PLANNING & NATIONALISATION

RETHINKING IN INDIA & ABROAD

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

—Eugene Black

Planning & Nationalisation

CONSUMER, FORGOTTEN FACTOR IN INDIAN PLANNING

By

L. N. BIRLA

PLANNING is more than a tactical move by the politician or the technocrat. It must gain for the people a living faith. Life must be a joy to all and living should cease to be a trial to many, so that comfort, instead of being the privilege of a few, becomes a reasonable expectation of the many. The old type of perspective planning for ten years has now been accepted all over the world including the Iron Curtain countries, except perhaps China, as a mere excursion in dreamland.

During the past 15 or 20 years the prospects for a developing economy have become a very exciting field of study. It acquires greater importance in India on account of the disappointing results of the past 15 years of planning. Too many things to do with too little resources and far too much ideology—this sums up the cause of our meagre achievements. A hazy view of ends and means has led to confusion about priorities. The soul of planning in a poor country is decisions on priorities, with countless voices for recognition of basic needs and action to meet them. Only that economic system can provide satisfaction which meets the many daily needs of the troubled multitude — food, clothes, medicine, houses, education and recreation. Without these, life is a torture.

If we want real progress, the whole concept of planning has to change. The emphasis on aggregate growth of the GNP, without attention to its composition, is very risky for a developing economy as it tends to subordinate human values to mere arithmetic. The production of all sorts of capital goods can increase the GNP and it can even average a higher **per capita** income. These figures, though providing good headlines, do not help in the struggle to supply the needs of a rapidly growing population. A rise in national income **per capita** is, under certain conditions, perfectly compatible with a decline in national well-being. It is dangerous, therefore, to identify increasing national income with the well-being of the population.

Therefore, the Plan should aim at physical rather than financial targets—so many million houses, so much cloth, so much of foodgrains and so on. Probably the biggest obstacle in the way of this simple reform is the lack of balance between the producer goods and consumer goods industries. Essential needs of the people are overlooked in the anxiety to conform to the rigid dogma that producer goods industries provide the technical basis of socialism. In this connection, the example of the Soviet Union should provide a corrective. The Soviet Union already seems to be poor in capital resources. Many Soviet economists are boldly attacking the doctrine that a very high priority must continue to be given to heavy industry. Yet circumstances are compelling Soviet economy to become consumer oriented. Consumers there are wanting not only quality but also more varieties of goods.

The obsessive loyalty to heavy industry in our Plan will be further apparent if we consider the provisions for producer goods and consumer goods. Of the total provision for industries more than three-fourths is earmarked for investment in producer goods, which is evidently unrelated to the realities of living of the masses. There should be reasonable distribution between producer goods and consumer goods.

In this battle of priorities the consumer has fared very badly. If we take the availability of cloth during the year just before World War II (as this was a normal year, untroubled by war) it was 15.8 metres per capita against 14.4 metres in 1965, at the end of three Plans. Leaving aside foodgrains, milch cattle per person according to the 1961 census was 0.24 against 0.23 in 1940/41.

The whole of India including Pakistan at one time used to export wheat but in the absence of correct data it is difficult to say how much grain **per capita** was available in pre-war days. However, the fact remains that now we do not have enough foodgrains for the growing population. The same applies to meat and poultry. India is no better in housing also. The only sphere in which there has probably been some progress, if the figures are reliable, is the supply of fats and oils excluding butter, the average having increased from 2 kg in 1934-38 to 4 kg in 1962-63.

The very essence of planning is to avoid disequilibria, and where the consumer demand remains unsatisfied on such a large scale, it only means that the Plan has been faulty.

The population spiral has become a menace, with prospect of its increase by geometrical progression. When medical science has gone a long way to control infant mortality, and mortality in general, why not employ science the other way about and control birth? Assuming that we have on paper, a fair possibility of feeding more mouths, we should make a sober judgement of our present inability to feed the existing population. Our sportive imagination about our agricultural capabilities notwithstanding, our main achievement lies in negotiating P.L. 480. Anyway, there is a point beyond which actual production cannot be geared up, while a reckless growth of population may even choke our power of thinking. We can ignore this point only if we are not afraid of falling into a vicious circle which keeps poverty and population competing with each other with a malignant zeal.

