

**THE CULT OF STATE CAPITALISM
IN INDIA**

by

C. H. Bhabha



FORUM OF FREE ENTERPRISE

235, DR. DADABHAI NAOROJI ROAD, BOMBAY-1

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"We **are** neither omniscient nor **infallible**, nor are we so rigidly **wedded to** any **course** of action as not to **alter** it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the people of India **and** our friends **abroad** telling us when and where they think we **are** going wrong."

T. T. Krishnamachari

Finance Minister, India

The great dislike and resentment generated for terms like Capital, Capitalists and Capitalism during the last few years have proved to be useful material for slogans for the main political parties of our country. Somehow, without either full knowledge or proper understanding of these terms, India and her teeming millions have proved to be fertile ground for the propagation of economic doctrines which tend to pull down the existing order of things without **any** tried and proved alternative of building up something lasting and beneficial on this sub-continent. No doubt, the urge of betterment of the economic welfare of the teeming population of this country would welcome any new and improved method as well as the implements for prosperity and progress.

During the last few decades the **average** person of this country had been lulled into a state of coma. With the dynamic changes in the economic and political fields taking place the world over, Indian conditions too needed some quick change. The great **potentialities** of this country had to be systematically developed for the **betterment** of the material existence of its population. Starvation, squalor, shortages of essentials of life have to be eliminated, and awakened and enlightened India has to ensure a better existence for its people. Such a task needs great effort, great vigour, new look and new methods.

As a consequence of the political changes, national leaders sought and discovered a new **econo-**

mic philosophy. At first, these experiments went under the convenient name of "mixed economy". That new economic doctrine probably fitted well and truly into the changed political circumstances as well as the newly propounded doctrine of dynamic neutrality in the international field. In course of time, however, signs and symptoms showed a drift of that doctrine in the direction of a totalitarian experiment in State capitalism. Surely, at present, the middle path of mixed economy, while nominally holding the field and considered for the best benefit of the nation, has been, in reality, exhibiting these newer hues of leftism. Perhaps no better exposition of our economic policy can be had than the statements made in recent times, by our leaders in power and authority. Elaborating his personal ideas about the Second Plan, our Prime Minister very recently stated that he was "for the Public Sector growing"..."while the Public Sector obviously will grow—and even it has happened both absolutely and relatively—the Private Sector is **not** something unimportant. It will play an **important** role and no doubt **ultimately it will fade away**". He again expressed the view that "private enterprise **and** democracy are incompatible". With such positive statements giving an indication of the future economic trends, it is difficult for thinking men of this country to understand these **contradictions** of words and actions which lead to make confusion worse confounded. Along with such statements, the policy of encouragement of private initiative and efforts given at least nominally, if not in deed and practice, represents a characteristic schizophrenia from which our politicians suffer. One wonders if those in authority ever care to assess the achievements of their doctrines and policies in the context of what is to be attained and what has been promised for the progress of the nation. It may save the nation lots of trials and tribulations if our national economic thinkers were to frame their doctrines and policies on hard lessons of history both of this country and of others.

There **can** be no two opinions about the ultimate goal set before the country. Every important and right thinking individual of this historic land has, in season and out season, stressed the need for a better living for the masses of this country. During the pre-independence days, when the present day leaders of our nation had hardly any time to give serious thought to economic problems, **all** sincere thinkers, frankly and freely, announced their ideologies of a quick economic regeneration that would lead to a higher standard for all in this land, Whatever positive achievements, great or **small**, that were noticeable just on the eve of our independence were **definitely** the results of the efforts of those patriots who fought heroic battles in the economic field against foreign bureaucratic power. Since then, the need for a systematic and fast development of India's vast resources is urgently felt **and** universally **recognised**. As a consequence, the first industrial policy resolution of **1948** was propounded. Despite that, rightly or wrongly, the cult of State Capitalism developed with great **vigour** in various fields of our economic activities and thinking, the results of which may be best left to impartial judges to pronounce.

