

SOCIALISM

**K. Santhanam
Dr. R. C. Cooper
Prof. C. L. Gheevala**



FORUM OF FREE ENTERPRISE
SOHRAB HOUSE, 235 DR. D. N. ROAD, BOMBAY 1

SOCIALISM

I

SOCIALISM OR STATE CAPITALISM?

By

K. Santhanam *

It is bad enough that India should be a hundred years behind advanced nations in industrial development. It is a much more serious handicap that intellectuals and politicians should be more out of date in their ideals. This is particularly true of capitalism and socialism, the nature of which has undergone a great change since Karl Marx expounded his theory. Both these concepts arose out of the industrial revolution. In the early stages, the main characteristics of industrialisation were:

- (1) low wages based upon the ordinary wages of persons engaged in agriculture and cottage industries;
- (2) harsh conditions of labour, long hours, unhealthy and insanitary conditions and no provision for sickness etc.
- (3) large surpluses due to productivity of machinery in comparison with manual labour, and cheap labour; and
- (4) appropriation of the surpluses by a small number of capitalists owning the new industries.

Karl Marx put forward his doctrine of socialism assuming that these were inescapable conditions of capitalist production. He argued that in order to prevent exploitation of labour, ensure reasonable conditions for workers and utilise the surpluses produced by machine production

* The author is an eminent economist and publicist. He was a Minister of State for Railways in the Government of India, Lt. Governor of Vindhya Pradesh, and Chairman of the Second Finance Commission.

"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.

for social welfare, it was necessary to socialise the means of production. He did not mean by socialisation State ownership or management of industry or commerce. In his essay, "Socialism, Utopian and Scientific", Frederick Engels wrote: "The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-earners - proletarians. The capitalist relation is not done away with. It is rather brought to a head."

When the revolution took place in Russia, industrialisation had not proceeded far in that country and such industrialisation as existed was controlled by foreign capitalists to a large extent. Therefore Lenin turned to State Capitalism as the only means of industrialising Russia. Stalin wanted to make dictatorship absolute and and totalitarian and, therefore, made State Capitalism the exclusive form of economic development in U.S.S.R. and this has to a large extent been followed by other communist countries of Eastern Europe.

As a matter of fact, capitalism of modern times is almost the opposite to that of the 19th century. The capital of big industrial undertakings is not owned by a few individuals and their families but by thousands of shareholders distributed over a wide area. They are managed by highly skilled and trained managers who almost dictate their terms to the Board of Directors. Far from being exploited, the workers in such undertakings are members of labour unions which are recognised and regulated by law and which are able to bargain with the management on equal terms. Not only high wages are provided but the undertakings are obliged to provide proper conditions of health and sanitation, medical care, bonus, provident fund and other benefits which the 19th century worker did not even dream of. Finally a major part of the profits

earned by the undertaking is taken away by the State in the form of taxation and utilised for providing social services like education, health, roads etc. In advanced countries, these undertakings have also to contribute substantially to a comprehensive social security system available to all the citizens.

The company laws under which these organisations function are very complicated and seek to ensure that they worked largely in the spirit of public trusts. In India, the remuneration of the Directors and their perquisites, limitation on investments of surplus profits and proper auditing and publication of accounts are all provided for. It is, therefore, a misnomer to call a public limited company as belonging to the Private Sector. It is private only in the sense that it is not a direct Government undertaking and has got its own Board of Management responsible to the shareholders.

There are, of course, industrial and commercial undertakings managed by co-operative societies and individuals or partnership. The latter are generally only medium and light industries where the capital requirement is not much.

It should be carefully noted that modern industrial production is essentially capitalistic. It does not matter who owns the capital or manages the undertakings. The characteristics of accumulation of capital, expert management, satisfactory labour relations and elaborate accounting are all common characteristics. It is also generally agreed that competition is a necessary factor to enable these undertakings to function responsibly and in the public interest and monopolies should be prevented and where it is not possible to do so, should be strictly regulated.

From the beginning, the Planning Commission in India has made the mistake of confusing State Capitalism with socialism. There may be some scope and even necessity for State Capitalism in India. Railways, Posts and telegraphs, Irrigation, Roads, Forts and other services which constitute the indispensable infra-structure of modern

economy can best be developed as State enterprises, mainly because private capital will not flow into them, especially in undeveloped countries. But it is a great mistake to think that these undertakings managed by the State serve the people in some unique way which cannot be claimed for corporate, co-operative or individual capitalism. As a matter of fact, State Capitalism suffers from three special disadvantages which makes it less beneficial to the interest of the people than the other forms of capitalism. It tends to become a monopoly as it finds it difficult to compete with the more efficiently and economically managed undertakings of the same kind run by corporate or other form of capitalism. State Capitalism also suffers from bureaucratic management and complicated official procedure. Thirdly, its management is liable to be interfered with by politicians in power and their party henchmen.

