OUR MIXED ECONOMY
—BLESSING OR CURSE?

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

—Eugene Black

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The Capitalism of which Karl Marx spoke in Dns *Kapital*—the capitalism of the 18th and 19th centuries—is dead long ago, dead as the Dodo. Capital today does not exploit Labour; it is the other way round. Today, it is Labour that exploits Capital. Secondly, in civilrsed modern democracies, everyone can be a capitalist, owing to the joint-stock principle, as a shareholder of companies. Thirdly, extensive systems of Social Insurance provide social security to the people, from the womb to the tomb, from the cradle to the grave—in spells of sickness, unemployment, and disability, and in old age. Fourthly, in most modern countries, the system of taxation is steeply and intensively progressive and brings about transfers of wealth and income from the rich to the poor, through the agency of public finance and by provision of social services of various kinds. When Marx and Engels wrote, most of these things did not exist, and, therefore, their prescriptions for the ailments of society have now become hopelessly out-of-date and inapvropriate. Not only this, but Communism itself has become out-of-date, and does not "deliver the goods," as effectively as the New Capitalism—as I prefer to call it—so far as the common man is concerned, i.e., so far as production of wealth and provision of social welfare are concerned.

There is a delightful passage in my late teacher, Lord Keynes's *General Theory*: "Madmen in authority," says Lord Keynes, "who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure the power of vested interests is vastly exaggerated compared with the

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gradual encroachment of ideas. ...The ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But soon or late, it is ideas, not vested interests, which are dangerous for good or evil."

Pandit Nehru himself was not so sure as those who decry Mixed Economy today. In the Lok Sabha, in 1956, he said : "I have no shadow of doubt that, if we say 'Lop off the private sector,' we cannot replace it adequately. We have not got the resources to replace it. ... And why should we do it? I don't understand ..... Why should we fritter away our energy in pushing out somebody who is doing it in the private sector ,.....I can understand 'Prevent that, control that, plan for that', but where there is such a vast field to cover, it is foolish to take charge of the whole field, when ***you are totally incapable of using that huge area yourself. Therefore, you must no; only permit the private sector, but, I say, encourage it in its own field."***

This was said after the Avadi Congress Resolution of 1955 and the Second Industrial Policy Statement of 1956.

On the other hand, our present Prime Minister, Mrs. Indira Gandhi, has no doubts or second thoughts on this subject. She has just told us that social justice is for her more important than prosperity, as if there is any inherent anti-thesis between the two. Rut, ***where is the prosperity in this country and for that matter, where is the social justice, either*** ? ***There can be no social justice,*** while anywhere between 40 and 75 million workers, including both skilled and unskilled workers, are unemployed in the country and while prices are soaring sky-high every day. There is a big gap of inequality already in this situation which, to my mind, cannot be closed without a ***general*** "prosperity". Socialism has not brought either prosperity or equality of opportunity to the people.

A CASE FOR RECONSIDERATION

The essential point is that the Prime Minister and her advisers should now realise that the time has arrived when the entire socio-economic policies of the nation have to be re-considered in the light of the changing world situation and our not too happy

experience with Mixed Economy and Planning. I have a great admiration for the Prime Minister for her qualities and abilities as a politician, but I am afraid, she probably regards the "Socialistic pattern of society" and the Mixed Economy dogma as a sort of legacy from her distinguished father and is unlikely either to think of any revision or be capable of doing so. I also very much fear that there are likely to be pressures for a reckless programme of nationalisation and of conversion of the Mixed Economy into a readymade infrastructure for Communism.

At this stage, 1 cannot resist the temptation of quoting Prof. Milton Friedman, the well-known American economist, who, writing in 1968 on "Myths that Keep People Hungry". has something apt to say about our predicament :

> "Some time ago, my wife and I spent a year travelling through Eastern Europe, the Middle East and the Far East. In country after country we were deeply impressed by the contrast between the facts as they appeared to us and the ideas about facts held by intellectuals...Wherever we found any large element of individual freedom, some beauty in the ordinary life of the ordinary man, some measure of real progress in the material comforts at his disposal, and a live hope of further progress in the future—there we also found that the private market was the main device being used to organise economic activity. Wherever the private market was largely suppressed and the State undertook to control in detail the economic activities of its citizens (wherever that is, detailed central planning reigned)–Ahere the ordinary man was in political fetters, had a low standard of living and was largely bereft of any conception of controlling his own destiny. The State might prosper and accomplish mighty material works. Privileged classes might enjoy a full measure of material comforts. But the ordinary man was an instrument to be used for the State's purpose, receiving no more than necessary to keep docila and reasonably productive."

I feel, therefore, that there is a strong case for a thorough re-consideration of the basic concepts of Mixed Economy and the

Socialistic Pattern of Society. I would define Mixed Economy as neither a purely communist economy nor a purely capitalist one—but a combination of the two, with a Public Sector and a Private Sector. In other words, it is neither fish nor fowl, but something hybrid. It is indeed a "compromise"—which, in his characteristic mental posture, Pandit Nehru loved. He craved for the "middle path", neither wholly left nor wholly right. It is in some ways an attractive posture, although it often smacks of fence-sitting. So, neither complete communism nor free enterprise of neo-capitalism. but a "socialistic" (mark the cautious phrase) "pattern of society". In this, Mr. Nehru hoped to achieve the best of both worlds, viz., the dynanism of capitalism and the discipline of communism. Unfortunately, however, we have succeeded in having the worst of both, i.e., in other words, the defects of both the systems without the merits of either.