In the context of the above, it may prove of use and general interest to make a passing reference to the achievements of the First Five-Year Plan. The results have been encouraging and have won applause and admiration both at home and abroad. An examination of the index number of various industries during the period **1951-56** depicts an encouraging picture and may with benefit be summarised as follows:—

Old Industries.	1951	1955
Cotton Textiles	.. 101	127
Jute Textiles	.. 80	94
Steel	.. 116	132
Cement	.. 207	286
Paper and paper boards	.. 124	174
Matches	.. 140	147
Sugar	.. 121	173

New Industries.	1951	1955
Machine Tools	.. 52	82
Diesel Engines	.. 1,532	2,124
Bicycles	.. 266	1,143
Sewing Machines	.. 726	1,658
Electric Motors	.. 311	549
Soda Ash	.. 396	644
Caustic Soda	.. 508	1,181
Superphosphates	.. 1,356	1,598

The general index of industrial production in India is estimated to have increased by 45 points in 1956 as compared to the year 1951, taking the base of 100 in the year 1946. In other words, the general industrial production during the **First Five Year Plan** period increased roughly by 35%—a no mean achievement, considering the various circumstances, hardships and obstacles.

Agricultural production too **has** risen to a satisfactory level. However, while evaluating the results achieved at the end of the **First Five-Year Plan** period, it would be only fair to mention that the direct contribution by the State or through the State has not been of any significant nature.

Taking the agricultural progress, one notices the impressive figure of 65 million tons of foodgrains **as** against 54 million tons in 1951. Also, the total area under cultivation in our country increased from 326 million acres in 1951 to 350 million acres in 1956. While praise may be lavished for the major and minor irrigation and flood protection schemes of the Government along with the propagation for the use of **fertilisers** and modern methods of cultivation, **it** should not be overlooked that a great deal of **credit** for the achievements must also be given to the **initiative**, enterprise and the spirit of progress **and** sacrifice on the part of those tilling the land and **attached** thereto for generations. Some authorities on the subject sincerely believe that the results would have been still better had it not been for certain **un-**

warranted interference and certain short-sighted land policies which were adopted during the past five years or so. No doubt, in evaluating the picture of progress in this sphere, the natural enterprise and circumstances which were conducive to the results should not be overlooked or forgotten and due share of praise must be given to them.

In the industrial field, State Capitalism exhibited itself in a few cases like the Sindhri Fertiliser Pactory, Chittaranjan Loco Works, Hindustan Aircraft, Hindustan Telephones, etc. These efforts of the State during the five years ending 1956, according to the computation of knowledgeable authorities, hardly contributed a 5% of the total increased production, that was achieved in this sphere during that period. Unfortunately this insignificant contribution does not seem to **have** been noted while **emphasising** the doctrine of State Capitalism for our Second Five-Year Plan period. Perhaps the obvious oversight of this cardinal feature may be responsible for the undue weightage and emphasis given to the role of the State in the fulfilment of several of our economic targets. Let us hope and pray that our ambitions and needs do not founder or collapse on this rock and since flexibility of our Second Five-Year Plan has been oft repeated, let us have confidence that any danger signal that may become apparent would lead to a successful recharting of our course **and** methods.

The recent revision of the industrial policy of the Government of India as embodied in its 1956 resolution has brought to the fore the unrealistic thinking of our leaders about the contribution of State Capitalism in our plans of economic **regeneration**. The Resolution not only expands the list of subjects reserved for State venture, but also enlarges the powers and role of the Government in the industrial sphere. This latest policy statement is regarded by some as being a beginning which will **ultimately**

lead to the extinction of entrepreneurial activities in our country.

The violent shift in the role of the State towards the conduct of business and for the shaping of our economic future has become glaringly obvious with the establishment of the State Trading Corporation and the nationalisation of Life Insurance business. The urge to obtain as much money as possible for the State seems to be predominant in the cult of State Capitalism as it is fast evolving itself in India today. Even without a nucleus of an organisation and 'know-how' of management and administration of various types or categories of business that are within its ken, the mania of the party in power for establishing the stranglehold of State Capitalism leads to a violation of the basic laws of economics, ethics and natural existence. In the name of rapidly changing our economic conditions and ensuring a so-called fairer deal to all, the ordinary basis of contract and freedom of association seem destined to be trampled under the heel of State Capitalism.

