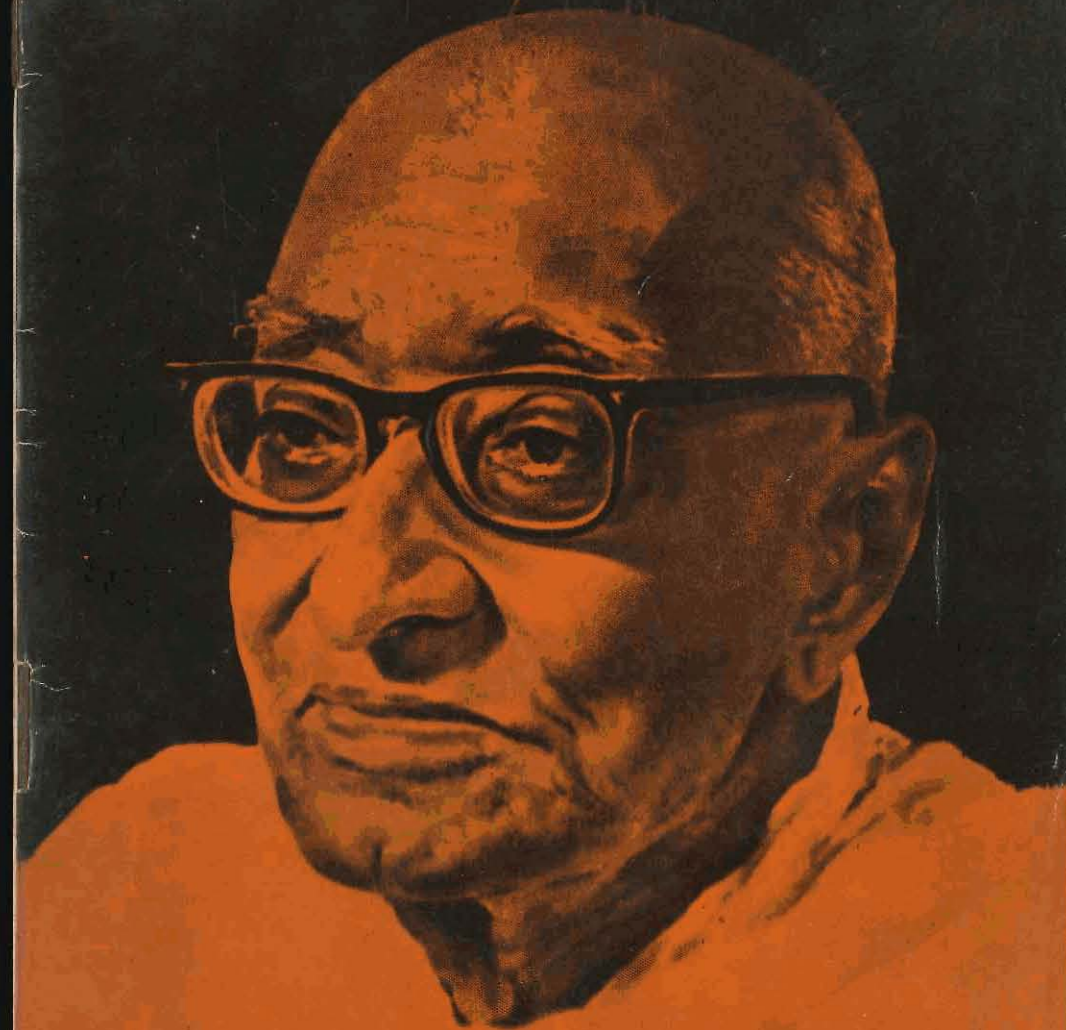


Bangalore Education Trust

**The Relevance of Rajaji's
Economic Thinking Today**

M.R. Pai



Rajaji Memorial Lecture

The Relevance of Rajaji's
Economic Thinking Today

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FOREWORD

BANGALORE EDUCATION TRUST was established as a Charitable Trust in May 1968. The founders were Late Sri K. H. Sreenivasan, Late Sri V. T. Sreenivasan and Sri B. V. Narayana Reddy. The object of the Trust is the advancement of Education and learning in all its branches, i.e., political, economic, social and cultural aspects among the public.

