A NEW ECONOMIC POLICY FOR INDIA

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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

MURARJI J. VAIDYA

The time has come when we must have recourse to introspection on a national scale, in order to evaluate our past achievements realistically, to realise our errors, and to change our course, so that we steer clear of ideological rocks and dangerous eddies resulting from torrents of oft-repeated slogans based on confused thinking. It is, therefore, refreshing to find that the Prime Minister, Mrs. Indira Gandhi, addressing the reconstituted Planning Commission in September, 1967, observed: "We have much to be proud of but also something to regret in what we have achieved over 20 years. Twenty years may be a moment in the life of a country, but it is a major slice in the life of a generation. We have constantly to ask ourselves how our policies and practices are changing life for the mass of our people, making it more bearable, more satisfying. We must learn from the rich experience of other peoples and evolve action which makes full use of this experience."

This process of disenchantment with centralised comprehensive planning, against which some of us had been warning the country since 1956, has begun in governmental circles only recently. On the eve of Republic Day, on January 26, 1967, the then President of India, Dr. S. Radhakrishnan, emphatically said: "We cannot forgive widespread incompetence and the gross mismanagement of our resources."

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*Text of the presidential address at the 11th annual general meeting of the Forum of Free Enterprise on October 4, 1967, in Bombay.

Mr. G. L. Nanda, a former Planning Minister, associated for long with the Planning Commission, admitted in March 1967 that planning had failed because it was not related to the realities of the Indian context. He denounced the plans because there was "no proper balance between our ambitions and the capacity of the people to endure hardship."

The public mood has been reflected in the utterances of Mr. Jayaprakash Narayan, respected Sarvodaya leader with mass contacts. He has repeatedly assailed "misdirected planning and development". He has condemned its giganticism for "placing a huge burden on the poor man's back without doing anything for him."

An objective assessment of Indian economy, after 15 years of planning, by the World Bank expressed disappointment with poor growth rate of 3 to 4 per cent per annum which was virtually neutralised by increasing population. There was practically no improvement in living conditions during the Third Plan, and the structure of the Indian economy remained unaltered, the Report pointed out.

It was this process of disenchantment among the masses which led them away from socialist slogans. A scientific analysis of 1967 general elections by the Indian Institute of Public Opinion came to the conclusion: "The true centre of gravity of the 1967 Lok Sabha is thus slightly right of centre. It is probably an error to suppose that the country has endorsed a left of centre economic approach."

An objective assessment of achievements and failures under our three Plans is necessary to understand the mistakes and to revise the present economic policies. Briefly, the achievements are:

(1) National income at 1948-49 prices increased from Rs. 8,850 crores to over Rs. 15,000 crores.

(2) Food production went up from about 55 million tonnes to an estimated 90 million tonnes potential achieved just before the severe droughts of 1965 & 1966.

(3) The index of industrial production (base year 1956 = 100) went up from 73.5 to about 200. Significant increases in production in steel, cement, sugar and a number of other industries were registered. Several new industries were started.

(4) In the field of social services, such as education, health, etc., considerable headway was made.

(5) Finally, planning can be said to have given an impetus to the thinking that the country should make rapid and large-scale economic progress.

As against these achievements, there are glaring deficiencies, i.e., the price paid for planning. It is this disproportionately high price which has led to loss of faith in planning on the part of the common man, as rightly pointed out by Dr. D. R. Gadgil, the new Dy. Chairman of the Planning Commission.

Briefly, the deficiencies are:

(1) The country, though primarily agricultural, is becoming increasingly dependent on others for food supplies. In the last four years, food imports have doubled to over 12 million tonnes. In 1966, the freight alone on imported food cost the country Rs. 106 crores. There is no immediate prospect of overcoming this reliance on others.

(2) Prices have been increasing at a pace which can be described as galloping inflation, thus causing unbearable hardship to millions in fixed income groups. According to the "Report on Currency and Finance 1966-67", published by the Reserve Bank of India, during 1966-67, "the price rise was of the order of 16.5 per cent, on top of similar increases of 15.2%

in 1965-66, 9% each in 1964-65 and 1963-64." Food prices rose by 24.1% during 1966-67, "on top of increases of 14.1% during 1965-66, 8.9% in 1964-65, and 14.2% in 1964-65." Considering the fact that in a poor country, the major portion of a family budget is spent on food, the distress caused to the public can easily be imagined.

(3) The industrial sector of the economy is affected in two ways: (a) The capital markets are virtually dead; (b) Recession in some sectors such as capital goods and engineering industries has led to retrenchment and considerable idle capacity.

