

"THE NEW CLASS" IN A
STATE DOMINATED ECONOMY

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By

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The 20th century has been characterised by an ever increasing role being played by the government not only in the national economy but in every part of a citizen's private and public life. The extent of government intervention has varied from country to country — from a relatively low level of intervention as in the United States, to a high level of intervention as in communist countries.

From small beginnings at the start of the century, the concept of an interventionist welfare state in which individual choice is restricted has taken shape. A government, which through its administrative mechanism takes on the function of deciding on priorities and choices, was first established in Britain from where it spread around the world, including the United States where it had its beginning with the New Deal.

I am indebted for the title "The New Class" to the Yugoslav leader Milovan Djilas. "The New Class" refers to an emerging group of people in the

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advanced and the developing countries who have mostly upper middle-class backgrounds, who derive their status and occupation from the possession of considerable education. Its members earn their livings through their linguistic, analytical, aesthetic or academic skills. They are either aristocratic or artistic in their life-styles or, alternatively, are dropouts from such a life into a life of Bohemian simplicity. They work in the fields of education, the media, in public services, in trade unions, business houses and in social service organisations. Their professional status is based upon skills in the "soft" sciences such as economics, politics, law, accountancy and sociology.

Some of the consequences of this system are:

(a) **A high-cost economy:** Ill thought-out and poorly implemented government legislation and bureaucratic controls make every productive activity yield less than its potential. Every unit of output has an additional cost component arising out of the system of controls. The general cost of producing goods goes up together with the end prices of goods to the consumer.

(b) **Sluggish investment:** The economy almost stops growing as fresh investment does not take place. The entrepreneur just does not have any motivation to pursue growth in the midst of controls and regulations. Falling investment and increasing unemployment set in. Periodically, governments manage to generate spurts of investment, only to fall back into a greater morass of stagnation and unemployment than ever before.

(c) **Speculation:** An economy infected by controls and shortages makes all kinds of speculation (cornering, withholding of supplies) a very profitable business. A rapid growth of this class of speculators contributes very little to the net material product of an economy. Prices of things, such as land and properties, gold, silver, and the rare metals, go up substantially. This class is thereby able to raise its share of the national cake. This has a distorting effect on the economy.

(d) **Technological obsolescence:** In a developing economy, with persistent scarcity of capital and a backward technology, the problem of technological obsolescence sets in fast. Government intervention does not make it profitable for industry to modernise its technology. Indeed, such a government provides the wherewithal for the business classes to retard the development of new technology. They create a monopoly or oligopoly in which it is not profitable to implement new methods of production or to introduce new products because of the impact they have upon existing investment.

(e) **"The Road to Serfdom":** The crushing burden of taxation, which is inevitably required to administer the economy, results in the stifling of incentives and fosters disrespect for the law. Rapid inflation and sluggish growth undermine the cohesive forces in the society. Inevitably, this results in the loss of personal freedom—in the communist world with its concomitance of tyranny and regimentation, in the third world, as in India, privileged elites and suffering masses of humanity.

A modern government has come to perform numerous functions. It maintains law and order; it assumes the function of providing an infrastructure for industry; it allocates investible resources which it takes away from the citizen on the ground of "optimum" use; it redistributes incomes based on its concept of social justice; and lastly it claims to look after the welfare of its citizens.

These are laudable, even noble, objectives which cannot possibly be attained without disciplining its unruly citizens who do not understand what is good for them! This justifies the need for government regulation and guidance. But very soon the controls become restrictive and strangulating, and only defeat their purpose. In India government controls have multiplied very fast, each one as a consequence of some supposed defect in the economy. To name a few, we have industrial licensing, company law, foreign exchange regulations, price controls, restrictions on the supply and distribution of essential commodities, limitation on managerial remuneration, laws on industrial disputes, export and import controls, and laws about monopolies and restrictive trade practices. Several of these have lost their relevance and are implemented with fanatical strictness. Their failure is attributed by the politician not to inherent defects but to the fact that the controls are not pervasive enough!

