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The Right Road to Indian Progress

by Bellikoth Ragunath Shenoy

An eminent Indian economist warns that in backing economic planning U.S. aid is now helping to socialize his country. He calls not for more money but a radical change in course.

The increasing interest of the U.S. in Indian economic development is naturally most welcome to the Indian people. India offers a magnificent opportunity to prove that there can be no conflict between progress and freedom, and that poverty can be overcome more quickly through the dynamics of a free-market economy than through static totalitarian planning. Unfortunately, India today is deeply committed to the philosophy of government planning, and has been urged to continue along this road by many Western economists. It will be the thesis of this article that such planning is dangerous for individual liberty, is particularly unsuited to India's economic needs, and is in fact resulting in the large-scale wastage of foreign aid given to India.

It is a cliché of the times that underdeveloped countries like India must resort to wide-scale planning if they are ever to progress. But the great industrial democracies of today, including the U.S., were once underdeveloped countries and achieved their development through the market system of economy. In recent years the potentialities of the free market have also been strikingly demonstrated in the case of West Germany, Italy, Japan, and Hong Kong. Such policies have never had a fair chance in free India. The dynamics of progress were weighed down by controls inherited from the war, and before the Indian economy could gather momentum it fell victim to increased statist direction. India's two five-year plans (the first completed in March, 1956, and the second now in operation) have aimed to increase national output by increasing investment, according to an elaborate government program. While this program has so far avoided the total controls of Communism, it has resulted in increasingly dangerous forms of government intervention. As C. Rajagopalachari, one of India's great elder statesmen, has warned: "The state is becoming a giant entity in itself, menacingly poised against the citizen [and] interfering with his life at all points."

The general commitment of India's ruling Congress party is to establish as speedily as may be a "socialist pattern of society." This objective includes "state ownership or control of the strategic means of production," state participation in "banking, insurance, and trading," a "ceiling on landholdings," and a "ceiling on net personal income after tax" of thirty times the national avera income per family. In addition to direct government ow ership of certain industries, the state seeks to guide m investments by fixed priorities; it allocates and contr the price of steel, cement, and rubber; and has preempt over 50 per cent of all imports, including food grains, f its own account. Some 85 per cent of foreign aid has bee pushed into the public sector of the economy.

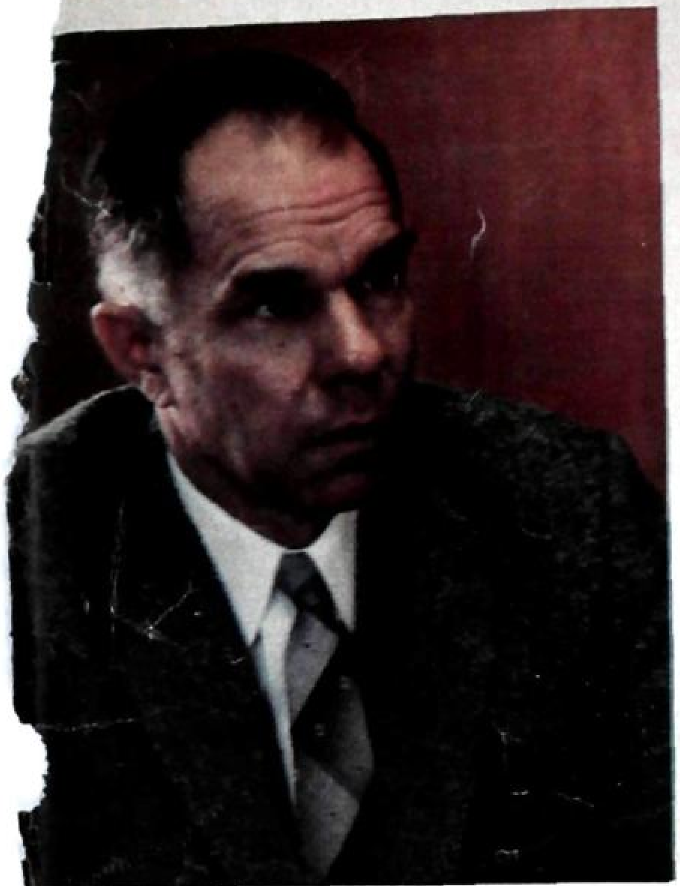
Meanwhile, direct tax rates in India are among th highest in the world. At certain income levels, total personal taxes (income tax, supertax, wealth tax, expenditur tax, gifts tax) exceed total incomes. This has inevitabl discouraged individual initiative and has invited widespread tax evasion. While revenue receipts have exceeded planned targets, this has not benefited investment. For the increased receipts were wholly absorbed by increased social-service expenditure. In seven years of planning, the administrative expenditure of the government rose nearly three times as fast as the national income. The public debt of the central government and the states rose by over 80 per cent.

