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ADDRESS BY THE CHIEF GUEST

MR. MINOO MASANI

It is always a pleasure to come to Vallabh Vidyanagar. This is not my first visit and I hope it will not be my last, because something in its very character creates the feeling of achievement, of purpose and of progress. It is a particular pleasure to speak here with Mr. H. M Patel, whom I have always admired from his Civil Service days, as one of the ablest administrators in this country-a man of dynamism and character, who is in the Chair this afternoon. I am also very happy to see here my esteemed friend, Mr. Bhailalbhai Patel, almost-shall-I say-a founder of this place who, apart from being a political colleague of mine, is a person who enjoys esteem and love all over the State of Gujarat. I am also very happy that, from the city of Bombay, a mature and fearless public commentator, Mr. A. D. Gorwala, is here in our midst this afternoon.

I was glad to read of the progress your institution has made during the past year and I would like to congratulate your Principal and all of you on the achievements that you have to your credit,-whether in the field of academic studies, or in that of athletics, or in the development, in these days of considerable value, of the N. C C. I would like to wish you sincerely every success in all these fields in the coming year and, from what I have seen today, I am sure that, under the leadership of Principal Shah, you will achieve it. This is not only a platonic wish for your success, but one that, in to-day's circumstances, is something that anyone of my generation would mean in a deeper sense than usual.

The plight in which our country has found itself during the past few weeks is something of which we of our generation have very little reason to be proud. Our generation has, in a way, let down our country. The fifteen years since Independence, since we lost Gandhiji, have not been used by my generation-which is now in office-in the way they should have been. And, I cannot help feeling that it is the younger people-may not be your selves today, but some people in between ourselves-who will have to take up the burden, who will now have to take the lead. I think this country now looks for New Policies, New Measures and New Men. In that sense the burden that you will have to face in the coming years is going to be a very heavy one. I am very glad to note this afternoon the spirit in which you are already making your contributions *to the defence effort, the token of your* seriousness and your earnestness in this matter. I would like to congratulate all of you who have made your small sacrifices.

Now, I was asked to speak by your Principal this evening on some topic of economic interest, and I must turn away from the burning problems of the day, in which all of us have been absorbed for the last few weeks, to somewhat more academic or theoretical pursuits.

This afternoon the United Nations Day was observed here in this township by means of a discussion on the Development Decade. It shows that the problem of economic developments is perhaps attracting a great deal of attention these days. I feel I cannot do better than perhaps discuss with you certain aspects of the problem of economic development. I would define my topic as "*The Incentives to Economic Development and the effect on them of Government Policies.*" I think this is a theme in which all students of commerce and economic should have some interest and one which might perhaps be of some interest to you. Now, economic development, as your college professors must have told you, is the effort to increase the sum total of goods and services produced in a country. When more goods and services are produced, the national

income goes up, and it is *said that the country has made* a step forward in economic growth and development. People now measure, in percentages, the rate of growth made by one country or another. Thus, we are told that Japan last year made a phenomenal growth of 20 percent, when our own rate of growth unfortunately in India was *in the nature of 3 percent or so. This is how a new kind* of race has been developing between the countries of the world.

Something that is not always appreciated, however, is that economic development or growth is not an end in itself. Creating more goods is not the objective. It is only a means to an end. I think, you will agree that the end of all material pursuits is to make people happier. The sum total of human happiness, of human welfare, has to be increased. If that happens, then in human terms economic development has justified itself. There are, of course, some countries which are not free, where the people are subjected to dictatorship, where economic development is used not for making people happy but for creating a powerful war machine with which these countries can overrun neighbouring territories and subjugate them for building their own empires. This we have seen happening in the loss of liberty of the Eastern European countries and on *our own frontiers in the destruction of* the liberties of Tibet, and we see this happening in the threat that is posed to our own survival at this very moment.

