WILL 10-POINT PROGRAMME LEAD TO SOCIALISM?

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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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By

Prof. C. N. VAKIL*

More than 100 members of the Congress Party of Parliament on 9th August submitted a memorandum to the Prime Minister drawing attention in glorious terms to the great goal that the Congress has to pursue towards socialism and asking that the steps recommended by the A-ICC should be implemented without delay. It may be of interest to examine in brief some of these recommendations to understand the minds of the parties concerned.

The programme of action suggested by the A-ICC and pressed by the Congress members of Parliament is as under:

(1) Social control of banking institutions; (2) Nationalisation of general insurance; (3) Commodity-wise progress in State trading in imports and exports; (4) State trading in foodgrains; (5) Expansion of co-operatives; (6) Regulated removal of monopolies; (7) Provision of minimum needs to the community; (8) Restriction on individual land holding of urban land; (9) Rural works programme, land reforms; and (10) Removal of Privileges and Privy Purses of Ex-Rulers.

A careful examination of this programme of action under ten items shows that those concerned believe that socialism can be brought about by distribution of existing poverty in the country without adequate effort to increase production or the wealth of the country. In justification of this observation we shall briefly look at each of the ten items.

1. *Social Control of Banking Institutions*: It is assumed that by this method more credit will be available for agriculture and for the small entrepreneur.

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The nature of the social control that is desired is not clear; besides, the way that banking institutions have to work is not appreciated.

If nationalisation of banks is implied, we have already nationalisation of the State Bank and the Reserve Bank. The Reserve Bank has plenty of powers to control the other banks. It is one thing to find ways and means to give more credit to the farmer or to the small entrepreneur; it is another thing to think of nationalisation of banks.

The State Bank which has been nationalised has obviously not satisfied the conscience of the authors of this scheme. Whether further nationalisation will help is anybody's guess.

In any case this measure means the re-distribution of monetary resources without any effort at finding ways and means of using this resource effectively for production. Even now large resources are put at the disposal of co-operative societies to help agriculture. It is well known that barring a few exceptions they are not used efficiently; there is considerable waste and leakage.

2. *Nationalisation of General Insurance*: General Insurance is different from Life Insurance. Whereas in Life Insurance there is a steady premium income on life policies, in General Insurance the contracts are annual. Whereas in Life Insurance the insurance policy matures once in a life time, in General Insurance, the policy is annual and the settlement of claims is more frequent. Besides, it requires the understanding of each business activity which comes under General Insurance.

It is well known that the profits of General Insurance are not high. The result of this proposal will be that those in charge of General Insurance companies at present will become the officers of the nationalised General Insurance Corporation. Whereas they work with efficiency and initiative at present under the Private Sector, as soon as they come under Government, they will work as salaried officers as in any Government department elsewhere. It is not clear as to how this arrangement can help production of the wealth of the country.

3. *Commodity-wise progress in State Trading in imports and exports*: The object is to take over foreign trade on behalf of the State as is already being done in some cases. Nationalisation of foreign trade is a feature of the Soviet economy. Whether their intention is to follow the Soviet model of foreign trade is not clear. It is also not clear whether nationalisation of foreign trade as suggested will be preceded or accompanied by increase in production.

4. *State Trading in Foodgrains*: This may mean that the wholesale traders in food grains throughout the country will have to go and the State will take over the business. We have already the experience of the handling of food by the Government in different parts of the country. Whether the proposed measure can be helpful to improve the position, or will lead to greater troubles for the average consumer may be left for conjecture by anybody. Though this measure like others will increase the patronage of the Government, it is not likely to increase production.

5. *Extension of co-operatives*: It is not clear whether the suggestion means that the existing co-operative societies should be expanded or new ones started. It is also not clear whether the co-operative movement should be spread to activities other than those in which it is now in operation.

Any co-operative activity voluntarily undertaken by any group of people and worked with understanding in mutual interest should be welcome, as it is bound to lead to better results. But co-operatives in our country are operated with the help of the State and are under the control of the Registrars of Co-operative Societies. The majority of the members of the Societies are either ignorant or not willing to take interest in the same.

The societies therefore fall under the control of a small group of people who want to wield power over others. It is well known that the co-operative societies are under political influence in most places. In any case there is no suggestion of improving production in this way.