(4) The foreign exchange assets which stood at about Rs. 1,030 crores when planning began had dropped down to barely Rs. 100 crores above the minimum statutory limit of Rs. 200 crores. This too, after liberal borrowings from the International Monetary Fund amounting to about Rs. 260 crores. In the meantime, the annual adverse balance of trade (i.e. excess of imports over exports) had increased from Rs. 50 crores to over Rs. 600 crores. The foreign debt, likewise, has shot up from about Rs. 32 crores to Rs. 2,591 crores (in 1967-68 Budget, it is over Rs. 5,400 crores after calculating the effect of devaluation which itself was an outcome of faulty planning).

(5) The total Public Debt and other liabilities of the Government of India had increased from Rs. 2,565 crores when planning began to Rs. 11,029 crores at the end of three Plans.

In the 1967-68 Budget, it is estimated at Rs. 15,308 crores!

(6) Unemployment had also increased considerably. The three Plans are estimated to have generated employment of about 24 million, but each Plan started with an increasing backlog of unemployment.

At the beginning of the Fourth Plan, it was estimated at 12 million.

The explanation given by the authorities for this deterioration in economic conditions are: the two conflicts, one with Communist China in 1962, and the other with Pakistan in 1965, had increased our defence outlays and upset development planning, and, (b) two droughts of 1965 and 1966 over some areas upset the economy. While these factors no doubt aggravated our economic malaise, the real explanation is to be found elsewhere — in the strategy of planning.

The First Plan (1951-56) was a mere collection of projects, and mainly dealt with agriculture. From 1956 onwards, however, the centralised comprehensive planning of Soviet model was adopted by the planners. This strategy of planning has failed even in totalitarian Soviet Russia with all the powers of a dictatorial police State at the disposal of the rulers to regiment the life of the people. After 50 years of bitter experimentation, the U.S.S.R. and other communist countries are going back to free market economy, gradually but steadily and inevitably.

What are the lessons that we have learnt from our own experience of centralised planning?

The first lesson is that agriculture is our basic asset, and it can be neglected only at our peril. If we want to develop a viable economy with a strong industrial sector, we should first develop agriculture to its fullest and at its best. This also conforms to the traditional pattern of economic growth. In other words, if agriculture is first developed to the fullest, a prosperous peasantry demands consumer goods. Enough resources are generated through their savings and through the resources generated by the consumer goods industries from their retained profits to expand those industries. This in turn generates demand and resources for capital goods industries which in turn lead to heavy industries. There is no dislocation of the economy in such a natural order of development.

In centralised comprehensive planning, this order of priorities was reversed. The scarce resources of the economy were diverted to the massive heavy industries sector in creating overlapping and excessive capacities in many cases. In the process, agriculture was starved of the necessary resources, and the seeds of the recession in heavy and capital goods industries were sown. In the first place, for lack of funds the Government could not provide to the agricultural sector the necessary feeder roads, irrigation, better seeds, warehousing facilities, etc. The last minute attempt to dig tube wells to stave off disaster in Bihar and other famine areas demonstrated this graphically. It is interesting to note in this connection that in historical times, the Indian rulers had realised the importance of agriculture. The Greek envoy, Megasthenes, writing on Chandragupta Maurya's empire, which also covered the Bihar area, now in the grip of a famine, observed:

"The greater part of the soil is under irrigation and consequently bears two crops in the course of the year... it is accordingly affirmed that famine has never visited India and that there has never been a general scarcity in the supply of nourishing food."

Mr. Jaya Prakash Narayan has rightly pointed out that Bihar is one of the richest areas in water resources, but suffered because of planners' preoccupation with industries. He said: "Being deeply engaged in dought relief work in Bihar, I have been forcefully made aware of the shocking, even criminal neglect from which agricultural development had suffered in the 19 years of Swaraj in that State —

the consequence in part, at least, of misconceived planning."

A special report prepared by a member of the Board of Revenue of Madras State has also underlined the gross neglect of agriculture. The report pointed out that at the rate at which things were being done, it would take a hundred years to complete special repairs to all ryotwari tanks in the State and at least 35 years to complete all the ex-Zamin tanks. The report refers to the "very meagre and grossly inadequate budget provisions made under the various food production schemes despite representations for bigger outlay." Similarly, the Irrigation Minister of Madhya Pradesh has confessed that at least 15 major irrigation projects in his state had not been taken up owing to lack of finance. And yet, even now state after state is putting forward claims for steel plants and the elusive small car project!