By and large, our own people pursue the objective of economic growth in order to give our people a happier life. Now, how is this to be done? It is obvious that hard work, intelligence, initiative, enterprise, the readiness to take risks with one's capital—these are the qualities that make a nation great economically. I am not here to preach to you the practice of these virtues, but I would like to discuss with you, as one student of economics would with others, how these qualities could be evoked, how these qualities could be encouraged among our people, and particularly our younger people. How shall we make our people more hard working? How shall we make them more enterprising? How shall we make them more advanturous? These are the questions I want to consider and try to answer for you.

I think you will all agree that we are not among the hardest working people in the world. Some five or six years ago, the West German Government where—as you know—a regular "economic miracle" has occurred, had to issue a communique. It was a most unusual communique. It warned the people, the businessmen and the workers against what was described as 'work fury'. It said to German managements and to the German workers that working too hard was bad for their health, that it would strain the nerves of the people and that, therefore, every one was advised to work a little less hard. I am sure you will agree that no Indian Government in the near future will have the occasion to issue any such communique! So, the question is how to make our people feel like working harder. How do you make them feel like taking more risks, setting up new workshops, setting up new business, taking risks with their lives, and not just becoming clerks? That is the question I would like to pose to you.

Now, there are many factors that go towards creating these qualities which we admire in others—hardwork, enterprise, and so on. I would like to list to you a few of those institutional factors that help people to develop the right qualities and the right approach. Human beings, such as they are, may not change in another 50 or 100 years. When I say that, I am not running down human beings. I am only facing the realities of human nature. Human nature is a mixture of good and evil, altruism and selfishness. None of us are all good and none of us are all bad. We are all a mixture, in different proportions, of

certain good and bad qualities. If you ask me: "What makes people work? What people tick?" I would say that man, being an economic animal, is moved partly by love of others, by attruism and patriotism, and partly by selfishness and self-interest. Motives are very often mixed. Nobody works only for love, and I would not like to think that anyone works only for money. But certainly there is a mixture of desire to serve and a desire to improve one's own lot. To expect people to behave like angels in the near future is not realistic, it is not a part of the science of economics. Human nature, therefore, will remain what it is—largely selfish, partly altruistic and noble. That being the case, what are the things in society that will bring the best out of the people?

I think you will agree that the Rule of Law, the fact that we are all secure in our lives and our own homes, is a very important factor. People are frightened if they feel insecure. Then they don't work, and they don't give of their best. During the last few weeks, Mr. Chairman, there are some sections of business who, I am told, have been so demoralised by the threat of this Chinese invasion, which is at least 1500 miles away, that they have already stopped operating and doing the right thing in producing more goods and services. Now, that shows how much people depend on security, on stability, on protection by law and order from the forces of violence.

The second thing that is requird in society to encourage people to produce more is a stable currency. I think you will agree that the value of our money must be stable. If we are going to give of our best, to save some money, we want to know that money will not lose its value in the next few months or years, that the money in our pocket will retain its value, however long we keep it. Money has been defined as the link between the past, the present and the future, because, if you have saved something yesterday and put it in a bank to-day, you would be able to draw on it tomorrow or the day after. You want to know that if you put one rupee into a bank you will get one rupee back, and if you put a thousand rupees in the bank, you would get that thousand rupees plus a little interest. You wouldn't want to feel that your thousand rupees would become three hundred rupees in the next ten years. Now, unfortunately this is exactly what happens in practice in many parts of the world, and it has been happening a great deal in ours. Money has been losing its value—or, to put it another way, the prices of commodities like food or clothing or shelter have been going up. This process is called inflation. Inflation is the deterioration in the quality or the value of money in one's pocket and the rising of the prices of other commodities. Now, this happens because of many causes It can be due to Government policy, or to other things, but there is no doubt that this process of inflation, which has been proceeding in India at a very high rate in the last five or six years, is an anti-social and an anti-socialist process. It is anti-social because it creates uncertainty and people do not know whether their money will retain its value; and, therefore, they are not prepared to save, they are not prepared to invest. It is anti-socialist, because it hits the poor more than it hits the rich. It hits the class with fixed incomes much more than it hits the businessmen who make profits. It is a bad thing. No government worth its name should tolerate a depreciation in the value of money from year to year, much less encourage it.