There would presumably be a broad consensus that government-mandated protection of the environment—physical, economic and social—is needed, and widely accepted if the government pursued this objectively, realistically, efficiently and with limited and practical goals. The first problem

is that most politicians simply do not know how difficult it is to plan comprehensively, completely or effectively. They do not realise how unreliable, old and incomplete the data is; how misleading, simplistic and controversial the theories are; and how superficial and naive the basic models are no matter how sophisticated they may seem to the lay public (and sometimes to their designers) mathematically and computationally. Finally, they do not know how controversial many of the explicit (and even more, the implicit or unconscious) goals and objectives are.

While the politicians have an overall view of their own, private individuals and organisations have a variety of local and personal perspectives that are at least as important as the special knowledge and perspectives of politicians. Politicians should rely as much as possible on the intelligence and understanding of the individuals personally concerned about what is best for them. But they believe instead that these individuals are perverse, ignorant, dumb or just do not know what is good for them! Even politicians who appear competent and professional can be perverse, ignorant, dumb and not know what is good for others. They may also be more prone to “educated incapacity”. But that is another matter.

How can one explain the irrationality of the politicians’ behaviour? It is an easy answer to say that the politician lives on votes and can remain in the saddle only by acting in accordance with the wishes of the general public. His actions and reactions are the result of a host of political pressures.

Trade union pressure was a force behind the nationalisation of the coal and banking sectors in our country. In USA too the government's decision to impose countervailing duty on textile imports from the developing countries was taken as a result of trade union pressure. All these decisions have been arrived at irrespective of what the economics of the issue warranted. The trade unions in USA have little or no knowledge of how unemployment in the country is unrelated to the import of cheap goods from the developing countries.

If political decisions are constrained by the limits of popularly accepted values amongst voters, it would appear that no rationally sound idea can be harnessed to the good of the country. Should this mean that were these ideas to be explained in suitable vocabulary and were cleverly adopted to the values of the public, they could be made most acceptable? That requires education of the public mind to accept new ideas and broader concepts of public interest. The politician would then have to devote time and talent to developing an economically workable programme that is politically marketable.

It is an elementary observation that politicians enjoy spending money and do not like to impose taxes. In many American state constitutions, as well as in the federal constitution, an attempt has been made to limit the power of the government to impose taxes upon its citizens or to raise money by borrowing. It appears to me that the revenue-grabbing proclivities of a government must be disciplined by the constitutional restraint upon its ability to impose taxes.

This alone would ensure that some constraint is put upon politicians' desire to spend money recklessly.

It is again the lack of public knowledge or education that robs political programmes of their flexibility and spontaneity to changing situations. Thus wartime controls are allowed to continue in times of peace. Economic emergencies are dealt with insufficient speed. The period between fiscal decision and fiscal action is a prolonged one. A public education programme meant to synchronise the interests of the economy, the politician and the public seems the only way out of the stagnancy. I make this suggestion recognising its practical difficulties, especially in a country with a high rate of illiteracy. However, a beginning has to be made somewhere.

Bureaucracy, which is the machinery through which a government functions, closely follows the politicians in power. The bureau concept is wide enough to encompass governmentally-run undertakings — such as railways or telecommunications, as well as state sector undertakings — in addition to the administrative machinery that administers the law and order system. Irrespective of the wideness or narrowness of the concept, an underlying relationship can be easily detected between the politicians and the bureaucracy. The politician is dependent on the bureaucracy for its services that are in compliance with his interests. In turn, the bureaucracy is dependent on the politician for its annual grants or budgets. Over a period of time, a relationship of mutual interdependence develops so that the activities of a bureau fosters and at the same

time feeds upon the politician. But for the fact that this is a socially destructive activity, one would call this relationship symbiotic.

All bureaucratic activities must be subject to what the Americans call "sunset laws", i.e., any government department must, by a specific statutory provision, have a limited life. Under this provision, on the expiry of the period, which in my view should seldom exceed ten years, its continuance beyond that period would require specific legislative approval and would therefore involve a re-examination of its functions.

Consider now the limitations of the bureaucracy. Firstly, the bureaucracy is not subject to any quantitative test of efficiency. Secondly, there are no economic incentives that could motivate a bureau to make the most of a given budget. In short, there is the absence of a measure of performance and the incentive of "profit". The word "profit" is anathema to a bureaucrat. Indeed, the secular trend in bureaucracies is that they grow in size rapidly irrespective of the relevance or the efficiency of the function they perform. Inevitably, they find a rationale for their existence even if the underlying basis of their creation may have ceased altogether. Even in areas which are considered as appropriate for a modern government to undertake, there is no method by which the cost of delay by a bureaucracy can be quantified. The Indian bureaucracy has much to account for in this area of delay. Many decisions taken are wise, if not actually profound; but the delay to which the decision-making process is subjected is itself self-defeating.

