A Paper

on

GOVERNMENT ECONOMIC POLICIES : INDUCEMENTS FOR CAPITAL FORMATION AND INVESTMENT IN INDUSTRIES

by

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I

In a world rent with differing ideologies you can still get a 'Yes' from almost any person to the question as to whether they would subscribe to the objective of increasing the sum total of goods and services, another term for which is economic development or economic growth. When, however, the same people are asked what the purpose of such economic development or growth should be, the unanimity ends.

For most ordinary people, the purpose of economic development would be to provide a higher standard of life for the mass of the people. "Life, Liberty and the Pursuit of Happiness" is a purpose acceptable to most. There are others, however, who may be in favour of economic growth for entirely different purposes, such as the building of a power and war machine in order to sustain themselves in authority and to impose their way of life on the rest of the world. That economic growth is a means to an end and that these ends may differ are facts that need to be stated at the outset.

Whatever, however, be the objective of economic growth, there are some basic economic laws which demand acceptance if such growth is to take place. The formation of capital and its productive investment is one such. Corollaries of this law are that capital is required for increasing production and productivity; that capital has its basis in investment and investment in savings; that savings are the difference between income and expenditure or between output and input. When the first flush of Revolution had subsided, even the Communist regime thus came to realise the importance of capital formation and investment for industrial development.

Inducements to Capital Formation:

The question that I have been asked to answer is: what are the inducements to capital formation and investment in industries, and in what way do the economic policies of governments affect such inducements? The question can be answered for purposes of convanience under two heads, though these by no means constitute water-tight compartments. First, the institutional framework and, secondly, governmental policies.

A. The Institutional Framework

(i) The Rule of Law

The very foundation of the institutional framework that is needed for productive activity is the preservation of the fabric of law and order in society. In free societies, order is preserved under the 'Rule of Law.' This means that all citizens are equal in the eyes of the law and that nothing can be done to a citizen save by due process of law. The Rule of Law also ensures that laws can be changed and altered by the people through democratic processes. So fundamental is the requirement of some framework of legality that even brigands and robbers have their own code of honour. Totalitarian dictatorships have shown how much they value verbal conformity to what is called 'socialist legality.'

(ii) Stable Currency

Perhaps next only to the Rule of Law is the requirement of a sound and stable currency. Money, though often felt to be a necessary evil, is yet the only satisfactory means of exchange, measure of value and link between past, present and future in this mundane work-a-day world of ours. The indispensability of a suitable currency is vouched for by a glance at history. It is for the economy, especially an industrial one, what the soul is to the body. It was none other than Lord Keynes who observed that debauching a currency saps the foundations of a society more subtly, swiftly and permanently than any other conspiracy.

Graham Hutton in his Inflation and Society (1960) has dealt with great insight into the problem that in this context faces the developing countries:

> "The modern democratic State has a duty to secure not the most rapid growth, but the most rapid reasonable rate of growth. It must be reasonable in relation to preservation of individual and corporate freedoms, to social and political stability, to availability of enough resources 'in reserve' to meet new situations and techniques and demands, and to the stability of all money values, costs and prices upon which calculations for the future must be made. Continuous inflation, carried as a policy beyond that point, will make hay alike of democratic society and growth itself. The State will then have to round on the trades unions and other pressure-groups, instituting a compulsory 'national wage policy', freezing people in jobs and lines of business, and generally undoing the democratic system of free worker's association, free consumer's choice, and free producer's enterprise...
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> "From that point or stage there are only two roads; one leading on to the overthrow of democracy and personal freedoms altogether; the other leading back to sound money and a reasonable balance between State and private economic action, upon which personal freedom depend....
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> "The fallacy that you can control inflation in a democracy through bureaucratic controls over prices, production and trade persists among us today. But only symptoms are removed; the lady has her double-chin removed by surgery, only to discover it at the back of her neck. The State -- today or in history -- merely removes one symptom and replaces it with another; favours a new class of person by inflation, while penalizing another; or, in attempting to regulate social and economic life while persisting with inflation, runs the machinery of democratic government, the currency itself, and the entirety of social law and order headlong into catastrophe....
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> "The inflating modern democratic State faces this trilemma... It must abandon individual and social freedoms if it is both to form new capital fast enough and to inflate. It must abandon inflation if it is both to conserve freedoms and to form capital fast enough. Or it must abandon hopes of rapid material progress (new capital formation) if it is both to inflate and to conserve individual freedoms."

(iii) Security of Property

A third requirement is the institution of private property, a phrase subject to much misuse and abuse. Property may be described as a result of savings converted into productive means from which one derives continuing benefit, both the forms of 'productive means' and of 'continuing benefit' being subject to regulation by government. For instance, the 'productive means' may take the form of a house or a farm or industrial scrip, and 'continuing benefit' may be in the form of rent, interest or profit or some enjoyment arising out of possession and use. Where the right to private property is denied, it becomes difficult, human nature being what it is, to induce people to work, risk, save and invest. Even communist regimes are now beginning to appreciate the importance of private property, which is being smuggled into the socialist society under various guises. Indeed, in some of the older of these regimes like Soviet Russia, there are today "Soviet millionaires" who have inherited large properties without paying any inheritance tax or estate duty. While most of the people are subjected to a low standard of life, low wages, inadequate housing, a denial of travel and a scarcity of consumer goods -- the income tax is shockingly low, the maximum being less than 20 per cent. On the collective farms, the production from small patches of land which go by the name of 'private plots' is infinitely higher than from the giant collective farms.

The Yugoslav communists have frankly turned their backs on this entire line of development. Their return to a competitive economy and the laws of the market were discussed with great insight by the left-wing socialist Barbara Castle in the New Statesman of June 2 & 9, 1961, under the titles "Free Enterprise Socialism" and "The Neutral Economy."

Democratic socialists no longer look upon the nationalisation of industries as an essential part of socialism. The German Social Democrats have dropped it from their programme while British Labour has come to realise that it has become more a liability than an asset. As Professor W. Arthur Lewis puts it: "The nationalisation of industry is not essential to planning; a government can do nearly anything it wants to do by way of controlling industry without resorting to nationalisation. Nationalisation is merely one of the ways of achieving ends, better for some ends and not so good for others."