At a small gathering in Delhi in 1956, after my return from a diplomatic assignment in West Germany, we were discussing planning and economic policy. Suddenly, Pandit Nehru turned round and said, "Will someone tell us what is happening in Germany? Why is that country so prosperous and successful?" I was naturally called upon to answer this question. I said, "Sir, I am afraid you will not like my answer, which is only in two words—'Free Enterprise'." In West Germany, I continued, the State not only does not control private enterprise but is behind each producer, be he small or big, and there is complete freedom for him to develop his business or industry. And, what a paradise it is for the business man! Take simple things like starting a company; you can register one in 24 hours and start working. Contrast this with the situation in India, where there are so many hitches and latches in the way of business people that it takes months to start and organise any business. The State in West Germany takes great care of the infra-structure of the economy—e.g., transport and communications, banking, technical education, scientific research and the like. Of course, Marshall Aid was helpful to start with, but the progress in West Germany due to freedom of enterprise was immense and, in fact, far greater than could be ascribed to mere foreign aid.

At the end of World War 11, Germany had a choice between the continuance of the old Hitlerian totalitarian economy with all its controls and Free Enterprise. Professor Erhard chose the latter, in spite of much criticism, which he survived, to his eternal glory, and produced the *Wirtschaftswunder*, the economic miracle of West Germany! West Germany rose from her own ashes like the mythical bird, Phoenix.

Pandit Nehru was an early votary of British Fabian Socialism. Mixed Economy principles were introduced in India by him and in Britain by Harold Wilson and the Labour Party. Advisers like Kaldor, Galbraith and Gunnar Mydral were common to both. It is interesting to note that both the British and the Indian economy show a state of degeneration ever since. In Harold Macmillan's days, England was at the top of her form; now she is a second-class power. Also, we had a fairly stable and soccessful economy up to the early 50's, under C. D. Deshmukh's Finance Ministership. Then began the Rake's Progress in both countries! External indebtedness mounted up in Britain (£3,000 million) and also in India for a different reason (Rs. 85,000 million), not to mention the internal indebtedness, which has been even greater.

Apart from West Germany, Japan also achieved an economic miracle during the last quarter of a century. It has been a strange Nemesis that the *vanquished* of the last War became the victors of the post-war economic race. These two countries are now on the top of the economic world and have outpaced not only Britain and France, but also the USA and the Soviet Union. Japan and West Germany are the leading models of Free Enterprise; but there are others—Hong Kong, Singapore, Malaysia, Thailand and Australia, to mention the most typical only.

There is no doubt that the race between the capitalist and communist blocs has been won by the Western Nations, so far as *economics* is concerned. Take Western Europe and Eastern Europe; take the European Common Market and the Eastern Comecon; take West Germany and East Germany; or take even West Berlin and East Berlin. Look at this picture and look at that, so to say. All along the line, starting from scratch, progress has

been far more rapid and impressive in the Western than in the Eastern world. Living standards in the neo-capitalist West are today far higher than anywhere in the Communist countries. The economic argument was the main justification and theoretical basis of Communism. Well, it fails completely !

THE TWO MAJOR TESTS

Now, these are two major tests of the success or failure of a Government and its policies. First is the "bread and butter" test, which implies assured and full employment, Increased production, stable prices and a clccent standard of life. The other test is the "national security" test, which comprises external defence, internal law and order and security of life and property. A Government which cannot fulfl these two tests has, in my opinion, no right lo govern. You cannot feed the masses with slogans, ideologies, copy book maxims and empty platitudes. Unfortunately, today in India that is what largely we are being fed on, especially in the economic sphere.

Apart from the above two tests, there is also the *moral* issue. What is the use of a kingdom of the world. if you lose the kingdom of the soul ? If there is a breakdown of the Rule of Law, due to corruption of the Executive or Judiciary, or to, say, over-legislation and legal delays, we have a society without a moral basis or character. If a system of government leaves the country in a moral chaos, it must also be regarded as a failure.

Of course, there are various minor economic tests, such as the G.N.P. with its income balance-sheet; the national assets and debts position, i.e., the capital balance; full employment; stable prices; criteria of cost-accountancy; and competitiveness, both internal and international. If we apply these various tests to the present situation in the country, I cannot say that the "socialistic pattern of society" has come off very well during the last twenty-five years. The phrase is no doubt a catching one, but the performance has lagged Par behind the promise.

Planning in the Mixed Economy has been like running with the hare and hunting with the hound. I am afraid, we got our priorities all wrong, mainly because we adopted the Russian Gosplan models and pinned our faith on gigantticism forgetting that the background and infrastructure of the Russian system were different. First of all we have lacked the *discipline* of communism, which means "no strikes", little or no corruption, and the insistence upon high technical efficrency. Then, our management of planning has been without any technical bias In USSR. the technocrats are at the top; here in India it has been the ICS and IAS, who have been designed (both in the British days and since) for general administration and *bundobust,* for law and order only. The "steel frame" was not meant for nation-building or national planning. These basic defects account for the failures of the Public Sector and, to some extent, of the Private Sector.

THE PUBLIC SECTOR

Let us now turn to the Public Sector and see what it has achieved. Year after year, the Public Accounts Committee has pointed out various glaring defects in the working of the public sector. Enormous losses running into crores of rupees have been the common feature of most of the public sector undertakings in spite of a "closed market" and monopolistic pricing policies. Further, most public undertakings have been working "under capacity," and thay do not seem to be amenable to any system of cost accountancy.

