self-sustaining. Till this point, a kind of restriction and control may be necessary, but as soon as this stage is reached it is better for India to have a free market economy as in West Germany.

India only stands to gain by encouraging foreign capital which will reduce unemployment and to some extent the problem of foreign exchange. Increased foreign aid also will help in this direction apart from developmental purposes. Only as a result of free competition, benefits are passed on to the consumer. Some argue that a free market economy will lead to concentration of wealth in the hands of a few. This argument seems baseless in the light of competition among producers, trade union movements and above all the progressive tax system.

As Prof. Shenoy says, Indian planners first tried with deficit financing. After witnessing a 7 per cent rise in price, the futility of relying on it for capital formation was realised. Then they turned to tax devices which also proved its limitations. The current idea of institutional changes will also have to be abandoned.

There is no safer device of maximising production than through a free market economy at least from the stage of "take off". It is also in line with the Indian tradition of tolerance, understanding and profound human sympathies. But some people argue that there is no comparison between West Germany and India. The tale of poverty, destruction and damage was distressing indeed. The rush of refugees from East Germany raised the rate of growth equivalent to those of under-developed countries. It is interesting to hear Prof. Ludwig Erhard, Minister for Economic Affairs in West Germany, say "It was a time when it was calculated that for every German there would be one plate for every 5 years; a pair of shoes every 12 years; a suit every 50 years; that only every fifth infant would be in its own napkins; and that only every third German would have a chance of being buried in his own coffin. That seemed to be the only life before us".

It is a tribute to the potentialities of the free market economy that production in West Germany increased 2½ times that of the best pre-war year. Industrial potential has multiplied six times. Exports put them in the third place in world trade. Gold and foreign currency reserves have risen from nil in 1948 to a total of D.M. 23 milliard. In the same period, it was possible to treble the social services as well as to build more than 4 million houses since 1949, the year when the first federal government came into operation. Private consumption rose from 29 to 51 mrd. D.M. between 1950 and 1955 (expressed in 1936 prices). Even factory workers were buying cars which was unheard-of in Germany before. It has been shown that the proportion of wages in the national income is and has always been greater in the market economy.

The need for free market policies is particularly great in under-developed economies where income being close to the margin of subsistence, substantial increase in savings are difficult without stepping up production; this renders it imperative that every possible care be taken to avoid administration and policy measures which may dampen effort and enterprise. Cannot we do what they in West Germany have done? Yes, if only we will. Let the people of India have the courage at least to give a chance for it.

II

G. RANGA RAO

All economic activity, Prof. Robbins remarked, involves planning. But planning may be either of totalitarian type or of democratic nature. Totalitarian planning necessarily entails numerous controls which are by their nature deprivations on individual liberty. Democratic planning, on the other hand, seeks to foster the growth of healthy institutions conducive to rapid economic development. West Germany during the post-war period successfully experimented with democratic planning and reached phenomenal heights of prosperity. German recovery was free from all vexatious controls and is rightly called the "German Miracle".

Unfortunately for India, the leaders chose socialist planning because of its irresistible dogmatic appeal. Consequently, the last nine years of hectic planning narrowed down the sphere of individual enterprise and action.

That controls need not be inevitable has been conclusively proved by Prof. Ludwig Erhard in his book "Prosperity Through Competition". Prof. Ludwig's most imaginative and courageous experiment of "Social Market Economy" not only led the country to "prosperity through competition" but established his thesis that high levels of production and employment could be reached without the State impinging on everyday lives of the citizens. Every democratic planning, therefore, should influence the "forms" of economy and not the very processes of production. German example is an outstanding refutation of "the age-old antithesis between unbridled liberalism and soulless state control and it is a middle way between out-and-out freedom and totalitarianism".

The case for free market economy gained strength also from British and American experience with controls during post-war period. Controls were necessitated in those countries to check the excess demand created by enormous war expenditure and thus

to prevent galloping inflation. It was also aimed that controls should prevent the purse from being the sole rationing agent of scarce consumer goods and factor services. But despite the able implementation by both British and American Governments, controls could not be very effective and inflation manifested itself in "queues, production bottlenecks, empty shelves and black-markets".