It is also not true that labour gets a better deal in State Capitalism. Wages and conditions of labour benefit in proportion to the economy and efficiency of the undertaking and as State Capitalism is generally wasteful and inefficient, its capacity to pay the workers is proportionately less. In the case of disputes between the management and labour in a non-State undertaking, the Government can come in as an impartial conciliator and arbitrator but where there is a dispute in a Government undertaking, all the official influence is bound to be on the side of the management and against the labour. In the rather unstable political conditions of India, workers in State undertakings may be able to bully the management through threat of strikes and go-slow methods but no sooner than the Central and State Governments become strong and well-established, then their first task will be to ensure labour discipline through banning or severe restriction of the right to strikes, and participation in absenteeism and go-slow methods. It is the only way by which state undertakings can show even moderate results and escape incurring unbearable losses. The record of the Public Sector in India during the last 20 years has not been such as to justify their expansion. The myth has been propagated

that the State should control the commanding heights of economy as the necessary means to socialism in India. State Capitalism tends to expand its activities without limit till it monopolises all economic activities. The more inefficient and unprofitable it is, the greater is its hunger for expansion. The Government of India has recently decided to set up a Government undertaking for the manufacture of a small car, for establishing a scooter unit and for taking over the cotton trade, both imports and exports. Pressure has been exercised on the U.P. Government to take over the sugar industry in the State. It is to be noted that none of these projects has been recommended by the Planning Commission or included in the Fourth Plan nor can it be contended that any of these three is necessary for promoting the welfare of the masses or for reduction of economic inequalities or for purposes remotely connected with true socialism. Concentration of economic power under the influence of the State has become an obsession.

In the communist countries, the evils of inefficiency and unprofitability of State Capitalism are sought to be mitigated through banning of strikes and forcible disciplining of labour on the one hand and judging management by performance accompanied by stern punishment to those who cannot deliver the goods. Even with all these, not only Yugoslavia but also other communist countries like Rumania and Hungary are seeking to find a way out of rigid State Capitalism without reverting to ordinary capitalism. They are experimenting with the idea of autonomous and competitive industrial and financial undertakings. In India, State Capitalism suffers not only from the inefficiency and inability of bureaucratic management but also intransigence and indiscipline of workers. The costly Durgapur Steel plant and its allied industrial complex are paralysed. Owing to the sudden illegal strike in Ashoka Hotel, an official lunch in honour of the visiting Japanese Foreign Minister had to be transferred at the last moment to another hotel. In the case of private undertakings like the Standard Motors of Madras, they have

the remedy of closure on account of labour trouble. Big Government undertakings cannot close without incurring intense popular displeasure. In these circumstances, it is sheer madness and irresponsibility for the Government of **India** to seek to enter new fields which are not of essential importance. It will be strange if those who are shaping the industrial policy of the Government of India are not aware that motor cars, scooters etc. are not considered to be important in communist countries and only a small number of persons are allowed to possess them for functional purposes. It is indeed a strange socialism that the major concern of our government should be to increase the differences between the upper and lower middle classes which can be the only result of production of large numbers of small cars and scooters in the Public Sector. While **cotton** is produced by individual fanner and is finally used by the textile mills which are in the non-Government sector, is it not altogether foolish that the Government **should** interfere in the middle stage?

It is natural that the State Government in India **also** should wish to imitate the Centre in extending their own share of State Capitalism. Successive Finance Commissions have found that the States are not able to run their transport and electricity undertakings without **incurring** loss. If they are allowed to take up commercial undertakings like the Standard Motors or Sugar factories, the finances of State Governments are bound to deteriorate further with consequent increase in bitterness in the relations between the **Centre** and the States.

Socialism is essentially a doctrine relating to the equitable distribution of national work and income. Its principal objectives are:-

- (i) full employment on living wages,
- (ii) progressive development of social services free for all members of the community, and
- (iii) a comprehensive system of social security ensuring the development of children and generous **pro-**

tection for the old and the unfortunate victims of sickness, accident or other misfortune.

Developing on these ideas, the Scandinavian and other countries of Western Europe including the U.K. have developed a modern and highly beneficial conception of socialism which deserves to be understood and accepted by Indian politicians and economic thinkers.

It is now conceded that one of the major objectives of socialism is full employment on living wages. This is perhaps the most difficult as well as the most important objective to be aimed at in this country. On the one hand, scientific and mechanised agriculture is likely to displace agricultural labour and on the other, the adoption of the most modern equipment and management including computerisation in our factories is likely to render a certain fraction of labour unemployed. Ultimately, when our economy is fully modernised and highly productive, the expanding needs of social services and social security may be expected to absorb a large number of our educated youth but the transitional problems which are bound to exist for some decades, if not for a century, are so difficult and complicated that they require endless patience, farsightedness and human sympathy.

It is in this content that the claims of large-scale industries, small-scale industries and cottage industries have to be equitably adjusted. Such adjustment has necessarily to be flexible and capable of readjustment after a period of 10 or 15 years. It is a matter of surprise that while on the one hand, the Planning Commission and the Government of India are anxious to promote small-scale industries to provide employment for the technicians coming out of our higher technological institutions and polytechnics, large rice mills and bakeries should be established in various parts of the country. It may be admitted that modern rice mills and bakeries have advantages from the point of view of the consumer. **Still**, it cannot be claimed

that without these, there would be any serious inconvenience.