It is curious that so little attention has been paid to the lessons that might be learned from the three previous Plans. A majority of our people, engaged in a primitive type of agriculture, are virtually unemployed. The future of our agriculture, as in the developed countries, lies in mechanisation and adoption of technology. Japan is one of the few countries which in this century have definitely gained inclusion in the category of developed countries. The publications of the Japanese Planning Office show the adoption of a highly sophisticated system of economics. Some of the difficult legacies from the past, however, still lie in the tiny size of farms, the widespread practice of part-time farming and the difficulty of mechanising such farming. In all these matters our country should learn from successful projects elsewhere. When the Japanese speak of the agrarian problem they mean the difficulty of modernisation and of making it worthwhile for part-time farmers to retire and sell their properties for reorganisation into large properties. They continue to be concerned with these problems even though the rural population has fallen to 12 per cent of the total and the emigration of agricultural workers to other occupations continues.

All this has a message for us in our search for the right methods of planning. It is better that we apply the known and proved theories of other developed countries to our special needs rather than go on experimenting with pet beliefs.

In any scheme of development, taxation plays a crucial part and it must be appropriately restrained not only for capital formation but also to keep down the prices or stop them from inflating. It is very necessary to distinguish between myth and reality. Unfortunately, controversies have been soaring far beyond reality. As the tax rates have been going up, the effect is clearly visible on the capital employed for development. During the year 1963-64, corporate savings were Rs. 112.5 crores only. Similarly the total capital raised by public and private limited companies by the issue of equity and preference shares was Rs. 77.6 crores in 1965 as compared with Rs. 83 crores in 1964. It is estimated to be lower still during the current year. Finances of companies in the Private Sector are in bad shape, and this is not good for the economy in general.

The rise in prices has been the highest since 1962-63. One reason, of course, was the low production of foodgrains during 1965-66. But apart from foodgrains there have been other reasons also for the rise in prices, and it cannot be gainsaid that high taxation was one of them. It must not be forgotten that money in the shape of taxation has come mainly from the section of the public which is a potential investor and would have created additional production serving as a brake on price increase. On the other hand the money that has been made available for government spending — whether by way of defence or other expenditure — has gone to a section which is not interested in investment. Inequality in income to some extent is inevitable in a developing economy; otherwise, there will be neither savings nor economic progress. There is no doubt that much of the saving is done by the comparatively wealthy. Inequality in income is really harmful only in the absence of restrictions on foreign exchange, as then it can lead to excessive imports of luxury goods or export of capital.

The enormity of state expenditure is alarming. Apart from Rs. 16,000 crores which the Government wants to spend under the Fourth Plan, the revenue expenses of the Centre and the States is about Rs. 3,000 crores per year at present. There will be a minimum rise of five per cent per year. Thus in five years this will amount to an additional Rs. 16,000 crores. Over and above this there will be an expenditure of Rs. 5,000 crores on defence. Thus the total expenditure including the Plan expenditure will be Rs. 37,000 crores during five years, which is more than 25 per cent of the gross national income of five years. This will certainly disturb the equilibrium of prices. People receiving this money will be looking for consumer goods that are not there.

Then there is confusion about the terms "Saving" and "Investment." In an underdeveloped country with a low standard of living only such sums could really be termed as saving which can be saved after providing a minimum standard of consumption. Again, only such items can be termed as investment where there is a future return. A high rate of excise duties hampering consumption could not be termed as saving nor should huge bureaucratic expenditure be mistaken for investment.

It is, therefore, essential to have a new economic logic to plan for alleviating the difficulties of the poorer section by paying more attention to consumer goods and fulfilling the targets in terms of supply and not money. It would be helpful if we forget Bokaro and such prestige projects for the time being. The capital-output ratio of such projects will be found to be eventually disappointing. Economic activities are not just adventures; they have to create happiness of man in a realisable way.

We have been collecting a backlog of unemployment in spite of all the pious wishes in the previous three Plans. The Third Plan has ended with a huge backlog of ten million unemployed persons. It is well known that the consumer goods industries absorb more men for production than the capital goods industries, and because the employment thus created is productive employment it does not lead to inflation. The consumer goods by themselves help in keeping down the prices.

The conumer is visibly on the war path. No amount of preaching about austerity will convince him. He must have more goods and at reasonable prices, which again is possible only by producing more goods. His patience is almost exhausted, and this is evident from the increasing violent activities all over the country, threatening to shatter the structure of ordered civilisation.