In Parliament, Acharya Kripalani referred to this process of infliation, which governmental policies have been setting in motion in our country, as "pick-pocketing". I would like to think of it as counterfeiting currency. If you and I manufacture a ten rupee note and then put it in the hands of some shopkeeper, we would be sent to the jail for several years for putting into circulation a worthless piece of paper pretending to be worth ten rupees. But, in a country where there is inflation, the Government

does exactly this. It puts into the hands of the people a piece of paper which is marked a one-rupee note, though it is worth probably only two and half annas. However, because the government has the authority, it is not sent to the jail for committing the same offence. Now, this is an anti-social practice which impedes economic development or growth, because nobody will produce or save or invest.

Take the example of an insurance policy. Every wise citizen, every father of a good family, would like to invest some money in insurance for the protection of his dear ones. But what happens to insurance policies today? I got a few thousand rupees back the other day in respect of a policy which matured after 25 years of my paying the premium. I have been paying an annual premium for the last 25 years and I got Rs. 5,000 back. But when I worked out how much I had put into this policy in terms of rupees of that time and how much I got back in terms of the rupee of today, I felt that I made a complete fool of myself! I got two thousand rupees worth back in terms of the rupee as it was 25 years back for a sum of Rs. 5,000 which had been invested by me. I could have done much better either by saving the money or by blowing it up when it came to me. Here I had invested Rs. 5,000 and after 25 years I got Rs. 2,000 back. Why? Because the value of money has gone down from 100 nP. in 1939 to 20.6 nP. which is the real value of a rupee today. In other words, the one-rupee note in your pocket is worth 20.6 nP. in terms of the 1939 rupee.

There is another bad effect of inflation, and this is that it does not permit us to export substantially There is a great row about the desirability of exporting Now, how do we export? We export at a certain price. If the price of your goods is competitive, i e. if our goods sell in the world market at a price that compares favourably with that of goods coming from other countries, then we can export. But if our price is higher than the world price, then we cannot export however hard we may try. A very able son of Gujarat, Mr. Manubhai Shah, has been given the exclusive charge of trying to foster India's exports. I wish him luck But his being an able person is not going to change the laws of economics.

Owing to inflation caused by governmental policies, we suffer in this country from what we call a high cost structure. All our prices are high. Our motor cars cost more here than motor cars cost outside. Our sugar costs more here than sugar outside. Our penicillin here costs four or five times the price at which it can be imported from elsewhere. Now, because of inflation, because the value of the rupee is low, prices are high. Our cost-structure is so high that, at the prevailing rates of exchange between the rupees and the pound or the dollar or any other hard currency, we simply cannot put our goods on the world market. Somebody may say: "But we can give a subsidy." In other words, we can dump our goods below cost in other countries. But you know, other people are not prepared to take in our washing unless we are prepared to take in their washing! International trade is a two-way traffic. As soon as other governments find that our government is subsidising exports by taxing all of us and giving the foreigner the same article cheaper than it is available here, they will put a barrier to stop our dumping. So, dumping is not a self-respecting and honest way of trying to carry on intertional trade. The honest way of carrying on international trade is to keep our cost of production down, to produce a good article at a cheap cost and then put it on the world market in free competition with other goods. But we connot do this if the value of our currency is not stable.

Another factor that makes for progress economically is security of property. Property is the result of saving. When you save a little money, you can either put it into

a bank or buy a share, buy a piece of land, or buy something else In other words, saving is converted into something else which we call property. Some property is used for enjoyment for our own personal needs, other pro perty for productive purposes. Now, what are these productive means? You may buy a house, you may buy a farm or buy a share in a company. From these things you may get a continuing income, like rent from your house, interest, or profits, i. e., the dividends on yo r shares. Naturally, the laws of the country regulate the conditions under which we enjoy our property. But if these regulations are harsh or oppressive, if they take away our property without giving us full compensation, then people don't save; they consume. Why should I save my money if I know it will be taken away? I will blow it up by going to a cinem show or going to a coffee house or buying a new bush-shirt or whatever else I may I want. Therefore, if we want people to save, if we want people to invest, if we want people to produce, we have to assure them that their property is safe, that their property will not be touched without full, 100 per cent compensation.