Freedom and Democracy are essential for growth and development of the nation. Rajaji's far-sighted economic policies and ideologies based on freedom are the way for quick economic prosperity and social stability. It would strengthen free society.

On the other hand, socialism based on "command economy" worked havoc. There are more people today below the poverty line in India than ever before. The gains of the economy have been cornered by the corrupt politicians, bureaucracy and sycophant businessmen. The stability of the society is in danger.

The present Board of Trustees therefore considered it appropriate time to refresh the memory of the public about Rajaji's economic ideologies so that the education of the electorate may bring about necessary changes in the political, economic and social fields. In consultation with Sri M. R. Pai, Vice-President, Forum of Free Enterprise, Bombay, we inaugurated the first Rajaji Memorial Lecture on 5th December 1983. The subject chosen by Sri M. R. Pai "RELEVANCE OF RAJAJI'S ECONOMIC THINKING TODAY" was most appropriate and the audience greatly appreciated the choice of the subject and the speaker. We are grateful to Sri M. R. Pai to have spared time to inaugurate the first of the series of lectures to come.

The copies of this lecture will be freely distributed among the University students all over Karnataka and outside for their study and to give their thoughts to the subjects.

N.K. GANPAIAH
Chairman
Bangalore Education Trust

7th March 1984

The Relevance of Rajaji's Economic Thinking Today

M. R. Pai

I am grateful to the Bangalore Education Trust for the honour conferred on me in asking me to deliver the first of the Rajaji Memorial Lectures under its auspices. This is one of the proudest and most privileged moments in my life so far.

In 1957, I had the privilege of meeting Rajaji for the first time. In the course of the talk, he told me: "Tell business men to give up their fears and boldly speak out their views on economic policies on what is good for the country." When I mentioned to Rajaji the difficulty of such a task in view of the fear complex of many business men, he counselled: "There is nothing to be afraid of the Government if one is sincere in the expression of one's views." He gave his own example. Early in his life, there was an occasion to criticise some policy of the then British rulers of the country, and all advised him against it saying that the powerful government would crush him. Nevertheless he went ahead, and found to his pleasant surprise that instead of penalising him in any way, the Government respected him all the more for his frank expression of views in public interest. Further, it went out of the way whenever he had to deal with the Government to accommodate his wishes.

His advice is as valid today as it was in 1957. When public interests are concerned, fearless expression of views on the part of citizens is essential; more so in a democracy.

I Tributes to Rajaji

Rajaji was one of the greatest men of this country. We are too close to history to realise his greatness.

One of his great works is "Ramayana" written in a simple style. In an article written in "Hindustan Times" on the occasion of Gandhi Jayanti on October 2, 1960, Rajaji narrates the story of Rama asking Viswamitra at the banks of river Sone, whether they were guarded, and that sage replies: "Let us take the road which the great sages have taken." Rajaji then goes on to say that the pathway chosen by the great is to be found in the following Upanishadic chant from which the motto of the Union of India has been taken.

"The path that the Rishis, undisturbed by unrealised desires, take, the bright path that leads to the supreme abode of Reality, that path is paved with truth; victory is for Truth ever, never for un-Truth" (सत्यमेव जयते नानृतम्).

To get a vision of that Truth, "one must live a pure life in thought, word and action." The outstanding impression Rajaji's life gives is that he himself led such a life of virtue. A great mind, modern in approach, yet steeped in ancient values derived from classics in Tamil, Sanskrit and English, he led a clean and virtuous life dedicated to public service. His approach to life was one of commonsense. He had very rich experience of dealing with men and matters. He was an administrator **par excellence**. Therefore, his economic thinking, based on keen observation, inspired by love of his fellowmen and tempered by knowledge of the day-to-day world and the problems of running a Government in the Indian context, deserve special attention. Moreover, it has been vindicated by events over the years. At an age when men would gratefully fade into retirement, Rajaji once again descended on the battlefield of life, in spite of the infirmities of age, to fight for public morality and right economic policies for the country. What he wrote has fortunately been preserved in volumes titled "Satyam Eva Jayate".