This expansion of state activities is not only politically dangerous but has led on to unhappy economic consequences. Over the past decade India has, of course, made some economic progress, but statistics can be misleading. India's national income has risen fairly sharply in mone terms, but India has also suffered from persistent infla tion, and in the past three years prices have risen at an annual rate of 8 per cent. While real national income has advanced by 25 per cent since 1950, or at an average rate of 2.8 per cent per year, population has been growing by between 1.3 per cent and 1.8 per cent per year. Hence income per capita and income per family have shown relatively little change. Indeed, for the past three years income per capita has stagnated at about $58 per year, just when the government has been intensifying its planning efforts.

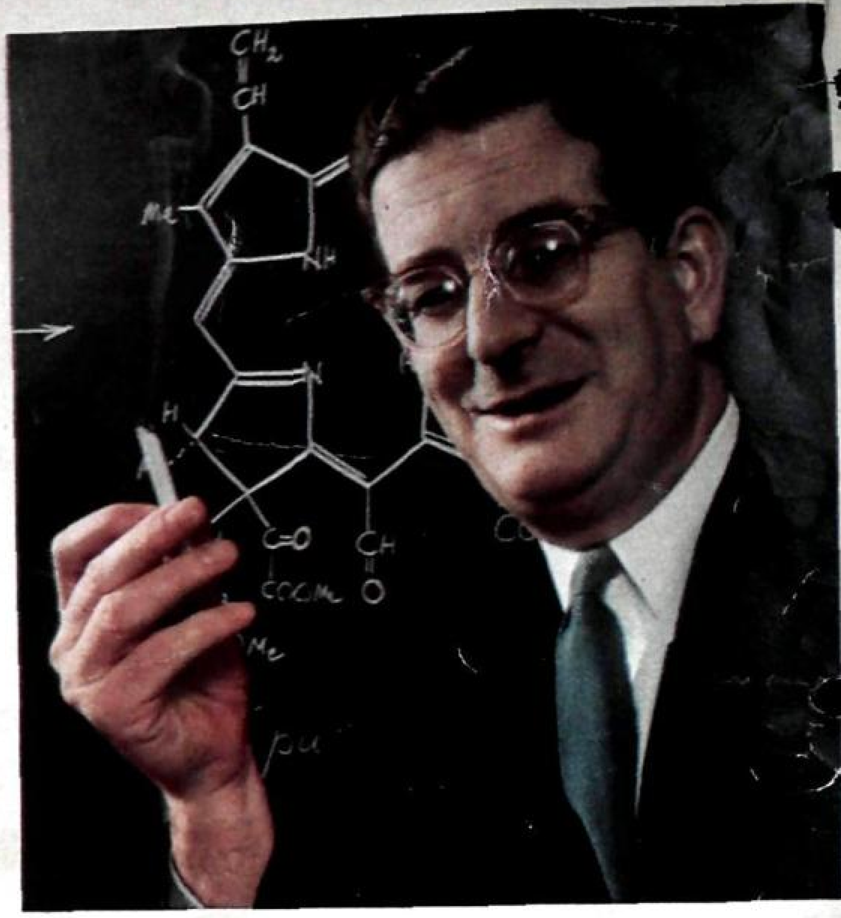
What planners forget

Moreover, such bureaucratic planning, with its emphasis on heavy industry, has little to commend it in view of India's vast size and existing structure of production. Agriculture today accounts for 47 per cent of the Indian national product, and is predominantly in small farm operations. The national average of farm land per agricultural family is 8.5 acres, and there are some 50 million holdings in the country. Industrial factory establishments account for only 8 per cent of the Indian national product, and small industrial enterprises for 9 per cent. In an economy of this kind it is essential that desperately scarce capital should find its way to the small farmer and factory proprietor. It is also essential that the economy be flexible and largely self-regulating. This cannot be done by centralized bureaucratic planning from the top down. The bureaucrat may well keep track of a few big enterprises. He simply cannot allocate savings and other resources efficiently over India's tens of millions of small production units, each requiring a knowledge of local circumstances and conditions. What India and other low-income economies require is the guidance of the free market, which disperses, rather than concentrates, economic decisions, and which provides a self-adjusting and humane process for allocating scarce resources to competing needs.