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II

AN ALTERNATIVE TO WISHFUL PLANNING

By

L. N. BIRLA

OUR Plans really have become rituals. We are no longer practical. It does not appear to be our aim to make a success of the Plans. We want a Plan for the sake of appearing to be busy on a grand job.

For the last three or four years, our economy has been sick. And meanwhile we had to face foreign aggression: from China in 1962 and Pakistan in 1965. Our economic ailment manifested menacing symptoms: stationary agricultural production, fall in the rate of industrial growth, growing adverse balance of payments abroad and rising prices at home. And to these must be added our population explosion which has further accentuated our difficulties with regard to food, housing, provision of social amenities, employment, etc. However, the economic conditions in our country today are the consequences of our errors of judgment and execution of the Plans.

How else can the fall in **per capita** income from Rs. 326 in 1960-61 to Rs. 325 in 1965-66 (both at 1960-61 prices) be explained? If we look back to the days when we became independent, we find that at the 1948-49 level of prices the **per capita** income in 1950-51 was Rs. 247.5 and at that level of prices it has gone up to Rs. 292.6 only in 1964-65.

During the Third Plan period, the tax revenue collected by the Central Government alone amounted to Rs. 6,610 crores as against a total Plan outlay of Rs. 8,630 crores in the public sector. Where has all this taxation gone? Obviously, the way the taxes were raised and spent was neither prudent nor productive.

It must be borne in mind that this financial outlay of Rs. 8,630 crores was more than the Plan projection by Rs. 1,130 crores. Again, we should remember that the additional expenditure on account of defence did not prevent this higher outlay on Plan projects.

Nevertheless, the investment has been almost barren. The consumption standard of the masses, such as it is, indicates distress; the farmers feel frustrated, business men thwarted, and the law and order situation is moving from bad to worse.

Therefore, it is necessary to consider the official Draft Fourth Plan, of the magnitude of Rs. 23.750 crores not only in terms of feasibility but also with reference to assumptions, sectoral outlays and assessment of resources.

It will be wrong to cater a special plea either for a small or a big size plan as if there are some mystic virtues in size by itself. The play at words and numbers cannot screen the obvious problem of incidents and people—the problem central to the story of our independence and the key purpose of our Swaraj. Our self-government in 20 years is yet far from settling down to good government.

It seems that the authors of the Draft Plan have refused to learn the lesson from the previous three Plans. Therefore, understandably, unable to construct any alternative form of action, they lumber along the ruts of past policies and programmes. The entire Draft is a long sentence with a prolific number of "to begin withs," "king pins," "perspectives," explanatory and qualifying clauses and all sorts of parenthesis, but the sentence keeps hanging in thin air. The void is filled by a mystical hope. The Draft Plan declares in August 1966, four months after the commencement of the Fourth Plan period, that "in spite of all the shortfalls and disappointments of the Third Plan, the country, at the beginning of the Fourth Plan, is poised for a faster growth during the years to come."

The planners lack not a new will only but also a new vision.

We all know that the Fourth Plan envisages a total outlay of Rs. 23,750 crores—about three times the size of the second and twice the size of the Third Plan. It is, however, difficult to disentangle the assumptions—there are ever so many—in the Draft. One can see that the assumptions of the planners reside in their mind; they do not have any realistic foundation and cannot stand any analysis. Let us pick up some chosen themes.

(a) Agricultural production will step up to the extent envisaged;

(b) Foreign aid of the order required will be forthcoming;

(c) Our exports will increase; and

(d) Our defence expenditure will not be more than Rs. 5,500 crores in the Plan period. (Please note that this huge sum of Rs. 5,500 crores is in addition to the Plan outlay of Rs. 23,750 crores).

It will be readily seen that all the assumptions are beyond the control of the planners. Business concerns in India can be made to obey the authoritarian regulations of the Government. But our Yojana Bhavan cannot direct at its will the weather gods, foreign Governments, foreign consumers of our goods and unfriendly nations.

How will the Plan be financed? Nearly 70 p.c. comes from only two sources, taxation and foreign aid. There will be additional taxation to the tune of Rs. 2,730 crores. Already Rs. 930 crores have been raised by tax measures in 1966-67.