It is necessary to sort out what products can be economically produced in cottage industries, small-scale industries using power, medium industries and large-scale industries. There should be no rigid schedule confining any product to any of these classes but taxation, particularly customs duties on raw materials, export duties, import duties and sales taxes should be so adjusted that where there can be no competition, cottage industries may get a preference of about 20 per cent over small-scale industries and the latter, the same amount over medium and large scale industries.

In order to provide full employment, develop social services and provide social security, it is necessary that all material production by whatever agency should produce a surplus, after wages, depreciation and interest on capital are met and efficient means should be evolved through taxation to appropriate these surpluses for development of social services and social security. It is a great pity that too much concentration on inefficient and unprofitable State Capitalism has prevented the Government of India from making even the beginning of a social security system, which is particularly essential for the poorer sections of the population in rural and urban areas.

Any economic system in which the socialistic objectives mentioned above are achieved satisfactorily will have automatically reduced the range of inequality between incomes. The people are not generally told that this range is less in many of the modern so-called capitalist countries of Western Europe and even in Japan and U.S.A. than in the communist countries or undeveloped countries like India which profess socialism. The reason is evident. When all persons are employed and productivity is high, the lowest wages tend to be high. On the other hand, where productivity is low and production is inefficient, the lowest level worker is paid low wages while the technicians and managing staff have to be paid comparatively high salaries in order to induce them to use their talents

to the utmost. While in most advanced countries, the general range between the highest and the lowest income is of the order of 10 to 1, in India, it is 1 to 40. It may be true that in U.S.A. Japan and other advanced countries, there may be a few individuals who derived very large incomes but under progressive income and wealth-tax, a very large part of their income is appropriated by the State.

Socialism is often claimed to aim at a classless society where there is no distinction between the classes and the masses. But when we look at the structure of the so-called communist States which claim to be based on the teachings of Karl Marx, we find that the classes in those countries are as sharply distinguished from the masses as in the capitalist countries. The leaders and officials of the communist party, the management personnel of their nationalised undertakings, the academicians and professors of their universities occupy a higher status than even the upper classes in the non-socialist States. Even among the workers, the skilled, the semi-skilled and the unskilled form distinct sections.

The only difference between the classes in the socialist and the capitalist society is that in the latter, there is a class based on ownership of property and receipt of unearned income while in the communist countries, they are replaced by the party officials for whom the profession of communist ideology performs the same function as possession of property in capitalist countries.

Thus, the class structure is inherent in any social system which is based on division of labour and provision of inducements for the skilled and the unskilled labour and special facilities for highly complicated work such as scientific research, management of big industries and administering the big departments of modern government. The main thing is that these classes should not become rigid. There should be easy mobility from one class to another on the basis of skill and merit, and as I have

stated already, the range of inequality should be strictly limited.

In India, almost all politicians and thinkers demand an immediate and visible improvement of the condition of our peasant masses and urban proletariat but this is no issue between capitalism and socialism and those who cherish the illusion of eliminating poverty and squalor through State Capitalism miscalled socialism are only postponing the attainment of this legitimate objective. All those who are interested in the uplift of the masses should let the protagonists of all forms of capitalism including State Capitalism to fight amongst themselves and arrive at whatever compromise they deem fit.

The major issues for the masses in India, whether urban or rural, are employment, food, houses, health and education. Some efforts have been made under the plans to increase food production and to promote health and education but little has been done in the matter of housing. I would like any member of the Planning Commission or of the Government of India to stand up and say where and when the landless agricultural labourers and small peasants and slum dwellers of the cities and towns will be able to have houses which are fit for human living. I have no doubt that so long as these people live in miserable and unsanitary huts as at present, neither education nor high wages will benefit them. If any of our leaders paused to think of the psychological, emotional and sanitary aspects of the problem of housing, they will have to admit that their indifference is almost criminal.

I think it is possible to have a housing programme by which the village panchayat and municipal corporations will undertake to build houses on a phased programme so that there will be no insanitary huts and slums in our villages and towns. A similar concerted attack on unemployment is no less essential. It is almost a cynical contempt of our masses which permits the Central and State Ministers talk airily of socialism when the number of unemployed in rural and urban areas is steadily increasing.

It is foolish to contend that there is no work for the 20 or 30 millions of unemployed in this country while West Germany and Japan which were almost completely destroyed in the second world war have not only full employment for their people but provide work for the unemployed of the neighbouring countries.

State Capitalism cannot now or in the near future provide work for the unemployed. It is only through a wide decentralisation of economic initiative and active encouragement of all agencies of production and useful social services that the problem of unemployment and housing can be adequately tackled. India has still to make a beginning in social security which requires that our production should be efficient and produce a surplus.

I stand whole-heartedly for true socialism in India which I equate with efficient production, full employment, generous social services and comprehensive social security. Every form of production which is consistent with these objectives should be actively encouraged and every form which through inherent inefficiency or psychological inadequacy is likely to obstruct their achievement should be rejected as inconsistent with true socialism.

