

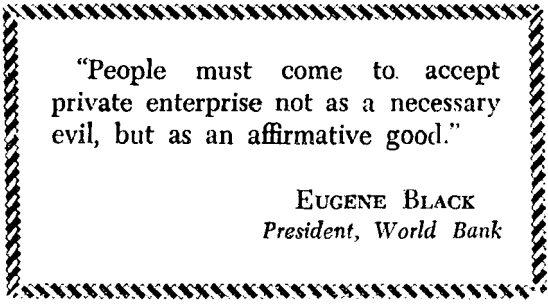
# CONTROLS IN A PLANNED ECONOMY

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

EUGENE BLACK  
*President, World Bank*

# CONTROLS IN A PLANNED ECONOMY

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SOME sort of controls are necessary in planning. The only difficulty is what sort of planning we should have in the larger interests of the country because on that will depend the extent and measure of controls and regulations. In our country today controls and regulations in the interests of planned development have been carried to such a dimension that instead of helping planned progress, they are hindering development at a scale and pace which everybody desires.

Comprehensive planning, as it has been adopted in our country, which means the planning of our lives in practically all the sectors of the economy, is unsuited to our conditions because we have not got the tools, the basic data and the personnel. Therefore, such planning is bound to break down as it has done at various stages in the implementation of the Second Five-Year Plan. An eminent thinker, F.A. Hayek, has said in his well-known book, "*Road to Serfdom*", that "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends." That is what we are experiencing in this country for the last few years.

I am trying to give you a picture of controls and regulations as they affect various spheres of our economic life and illustrate to you from actual experience how they are hindering progress at every stage. Whether these controls are in the sphere of production or in the fiscal or monetary sphere, instead of helping progress, they have caught the community into such a maze of regulations that

elaborate procedures have had to be set out with the result that progress is handicapped. For example, it is known that joint-stock enterprise has been largely responsible for the industrial development of the country. We hear so much about co-operative effort, but it is not sufficiently realised by the authorities that the most successful co-operative effort is the joint-stock enterprise. There could not have been the Tata Iron & Steel Co. unless about 60,000 to 70,000 people were prepared to invest their savings and unless they could also find men of experience to mobilise their savings in the co-operative effort of joint-stock enterprise resulting in the production of steel. What is distressing is the amount of regulation and control that we are faced with in starting and running a joint-stock enterprise. Our legislators specialise in making laws which run into hundreds of sections and I very much doubt whether many of the legislators themselves understand these complicated laws.

Firstly, we have the Companies Act, which is a masterpiece at preventing people from getting into joint-stock enterprise. I recently retired from a private firm. You will be interested to know that even the retirement of a director of a private firm should be subject to the approval of Government and what is still more absurd is that the vacancy created by the death of a director of a private company has to be confirmed by Government! There are numerous other restrictions under the Act which make joint-stock enterprise more difficult than it ever was before.

Then we have the Industrial (Development and Regulation ) Act which is even more difficult to comply with than the Companies Act. An industrialist who wants to start a project has to get the approval of some authority or other of Government at every stage right from the commencement of the project. The project must come under the planning objectives and must have such capacity as the Planning Commission members desire. The location of

the factory is also subject to approval of some authority. After all these hurdles, the biggest hurdle is the raising of capital. You cannot raise capital in the form that is required unless it is approved by the Controller of Capital Issues. Then there is the problem of acquiring suitable sites and supply of power for which the approval of a number of local authorities has to be obtained. If one is lucky enough to satisfy all these authorities, there arises the question of import of machinery. It is not your judgment that finally decides where you will import the plant and machinery from. That comes under a very important head of control, viz., foreign exchange control. The exchange control must decide what sort of exchange will be made available to you so that even if one likes to import machinery from West Germany or France, if it does not suit the foreign exchange exigencies of the Government, one is asked to buy from somewhere else. The important fact is that since we are short of foreign exchange, one must try and buy plant and machinery from a country which is prepared to sell the machinery under rupee credit, that is, payment must be accepted by the seller in rupees. If you can import under rupee credit from a communist country, it does not matter even if the rupees accumulated here are utilised in propaganda of the communist ideology in the country. That aspect is immaterial so long as it suits the exigencies of the Government's foreign exchange position.