While on the one hand the Indian farmer is thus denied the necessary infrastructure facilities, at the same time, in order to finance heavy industries, increasing indirect taxes are being levied on articles consumed by him such as kerosene, sugar, soap, etc., with the result little money is left in his own hands for getting the wherewithals required for increasing output. Yet, the farmer is expected to help the country achieve self-sufficiency in food by 1971!

The situation is bad enough on the production front. It is made worse by state intervention in the distribution of foodgrains.

In the first place, artificial food zones have been created, with each state behaving as if it were a sovereign entity. The official thinking leading to creation of the food zones is that they prevent food from surplus areas being siphoned off by high purchasing power areas like cities. It is also believed that private trade is incapable of holding the price line. Therefore, the state governments and their designated agencies such as the Food Corporation of India or cooperative societies should procure foodgrains from farmers on a monopoly basis, deal with each other on inter-state basis, thus preventing profiteering by private trade. In practice, however, this turns out to be an anti-farmer and also anti-consumer exercise, depressing food production and increasing food prices.

Because of food zones, the farmer is prevented from selling his produce at a higher price to other areas of the country. Thus he is deprived of the reward of a higher price for his labour. Under monopoly procurement, the farmer is compelled to sell his produce only to the state or its nominees at low prices. The Governmental and Co-operative agencies, however, cannot resist the temptation of profiteering at the cost of the farmers and consumers. For instance, it was recently discovered that the Punjab Government was charging a hidden "export bonus" of Rs. 2|- per quintal on foodgrains sold to deficit states. The Food Corporation and the marketing cooperative in Punjab were also profiteering at the cost of the farmers and the consumers!

The increase in prices of rationed food articles shows how the consumer is also the loser in this statist set-up. In Bombay, for instance, the price of wheat sold in fair-price shops has been increased from 41 paise in 1964 to 63 paise with rationing in 1966.

The present set-up has led to a psychology of scarcity in that surplus states are known to give lower figures of production in order to retain their surplus, while deficit States are known to bloat up their figures of deficit. The Food Minister of West Bengal, Dr. P. C. Ghosh, revealed in April 1967 that while the actual deficit of his State was only 15 lakh tonnes, the previous Government had given out the figure of 22 lakh tonnes and thus obtained from the Centre 15.9 lakh tonnes of foodgrains! Considerable wastage is also involved in the handling of food by governmental agencies. For instance, a Calcutta report of August 1967 disclosed that 500 tonnes of imported foodgrains were going waste in Calcutta docks. A New Delhi report in the same month said that at least 15,000 bags of wheat valued at Rs. 8 lakhs were rotting in the godowns of the Food Corporation of India. In fact, the wastage and inefficiency in the handling of foodgrains is revealed by the differences in figures of procurement and market prices for jowar by Maharashtra Government.

Year 1965-66	Procurement Price Rs.	Transport, etc. administrative charges Rs.	(price per quintal) Market price Rs.
Inferior quality	48	10	58
Average quality	51	10	61
Superior quality	53	10	63
Year 1966-67			
Inferior quality	49	10	59
Average quality	54	10	64
Superior quality	56	10	66

Even after imposing this huge administrative burden, the Government charges the consumer the price of Rs. 75|- per quintal irrespective of variety. The special study team appointed by the Administrative Reforms Commission has, therefore, rightly recommended the abolition of food zones and the giving up of monopoly procurement which comes in the way of increased production. If the energies dissipated by the various Governments on food procurement and distribution can be concentrated on providing warehousing facilities, considerable portion of annual food lost during handling and storage, estimated by a Committee of the Planning Commission at 7.3 million tonnes, or about 9 per cent of 1964-65 production, can be saved.

It is time that our planners learnt that the farmer is the king-pin of the Indian economy. As an eminent authority on agriculture has put it, even an illiterate farmer understands the language of higher prices. The Ceylonese example of increase in rice production by 16% by giving the farmers a price incentive should be an eye-opener for us.

The second lesson of centralised planning is that we should not plan beyond our resources. During the Second Plan, by laying down targets beyond the real resources available, there was deficit financing to the tune of Rs. 950 crores. While the planners set a ceiling of Rs. 550 crores on deficit financing in the Third Plan, the actuals were Rs. 1,150 crores. Deficit financing in the first year of the Fourth Plan (1966-67) has been put at Rs. 190 crores although the Finance Minister had expressed his determination not to resort to it.