Mr. R. Kelf-Cohen, a great believer in nationalisation till he was disillusioned with the British experiment, refers to the wrong assumptions on which socialists worked:

> "There was magic in the words 'Public Board' or 'Public Corporation.' They were to be staffed by selfless men of outstanding ability, devoted to the national interest. We assumed that such men were to be found in large numbers....We also assumed that the workers in the industries would be transformed by the Act of Nationalisation and devote themselves to the national interest. Thus the combination of selfless management and selfless workers would bring about the brave new world of Socialism -- so utterly different from capitalism."

(iv) Profit and Reward

Closely linked to property is the fourth fundamental institutional factor -- the profit motive as incentive. Neither economic growth nor social justice can result unless there are proper incentives to production. Incentives and social justice are, therefore, two sides of the same coin. Not all men are equal in their talents. The more talented, therefore, must get more for their exertions. To deny differential returns would be tantamount to repudiating social justice and productivity.

Profit is a yard-stick of efficiency, and economic progress would come to a standstill without it. Regimes that started by denouncing profit as wicked have learnt this truth through bitter experience. Addressing the Twentysecond Congress of the Communist Party of the Soviet Union in 1961, Mr. Khrushchev is reported to have warned against reckless haste in leaping into communist practices in the field of distribution and wage policies. He emphasised that wages must remain the principal stimulus to work for a long time to come and that the rewards of labour should be distributed according to the work done.

Writing about the Communist regime in Yugoslavia in April 1961, the correspondent of the London Times reported:

> "Profitability, productivity and competition are no longer ideas on paper but are beginning to affect and change individuals as much as they are affecting the enterprise they work in. It is this, the recognition of economic incentive and the free formation of prices through competition and market conditions, which distinguishes Yugoslav Communism sharply from that of the Soviet bloc."

In underdeveloped countries the need for incentives is all the greater since initiative, enterprise and the taking of risk are the essence of rapid industrial development. The primary concern of this interest in rapid economic growth must therefore be the maximisation of output. Where the level of living of the people is sub-standard, it is not possible to stack savings up by reducing consumption. The best method of accelerating capital formation in underdeveloped economies is the lifting of the curve of production. The limited resources should be invested in sectors where they yield the highest output.

These thoughts have obvious implications on the limits of taxation. In a developing economy, these limits are somewhat narrow. Parkinson's book The Law and the Profits has an admirable discussion of how taxation carried beyond a point defeats its very purpose.

The latest report on taxation by the Committee of Economic Development in the United States, a very high level research and intellectual body lays down the principles of sound taxation in a form which is difficult to improve upon:

> "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."

Professor J.K.Galbraith, currently U.S. Ambassador in India, has also something pertinent to say on this subject in his book The Affluent Society, which is often overlooked by his gushing admirers:

> "To give people income and then remove it by taxation, inflation or appeals to thrift 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 than 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."

B. Governmental Policies

Having enunciated the four fundamental requirements of economic development, let us turn to the role of the State and the consequential requirements in the realm of governmental policies.

There are, of course, divergent views on the role of the State. In totalitarian countries, the ruling party, the monopolist in political power, uses the State as a weapon through which to control the people by means of State ownership of the instruments of production, distribution and exchange. There is nothing new or modern in such a dispensation which is known to every historian to have prevailed in Ancient Egypt, Sparta and Inca Peru. In the free society of today, on the other hand, the State has by and large two roles to play. The first is that of an umpire who holds the ring and blows the whistle to prevent foul play and anti-social practices. The second is that of minimum direct participation in the economic process by producing the institutional and economic infra-structure on which the enterprise of the people can build and an environment favourable to growth.

Dr. Ludwig Erhard, the creator of the 'West German Miracle', describes the first role as follows:

> "People are like football 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."

Professor Walter Eucken, described as the founder of the "social market economy," has the following observation to make in regard to the second role in his book, This Unsuccessful Age:

> "The State should influence the forms of economy, but not itself direct economic process. Concluding trade treaties, providing for an adequate monetary system, framing laws of patent and contract — all this lies within the purview of the State The State should also decide the general nature of the economic and political order and thus meaningfully integrate the various sectors of economic policy; but it should not take upon itself the issue of production orders regulating the day-to-day manufacture, import and export of machines, textiles, wheat or other commodities, nor should it attempt direct control of labour.
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> "State Planning of forms - Yes; State planning and control of the economic process - No! The essential thing is to recognise the difference between form and process, and to act accordingly."

While the building of an infra-structure through the provision of transport, communications, water, fuel and power, and technical education are universally accepted as among the State's functions, in a developing economy the participation of the State in the processes of industrial development is, to a limited extent, also justifiable. Thus, where an essential commodity or service cannot be made available by private enterprise, it should be open to the State to enter that field. Such a mixed economy presupposes, however, the absence of monopoly and the prevalence of free competition between the State and free enterprises functioning on the basis of autonomy and equality in any given field of endeavour. Such a mixed economy was advocated by the present writer for India as far back as 1947 in A Plea for the Mixed Economy long before it was accepted as a model for post-Independent India's economic advance.

What Kind of Planning?

A consideration of the role of the State in the economy brings us face to face with that bone of contention among the economists of the day - Planning. Much of the controversy connected with planning is due to the term being ambiguous. Even a cursory glance at various economic systems shows that there is always, of course, some sort of planning. The issue therefore is: what sort of planning and how much of it? While each country and each system devises its own pattern of planning and the variations are numerous, perhaps it is possible to draw a line between democratic planning and totalitarian planning by asking the question whether the model that results is a command economy or one where "the consumer is king." Where the law of supply and demand or consumer preference predominates, where the market mechanism is by and large allowed to function, there is a free economy. In such a system of economy, the ballot cast every four or five years for the election of a Member of Parliament or a Deputy is supplemented by a daily ballot of the market place where every man has his hand in shaping the pattern of production by the freedom of choice he exercises daily over what he buys and what he declines to buy.

Planning under such conditions may take various forms, such as Monnet Planning in France, the planned economy of Holland, and the new experiment in Britain with the establishment of an advisory National Economic Development Council, mostly non-official in its composition.

Professor Thomas Wilson, Adam Smith Professor of Political Economy in the University of Glasgow, aptly demonstrates the limits of such planning in a supplement to <u>Crossbow</u> (New Year 1962) entitled "Planning and Growth":

> "If industrial output is to be centrally planned, this will have to be done in an economy where the market still operates and the freedom to buy and sell and make private contracts remains in-tact over a wide range of activity. The problem then is to see how planning and the price system can be made to work together...... It is worth reverting to the old description of the price system as a continuing plebscite designed to ascertain people's preferences......Production is responsible not to a central planning committee but to the judgment of those who buy the goods on the market. It is not easy to see how any other arrangement could ensure so large a degree of economic democracy."

