

IMPACT OF DEMOCRACY ON INDUSTRIAL EFFICIENCY & PROGRESS

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NOT long ago I was asked to go and talk on a somewhat original subject about which I had never spoken or written before, and that was the impact of Democracy on Industrial productivity in India. I was glad to accept the challenge because it enables me to share with the readers of the Swarajya Annual Number some tentative thoughts on the subject.

First of all, what is productivity? Let us distinguish it from production. One's production can go up, it can go down. But if the production goes up and the inputs of capital, material and men also go up, then the productivity may remain the same. Higher productivity is an increase in output with the same inputs, or a steady output with diminished inputs of capital, resources and labour. So, productivity is something much more qualitatively important and higher than mere increased production. Productivity merely means more efficient production. And the yardstick of productivity normally is profit.

Political Democracy and Industrial Efficiency

Is there any historical co-relation between democracy as a political system and industrial efficiency, growth, expansion and productivity? And if so, what is the co-relation?

Karl Marx, who wrote in the last century and who was proved wrong on many things, probably was not quite wrong in this particular respect. He described political democracy in the West as a result of what he described as the "bourgeois democratic

revolution", which is part of Communist jargon, intended to facilitate the industrial revolution and make industrialisation possible. At that time, there was a feudal system based on rural relationships and, according to Marx and the Marxists, the industrial forces, the capitalist forces, smashed the feudal system and democracy emerged to create the political foundations on which the industrial structure could be reared. So, according to Marx, there is a co-relation. Political democracy facilitates the industrial revolution.

Now, to a large extent, that was correct. Liberal democracy assures minimum government, contract taking the place of status. The feudal society is based on status—people are tied to farms and jobs. A contract between two people on the basis of contractual obligations is an essential part of business. Even collective bargaining is a contract. So contract taking the place of status is part of the industrial society. Then the laying of an infra-structure of transport and communications; technical and general education, providing trained manpower; the Rule of Law which ensures security for property, including patent rights; reasonable taxation, not arbitrary exactions by a monarch; and finally a stable currency. This is the infra-structure—the foundation—that democracy should provide on which the industrial structure can be raised.

Finally, free men produce much more productively than slaves, whether it is the pyramids built by the Egyptians in the ancient days, or Stalin's canals across Russia constructed by slave labour or the collective farms of the Soviet

Union. These also produce, but they produce at a tremendous waste of human lives and at the cost of human misery. Human beings are used as scrap and thrown aside. Millions of people have died in creating the pyramids and the canals of the Soviet Union. That is not productive labour. Free men can produce much more efficiently than slaves.

Examples of Japan and Taiwan

On the other hand, having established a so-called co-relation, one finds that there are quite a lot of exceptions to it also. Sometimes, industrial productivity and growth have taken place under authoritarian conditions also. In the past, there was imperial Japan, pre-War Japan, which was not democratic, which was authoritarian and yet, even before World War II, Japan had emerged as one of the leading industrial Powers of the world. In the last twenty years, it has made even more phenomenal progress under democratic conditions after World War II. So, in Japan, both authoritarian regimes and democracy have given good results.

In our own day, there are several countries without democracy where economic and industrial growth has been quite phenomenal—many of them in Asia. One is Taiwan. I have been there. Taiwan is one of the most advanced and productive countries of the world. Agricultural productivity is the highest in the Republic of China under President Chiang Kai-Shek. Japan only comes second. The highest crop of grain per acre is produced in Taiwan, the Republic of China. One of the lowest crops of grain per acre is produced in Communist China. Then, there is South Korea which has made tremendous economic progress in the last twenty years without very much of political democracy. Then, there is Iran, under the Shah, going through its "white revolution"—purely autocratic, one man rule, but going places while we are stagnant. And, finally, Brazil, which was in a shambles when I was there as Ambassador in 1948-49 under a democratic government, with inflation several hundred per cent per year. The