While there is some dispute on the actual quantum of deficit financing, because of differing basis of calculations, the figures of money supply with the public as given below leave little doubt that the phenomenon is due to our over-ambitious Plans.

Plan Year	At the beginning of	Money Supply Rs.
1950-51	I Plan	2,016 Crs.
1955-56	II Plan	2,217 „
1960-61	III Plan	2,869 „
1965-66	IV Plan	4,529 „

It is distressing to note in this connection that the planners and governmental authorities have been seeking to mislead the public by concealing deficit financing under different heads. For instance, "Reserve Bank support to public loans" and "unfunded debts" are terms used to conceal deficit financing. The increasing unauthorised overdrafts of State Governments with the Reserve Bank of India are yet another form of deficit financing!

Unless increase in money supply is proportionate to increase in the production and availability of food articles and consumer goods demanded by the public, galloping inflation is inevitable. Today the Government itself has become a victim of its own inflationary policies. According to the Gajendragadkar Commission Report, for every 10 point increase in the all-India working class consumer price index, the dearness allowance commitment of the Central and State governments and public sector and local bodies increases by Rs. 87 crores!

The only way to restrain inflation is to cut down and equate Plan outlays to available resources, and increase production in all sectors. Remedies like wage, dividend and price freeze are administratively impossible of enforcement, and economically unsound, in that, they overlook the basic problem, namely, the serious imbalance between money supply on the one hand and goods and services available to the public on the other.

The third lesson our faulty planning has taught us is that money fructifies better in the pockets of the public than in the coffers of the State. Under the Plans, the central and state governments have been diverting to themselves the bulk of people's savings through heavy direct and indirect taxes and other means. One such means is inflation induced by centralised planning. In effect, inflation is a tax on the cash holdings of the community by surreptiously reducing the value of the money. Inflation is also a means of reducing Government's obligations on account of pensions, small savings and other public borrowings, life insurance, provident funds, etc. The Government gets higher priced rupees and returns lower-priced ones.

Today, the bulk of resources is diverted to the Government sector under the Plans. Indirect taxes by way of excise have increased from Rs. 68 crores when planning began to Rs. 1,231 crores in the 1967-68 Budget. The total taxes at the Central and State government level were Rs. 739 crores in the first year of the First Plan and in the last year of the Third Plan went up to Rs. 2,998 crores. In terms of percentage of national income, it doubled from 7.4 per cent to 15 per cent. It should be remembered that the brunt is borne by a small number of assessees, numbering 2.7 million in a population of 530 million. Taxation, having become expropriatory, has now gone to the length of forced loans by way of the Annuity Deposit Scheme. The recent 20% increase in the incidence of Annuity Deposit as also the lowering of the exemption limit from Rs. 25,000 to Rs. 15,000 are highly deplorable particularly when one of the committees appointed by the Government itself has advocated the abolition of this administratively cumbersome and morally reprehensible measure. The revision of rates through a Presidential Ordinance, while Parliament is due to meet in a few weeks, shows how democratic processes are getting eroded in the desperate search for revenues.

If the monies diverted to the Government Exchequer had been more productive than in private hands, the people would not have been losers as they are today. Unfortunately, as every-day experience reveals and Audit Reports confirm, the Government happens to be a mere spending machinery and not a productive mechanism. The wastage of public funds on an ever-increasing bureaucracy and in inefficient handling of projects has reached phenomenal proportions. For instance, the Punjab Government Audit Report raised 91,000 objections involving Rs. 74 crores. The Report pointed out that irrigation projects built at a cost of Rs. 167 crores were run at a loss of Rs. 3.97 crores!

The major premise that the Government is capable of stimulating economic development by enlarging the Public Sector has also failed. So far as the Central Government undertakings are concerned, the report of the Auditor and Comptroller-General of India has pointed that for the year 1965-66, on the capital employed of Rs. 2,226 crores, the return is Rs. 9.93 crores. Hindustan Steel in which a massive investment of over Rs. 1,000 crores has been made showed a net profit of Rs. 2.14 crores in 1964-65 and Rs. 1.66 crores in 1965-66. The cumulative loss since inception till March 1966 was Rs. 59.3 crores. The Pande Committee estimated that the Durgapur Plant alone has lost about Rs. 13 crores during 1966-67 because of inefficient management. The Public Sector units of State Governments fare no better. Recently, a Special Committee report on Durgapur project of the West Bengal Government in which Rs. 54 crores of public funds have been invested, pointed out a number of instances of corruption and inefficiency, such as *overtime payments exceeding the number of hours in a day!*

According to the recent West Bengal Budget, the loss on State Government schemes had increased from Rs. 1,08,71,000 in 1965-66 to Rs. 1,57,60,000 in 1966-67.