Some of these essays, so clear in thinking, written in lucid and scintillating prose, should be read and re-read by students of public affairs. I hope the Bangalore Education Trust can get permission of the publishers to publish a small booklet for benefit of students, giving a dozen of such essays on deficit financing, taxation, controls, inflation and other prominent economic issues on which Rajaji wrote so clearly and so prophetically.

II Roots of Rajaji's Economic Thinking-FREEDOM

Rajaji's main concern was with public welfare, particularly welfare of the poor masses of people. Though he was not given to usual theatricals of many politicians who shed tears for the poor, Rajaji sincerely strove to improve their lot. The living conditions of the poor can be improved only by increasing production, and economic opportunities for the masses, he argued. In Rajaji's own words, "The well-being of the teeming millions can be steadily achieved only by production and yet more production; and this can be brought about by industry, and this again only by incentive, saving and capital, and not by taxation and repression."

Thus logically argued, Rajaji's economic thinking was based on commonsense and a realistic view of human nature. His thinking was in sharp contrast to the then prevalent belief of many politicians that the way to promote public welfare was by distributing existing wealth. Rajaji knew and argued that more production was the only answer to poverty.

In order to promote greater production, according to Rajaji's cogent arguments, it was essential to have freedom. Hence he was opposed to statism or state intervention beyond legitimate requirements in economic affairs of the country. He had a felicity to coin telling phrases to describe complex situations. The all-pervasive statism in India's economic life was described by Rajaji as "Permit-licence-quota-Raj" a phrase which has become part of economic jargon.

"Monopolies arise out of State trading and state management, not out of private industry or private trade..... When the Government takes over any business it immediately hands it over directly or indirectly to a selected individual who, thereupon, becomes a monopolist free from all competition, but a veritable government authority. When the Government does not intervene but leaves things to private hands, the production and distribution remain open to competition. The favourites, licencees and agents of government always enjoy a baneful monopoly....."

"The only path to full employment-and this is the true goal-is to let capital grow freely. Enterprise must be emancipated and not put in chains. It will then absorb potential labour in increasing measure. The private sector must be liberated from all harassing deterrents that prevent its rapid growth."(Sept.17,1960 "Swarajya")

Rajaji also rightly foresaw the all-round inefficiency and corruption as a result of statism. He wrote that statism "means inefficiency in production and distribution, through an uninterested army of paid State officials and agents whose perquisites do not depend on, and are not related to, the quality or quantity of production. Monopolies at all points in favour of selected individuals and groups, partisanship and corruption in selecting those individuals and groups, an endless chain of power and corruption, policing that these call for and its concomitant oppression and annoyance of the innocent, these are the results of State socialism....."

"The entire ideology of socialism is based on a huge fallacy, that creative energy can be isolated from personal interest." (April 1, 1961, "Swarajya")

What Rajaji wrote over 20 years ago, when many were inclined to wait and see results of the then new experiment in statism, has been proved true to the last word. In fact, many fair-minded persons

differed from Rajaji's views then have now realised the truth of his utterances.

When dealing with Rajaji's opposition to state controls on economic activities, it is necessary to distinguish between **regulations** and **controls**. Rajaji was not opposed to regulations. These are required in all societies, irrespective of the ideology of the Government. In some, more, in some, less, but unavoidable, nay, welcome in public interest. For instance, regulation on use of roads and public facilities, Factory Act, labour legislation of the right kind to prevent exploitation of labour, consumer protection laws, measures for protecting environment-these are a few examples of regulations necessary in all countries. Rajaji was not opposed to them. He was against controls on **production, distribution** and **prices** in normal conditions. For instance, during war time or a famine, controls are inevitable. Without procurement, rationing and price controls on food during a famine the prices of food-grains would hit the ceiling, and being beyond the reach of the poor they would starve to death. No state can afford to follow such a policy of death and devastation. However, during normal times controls have no place. They act as a damper on greater production. Even in a situation of scarcity, the final answer is greater production which brings down prices. Controls will benefit a chosen few, at the expense of producers and the rest of the community, and by making greater production non-attractive peg down the level of supplies, thus perpetuating scarcities. Controls on production, distribution and prices are thus self-defeating.