II

TWENTIETH CENTURY SOCIALISM

by

Dr. R. C. Cooper *

Socialism as a creed is not static. Since the days of Karl Marx, socialism has undergone continuous changes according to the dictates of time. This happened not only in the socialist countries outside the Iron Curtain, but even among the communist countries, particularly, the Soviet Union and its Eastern European satellites.

Among the developing countries of the world, it is possible to divide socialist countries into two major groups —

- (a) developing countries which are successfully practising a new and even changing concept of socialism. Among these countries, mention may be made of Japan, Australia, Scandinavian countries, Malaysia and several others. Even the labour government in the U.K., which was in power till a few months ago, based its policies on the modern concept of socialism.
- (b) The other set of countries still adhere to the out-dated and dogmatic concept of socialism. Among the developing countries which are wedded to the 19th century socialism are primarily India, Ceylon, Burma, UAR, etc. They all display extremely low standards of living and high degree of poverty.

The 20th Century Socialism could be distinguished from the outmoded 19th Century Socialism through a few main differences.

(1) Modern socialism no longer wholly relies on nationalisation of economic resources or their ownership for

* The author is a Chartered Accountant. He is a Vice-president of the Forum of Free Enterprise.

the purpose of economic development. Modern socialists are convinced that nationalisation of means of production is not necessarily the cure for the evils of capitalism because nationalisation leads to (a) inefficiency, (b) it undermines the concept of accountability, (c) there is no personal responsibility in performance, (d) it leads to the concentration of economic power in the hands of the State, and (e) it is a serious threat to the freedom of private citizens.

(2) The 20th Century Socialism distinguishes itself from Marxian Socialism by its attitude towards human problems and human relationship. It does not recognise mere economic development as a means of achieving human upliftment.

Failure of the Indian socialist to recognise this important principle of the attitude towards human problems has led to a very undesirable situation which has been summed up by Prof. A. B. Shah, Programmes Director of the International Association for Cultural Freedom, in the following words: "A new class of corrupt politicians, corrupt bureaucrats and corrupt businessmen has emerged as the most loyal champion of this kind of socialism in India. Through its policies, as has been shown by Prof. B. R. Shenoy, it has succeeded in transferring to itself large amounts of income from the middle and lower classes and has distorted the priorities of development. But the damage it has done is not confined to the economic field. It has debased education, vulgarised culture and prostituted the socialist idea itself. Worse still, in its unscrupulous pursuit of power and material gain, it has cynically exploited the hopes and fears of weaker social groups."

3. 20th Century Socialism rejects as unsuitable both "classical capitalism" and "ancient socialism". Modern capitalism according to the exponents of the 20th Century Socialism is entirely different from what Karl Marx understood capitalism to be. Just as Socialism has undergone changes since the days of Karl Marx, similarly, the concept of capitalism has changed materially. The major change in capitalism arises out of its attitude towards the

weaker sections of society and due to diffusion of ownership of economic resources.

4. The concept of absolute equality which was the basis of outmoded socialism has also undergone a change. What is possible and desirable is equality of opportunities and not absolute equality. Countries, including the Soviet Union, have realised that in actual practice, equality cannot be achieved. Real wages in Soviet Union even today reveal far greater inequalities than those in the U.S.A. Nationalisation of means of production cannot and has not achieved the Marxist dream of equality.

Absolute equality or anything approaching it is of little interest even to those who are victims of economic exploitation. What is demanded is a right to a fair share of economic resources and equality of opportunity with special provision for the handicapped. Equality in traditional sense is meaningless.

It is now recognised that socialism in its true sense can be achieved only by economic security, fair sharing of results of economic activity, an ever-expanding economy, and industrial democracy.

India is wedded to the principle of socialism for the last 15 years. During this period we professed to practise socialism. In effect, we have adhered to outmoded socialist dogmas which have done more harm than good.

Why, then, are we not prepared to change our thinking on socialism? The answer to this is provided by the fact that the type of socialism practised by our leaders in this country has helped to create new vested interests through state capitalism in which the leaders have everything to gain and the public has everything to lose. For instance, the leaders who talk of economic equality, who are prepared to impose ceiling on property, ceiling on income and confiscatory taxation on the public, are themselves enjoying benefits and privileges which are far in excess of what they deserve. For instance, a Minister of the Central Cabinet in this country received by way of

salary and perquisites, a pre-tax income of almost Rs. 4,50,000 per annum or about Rs. 37,000 per month. This is 848 times the per capita income.

When the economic policies pursued so far have failed to improve our standards of living and to assure the requisite economic growth to solve the problems of unemployment and rising prices, the choice before the country is clear.

Socialism practised in India could be termed "a process of distributing poverty." It involves levelling down or destruction of those sections of society who own or control economic resources. But this process does not improve the standard of living of the lower sections of society. As against this, modern socialism does not seek to "distribute poverty" but seeks to "distribute prosperity". It seeks to reduce the inequalities of income and wealth by bringing up the poorer sections of society rather than by destroying the relatively rich. At the same time, it tries to reduce disparities of income by progressive taxation, taking care to ensure that it does not become a disincentive for growth. It is, therefore, much less time consuming.