6. *Regulated removal of monopolies*: The authors of the proposal do not seem to have a clear idea of the word 'monopoly'. Monopoly as understood in economic literature does not seem to exist in the country. It is like fighting a phantom without any objective. We shall refer to this problem in another connection; it is enough to point out that the proposal does not suggest any method of increasing production.

7. *Provision of minimum needs to the community*: Minimum needs may include food, clothing and shelter. This means that we have to produce more food, manufacture more cloth and build more houses. What should be suggested are methods of producing goods at a much higher level than now; without production of these goods it is absurd to think of providing minimum needs to the community. The question is from where are goods to come for this minimum provision and this question does not seem to bother the authors of this suggestion.

8. *Restriction on individual land holding of urban land*: There is already increasing congestion in urban areas in the country. There is control on land holding in urban areas by the State Governments and Municipalities for different purposes. How further restriction is going to help in production is not easy to understand.

9. *Rural works programme, Land Reform*: The creation of public works in rural areas such as building of roads and bridges may give employment to the rural people. We have under the existing arrangement a number of such programmes. As suggested, if this programme is increased we should have more resources for the same. The authors of the suggestion do not seem to think about the same.

Similar programmes have been introduced in most States. The Congress organisation has been rightly asking the State Governments to pursue land reforms. The progress however is slow on behalf of the Congress Governments themselves. It is a question whether the land reforms already introduced have increased production. It is not clear whether in the present proposal there is any idea of increasing production.

10. *Removal of Privileges of Privy Purses of ex-rulers*: Without going into the controversy of this question we may say in brief that this proposal also has no relation to production in the country.

In the rapid review of the proposals of the A-ICC now pressed by more than 100 Congress party members of Parliament, it is obvious that the authors seem to think that they can bring about socialism by such changes without making efforts at producing more or increasing the wealth of the country.

It is an irony of the political situation in the country that this large group of members of Parliament of the Congress party think in terms of forcing the Government to such action on the former assumption of identifying the Congress with the Government.

Though the Congress party has a small majority in Parliament, the few responsible persons in the party realise that they have to take into account more and more the wishes of the opposition parties and of the public at large, in bringing about any radical change of the nature that is proposed.

We have gone into this analysis in some detail to show that those who have been placed in responsible charge as members of Parliament do not have any clear thinking on economic issues. They have some blind adherence to a vague socialistic policy, which they think can be put into operation with relative ease by doing certain things suggested by them, which means redistribution of existing poverty, without any increase in the wealth of the country.

Confusion in economic thinking and therefore in economic policy has become a characteristic of the Congress Government. This will be clear if we look at some important aspects of economic policy for which the Congress Government is responsible.

We may in the first place refer to the Anti-monopoly Bill recently introduced in Parliament. This has been preceded by several enquiries by committees of the Government of India. The result of these enquiries is that monopoly as understood in economic literature does not exist in India

Monopoly is said to exist when one or more firms are able to control the production of a commodity and therefore dictate its price in the absence of any competition. None of the large firms in our country has obtained that position and the facts are authoritatively brought out in the Reports of the Committees.

It appears that the word 'monopoly' is used by politicians in our country with reference to some large firms, who have under their control a large number of activities and whose position and status are therefore of some importance in the country.

Looking at the problem from a socialistic angle, the politician is accustomed to look with suspicion on persons who seem to have more wealth than the average person with whom he is acquainted. He has developed an instinct which amounts to the conviction that profits and riches should be equated with crime. He has therefore developed a nausea against the richer class and this takes the form of attacking what is described as concentration of economic power.

The average politician is not able to distinguish between monopoly and concentration of economic power, and though the proposed bill is aimed at concentration of economic power, it is styled as the Monopolies and Restrictive Trade Practice Bill.

In order to appreciate the confusion underlying the above attitude, we shall consider briefly the working of the Industrial Policy since Independence. The Industrial Policy allows the Private Sector to establish only certain industries and that too with the consent of the Government. Licences for industries are given with a view to achieving a certain amount of production of each commodity which is pre-determined with reference to the Plan.