Over the last 15 years, taxation as part of the national savings has grown at a rate of 15 p.c. annually while the rate of increase of the gross national product has been about 3.8 p.c. Combined with the high rate of Government spending, there has been adverse impact on prices. The index of wholesale prices increased by 36 4 p.c. during the Third Plan period alone.

Let us also for the moment agree to be "wishful" about the Draft and believe that the conditions will be as propitious as desired. The question will still remain whether a Plan of this large magnitude is within the means of our nation. Of equal importance is the question as to whether the sectoral allocations are appropriate or have proper economic relations.

It is envisaged that out of the total outlay, Rs. 16,000 crores will be implemented by the Public Sector and Rs. 7,750 crores by the Private Sector.

Incidentally, it must be noted that the share of the Private Sector which is about 32 p.c. in the Fourth Plan has gradually come down from 54 p.c. in the First Plan 45 p.c. in the Second Plan and 39 p.c. in the Third Plan

The results of the Third Plan in the industrial field are now well known. The Public Sector industrial enterprises fulfilled only 41 p.c. of the targets laid for them, while the Private Sector, despite problems and liabilities which public undertakings did (or do) not face, fulfilled 71 p.c. of the targets.

The gross profits on the capital employed in Government undertakings work out to just 1.2 p.c. And the planners expect an average return of 12 p.c. It is, to say the least, optimistic.

Therefore, if it is deemed necessary to expand steel production, must the country have a Bokaro with an estimated investment of about Rs. 1,000 crores, which may well go up? Cannot this be accomplished by expanding the existing units? This will be cheaper, quicker and within the resources of the nation.

To dilate further, if we spend Rs. 1,000 crores on Bokaro, the plant must earn on this amount 10 p.c. for depreciation and at least 6 p.c. return, if not more, to the investor, i.e., the Government. Thus it needs Rs. 160 crores of profit per year as a minimum and on 4 million tons of steel, which is the maximum capacity to which it will reach, the profit alone should be more than Rs. 400 per ton of steel producd. Even the current sale price of steel is about Rs. 750 per ton. One wonders how such a huge plant will ever be profitable, and how will it help to keep down prices.

The Private Sector is expected to invest Rs. 2,350 crores, Rs. 470 crores annually, in organised industry during the Fourth Plan period. Will even half of this be possible with the threat of higher taxation or even at the present level of taxation?

If the past is any guide, the major part of the tax burden will continue to fall precisely on those sections of the population which will provide finance, directly or indirectly, to private industry. In the circumstances, the growth of public and private sectors is not complementary, but conflicting. The inequity lies in the fact that the Public Sector does not compete for funds in the open market, but uses instruments which are compulsory, though uneconomic.

Most of the Public Sector projects have cost much more than the original estimates and were started much later than originally planned. The cost of manufacture is higher. In this view of things, Public Sector organisation is not an alternative to Private Sector organisation. Indeed, there are no special attributes to public enterprises to claim priority. When there is such a great shortage of resources can the country afford the luxury of ideology?

Only if the tax element is held under control, can a better balance be secured between the growth of the public and private sectors. Moreover, the facility to invest in consumer industries is equally important. It must be left to the entrepreneur to choose his industry, its location, scale of production, technique, etc. If the Government continues to impose regulations, the consumer will be deprived of additional supplies. It must be confessed that so far, in spite of three Plans, the consumer has not had a fair deal.

Today, more than at any time, there is need to encourage investment in consumer goods industries. Such investment is necessary for a two-fold reason; it will bring down prices to benefit the consumer and also enable the country to increase exports. It should be readily recognized that if export promotion has to be a success, it can only be through the creation of surpluses within the country.

It is encouraging to find that the planners have come to give the highest priority to agriculture. The point that agriculture is a vital sector needs no labouring. It produces food, supplies necessary raw materials to industry, creates demand for industrial products and helps exports. While the development of agriculture is a precondition for industrial growth, equally, the progress of agriculture depends on industry. Fertilisers, pesticides, tractors, agricultural implements, diesel engines, pumps, etc. have all to come from the industrial sector. At least for the development of agriculture, the industrial economy should be freed from avoidable controls and regulations.