To advocate the philosophy of the free market for India does not mean returning to the freebooting methods of



Glenn T. Seaborg, forty-eight, will probably go down in history as one of the last great discoverers of elements. He found nine hort-lived transuranic elements, beyond which there are not likely be many more. Since 1958 he has been the University of Cali-rnia's youngest chancellor. He shows a deep concern over U.S. ientific education. Born in a small Michigan mining town, he is nterested in sports, plays sand-lot baseball with his six children. He won the Nobel Prize in 1951, the AEC's Fermi Award in 1959.



Robert B. Woodward, forty-three, is the dazzling architect of many of the most complex biological molecules yet synthesized, beginning with quinine in 1944. A Quincy, Massachusetts, prodigy who began chemical experiments at ten, Woodward whizzed through M.I.T. to a Ph.D. in four years at twenty, later organized a theory of synthesis at Harvard. He has been twice married, has four children. An omnivorous reader, he hates to waste energy on exercise. Last year he won the British Royal Society's top Davy Medal.

molecules, linking it with sickle-cell anemia, a debilitating hereditary blood disease. This was the first direct linking of a disease to a specific molecular defect. He is now pursuing the idea almost exclusively in an attempt to track down molecular links to hereditary mental diseases. And in 1953 he and an associate, Robert B. Corey, working on muscle protein residues, finally built up the first model of a protein molecule, a tight spiral of amino-acid groups, many units and hundreds of thousands of atoms long. From this they quickly leaped to suggest that the inner, never-before-conceived structure of nucleo-proteins—the genes or germ stuff by whose secret code all life is known to reproduce itself—must be a complex triple helix, what the ancients called the "spiral of life." This wild guess was substantially corrected that same year by two young scientists working in Britain, James D. Watson and F. H. C. Crick, who independently made the big discovery that the molecule is a double helix.

Pauling's wide-ranging interests, of humanistic cast and philosophic bent, sweeping from physics through chemistry into biology, are typical of the kind of savant Europe has been more prolific in producing than the U.S. Pauling reads widely (including "a lot of astounding fiction"), is interested in communication ("I like words, and using them precisely"), in art (paintings of molecules, visual abstractions, stand around his ultramodern office), and can ramble easily from the novels and ideas of C. P. Snow to peace and the world condition and Albert Schweitzer (whom he visited last year), and back to a new theory of his on anesthesia, soon to be published, explaining for the first time how anesthetics work on consciousness, "all on a molecular basis."

Like many another scientist after World War II, who was suddenly conscience-stricken by the weapons of annihilation science had created, Pauling from 1945 on spoke up for, supported, and lent his name to almost any movement for world peace that came along. When he was announced as Nobel Prize winner in 1954, he had for some months been denied a passport to visit India and other points on the ground that it was undesirable for Pauling to travel abroad, a ruling hastily changed to allow him to go to Stockholm to accept his prize. Many causes Pauling endorsed were of a left-wing if not Communist-front character. He defended other scientists charged as subversives, and tangled with the Un-American Activities Committee and the American Legion. An even greater storm blew up in 1957 when Pauling, pursuing his stubborn beliefs, got into the crusade to halt nuclear-bomb tests. In 1958 he amassed 9,235 signatures of world scientists, including thirty-six Nobel Prize winners, on

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laissez faire. In an enterprise economy, the state has obvious responsibilities for defense, the maintenance of internal law and order, the prevention of monopoly, and the provision of a flexible and efficient monetary system. It must also undertake such needed works and services as irrigation, roads, communications, education, and public health. Through fiscal and administrative inducements, the government can also see that heavy industry keeps up with the needs of society, though in general the development of heavy industry should follow, not precede, the growth of light industry. In an expanding economy of 415 million people, low down on the scale of development (there are seven phones in India per 10,000 people as against 4,000 in the U.S.A.), such a minimum program should be enough to stretch the genius of any administration for several five-year periods.