Now, this is very important. Many countries, which started with some prejudices against private property, which started with the desire to nationalise everyone's property, have gradu lly come round to understand that without the sense of property you cannot expect economic prosperity. If you read the manifesto of the German Social Democratic Party or the British Labour Party, you will find that they have now discarded the idea of nationalising property or industry as an outdated one. It is a 19th century idea—taking away people's property and Government trying to produce They have now come to realise that control is quite enough We don't take away the factory or land. Let it produce, but you regulate the profit on it. Take the case even of Mr. Khruschev, whose dogma is that there should be no private property in

Russia. You know he went to America a year or two ago. He was taken round the country, and he visited the homes of many industrial workers. After visiting some workers' homes, Mr. K. told the press: "The life of a capitalist slave is not so bad after all!" In other words, he was very impressed by the prosperity of the home of an American worker, who has at least one car—if not two—a refrigerator, a radio set, a television set and a very nice home. So, in Russia they are trying in a hesitant, underhand way to restore the instinct of private property, to make it possible for people to be tempted to work hard and to save by giving rewards to private property.

If you don't have private property, the same acquisitive instinct in human nature is expressed in a more *violent and crude* manner. Lord Keynes was a very progressive economist. He has been the intellectual father of many people who call themselves leftists and progressive. But Lord Keynes understood the value of property and he saw the danger that, when private property was abolished, people would become more cruel, more dictatorial and more dominant. And so Lord Keynes once said: "It is much better to let a man tyrannise over his bank balance than over his fellowmen." It is a very interesting thought. Where there is a private property, you sign cheques when you want to; and when you don't have private property, you have Mao Tse-tung and Chou En-lai!

From private property follow the rewards of property. While the rewards of saving-profits-must be guaranteed to people, they must not be without honour. Profits must be regarded as an honourable thing. It must be respected.

Now, what is profit? Profit is the difference between input and output. Within the process of production, you use a hundred rupees and with the hundred rupees you produce goods or services worth 125 rupees, let us say. Then the profit is Rs. 25. Now, this profit represents the margin of efficiency. The more efficient you are, the bigger

is the profit in competitive conditions. Where there is free competition in the market, the higher the profit, the higher is the efficiency of the producer; the lower the profit or greater the loss, the more is the incompetence of the man who produces. Therefore, profit is a thing of honour, loss is a thing of shame. There is no virtue in making a loss or in making a small profit. Everyone should try to make the highest profit possible provided, as I said, it is made honestly, it is not made by exploiting the workers or the community, and provided also there is competition. Profit under monopoly represents the fact of monopoly. The Indian Railways have a monopoly. The IAC has a monopoly. The LIC has a monopoly. These monopolies can exploit us because no competition is allowed by ' the *socialist pattern of society*." By reason of that monopoly, they are exploiting the passengers or the consumers or the insurers. But, where there is competition, where several insurance companies compete in the fields of insurance, several banks compete in the field of banking, several textile mills or steel works compete, even with Government steel works, there is no monopoly. In the case of the Indian steel industry, there are two private enterprises and four state enterprises. They all compete. There is no monopoly. That is a good thing. Under such competitive conditions, profit is a thing that should be regarded as honourable, something for which people should be thanked, should be respected and not warned or threatened.

Profit is a yardstick of efficiency. Even communist countries have come round to seeing this. I was in Yugoslavia in 1955. When I talked to Yugoslav Communists who are still communists, they said: "We believe in the profit motive." And, I asked them: "What happens if a shoe factory makes a loss?" They said: "Well, they must be shut down because there are incompetent managers and incompetent workers. They must be unemployed until they find another job." This was called *laisses faire* in the 19th century. To day, in Yugoslavia it is called the 20th century communism. In other words, after experiments with irrational methods, even communists come back to the laws of economics, of free competition. Khruschev, who is in many ways a realist—we saw how he backed out in Cuba when faced with superior force—said: "If Communism is proclaimed where there is, say, one pair of pants per ten persons, and these pants are divided equally into ten parts, we shall all be going without pants. We reject such pants-less Communism."