In peace time, controls are necessitated by planned investment-demand for factor services which far exceeds the voluntary release of factors through savings. In other words, whenever the government is determined to maintain a given proportion between investment-goods sector and consumption-goods sector which is not in consonance with people's wishes as expressed in the voluntary rate of savings, the resultant price increases are sought to be prevented through the imposition of arbitrary controls. This, in short, constitutes the rationale of controls in a planned economy. But it is obvious *ipso facto* that controls evade the problem of inflation and only put off the Judgement Day for mere repression of symptoms is not curing the disease.

Controls may be broadly divided into two categories, viz. direct and indirect. Direct controls denote the price controls, rationing, allocation of scarce materials, licensing, etc. Indirect controls refer to fiscal and monetary checks in the economy. Both supplement each other in a planned economy. Before embarking on a full-length discussion of these two kinds of controls, a brief enumeration of the objectives of these controls is warranted.

The foremost objective of controls is to force out of the community sufficient savings, either personal or corporate, so that the planned investment is successfully carried through. In the course of implementation of investment programmes, cyclical fluctuations of output and employment are sought to be controlled. Secondly, controls are also supposed to ensure an equitable distribution of scarce goods among the people. Thirdly, it is aimed that no pressure groups should be in a position to rig the market for their own selfish ends. Lastly, controls are expected to promote economic development with stability. Thus the market mechanism under controls is denied the pride of its place and the allocative and distributive functions of the price systems are appropriated by the centralised state machinery.

"The proof of the pudding is in the eating" — so the home-truth runs. Let us examine the utility and nature of each kind of control in practice. Then only a considered conclusion on the wisdom of imposing controls can emerge.

It is an axiomatic truth in economics that consumption-demand arises out of the disposal of factor-income. Fiscal and monetary controls operate on the disposable income of the citizens and do not impede the free functioning of the market mechanism.

Fiscal and monetary controls are necessitated in India by the formidable planned expenditure envisaged in the Second and the Third Plans. The Second Plan, with an inordinate emphasis on heavy goods industries, unleashed into the economy large doses of inflationary potential. The large capital coefficients inherent in the heavy industries coupled with long gestation periods release explosive inflationary forces, for, the effective monetary demand outstrips the supply of factors and of consumption goods. The Central Government has been financing the creation of social overheads by successive deficit budgets and cheap-money policy. A few figures may help the situation to be put in its proper perspective. The amount of money in circulation increased from Rs. 1,803.79 crores in 1951-52 to Rs. 2,497.87 crores in 1958-59 and the deficit financing undertaken in the successive Plans is of the order of Rs. 1,594 crores.

Our economy could not stand the onslaughts of such powerful doses of inflation. Consequently, prices shot up by 20 per cent or more since the conclusion of the First Plan and prices are still shooting up without respite. These rising prices deflate the real value of successive Plan outlays and thus cause frustration to the people and planners alike. Growth-impulses in the economy might cause only a functional rise in prices to the tune of 1 per cent or so. A 5 per cent rise in prices per annum is a sign of ill-health of the economy. Therefore apart from the evil micro-economic distribution effects flowing from inflation, the scope for deficit financing and cheap-money policy is very limited in our country due to the operation of Quantity Theory of Money. Consequently, the multiplier effect is weak which is a logical outcome of structural inelasticities and the increased propensity of the people to finance inventory investment. "Inflation," as the IMF Mission rightly paints out, "is a socially costly and economically wasteful

means of increasing investment."

Unfortunately, this moral is lost on our planners. Instead of stabilizing the value of the currency by slackening the tempo of State-financed investment, our Government seeks to ward off the dire effects of inflation by clamping controls on the economy and regimenting the individual. Taxes are stepped up to the breaking-point as witnessed in the budget of 1957-58 and in the successive ones in order to mop up the surplus purchasing power accruing to the community. But it is not realised by the authorities that excessive direct taxes increase the inelasticity of the supply curve of labour and other factors. Similarly, exorbitant indirect taxes like excise duties affect adversely the demand curve for factor services by private enterprise. These limitations along with others like extreme shyness of Indian capital, lack of skilled labour, dearth of managerial ability and production bottlenecks like shortage of power and transport must be borne in mind before imposing further fiscal and monetary controls. Disregard of these considerations and imposition of excessive company taxes also account for the reluctance of foreign capital to migrate to India despite the periodic wooings by the Finance Minister and his officials.