Farmer in the net

The point is that the government should concentrate on the essential tasks that only government can perform, while allowing private initiative and private choice to determine the course of production and distribution. Such an approach is particularly needed in Indian agriculture, from which 70 per cent of the population draws its living. With agricultural yields among the lowest in the world, the returns on improved farming methods could be enormous. Maximization of output would overcome poverty and unemployment and at the same time provide the sinews for industrialization. Feeding and clothing a hungry people must have priority over more sensational schemes.

Unfortunately, restrictive government measures are curbing agricultural development. These measures include curbs on credit, land transfers, and the prices of food grains, tea, coffee, rubber, sugar and sugar cane. In addition, the government has now divided the national grain market into zones, ten for rice and seven for wheat, which has accentuated regional price variations, penalizing consumers in the deficit areas and producers in the surplus areas, and threatening a fall in certain export crops. The entry of the state into the food-grains market as a buyer, along with inflation, stiffened prices in 1958-59, despite favorable harvests and large imports. Now some want the government to take over trading in food grains entirely, and before the current fiscal year is out, all fourteen states in India are expected to limit landholdings. It has even been proposed that the nation adopt "cooperative" farming, which some interpret as the end of family farming and private ownership of land.

Ceiling on dhoties

Even if this does not happen, it is obvious that over-regulation—actual and contemplated—is inhibiting a sustained and intensive effort to develop agriculture. What now of industry? The case of textile production, which accounts for 36 per cent of all industrial production, is significant. Textile manufacture is in the first place severely controlled by import regulations, which apply to machinery, spare parts, long-staple cotton, and chemicals; a change in any one of these regulations may upset production schedules and lead to a costly search for substitutes. In addition, efficient enterprises cannot freely expand to optimum capacity if they are located in larger so-called "surplus" textile centers. Meanwhile the government resists the closing down of inefficient mills for fear of putting men out of work, and instead takes over the operation of such mills on its own account. There are production ceilings on certain types of cloth (dhoties and prints); the borders of white saris must satisfy certain restrictive requirements; the production of dyed saris is banned; and there are limitations on the counts of the yarn used in the warp and weft. The output of yarn furthermore is subject to distribution control. Some curbs are designed to protect the market for hand-loomed products, but the cost has been tremendous. Evidence of this cost is found in the semi-stagnation of mill-cloth output at a time when national income and industrial production have been advancing, and in the steep rise in the price of certain types of mill cloth.

The case of textile regulation, however, is simply typical of government regulation of all enterprises. Under