In Rajaji's words, whose wisdom has been proved by economic events over the years, "The vanity of achieving spectacular things, the power appetite of officials, and the greed and corruption of partymen, these three elements sustain the unwanted and retrograde permit-licence regime in India, while in war-devastated lands, in other parts of the world, their diligent people rebuilt prosperity on the basis of free economy".

III Rajaji's opposition to Deficit Financing, Inflation and Heavy Taxation

Rajaji carried on a relentless war against what he clearly saw as two evils—deficit financing and inflation and heavy taxation. In "Swarajya" (24.9.1960), he approvingly quoted a booklet on "deficit financing" by the late Prof. B. R. Shenoy. Though it was an era of inflation which began with the Second Five-Year Plan in 1956, his message found few receptive ears because of spurious arguments that inflation was a world phenomenon, or that it was not only inevitable but was even good for a developing economy. Only as the suffering of the fixed income groups became intense, and the promised economic development did not materialise, the wisdom of Rajaji's warnings became apparent to the general public.

Rajaji rightly pointed out that inflation defeated the very objectives of the government. First, it impoverished the masses further. "As a result of inflation, income shifts from the masses to the upper income group. The middle classes are most hit Industrialists and their labour force, who are able to extract a share in receipts, do not suffer much but the condition of the vastly large number of farm hands is worsened." (Sept. 24, 1960, "Swarajya").

The Permit-Licence-Quota Raj was an outcome of inflation and defeated the government objective of narrowing the gap between the rich and poor. Reason: "Inflation must be followed by price controls and import restrictions. These produce a great deal of economic and social disorder and injustice. The controls on steel, coal, cement, rubber, fertilisers and foodgrains have cast a gloom over the life of the people. Far from equalising incomes, the policy of controls makes the rich richer." (Sept. 24, 1960, "Swarajya").

In this context, it is interesting to review how deficit financing and inflation take place in the country. The Five-Year Plans of the Government are aimed a large-scale and rapid economic development.

Unfortunately, we have opted, from Second Plan onwards, for the wrong type of planning. Copied from Soviet Russia, this style of comprehensive centralised planning aims at physical targets far beyond the real, available resources to fulfil them. The resources, viz., direct and indirect taxation, huge public borrowing programmes, profits of government enterprises—when there are any—and massive foreign aid (i.e., savings of other countries, made available to us), are not sufficient to meet plan outlays. The Government therefore, resorts to deficit financing or, in plain words, creation of moneys far beyond the requirements of the economy. Since the plan priorities are also distorted, there are shortages of essential consumer goods and foodgrains which people want to buy with all that additional purchasing power generated by plan expenditure. More money chases relatively less goods and services, and hence the continuous price rise since 1956, except for brief patches of relative price stability—towards end of 1968, 1974-75 and notably during 1977-79, thanks to the economic management skills and realistic approach of the then Union Finance Minister, Mr. H. M. Patel. Rajaji put his fingers on the right spot, when he wrote ("Swarajya", 24th Sept. 1960), what is true even today: "To stop prices from rising, we must restore the balance between the flow of production and the flow of money. Inflation and excessive state interference are the two evils of the Indian economy today. If and only when these two evils are removed, can we expect to be saved from rising prices."