To go back to the main question as to whether it is feasible to implement this Plan of Rs. 23,750 crores, in the first year of the Fourth Plan, i.e. 1966-67, the budget has provided for an outlay of Rs. 2,082 crores for the Centre and the States together. This is less than the outlay for 1965-66 by Rs. 144 crores. Obviously, this reduction has been made because the rapid increase in public expenditure proved to be inflationary. If the proposed Plan is put through, the progressive increase each year will have to be so sharp that in 1970-71, the total outlay would amount to nearly Rs. 7,000 crores, which will be about a quarter of the national income in that year. The outlay for the current year is only 10 per cent of the national income. Even then we are faced with the problem of inflation. If the share goes up to 25 p.c. it is inevitable that inflationary pressures will increase. That would defeat any hope of achieving growth with stability, or improving the lot of the common man for whom, it is claimed, all this planning is at work.

The very feasibility of reaching targets, even assuming propitious conditions, has to be considered. The railways, for instance, are expected to move 103 million tonnes more during the Fourth Plan period. Should this additional cargo be offered, will the railways be able to handle it? In this year's Railway budget, there has been a cut in developmental expenditure. It is very unlikely that even next year additional funds will be available for the railways. But then can railways put through their expansion programmes almost overnight? And they are expected to contribute to the revenue 325 p.c. of what they did in the Third Plan. Is it possible?

Indeed, the Fourth Plan outline is made more of dreamstuff than of material possibility. The assumptions of profits from Public Sector enterprises and foreign aid is a wide guess and likely to end up with still higher taxes, deficit financing being the only resources available. This will result in much steeper prices, and further reduction of economic activity.

Therefore, in the best interests of the nation, the Plan must be revised. The revision must be in the direction of allowing people, and not bureaucracy, to do the job; preference must be given to quick-maturing projects. Government should concentrate only on the infra-structure like power development, road building, etc. Only then targets will be achieved with reasonable certainty and in time, and policies will regain respect in the minds of the people as a vehicle of progress and prosperity. Our planning technique must avoid spinning words and spring to reasoned action—Preferably, action by the people.

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III

RE-THINKING ON NATIONALISATION AND CENTRALISED PLANNING IN SOCIALIST COUNTRIES

By

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Nationalisation or public ownership of the means of production, particularly industry and transport, was once regarded as the linchpin of socialism. Although it has still got its votaries, the old enchantment is considerably subdued today - even in socialist countries.

Despite attempts made to define socialism and capitalism in other ways, in reality the definitions are exceedingly simple: public and private ownership of the means of production. An equal income distribution, not directly connected with the value of labour performed, may be the objective of socialism, but it is certainly not an essential feature of it. As has been pointed out by Prof. P. J. D. Wiles in his **"The Political Economy of Communism",** if the above objective was to be equated with the definition, it would leave the whole field of publicly owned systems paying wages on ordinary principles without a name, and confine the word "socialism" to the Chinese Peoples' Communes. It might also bring within the ambit of socialism the Anglo-Scandinavian model of private ownership plus generous social services with accent on redistribution of income through fiscal and other devices. Hence the need for accepting public ownership or nationalisation of the means of production as the **sine qua non** for socialism. It would be useful to recall, in this connection, that to Marx also, nationalisation was the linchpin of socialism and the indispensable pre-requisite of planning.

Why is nationalisation or public ownership of the means of production considered so essential for the ushering in of a socialist society? As I have pointed out in my book, **"The Public Sector in India"**, the reason is briefly as follows. There is need for rapid development, particularly in countries where development has, for various reasons, not been quick and harmonious enough. It is argued that if development is left to private enterprise, i.e., to the force of "free competition", not only would it be slow, but it would flow mainly to channels where quick profits can be garnered. If the pace is to be quickened and development properly co-ordinated, the means of production must be owned by the State. Development cannot be left entirely to the free interplay of so-called economic laws. Secondly, it is only after the means of production have been under the direct and absolute control of the State that attention can be paid to the next step, viz., equalisation of opportunities for every individual and the redistribution of incomes among different sections of the society.

Socialism in action, therefore, started — in all socialist States — with the command economy replacing the market economy. In the USSR, the home of socialism, the State took over all activities of production. The freedom of action of the individual enterprise was limited to fulfilling State orders better and quicker. The main function of the economic bureaucracy was to do administratively the things the free market does automatically. While in a capitalist economy, outputs are so chosen as to maximise consumer satisfaction, in the command economy of the USSR, the objective was maximisation of physical output in accordance with the dictates of the central planners. Not only was there direct administrative intervention from the centre but detailed specifications and directives were issued regarding all kinds of production.