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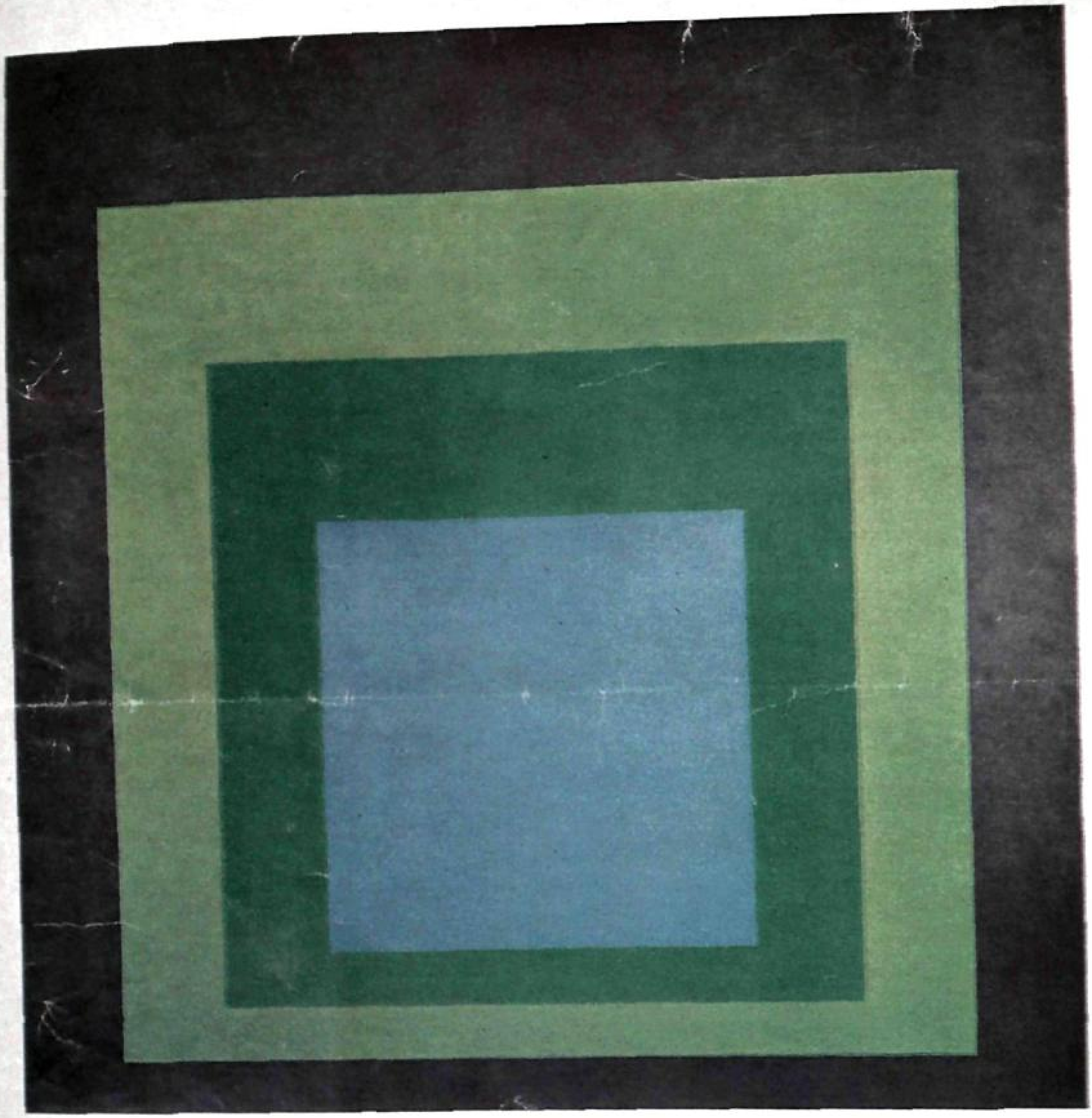
"A Cassandra among Indian economists" is what *The Hindu*, of Madras, recently called B. R. Shenoy. The Indian newspaper was describing Shenoy's outspoken opposition to present policies of the Indian Government—policies that call for increased socialization of the Indian economy through central government planning as a means of speeding Indian economic development. Belief in the efficacy of such planning is not only widespread in India but is strongly backed in the U.S. by such prominent "liberals" as Senator Chester Bowles, former U.S. Ambassador to India and now adviser to presidential hopeful John F. Kennedy. Both Bowles and Kennedy contend, moreover, that in order to help India carry out its economic plan U.S. aid, which has amounted to about $2 billion in the past eleven years, must be multiplied many times over. They point out that while Russian loans to India are smaller (totaling some $700 million), they may increase in the future, and constitute a challenge to the West.

To this whole approach—shared in part by the Eisenhower Administration—Professor Shenoy brings a profound skepticism. Without questioning the value of some economic aid, he holds that such aid will be wasted unless India abandons its planning schemes and adopts a philosophy of the free market and limited government. If planning is continued on the present basis, he warns, India will not only go bankrupt but may be slowly communized from within.

While Professor Shenoy's views are unpopular in his own country, and in some American quarters, his credentials are impressive. At fifty-five, he is director and professor of economics at the School of Social Studies at Gujarat University in the city of Ahmedabad. He holds degrees from Benares University in India and from the London School of Economics, and was for six years a lecturer at the University of Ceylon. He has been an adviser to the Reserve Bank of India in Bombay, president of the Indian Economic Association, and alternate executive director representing India on the International Monetary Fund and World Bank. In the summer of 1959 he helped draft the manifesto of India's conservative Freedom party, which is strenuously opposed to Nehru's predominant Congress party, and is a friend of India's immensely able statesman, Minocheher Masani. A prolific writer and speaker, Shenoy has no political ambitions. Says he: "I am an intellectual trying to live up to the best traditions of that calling."

B. R. Shenoy



A square within squares, Josef Albers' pristine *Starblue* is one of a dozen abstract paintings bought by Reynolds Metals for its new aluminum-and-glass headquarters at Richmond, Virginia. President Richard S. Reynolds Jr. admits that modern abstractions, acquired at the suggestion of Skidmore, Owings & Merrill, caused "quite a difference of opinion around here." But now they seem "particularly appropriate, as an accompaniment to modern architecture."