To set matters right, the Government has to resist every temptation of expanding the inflationary potential which would lead to the familiar price-wage spiral. The recent strike threat by the Central Government employees is a symptom of the inflationary sore in the economy. Hence Government has to reverse the present policy of deficit budgets and introduce a surplus budget as done in Pakistan now, in order to consolidate the gains of planning. It is obligatory on the part of the Government to introduce functionalism in public expenditure and to arrest the operation of the familiar Parkinson's Law. Then only surplus budgets can be attained as done in Germany. The recent Finance Act (1960) is a step in the right direction in so far as it gave fillip to private enterprise by extending tax holiday for new companies and abolishing the obnoxious wealth tax and excess dividend tax on companies. These prudent measures would foster the growth of voluntary investment and savings.

Direct controls are needed in our country because of the asymmetry created between supply and demand under the impact of planning.

Price controls are prominent among direct controls. They are expected to safeguard the interests of the consumer by ensuring reasonable prices, the interests of producer by promising fair and stable income, and to impart stability to the economy in the flux. For the effective implementation of this stupendous task, administration should be honest, efficient and responsive. But even the most successful price controls as found in the U.K. and U.S.A. after war could only control the rate of rise in prices for price is an operative force registering the changing economic weather.

In India, the record of the Government in stabilising agricultural prices is one of woeful failure. With Korean war, prices boomed skywards and with the tapering of the Korean war boom, the prices slumped and the process was accentuated by the series of bountiful harvests resulting in the very low price level of 1954-55. As the monsoons failed, up rocketed the prices, reaching the peak in 1957 and necessitating the appointment of the Foodgrains Enquiry Committee. It is now clearly discernible that the attitude of the Government veers from alternating swings of self-gratulation and self-reproach following the vicissitudes of monsoon. It is a sad reflection on Indian planning if the food problem still remains a will-o'-the-wisp after nine years of planning. Despite Government's enormous powers under the Essential Commodities Act, 1955, the emancipation from foreign bread is still a mirage. Government's attempts at price fixation without adequate data gave rise to curious anomalies as witnessed in the low prices of cotton in 1950-51, low rubber prices and the Gram Product Order of 1953 which fixed gram prices at Rs. 10 per maund.

The decision to introduce State trading in foodgrains as adopted by the National Development Council is no panacea for food problem since the problem is essentially one of shortage. Socialisation of trade connotes, in reality, only bureaucratisation of trade with all the accompanying evils of red-tapism and nepotism. The real remedy lies in ensuring better facilities for credit, marketing and production.

The record of the State in price-fixation in the case of manufactures also displays the lack of realism on the part of the Government.

The prices fixed for steel, sugar and cotton textiles were determined on the basis of 3 to 4 per cent return on working capital and

about 7 to 8 per cent on gross stock. At one time, controlled price of sugar was lower than the free market price of gur. On this score, the rate of return offered on National Savings Certificates compared well with return on productive investment which was very low after the deduction of various commissions and charges.

Price controls are not advisable because they distort the cost-price relationship and are not conducive for economy and effort. Partial price controls cannot be successful because of spill-over of purchasing power from controlled sector to the uncontrolled one. But if comprehensive controls are introduced, regimentation of the individual is the outcome.

Controls also entail colossal expenditure on administration. The cost of rationing to the Government in 1952-53 was Rs. 9.5 crores. The popular abhorrence to controls is also due to the "Bumbledom" in the offices of the Government. Mahatma Gandhi decried controls because they destroy self-reliance among people. In human affairs, means are as important as ends. The injurious controls besetting India can be dispensed with if a proper appraisal of forces of dynamism released by individual initiative and free enterprise is made and then only, will the era of plenty become a reality.