It is tragic that the warnings of Rajaji, proved by economic events subsequently, have gone unheeded even today. It was distressing to hear the Union Finance Minister, Mr. Pranab Kumar Mukherjee, saying in Lok Sabha on 1st December 1983 that although the price situation was "serious" it was not "alarming". Further, he justified deficit financing. He and the Government are not yet aware of the serious price situation in the country. The Government seems to have lost control over its expenditure. Within nine months of the

financial year, the Government has come twice to Parliament for additional expenditure sanction totalling over Rs. 2,600 crores. All this underlines the needs for a basic change in economic policies.

Just as Rajaji saw the mischief of inflation, and carried on a relentless campaign against it, he was equally firm against excessive taxation—direct as well as indirect. In a lucid analysis under the title "Who ultimately pays?" (Sept. 16, 1961, "Swarajya"), he wrote: "People are deluded to believe that a government which 'taxes the rich' is favouring the poor and the middle classes. A little thinking is enough to disprove this false notion greatly encouraged by political parties depending for their strength on class conflict." Almost all taxes, direct or indirect, ultimately land in the lap of the consumers, Rajaji argued with examples. In one of his usual telling conclusions, he said: "It is thus an illusion to think that taxes on the rich are taxes on the rich only, and not on the poor. Whether the donkey carries the load on its own back or the rider carries it on his head, ultimately the donkey it is that bears the whole burden!"

The immeasurable damage done to the economy through excessive taxation is obvious. The prices of some items went so high that eventually public demand for it narrowed down. Recently the Government had to reduce the unrealistic level of excise duty to stimulate demand. As regards direct taxation, after experimenting with 98% income tax (which meant over 100 per cent taxes when wealth tax was added to it), with sharply declining returns and massive evasion such confiscatory rates encouraged, the Government has had to climb down to tolerable levels of the seventies.

Even today, the country, particularly the savers, are overtaxed. The middle classes bear a load beyond their capacity.

Unfortunately, the money shifted through taxation to the Government does not find proper productive use,

nor does it go for welfare schemes for the poor in an economic manner. While the Government demands all the time more and more revenues from the public, and the Planning Commission always talks in terms of "mobilisation of resources", the real problem in the country is "creative utilisation" of resources raised, particularly from the poor. It is no exaggeration to say that the Government specialises in wasting public funds, in the name of public good. At least till such time as the Central, State and local authorities develop the administrative and managerial capacity to use public funds in an efficient and economic manner, the savage levels of taxation in India should be reduced.

The late Prof. B.R. Shenoy cynically observed once, that while black money was no doubt unethical and needed to be condemned by all right-minded people, at the same time one had to acknowledge that black money had rendered a great national service. Had that money been paid to the Government, it would have been burnt up by the authorities, while in private hands, most of it had gone back into production and increase in national income!

"Whose Sweat & Tears", asked Rajaji when the Third Plan was presented to Parliament on August, 19, 1961. He wrote in "Swarajya", what is true with regard to taxation and public expenditure even today: "It is plain that we cannot push this Plan through, without murderous taxation. This taxation and its effects will defeat the plan itself.... The crying need of the hour is reduction of taxation and greater scope for saving and investment, with personal responsibility for an incentive in private enterprise canalised, if so desired, by the State and its assumed wisdom..... We know how efficient and frugal public management has proved to be. There is no ground for believing that any improvement will be effected in that direction."

IV Rajaji's opposition to an Ideological Public Sector

Once again, from the viewpoint of his main concern of welfare of the masses through greater

production of wealth, Rajaji decried the then fashionable proposition of an ideological Public Sector for sake of a Public Sector. At that time, the "profit Motive" of private enterprise was widely condemned by many economists and politicians, and Public Sector, making huge loses, was hailed as the saviour of the masses. In an essay (Oct. 15, 1960, in "Swarajya") titled "The Anti-Profit Slogan", Rajaji observed: "The fashion in politics is to attack profits..... The profit system, again, is the only mechanism for ensuring economy, and good management in production or in distribution. To make the production and distribution of any commodity as economical as possible, which is a very proper object in the interest of the general well-being, the only way is to put the consumer's check on the producers and distribution. And this is done only by leaving it to the latter and to the competition among them to make profit if they can, and bear the losses if they make losses. If the profit system is given up and substituted by what is known as the public sector, with it goes the fear of losses, and the restraint that is economy. Expenses go up, vigilance goes down, and we have what we see in Government-managed production, transport and trade."