The total investment of, Government in public-sector undertakings as on 31st March 1968 was Rs. 4,912, crores, involving foreign exchange payment of interest annually of Rs. 191 crores, apart from internal payment of Rs. 397 crores, i.e., a total of Rs. 588 crores. Thus, an annual surplus of Rs. 588 crores should have emerged to make the system viable. However, in 1967-68, there was a *net loss* of Rs. *42* crores ! It has been said that "profit" is no criterion of success in this connection, and that the Public Sector should work for "social good". However, ***what*** *social* good has it so far achieved ? Even in the Soviet Union, the profit incentive is now regarded by their leading experts like Prof. Liebermann as a basic principle. If, even in closed and controlled markets, with prices rigged high everywhere, the public undertakings cannot

balance their annual budgets and accounts, it must be said to be a *prima facie* proof of failure, if not of a lack of financial discipline. There are other tests too, apart from productive capacity (most undertakings are working below 50% capacity), such as the competitive performance, *vis-a-vis* the private sector and *vis-a-vis* foreign producers. Can any of the public sector undertakings stand this test with any degree of success? Then, have they made any important contributions to scientific research even in their own fields? Also, has their performance been efficient or expeditious? There have been endless delays in the implementation of most public sector projects, with consequent inflation of costs, and hence of prices.

As regards the management side of the Public Sector, the less said the better. Mr. K. R. Ganesh, Union Minister of State for Finance, in a recent talk on "Public Sector in India", said: "Any problem in the Public Sector ultimately boils down to one of management. The objectives of the Public. Sector can only be achieved through a team of committed, dedicated managers, who could act as instruments of the social and economic transformation of the country." But where are those "committed, dedicated managers" and what sort of commitments does the Minister plan for them? Ha is an optimist if he thinks he can produce efficient, technically qualified, incorruptible officers, who are at the same time "committed and dedicated," like rabits from a magic hat. Public Sector management is admitted on all hands as not up to the mark—being mostly non-technical—and is inefficient. even in some cases corrupt and out-moded. Of course, there are some notable exceptions like the Shipping Corporation or the Life Insurance corporation—but there is no doubt that a majority oi public sector concerns are gross failures. Most of them are working under capacity and have brought poor returns on the investments, a large part of which has become a deadweight of indebtedness. As regards the State Trading Corporation, which is a rapidly growing public monopoly, I am not sure that it has justified its existence. Importing raw materials etc. at low international prices and selling them at exorbitant prices in the internal market cannot be regarded as a praiseworthy performance. Similarly, selling old

foreign motor cars at fabulous prices also smacks of cheap profiteering. Recently, a corporation has been set up for dealing in diamonds. Now, the diamond business is a highly individualistic and extremeiy technical business requiring generations of experience. Just imagine any bureaucrat handling it! As may be expected, this particular corporation has become a public nuisance, judging by the manner in which it has been unloading its unwanted inferior diamond material on the internal market and forcing dealers to buy it!

Likewise, the public sector enterprises in the steel industry are a glaring example of the failure of nationalisation—in fact of Planning itself. Huge investments have gone into their making, but again they are a deadweight debt for India. To take another instance, the hydro-electric and river valley projects have not yielded corresponding returns in terms of productivity, i.e., in terms of either the installation cost or production cost per unit of electricity etc.

The less said the better of the telephone industry People have been waiting foi years for their telephone connections. Rackets have developed meanwhile and a lot of nepotism and corruption has arisen in the distribution of telephones everywhere, and there is a regular scramble for getting on the various Telephone Advisory Boards. In a civilised society, the minimum requirements for economic progress are a telephone, a small motor car and a typewriter. In a sense, such items constitute the infra-structure of industry anywhere. However, in India, exactly these are not only not available, but are regarded as luxuries, and we even refuse to produce them in sufficient numbers or import them! At the same time, you can get any number of foreign end local transistor radios, cosmetics, nylons etc.. on the footpaths of Bombay and many other cities!

What about the nationalised Banks? Perhaps, it is too early to pronounce on their success or failure. Broadly, in trying to get rid of one set of evils, the nationalisation of banks is rapidly giving rise to another set of evils. While the multiplication of branches has perhaps brought banking to the doorstep of the

masses, we do not yet know whether it has encouraged saving or borrowing more, also whether the loans are being properly utilised so as to facilitate repayments later. Liberal loans, without adequate collateral, to agriculture and the small borrower may be socialism in banking, but in actuality repayment difficulties have arisen involving crores and also there is a growing danger of bank funds being doled out to political party supporters.

I can go on like this almost endlessly, but I hope I have said enough to expose the shallowness of the theory that regard; socialisation of all and sundry industries and trades as the panacea for our economic evils. Before concluding my comments on the public sector, however, I must draw your attention to a curious feature of the sector, namely, the prevalence of strikes in spite of nationalisation. Indeed, if the Public Sector corresponds to the communist side of the Mixed Economy, this is a great anomaly. It is like eating your cake and having it too. There are no strikes in communist states—nor go-slows, nor "morchas". If you indulge in such things there, you will certainly end up in concentration camps. Even in Egypt, recently, President Sadat prohibited strikes in nationalised industries. Likewise, during war time, prohibition of strikes has been accepted as a sound principle in most countrirs. Therefore, in a country which swears by the "socialistic pattern of society", there can be and ought to be no place for industrial strikes, and the government, if it is worth its salt must not tolerate them.

THF PRIVATE SECTOR

The Private Sector is, indeed, the "Cinderella of the Show"—suppressed and circumscribed on all sides. While the Public Sector is unable to meet the nation's material requirements, it functions like the dog in the manger and it will not let the Private Sector do the job either. In other words, "neither you shall have it, nor I shall have it—let ihe dog have it!" The fault, therefore is not of the Private Sector that the Mixed Economy has given rise to various evils, but simply that the Privnte Sector has not been even allowed to function freely and properly. In fact, the boot is on the other leg: it is the mismanagement and incompetence of the Public Sector that is iesponsible for the poor performance of the

nation's economy as a whole. Also, the Private Sector industries are being run mainly by experienced people, who have a stake in the success of their business, and are, therefore, naturally more efficient and (by definition) less corrupt than those who operate the public sector industries. I do not mean to say that there are no "black sheep " in the Private Sector but they are few and far between.