III

S. JOSEPH

The principal trends in the evolution of economic policy since the Great Depression throw doubt on the extent to which the automatic mechanism of demand and supply which, on the whole, had operated so efficiently during the nineteenth century, is capable of coping with the present dynamic world, which witnesses deep-rooted maladjustments and disharmonies in the ordinary business of life. Thus the economics of *laissez faire* — the agility of the "Invisible Hand" — has been replaced by a measure of conscious planning utilising the field of human faculties of observation and experiment, reason and foresight.

Almost everyone is agreed upon the need for planning, but not on the manner of planning. Hence planning is difficult to

define. Sir Oliver Franks, in his lectures on "Central Planning in War and Peace," defines planning thus: "I think the essential elements are plans consisting of decisions of policy quantitatively expressed in the form of programmes and such measures as in particular circumstances may be necessary to ensure the performance of these programmes. The essential elements were common to all planning and controlling organisations of the war." Sir Oliver, in fact, considers only the "physical" or "quantitative" aspect of planning. He does not give sufficient importance to the moral aspect of planning. That is, while describing the role of controls, he does not emphasise the influence of the consumer on the pricing system to determine the allocation of resources. In fact a planned economy has not only a physical aspect, but also a moral aspect.

The essence of planning is that it involves order, subordination, regulation and in general control. A hasty reasoner may think that there should be no planning if our goal is freedom which is the greatest of political good. But real freedom implies reasonable restraint. The power of the State is partly legal and partly economic and the State exists to exercise reasonable restraint to root out asocial attitudes in political as well as economic life. Also "control" does not necessarily mean "reduction" or "restriction." The philosophy of control "suggests the deliberate application of whatever policy will best serve the social interest without prejudging the issue between collective ownership and administration or some form of private interest."

The primary principle of economic planning is to control the general aim and objectives of the plan. The planned economy involves something more than the mere adjustment of means to ends; it involves also the conscious choice of ends. The planners have to learn to distinguish between good and bad plans and to suit the objectives of planning to the particular problems and circumstances of the moment. Proceeding on these lines, we find that the First Five-Year Plan was basically a preparatory and stability plan, which sought to strengthen the economy at the base. The Second Plan, which gave us the true taste of planning, was really a comprehensive one as it sought to coordinate and integrate the different segments of the economy. Thus, from the beginning, the general aim and objectives of our Plans were not merely to increase production potential, but to secure a social and economic order

* A. P. Lerner: "The Economics of Control."

based on the values of "justice, social, economic and political".

In a planned economy, the productive means and their mobility between places and uses are next to be controlled: But controls in these fields raise the problem of how to provide proper accommodation to the free initiative and enterprise of the individual. Unless proper area is allotted for private enterprise, the economy as a whole will become collectivistic. Under the Industrial Policy Resolution Act of 1956, for example, it is said that considerable scope is given for private enterprise. But in reality private sector is not given the place which is due to it. Also, as long as the threat of nationalisation is there, it will retard and has retarded the economic development and indirectly encroached upon the right to work provided in the Constitution. So a sound policy should enlist the fullest co-operation of private sector by allotting ample scope for it to develop. In under-developed economies like India, the general rule should be that economic rather than political forces should determine the location of industries so that goods may be produced at lower costs.

In a planned economy, the evils of unequal distribution of wealth is to be remedied by using proper means of control. The disharmonies in distribution may be corrected by direct and indirect methods. During the past nine years of planning, tremendous work has been done to distribute the national income equitably. The Indian tax structure was modified in the light of revenue requirements of the Second Plan. New direct taxes such as wealth and expenditure taxes were levied and the elements of progression have been added to them. Indirectly, subsidies, grants, educational and medical services are provided to the low-income receivers in the country.

Left to themselves, people are likely to spend their incomes on goods of all sorts, chiefly on consumption goods, discounting the future. Hence a programme of control over consumption of certain types of luxuries and of goods which are not worth their cost of production. During the Second Plan, the average level of consumption in the economy increased somewhat less than the national income inasmuch as a larger proportion of domestic output was to be saved and invested. In India, people were averse to banking habits accumulating large "idle-hoards". The nine years of planning shows a remarkable progress of educating the people in banking habits through the extension of the State Bank and the National

Savings programme. Further progress in this field has to be made to make the rural sector contribute to the financing of the Plans.