Marxists had no love for economic choice: they were more interested in the liquidation of the capitalist class, in the industrialisaton of the country, in the building up of a new intelligentsia, and in the raising of living standards and/or defensive potential. In all these, they succeeded — up to a point. As long as goods were in short supply and anything manufactured found buyers, the Marxist-Leninist system of "command economy", via public ownership of all means of production, worked. But once the scarcity became relative and the consumer could exercise some freedom of choice, the warehouses became full of unsold goods amidst persistent shortage. For instance, in the USSR between 1959 and 1964, inventories of textiles and apparels nearly doubled, but sales rose by only 30 per cent. Between 1950 and 1960, retail sales increased threefold, but savings bank deposits increased ten times: there was a big accumulation of unsold goods accompained by a continuous increase of money in the hands of buyers.

Much of this was due to the almost bigoted zeal with which the Governments in socialist countries proceeded with their programmes of planned economy and public ownership. It often led to ludicrous situations. One is reminded of the report which appeared in the **Izvestia** of January 6, 1957, when a petrol pump on the Kharkov-Rostov road refused to fill up the tanks in waiting cars although there was enough petrol in the pump, because the said station had fulfilled its quota for the day! Or, there is the case of the Likachev motor factory which, even as late in 1960, got its indents and allocations for ball-bearings through 14 different depots and planning organs spread over a period of six months, when in a "capitalist" economy, it could have obtained the same within 48 hours — with the only ball-bearing factory in the country situated next door to it! On a less humorous plane, the "system" resulted in inefficient production and misallocation and misuse of scarce resources — the very things that socialism wanted to prevent.

Secondly, after an initial spurt, the rate of economic growth also slowed down considerably. From about 1958 onwards, it has been less than 5 per cent per annum in the USSR or slower than in West Germany, France, Italy and Japan. In 1963, the growth rate was 2.6 per cent, i.e., lower than the growth rate in the USA.

So there was a reaction — a heartsearching — among the Communist intellectuals. Although a certain measure of decentralisation had been introduced in the USSR after the death of Stalin in 1953, it was more a redistribution of functions and competences, without reference to the efficiency wherewith they were discharged. For a long time, bureaucracy in no way diminished : it merely changed its seat of operations.

The real change started round about September, 1962, when Prof. Y. G. Liberman published an article in the **Pravda** advocating "profit" as the basis of industrial activity. He said that prices reflected scarcity as well as costs, that rent and interest on capital were useful and desirable, that efficiency and quality of plant output could be improved by paying more attention to the profitability of industrial capital. With profits as the base, Liberman figured, managers would automatically use capital efficiently, keep other costs down and make goods that consumers wanted. He also recommended that profitability goals should be set on a multi-year rather than on an annual basis. This, he thought, would enable managers to operate more honestly and efficiently than hitherto.

About the same time, Prof. Alexander Birman of the Moscow Institute of National Economy suggested doing away with physical output targets and central allocation of producers' goods in all industries except steel and oil, and recommended that these other enterprises should purchase materials and parts from suppliers direct and compete for orders in the market.

The decision to introduce a new approach to the working of the economic system did not, and does not, mean the reorganisation of the Soviet economy along capitalist lines nor does it spell the restoration of the capitalist system. A number of people in the Western countries have been carried away by errant wishful thinking. The fact is that although the new approach is indeed revolutionary in more sense than one, it does not indicate a gradual return to the capitalist system. At the same time, it is not just a new approach to economic management. Profit in Soviet enterprises is connected with the entire system of social cost accounting: it is not profit in the capitalist sense — it does not accrue to shareholders or to those who run the enterprise. I do see in the new trend, however, a new awareness of commodity-money relationship and of the importance of the market in the scheme of production. Even Communist thinkers have conceded that as the economic problems in the socialist countries today are different from what they were three decades ago in the Soviet Union, the mechanisms appropriate to their handling must be different. A change in methods must ultimately lead to some erosion of the original concept of maximisation of production through rigid public ownership. The change in approach spearheaded by Liberman and Birman in the USSR has had its echo in other socialist countries also. In November 1963, a round table discussion in the Czechoslovak **Horspodarske Noviny** favoured "market economics". In December 1963, Prof. Pekto Kunin wrote in **Novo Vreme** recommending sweeping reforms as per the requirements of a market economy. In Poland also, economists recommended in 1963 substantial modifications of the entire bureaucratic supersturcture of State controlled industry and freeing both wholesale and retail trade from direct supervision. The basic economic unit was to be a self-governing and fully independent enterprise, operated by its individual management in accordance with the principles of "cost accounting" and "maximum profitability", and prices were to be determined by the real costs of production and the market mechanism.