Unfortunately, in the name of the socialistic pattern of society and planning control, all kinds of impediments are heing constantly placed in the way of the private sector industries. The Government has tied itself and everyone else into knots with red-tape and dilatory (even arbitrary) procedures which are contrary to all tenets of business management and to the basic interests of economic progress. Only Big Business seems somehow to survive all this and, in some cases, actually even to thrive on it! On the other hand, the small business man and the newcomer are neatly thrown overboard!

The wild growth of rules and regulations can be seen, for example, in the "Red Books" for Imports and Exports—not Mao's "red books", but of the Chief Controller of Imports and Exports! These are clogging the avenues of trade—like the water hyacinth overwhelming and destroying vegetation. The corridors of Secretariats and of their subordinate offices have become like *dharamsalas* for mendicant business men loitering for beggarly bits of licence worth a few thousand rupees, while a new class of touts and agents has arisen living like parasites on the blood of applicants for licences! Here is indeed a paradise for the little bureaucrats who simply thrive on the Red Books and their endless addenda and corrigenda, with corruption, delays, increasing costs of industry, and inefficiency, frustration and bad blood all round.

Concentration of economic power and the growth of monopolies are the direct results of these licensing procedures and policies—and this has been admitted by the Government itself—because only Big Business has the staying power and the resources to cope with the exorbitant demands of procedure and corruption. However, instead of removing the root causes of concentration

and monopoly, the Government has been tinkering with measures to control what are basically the results of its own policies!

As regards industrial licensing, the Minister for Industrial Development, Mr. Moinul Haque Choudhury, at a meeting ot the Central Advisory Council in November 1971, said that after taking charge of his portfolio, he had cleared many old cases of industrial licence, but that he was helpless, "when the administrative machinery concerned" (i.e., not only of his own Ministry but of other Ministries also) "sat on the fence." He disclosed that no less than 334 licence applications made in 1966 were still pending. He did not mention what the position was regarding applications made in 1967, 1968, 1969, 1970 and 1971. The figures for these years must be even more revealing! Still, Ms. Choudhury has the sang *froid* to ask, why in spite of his efforts, "a faster rate of investment and production," has not taken place!

With stringent monopoly legislation, procedural delays, exorbitant demands of corruption, heavy income and wealth taxation, and ceilings on property, who can have the energy and the heart to work and earn in the Private Sector now?

Take the case of West Bengal, where an energetic Governor, Mr. A. L. Dias, has been trying to rejuvenate its economy with a "package of incentives" to be given by both the State Government and by New Delhi. Jt was stated in the Press, however, that the Writers' Building had lost its credibility with the investors on various counts. Firstly, the slow-moving bureaucratic machinery, it is pointed out, takes months, at times years, to even forward applications of investors to New Delhi, where further delay also awaits them. Secondly, in the small-scale sector, even raw materials promised were not received in time, but got immobilised somewhere in the State administration. Thirdly, a large amount of installed capacity remains idle in most of the engineering concerns, about which little or nothing is being done by the Stale. All this points to the urgent need for the State and Central Governments to set their own machinery in order, in the first instance.

That reminds me of Professor Parkinson's new "Law of Delay", in which hc defines delay as the "deadliest form of denial" —a speciality of P.P. (the prohibitive procrastinator), who instead of saying "No" says: "IDC" (i.e.. in due course), hoping to bury a scheme with sheer exhaustion and continuous frustration! I am sure Professor Parkinson wili find in India a vast scope for his Ingenuity in producing new "laws", if he spares some time to spend here.

MONOPOLY CONTROL

New methods of private sector baiting are now being developed as may be seen from the working of the Monopoly Commission. As we have seen, the so-called monopolies and the so-called concentration of economic power are both largely the result of the Government's own policies, including the import-export control and industrial licensing and other policies. What is worse, the Monopoly Commission, which sits in judgment on these issues, is itself a house divided, and the members do not see eye to eye with one another. Not only this, but the exact functions and policies of the Commission are neither precise nor precisely understood, with the result that the decrees of the Commission tend to be arbitrary and even mutually contradictory. Even well-organised and reputed firms are not spared these tortures: so, what about the others! Let me give you a quotation from Mr. J. R. D. Tata's recent speech at the last annual meeling of Tata Chemicals Ltd., which throws a floodlight on the working of the Commission :—

> "Superimposed on the crippling effect of Government's licensing policies on growth now based largely on an obsessional hostility to any large-scale enterorise in the private sector, unending delays have plagued projects for expansion, diversification or modernisation submitted to Government for approval. Today a full four years after it was submitted in resvonse to Government's own invitation to the private sector to help raise fertiliser production in the country. the magnificent fertiliser project we put forward in November 1967 remains undecided .. Government's cumbersome and time-

consuming licensing process (is) now further complicated by the administration of the M.R.T.P. Act... ..Amongst the prime hurdles in such an obstacle race is the newly created Monopólies Commission. Anti-monopoly laws and commissions are, in many countries, well known and accepted legislative and administrative devices.....and no objection could therefore be raised in principle to the creation of this new measure in India.....Judging from its performance. there is every reason to fear that it will provide a further and grievous source of delay and confusion.....The Commission's extraordinary action in involving a large number of companies totally unconcerned with the TELCO expansion project, in their examination of the latter's application is not only an inexcusable waste of the time of Government and corporate officials but a form of undeserved harassment of companies and officials who try to do a good and honest job and serve their company and their country. .. .That a Company with such a record of efficient, honest and socially conscious service to the country, the community and the consumer, should be subjected to this kind of pointless harassment and waste of time and energy, cannot but fill one with despair."