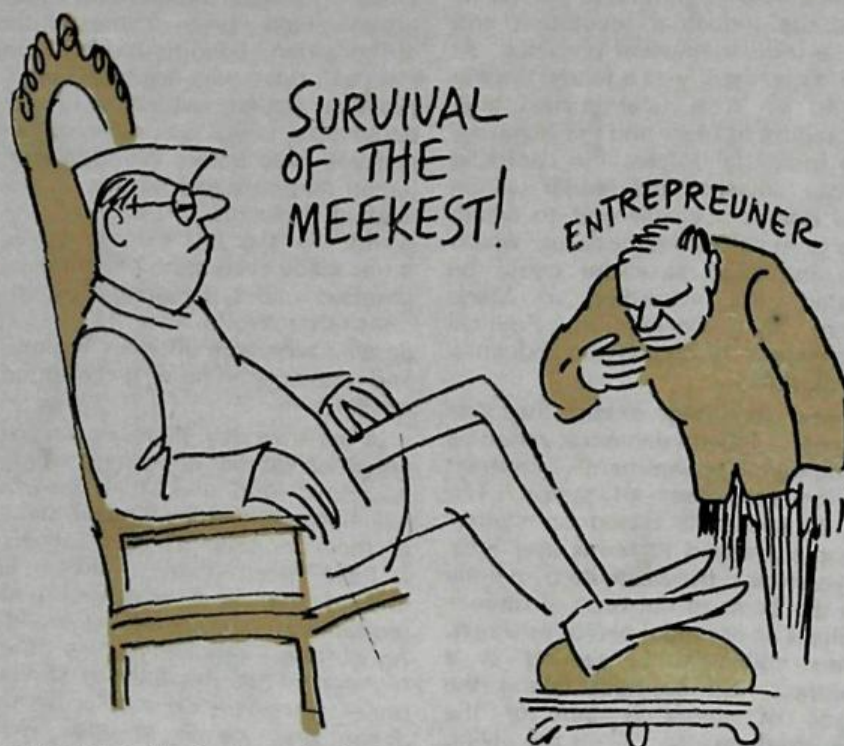
cruseiro was wothless. Today, inflation has been curbed and, under military rule for six years, Brazil has now the highest rate of growth, next only to Japan, in the whole world.

The strong factor of Personality cult in India

Now, this is a very confusing picture. It shows that industrial productivity can advance both in democratic conditions and in undemocratic ones. So all we can say is that certain conditions have to be created and, if these are created, whether under democracy

adopted democratic forms from the West, many of our attitudes have remained feudal. The attitude of many Ministers of Government, whether at the Centre or in the States, has remained an old world, feudal attitude. It is true that, as far as we know, only one of them has expected people to touch his feet. But touching the feet in a metaphorical sense has been expected by most Ministers at the Centre or in the States. The style was different, but the essence was there. The cult of personality, of one great person laying down the law and almost everyone, with a few awkward exceptions like

ted to thrive in the world of business under this autocrat. The relationship between this very astute and clever Jewish businessman on the one side and the rather stupid but oppressive Christian prince on the other is a fascinating character study, of how the businessman in a servile kind of way managed to get along and survive the King's wrath and get the King to give him licences and permits and monopolies so that he could thrive. I quite frankly feel that the way in which some of our businessmen operate, particularly in the north of India, is somewhat reminiscent of the style of Jew Suss. The controlled economy of today, which calls itself socialist, is nothing but an old, feudal kind of relationship between government and business.



or under authoritarian rule, industrial productivity seems to thrive.

Let us now turn to our own country to try and apply these general principles. We certainly have a democratic Constitution which was enacted by the Constituent Assembly of India in 1950. I happened to be a member and we thought we had framed a liberal democratic constitution which would advance the industrial and economic growth of this country. Unfortunately, two developments have taken place which we were not able to foresee, when, in our idealism and enthusiasm, we framed that Constitution. One was that, while we

myself or my friend Jayaprakash in dissent, hailing the leader's every act, whatever it may be, from time to time, this cult of personality is a very strong factor in India. That is not part of a liberal democratic tradition.

In fact, thinking of this subject, I am reminded of reading many years ago a novel called "Jew Suss". It is an old book by a writer called Furtwangler. It is a book about the middle ages—about a Jewish businessman of the Renaissance period several centuries back in a German principality. There was an autocratic, tyrannical prince, and there was this Jew Suss—the businessman—who wan-

Statist Way of life—British legacy

The other complication was the Statist way of life that came to us from two distinct sources. One was the British imperial rule in India which was described by us—I used to be a rebel at that time—as the "ma bap sarkar". The British, we nationalists felt, were trying to be paternalistic towards us, saying we were backward people, to be looked after, and in their own way, they did a lot for India while ruling it. But we were very angry and we called it a "ma bap sarkar". Now, it is very interesting that when the Congress Party, of which I was then a member, took over from the British, our Government more or less took over the "ma bap" mentality. If we study the economic history of India for the last twenty-four years, we find that the same patronising, paternalistic attitude that the British have shown has been continued up to this very day.