A comparative study of the several developing nations of South-East Asia is revealing. For this purpose, we have to divide the countries into two groups viz., (i) those practising the 19th century outmoded socialism, like India and (ii) those pursuing modern socialism with a pragmatic approach.

In India, we are faced with the problem of growing unemployment, rising prices and extremely low standard of living. As against this, countries like Japan, Hong Kong, Australia, Taiwan, Malaysia and Singapore are showing distinct signs of growing prosperity, rising employment and confidence in the future. While Thailand blooms, Burma withers. While Formosa prospers, Ceylon struggles. Countries like Japan, Hong Rong, Formosa, Thailand, Malaysia, and Singapore are all developing nations which recognised way back that the business of the State is to govern and not trade. The primary economic func-

tion of the State is two-fold. The first is a regulatory function of preventing monopolistic and other anti-social practices. The second is to provide the infra-structure on which the edifice of the entire economy must be raised. Apart from these two major responsibilities, all economic activity which can be undertaken by the enterprise of the people should normally be left to the operation of private enterprise.

It is surprising how backward India has remained in spite of more than fifteen years of economic planning and how far ahead of us many other developing countries have gone towards the road to prosperity during the same period. Here, I would like to quote rather extensively from a recent speech of Mr. J. R. D. Tata.

Judging by the index of per capita income, the following figures are revealing. Singapore's per capita income is ten times that of India, Japan's 16 times, and Australia's 33 times that of India.

"Even more striking is their rate of growth during the last ten years. Whereas India's per capita income rose by only 4 per cent during the last decade, Japan's by 116 per cent, Australia by 87 per cent and Singapore's (only in five years) by 50 per cent."

As a case study in modern socialism, Singapore's experience of economic progress during a period of only five years is most revealing. Its nationhood is only six years old. In 1965 when she attained independence, every economic factor seemed loaded against her. A small island city state of only 225 sq. miles and two million people, with no material resources other than a good harbour, no foreign exchange, no industry, no worthwhile market, her Malaysian hinterland cut off, threatened by the explosive racial mixture of her population. Surrounded by unfriendly neighbours, she began her independent career under a coalition government of socialists and communists vociferously anti-capitalist and anti-West. The economic portents could hardly have been gloomier. A mere six years later, she presents an almost incredible picture of

economic growth and stability. The same socialist government, but without its communist partners, did not take long to realise that quick progress was impossible without private enterprise and foreign capital. Today, the island is humming with activity, the Singapore dollar is one of the strongest currencies in the world, entrepreneurs are flocking in from all over the world to join Singaporeans in building a modern industrial state. Over 300 factories have been established in a magnificent 17,000 acres industrial estate put up by Government. Under the leadership and pragmatic policies of its enlightened socialist Prime Minister and Government, Singapore is fast becoming the leading business and financial centre of South East Asia.

"Australia, which has already achieved one of the highest standards of living in the world, is racing towards still higher levels of prosperity... Today, Western Australia's 16 per cent rate of annual GNP growth is the highest in the world.

"Japan, despite many severe handicaps, has achieved a miraculous growth during the last couple of decades. 25 years ago, Japan, very much like Germany, lay prostrate, her economy shattered, her main cities and industries destroyed in a war in which she had suffered total defeat.

"Today, like a super Phoenix rising from its own ashes, Japan is the third greatest economic power in the world, the third largest producer of steel, the second largest of motor vehicles, and the undisputed leader in ship-building, electronics and optics. By 1975 she expects to surpass even the U.S.A. and Russia in steel production in spite of having less than half their population and no steel-making raw materials. Her rate of industrial growth has averaged a phenomenal, cumulative, 17 per cent per year during the last decade, equivalent to doubling her industrial output every four years. Truly an economic miracle."

A study in contrast between India and the developing countries of South—East Asia which are practising the

20th Century Socialism reveals that there are nine distinguishing features worth noting —

- (i) All these countries primarily rely on private enterprise for production and distribution.
- (ii) The Governments of these countries are doing their best to create a favourable climate for private investment (both foreign and domestic), private initiative and private enterprise.
- (iii) The governments of all these countries are doing their best, to reduce to the minimum, controls, regulations, licensing and quotas which have the effect of paralysing economic growth.
- (iv) Unlike India, these countries are not attempting to concentrate economic power in the hands of the State through the bogey of the danger of concentration of economic power in private hands.
- (v) Unlike India, these governments do not believe in the outmoded socialism which primarily relies on nationalisation of trade and industry, state ownership of means of production and a dominating public sector. On the contrary, they consider a dominating private sector fully compatible with socialism.
- (vi) Unlike India, none of these governments resort to confiscatory rates of taxation which provides a powerful disincentive for investment and initiative and the strongest incentive for black marketing and tax evasion.
- (vii) While Indian Socialists cling to a 19th century Marxist form of socialism notwithstanding the fact that almost every economic theory and prophecy of Marx has been falsified in the last hundred years, the democratic socialists of all the non-communist socialist countries of the world no longer concern themselves with theory but with the practical means of creating an egalitarian welfare state. They know not only that the Marxist economic programmes of the kind which our own socialists naively hope to implement by democratic means cannot in fact be executed except by ruthless authoritarian means, but also that commu-

nism has failed up to now to produce the affluent and egalitarian societies flourishing in many democratic countries of the world today.