In order to make men and material cheap for the execution of the Plan, the planning authorities may be tempted to control the prices. But it should be noted that direct price control does not solve any problem; instead it creates new problems. Evasion will take place and black-markets will develop. It also means a check on the incentives to the producers. Furthermore, if price control becomes permanent (and this is always a serious possibility) the economy will be saddled with a maze of bureaucratic regulations which will endanger freedom. In India price control will not be a success because of the inadequate organisation of economic life. So, instead of attempting at direct price control, it is advisable to have indirect measures such as "price-supports", "rebates" and "parity-prices" so as not to interfere with price mechanism. In fact market mechanism conquers planning according to Prof. Ludwig Erhard.*

The force of competition and the urge for private gain are relied on to induce the banks to expand credit facilities. This will make it difficult for the planning authorities to foresee accurately the credit-flow. It is, therefore, not surprising that nationalisation is in the forefront of the planned economy. But this is too much to be done in a democratic country. Instead, a policy of rationing may be followed. There are already a series of credit controls. But the Reserve Bank feels that the cumulative effect of these restraints on price level has not been adequate. Hence a fresh dose of credit restraints recently administered to the money and capital markets by the Reserve Bank in a bid to keep the price level under check and to ensure economic development with stability. But the more constructive approach would be to solve the underlying cause of inflation, namely, the increase in total income. In the Second Plan much emphasis has been laid on capital goods which will bear fruits only in the long run. As there is a longer "time-lag" between the money input and the commodity output, there is an upward trend in prices, which affects the consumers. Therefore, instead of solely concentrating on major projects, equal attention should be paid to minor irrigation works which will yield consumption goods in the short run.

* Dr. Ludwig Erhard: "Prosperity through Competition."

The population size is treated as a separate factor chiefly affecting the current national "per capita" income. Naturally the planners may be tempted to control the population trend. In the Second Plan, active steps were taken to arrest the growth of population by Family Planning. But it has to be noted that population is not the only factor that affects economic development." Also, on the democratic and moral plane, it has to be realised that "man's right to perfect his moral nature and to be treated as a responsible human being does not depend upon the State."? Biological controls imply the control of human race itself; and a plan is for the betterment of the human race, not for the destruction of it. It seems better to have a less economically perfect, but more human system than a blind mirage of equilibrium. In the context of Population versus Standard of Living in India, energy, initiative and skill on the part of those in charge of the production machinery are called for.

As actions of one country impinge upon others -- in tariff policy, currency valuation, international investment and lending -- change of national policy must be controlled. The objective of these controls is twofold; namely, to restrict the outlet of essential scarce materials for the furtherance of the plans and to protect the internal industries so as to make the country as self-supporting as possible. The National Planning Commission favoured the continuation of controls during the Plan period. But these controls must rest on a policy of social priorities in the use of foreign exchange. Precise security and conditions must be offered for foreign capital as against the vague ones prescribed by the External Capital Committee. If better conditions are offered, more resources will come forward. We need not be pessimistic regarding foreign investments and loans. We can use foreign capital and still stay free. These are the optimistic gambblings in drawing up the resources for the Indian Plans.

Today technical change has made possible and necessary a greater measure of public control than ever before. The right conception and right organisation of that control is one of the greatest internal problems of this generation. The price mecha-

* Prof. Sauvy, Leader of the French delegation to the World Population Conference.

† T. P. Neill: "Weapons for Peace."

nism has certainly wonderful virtues. But experience has shown that there are some things which competition cannot do well whereas economic planning can do them well. Hence a measure of control by the State is inevitable. But control does not necessarily mean collectivism. When an industry is State-owned, many difficulties persist, because "public ownership and accountability do not go well with commercial efficiency and consumer consciousness." Therefore, the prime duty of every democratic and planned State is defined as that of enforcing public accountability, supervising, encouraging, checking, initiating, but not itself necessarily operating services. For,

"The river Rhine, it is well known,
Doth wash your city of Cologne;
But tell me, Nymphs, what power divine
Shall henceforth wash the river Rhine?"†

*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

* R. Kelf-Cohen: "Nationalisation in Britain: Then end of a dogma."

† Quoted by Jathar and Jathar: "Indian Economics."

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