A bureaucracy may be very effective in its work but the official rhetoric of a bureau is socialistic. One big advantage of socialism over capitalism is clearly a matter of rhetoric and argumentation rather than performance. It simply appears too self-serving when an individual who has profited greatly from the system says: "My labours also improve the country as a whole". In a socialist system, all are presumably working directly for the common good. The fact that the elites in most third world socialist countries are uncommonly well rewarded for their labour is frequently overlooked. A perceptive and witty scholar has observed: "Those countries devoted to freedom have done more for equality than those devoted to equality have done for freedom or equality".

The concept of the faceless bureaucrat who self-effacingly carries out orders from above, merely executing but not making policy, and motivated by the noble motive of public interest, is a myth deliberately created by the bureaucracy. Bureaucrats, as has been demonstrated in the last few decades, cannot be considered as economically neutral. They will seek to expand the size of their bureaus since it is universally accepted that the salary and perquisites of office are related directly to the size of the budget which is administered by a bureau. The built-in force for expansion, which inherently exists in a bureaucracy, results in a budget maximising department. Tax payers end up by being no better off than they would be without the provision of a public good or service. All their "net benefits" are squeezed out by the bureaucrats. The implication is that each and every public good or service,

whether it is medical services, education, transport or defence, tends to be expanded beyond a tolerable level of efficiency.

It would be ideal if a system of incentives and pecuniary rewards is introduced in the bureaucracy. A competitive environment is as healthy for a bureau as it is for industry.

Anyone who has worked with bureaucrats will agree that so many of them are admirable and gifted individuals. They must surely be capable of better performances in their task than we actually get from them. Is there a place for a counter-bureaucracy, such as that represented by the Ombudsman? Or a separate and competing bureaucracy under the administrative and financial control of parliamentary committees to counter balance the force of the executive's bureaucracy?

Other likely solutions would be competition between bureaus, altering the reward system for bureaucrats, payments being made on results or on economy in use of resources, turning over the production of certain goods and services to private firms for a price, e.g. education, sewage disposal or waste disposal, hospital services.

At the commencement of the developmental process already the business classes were conditioned, at least in this country, to a fair degree of governmental intervention during the World War II. While initially they protested against controls and regulations, they soon came to realise that these

controls and regulations were in fact working to their advantage. That once he had mastered the system and climbed over "the wall", the existence of "the wall" was a protection from the fresh hoards of competitors who were snapping at his heels. Very soon he came to realise that in this situation he had no need to worry about quality, service or price. He could charge high prices, pass on the increased cost of operation to the consumer and, in many cases, protect his investment from technological obsolescence.

Under the system of licensing which is prevalent in India, some businessmen have not hesitated to resort to restrictive trade practices with the cornering of licences, withholding supplies and sometimes even creating shortages by inciting a strike or a lockout. The benefits of competition which result in better products, lower prices and better services for the customer, have been denied to the consuming public on the ground of rational allocation of resources and the production of the goods and services which would be "socially desirable". If this laudable objective had in fact been achieved, one would have less cause for complaint. But in the developing countries it is precisely the socially desirable goods and services which have become scarce and non-available. In India housing, fuel, cement, steel and fertilizers, in other words the goods and services the public most desires, have been in short supply, encouraging black market premia and the use of scarce exchange resources to import material which the country is economically capable of producing.

A new approach has to be adopted in regulating the business of the economy. The approach should be one that makes use of mechanisms of incentives and disincentives to manoeuvre business behaviour in accordance with national interest. Instead of pursuing the mythical demon of large industrial houses, which in this country are known as "monopolies", or trying to regulate the remuneration of managing directors, the politician could well divert his attention to creating a competitive environment which automatically provides the right corrective to the exploitative tendencies of businessmen. No one in his right mind today would expect *laissez-faire* capitalism to be brought back into this country. We all recognise the need for the government to provide an infrastructure of regulation and laws in order to allow the free interplay of market forces to determine who should be successful and who should go to the wall, what commodities need to be produced and sold, at what prices and by whom. I have a feeling that if industrial licensing were to be abolished many businessmen who presently complain about its restrictive effect would find themselves at a loss to determine what new businesses they should go into!