Planning in a democracy, as Barbara Ward, the Fabian Socialist, has put it, "must know where to stop."

No such economic democracy exists in a system where the government, through a National Planning Commission or otherwise, dictates what shall be produced, by whom it shall be produced and at what price it shall be sold. In such an economy, Leon Trotsky lived long enough to conclude, "The old slogan, 'he who does not work, neither shall he eat,' is replaced by the new slogan, 'he who does not obey, neither shall he eat.' "

Hillaire Belloc anticipated this sad conclusion of the veteran communist by many years when he wrote that "the control of the production of wealth is the control of human life itself"

There was a time when those who advocated the system of total, comprehensive planning of the Soviet type argued that the sacrifice of freedom could be justified by the rapid achievement of prosperity and equality by such means. After forty years of this experiment, many of its earlier protagonists have now come around to see that the sacrifice of freedom has yielded neither equality, since disparities of income exceed in many respects even those in capitalist countries, nor prosperity, since housing and consumer goods are still in short supply at the end of the sixth Five Year Plan. The elevation of the primacy of heavy industry over light and consumer industry into an economic "law" in the U.S.S.R., despite its obviously retarding effect, is beginning to be understood as a political priority unrelated to the needs of development. The failure of total planning to deliver the goods to the people may, therefore, be taken to mark the exploding of the false dilemma of 'Bread or Freedom' hitherto posed by some. It has now been demonstrated that bread can only be obtained in and through freedom.

II

THE INDIAN EXPERIENCE

Having stated the general principles that appear to be valid in regard to the operation of governmental policies as incentives for capital formation and investment in industries, it might perhaps be worthwhile to review the experience of India since the achievement of its Independence fifteen years ago in 1947 and to test the Indian experiment against the touchstone of the cardinal principles of economic development already enunciated.

Objectives

The objectives of Indian economic policy are to be found in the Constitution of the Republic, in the framing of which the writer of this paper had a small hand as a Member of the Constituent Assembly of India.

In the Constitution, the basic objectives were set forth among "The Directive Principles of State Policy." These "Directive Principles" inter alia enjoin that --

> "The State shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of national life."

Further, that --

> "The State shall, in particular, direct its policy towards securing --
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> (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
>
> (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
>
> (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

The Third Five Year Plan published in 1961 says on its opening page:

> "The basic objective of India's development must necessarily be to provide the masses of the Indian people the opportunity to lead a good life. That indeed is the objective of all countries for their peoples, even though the good life may be defined in many ways."

A. Institutional Framework

(i) Rule of Law

It is generally acknowledged that, among the newly independent countries of Asia and Africa, India's record in regard to the maintenance of civil order the the Rule of Law is highly praiseworthy.

We enjoy freedom of expression, freedom of opposition and freedom of the press. Our courts of justice are supreme. Our judiciary is, by and large, honest and independent of the executive of the day. There are, of course, occasional lapses -- as when an Ordinance is issued to undo the effect of a judgement of the Supreme Court. A few hundred of our fellow citizens are still held in Preventive Detention without a trial. But these are only blemishes on what is generally a good record.

Since the country became independent, there have been three general elections in what has turned out to be the world's most numerous democracy. In 1952, over 17 million people exercised the franchise; in 1957, over 19 million; and earlier this year over 22 million; on each occasion in an orderly and peaceful fashion.

(ii) Stable Currency

The position in regard to this requirement is, by contrast, not a happy one.

Since 1955-56, the value of the rupee has been falling at an annual average rate of 6.5 per cent, the fall in five years aggregating 39 per cent. Coming as it did on top of the inflation accumulating during World War II and after, the result has been to reduce the value of the rupee to 20.6 nP (or cents) in terms of the pre-war rupee - or just over one-fifth. The family of a head clerk drawing about Rs.300 ($63.15) before the War was thus as affluent as that of a Deputy Secretary of the Indian Government is today on a salary of around Rs.1,440 ($303.15).

The sad part of the story is that this debasing of the currency — with its anti-social and anti-socialist effect of transferring money from the pockets of industrial and agricultural workers, salaried employees and others with fixed incomes to those of a thin layer of businessmen, speculators, spivs and corrupt politicians and administrators — is not an unavoidable accident but the result of a deliberate resort to policies whose results could have easily been foreseen. Among such policies are the light-hearted resort to deficit finance - the printing of currency notes to meet budget deficits. Then there is the levying of excise duties on industrial raw materials, components and intermediates, resulting in a rise in the prices of articles of daily use by the common man like soap, vegetable oils and fat for cooking, tin plate for packaging a multitude of articles of daily use, aluminium for the cooking utensils of the poor, electric bulbs and batteries, and pig iron required by blacksmiths, carpenters and agriculturists.

Finally, and perhaps most decisive of all, there has been the predominant concentration of resources on capital-intensive, low-return and low-employment industries which has resulted in pumping money into the economy without the volume of goods and services catching up with it.

(iii) Security of Property

Under the Constitution of the Republic as it was originally drafted, the Right to Property, which is a Fundamental Right, was adequately safeguarded, and it was provided that no man's property could be touched without due process of law and reasonable compensation in regard to the quantum of which an appeal to the Courts was provided.

Amendment of Constitution

Unfortunately, an amendment made to Article 31 of the Constitution in 1954 reduced the constitutional guarantee of private property to a shadow of its former self by denying the citizen a recourse to the Courts of Law on the issue of compensation paid by government for properties acquired, nationalised or confiscated. Only the empty shell was left and the substance taken away. The assurances given by the spokesmen of the government at the time when the Bill was to be adopted in Parliament have not been respected. To give only one example over a period of 83 years a large number of small shareholders had put in around Rs.9,000,000 ($1,895,000) into the Port Canning & Land Improvement Company in Calcutta. On acquisition of this property by the Government of the State of West Bengal, only Rs. 6,000,000 ($126,000) was provided for them by way of compensation. Thus, only one-fifteenth of the original investment was received back by the shareholders. In point of fact, since the value of the property had appreciated, the market value of the property was about sixty times the compensation given.