The functioning of State Capitalism in India has not yet exhibited its full strength and tendency to function as a superior, supreme and monopolistic organisation. This misleading feature, existing at present, has lulled the other interests concerned into a sense of complacency and timidity about their ability as well as strength to carry on their activities despite the new doctrine which has entered the economic arena. Shrewd observers, however, do not fail to prophesy ominous times for the general run of private business in fields where State Capitalism has raised its head. Only a few instances of the working of State Capitalism in India will enable us to evaluate the role it plays in our economy even in this early stage of its existence. It is doubted whether many of our highly placed and knowledgeable people are aware of the working results of our various State organisations like the Hindustan Aircraft,

Sindhri Fertiliser Factory and Hindustan Shipyard. If the picture of all these in its naked colour is shown, it would undoubtedly expose to the bare flesh the great burden that the nation shoulders through these ventures. It is dreaded that gradually a tendency will develop in the next few years whereby to shield itself from its incompetency and failure, the State Capitalism of this country will direct its blows towards suppressing technical progress and discouraging inventiveness. It is crystal clear that State Capitalist ventures in India have no difficulty for the purpose of securing finance. The way in which this essential wherewithal is forthcoming leads to a spirit of over-confidence and neglect, with all the evil results which fall heavily on the shoulders of those who ultimately foot the bill. This advantage secured by a State enterprise at its initial stage acts as an opiate in its functioning entailing heavy burden both at the start and at the various stages of its career.

No doubt, as yet, no standardised system of organising State enterprise has been evolved. Private Limited Joint Stock Company form of organisation seems to be regarded as the most convenient for State ventures at present. Nevertheless, the nation's right to know fully, criticise frequently and loudly, and control these ventures is neither conceded in practice nor properly allowed to be asserted. The freedom and rights conferred upon shareholders tend to a continuous watch on the functioning of Company and an indication of their progress through free market rates of their shares and periodical exchange of ideas between owners of capital and management leading towards greater and faster progress and prosperity which can never be found in the case of ventures under State capitalism.

The cult of State Capitalism in India is nothing original nor novel. It is a borrowed concept and has been in vogue in many of the economically developed countries of the world. The fundamental principles

underlying this cult may be wholesome and in theory at least it may be regarded as beneficial for the general good of a very large number. The practical results, however, have not been in consonance with the attractive theories. Whether the break-neck speed of expansion of this doctrine in India can either achieve any progress or bring beneficial results for the common man of this land is highly debatable. The ways and methods as well as the implements necessary for the adoption of this theory are considered highly unsuitable to the philosophy, culture and ways of thinking and living of the population of this historic land. In any case, a great deal depends on the method and manner of application as well as the timing of this principle of State Capitalism for the fulfilment of the economic objectives of a nation.

It may prove of great interest to note that in economically developed countries of the world like the **U.S.A.**, the results have not been beneficial and have created confusion. Consequently, radical opposition to this doctrine of State Capitalism has gathered momentum of an unexpectedly virulent nature. After a good deal of experience and at not little cost, only a few years ago, the President of the United States of America made his biggest promise to the nation, prior to his election, to take the Government out of competition with private enterprise. At that time it was estimated that the Federal Government was running some 100 types of businesses in which about 40 billion dollars of the nation were invested. To fulfil that assurance of getting out of business, a suitable and bold policy programme was chalked out by the administration. In May 1955, as a part of the programme, the American Government sold 24 of its synthetic rubber factories. The Defence Department had shut down 24 Scrap Metal Operations, 7 Bakeries, 9 Laundries, a Chain **Factory**, a Caustic Soda Plant, 4 Cement Mixing Plants, a **Tyre-Re-treading Plant**, 2 Garden Nurseries and 4 Ice Plants. The Navy which had been manufacturing

uniforms for years has closed its Clothing Factory. It is using some private yards to overhaul its ships and has increased such contracts from 34 million dollars in 1953 to 82 million dollars in 1955. The Navy has also closed the Coffee Roasting Plants which had been started in 1858, because it was not satisfied with the quality and cost of commercial coffee.

The Air Force now contracts with private business for over 50% of all maintenance of engines, radios, etc. as compared to only 21% in 1952. To help Government to sell 90 million dollars worth of Chunk of its surplus real estate, the Government Agency called in private brokers to find clients and close sales. Government liquidated the Island Trading Company set up by the occupation forces in the **South West Pacific** and sold its Rum Distillery in Virginia Islands. It seems that the Defence Department in America are the worst offenders of running business in peculiar unbusinesslike ways and justifying their benefits by crying "national security". Although feeble attempts are made and rough guesses are mentioned, not even the Government experts have been finally able to calculate how such money has been saved upto date by the "get out of business" campaign.