The Planning Commission estimates the possible demand that may arise during the plan period for a given commodity, and the licensing authority would see that the total capacity approved for producing that commodity is within the target fixed by the Planning Commission. The number of units which may get licences may be small or large but between them they are expected to produce the commodity with reference to the estimated demand.

In practice, as the demand goes on rising more rapidly than the supply, in most cases there is a short supply. Because of this, there is no room for competition between the units as the order books of each unit are full, and the supplies are taken up as soon as they are produced, the demand being larger than the supply.

At the same time, there is no competition from imports. We have either high duties which are almost prohibitive for imports or more often quantitative restrictions on imports mainly because we do not have enough foreign exchange. The consequence is that there is no competition for our local production from imported goods.

The absence of local as well as foreign competition on the one hand, and the existence of a limited supply with reference to rising demand on the other hand gives the producers collectively without any effort on their part the advantage of conditions of monopoly. The closed market enables them to charge higher prices and carry on with poor quality.

If the consumer in the country suffers from high prices of manufactured goods locally produced, and does not have the satisfaction of quality so far as these goods are concerned, it is due to the fact that the policy of the Government has created the advantages of monopoly which the producer is able to enjoy, without having taken any steps on his part to bring about a monopoly as such. In other words, we have a new type of monopoly in our country created by the Government in favour of the producer.

Having created such a set of circumstances, the same Government is now afraid of the concentration of economic power, confuses it with monopoly and introduces legislation to prevent it. The basic philosophy of the Anti-monopoly Bill is to see that competition is maintained by the producers; anyone adopting a restrictive policy which eliminates or reduces competitive conditions would be penalised.

The Government does not realise that by its own Industrial Policy, competition has already been eliminated and the producers do enjoy the advantages of a monopoly without any effort on their part. There can be no greater contradiction in the history of economic administration.

It is an elementary fact of modern technological revolution that the scale of production becomes larger and larger. It is the large-scale production resulting in giant corporations such as General Motors in the U.S.A. which makes it possible to produce quality goods at a cheap rate. It is this method which has enabled the U.S.A. to achieve an affluent society with what may be called practical socialism in which there is a relative equality between man and man much greater than we can dream of in our country.

If we take the illustration of motor car manufacture in our country, it will be possible to make the point clear. Each of the car manufacturers in our country has a limited capacity as far as production of cars is concerned. Compared with the big car manufacturers in the U.S.A. these are small units. Among other things this is the main reason why the price of a car in India in spite of its low quality, is higher than the price of the much better car in the U.S.A. or in other advanced countries.

In order to avoid the competition of the cheaper and better foreign cars, the Government has imposed a heavy prohibitory duty on the import of cars, which can be imported only under a licence which is not easy to obtain. In consequence, the car manufacturers in the country have a closed market with no foreign competition.

There is very little competition between themselves, because whatever they produce is sold well in advance. They have no impetus therefore to think of quality. In spite of the obvious grumbling against the performance of locally made cars, the users have to buy them and the demand is increasing. The producer can therefore afford to be indifferent and carry on with the production of low quality cars, for which the user must continue to pay a higher price.

Having created this state of affairs, the Government has now appointed a Committee to look into the quality of locally made cars. If the Government were conscious of their responsibility towards the consumer, they should have imposed quality control for each car produced by the manufacturer before it is put on the market long ago, that is, when their policy of protecting the car manufacturers in the manner in which they are doing, was first introduced.

The attitude of the Government towards preventing concentration leads to limiting the scale of operations which they have now laid down in terms of money. A factory involving assets of a crore of rupees shall not expand, except with the consent of the Monopoly Commission, and an industrial house having several activities shall not expand if its total assets are worth Rs. 20 crores, except with the consent of the Government.

With the falling value of the rupee, the size of the units with these limits will be comparatively small, so far as the benefits of large-scale production are concerned. The cost of production in consequence will be high and the consumer will have to pay for the same. Though crocodile tears are shed for the consumer, by the politician, the interests of the consumer are considered nowhere in the industrial policy of the country.

The Government of India is anxious to encourage exports. Besides, our traditional exports of manufactured goods are also being encouraged. We have opportunities of doing so in several cases.