Nationalisation

The policy of nationalisation, which forms part of the socialist pattern pursued by the present government in office, has naturally shaken the faith of the investor in the security of his property. The nationalisation successively in the fifties of domestic and international Air Transport Companies, of the Imperial Bank of India, of Life Insurance Companies in 1956, the continuing nationalisation of road transport services for passengers in one State after another, the establishment of the State Trading Corporation and its ever increasing encroachments in the sphere of private trading, and the threat of nationalisation of the food grains trade affecting nearly 300,000 dealers all over the country since 1959 -- all these have had a very deleterious influence on the public confidence which is essential for saving and investment as also for the coming in of foreign equity capital which is so badly required by India.

In the last two or three years, there has been an increasing awareness of the harm that has been done to the cause of economic development by the policy of nationalisation and, from the Prime Minister downwards, some reassurance has been held out that while the Government would start new enterprises, it would, as far as possible, desist from taking over existing ones.

Perhaps the most far-reaching criticism of nationalisation to come recently from official quarters has been from Mr. S.G.Barve, a former member of the Indian Civil Service and now Finance Minister of the State of Maharashtra, who observed in a recent book:

> "Nationalisation, taking over to the public sector, is obviously no universal nostrum -- if the Board Rooms of Directors became largely the stamping grounds of bureaucrats, you may be subjecting the fortunes of industry, instead of to the judgement of the market-place, to the tug-of-war of political log-rolling and the heavy hand of departmental wire-pulling."

The reports of the Estimates Committee of Parliament are replete with instances of colossal waste and mismanagement of State enterprises. The return on the capital — scarce resources of the nation — employed in these undertakings is, despite the prevalence of monopoly conditions enjoyed in many cases, poor. The federal government budgets presented in 1961 and March 1962 revealed that, for the second year in succession, the return was less than 0.5%. The current year's budget reveals a sharp drop in profits of State enterprises. While investment by Government in these projects went up from Rs.6,050 ($1,275) million to Rs.7,090 ($1,490) million during the year, the profits dropped from Rs.20.1 ($4.23) million in 1960-61 to Rs.19.5 ($4.1) million in 1961-62. An official review of 73 State enterprises showed a net return to the country on its capital of no more than 0.3% in 1961-62.

If the loans given by the Government to these enterprises at ridiculously low rates of interest of 2.5%, as against market rates of three or four times as much, are taken into account, then the State enterprises may be said to run on losses!

Despite these warnings, the rake's progress threatens to continue. It is proposed to spend Rs.15,200 ($3,200) million on State enterprises in the field of industry and commerce during the years 1961-66 as against Rs.740($155.7) million spent during 1951-56 and Rs.9,000 ($1,900) million spent during 1956-61.

Collectivisation of Land

The biggest threat to private property came in the year 1959 and still remains in the air. This was the proposal to impose ceilings on the holdings of land, to be succeeded in due course by the establishment of 'Joint Co-operative Farming' which, in practice would be indistinguishable from the system of collective farming in Soviet Russia. Already, the first part of that proposal has been carried out with the result that today no farmer is allowed to retain more of his land than would give him a miserable income of Rs.300 ($63.15) per month for a family of five. The rest of his land has been taken away and has been given either to Co-operative or Collective Farming Societies or distributed in uneconomic slices to landless agricultural labourers.

The second proposal, namely, that of removing the boundaries and pooling the land in co-operative farms, leaving to the farmer a mere scrap of paper in place of the actual possession of his land, has fortunately not made much progress, since it is obvious that any attempt at forcible co-operativisation or collectivisation as in Russia or China would lead to civil war and the shedding of rivers of blood throughout the Indian countryside. The government in office has, therefore, wisely declared that the pooling of land should be a voluntary process. This in turn has meant that, apart from a few 'model' co-operative farms that are sought to be set up as pilot projects under pressure of material incentives held out by government, the idea has remained on paper. The danger, however, that the administrative pressure of government and of discriminatory economic penalties levied on those who do not join "co-operative" farms may, at some later stage, be brought into play in an effort to coerce the peasants cannot be ruled out, with the dire consequences of famine and chaos that would inevitably result.

Perhaps the fact that two political parties frontally opposing the 'Joint Co-operative Farming' advocated by the ruling party secured between them no less than no less than 15 per cent of the popular vote in the General Elections that took place in India earlier this year will have a restraining influence on any rash steps in this direction.

(iv) Profit and Reward

The overall effect of governmental policies on the rate of capital formation is a somewhat complicated matter difficult of accurate assessment. While somewhat different considerations may apply to the investment of foreign capital in a country *vis-a-vis* those that operate in regard to domestic investment, it is possible to say that, by and large, where the climate for domestic investment is unpropitious, foreign capital can hardly be expected to feel welcome.

The sources of internal investment are, of course, domestic savings which in India can be divided into three interdependent sectors - (a) individual, (b) corporate, and (c) governmental. Of these three sectors, the corporate sector has the highest savings-income ratio in India, averaging 30 per cent during the period between 1948-49 and 1957-58. This sector, however, occupies only a minor place in the economy accounting only for two to three per cent of total national savings. What is worse, the rate of capital formation in this sector has been dwindling on account of the crushing burden of taxation and excessive governmental controls. According to a study of 1001 companies made by the Reserve Bank of India, the rate of capital formation declined sharply from 16.8 per cent in 1956 to 6.1 per cent in 1959.

The savings-income ratio in the individual sector has, on the other hand, risen from 5 per cent to between 8 and 9 per cent.

The savings-income ratio in the governmental sector was 7 per cent between the years 1948-49 and 1950-51, while between 1956-57 and 1957-58 it was 10 per cent.

Taxation

The tax structure in India, which is known in governmental circles as the 'Integrated Pattern of Taxation,' has undoubtedly played a retarding role in so far as savings and capital formation are concerned. The tax burden on top income levels exceeds 100 per cent of the income. At the level of incomes above Rs.26,660 ($5,600), the tax burden is higher in India than in the most advanced countries like West Germany, France, U.S.A., U.K., Canada and Japan. A man with an annual income of Rs.106,000 ($22,300) is taxed at the rate of 53.1%. This is higher than in any other country with the sole exception of Norway. The comparable rates of taxation in other countries are Norway 62.8%, U.K.46.2%, Japan 36.8%, West Germany 35.5%, Canada 27.1%, France 25.9% and U.S.A. 23.1%.

"We operate in 30 countries", says Mr. Richard Perkins, Chairman of the Executive Committee of the First National City Bank of New York, "and I find the tax rate here in India is the highest."

The National Planning Commission when framing the Second Five Year Plan, had itself estimated the limits of the additional taxation that could be safely raised during the coming five years. It is now possible to say that during that period that safe margin has been grossly exceeded.