Rajaji's words of wisdom have finally made a dent on the authorities. The Planning Commission and various Ministers no longer talk in terms of production for consumption, nor condemn profit as anti-social. Various figures of 10 or 12 per cent minimum profit are indicated as target for Public Sector enterprises. But the loose talk in earlier years has done considerable damage to the psychology of the Public Sector enterprise managers. It is only gradually that an appreciation of what Rajaji wrote some 25 years ago is being found in governmental circles. "Profits are the source of inspiration as well as the resource fund for all new adventures in human effort." (article on "The Anti-Profit-Slogan").

Public thinking on the subject influenced in the early stages by the then official view of "Public

Sector Right or Wrong" has also changed. The whopping losses, glaring and continued inefficiency, and numerous scandals have tarnished the image of the Public Sector. Rajaji's warnings have come too true to be ignored.

Public Sector enterprises have made huge losses, which means heavier taxation, mostly on the poor, since it is indirect taxes which fetch high revenues to the Governments. In other words, the poor people of India for whose benefit ostensibly the Public Sector enterprises were set up are today paying a penalty in terms of heavier indirect taxes in order to subsidise the inefficiency of the Public Sector. To quote only a few figures: according to a statement in Lok Sabha on 2nd December 1983, 21 out of 24 Indian Tourism Development Corporation Hotels had incurred losses. ("Indian Express", Hyderabad, 4-12-1983). The Energy Minister informed Rajya Sabha on 21st November 1983 that till March 1980, State Electricity Boards had incurred a loss of Rs. 643.4 crores ("Free Press Journal", 22nd November 1983). State Transport Undertakings fared no better. Mr. M. G. Devasahayam, in an erudite article in "Economic Times" (2-12-1983), points out that barring the solitary State Transport of Haryana which made a profit, the remaining 23 were making losses. According to 1982-83 (estimates), the losses were Rs. 171.23 crores! The Public Sector enterprises of the Central Government had incurred losses in the first quarter of 1983-84. At State level, the results are equally alarming. "Financial Express", Bombay, of 25th November 1983, reported a speech by Andhra Pradesh Finance Minister, Mr. N. Bhaskar Rao, that it was a matter of grave concern to the Government that its investment of Rs. 1,000 crores on various enterprises was not giving even a minimum return. He warned a conference of Chief Executives of these units that the meagre resources of the Government did not permit absorption of any further losses.

Rajaji correctly foresaw another danger in an ideological Public Sector: the consumer would suffer. "The consumer will have no freedom of choice if

producers, producing at their own risk disappear and consumers have to buy only from the State or its licensee. Competition and the profit and loss system are essentially a consumer's system. Nationalised production and distribution mean a system where there is no economy, no efficiency, no expenditure and where the consumer will be at the mercy of the State." ("The Anti-Profit Slogan").

Policyholders of the Life Insurance Corporation of India, passengers of Indian Airlines Corporation, and consumers of other State monopolies are too well aware by now of the truth of what Rajaji with his clear thinking wrote several years ago.

There is a way out of this situation, now that the ideologically conceived Public Sector stands totally discredited in public eyes, and even the governmental authorities are aware of the debacle. Four steps can retrieve the situation. First, enterprises which have incurred continuous losses, and are beyond recovery, should be closed down, or sold to private individuals bold or willing enough to buy them. Secondly, in all other units, over a period of time, 49 per cent of shares should be sold to the employees and the public. This will allow the Government to retain managerial control, while at the same time huge resources tied up in these enterprises will be partially retrieved by the Government. Such funds can be used for socially more desirable purposes like welfare measures for the poor. Third, the public sector units should be given full autonomy. They should be subject only to policy directives of the Government as guided by Parliament. One of the major maladies of the Public Sector is political and secretariat interference in their functioning. Many able and devoted managers in those units are frustrated as a result of such unwarranted interference, and are unable to deliver the goods. The question before the politicians is: "You preach sacrifice to the people to build up the country. Are you willing to make this small sacrifice of giving up your power and patronage for sake of

the country now?" Fourthly, these units should not be given budgetary support for their functioning. Instead, they should be asked to borrow their financial requirement from the financial markets on commercial terms. Only then they will be forced to utilise resources economically.

