

PROBLEMS OF DEMOCRACY IN INDIA

I

from note circumstances
"It can't happen here"

cf. Pak delegate at Rhodes Seminar

Nature abhors vacuum

- Ingredients:
1. Illiterate electorate
 2. Lack of spiritual and moral foundations
cf. Lippmann's Public Philosophy
 - (a) Socialism - Fatal fascination of steel
 - (b) Secularism
 3. Gap between profession and practice
 - (a) Raising standard of life but tightening belt (Quote TTK) *high standards*
 - (b) Preaching austerity, but corruption and grab.
 4. Cynicism - cf. Kerala *H. Chamberlain: Communism is superior to the future of other faiths.*
 5. Lack of discipline - Labour
Students
M.P.s
Cult of personality - cf. Gandhi
 6. Absence of Opposition & Alternative Govt.
Polarisation - China way
Opposition groups satellites
Disfranchisement in 1957

II

Where is Threat to Democracy?

Drifting to State Capitalism - Third Plan
Nagpur Resolution

Concentration of Power

Vinoba: "Today a handful of people that is not more than 5 or 6 have all the initiative and power in their hands. The rest are just 'yes' men."

Political dictatorship the concomitant

Why? 1. New Class - Dhillas - Parkinson's Law

2. Parliament not competent *of Economic Ballot*

3. Autonomous social forces essential

Trotsky: "In a country where the sole employer is the State, opposition means death by slow starvation. The old principle 'Who does not work shall not eat' has been replaced by the new one 'Who does not obey shall not eat'."

P.M. ignores all this - Basic confusion
Wants leopard without his spots
Slow poison - R. Benchley

Karl Marx's big mistake - Nehru follows

Ground prepared for communism

Rule of Law impaired - Palkhivala

Ideological acceptance

V. Patel: "Sappers and Miners of C.P."

"When the Kissing Had to Stop" - cf. India - K.M. etc.

*The Alternation - Economic Ballot
Equality of opportunity
Children breathe free air*

V

Lecture Notes for talk to the
Advertising Club, Bombay, on
Friday, October 28, 1960.

I

J. K. Galbraith

(Kumud)

Affluent Society achieved

"Now goods are abundant. More die in the United States of too much food than of too little. Where the population was once thought to press on the food supply, now the food supply presses relentlessly on the population. No one can seriously suggest that the steel which comprises the extra four or five feet of purely decorative distance on our cars is of prime urgency. For many women and some men clothing has ceased to be related to protection from exposure and has become, like plumage, almost exclusively erotic." (97)

But still poverty, slums, inadequate hygiene and education

Pitt: "Poverty is no disgrace but it is damned annoying."

In the contemporary United States it is not annoying but it is a disgrace. (259)

But preoccupation with production continues

"...Economic theory has managed to transfer the sense of urgency in meeting consumer need that once was felt in a world where more production meant more food for the hungry, more clothing for the cold, and more houses for the homeless to a world where increased output satisfies the craving for more elegant cars, more exotic food, more erotic clothing, more elaborate entertainment — indeed for the entire modern range of sensuous, edifying, and lethal desires." (109/110)

Theory of consumer demand assumes that wants originate in the personality of the consumer. They are given data for the economist who must seek their satisfaction.

Galbraith questions this. Are demands original or are they contrived for him? If so "One cannot defend production as satisfying wants if that production creates the wants." (119) Production only fills the void that it has itself created. Wants are in effect the fruit of production. "One man's

consumption becomes his neighbour's wish. This already means that the process by which wants are satisfied is also the process by which wants are created. The more wants that are satisfied the more new ones are born." (121)

Direct link between production and wants provided by institutions of modern advertising and salesmanship.