The saddest part of the story is that the proceeds of this killing taxation have been going predominantly towards unproductive, non-developmental expenditure. The Estimates Committee of Parliament has pointed out that a large part of the additional taxation levied during the Second Five Year Plan has in fact been diverted to non-Plan expenditure. The cost of the Administrative Services has gone up in the last decade by Rs.370 ($77.89) million. General Administration cost Rs.10($2.1) million in 1951-52, in 1960-61 Rs.19($4) million. Audit cost was Rs.40($8.45) million ten years ago; today it costs Rs.85($17.90) million. Federal expenditure on police was Rs.38($8) million ten years ago; today it is Rs.190($40) million. External Affairs cost Rs.40 ($8.45) million ten years ago; today it costs Rs.110($23.2) million. In this way Rs.370 ($77.89) million more have been added to what may be called parasitic expenditure reflected in a large army of underpaid and underworked clerks. Parkinson's Law has nothing to show comparable to this process.

According to a paper that was placed before a meeting of the National Development Council prepared by the Planning Commission early in 1961, the developmental expenditure in the various States of the Indian Union was Rs.4,204 ($885) million in 1961-62 and it is estimated to be Rs.4,716($993) million in 1965-66 -- an increase of Rs.512 ($108) million. The corresponding figures for non-developmental expenditure given by the Planning Commission was Rs.3,759 ($796) million in 1961-62, compared to Rs.4,637($975) million in 1965-66, that is, an increase of Rs.878($185) million in non-developmental expenditure.

The National Council of Applied Economic Research, an organisation approved and aided by the Indian Government, published last year a study of the impact of direct taxation on productivity in India. Some interesting trends were disclosed by the Council's Report. The first was that the rate of growth of Corporate enterprises and the rate of profit were declining:

> "The rate of growth of paid-up capital of operating registered companies has fallen from 10.4% in 1951-52 to 3.6% in 1959-60.... Nor is it correct to say that the rate of profits in the industrial sector has gone up since 1951. The index of profits after tax as a percentage of net worth for all industries worked out by the Reserve Bank of India (on the basis of a sample of companies) has actually shown a declining trend. The index (with 100 in 1950) stood at 124.7 in 1951 and 84.1 in 1957."

The second trend to emerge is that the rate of saving is stagnating: "Over the Second Plan period the rate of savings in the economy has not risen at all, but has stagnated around 8% of the national income."

Drawing certain conclusions, the Report says:

"It has often been suggested that in India higher taxation is an important method of financing public investments. Whatever may be the theoretical merits of this proposition, in practice it is found that current expenditure under the Plans as well as outside them is rising so fast that even substantial increases in tax revenues are almost wholly absorbed by the rise in such current expenditure; with the result by far the greater part of public investment has to be financed through a draft on private savings and foreign aid....In this situation the need to promote a higher rate of private saving deserves the Government's closest attention."

The report comes to the conclusion that "individuals must be allowed, even encouraged, to accumulate sufficient amounts of wealth...We recommend that the pace of progression of super-tax be reduced so that the highest marginal rate will become operative at a higher level than at present."

In flat disregard of such sapient advice, the annual session of the ruling Congress Party in January 1962 adopted as part of its Election Manifesto the startling objective of a ceiling on urban income which would be effected by taxation and other means.

B. <u>Governmental Policies</u>

In so far as the role of the State and governmental policies flowing from it are concerned, one has regretfully to note the subordination of economic growth to doctrinnaire and ideological compulsions.

Instead of playing the role of an umpire holding the ring, the government has in many spheres sought to be a participant in the game.

Instead of concentrating on the building of the infra-structure through the provision of transport, tele-communications, cheap electric power, irrigation, a clean water supply, education and technical training, all of which are greatly neglected, the State in India has chosen to stick its finger into a great many economic pies, not excluding the putting up and running of hotels and the manufacture of pressure cookers in ordnance factories! Thus, while the State Railway system has singularly failed to transport the coal that is required for industrial establishments and is unable to provide the required wagons, the government has been busy taking over catering establishments at railway stations and on the trains from the private contractors who were hitherto running them!

<u>Neglect of Transport</u>

A striking example of this failure to perform its primary functions, while chasing irrelevant ambitions, is provided by the position in the field of transport.

In the field of transport, the Indian Government's policy of favouring the State-owned railways at the expense of other agencies of transport has resulted in the dislocation and stultification of its Five Year Plans. About 12 per cent of Government's "plan outlay" during the First Five Year Plan ending 31st March 1956 and nearly 20 per cent of that in the Second Plan ending 31st March 1961 were spent on the railways, but the transport shortage has been increasing in its intensity from Plan to Plan. While in 1955/56, the country's traffic capacity was 5 million tons short of actual demand, the traffic which remained unlifted in 1960/61 rose to as much as 16 million tons. In the latter year, the traffic offering is estimated at 192 million tons and the quantity moved by all modes of transport - rail, road and water - at 176 million.

In the past twelve months, transport bottlenecks have become far more serious than in the previous decade. Today, there is hardly any industry which is not put out of gear by the lack of transport. The production and distribution of coal, jute, cement and steel, in common with those of dozens of other industries, are hampered by lack of adequate transport facilities. The Government, clinging to the outmoded agency of railway transport because it is a State monopoly, are denying the roads and waterways their legitimate roles in the developing economy of the country. The railways are being given, in the current Third Plan, the same large allocation for development as during the Second Plan. It has been unofficially estimated that by 1966 the transport shortage will rise to nearly 70 million tons.

Swift action needs to be taken to expand road transport. India can easily remove its transport bottleneck by ploughing back into road improvements the huge revenue collected from the taxation of road transport and by removing the many restrictions deliberately imposed on the use of road vehicles. Operating at more than thrice the speed of railways and transporting goods from door to door, road transport is a hot favourite with the public in India as it is in other countries but, by failing to improve the roads and thereby to encourage the use of heavy vehicles and tractor-trailer combinations, the cost of road transport is kept high in comparison with that of the railways. Even at these high rates, the advantages of road transport have created a huge public demand for long distance services but there is a singular reluctance on the part of the authorities, because of objections raised by its railway monopoly, to encourage such traffic.

A committee known as the Road Transport Reorganisation Committee appointed by the Government of India, of which I had the honour to be the Chairman, recommended early in 1959 that the various factors inhibiting the development of road transport should be removed. The Committee's recommendations were accepted by Government and Parliament but, instead of implementing them, government have appointed a new Committee to formulate a scheme of transport "co-ordination" to protect the inefficient State monopoly of railways. Pending the submission of the final report by this body, the railways are allowed to expand but road transport is kept cruelly crippled.