The various controls which have to be satisfied are only a fraction of the day to-day difficulties experienced by people who go in for industry. The number of forms that one has to fill in range from A to Z of different categories running into several pages, asking for information on everything that can be imagined under the sun. One very obvious reason for the acute shortage of paper in this country is the existence of these manifold controls and regulations! Some years ago, when I was in charge of one

of the textile mills, I found that year in and year out, we had to employ 16 clerks to fill these various forms and returns which had to be submitted – unless one is prepared to incur the penalty – month to month and almost from day to day to comply with all the regulations under the textile control. I am sure that 99 per cent of these forms and returns which were sent to Government departments were straightway pigeon-holed and never seen by anybody in the departments. But so long as the controls are there, as citizens it is our duty to buy all the paper and fill in these returns!

Apart from handicapping progress, controls as they obtain today are distorting the real shape of the economy. Controls eliminate healthy competition and prevent the healthy operation of the price factor. Controls are justified because there are shortages of commodities and such shortages must be equitably distributed. In the determination of the equitable distribution, it is the judgment of the man who is in charge of administering the controls which is final. Whether equitable distribution of scarce commodities is assured or not, whether they are put to the maximum development of the economy or not, are not the criteria which ultimately lead the officer in charge of controls to secure equitable distribution.

Controls also have the habit, once they are instituted, of perpetuating themselves. There was control of sugar when it was not available in adequate quantities, which might have been justified; but during the last few months, production of sugar has gone up and we certainly have enough and to spare. A new excuse is found that since we have more than adequate supply, sugar must be exported for foreign exchange earnings. Control cannot, therefore, be revoked.

One very important reason why controls tend to perpetuate themselves is that they create vested interests –

the vested interests of administrative machinery set up for working them. A friend who was in New Delhi recently says that a glance at the telephone directory list of officials of the Ministry of Commerce and Industry and the Ministry of Finance was very revealing. The Ministry of Commerce & Industry had in its main section alone, 1 Secretary, 2 Additional Secretaries, 6 Joint-Secretaries, 15 Deputy Secretaries and 21 Under Secretaries, and the Finance Ministry – not to be outdone – contained no less than 13 Joint-Secretaries, 29 Deputy Secretaries and 80 Under Secretaries. All these posts have been created in order to administer the manifold controls exercised by these Ministries. If controls were abolished, where else would they find new jobs? So we have the vested interests not only of businessmen, traders which may automatically be eliminated by competition, fluctuation and other vicissitudes of business, but more powerful vested interests in the official world to eliminate which becomes practically impossible. Therefore, so long as this bureaucracy is controlling the economic life and destinies of 400 million people, whether controls are justified or not, they will never be removed once they have been instituted.

That is not all. Controls also create blackmarket. Sir Winston Churchill once said: "If you destroy a free market, you create a black market. If you have ten thousand regulations, you destroy all respect for law." But the trouble with our authorities is that they will never learn the commonsense approach to the problems of life.

We are reading in the papers that the Government is very much disturbed over the increase in the prices of cloth and, therefore, wants control. It suggests that there should be stamping of prices on the cloth, a practice which was abandoned in the past. It will be interesting to know that a certain section of trade enthusiastically welcomes the stamping of prices, because that makes it easier for

them to put cloth on the black market. Controls have invariably led to black markets. If the Prime Minister is surprised as to where the increase of 42 per cent in the national income has gone, I would respectfully suggest that he spares a little time in studying the system of controls. Controls are worst breeders of black markets. It has happened in the last ten years and it will be so, so long as the system of extensive controls persists in our economy.

In a system of controls, one control leads to another. If the person who is asked to administer one control finds that the controls are ineffective, he finds there should be more controls. The failure of the Palai Central Bank recently is a case in point. Under the Reserve Bank Act, and the Banking Companies Act, certain powers have been vested in the Reserve Bank for the inspection of the working of banks and their branches. It is found after exercising the powers for the last so many years, that those powers are not adequate to control and ensure sound banking and, therefore, it is suggested, some more powers should be given. I am surprised it does not occur to the authorities of the Reserve Bank and the Finance Ministry that it is possible to have another approach to the problem, viz., leaving it to the initiative of the banks themselves to run on sound lines. One curious fact of vesting these powers with the Reserve Bank is that it creates a wrong impression in the public mind that since the Reserve Bank is looking to the sound working of the bank, unless the bank collapses, there is nothing wrong with its working. Instead of allowing a bank to attract deposits from the innocent public, it will be better to leave it to the public to decide whether to deposit their funds or not, whether there are malpractices in a bank or whether it is run on sound lines.