"Their central function is to create desires - to bring into being wants that previously did not exist." (121)

"A broad empirical relationship exists between what is spent on production of consumers' goods and what is spent in synthesizing the desires for that production. A new consumer production must be introduced with a suitable advertising campaign to arouse an interest in it. The path for an expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of a product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for that product. None of this is novel. All would be regarded as elementary by the most retarded students in the nation's most primitive school of business administration. The cost of this want formation is formidable. In 1956 total advertising expenditure - though, as noted, not all of it may be assigned to the synthesis of wants - amounted to about ten thousand million dollars. For some years it had been increasing at a rate in excess of a thousand million dollars a year. Obviously, such outlays must be integrated with the theory of consumer demand. They are too big to be ignored." (122)

"As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied.....Wants thus come to depend on output." (124)

"Production induces more wants and the need for more production" (124/125)

Advertising and emulation - the two sources of desire - operate on those who can afford and those who cannot.

Thus debt and changed view of debt. "...Retreat from

the Puritan cannon that required an individual to save first and enjoy later." (156)

Hire Purchase

In 5 years (1952 to 56) instalment credit increased by 63% and that for cars by nearly 100%. In 1955, one family in four of those with incomes between \$3000 and \$4000 bought a car, and 69 percent of those did so on credit. About 30 percent of those who bought cars on credit in 1955 had bought their previous car the same way and still had debt outstanding on that vehicle.

Of all families within the income range from \$3000 to \$4000, 48 percent had instalment payments to meet. For nearly a third of those, the payments commanded more than a fifth of the family income before taxes. (157/158)

Theory of democratic decision between private and public expenditure depends on independently determined consumer wants. But Galbraith argues consumer makes no such choice. "Advertising operates exclusively, and emulation mainly, on behalf of privately produced goods and services." (202)

Therefore, in U.S. failure to keep public services in minimal relation to private production is a cause of social disorder. *Why value private* (201)
homerichs
 Better schools and parks versus better motor cars.

Galbraith argues it is time for U.S. to move on from production to distribution.

"To furnish a barren room is one thing. To continue to crowd in furniture until the foundation buckles is quite another. To have failed to solve the problem of producing goods would have been to continue man in his oldest and most grievous misfortune. But to fail to see that we have solved it and to fail to proceed thence to the next task would be fully as tragic." (277)

Way must be found to remedy the imbalance.

"The present imbalance is clear, as are the forces and ideas which give the priority to private as compared with public goods. This being so, the direction in which we move to

correct matters is utterly plain. We can also assume, given the power of the forces that have operated to accord a priority to private goods, that the distance to be traversed is considerable. When we arrive, the opulence of our private consumption will no longer be in contrast with the poverty of our schools, the unloveliness and congestion of our cities, our inability to get to work without struggle, and the social disorder that is associated with imbalance. But the precise point of balance will never ~~be~~ defined."

(250)

II

Consumer demands and preferences genuine

Human nature, not advertising, creates needs and demands

Experience re: Advertising, e.g. AII and IAC (State)

Planned propaganda at public cost

Savings Schemes

Save today for prosperity tomorrow

P.M.'s speeches

Galbraith victim of habit of regarding economic wellbeing as accumulation of ever greater quantity of goods.

Rise in standard of life depends atleast as much in increase in knowledge which enables us to use different things and things we did not know before

Rise in income depends on learning to use our resources more effectively and for new purposes.

Galbraith deplores inequality and conspicuous waste, but this part of progress and civilization.

Hayek: 'The Constitution of Liberty':

".....there will always be many things we already know how to produce but which are still too expensive to provide for more than a few. And at an early stage they can be made only through an outlay of resources equal to many times the share of total income that, with an approximately equal distribution, would go to the few who could benefit from them. At first, a new good is commonly 'the caprice of the chosen few before it becomes a public need and forms part of the necessities of life. For the luxuries of today are the necessities of tomorrow.' Furthermore, the new things will often become available to the greater part of the people only because for some time they have been the luxuries of the few." (43)

not merely

"The important point is that we gradually learn to make

cheaply on a large scale what we already know how to make expensively in small quantities but that only from an advanced position does the next range of desires and possibilities become visible, so that the selection of new goals and the effort toward their achievement will begin long before the majority can strive for them. If what they will want after their present goals are realised is soon to be made available, it is necessary that the developments that will bear fruit for the masses in twenty or fifty years' time should be guided by the views of people who are already in the position of enjoying them. If today in the United States or western Europe the relatively poor can have a car or refrigerator, an airplane trip or a radio, at the cost of a reasonable part of their income, this was made possible because in the past others with larger incomes were able to spend on what was then a luxury. The path of advance is greatly eased by the fact that it has been trodden before. It is because scouts have found the goal that the road can be built for the less lucky or less energetic. What today may seem extravagance or even waste, because it is enjoyed by the few and even undreamed of by the masses, is payment for the experimentation with a style of living that will eventually be available to many..... Even the poorest today owe their relative material well-being to the results of past inequality."