The Pattern of Planning

The claim is often made in India that this is the only democratic country to attempt the unique experiment with what is described as "comprehensive planning." It is undoubtedly true that the structure and pattern of Indian planning is different from what has been attempted in other free societies such as those of France, Britain or Holland.

One essential difference consists in the position of the National Planning Commission which, far from being an expert advisory body, is overloaded with Ministers of the Union Government and officials. Such experts as there are are in a hopeless minority among the eleven members of the National Planning Commission. Thus, at the time of the signing of the Third Five Year Plan last year, the Chairman of the Planning Commission was the Prime Minister, the Deputy Chairman was the Minister of Planning and among its members were two Cabinet Ministers - the Minister of Finance and the Minister of Defence. Four others, including the Secretary, were officials of government, two others came from political life, and only one was an academic figure concerned with statistics.

A second point of difference is that the Planning Commission is not only an advisory body but also one that participates in the process of policy-making. The Planning Commission, albeit with the approval of the Cabinet, includes among its functions the laying down not only of targets for production in particular branches of the economy but also the task of enforcing these targets, even though this may involve the distortion of the preferences of the consumer and the wishes of the investor.

The result of this pattern of planning, largely lifted from the institutions of Soviet dictatorship, is that a concentration of power has taken place in a very few hands. Whether such authority, which begins to approximate to a 'command economy,' is consistent with the Federal structure of the Indian Constitution, or indeed with

Parliamentary institutions, is a question that has been increasingly agitating intelligent observers in India. Thus Mr. K. Santhanam, a prominent member of the ruling CongressParty, refers in his book Democratic Planning and Pitfalls (1961) to the "practical supersession of the State governments by the Planning Commission and the National Development Council for purposes of policy and finance."

In so far as the implications for parliamentary democracy are concerned, that these are no longer academic was made clear when, in May 1960, Mr. Ajit Prasad Jain, who had shortly before resigned from his position as Minister of Food and Agriculture in the Union Government, revealed in the course of an academic lecture in Poona that:

> "The leadership of the Prime Minister as its Chairman gave the Planning Commission a 'position of prestige which rivals the Cabinet.' Secondly, the system gave rise to dual responsibility at the top level with two highly placed persons tackling the same subject, one as a Minister and the other as a member of the Planning Commission. There are occasions of rivalry and friction and cases are not unknown when the Planning Commission has encroached on an area which by all standards is reserved from the executive. This widening gulf between our policy making and departmental working has already given rise to various types of difficulties...."

Mahatma Gandhi, who was a great deal ahead of his times, had stated his fundamental position in this matter many years ago when he wrote:

> "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...
>
> "What I would personally prefer would be, not a centralisation of power in the hands of the State but an extension of the sense of trusteeship; as, in my opinion, the violence of private ownership is less injurious than the violence of the State. However, if it is unavoidable, I would support a minimum of State-ownership."

The Dominance of the State

Unfortunately, the warnings of the Father of the Nation have, during the past fifteen years, been forgotten and socialist dogma has taken **priority** over the needs of economic growth. Spokesmen of the prevalent pattern have made no bones about their position that basic industries should be in the State sector and that the State sector should occupy the "strategic heights" from which it can dominate the entire economy. The professed purpose of this attempt is that monopolies would be prevented and the concentration of economic power frustrated. These reasons are, however, on closer inspection not found to be very convincing.

As the President of the Federation of Indian Chambers of Commerce and Industry pointed out at the Annual Session of that organisation in Delhi last March, "in no major consumer industry is there a single industrial group which owns more than three to four per cent of the national production." On the other hand, it is in the State sector that monopoly has raised its ugly head. Thus, the Life Insurance Corporation enjoys a monopoly in the entire field of life insurance, Air-India International and the Indian Airlines Corporation have a similar monopoly in the field of air transport, and the State Trading Corporation, though not yet a monopoly, is in the eyes of many engaged in the process of establishing a monopoly in certain fields of trade.

If the needs of economic development were to be the test in a pragmatic approach to the balance of the mixed economy, there would be a strong case for the fostering of the free sector in order to obtain the maximum expansion of production. Whereas the outlay of the State sector in the First Plan period fell short of the target by about 15 per cent and the investment in the State sector was short by 40 per cent of the target, the targets in respect of the free sector were more than realised. Similarly, as against the target of Rs.24,000($5,050) million fixed for the free sector in the Second Plan, the actual investment by the end of that Plan was Rs.31,000 ($6,525) million. It is found, however, that far from drawing the appropriate conclusions, the effort persists to curb people's enterprise while forcing artificially the development of the State sector. The Third Plan states that "as compared to 1950-51, by the end of the Third Plan, the contribution of the public sector will increase from less than 2 per cent to nearly a fourth in organised manufacturing industries and from less than a tenth to over a third in mineral production." The Governor of the Reserve Bank has given comparable figures. He says that the percentage of total investment in the State sector was 21 per cent in the First Plan, 53 per cent in the Second Plan, and it will now be 58 per cent in the Third Plan.

Thus, that part of the economy that functioned beyond expectations through the first two Plan periods is to be curbed and punished while that part of the economy that failed to deliver the goods is to be artificially boosted.

Priority for Heavy Industry

Another respect in which the needs of economic growth are found to be subordinated to dogma is in the priority given to heavy and basic industry as opposed to agriculture and consumer goods industry.

Among the Second Plan papers published by the Indian government is to be found a document entitled "The Draft Plan Frame." In that document, the first two objectives of the proposed Second Plan were indicated as follows:

> "to attain a rapid growth of the national economy by increasing the scope and importance of the public sector and in this way to advance to a socialist pattern of society;
>
> "to develop basic heavy industries for the manufacture of producer goods to strengthen the foundations of economic independence."

Unfortunately, as has already been demonstrated, the first of these two dogmas forms part of the Second and Third Plans, and the second, namely, the strengthening of the foundations of "economic independence," continues to be as much a part of official policy as the other.

Among examples of this lopsided pattern of planning is the building of the three giant steel plants during the Second Plan period swallowing a tremendous proportion of the total developmental expenditure. An even more striking example is the allocation in the Budget for 1961/62 of no less than Rs.114.8 ($24.2) million for a Nuclear Energy Power station so tragically remote from the current needs of the Indian people and the Indian economy.