The need for incentives is greater in countries that are underdeveloped, that have limited resources, that have to face numerous difficulties on the path of economic progress. Prof. Galbraith writes in the Affluent Society: "To give people income and then remove it by taxation, inflation or appeals to thrifts is an inefficient and self-limiting procedure...In poor and ill-governed societies, private goods mean comfort and life itself. Food, clothing and shelter, all technically subject to private purchase and sale, have an urgency greater then any public service with the possible exception of the provision of law and order. The burden of proof is on any step that diverts resources from the satisfaction of these simple biological requirements to the almost invariably spendthrift services of the State".

There is one fact which stands out in a mile—there are too many people and too little capital and land. This is what we call our population problem—that there are too many people in India, that there' is not enough land for them, and that certainly there is not enough capital. This imbalance is aggravated every year by the fact that we go on breeding at an altogether impovident and reckless rate. That is why our government has now awakened to the need for measures of population control.

Now, what are we to do about this lack of balance between man and capital, or man and land? The answer

is obvious. We can't increase our land because the land of the country is limited by the ocean around it and by the Himalayas in the North. How then do we rectify this imbalance? The imbalance can only be rectified by bringing more capital into the country. We haven't got capital here. We have got to bring in capital in large doses. You remember Lord Cannings' statement: "Let us bring in the new world to redress the balance of the old". This can be applied in our own context. We have got to bring in capital from the more advanced countries of the West so that the imbalance between our teeming millions on the one side and very small stock of capital on the other is somewhat redressed.

There are two ways of getting capital into this country. One way is for our Government to borrow money from other Governments. That is what our Government is doing at present. It is borrowing money in a large way from American, the British and the other Governments, from the West German Government, from the World Bank, and so on. The Government borrows the money and decides what to do with it. Quite often it invests it in enterprises that are good: at other times it invests it in enter prises that are wasteful and which make losses. Now, to the extent that it makes loss or doesn't make a profit, that money is wasted, it is frittered away. That is terrible because we have to repay that capital. These are loans and we have to repay them along with interest and service charges. It has been computed that the loans that the Gavernment has already taken from abroad have mortgaged our country to a large extent for the coming ten or fifteen years. So, foreign loans taken beyond a certain measure and not utilised to the maximum extent possible effectively for obtaining the highest return become a liabilty to the country.

There is another way of bringing money into the country. That is by inviting people with capital to come in and invest their capital themselves, to say: "Come along, here is land in Anand, come and put up a factory with your machinery, produce something for our people, train our labour. If you make a profit, you may take it out of the country. If you make a loss, it is too bad, you have lost your money, you can go home empty-handed." Now, foreign industrialists and business people are prepared to come to our country, and to many other countries like Brazil or Ghana or Indonesia or Ceylon, provided there is a climate where they can thrive.

What do they want? They want the possibility of making adequate profit, not, by our socialist standards, but by their world standards If they can make 12% in Brazil, they are not going to come here to make a profit of 6% because our Government consider anything more than 6% to be immoral. We have got to revise our ideas as to what is legitimate profit So the first thing that foreign capital requires is the possibility of making a reasonable profit in terms of world conditions. The second thing it requires is a gurantee that the investments will not be nationalised, liquidated or expropriated. where it does not have these two assurances foreign capital is shy in coming as it is coming to India. It has come in slightly larger measure in the last two years, but it can come in ten your twenty times as fast if our governmental policies were not stopping foreign capital from coming in by holding out all types of threats, all kinds of restrictions as to what royalties are legitimate, what profit are legitimate, and so on.

So we can either take money on loan—Government to Government—in which cash it comes at our risk. But if a foreign industrialist comes and makes a bad bargain, he takes the loss, we have no loss at all. Therefore, we hold the view-some of us—that that the right kind of foreign capital to bring into India is what is called equity capital—investment capital brought in by its owners with no

obligation on us to give anything back except the profits they themselves may make. That money comes in at the risk of the foreigner. To-day the loans we take—our Government takes—come in at our risk. It is much better to take money at other people's risk than at our own risk. That is why many of us feel that the present heavy loans we are taking from foreign Governments are very unwise and undesirable, that more money can be obtained by private capital being attracted to India by offers of security and high profits.