(44)

"One may share to the full the distaste for the ostentation, the bad taste, and the wastefulness of many of the new rich and yet recognise that, if we were to prevent all that we disliked, the unforeseen good things that might thus be prevented would probably outweigh the bad. A world in which the majority could prevent the appearance of all that they did not like would be a stagnant and probably a declining world."

(130)

Even communist dictatorships recognise need for inequality partly as incentive and partly for economic progress. Only unequal consumption is dictated.

Hayek gives analogy of rich and poor countries:

"Although the fact that the people of the West are today so far ahead of the others in wealth is in part the consequence of a greater accumulation of capital, it is mainly the result of their more effective utilisation of knowledge. There can be little doubt that the prospect of the poorer, 'underdeveloped' countries reaching the present level of the West is very much better than it would have been, had the West not pulled so far ahead. Furthermore, it is better than it would have been, had some world authority, in the course of the rise of modern civilization, seen to it that no part pulled too far ahead of the rest and made sure at each step that the material benefits were distributed evenly throughout the world. If today some nations can in a few decades acquire a level of material comfort that took the West hundreds of thousands of years to achieve, is it not evident that their path has been made easier by the fact that the West was not forced to share its material achievements with the rest - that it was notheld back but was able to move far in advance of the others?" (46/47)

"If on an international scale even major inequalities may be of great assistance to the progress of all, can there be much doubt that the same is also true of such inequalities within a nation?" (48)

"At any given moment we could improve the position of the poorest by giving them what we took from the wealthy. But, while such an equalizing of the positions in the column of progress would temporarily quicken the closing-up of the ranks, it would, before long, slow down the movement of the whole and in the long run hold back those in the rear. Recent European experience strongly confirms this. The rapidity with which rich societies here have become static, if not stagnant, societies through egalitarian policies, while impoverished but highly competitive countires have become very dynamic and progressive, has been one of the most conspicuous features of the postwar period. The contrast in this respect between the advanced welfare states of Great Britain and the Scandinavian countries, on the one hand, and countries like Western Germany, Belgium, or Italy, is beginning to be recognised even by the former."

What G. wants is happening but he can't see it (48/49)
... in some way.

In any event, we are not an affluent society

No danger of over-consumption, no danger of State sector starving - other way about - Third Plan

Galbraith in fact gives warning : "In poor and ill-governed societies, private goods meant comfort and life itself. Food, clothing and shelter, all technically subject to private purchase and sale, had an urgency greater than any public service with the possible exception of the provision of law and order. The burden of proof was on any step that diverted resources from the satisfaction of these simple biological requirements to the almost invariably spendthrift services of the State." (242)

Similarly re: Sales Tax:-

"The effect of a sales tax varies greatly as between a poor and an affluent ~~xxx~~ country, and the difference is one not of degree but of kind. Under the ancien regime in France the tax on salt achieved an enduring reputation for its oppressiveness which it retains in parts of modern India to this day. In the United States a tax on salt, even one that doubled or trebled its price, would work no perceptible hardship. It is not that salt is more dispensable now than in the day of the gabelle. But where it was then a major object of expenditure it is now an insignificant one. And where the price of salt once affected visibly and directly what remained for other use, it is now too small to have a noticeable effect.

As with salt, so with other things. In a family which can buy only bread and cloth, a tax on bread and clothing means that children will be hungrier and less well clad. In a family which can buy many things the adjustment comes at the margin in spending for petrol, instalment payments, the races, or the quality of the ceremonial steak. Thus does affluence alter the case against sales taxation.