There is a lot of woolly thinking involved in the policies and procedures of the Government in regard to monopoly control. In the first place, there is no clear-cut definition of "monopoly"—which is being constantly mixed up with "large-scale" organisation of companies and even with "diversification" of lines of production by a single company. The main bugbear of Government is CEP (Concentration of Economic Power) and the MRTP Act seeks to crystallise the thinking of the various Commissions and Committees appointed by the Government in recent years. However, it is a hotch-potch of .ideas, which has now resulted in conflict within the Monopoly Commission itself!

Basically, there is nothing wrong with "concentration of economic power", unless it leads to the exploitation of the consumer market or to any political domination by a group. That way, concentration of too much ***Administrative*** Power (CAP) in the hands of a few bureaucrats in Government. or concentra-

tion of, say, gainful employment (CGE) in the beneficiaries, viz., officers and employees of Public Sector industries—to the detriment of millions of unemployed people in the country, may be even more reprehensible! The real medicine for monopoly or concentration of economic power is. of course, free *competition,* cot only internally but also internationally, a medicine which the economic planners of the Government have ruled out long ago in their excessive zeal for exotic ideologies. For the rest, everything that the Government is doing to control and restrict the private sector and its large-scale industries is only perpetuating the poverty of the masses, by (*a*) adding to the unemployment in the country and (*b*) raising the costs of production and, therefore, the prices of consumer goods.

It must be pointed out here, on the other hand, that the worst monopolies in India, which are charging high prices to the consumers, judging by any standards, and which are being run with far less efficiency or even probity than the private sector companies, are in the Public Sector itself. This has been admitted by the Monopolies Enquiry Commission in its Report: "The danger of monopolistic enterprises in the Public Sector clinging to obsolete processes and inefficient management are likely to be at least no less than in the case of similar enterprises in the private sector. It cannot, therefore, be gainsaid that the public are entitled to proper safeguards against the evil effects of monopolies in the public sector no less than those in the private sector."

One wonders what steps the Government has taken or will be taking to safeguard the "public interest" in the case of these all-pervading monopolies, which have developed in the public sector and become some sort of *imperia* ***in imperio*** ! It will be interesting to watch the internal feuds which can arise between these kith and kin of 'the Government and the Monopolies Commission! Or, does the Government think perhaps that the monopolies in the public sector are such paragons of virtue, that nothing can be done to improve their efficiency and to mitigate their unjust and arbitrary nrice policies, which literally fleece the consumer and the common man? Most of the public sector enterprises are a hot-house growth, aided by governmental assistance,

by high tariffs, and by the licensing restrictions. If they are el-posed even for a day lo foreign competition, or for the matter of that, even to internal competition, without being buttressed by protective and licensing measures and by liberal financial accommodation, most of them will collapse like a house of cards! The damage done to the consumer public and the consumer industries —which are their customers—and to the economy itself is not realised, because it is never brought into question by the Government, which behaves like the famous cat in ***Alice in Wonderland.*** called Fury, which said to the poor mouse : "I'll be judge, I'll be jury, and I shall sentence you to death"!

The unfortunate situation is that a huge bureaucratic machinery is being created everywhere with the full operation of the various Parkinsonian laws—with the *chhota babus* and ***Burra Sahebs*** of Government offices flourishing and revelling in it all—with growing inefficiency, corruption and irresponsibility all round. As says a Sanskrit proverb, their power is not for the protection of the weak but for their torture.

My conclusion here is that the creaking old machinery of Government both at the Centre nnd in the States needs a complete overhaul on the basis of scientific management methods, and that the sooner we remove the jungle of restrictions and the cobwebs of procedures which are strangling the nation's enterprise, the more rapid will be our economic progress.

Another awful conclusion which also emerges from all this is that it is no longer a struggle between the rich and the poor in this country. The struggle here is between the ***common man*** on the one hand, and the agents and vested interests of Bureaucracy, which term includes for our purpose, not only the officialdom, but also the politicians, the legislators and the Ministers and their underlings, down to the Zilla Parishads. ***And in the final analysis, the Private Sector is the people themselves, while the Public Sector represents the Government and its bureaucratic machine.***

Among the major evils arising from the Mixed Economy perhaps the worst is that of Unemployment. Pandit Nehru, at the

Avadi Congress, hoped to *end* unemployment in 10 years—with only two Five-Year Plans. Since then hopes have been raised and promises hava been given galore by those in authority. However, the spectre of unemployment stalks unchecked over the land and its shadow seems to grow larger and larger all the time. No reliable figures of the extent of unemployment and underemployment are available; nor will it he possible to produce the necessary statistics within reasonable margins of error. However, one may not be far wrong in saying that the *range* is anywhere between 40 million to 75 million unemployed men and women, able and willing to work but unable to get jobs. This, of course, includes both uneducated and educated, and skilled and unskilled workers, and the hordes of landless labourers and beggars roaming in the country for bread and shelter

The dogma of Mixed Economy stands in the way of fuller employment, because in spite of a quarter of a century's planning and lavish public investment, there has been little or no progress in the solution of this problem although one would imagine that Planning should have been the "open sesame" formula for unemployment. There is no doubt that the "giganticism" of our national Plans and their emphasis on mainly capital-intensive investments in the Public Sector, on the one hand, and the consistent neglect and step-motherly treatment of the Private Sector, which, after all, is the major sector, have been responsible for the malaise in the field of employment.