- (viii) Unlike India, these socialist countries encourage private enterprise to create wealth and derive their fair share of this newly created wealth through reasonable rates of taxation for the welfare of the society.
- (ix) Unlike India, the Governments of these countries believe that it is for capitalist enterprises to finance socialism by making the results of economic development available to the weaker sections of the society in the process of development.

Often, while discussing this subject, with Indian politicians, Ministers, bureaucrats, intellectuals and college professors, I have received the same stereotyped reply, viz., that conditions in India are entirely different from these countries. While I concede that conditions and problems in our country are to a certain extent different from those in other countries and some of those problems are self-created, I refuse to subscribe to the view that this could be the sole ground for not changing our methods.

There are three major problems which India faces today in the economic field, viz., unemployment, rising prices, and stagnating economic growth. How can we solve these three major problems facing us today?

The Government has estimated that during the Fourth Five-Year Plan, the proposed outlay of Rs. 25,000 crores will, at the most, provide jobs for 14 million people. Even this statement has a doubtful validity. During the same period, 28 million job seekers will enter the employment market, leaving 14 million still unemployed in addition to the backlog of another 13 million persons at the end of the Third Plan. It means that the total unemployment in India by 1975 would have risen to a colossal figure of 27 million persons.

What is the practical approach to this problem of tremendous unemployment? A possible solution is a mas-

sive public works programme similar to the one successfully practised in the U.S.A. under the "New Deal". Such a programme would include road building and other forms of public works such as irrigation projects, minor dams, canals, wells, schools, erosion control programme etc. Greatest emphasis must be laid on road building as the most important infra-structural activity.

It has been estimated that at a cost of only Rs. 250 crores per annum, covering the wages, road building material and equipment, it will be possible to provide employment for at least a million people and create job opportunities for another 1.7 million people.

The problem of inflation boils down to the process of "too much money chasing too few goods and services". The most important factor which has led to rapid rise in prices in India is our faulty approach to the problem of production of consumer goods and services. Here again, our thinking remains misconceived and outdated. Our approach towards the problem of consumer goods production is faulty in following respects:

1. In the earlier economic plans, the consumer goods were sacrificed due to emphasis on basic industries, particularly steel plants and other large public sector undertakings, in which we have an investment of over Rs. 3,900 crores with a negative return.
2. Now, our government is obsessed with another dogma of reserving the consumer goods manufacturing activity for the small scale sector of industry. Having regard to the size of the country, large population and the need for supplying them goods at reasonable prices, it must be clear even to a layman that many consumer goods have to be produced on a mass scale if we are to improve the standard of living of the people in the shortest possible time and also supply them at a reasonable price. The decision to produce consumer goods either in the small scale sector or through the organised manufacturing sector cannot rest on theoretical considerations. It must be dictated by

economic rather than political factors. The technological and marketing expertise with the organised sector of industry would obviously provide the best solution for the problem of having to provide consumer goods on a large scale at the lowest possible price.

3. Equally deplorable is the decision of government to enter the field of consumer goods through the Public Sector. Even the Planning Commission has cautioned against large-scale investment of public funds in, consumer goods industries in the Public Sector.

The third factor of stagnating economic growth, which, is tied up with the two earlier ones viz. unemployment and rising prices, again requires a pragmatic approach rather than adherence to mere ideology. India's per capita income increased in recent years by less than 1 per cent per annum, one of the lowest growth rate in the world. The minimum necessary would be at least 3 to 4 per cent per annum. A reasonable rate of economic growth should be 6 per cent. The rate of growth in industry including mining must be at least 9 per cent per annum. During the last decade Taiwan, Israel, Mexico and Australia, all, developing countries, have achieved a rise in industrial production of more than 15 per cent per annum.

Only a drastic change of governmental and public thinking in economic matters can solve the problems of this country. Instead of nationalisation, the more effective weapons would be controls by strategic and selective participation, by social accountability, and by checks and balances.

III

SOCIALIST DILEMMA

by

Prof. C. L. Gheevala *

Socialists today are faced with a dilemma as to the means to be adopted for the achievement of the general objectives which commonly characterise all socialist aspirations. They believe in creating conditions of equality of opportunity for the large mass of people, so that they may have the maximum scope for their self-expression and development. The doctrinaires among the socialists are defying the means into ends in themselves. They seek to identify socialism with increasing public enterprises, nationalisation, central planning and bureaucratisation irrespective of the consequences.

At no stage, confusion has been more profound regarding the choice of means than at present. As propounded by Karl Marx and upheld by his doctrinaire followers, socialism has been equated with nationalisation of the means of production, distribution and exchange. It is significant to note that Karl Marx's prophecy of the collapse of capitalism has proved untrue. He wrote at a time when most of the Governments in Europe were despotic. He could hardly foresee the coming of the welfare state in the wake of the spread of democratic ideals and representative institutions in various parts of the world. Instead of growing pauperisation, as shown by C.A.R. Crossland, the living standards have gradually risen and poverty and insecurity are in the process of disappearing. It is no longer true to maintain that the pattern of ownership of the means of production determines the character of the whole society and that collective ownership through

* The author is the Secretary of the Indian Merchants' Chamber, Bombay, and has made a special study of socialist ideology.

nationalisation is the only necessary condition of realising the socialist objectives.