Inspiration from Moscow

The other element from which Statism came was Moscow. Jawaharlal Nehru was a very complex personality. He was a political liberal, but in economic affairs he was a Stalinist. His priorities and planning were taken from Stalin, while his parliamentary democracy was taken from Britain. He tried to reconcile them. As I tried to

tell him, the two were on a collision course and some day one or the other would have to go. His National Planning Commission and the Five-Year Plans were lifted bodily from Moscow. The National Planning Commission is a translation in English of the Soviet term 'Gosplan' which operates under the Soviet dictatorship from Moscow and our plans are carbon copies of the Soviet plans, with heavy industries first, consumer goods next and poor agriculture, our basic industry, last. Even Mao Tse-Tung and Chou En-Lai some time in the early sixties changed their priorities and publicly said: agriculture first, consumer goods industries next, heavy industries last. I remember quoting that to Mr. Nehru in Parliament and saying "Please, if you cannot follow anyone at least follow Mao Tse-Tung and Chou En-Lai!" So, it is this combination of the 'ma bap sarkar' and Communism which is called "socialism" in India which has taken the form of Statism. The terms Statism and State Capitalism are used by many people, among them Marshal Tito, the Yugoslav Communist, who has called the Moscow pattern which we have adopted as reactionary state capitalism, saying it is anti-socialist, anti-Marxist. This combination of political and economic power leads to complete politicisation—it is a horrible word-of all walks of life.

Consider how our trade unions have been emasculated by the interference of politicians. An INTUC union, an HMS union, an AITUC union, all are affiliated to political parties, not genuine trade unions, but labour fronts of political parties. We know how weak they are. The backwardness of the unions all over India, is due to the politicisation of the trade union movement.

We all know how education has been perverted by politicians. Also sports. I saw in the "Statesman" of November 13, 1974, a big news item reporting the Deputy Minister of Education answering a question explaining the poor performance of the Indian cricket team in England. Now, in what country of the world would the Government of the country be held responsible for the performance of its cricketers? But it was consi-

dered seriously; nobody made a joke about it. In all earnestness the question was put and the Deputy Minister of Education read out a long explanation or apologia for the performance of our team. I was not at all sorry therefore when the Amritraj brothers lost their temper, for a day or two, about similar political interference in tennis.

Statism and Productivity

Let us consider in detail what this State Capitalist or Statist pattern has done. Let us see how it affects productivity at every stage. There are many, many ways in which industrial productivity is denied by this pattern of what we call democracy.

First of all, the pattern of investment and priorities are not based on the return on capital or what profit will be made by an enterprise, but by dogma. Once Prime Minister Nehru said in Parliament in a debate with me that consumer goods industries are not industrialisation. The textile industry is not industrialisation, only heavy industries are industrialisation. At which Mr. Colin Clark in his book on "Growthmanship" in a footnote says: "Of the many silly things which Mr. Nehru said, this was probably the silliest". And so it was.

So, in the order of priorities, in the investment of national resources,

of the tax-payers' money, productivity went by the board. Dogma took its place. The result is Inflation, because, when you invest in low return, long gestation industries like the heavy industries, you pump money into the economy, but the goods do not come out for many years. So, during that period, you have inflation. One of the basic causes of inflation in India is the wrong priorities of our Five-Year Plans and the resulting heavy capital consumption. Agriculture is labour-intensive, road-building is very labour-intensive, but of all the industries that are capital intensive, eat up capital and don't employ labour, heavy industry is on top. One would have thought that, with lots of people to employ, India would have gone in for labour-intensive industries. But it is exactly the reverse.