The loss to the nation can be estimated from a Survey made by the Economic and Scientific Research Foundation. For every Rs. 100 invested in private sector, the income produced was Rs. 34.6 as against Rs. 7.8 in the Public Sector, thus involving a loss of about Rs. 27 for every hundred rupees diverted from the pockets of the people to the coffers of the State. Thus, "the national loss in aggregate industrial output during the Second and Third Plans works out at Rs. 206 and Rs. 382 crores respectively, or about 30 per cent of actual net output generated in the industrial sector during the last two plans. Taking the investment outlays in the Second, Third and Fourth Plans together, the aggregate loss in net industrial output would amount to nearly Rs. 1,500 crores or Rs. 100 crores per year. The low efficiency of the government undertakings can thus be said to be responsible for a loss of Rs. 100 crores every year (including the anticipated rate of loss in output in the Fourth Plan)."

We have reached a situation where lessons of the past cannot be ignored. However painful it may be to those who have sworn by ideologies, in the interests of public welfare, ideology has to be given up in favour of realities. A look around shows that even communist and other socialist countries are changing their policies very rapidly. Burma, for instance, which rushed into socialism and found its economy tottering is now veering back to a free economy. In September 1966, controls were removed in trade in 34 food items. The return to private trade saw an immediate improvement in the quantities of the goods available to the public. In Great Britain the Labour Party, which outgrew its fascination for nationalisation a few years ago, has gone a step further and is actively in favour of private enterprise. Mr. James Challaghan, as Chancellor of the Exchequer, said in April 1967: "Within the mixed economy it is the Government's policy that the private sector should be encouraged to be efficient and to expand. That means, among other things, that it must be profitable — it must be able to secure a good return on capital employed in order to reinvest in new plant and machinery."

The changes in Soviet Russia are even more remarkable. The Liebermann thesis of "profit motive" is proving successful and has been extended to a large number of enterprises. Now there is new thinking that small enterprises be allowed to be run by individual shareholders, i.e., a return to private enterprise.

The remedy to our maladies lies in a reorientation of our economic policies and planning. Instead of centralised comprehensive planning, the indicative planning strategy, successfully applied in countries like France, should be adopted. The Government should indicate to the public the directions of growth and concentrate its attention on infrastructure facilities essential for economic growth. In this connection, a reference has to be made to the seriously deteriorating law and order situation in the country. The functioning of any civilised society is not possible unless the Government firmly maintains law and order. It is distressing to note that some of the State Governments, whose ministers have sworn due allegiance to the Constitution to uphold the rule of law, are actively encouraging "Gheraos" and "Bandhs" which are now declared by the High Court as unlawful activities contrary to the rule of law. These will have already produced serious repercussions not only on the economy, but also on our democratic way of life and the morale of the nation.

A stage has also been reached when the whole set-up of controls needs to be scrapped, a drastic reduction in Government expenditure effected and confiscatory taxation brought down to a reasonable level. The phenomenal progress made by countries like Malaysia holds a moral for us. It is one of the few countries in the world where the cost of living in the post-world war period has remained stable. Planning in Malaysia has meant increasing standards of living for its people. The man behind Malaysia's economic development, Dy. Prime Minister, Tun Abdul Razak, has stated, "Private enterprise served the cause of development in Malaysia with considerable effectiveness. It has injected into the economy a degree of vigour and initiative which is one of our greatest assets."

The new economic policy for India, by avoiding the mistakes of the past, would release the creative energies of the people. That would not only pull us out from the current economic stagnation, but also initiate a phase of rapid and large-scale economic development, the harbinger of prosperity in a free society.

In conclusion, we might well ponder over the words of President Lyndon Johnson in his message to the U.S. Congress asking for a contribution of about 200 million dollars for new special funds for the Asian Development Bank's programmes to lift the Asian region economically:

"Peace will come to stay, when despair gives way to hope, when insurrection gives way to peaceful opportunity, when hunger gives way to harvests.

"Peace in Asia will rest on the citizen's trust—in his Government, in his nation's economy, and, most of all, in his ability to improve the conditions of his life."

The President said that the Asians must create this trust and there is good reason to believe they have chosen to do so and are determined "to break the vice of poverty."

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

— A. D. Shroff
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

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