Laissez faire is an outmoded and discredited doctrine. Today the state already wields considerable power in the social and economic spheres and has subjected a large segment of the economic field to what may be described as strategically decisive political control. With the vast complex of physical, legislative, monetary and fiscal powers, the state seeks consciously to regulate the level of employment, the distribution of income, the rate of accumulation and the balance of payments. Its policies effectively influence the size of industries, the pattern of output and the direction of investment decisions. The spate of labour legislation regulates the relations between the employers and the employees and safeguards the rights of the workers. Besides, with the growth of the managerial joint-stock corporation, the function of decision-making has already shifted to non-owning classes of executives from the hereditary capitalist class of entrepreneurs. In this context, the Marxian thesis has become irrelevant as the means of achieving the socialist objective.

It is becoming increasingly clear that a mere change of ownership is no guarantee for ensuring that the economy would be run on socialist lines. On the contrary, the socialists in some of the leading democracies believe that nationalisation has created fresh problems arising from undue concentration of economic power in political hands, on the one hand, and the growth of vast bureaucratic corporations, on the other. Even democratic trade unions have started re-examining their stand since the Public Sector has failed to usher in a new era in the field of industrial relations.

No responsible exponent of the system of private enterprise has asked for the revival of exploitative capitalism. -It must accept its social obligations in a scheme of planned economic development. Under a system of democratic planning, regulated private enterprise has a positive role to play. It is not something in the shape of a

relic of a dying system to be just tolerated for a short while or to be suffered on grounds of political expediency. It is a living and dynamic system which is both fundamental and indispensable for ensuring democratic processes.

It must be accepted as an integral part of the system of true democratic socialism which is based on the recognition of the intrinsic moral worth and dignity of the individual. "The reason why a socialist economy requires a private sector is because socialists place a value on individual freedom."

As aptly stated by the Socialist Union in the Twentieth Century Socialism, "A socialist economy is a mixed economy, part private, part public, and mixed in all its aspects. It comprises private spending as well as public spending, private ownership as well as public ownership, private enterprise as well as public enterprise."³ From this basic concept the Socialist Union has derived two basic conclusions: firstly as to the place of the Private Sector, and secondly, the place of the Public Sector in a scheme of democratic socialism. "The private sector of a socialist economy is not there merely on sufferance, to be tolerated only on grounds of political expediency, with the Sword of Damocles hanging over it in perpetual threat. On the contrary, it has a legitimate and indeed a necessary function to perform."³ They further add: "If this is to be the important function of the private sector, then it cannot be hamstrung by a whole network of legislative and administrative restrictions. That would only defeat its purpose."^{3a}

Even if the Public Sector has to occupy important strategic points in the economy, the authors make the following significant observation on the relative roles of the public and private sectors: "As long as an independent sector remains, it can act as a perpetual and very effective

(1) *Twentieth Century Socialism*

(2) " "

(3) " "

(3a) " "

check on the state's activities. If there continue to be private employers and independent trade unions, and bargaining between them produces good results, there will be no escaping the insistence of the unions on similar conditions from public employers. If public enterprise is less efficient than private, if it gives less satisfactory service to the consumer, the comparison will be there for all to see and public opinion will not acquiesce for long. If private investment meets the nation's needs, there will be no call for public investment. At every point the nature and efficacy of state activity can be directly challenged."^{3b}

It is often forgotten that monopoly, even where it is public, suffers from serious drawbacks. It not only results in seriously curtailing the freedom of the individual citizen inasmuch as it denies him his right and privilege to start industries and produce goods of his choice, but by removing the conditions of competition it smothers all initiative, enterprise and venturesomeness, which are the basic requirements for efficient working of the economic system. The nationalised sector, in the absence of competitive conditions, equally fails in safeguarding the interests of the consumer. It only results in the creation of vast bureaucratic organisations which suffer from all the dangers of over-centralisation; nor has the nationalised sector ensured "A higher working-class standard of living, more effective joint consultation, better labour relations, a proper use of economic resources, a wider diffusion of power, a greater degree of cooperation, or more social and economic equality — none of these now primarily require a large-scale change in ownership for their fulfilment; still less is such a change a sufficient condition of their fulfilment."⁴ It has become abundantly clear that the mere act of nationalisation does not automatically change industrial and social relations in the desired direction. It is the recognition of these new problems which has been aptly expressed in the new slogan, "Nationalisation is riot Socialisation."