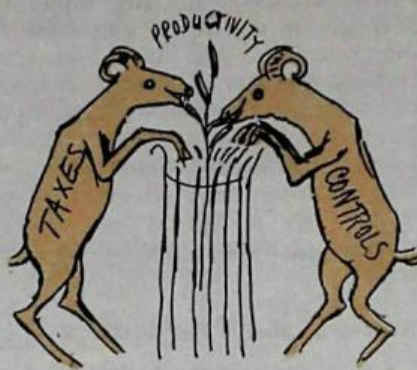
Autarchy based on Economic Nationalism

Another anti-productive element is autarchy based on economic nationalism. Everything must be made wholly in India. A motor car must be wholly made in India. But why? Why can't parts of the motor car be manufactured locally and partly imported? If we can get cheaper cars, if we can develop road transport, if there are thousands of more cars and trucks and buses on the roads, why not? No, we must make the entire car in India!



This is economic nationalism. It violates the laws of economics of the international division of labour. If every country would make what it is best at and exchanges its goods, then all countries would be rich. But if all countries want to make things that they can't make, then all countries would be poor. This autarchy again comes from Moscow. I have been a nationalist. I have been in British prisons more than once, but once we got our freedom, to apply this kind of chauvinism or nationalism in economic affairs, is only to hurt ourselves. It doesn't help anyone. So this is another way in which the inefficient production of things at which we are not very good, like the making of motor cars instead of importing them, has been going on. And we know what kind of cars we get, we know what prices we pay for them!

Then, the location of industries. In other countries people establish an industry, according to whether there is water supply, power, the raw materials they need and skilled labour, and they go to that place where they get the best inputs, so that efficiency is at the highest. Not so in India. In India, when a steel plant or something is to be established, all the States go lobbying to Delhi and say it must be in their State. An industry should be put up where the resources are best available, where the skills are available, not where political units say they feel neglected. So, this



has been going on, the clamouring by States and the government doling out factories, as if it is a kind of mercy or charity which they are doing at our cost. The availability of raw material, power and skills is ignored. Result-low productivity.

Employment should be by merit or skill or qualifications, but not so. A Harijan "Must" be employed: "sons of the soil" must be employed. Now that is all right when it is unskilled labour. But when it goes as far as technicians and personnel officers, I think a line has to be drawn, for productivity is bound to be endangered.

Then the Government itself becomes the employer, starts all kinds of factories for big things and small, hotels, and many kinds of things. This again is not a productive way of functioning. Human civilisation has thrown up different institutions for different purposes. It has thrown up governments to keep the country

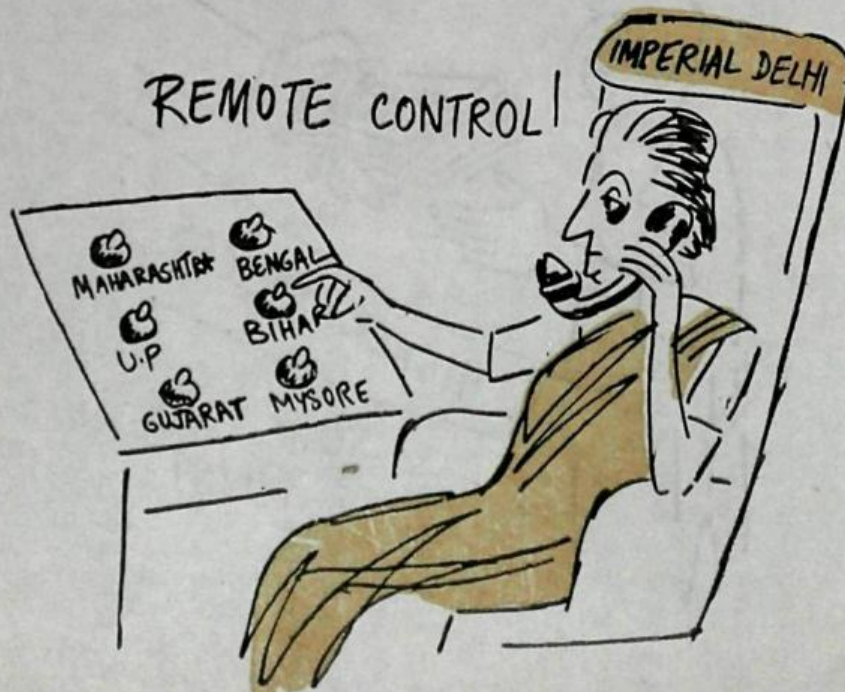
from being invaded by foreign armies, to have law and policemen to protect us and our rights, and give us justice, to build roads, if you like, to provide telephones, telegraphs and posts, transportation, education. These are the legitimate tasks of Government for which humanity has thrown up government. For producing goods, civilisation has thrown up the joint stock company or the corporation, as we know it. Each organism is tailored to the needs for which it is made. Now, if you try to produce goods through Government or give police powers to a corporation, you are going to come a cropper. We forget these elementary truths. Is it any surprise that HSL and HEC have eaten up crores of rupees of the country's money and poured them down the drain? It is not an accident. It is inherent in the situation. Whenever Government tries to run an industry it is bound to come a cropper. If there are exceptions, they are only exceptions that prove the rule.