That brings us to the question of social justice which the Prime Minister regards as more important than prosperity. Social justice involves a large element of equality, if not of incomes and wealth, at least of opportunity. Now where in the world is there any social justice for the unemployed? There is an unbridgeable gap already between those who are employed and those who are unemployed, and what does the Government propose to do about it? A Committee has been appointed to look into this question; it will probably come out with some investment proposals. But they will not touch even the fringe of the quesrion.

Meanwhile, what with the growth of population and what with the impotent Public Sector and sagging Private Sector, unemployment is bound to increase still further, in the years to come.

The basic solution to the problem of unemployment in India today is (*a*) to recognise the Private Sector both in industry and agriculture *as the main provider* of *employment,* and (*b*) to do away with the artificial anti-thesis between the two Sectors. The importance of the Private Sector cannot be gainsaid, because, for employment purposes it corresponds roughly to 87% (as against 13% of the Public Sector) of the national economy, while for production purposes, the ratio between the two sectors is about 80 : 20. It stands to reason, therefore, that the Private Sector has a far greater potential than the Public Sector for creating *new* employment, provided it enjoys some freedom of growth. What is needed is a pragmatic approach, something along the lines of, say, Singapore's socialism. The economic growth of Singapore during the last 10 years should be an eye-opener to every socialist in India. It is worth quoting the views of two Singapore leaders in this connection. Mr. Lim Kim San, the Minister of Defence, recently said : "Private enterprise is the cornerstone of the policy of the Government to achieve economic growth. Industrial progress depends mostly on private enterprise and it is our objective to encourage and not to suppress private enterprise." Prime Minister Lee Kuan Yew goes even further: "We believe," says he, "that in an underdeveloped situation where you have no managerial or technological class the State ownership of ***all*** basic industries does not make sense.. ... It is no use dividing the cake equally until it is big enough to be worth cutting up. And that can only be done quickly by private enterprise, both domestic and foreign." For Lee Kuan Yew, "Socialist democracy does not mean just a simple process of taking from the haves and giving to the have-nots, so that the majority of the people will have something more without doing anything more to get it."

For the rest, the Government should now concentrate on labour-intensive and employment-producing public projects, so far as the Public Sector is concerned. For this purpose, projects which strengthen the infrastructure of the economy, such as rail,

road and air transport, education (particularly technical education), ports, posts, telegraphs and telephones, internal and external security, housing, rural welfare etc., are exactly the projects on which the Government must lay greater stress. In other words, the Government must first mind its own business, instead of dabbling in sectors for which its managerial capacity is not adequate. What is happening at present is that the Governments, both Central and State, are grossly neglecting their *main* responsibilities and *for political reasons* indulging in adventures in the industrial field. Agriculture, in the Private Sector, has been giving a good account of itself lately and the "Green Revolution" does great credit to ii. However, look at the position in regard to housing, urban as well as rural. Housing is next in importance to food in this country, but what is the progress in the provision of housing for *the common man?* It is a record of gross failure all round. The Private Sector is baulked by Rent controls everywhere, while the Public Sector is almost defunct in this sphere. Those who care for social justice and the welfare of the common man might give thought to this tragic situation, which shows that a quarter of a century's planning has not brought even the barest comfort, leave aside social justice or prosperity, to the common people in this land.

THE ROLE OF BLACK MONEY

The other major evil arising from the policies based upon the principle of "socialistic pattern of society" is Black Money. In most countries, there is an element of black money arising from evasion of taxation etc., but in India in recent years, the role played by black money is just appalling. Excessive taxation of incomes and wealth, carried to the point where it destroys all incentives to honesty and productivity, is the main cause of this. Also, over-legislation, by way of rules, regulations, restrictions, and all sorts of hitches and latches, in which the Government has been indulging in the name of Planning and socialism, particularly in regard to commercial and industrial licensing, is an additional factor. Almost everything that the Government is doing to chastise and strait-jacket the private citizen or business man is only adding to the creation of black money. Black money is, of course, a resultant

of evasion, a short-cut through miles and miles of red tape; a pain-killer for the troubles of the tax-payer and the struggling industrialist and an effective time-saving device! What is more, the other'side of the medal is *Corruption,* which also is a direct consequence of the present gimmicks and policies. There is reason to believe that secretly the corrupt section of the officialdom rather likes the proliferation of rcsirictions, regulations and licensing procedures. 'There are instances where, say, a licence worth Rs. 1,000 necessitates the submission of a dozen or more documents, including no-objection certificates, verification certificates, etc., so that for collecting them an amount of more than Rs. 1,000 has already been spent in securing the co-operation of the little bureaucrats! Can one, therefore, blame the common man, the tax-payer, or the business man if he seeks an escape from all this? On the other hand, in my view, it is the Government itself which deserves to be blamed; for, black money is the punishment that a thoughtless Government gets for *vindictive* tax measures and excessive controls.

EXCESSIVE TAXATION

In their enthusiasm and haste to raise funds for the Five-Year Plans, the Government's financial and planning advisers have resorted to double and even multiple taxation. Take property taxation, for example. Urban property in India is subject to heavy municipal property taxes, the income tax, the wealth lax, the capital gains tax and estate duties, apart from cesses and whatnot. What a tremendous burden! Not all property is inherited. In a large number of cases, it is the product of the taxpayer's own labour, of the sweat of his brow, and he naturally feels the injustice of this ruthless slaughter. In most cases, the income from property is not sufficient to pay the various taxes and the net return from urban property is now hovering round the zero point! And still, the politicians are after these property-owners and wish io impose arbitrary ceilings on their possessions. Men who never earned a decent income in their life ere foremost amongst the legislators who have been clamouring for measures to deprive the holders of property, as if holding property is some sort of original sin!