The most substantial departure from orthodox socialism has, however, taken place in Yugoslavia. As early as in 1951, individual enterprises were given almost complete independence regarding the techniques of production as well as the fixation of prices. Historically, this was the outcome of Marshal Tito's break with Stalin rather than the after-effect of stagnation in the Yugoslav economy. Nevertheless, the economy did show signs of stagnation and, very early in the day, Yugoslavia decided on devolution of authority in respect of production, fixation of prices and distribution of "profits" or surpluses, to workers' councils at the level of the enterprise. Essentially, it has been market socialism. Tito argued that a detailed command economy alienates the worker from his work, that man is perfect only when he directly enjoys his own product and controls his own environment, and that high productivity (so that there is plenty for all) can be achieved only if a command economy is replaced by a decentralised economy geared to the market mechanism.

The failure of the old type of public ownership and centralised planning has led to far-reaching changes in other socialist countries too. By introducing an interest rate of 5 per cent, Hungary has openly declared that capital is no longer free. Moves in the same direction have been initiated in East Germany and Bulgaria. Industrial plants have been given unprecedented autonomy in Poland, Czechoslovakia and Bulgaria. In the former two countries, there has even been some return to private enterprise in the much neglected service sector (e g. shoe-shine parlours, drycleaning, restaurants, kiosks, etc.). In Hungary, collective farms, after planting, are being parcelled out to individual peasant families for cultivation and harvesting, the product being divided between the State and the employee on a pre-arranged share-the-crop basis. In Czechoslovakia, as per the recommendations made by Prof. Ota Sik in 1965, the profit of an enterprise will be subject to a prior tax proportioned to its capital : in other words, an enterprise will have to make profit in proportion to capital employed. Also, purchasing organisations and enterprises will be free to choose their own supplies, and there will be three categories of prices, viz., centrally fixed prices, prices fixed by enterprises subject to certain limits determined beforehand by planning authorities and prices of certain articles (e.g. luxury items) to be left free and to vary with the market situation.

Let us now recapitulate the changes that have taken place in the economic structure of the Soviet Union in recent years. In 1957 came Mr. N. Khruschev's sweeping decentralisation on a regional basis, substituting control and administration by a highly centralised body by that of over a hundred regional economic councils. This change, however, had no more than a minor effect on the independence of individual enterprises. Before he was made to resign, Mr. Khruschev took two other steps : (a) merger of similar enterprises for greater efficiency, and (b) a large degree of freedom for the management in two clothing enterprises. Prices, sales, profit goals and major capital improvements, however, still required central sanction.

Further changes came after the departure of Mr. Khruschev. The performances of enterprises were to be judged, not by gross physical output, but by both sales and profitability. They were allowed to make contact with retailers and freedom was given to change the style and quality of the product. In 1965, 400 footwear and clothing enterprises — nearly one-fourth of USSR's light industry — were working under this system. In January 1966, Mr. Kosygin announced that even heavy installations, like the diesel plant in Gorkil, Volgograd Steel mill, were to come under the new system. In September, 1965, the Central Committee of the Communist Party under Mr. Kosygin's leadership, accepted a proposal making the volume of sales and profits, based on invested capital, instead of gross physical output, the main criterion for all kinds of enterprises, both consumer and producer goods industries. Other proposals accepted were: capital used should be paid for, thereby compelling an enterprise to use capital efficiently: long-term capital flow should carry an interest charge; in certain specified industries, output should be planned according to the preferences and needs of the consumers as ascertained by retail store managers. Not only that: even advertisements (hitherto condemned as capitalistic waste) are being resorted to in an increasing measure (advertisement outlay jumped from 6.5 million to 18 million roubles during the past 10 years) and an All-Union Scientific Research Institute has been formed to study demand and business cycles!