It is not realised however that, whereas the consumer in the country can be fleeced in the manner explained above, the foreign buyer cannot be. The foreign buyer will buy our goods only if they compete successfully in the international market with other similar goods both in quality and in price.

The limits put on the scale of operations by the new legislation will act as a damper on the enthusiasm and capacity of the producer to do better and more. The economy will be doomed to work at a lower level and with a higher cost. In consequence, our capacity to compete successfully in the export market will be limited.

For economic independence exports have become a vital necessity for us for a long time to come. This is accepted by the Government and all concerned. In spite of this we have a contradictory policy of limiting the scale of production.

It is common ground that the country must have more production, both agricultural and industrial. We can meet the growing requirements of the increasing population for a minimum standard, as well as for improving it, only by encouraging production at all cost. The man who produces or helps to produce in any way either in agriculture or in industry helps thereby to increase the wealth of the country and enables the people to get relief from the prevailing scarcity.

Any step which comes in the way of production should be treated as anti-national and condemned. Any one helping production should be praised and his work appreciated. Instead of this we have a situation by which, in the name of socialism, efforts at greater production are stiffled. The anti-monopoly bill is bound to come in the way of greater production.

To take a concrete illustration of the attitude involved in this policy, let us refer to the recent campaign against the Birlas. I do not hold any brief for the Birlas; they are strong enough to defend themselves. But the recent episode throws light on the mentality of certain political groups, who are not adding to production, and yet would prevent others from producing more.

If the Birlas or any one of the entrepreneurs in the country has done any wrong, let them be dealt with according to the law. The Government has plenty of powers to deal with any possible mischief by such persons. But so long as the entrepreneur, small or big, is actively engaged in productive activities, the country should feel grateful to him, because he is helping to reduce the prevailing scarcity, partly caused by political and administrative lapses.

Instead of appreciating the producer, he is told that if he produces more than a certain amount, or is connected with concerns which may earn the label of concentration of economic power as understood by the Government, then the Government will put a limit to his productive capacity. One fails to understand the logic of Government policy even on grounds of any reasonable interpretation of socialism.

The crime of the Birlas is that they were able to take advantage of the licensing policy of the Government by legal means, and by doing so organised to produce more in a variety of fields. They may have made failures in some cases. But by and large they increased their capacity and added to the production of the country.

But at this stage, the critic intervenes, and cries halt. Lo! are they not having concentration of economic power? Stop them from further activity in the name of socialism.

This attitude may or may not help the small entrepreneur to do more, but it has certainly served as a notice to all large firms to go slow, to cut down their plans of expansion or to refuse to take in hand new schemes, even though they have the capacity and organisation to do so.

Whether the gap thus created is contributing to the recession is a matter of inquiry. Whether the political parties indulging in this are helping the country to solve its economic problems is another question of inquiry. One thing is certain that the ordinary citizen is the victim of the confusion which prevails among those who have the power to decide the affairs of the country.

Whereas such an attitude is justified on the ground of socialistic policy, we are told that the public sector will undertake large-scale production without such limits, that it will not be subject to the control of the anti-monopoly legislation, and that it will be the dominant party in the economic development of the country and in bringing about socialism.

In other words, it is assumed that the expansion of the Public Sector and socialism are synonymous. This is true of the Soviet economy where the means of production are totally in the hands of Government. The Soviet plan lays down in detail the work which each group of people in each area should carry out. The citizen has no initiative and the private entrepreneur does not exist. The freedom which our Constitution wants the individual citizen to enjoy is not known in Russia.

The question is whether socialism that our Government is thinking of or trying to develop is of the Russian type, and if so whether it is consistent with the Constitution.

Apart from this, it is well known and accepted by the Govrenment itself in various Committee reports, that public undertakings in the country are not working satisfactorily, with a few exceptions. It is notorious that there is over-staffing in most of the public undertakings which is one of the reasons why the cost of production is high.

With such a situation, there is a tendency to do less work and even the efficient members of the staff become inefficient. Dearness allowances can be extracted by new techniques, which have become common without any reference to the productivity of the worker.