I am afraid the tax system of India today is *contrary to all sane canons of taxation.* It is extortionate, vindictive, complicated and hopelessly arbitrary. Morever, the tax laws and rules, imposed and super-imposed for years, have developed into a wild jungle through which even the knowing ones cannot find their way!

Adam Smith defined the Canon of Certainty (one of his four famous canons of taxationj in the following words: "The tax which each individual is bound to pay ought to be certain, not arbitrary. The time of payment, the amonnt to be paid, ought all to be clear and plain to the contributor and to every other person." Can we possibly say that this is the case with our taxes? Not even the ITO's know or can explain all the rules of income-tax—which often contradict each other, which are variously interpreted and which have involved endless and costly litigation and led to the development of labyrinths of case law. Some of the procedures and rules were laid down by our former British masters years ago and still seem to dog our paths, and while the British themselves have revised and modernised their procedures, we still cling to their legacies!

The income-tax and wealth-tax extravaganzas in India are unheard of in the annals of the world's tax history. Every new Finance Minister that comes along adds his own quota of taxes and tries to outbid his predecessors. 'Take the wealth tax, for instance. It was the grand idea of my good friend, Dr. Nicholas Kaldor, but those who picked up his wisdom have indeed out-Kaldored him! While they avidly pounced upon Kaldor's proposals, they did not heed the countervailing and compensatory reliefs suggested by him. And now, indeed, to wipe out all property is the vainglorious ideal of political firebrands and their supporters. In doing so, however. they do not realise that there is a danger of throwing out the baby with the bathwater! In *a* mainly capitalistic economy, they have been thinking in terms of communism—another case of running with the hark and hunting with the hounds—with the result that we are neither here nor there, and meanwhile, with the destruction of the incentives to work and earn. they have succeeded not only in impoverishing the richer and more active sections of the public, but also in

impoverishing the national economy itself If the Government had embraced communism, at least the State in that case could have used its totalitarian methods, including forced labour, compulsory systems of production and restrictive consumption, lo preserve the fixed capital, perhaps even to advance it, and thus keep the system going. Whether this would hate been, on the balance, better than Free Enterprise is another matter—with which I have already dealt. In the circumstances, to impose ceilings on property, whether urban or rural, is not going to help the growth of the nation's econcmy. In any case. property is subject to neavy taxation all round and the State is having the lion's share of its proceeds already.

What incentives to produce and save can there bc with a maximum rate of income tax at 97½% in the highest ranges? There are incentives only to evade such taxes and resort to black money practices. An unjust and unscientific tax system is bound to recoil upon those who adopt it. Take for, example, the latest rather whimsical measure introduced by Finance Minister, which while retaining the first Rs. 1 lahh as the tax exemption limit in the case of wealth tax, refuses to recognise any slab system, so that when you exceed the first Rs. 1 lakh even by a few thousand rupees, the entire amount becomes liable to tax ! These *importunate* methods of taxation are not only contrary to all principles of taxation but are bound to be highly injurious both to the nation's economy as well as to the tax administration, by creating more opportunities for arbitrariness and corruption, eg., in deciding the assessment at the critical point of Rs 1,00,000! Then, a new development has arisen lately. The Income Tax Officer was empoweied under the old Act to make inquiries if he had reason to suspect evasion, say in the case of an assessee selling his property, and only after ***positive proof*** could charge the Capital Gains tax. Thus, if you sold your house worth Rs. 20,000 and you sold it at an open price of Rs. 30,000, and the ITO after inquiry decides that you have actually sold it for Rs. 50,000, then he could charge capital gains tax for Rs. 30,000. But under the new Act, the ITO has been given *absolute* power to decide, even without any enquiry, so that whether or not you actually sold the

property for Rs. 50,000, he can not only tax you on the imaginary excess of Rs. 30,000 for capital gains tax, but also assess you additionally for Gift Tax on Ks. 20,000 on the same transaction, Rs. 20,000 being the difference between Rs. 50,000 and the amount which you say you received, viz., Rs. 30,000! In addition moreover, if the man who has bought it from you for Rs. 30,000 (but, according to the ITO, for Rs. 50,000) sells it for, say. Rs. 50,000 only, he *too* will have to pay Capital Gains tax on Rs. 20,000 (that is, Rs. 50,000 the ITO's imaginary price, *minus* Ks. 30,000, the price paid by him to the previous owner)!

THE CAPITAL ACCOUNT

The rake's progress of the Indian public finance is particularly to be seen in its *capital account*. Mr. C. Rajagopalachari, writing in *Swarajya*, has this to say about it : —

> "Lavish spending is more often the form that the recklessness of bankruptcy takes than the result of affluence. This is not a mere general observation I make. It is what I ieel when I note the management of public finance in India. There is a Telugu proverb to the effect that the man in deep water does not bother about the chill wind."