The trade union movement has come to play a very significant role in all the advanced economies of the world. Even where the movement is ruthlessly suppressed, as in communist countries, it still exerts a pressure upon the system to achieve some of its ends. Recent developments in Poland are an illustration of what could happen even in communist countries.

The trade union movement in most western countries as well as in India was started to improve the working conditions of the work force. There is no question that they made a very substantial contribution, in the early stages of the movement, to ameliorating the conditions of the working classes and there is scope even now for *bona fide* trade union activities in certain sectors of the economy. But trade union bosses soon came to realise that their power lay not only in their capacity to withhold their labour from the employer. In a modern democracy, they had also acquired the power to influence, if not actually to coerce, the political system. The trade union movement therefore has become a very important and significant part of the political system in most countries, except possibly in America where, in spite of the power which they have, the trade unions have continued to have a healthy distrust of the political system.

Employers themselves have contributed not a little to add to the power of the trade unions. This happens where they are engaged in activities which are of a monopolistic or oligopolistic nature, or where the goods are in short supply as in the controlled economies of the developing countries. Employers have in these circumstances not hesitated to arrive at liberal settlements with their trade unions in paying wages and other benefits which are totally out of line with their skills, or comparable levels of salary in other industries. In India, for instance, many employers, in spite of a legal provision to the contrary, have made under various guises settlements involving payment of bonus at rates of 35 to 40

per cent. This they have been able to do because they have felt confident that the increased burden will be passed on to the consumer in the form of higher prices without in any way impairing the profitability of their businesses. We have instances now of large public companies where company drivers appear in the list of persons drawing a remuneration of more than Rs. 3,000 per month and yet there are people who even today pay a salary of Rs. 300 per month to the drivers employed by them.

By a tacit concurrence, businessmen and trade unions are able to raise the wages of their work forces only at the expense of reducing employment opportunities or at the expense of other workers who receive lower wages. Several economists have felt that collective bargaining will inevitably lead to an increase in both unemployment and the rate of inflation.

I think that it is necessary to make suitable legal provisions for curbing the power of the trade unions along the following lines:-

- (a) Elimination of inter-union rivalry through a provision that only one union will be recognised as a bargaining agent in any manufacturing enterprise.
- (b) In order that the actual status of the union can be ascertained, a system of union check-off must be introduced so that union contributions can be collected in a *bona-fide* and voluntary manner.

- (c) All contracts entered into by a union would be legally binding and the union and its officials would be liable for financial and other penalties for breach of contracts as in the case of any other commercial contract.
- (d) No strikes can be started except as a result of a strike ballot and with the support of a majority of the work force, whether unionised or not.

The collusion between the new class of bureaucrats, politicians, businessmen and trade union bosses perpetuates itself partly because of the short-run benefits and also partly because they see no way out of the system. The average businessman realises that his profits in the existing system are only illusory. They are the profits of inflation. The real worth of his enterprise is not going to sustain him long. The bureaucrat is also aware of the limits to the fiscal capacity of the government, and of the fact that the bureaucracy's expenditure of government resources does not create my great wealth. As has been demonstrated in India, the limit of taxation is reached soon enough and there are therefore no additional resources available. Hence the constant complaint of the politician, at least in this country, of a resource constraint. The politician too nurses a fear that if the economy does not grow, it would be prone to internal turbulence as well as external dangers. The trade union bosses know only too well that their action has reduced the growth of employment, and the rapidly growing but unorganised group of rural workers, the self-

employed and the workers in the unorganised sector constitute a threat to their cosy system.

It is time now that the bureaucrat, the politician, the businessman and the trade union boss shed their cloak of pretence and open up to the real issues that threaten a bleak future. If they begin to be true to themselves and prepare themselves for a workable reform, there should not be any question about their being able to change the system. A vicious system is not amenable to change, without those operating it themselves accepting the need for reform. I feel that the time has now come for this. There is a slow recognition even in our country that there is a need for a radical reform of the present system. There is still a lot of groping in the dark about what needs to be done but I personally feel that it is a hopeful sign that there is a recognition of the need for reform.

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