We have yet another control, the control of capital issues. But the planning authorities have felt that this is not enough. Even in the case of an existing company, when



it wants to expand and raise capital, it must also go to the Controller of Capital Issues. Fortunately, as a result of continuous pressure, this control was recently relaxed. If any company wants to increase its capital upto Rs. 10 lakhs it need not go to the Controller. If it is one's unfortunate lot to require more than Rs. 10 lakhs, then he should submit himself to the judgment of the financial pundit who is called the Controller of Capital Issues. He will decide the form in which and the rate at which it should be done. If it is an established concern and wants to give the benefit of issuing new shares at par to the shareholders, the company cannot do it unless the Controller agrees to it. During the last few months, rules have been made more stringent in that no existing company will be allowed to issue fresh capital at par but only at a premium prescribed by the Controller. It completely disregards and ignores the experience and financial background of people who are running industries. They are subjected to accepting the judgment of practically a single person who determines to what extent and at what rate the capital is to be raised.

Prof. Northcote Parkinson, in two delightful books entitled, "*Parkinson's Law*" and "*The Law of the Profits*", has evolved some laws known as "Parkinson's Laws." They say that work expands to fill the time available; that officials make work for each other; and that expenditure rises to meet the income. These laws, evolved under certain conditions after great research, persist in India at a furious pace and are encouraged in their operation by the system of controls and the Soviet-type planned economy that we have in this country.

It is not generally realised that in the name of controlling the scarce resources of the country, the controls which are instituted defeat the very objective for which they are instituted. I would refer to the experience of the foreign exchange control. It is extremely desirable that a country

like ours with poor foreign exchange reserves must conserve them and put them to the maximum use for the benefit of the country. But these controls have to be administered properly. While everybody is saying that there is a crisis in the foreign exchange situation of the country, the Government, it is reported, has licenced import of 160 Dodge cars and the party that has been given the licence has also been given the list of people to whom these cars have to be supplied. I am told on very good authority — I would like to be contradicted — that the list includes a number of Ministers, Deputy Ministers in the Centre and in the States and a number of Government officials both in the States and in Delhi and a few Government-run Corporations. At a time when many industries could not be worked to full capacity for lack of imports due to exchange restrictions, the administration of foreign exchange controls has allowed scarce foreign exchange for the import of 160 cars for use of Ministers and officials! Since controls are vested in the officers, they are likely to be abused against the interests of the community itself. Since there is no party to challenge the use of these powers, it is the community which ultimately suffers and it is a sectional interest that stands to benefit. All this talk of austerity in the face of foreign exchange crisis which has led to curtailment of industrial productivity is mere bunkum, if a very important controls as that of foreign exchange is to be administered in the above fashion.

Controls are also apt to be lop-sided. There is a severe control on foreign travel; except for business or strong medical reasons, nobody is allowed any allocation of exchange to travel abroad. One is allowed to take only Rs. 75 with him. It is not understood how when everybody takes only Rs. 75 with him, those coming into the country are allowed to bring goods worth Rs. 500 without being challenged as to how they got their resources. It is surprising

that this has not occurred to the authorities administering the control.

I am sometimes told that the Forum of Free Enterprise only indulges in criticism and has no constructive approach to problems. One has only to study the system of controls to realise that constructive approach is made impossible under that system. While it is true that some form of regulation in the interests of the community should be exercised against anti-social activities, if controls are allowed to be carried to the extent I have described, they defeat the very objectives for which they are meant. They hinder progress and work against the best interests of the community which they are intended to serve.