That brings me to the role of Government. In the process of economic development, what should be the role or part to be played by the Government? There are many points of view on this subject. Divergent views are held. In totalitarian countries, as you know, the Government tries to produce everything. Through collective farms, it tries to produce food and fails to do so. Through State factories it tries to produce cloth, and shoes, and clothes, and so on. There is another view that the Government is not there to produce, that the proper business of Government is government and not business, that the Government is like an umpire or a referee.

You gentlemen have won a hockey match recently. You know what the role of a referee is. The referee or the umpire is there in a hockey match to blow the whistle and to say 'off-side,' or 'foul' or, in a cricket match, to hold up his hand and say 'bowled out', or to say 'leg before wicket', or whatever it is. The role of the umpire or the referee is not to play the game. If your referee in a hockey match starts hitting the little ball himself, he would be called a lunatic. If a referee in a boxing match knocks out one of the boxers, he would be beaten up by all the boxers combined. But, unfortunately, the Government, which should be a referee or an umpire, is now-a-days inclined, under bad leadership, to join in the game. Instead of trying to see that things are produced under fair competition, with no exploitation of labour, with a clean product given to the public, no profiteering, the Government itself tries to compete in producing goods, and makes a very poor job of it. Our Finance Minister, Mr. Morarji Desai, at the time of the last Budget, announced in the Lok Sabha that the average rate or return on all State enterprises in India put together had fallen, during the past year, from 0·5% to 0·3%. And then he very proudly announced that next year they are going to do much better; they hoped to raise it to 0·4%. Now, I do not think any one of you would be foolish enough to waste your money in any enterprise—State or private—that offered you half a per cent of return on your money at the end of a year? But this is how public money is being wasted in State enterprises in India to-day, because Governments are not made to produce. Governments are there to observe law and order and, as the phrase goes, to "hold the ring," to see that the game is played according to the rules, to see that there is no foul play and to stop anti-social practices. That is why Prof. Erhard—the great worker of the miracle in West Germany, who will probably be the Chancellor of West Germany next year-has written: "People are like foot-ball players, eleven on each side, playing the game to the best of their ability, competing with each other according to rules already fixed. The umpire watches the game very carefully to see that it is played according to the rules, but the umpire does not himself start playing football."

Now, there are certain things which the Government has to do. They are called by two names which are self-inconsistent. Some economists say that these things are in the nature of infra-structure i.e. the foundation below the structure of industrialisation, while others call them overheads. Now, whether they are below the structure or over it, they are the essential services without which a country cannot advance economically. What are the infra-structures

or the overheads? They are transport, communication, water, fuel and power, and technical education. These are services without which no country can make rapid economic or industrial advance. And, obviously, the community or the Government, through taxation that it levies on the people, has the obligation of providing roads and other forms of communications and transport, water to the agriculturist, fuel and electric power, and technical education for the young people. There should be ample room for the Government enterprise in supplying these services. We know that in a country like ours, Government has failed to a large extent to supply this infra-structure. We know how backward our communications are, how backward our irrigation is, how only to-day electric power is coming up, and how awful is the state of our technical education. Until the Government of a country—of a developing country—has performed this task fully and to the satisfaction of the people, the question of producing steel or penicillin should not even arise. It all shows a terribly wrong order of priorities from which our country is suffering to-day.