Neglect of Agriculture

In a country where 70 per cent of the people live on the land and work on it, more than half of the total outlay on development is being spent on industrial enterprises in the State sector. This neglect of agriculture, which is the foundation on which the entire economic edifice has to be reared, also becomes clear when it is remembered that, while the average rise in the national income during the past decade has been 1.8 (based on the 1949/50 level), the corresponding rise in agriculture has been 1.4. Indeed in so far as agricultural labour is concerned, the Second Agricultural Labour Inquiry Report presented in December 1960 showed a material decline in wages and an increase in unemployment and indebtedness on the part of agricultural labour between 1950/51 and 1956/57. The Third Plan in a way concedes this when it says:

> "As it proceeds, economic development may widen disparities between

rural and urban areas, increase differences in levels of development in different parts of the country, and accentuate the problems of economic inequality."

Education Ignored

The concentration of resources on steel and other heavy industries to the neglect of such a basic need as education and technical training has also to be noted. The total expenditure on primary and secondary education during the Second Plan period was Rs.1,350 ($284) million, while the three steel plants together have cost Rs.5,260 ($1,110) million, which is nearly four times as much. To look at it from another angle, the expenditure on primary and secondary education in India was only 0.96 per cent of the Budget outlay at the Centre and in the States. Over large parts of the world, the corresponding percentage spent on education varies from 7 to 12 times the Indian figure.

These lopsided policies are as injurious to employment as to production. Thus, the Third Five Year Plan has to concede that, on top of the nine million unemployed at the beginning of that Plan, there will be another three million or so unemployed by the time the Third Plan has run its course.

A further consequence of investment in capital-intensive and low-return industries like steel is the emergence of a high cost economy. The implications of this in terms of India's capacity to export, which is considered to be a vital need, are all too obvious.

Finally, the implications on the rate of growth have also to be considered. The rate of growth of the Indian economy for 1950-59, covering the periods of the first two Five Year Plans, according to a World Economic Survey by UNESCO in 1960, was around 3 per cent, one of the lowest in the world. During the First Plan period, according to the figures provided by the Central Statistical Organisation of the Indian Government, the national income (at constant prices) had risen by 18.4 per cent and, in the first four years of the Second Plan, by 12.2 per cent. The rate of growth during the Second Plan was thus slower, falling considerably short of the expected rise of 25 per cent in national income which was the target of that Plan. Even this little improvement in the national income was more than offset by the fearful rise in population since 1951 for the checking of which not even 1 per cent of the outlay of our Plans is allocated. The result is that, on the basis of the 1961 census figures, the overall rise in the per capita income in terms of 1948/49 prices was 10.2 per cent between 1951/52 and 1959/60. Since 1956, the per capita income had remained more or less stagnant till last year. As a result, neither in the real wages of industrial or agricultural labour nor in living standards of the lower middle classes has there been anything but stagnation at oppressively low levels.

Contradictions

Professor P.T.Bauer, Professor of Economics (with special reference to Economic Development and Under-developed Countries) in the University of London, has in his book Indian Economic Policy and Development (1961) endeavoured to answer the question why, in the light of these facts, planning in India has followeda pattern which he summarises as follows:

"There is the massive expenditure on heavy industry, when the economic demand for its products is highly problematical; at the same time there is the neglect of education where the needs are evident and pressing and can only be met by Government. There is the comparatively small expenditure on agriculture, and also the restrictions on the movement of agricultural products, in the face of the manifest, urgent and indeed desperate need to increase agricultural productivity and to extend production for the market. There are the severe restrictions, or complete prohibitions, on the supply of certain categories of both imported and even locally produced consumer goods, in the face of the urgent need both to raise living standards and to provide incentives to agricultural production for the market. There are the restrictions on the extension of efficient industrial capacity and the subsidisation of inefficient cottage industry and of co-operative production and distribution, in the face of a manifest need to economise resources and satisfy wants at low costs, and in the face also of official statements on the importance of industrial progress and the raising of living standards. There is the exclusion of private Indian and foreign enterprise and investment from a wide range of industrial and commercial activity, in the face of the urgent need to encourage viable economic activity. There is the neglect of roads, the official restrictions on the establishment of road transport enterprises, and on the movement of agricultural products, in the face of the urgent need to widen markets and to facilitate the movement of men, ideas and commodities. There are the severe restrictions on the establishment of all enterprises, in the face of the need to widen opportunities. And these measures and policies not only affect adversely the standard of living but also restrict the potential demand for the output of the expensive capacity created under the heavy industry programme."

Why?

Professor Bauer's answer in regard to the motivation of these policies is that priority has been deliberately given to ideological and doctrinaire concepts over the needs of development. He quotes the remarks on the Second Five Year Plan of Mr. Andrew Shonfield, then economic correspondent of The Observer, at a conference in London of the Royal Institute of International Affairs in 1957:

> "It is a Soviet-type plan. I do not use that label in any pejorative sense, but simply to indicate that it is a heavy-industry plan. And it is a Soviet-type plan which errs towards Khrushchev rather than Malenkov: the consumer gets a very small look-in."

According to Professor Bauer:

> "The actions of the Government, and its major policy statements, make it perfectly clear that it means the attainment of an economy in which all major branches of economic activity are government-owned and operated, and the rest is subject to close and specific direction by the Government."

Professor Bauer then proceeds to come to his conclusion:

> "Thus in simple language the merit of industrialisation is primarily political, in that it enables the Government to dominate the economy chiefly to expedite socialist transformation; and socialist transformation is a standard term of communist literature to describe the establishment of a communist economy. This aspect of industrialisation is familiar from experience in the Soviet countries."

Autarchy?

Perhaps Professor Bauer has not given enough weight to yet another factor of an ideological nature - economic nationalism. He appears to have overlooked the desire to attain self-sufficiency. On a cursory reading of the Plan, I have myself detected at least eight places in the Third Plan document where the need for the economy to be "self-reliant" and "self-generating" within a period of ten or fifteen years is stressed.

The question arises as to where this idea of self-sufficiency or autarchy comes from. The answer is fairly clear - that it is derived from the Soviet Union. In the process of this adoption of one of the fundamental laws of Soviet planning, the far-reaching differences in the position of the Soviet Union as it was at its birth and that of the independent India today appears to have been overlooked. While Soviet Russia at the start was isolated from an unfriendly world, India is fortunate enough to have an "Aid to India Club" to minister to its economic needs. The Soviet dictatorship has unswervingly kept its eyes on the goal of world domination; the country of Gandhi has no such ambitions.