(246/247)

Joe Grimond: "Some socialists want to avoid the affluent society. I want to use it."

That A.S. needs a satisfying faith by which people may live

~~SECRET~~ 11

Inflation

Galbraith: "The second of the unsolved problems of the Affluent Society.

Graham Hutton's book relevant and timely - almost written for us

G.H. at L.S.E. Liberals together now - flourishing economic consultants

Keynes: "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

(H.324)

Hutton's proposals:

- (1) A planned democratic economy seeking rapid growth is particularly susceptible to inflation.

"It is scarcely surprising that poverty-ridden masses in countries which have recently gained sovereign independence - but little else to improve their people's welfare - should unquestioningly accept the trials of deliberate inflation, on top of the trials their ancestors suffered, in exchange for promises of economic growth and better times". (109)

"If you try to invest in new capital equipment within a given period more resources than your people are prepared voluntarily, or can be compelled by the State, to save from their current production, all prices will get of gear and inflation will result". (126)

"The democratic State with a mixed economy is forced to control and regulate private persons and businesses progressively. It is forced, having unleashed inflation to cover up its effects. It tries to remove the symptoms by new State controls, new regulations, and new laws about the minutiae of personal and corporate life, rather than to remove the disease. And thus

democracy undoes itself by creating an increasingly compulsive, restrictive bureaucracy, upon which everyone and everything increasingly come to depend for permits, nods, and so-called initiatives. In the end democratic Parliaments see their own freedom vanish with the value of the currency and a centralised bureaucracy reigns. A centralised State socialism comes about malgre governments, oppositions and citizenry —malgre even the Socialists, for they would prefer to bring about their ideal economy by a safer road." (128)

Democratic Planners' dilemma:

"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 trade 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." (82)

- (2) Controls attack only the symptoms and not the disease, like cooling the thermometer to cure the patient's fever.

"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 penalising 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." (128)

In any event, they are ineffective unless total in which case you lose freedom.

How totalitarian economies control inflation:

"The people do not know the relative values of things.

The massive bureaucracy need not publish its money-accounts, as long as the plans appear to be fulfilled. The true costs of production, the true costs of errors, need never be published. Only crises occur within the bureaucracy.

Not leaving such decisions and operations to free enterprise, public markets, and the automatic measuring and registering of results in money costs and prices necessarily does away with democracy and freedoms. It gives the State the power to inflate, to force savings from the masses and to make them produce and consume what they are told to, for the good of the State's plans. It gives the State, therefore, the power to cover up the real costs of inflation. They are covered in the general, massive loss of efficiency, or slower rate of consumers' progress, or social and political tensions, or absence of many things the consuming masses would prefer to what the State produces. But it also does away with the priceless democratic boon of the finest, most accurate, most sensitive and automatic economic measuring instrument for all values: the natural costs and prices of everything in free and competitive markets." (117)

"...that in its (in any case heavy) costs must not only be reckoned monumental wastes but also massive personal inhumanities and unfreedoms, only Western 'fellow-travellers' deny. Official Russian literature admits them." (124)

(3) The only choice

"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 freedoms depend." (100)

"The more productive capital a democratic society needs, the more inflation will drive that society on to a three-horned trilemma. It will have to abandon freedom and secure savings forcibly, so long as inflation persists; or it will have to abandon inflation to get the savings voluntarily in a democratic society; or it will have to slow down or abandon economic progress and the necessary rate of formation of capital, if it remains democratic but inflates." (129/130)

"The inflating modern democratic State faces this trilemma, which bears repetition. 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 conserve individual freedoms." (130)

Statists and planners cannot be expected to make correct choice. *Change if not necessary*

Hayek:

"It is no accident that inflationary policies are generally advocated by those who want more government control - though, unfortunately, not by them alone. The increased dependence of the individual upon government which inflation produces and the demand for more government action to which this leads may for the socialist be an argument in its favour.

Those who wish to preserve freedom should recognise, however, that inflation is probably the most important single factor in that vicious circle wherein one kind of government action makes more and more government control necessary."

(H.338)