The American economy has radically and soundly evolved a new doctrine fundamentally opposed to the State Capitalism, a doctrine founded on progress through "people's capitalism" or "democratic capitalism". It is needless to state in this connection that even in this new type of capitalism, eminently suited to the objective and to the present day conditions, a number of regulatory legislative measures had to be invoked; but it should be clearly stated and understood that in the economic field as in the political democracy of that country, no undue force, coercion or torture, which had prevailed as under totalitarian regimes, was ever brought into play for the achievement of the economic progress. This new

type of Communism has so provoked the authors of Plans and Controls by the success achieved in the United States through the "People's Capitalism" that the Great Leaders of U.S.S.R. ordered their leading Economist Eugene Varga to find out some kind of material to combat that great achievement. Statistician Varga did his very best, went to the root of the new concept and doctrine, but failed to produce any material of substance which may prove useful to the Communist propaganda machine. The reason why that was done is "because Americans do enjoy and benefit from individual capitalism".

The new doctrine evolved **after** great trials and pains has heralded a new era in the economic progress of the United States and is something quite different from the old reactionary capitalism, which is the butt and target of attack from various dissatisfied quarters including the main political parties. The attack largely arises out of a sense of frustration and jealousy. Nevertheless, the results speak their own tales.

In the **U.S.A.** the new doctrine of "people's capitalism" has shown that 10 million people have purchased shares and invested in large American Corporations. In other words, it means that one out of every 16 men, women and children, in that continent **own** stocks in various businesses. Thus, General Motors is owned by 639,000 stock holders. There are nearly 1½ million **stock** holders of the American Telephone & Telegraph Co. Besides all that, nearly 100 million out of 160 million of the total population indirectly are stock holders of various corporations through their life insurance policies or their savings bank or their funds.

Contrasted with this picture, it may be useful to recount here that State **run** industries in France are reported to have **lost** 40% more in the year 1956 than in the year 1955. The French nationalised rail-

roads lose annually very nearly 2¼ million dollars **and** the nationalised Coal Mines there along with their gas and other utility concerns owned by the State lose nothing less than 60 millions a year. The French electricity enterprise of the State owes a loss of 14 million dollars per year and the Paris subway and bus lines lose 34 million dollars a year.

While planning, an emphasis on the role of the State for our economic growth may seem wholesome and good, matured thoughts and wise words of other experienced and weather beaten individuals should not be entirely disregarded or intentionally brushed aside. Only a few **years** ago, our ex-Finance Minister, Dr. Matthai, in a frank speech in the Lok Sabha admitted his conversion **from** the doctrine of giving "the State a much bigger and more important place in the economy of our country." The reason mentioned by him for this change in his thinking was that he had "come to feel that the kind of control, direction, compulsion and so on which is involved in the problem of nationalisation is such that the machinery, organisation or investment, through which we have got to perform this work, has failed us in the larger measure than I anticipated 3 years ago". **A** no less eminent authority than Mr. Winthrop Aldridge, formerly Chairman of the Chase National Bank of New York, only a little while ago **said** "Government planning means the destruction of individual initiative. When one is told what price one can charge, what profits one can make, what work one can do, there is neither the motive nor the opportunity for individual growth and advancement. The Government undertaking, price dictation could tolerate no criticism. The individual is considered to be unimportant. The enforcement of price decisions require a large and very efficient corps of secret police visiting at any time homes, stores, factories and violate the very essence of democratic principles. Equality of all citizens cannot exist. The Government planners become a specially privileged class without

any exceptional ability and **knowledge** and party members are endowed with special prerogatives and favours. Jefferson realised this fully when he designed our Republic in the following words: "The generalising and concentration of all cares and powers into one body has destroyed the liberty and the rights of men in every government which has ever existed under the sun."

Let us hope that the great ideals which India has set for itself in the economic field are not **persued** through painful or inhuman ways. Whatever be the urgency of our problem, the sound teachings of Indian philosophy, culture and spirit for respecting natural laws and rights of human beings are to be observed and permitted to operate freely. From the best guides of State Capitalism, the danger of political autocracy flows **and** if the high principles for which India's freedom struggle won approbation **throughout** the world are to be lived **upto**, proper safeguards and suitable organisational set-up in India's State capitalism will have to be deeply thought out and properly put into effect.

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"We want **to** produce the material goods of **the** world **and to** have a high standard of **living**, but not at the expense **of** the spirit of man, not **at** the expense of **his** creative energy, not at the expense of his adventurous spirit, not at the expense of all those fine things **of life which have** ennobled man **through-**out the **ages.**"

Jawaharal Nehru

Prime Minister of India