The question that arises is how India can develop its economic policies on autarchic lines and at the same time expect to obtain foreign capital on the one hand and to export in order to maintain its balance of payments on the other.

The needs of autarchic planning inevitably lead, as has been explained, to a high cost economy. How then will it be possible for India to develop its export markets as its Government is at present engaged in doing? Today the consumer in India has to pay what an Indian economist has recently described as "near-ransom prices." He cites the gap between the prices in the world market and the prices in India of products like penicillin. The import price of penicillin is 10 <u>naye paise</u> (cents) ($0.02) per million units. The cost of penicillin produced at Hindustan Antibiotics Limited, which is a State corporation, is Rs.1,25 ($0.26) per million units. The consumer thus has to pay over twelve times as much for this essential drug as he would have done if it had not been imposed on him by the system of import control. To take another example, the price of Indian sugar is Rs.700($147.3) per ton, whereas the world price of sugar is Rs.400 ($84.2) per ton. How then is India to compete in the world market?

Foreign Capital Welcomed

The need for foreign capital is obvious and in recent years its role has been increasingly appreciated. In so far as Governmental policies in regard to foreign capital are concerned, there has undoubtedly been a welcome change. From uncompromising hostility, there has been a progressive turn towards a warm welcome to foreign participation in industrial development. Assurances have been given to investors abroad that nationalisation will not threaten their investments. In order to encourage the flow of foreign capital, an International Investment Centre has been set up in Delhi which is intended to stimulate the interest of foreign investors in the Indian industrial scene, furnishing them with relevant particulars and putting them in touch with appropriate Indian associates in search of foreign collaboration.

As a result of the current pattern of planning, the foreign exchange position of India is deplorable, and the country's foreign exchange reserves have gone well below the safety point. The total credits so far obtained by the Indian Government as a result of all agreements signed by it are of the order of Rs.17,500 ($3,685) million. To this colossal sum, it is proposed during the Third Plan to add further foreign indebtedness to the tune of Rs.22,000 ($4,630) million. It is felt by many that, in the effort to repay these amounts and to pay interest and service charges, the future of the country is being mortgaged for many years to come. On the other hand, for reasons already mentioned, exports through which alone we could possibly pay back our foreign intake of loans are stagnant.

Importance of International Trade

In this context, two things are clear. The first is the need to develop India's international trade both in the way of exports and imports. A continued effort to reduce or eliminate trade barriers which have been built up in the futile pursuit of autarchy would pay dividends in terms of economic growth.

Secondly, the taking of loans from foreign governments, on which we at present predominantly rely, needs to be replaced to a large extent by getting into the country a much larger measure of equity capital. Government-to-government loans come into our country at the country's risk. The capital and interest have to be repaid, however wisely or wastefully the foreign capital may be utilised. On the other hand, if foreign equity capital comes in, the question of its being taken out of the country or yielding a return only arises when a profit is actually made. If the foreign capital invested does not make a profit, the loss is that of the foreign investors and not of India. The money thus comes in, not at the risk of the country, but at the risk of foreign investors.

The First Priority

The general conclusion that emerges from this survey is that the Indian experience presents a mixed picture. To the extent that the principles outlined in Part I of this paper have been observed, the Indian economy has made an advance. To the extent that these considerations have been ignored, the country's progress has been retarded. If India is to advance much faster than she has been able to do in the last fifteen years, certain radical changes in policy will be called for. The pattern of planning will have to discard its doctrinaire bias in favour of Statism and autarchy and replace it with the betterment of the living conditions of the people of India at present in existence as its prime target, while making redoubled efforts to keep the population from increasing further.

In this context, it is encouraging to note that a seminar organised in Delhi in April this year by the Gandhian Institute of Studies, the Gokhale Institute of Politics and Economics, the Institute of Economic Growth, the Indian Statistical Institute and the Delhi School of Economics came to the conclusion that "among the objectives of planning, the first priority should be given to the securing of a national minimum of basic consumption goods and social amenities for all the households in the country." It proceeded to opine that "it is necessary to define the minimum level of income, and to fix a definite period within which every attempt should be made to secure this minimum income for all the households in the country." The Seminar appointed a Working Group to study this problem and formulate a model of economic growth that would secure this objective. I cannot help feeling that this represents a significant start towards a new trend in developmental policies in our country, and I feel privileged to have participated in the Seminar and to be a member of the Working Group set up.

A candid appraisal of the Indian experiment in economic development has been attempted in the course of this paper. In some respects we have done well. In certain others, we may have proceeded with our experiment to the brink of danger but, as of now, nothing has happened which is irreparable or irreversible. The spirit of our people and the vitality of the productive forces have taken the country forward despite errors in policy and planning. The encouragement and help we receive in the form of technical knowhow and of capital from the rest of the world will have their own impact on the changing pattern of our development. According to Professor Bauer, it is to the interest of the whole world that developing countries should be helped to evolve:

> "A society resistant to the appeal of a totalitarian regime and experiencing economic advance in the sense of enjoying a general rise in living standards. Such a society would generally be one with the following characteristics: the economy is developing; people have wide access to alternatives both as consumers and as producers; decision-making is decentralised and widely dispersed; the power of individuals over others is limited; people do not experience violent and discontinuous disintegration of their communities;large numbers of people own

some property. And economic advance, if it is to be meaningful, must refer to an increase in the net flow of goods and services desired by the population, and not simply to an increase in the volume of some categories of physical output, regardless of the desire of the individuals comprising the society."

There are undoubtedly risks either way - risks in investing in a developing economy and society which does not conform to this idyllic pattern and risks in not investing. I am convinced that the dictates of humanity and of enlightened self-interest point the same way and that the risks of inaction outweigh those of action. An American student of Asian affairs has written in this context: "We cannot be sure of the outcome even if we strongly help. We can reasonably and pessimistically sure of the outcome if we do not help."

The desire for profit and for guarantees on the part of the international investor is understandable. One would like to feel, however, that leadership in business and enterprise in the more advanced industrial countries lies in looking beyond profits and guarantees. The challenge that the hovels of Africa and Asia presents is a very real and immediate one and, in such a context, no better advice could be given than that advanced by Professor E.F.Schumacher in his book Roots of Economic Growth when he says:

> "Perhaps the best -- perhaps even the only effective slogan for aid is: 'Find out what the people are trying to do and help them to do it better.' "

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