The Labour Party of the United Kingdom, which was in power for a number of years and tried to institute some of the controls of the character that we are experiencing in this country, found after a few years how futile it was to institute controls in the economy. When the Party lost the election, some of the most eminent leaders publicly confessed that these ideas will not actually work in practice. Nationalisation was one thing which was very widely propagated. A very eminent Labour leader publicly confessed that nationalisation is one word which the Labour Party should not use again. Mr. Douglas Jay, Financial Secretary to the Treasury in the Labour Government, said: "The word 'nationalisation' has become damaging to the Labour Party; and it is no use denying it even if you deplore it."

Unfortunately, in this country, we are faced with a situation where the Government, ignoring wise counsel, can go on experimenting with the establishment of a "socialistic pattern of society" for implementing which all these controls and regulations are in force.

Recently, the Government has been feeling disturbed about the rising prices and has started a new slogan. Rising

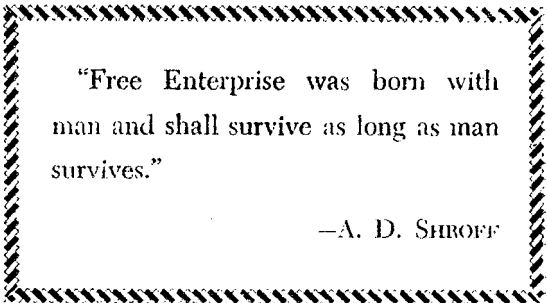
prices must be halted and unless prices are halted, the Third Plan has very little chance of being successful. The way the economy of the country is conducted, we will never be able to control prices. It is a simple commonsense problem, that if you go on pumping crores of new money into circulation without creating adequate production to match this newly created purchasing power, you create the obvious problem of there being more money chasing fewer goods and services and, therefore, the value of money must decline in terms of commodities and services. In technical terms, it means that there must be a general rise in the level of prices. The government tries to control prices, as for instance, under what is called monetary control. The Reserve Bank is making an effort to draw away the additional purchasing power which the Government is creating from day to day in the hope that if the additional purchasing power is removed, there will be a halt to prices. But there is such a serious disproportion between what the Government withdraws from circulation and what it goes on creating, that it will never be able to control prices through these monetary controls.

There is another form of monetary control by the Reserve Bank. Every scheduled bank has, under the Reserve Bank Act, compulsorily to deposit with the Reserve Bank certain fixed percentages of their respective time and demand liabilities. In March 1960, the Reserve Bank felt that there was too much money in the market and there was not enough production, and required the scheduled banks to deposit with it 25% of any additional deposits received from the month of March. Finding that even that was not enough, on the 9th of May, the Reserve Bank further directed that 50% of any deposits received from that date should be impounded with the Reserve Bank. This was done in the belief that the withdrawal of this purchasing power will halt prices. The prices have not been arrested. Those

who are connected with the Stock Exchange will have realised that controls which were instituted to prevent a further boom in equities have not proved effective. The people feel that because of the tremendous expenditure of crores of rupees on planned development, the value of the rupee is not the same as it was before and if the Government goes on spending huge sums as it proposes to do, the value of the rupee will still decline. What is the value which is going to stay? Today, people are giving away Government stocks and trying to buy equity stocks, because they believe that if the value of the rupee continues to decline, the ordinary share, which represents an industrial asset, is bound to go up in value. But this commonsense approach would never appeal to the authorities. Their approach that they could try to control the operation of human nature has not succeeded in the world and is not going to succeed in India.

It is time that the thinking people in the country gave more attention to what is going on. The general rise in prices is reflected in the cost of living of the people. There are extreme disparities in the income of the people of different classes, but the vast bulk of middle classes, the salaried class and the pensioners are suffering the most. The only way we can stop inflation and prevent a further deterioration in the situation is to get together and mobilise public opinion. Public opinion is the only thing which will change this crazy and mad race for unrealistic development through excessive and frustrating control which is being pursued by the authorities.

*Based on a lecture delivered under the auspices of Forum of Free Enterprise, Bombay, on September 1, 1960,*



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

—A. D. SHROFF

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Published by M. R. PAI, for Forum of Free Enterprise, "Sohrab  
House", 235 Dr. Dadabhai Naoroji Road, Bombay 1, and printed  
by P. A. RAMAN at *Inland Printers*, Victoria Mills Building, 35,  
Gamdevi Road, Bombay 7.