Now, I am not against Government taking a hand in the economic process. In fact, as far back as in 1947, in the course of the Silver Jubilee Lecture of the Bombay University School of Economics and Sociology, I had given a talk under the title "A Plea for the Mixed Economy"—in 1947, please note—before India became independent. There I had argued that when we became independent, we should live under a Mixed Economy of State and free enterprise working side by side on equal and autonomous terms. Even to day, I believe that, if there is a product which is necessary for the national welfare and which private enterprise cannot produce or will not produce for some reason, then the Government has every right to go in and produce that commodity. But on one condition. Government should not establish a monopoly in any field of enterprise. Government should be prepared, like any other producer, to compete with other producers on equal terms There should be no wagon-priority for Government enterprises, while you are waiting for a wagon. *There should be no discriminatory rates of tax.* If Government wants to become an industrialist, let it become one more industrialist like any one else, but let it not talk like a policeman turned factory-owner, which is what our Government is inclined to do, because the police power is in their hands.

See what has happened in the insurance business. Insurance was nationalised and the Life Insurance Corporation come into existence. If to-morrow you try to insure somebody's life, you will be locked up, because you are *violating a Government monopoly!* Now, this is wrong. If Government wants to insure your life or mine, they are welcome to try, but they must also allow other people the liberty to try to insure your life or mine. Let there be competition in all these fields, but no monopoly, because monopoly-be it public or private-is bad and State monopoly is the worst monopoly of all, because the monopolist *is the policeman and the judge all rolled into one. Against* a private monopoly you can appeal to the Government. In America, for instance, wherever there is a monopoly established, the Government moves in under the anti-Monopoly or anti-Trust laws and, as you know, the biggest oil companies and automobile companies, are brought to books if they try to establish a monopoly. But when the Government *tries to practise a monopoly, there is no appeal and,* therefore, any monopoly-whether private or public-is bad, but State monopoly is the worst of the lot.

That brings us to the question of Planning. It is a very big question. People seem to think that you can answer the question 'Are you for or against planning?' by a 'yes' or a 'no.' It is like asking a man in court: "Have you stopped beating your wife?" If you answer

'yes' it means you once used to beat her. If you say 'no' it means you still beat her! "Are you for planning or against planning?" is the question that is put to me at many places. Well, it all depends: What kind of planning?

Planning has been going on since the days of Methuselah! Planning has been going on since Adam and Eve. There is nothing new about planning. Every little farmer does *his planning.* Every shop-keeper does *his planning.* Every colleges Principal has to do a great deal of planning. Mr. H. M. Patel, who is the head of a bigger enterprise, has to do a lot of planning all the time. So planning is not a modern economic process invented in Moscow. Planning is something that has been going on through the ages. The question is what kind of planning?

What is new about the Moscow pattern of planning is that they have abolished competition, they have abolished the preference of the consumer, they have abolished the free market and they have established what is called a "command economy", an economy where the National Planning Commission—which in Moscow is called Gosplan—decides what shall be produced, what shall not be produced and *at what price it shall be sold. In other words, a* gigantic Monopoly State Capitalism led by the National Planning Commission is the Moscow pattern of planning. Now, many people in India seem to think that this is the only kind of planning and they try to copy it to the great disservice of the country.

But there are many other types of planning. In France, for instance, there is what is known as Monnet *Plan*, named after Monsieur Monnet, the originator of the Plan a few years ago. Now, Monnet Planning does not lay down any law. There is no National Planning Commission. The Government has no right to tell a man: "You will produce this or you will not get a licence to produce that". Produce exactly what you like; the Government presents *before you valuable information, which shows where the* likely markets are, what the curve of public demand is likely to be in the next ten or fifteen years. If you are an intelligent businessman in France, you go and study all the documentation of the planning organisation and, after looking at it and reading it, you decide exactly what you want to do for yourself. Do what you would wish to. If you decide to go by the advice, given, you are welcome; if you decide to disregard the advice, you may do so. It is not so in India. In India, under the Regulation and the Control of Industries Act, you cannot establish even a small factory in India without getting a licence from Government. And Government will not give a licence if the Planning Commission has decided, in its omniscience, that such and such a thing should not be produced in India but that such and such a thing should be produced. So, our pattern of planning is the Moscow pattern of planning. There are more intelligent and more flexible types of planning like the Monnet Planning of France, the planning of Holland. In England, to-day, they are experimenting with a new kind of planning, the National Economic Development Council, called "Neddy". The British always like to give pet names to their institutions. Neddy has now come into existence The National Economic Development Council is again an advisory body like the Monnet Planning in France. It has no power. It has no statutory position. It is not made up of Cabinet Ministers as is the case with our National Planning Commission. It is made up mostly of business people and trade-unionists, with only two ministers out of about 20. All the rest are nonofficials. It is a purely advisory body to guide industry and labour about what the country may require in fifteen years and what it may not require, but nobody is bound to take the advice of Neddy as is the case with our National Planning Commission.