Djilas, who is a great Communist, has written a book called "The New Class". He was sentenced to ten years' imprisonment by Tito for it, but later forgiven. He says in one sentence why government enterprise cannot succeed. Talking of government management he writes: "Everybody's property is nobody's property". How true he was, not only about Russia, but also about India.

Then, there is the question of controls, permits and licences, which mean patronage. Patronage means corruption. Where a low paid official or poor politician is given the power of life and death over Big Business in industry, is it any surprise that the man with money who wants a licence will bribe the man who has no money to give his rubber stamp? And this is what has been going on under the name of "socialism" for twenty long years. It has created corruption in every walk of life.

Rationale of Smuggling and anti-social activities

Today, there is a campaign to chase smugglers and hoarders. I am highly amused. These hoarders and smugglers and black-marketeers



be the direct consequence of these economic policies. Human nature finds a way to fight unrealistic policies. Where you artificially control prices of commodities below cost, then those goods go into the blackmarket. Only an idiot would sell them at that price and make a loss. Where the price of an article in India is twenty times the price of an article abroad, then the smuggler's margin of profit is big. Who created these anti-social elements? This system of government and the government themselves have created these people and now they are pretending to fight them. If every smuggler and hoarder and black-marketeer in India is wiped out and these policies continue in Delhi, we shall get a new generation of black-marketeers, hoarders and smugglers going on the same activities five years from now. It is these policies that need to be changed.

Now, this is not only so in India, but in Russia. In Russia, these offences are met with the shooting squad. These are capital offences. And yet these things are going on today, after fifty years of Shooting Squads! Please ask anyone who has been to Moscow what happens when he leaves his hotel. As he gets on to the footpath, good Soviet citizens would approach him and say: "Would you like roubles? I can give you twice as many as the bank", exactly as the taxi driver does in Delhi or in Bombay to foreign tourists. Human nature is stronger than these stupid doctrinaire policies. Human nature defeats every system that runs contrary to it. Economics is the science of canalising and harnessing human nature to economic ends, to social ends. You can tax a man, you can control him reasonably, but when you cross human nature and ask him to behave in a non-economic way, he rebels. So, what Shooting Squads in Moscow have not abolished, no amount of MISA is going to abolish.

My friend, Graham Hutton, who writes on economic affairs in the "Times Literary Supplement" puts it very well. He looks at the Government as a dog in the manger. He says it is like the dog who can't lay eggs, but by constantly barking

at the hens, he prevents them from laying eggs also.

There is the appeal to envy. Profit is spat at instead of being honoured in our country. Hence we get excessive taxation which encourages tax evasion. Now, some of us have read Professor Parkinson's book, not written about India, called "The Law and the Profits". There he advances the proposition that any government that taxes income more than 25 per cent is provoking tax evasion. He says any man who is taxed more than 25 per cent starts spending more time on how not to pay the tax than on producing the goods that he is supposed to produce.

And finally, there is the confusion between bigness and monopoly. As a Liberal, I am very much against monopoly. I believe in strong anti-monopoly legislation, as in Germany or America. But our anti-monopoly legislation is pro-monopoly and anti-business. Even those who compete with others are called a monopoly if they are big. By our definition, anything big is a monopoly. A complete distortion of the English language.

Deliberate Opposition to Productivity and Profitability

Then in a very direct way, you get opposition to profitability and to productivity. Measures of modernisation, rationalisation, automation and computerisation—these are all directly measures to increase productivity. Each of them has been opposed as something dangerous, as a disease. The textile industry, for years, was not allowed to have automatic looms because that would allegedly displace labour! And even today, Unions are encouraged to oppose computerisation on the ground that it creates unemployment.