The total amount of *external* debt, apart from free aid PL480 funds, was Rs. 8,500 crorcs in 1971, while internal debt was at least Rs. 12,000 crores, including overdrafts by the State Governments. Are we sure that all this money has been properly utilised in remunerative investments in the public or private sector? Most of the money has gone into heavy projects, in pursuit of grandiose schemes, most of which have proved non-remunerative and top-heavy. Apart from the fact that the Public Sector, as a whole, has been working far below its capacity, there is no cost accountancy in its affairs. In many cases, machinery is lying idle or rusting, because of lack of co-ordination in the plans or because it is obsolete. After twenty years of foreign aid, we are now realising that some of the aid-giving countries have given us a raw deal by foisting upon us out-dated machinery at high prices. This realisation has come a little too late, but nonetheless it brings home to us that the planners have mismanaged the capital

account, by wrong investments and wrong borrowing deals. We may well stop receiving all foreign aid or reduce it—but meanwhile we have lo meet payments amounting to Rs. *560* crores annually in interest payments and principal repayments.

We have been borrowing and taxing to our utter limits and straining our resources, including our international credit, for Planning. Hut planning Eor what'! The answer is : For the Public Sector—which is synonymous with tremendous waste and corruption. The Public Sector is like that mylhological demon called "Bhasmasura", whose power was such that everything he ate was reduced to *bhasma,* i.e., ashes! Foreign aid and internal borrowing, however, are not the only sources for this "Bhasmasura". The planners and politicians in India have many other milchcows. *Deficit financing,* carried on at a reckless pace, irrespective of its effects upon the inflationary price levels. is one fertile source. Today, we find that there is no limit to the expansion of paper currency, as the weekly slatements of the Reserve Bank of India may show. These statements will also show how there is a conslant week-by-week addition to the rupee securities and overdrafls to the State Governments—in spite of pious resolutions to the contrary.

Then, there are other sources, such as the Life Insurance Corporation, the entire nationalised banking system, and the Public Sector undertakings themselves who can charge whatever prices they wish to and mulct the public. There is no limit here lo the powers of the bureaucracy and the politicians. Not only this, but today therc is an unholy alliance between the politicians, who are after the loaves and fishes, and the bureaucrats, whose power and patronage depend upon the multiplication of public projects—an alliance which endorses every possible scheme and project, involving large capital expendilures, regardless of cost accountancy or of the prospect3 of economic: and efficient management. The entire picture is a grand economic tragedy.

Both the Public Sector and the Private Sector are a hot-house growth brought about behind high tariff walls and strict import licensing procedures. If there is any prosperity, it is a false prosperity and that too here and therc, in patches. The Common Man, for whom socialism is suppcsed to fonction, does sot know or understand how much his future, as well as his present, is being and has been pawned in the name of Planning and the Socialistic Pattern of Society. The proof of the pudding is in the eating. If Planning had succeeded, it should have shown results by providing *employment* to every able-bodied and willing worker and also assuring not only his daily bread but also the minimum comforts of life, such as housing and clothing. Can the planners honestly say that this has been done? If after so much planning and so much financial acrobatics, the Government has been unable to eliminate unemployment and poverty, can it honestly take credit for any success?

In the midst of it all, in India today, there is a feeling of ***insecurity*** caused by over-legislation, petty tyrannies, corruption and the partial breakdown of the Rule of Law. The law todsy seems to penalize the honest while almost unwittingly encouraging the dishonest elements in the society, with its unconscionable delays and idiosyncracies. It is also turning honest citizens into dishonest ones. Dicey, in his ***"Law of the Constitution"*** has something very pertinent to say about this: "The justification of lawlessness is suggested if not caused by the misdevelopment of party government. *The rule* of a party cannot be permanently identified with the authority of the nation or with the dictates of patriotism."

CONCLUSIONS

The Mixed Economy idea, as practised at present is, therefore, a mirage and its further pursuit is bound to end not only in futility but in a general and growing economic disaster. At the moment, with falling rates of industrial development and per ***capita*** incomes, we appear to be on lhe brink of such a disaster. and therefore, ***this*** is *just the time* to do some re-thinking about our future course.

The main question before us is what to do with the Mixed Economy, with its dichotomy of public sector and private sector.

However, 1 will not go so far as to suggest that the public sector should be scrapped, but only that it should be modified step by step :—

Firstly, we should consolidate and strengthen those public sector enterprises and corporations which are giving good results and allow them to develop and work unobtrusively and without too much political or other interference from the Centre or the States.

Secondly, we should confine the public sector to strategic areas of industry only, leaving private enterprise to function freely in the other areas. The Industrial Policy Resolution must be revised along these lines, as also the Schedules A and B.

Thirdly, we should liquidate and de-nationalise those public sector undertakings which appear to be inefficient and losing concerns and transfer them to the private sector through the stock exchanges and the capital market.

Fourthly, we mast, as soon as possible, cut through the labyrinth of controls and licensing procedures which have grown over the last two decades and thus enable the private sector, particularly the struggling small industries' sector and the new entrepreneurs, to forge ahead. The present system of controls differentiates in favour of Big Business, which alone has the resources to fight its way through it. Moreover, with the loosening of the grip of planning on foreign exchange, it should be possible to lessen the rigours of exchange and import control as well. Industrial licensing, needless tc say, should be fully liberalised and no one who has the means and the ability to start an industrial concern should be hampered in any way.

Fifthly, the entire tax system should be overhauled with a view to its rationalisation and the rejuvenation of the national economy in the Private Sector, where incentives are being steadily destroyed and stagnation has taken place.

Sixthly, the Government should concentrate on developing *infrastructure* of the economy including roads and railways, communications, electrification, technical education and training, public sanitation, water supply and irrigation, housing etc.—the intrastructure which is at present being hopelessly neglected.

Finally, the Government should not think of "ceilings" but of "floors" and, instead of vindictively trying to impoverish the prosperous and active elements of society, i.e., instead of robbing Peter to pay Paul, should try to enrich the poorer and backward elements more directly and positively. (Italics wherever used are by the author.)

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
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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