One last word, and I have done. That is about taxation, not a very popular subject. With the coming Budget, which Mr. Morarji Desai is to introduce, it will be even less

popular by the time February comes around. Taxation is the instrument through which a free government in a free society regulates economic growth. In a free country, by levying a higher tax or by reducing a tax, government tries to influence the pattern of production. It is considered, in the 20th century, a perfectly legitimate form of governmental influence on economic policy.

The Committee on Economic Development in America, which is a very high-level advisory body, has laid down the principles of sound taxation. I shall read just one sentence from that. It is very well-put. "How high should taxes be?" is a question it is trying to answer. And the answer is: "Taxes must be high enough to cover the expenses of Government over the years, but not so high as to repress growth, or to inhibit risk-taking and individual initiative, high enough to create a surplus in prosperous times, that provides funds for private investment through retirement of government debt, and helps restrain inflation, but not so high as to prevent the attainment of high employment."

Prof. Parkinson, the author of Parkinson's Law, in his second law which is enunciated in his book "The Law and the Profits," takes the view that taxation that is above 25 or 30 or 25% is excessive. I will read a passage from his interesting book: "With peace time taxation amounting to cover 10% of the National Income, capital will begin to migrate. If its flight is prevented, whether by circumstances, or by legislation, taxes can rise to 20%, but against a stiffending opposition which takes the form of tax-avoidance and evasion carried to the utmost lengths of determination and skill. Above 20%, each tax increase will produce proportionately less. Above 25% there is severe inflation, reducing the value of the revenue collected. Above 30% the decline in national influence, observable long before to the expert, becomes obvious to the world at large. At 35% there is a visible decline in freedom and stability. At 36%

there is a disaster, complete and final, though not always immediate. Taxation beyond that point, feasible and perhaps necessary in time of war, is lethal in time of peace. Of the taxation precipice, 36% represents the break."

Now, as you know, in India direct taxation has gone well beyond 36%. In Parliament, two years ago, I tried to suggest a ceiling of 80% to Mr. Morarji Desai. And, Mr. Morarji Desai said, he saw no reason why it should not go even over a hundred per cent. So, there are people in India to-day—I happen to know one or two, fortunate or unfortunate people—who pay every year a tax more than their total income during the year! In other words, they give to Government their entire earnings during the year plus a part of their capital. Thus, according to Prof. Parkinson, the taxation which we have in India to-day is lethal.

There are people who think that high taxation is form of social justice. If I may say so, that is rather a meaningless thought, because most taxation always falls on the poor. Whatever the form of taxation, even if the rich appear to be paying it, take it from me, in the end, the burden of taxation is borne by the common people, by the poor people throughout the country, because the rich man always passes it on to the poor, through the price or the rent. That is why one of our best economists in India, who belongs to your own State, Prof. Shenoy, recently said quite correctly: "The choice is between less taxation and more social justice on the one hand and, on the other hand more taxation and less social justice. We cannot have more taxation and more social justice at the same time" It is a great truth, which I commed to you.

I have noted that your Principal comes from the same College as myself — the London School of Economics. — I am reminded by that of the motto of our School, which might be of some interest to you. The motto of the London School of Economics is "*Rerum Cognoscere Causas.*" It

means in Latin — to know the cause of things, to find out the nature of things; in other words, intellectual curiosity, to find out what makes a thing or person tick. Probing into things — fearlessly and relentlessly. I would like to commend that motto, Mr. Principal, to you, your staff and your students, because I do believe that, if the man is a true economist, he must be a person with curiosity, he must always like to find out and seek, and not be content with an easy answer.