If these reforms are effected, there is no doubt that the Public Sector will turn the corner, and be an economic asset to the country.

V Totalitarian Planning Condemned

A study of Rajaji's writings is an amazing revelation of the practical wisdom as also the extensive range of his economic thinking. He opposed totalitarian type of planning, as borrowed from communist countries, tooth and nail. "These plans may do well enough in countries which are run by totalitarian governments.... They can have no place in our country," wrote Rajaji ("Swarajya", Sept. 3, 1960). He favoured indicative planning, giving maximum scope to individual enterprise. The peasant farmer and the artisan had a special role to play in the economy according to Rajaji's economic philosophy. "The country cannot prosper to be happy with the peasants, the weavers and the artisans repressed and consigned to suffer all the weight of administrative mismanagement." ("Swarajya", March 25, 1965). If Rajaji's warnings had been heeded, the country would not have witnessed farmer agitations in recent years. In an article, "Wise and appropriate Warning" ("Swarajya", May 20, 1961), he had written: "It has become a favourite procedure with legislators and the executive playing to their tune, to sit heavily on farm produce prices, acting on the theory that those prices regulate all other prices". Acting on this theory, the farmer is oppressed and his state of penury made permanent. This shortsighted policy of keeping things cheap, by making the life of the peasants one of barren penury and hopelessness cannot be too severely condemned. It is the worst form of tyranny that can prevail in an agricultural country".

He advocated the concept of trusteeship in business

and industry.

VI Federal State Relations

The present tensions built up over Centre-State relations could have been avoided had Rajaji's thinking been the foundation of Union Government's economic policies.

In a booklet entitled "Our Democracy", published in 1957, Rajaji wrote what could be termed as the cornerstone of an appropriate Centre-State relations policy:

"There is another factor that must be taken into account in India. The centrifugal force of regional interests cuts across all political issues. In a country of this size, with all the differing conditions prevailing in the various States, regional interests and issues arising from them in the effort to build welfare overshadow other matters.

"The solution for this problem is not to keep blowing scorn at regional feelings, but to concede greater autonomy to the States, so as to minimise regional thinking and eliminate the pressure of regional interests at the Centre, and to make the Centre an instrument for the broadest policies and not, as now, one for dealing with every tankbund, school, hospital and social service club. This statement about the Centre may seem exaggerated, but it is not. During the last few years the tendency to centralise has grown to proportions which are both ridiculous and alarming."

VII -Concept of Dharma

Rajaji lived, moved and thought only in the context of one basic concept, DHARMA, which can be approximately translated in English as the concept of Righteousness. Private and public morality were two faces of this concept. The individual had to live a life of righteousness and do his Swadharma or duty appropriate to his walk in life. Similarly, the State had to do its Swadharma of governing the country by defending its territorial integrity, maintaining law and

order, providing the social overheads or what economists call the infrastructure (roads, posts communications etc.), providing basic education facilities, public health, coins and currency, laws of commercial and other transactions between citizens, the judicial apparatus, and doing other essential functions. The Government had to regulate the economy in public interest, instead of supplanting individual enterprise.

To the extent there was a departure from this concept of "Swadharma", Rajaji criticised the wrong economic policies and pointed out the correct path to the nation. In the light of economic events, it is clear as daylight that Rajaji's economic philosophy is more relevant today than ever before.

This is the inaugural lecture in the Rajaji Memorial Lecture series instituted by the Bangalore Education Trust and delivered at the Gokhale Institute of Public Affairs Hall in Bangalore on 5th December, 1983.