(3b) *Twentieth Century Socialism*

(4) *Future of Socialism* — C. A. R. Crossland

What is essential is to **emphasise** that there is no **a priori** case in favour of nationalisation as a panacea for all our economic evils. Every act of nationalisation must be justified on sound economic grounds. Any **proposal** if favour of nationalisation will have convincingly to demonstrate that it will result in economic improvement where the existing industry has manifestly failed and that other physical or fiscal controls have proved incapable of improving the situation. The approach will have to be selective, cautious and empirical. A mere snap political judgment in disregard of economic implications may lead to disastrous consequences. The best via media that has been suggested in this context has been that of "competitive public enterprise approach." This approach not only saves the community from the dangers of **overcentralisation** and bureaucratisation, but provides the **necessary milieu** for a healthy functioning of the Public Sector since it will have to justify itself on grounds of performance and efficiency. "Comparative performance must be the sole test - if the public companies cannot compete on equal terms, they do not deserve to be set up."⁵ They must be subject to the same test and standards and must function under the same normal commercial conditions. The Public Sector cannot claim a right divine to go wrong, to work inefficiently or to fritter away national resources. In short, the public and the private sectors, in the last analysis, must be judged by the contribution they make to the realisation of the objectives of planning, expanding economy, fair shares and economic security.

Democratic Socialism must address itself to the wider and far fundamental question of the dangers of centralisation and bureaucratisation to individual freedom and initiative. It can ignore these vital issues at its own peril. As pointed out in Twentieth Century Socialism, in such a system "There is no freedom to experiment with ideas which have not won state approval. The man who wishes to risk or dare is a misfit - or worse."⁶ Instead of

(5) *Future of Socialism*

(6) *Twentieth Century Socialism*

realising the objective of a socialist order, it 'will create problems arising out of undue concentration of economic power in the political hands and the bureaucracy. The dilemma was posed by R. H. Crossman: "Yet the State Bureaucracy itself is one of these concentrations of power which threaten our freedom. If we increase its authority still further, shall we not be endangering the liberties we are trying to defend?"

It has been aptly observed that "The modern planning movement set out, with goodwill and noble intentions, to control things and invariably ends up by controlling men." It is sometimes argued that these fears are imaginary and that there is no danger to the democratic way of life in spite of the growing Public Sector and bureaucratisation of the economic life. The enthusiastic exponents of socialism seem to ignore the prophetic warning of Gandhiji against the State developing into a huge Leviathan: "I look upon an increase in the power of the State with the greatest fear, because, although while apparently doing good by minimising exploitation, it does the greatest harm to mankind by destroying individuality which lies at the root of all progress."⁸

With the ever-tightening grip of the State over the economic life of the people and the bureaucratic octopus spreading its tentacles far and wide there would hardly be people left in an independent position to be bold enough to criticise fearlessly in a constructive manner Government policy without risking their livelihood and the security of their families. The bureaucracy itself develops a new vested interest in a centrally planned economy and they can hardly venture to criticise their employer without risking their chances of promotion. With the progressive **elimination** of countervailing forces in the economy, every individual, whether he is a peasant working in a cooperative farm or a worker belonging to a trade union of a nationalised industry or an employee of a State-run service,

(7) *The New Ordeal of Planning* — John Jewkes

(8) *Mind of Mahatma Gandhi* — R. K. Prabhu
& U. R. Rao

must forfeit, in reality if not in theory, his freedom of expression or else imperil his very economic existence. There is also a possibility of a progressive atrophy of voluntary organisations and associations, the very lifeblood of a free society, as they too should become instruments of planning and toe the line of the central planners. Eternal vigilance must, therefore, be exercised to see that the basic values of democracy and the way of life it stands for are at no stage placed in jeopardy. By the sheer logic of events, the planner who starts as an ardent lover of freedom is being slowly driven first to hedge, then to temporise and qualify and finally to capitulate before the inexorable demands of total planning

It is against this danger of creeping paralysis in our 'body politic that we need to heed the warning administered nearly a century ago before we find that it is too late to retrace our steps. "The greatest tyranny has the smallest beginnings. From precedents overlooked, from remonstrances despised, from grievance treated with ridicule, from powerless men oppressed with impunity and overbearing men tolerated with complacency, springs the tyrannical usage which generations of wise and good men may hereafter perceive and lament and resist in vain."

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

(9) Quoted in "The New Ordeal by Planning," from "Times", August 11, 1946.

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

—Eugene Black

Have you joined the Forum?

The Forum of Free Enterprise is a **non-political** and non-partisan organisation, started in 1956, to educate public opinion in India on economic issues, specially on **free** enterprise **and** its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other **means** as befit a democratic society.

Membership is open to **all** who agree with the Manifesto of the **Forum**. Annual membership fee is Rs. **15/-** (entrance fee, Rs. **10/-**) and Associate Membership fee. Rs. **7/-** only (entrance fee. Rs. **5/-**). College students can get every month one or more booklets published by the Forum by becoming Student Associates on payment of Rs. **3/-** only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the **Secretary**. Forum of Free Enterprise, 235, Dr. Dadabhai **Naoroji** Road, Post Box No. 48-A, **Bombay-1**.

Published by M. R. **PAI** for the Forum of **Free** Enterprise.
"Sohrab House", 235 Dr. Dadabhai **Naoroji** Road, **Bombay-1**.
ana printed by Michael Andrades at Bombay Chronicle Press.
Syed **Abdullah** Brelvi Road. Fort, Bombay-1.