Now, this is nonsense. Employment does not mean unprofitable, uneconomic employment. Employment must mean that a man must be productively employed. Mr. B.K. Nehru has made two very good speeches on this. One was at Jorhat when he was Governor of Assam and the other was about two years ago when he came to Bombay to deliver the Madan Memorial Lecture. In both of these, he has

discussed the nature of employment. He says a man is employed when he produces more than he receives. The output must exceed the input. If he takes in more than he gives, then he is not employed. He said the Government of India thinks that anyone who is ostensibly employed is employed. The logical thing for the Government of India would be to give every citizen of India—man and woman—a hundred rupees as pay and then declare that the unemployment problem has been solved in India! It does not matter what they do or what they produce. All that is required is to give a dole and go on printing currency notes in Nasik, producing more inflation, and then say that unemployment problem has been solved in India. Mr. B. K. Nehru is perfectly right. He says that because of these policies, we are creating more and more unemployed in India and his words are that, with current policies and plans, we are creating 6000 more unemployed men and women every twenty-four hours. His calculation is that there were about 14 million unemployed in 1970, 23 million unemployed more will be created during the 70s, so in 1970, there will be 37 million unemployed—one in seven of the labour force.

Finally, there is a pampering of Labour, higher wages without increased productivity. Now, we know, as friends of labour, that this is fooling the workers. If your wages are increased and the price level goes up correspondingly, you are not getting anything more. You are only creating inflation. But bad leadership and ignorant followers conspire to make this acceptable. It is very clear that higher wages with a higher cost of living are not really higher wages. They are only higher "money" wages. The "real" wages remain the same.

We conclude that Democracy, as such, has no link with productivity, one way or the other. But a certain sound way of life, a certain economic climate, is necessary for increased productivity which you can get through democracy and you can also get without democracy. If a society is a free society, a pluralist society with minimum government, it is good for productivity. If the State interferes too

much, controls excessively, taxes excessively, or becomes the employer itself, then it is bad for productivity.

Thus what is wrong in India is not democracy, but Statism - the politicisation of economic and national life. When this becomes total, you get totalitarian dictatorship. Now it is not an accident that the Constitution that we framed has already been eroded in many respects by those who are practising Statism. There have been about 36 or 37 Amendments, most of which have taken away the rights of the citizen in some form or another. The Federal structure, the rights of the State, have been eaten up by twenty years of so-called socialism. The Planning Commission has taken away economic power from the States. They have become glorified district local boards or municipalities. Bihar is today run by telephone from Delhi. So, practically is every State in India. Elected leaders are replaced by gauleiters appointed by the political boss in Delhi. There is no

more reality in democracy in States. They are ruled by order from Delhi which is quite contrary to the Constitution of India which is a Federal Constitution. Similarly, the 24th and 25th Amendments have undermined the Fundamental Rights of our citizens. They have put them at the mercy of a temporary majority in Parliament, which has not even a majority vote behind it. So this kind of regime and democracy actually do not go together.

Democracy has two characteristics which we often forget. One is that it is not the brute rule of a majority. Majority rule is not democracy. Otherwise, in every country with blacks and whites, the white majority would rule the black minority, the black majority would rule the white minority, the Hindu majority would rule the minorities, while in Pakistan, the Muslim majority would rule the minorities. That is not democracy. Democracy does mean majority rule, but only when it is limited by consideration for the minorities and even for the

individual. That is real democracy. Secondly, majority rule must stay within its legitimate limits which I mentioned earlier, and not get into the sports, education and economic life of the country. The Bible said this much earlier: "Render unto Caesar what is Caesar's and unto God what is God's". God today is the individual and the individual conscience.

Gandhiji said: "That Government is best which governs the least". Now, we seem to follow the exact reverse! 'That Government is best which governs the most.' We find it governs very badly. The State should be an umpire and not a participant in the boxing match or the tennis match. Supposing the umpire started hitting the weaker side because a boxer is losing, what would we think of him? That is exactly what our Government tries to do. So, if we are to develop both agriculture and industry on productive lines we shall have to change course within the limits of democracy.

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