In a recent Committee Report on the Durgapur industrial complex, the existence of a scandalous situation has been brought to light. This is not an exception. Apart from the principles of a Public Sector policy, so long as the Government has not demonstrated its capacity to run the existing concerns efficiently and economically, any further expansion of the Public Sector will mean not socialism, but undue burdens on the taxpayer and the consumer, and less production.

Along with the expansion of the Public Sector, the other method suggested by some Congressmen for bringing socialism is the expansion of the co-operative sector. Barring a few states in which devoted honorary workers have led the co-operative movement, in most parts of the country it is now well known that the co-operative movement has not succeeded.

This is partly due to the fact that the working of the co-operative movement presupposes intelligent handling of the organisation by the members themselves in their own interest. This cannot be expected from illiterate or ill-educated people, who are persuaded to join such organisations.

As most of the co-operative organisations are run under Government control, the people have come to believe that this is one more method by which the Government helps them. It has therefore become a source of some patronage and influence for the politician by controlling the co-operative organisation in his area to advance his own interests.

Large amounts of money have been placed at the disposal of the co-operative sector, at a cheaper rate by the Reserve Bank of India for the development of agriculture and allied activities.

The performance of these organisations has been poor. Agricultural development has not taken place as expected. Loans taken for certain purposes have not fructified. Large arrears are reported. Against this situation, to expand the co-operative sector will not be socialism, but an opportunity for the politician to dominate over some of these organisations.

With the advent of Independence, the Government of India thought of helping the industrial worker by raising his standard of living. It has given him certain privileges which were denied to him in the past. Trade union leaders who had achieved a prominent position in the Congress organisation became Ministers of Labour both at the Centre and in the States.

We have any amount of labour legislation for the benefit of industrial workers passed both at the Centre and the States in recent years. This has resulted in litigation for which an elaborate machinery has been created. Labour lawyers have come into existence; we have also labour courts or tribunals. As a rule, the judgments of these courts result in some advantage to the worker.

While sympathising with the industrial worker and fully agreeing that he should have his due share, one would at the same time like to find that in all these arrangements for the welfare of labour, there should be adequate provision to create a sense of responsibility among the worker so that he may do adequate work to deserve the benefits which are extended to him.

In the absence of such an effort which ought to have been made simultaneously, the industrial worker has the feeling that he has privileges without responsibility. This has been encouraged by political parties, who have obtained control of different trade unions.

The political parties think more of using the trade union organisation for political purposes than for the welfare of the workers. For any question such as that of dearness allowance or bonus, the labourers have now adopted new techniques with the encouragement of political parties. Instead of the ordinary strike in a given factory we have now the 'Bundh' of a city as a whole. Instead of waiting for the industrial courts or other machinery to take their course which will take time, we have the method of 'Gherao' which brings quick results from the Manager.

These tendencies which are spreading, with no obvious attempt to regulate or control them on the part of the Government, have created a state of indiscipline among industrial workers, which is in greater evidence in West Bengal and Bihar, but has spread all over the country. The contradiction in the labour policy of the Government and the way in which it has been administered has resulted in a serious situation which may defeat our plans for economic progress.

The indiscipline as indicated above has spread to other spheres of life. It is in evidence both in public and private offices in the country. It can be seen in educational institutions and even in private homes. In bringing about an economic and social revolution in the country, for a better standard of life, the Government of India and leaders of society ought to have realised that disciplined hard work was first essential for such a goal. Instead, they seem to have dreamed that they would bring about such a revolution, partly by legislation and partly by showering benefits on the less fortunate class of people, without creating the conditions in which discipline can be maintained and developed and more production generated.

These observations have been made with reference to some of the more important aspects of economic policy in the country, in order to bring out the inherent contradictions and confusion in thinking of those who are responsible for it as well as in the implementation of the policy evolved out of such confused thinking.

No economic progress is possible and no economic plan can succeed, if it is not based on coherent economic thinking, and if it is not implemented with ability and sincerity, and supported by conscious understanding of the people actively working towards it with discipline.

What is wanted in the country at present is an awareness on the part of leaders of society, irrespective of political considerations, to inculcate discipline from early stages in homes and schools and colleges, and create a desire for hard work which should be identified with patriotism and a higher standard. Unless this is done the tug-of-war between political parties and the clash of economic ideologies that we see around us in the country may result in disastrous consequences.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

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"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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