Let us briefly consider what brought about this change in outlook. In an economy controlled entirely by the state, production is not geared to the market demand and consumers cannot exert any direct influence on production. Yet, it is the sale of goods on the market which should be the main criterion of the social usefulness of labour used in the production process. The relative stagnation of the

Soviet economy was due, among other things, to the fact that as there was detailed control over production, individual units insisted on low production targets so that the target — the traditional indicator of plan fulfilment — could be attained without much trouble and exertion. Secondly, emphasis on purely quantitative achievement hampered improvement in quality and introduction of new techniques of production. Thirdly, there was too little economy in the use of the plant and the equipment. This again, as has been pointed out by Maurice Dobb in his **"Theory of Profit in a Socialist Economy"**, was because "the cost of using (or of non-using) equipment was not made to impinge on the enterprise. The size of the fixed capital did not affect the costs of output, and the provision of new equipment was made by a free grant to the enterprise by the State". Finally, the planners lacked information because of extreme centralisation. They also lacked the automatic feedback of the competitive market system. All these again were due to the inherent fact that, in a nationalised undertaking, it is the bureaucracy and bureaucratic methods that take over.. The forces of competition and market demand being absent and costs and prices being determined by a command economy, those in charge stick to old management techniques and become singularly incapable of new and more complex jobs.

Great Britain, though not a strictly socialist country, provides another example of retreat from nationalisation or public ownership. Nationalisation was accepted as the very foundation of socialism by Britain's Labour Party in the old days. In 1937, Lord (then Mr.) Attlee had endorsed this view in his book, **"The Labour Party in Perspective"**. But this outlook has dramatically changed since the middle fifties. As C.A.R. Crosland has pointed out in his

"Future of Socialism," when Government discovered that the problems of large industries were essentially similar, whether they were publicly or privately owned, nationalisation enthusiasts lost much of their ardour. For instance, it was hoped that the very act of public ownership would usher in a new era of industrial relations. The authors of the nationalisation Acts sincerely believed that workers would be more contented, loyal and industrious when the state became their employer. The managements of public undertakings, however, soon found that the attitude of labour therein was no different from that in the Private Sector. It also became apparent that public undertakings could be as susceptible to abuses as private enterprises — sometimes the abuses were worse. Finally, it was discovered that the main objective of public ownership, viz., the curbing of private monopolies and the bringing about of a more egalitarian society could be achieved by other methods, such as taxation, price control and the countervailing power of trade unions.

There is another reason for the lessening of the Labour Party's enthusiasm for nationalisation. Economic power in private enterprises is now enjoyed by the managers rather than the proprietors. The exercise of power by these managers is hardly affected by the transfer of an enterprise from private to public ownership. Nationalisation of a private enterprise may not, therefore, bring about any appreciable change in their outlook: salaries, pensions, status, power and promotion would still be the operating incentives.

For all these reasons, Britain's Labour Party no longer considers nationalisation as an essential condition for attaining socialism. This was emphasised by the late Hugh Gaitskell, leader of the party, as early as in 1953 in an article entitled "The Economic Aims of the Labour Party" published in the **"Political Quarterly".** In 1964, one of the election pamphlets of the Party boldly declared : "Socialism stands for greater security for private enterprise". Although the Labour Party has not yet abandoned its official stand on the nationalisation of Britain's steel industry, it is definitely not over-anxious to proceed with it.

This rethinking on nationalisation in socialist countries and, in capitalist countries, among parties wedded to the goal of socialism, should have important lessons for us. We are inclined to regard public ownership of enterprises as the best method of increasing production and securing equitable distribution. That this is not so has become evident from the record of the performance of some of our nationalised undertakings. Yet we talk of extending the umbrella of nationalisation — to cover banks, general insurance, goods transport and even some consumer industries!

Nationalisation is not an end in itself, but a means to an end. The goal is the securing of maximum benefits for all sections of the community. Nationalisation by itself means no more than the fact that the proprietory interest has been transferred from private ownership to the State and that the profit or surplus accrues to the State instead of to the shareholders. It does not provide an answer to the problems of development, organisation, management, technology, industrial relations and pricing in the enterprises taken over, nor does it solve the difficulties of the consumer. As a matter of fact, some of these problems get accentuated because nationalised undertakings often operate under conditions which deny to them the required flexibility, human approach and the corrective of consumer satisfaction. *Based on a talk delivered under the auspices of the Forum of Free Enterprise in Bombay on November 18, 1966)*

The views expressed in this booklet are not necessarily 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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