PRICE POLICY IN NATIONALISED INDUSTRY AND TRADE

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> "People must come to accept private enterprise not as a necessary evil. bat as an affirmative good."
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> — Eugene Black
>
> President; World Bank

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The All-India Congress Committee decided at its Chandigarh session to extend the area of nationalised industry and trade. The National Development Council has decided to go ahead with state trading in foodgrains. These two decisions are of far-reaching significance. Unfortunately, the party in power is dealing with the matter of nationalisation purely on the ideological and sentimental plane. It is therefore for the intelligentsia to bring its consideration down to earth and examine how nationalisation of industry and made will affect the day-to-day life of the citizen. The subject is a very wide one and, to do it full justice, it will have to be examined from various angles such as economic, sociological, psychological, ethical and, of course, political.

The test of nationalisation should be, "What is the price at which nationalised industry and trade will deliver the goods to the consumer?" Before examining this, it is necessary to understand what price is, how it forms under normal circumstances and how it emerges in special and abnormal circumstances.

In its simplest form, price is what the buyer is prepared to pay. If, on this price, the profit that the seller makes is very high, he is not allowed to get away with it for long; for others will enter the-field and try to make the same profit or even less. When competition sets in, it is invariably the buyer that benefits and the price is gradually reduced till a certain equilibrium is reached when all the sellers feel that they cannot cut their prices any further. This equilibrium, however, is not a static one but a dynamic equilibrium. It is subject to fluctuations as a result of the demand going up or down or other causes.

The price so far dealt with is price in what is known as a "buyers' market", i.e., the buyers have the upper hand in that they have the choice to buy from whom they like amongst a group of competitive sellers, and are in a position to beat down the' price. We cannot, however, hope always to be in a buyers' paradise, and, as the economy gets more and more complicated, various factors will affect the price. There may be a sudden unforeseen shortfall in supply or an unexpected spurt in demand. Then the seller is in a happy position and will dictate the price. Then we have what is called a "sellers' market", that is, the seller is in a position to dictate terms and say, "Take it or leave it". Just as in a buyers' market the buyer is in a position to say, "Well, I can get this at my price from your competitor", in a sellers' market, the seller says, "There are: so many clamouring for my goods. If not you, somebody else will buy at my price. Goodbye." What we should remember is that even in a sellers' market prices will not shoot skyhigh as long as there is competition. Human nature being what it is, others will enter the scramble for high profits and, ultimately, bring down the prices in a free economy. By "free economy", I mean not only freedom in entering and carrying on business but freedom from controls, licences and permits. Therefore, in a free and competitive economy a sellers' market cannot last long. Freedom and competition will soon correct) the imbalance and again a price level satisfactory both to the seller and the buyer will emerge. But these will be the results in the long run, for, economic forces take' some time to operate.

Circumstances arise when there is a sudden demand for

a great variety of things which have to be purchased urgently, for example, in the case of war. In those circumstances, normal economic laws cease to function and prices of various articles emerge in different forms according to the circumstances in each case. A war time: story brings out this aspect of the' matter. Four business men lunched at an expensive restaurant, and, when the bill was produced, all the four stretched out their hands saying, "Please, permit me." The one who grabbed the bill said, "It's all right, I have a war contract." The second gentleman said, "That is nothing, I have an educational contract." The first gentleman bowed and parted with the bill to the second. The third gentleman said, "Here, let me have it, I have a negotiated contract", and succeeded in getting the bill into his hand. Then the last gentleman said, "You are mere babies, I have a cost plus profit contract. I shall get my percentage on this too." All three readily yielded the place of honour to the last gentleman. They were all businessmen and knew what they were talking about.

Let us examine these interesting classes of contracts, namely, educational, negotiated and cost plus profit. Demand for certain items, for example, tents, was so enormous that those already in the field could not possibly meet the demand whatever price the Government might be prepared to pay. At the same time, their manufacture did not involve a high degree of technical knowledge or skill which could not be acquired after a fairly short period of training and we had to bring in more suppliers by giving them a sort of "earn while you learn" order. That was why these orders were called educational orders. Naturally, we could not attract new-comers into the field unless we offered attractive terms. For one thing it would be unreasonable to expect a newcomer to supply at the same price as an old established firm having considerable experience of the business. So, invariably, the price paid to the newcomer was higher than that paid to those already in the field. We had a horse of a different colour to deal with when the goods were not so simple but required really expert technical knowledge and skill. It was not possible to bring in new parties into the field by giving them educational orders and we had to persuade those already in the field to be reasonable and to play the game. What was worse, we required all the parties could produce, and there was therefore no question of purchasing only from the lowest tenderers. Negotiations had to be conducted with each of the producers and different prices fixed for different parties depending not only on the special circumstances in each case but his capacity for driving a hard bargain. In this category also prices were fixed in each case though the price was not the same for all suppliers of the same commodity.

Last of all came the articles the supply of which was a monopoly in very few hands, as also the supply of articles which were not manufactured in this country before. In this category even negotiation was out of the question. The supplier, reasonably enough, said: "I know nothing about this thing. Let me manufacture it and see what it costs. You allow me a profit of 10% on what the manufacture actually costs me." This was conceded, and these contracts were called "Cost plus profit" contracts. No doubt these contracts were the most lucrative as the supplier did not have to economise in the various stages of manufacture. On the other hand, there was a temptation to keep the cost as high as possible as the higher the cost the higher was the profit. For convenience, we shall call the price that is formed naturally in a normal free competitive economy the "Formed" price; the price in the case of the educational orders, the "Farmed" price; the price under negotiated contracts a "Determined" price to distinguish it from a natural price; and the one under cost plus profit and "Indefinite" price, for, that is what it really is. You do not know where you stand till the manufacture is completed. We shall see later that each of these categories of price formation has relevance in the consideration of price in State undertakings.

It is admitted that cost is the major factor in determining price. Costing, as part of business management, came into being even before the war. But its purpose till then was to act as a handmaid and to assist the management in tracing weak and expensive points in production and to set them right. Its purpose was purely internal. The buyer had no desire to be acquainted with it — in fact he could not care less — nor had the producer any desire to exhibit his costs for all to see. He also considered his costs purely his private concern. An example will make this point clear. Suppose an industrial concern decides to have a transport branch of its own because transport forms a substantial part of its costs In the normal course, according to current business practice, it will keep proper cost accounts of its transport department and will have a precise idea of what it is costing them If a private carrier offers to do the job for less, the industrialist will first examine what is wrong with his transport which costs him more. He will make an honest appraisal of his costs and, if he finds he cannot reduce them, he will, like a wise. business man, accept the offer of the private carrier without bothering about the latter's costs. In this case cost remains the private concern of both the parties. If, unfortunately, the business man finds himself in a situation where he cannot organise his own transport, and there is no competition among carriers, he will be forced to enter into a cost *plus* profit contract. Then the carrier will inflate his costs as much as possible. As long as the natural price line is dominant and cost has to be adjusted to the prevailing price, the consumer is on safe ground; but the moment cost assumes a dominant position and then determines price, the consumer is set for disaster.

It is necessary to first get a clear idea of the emergence of price in different circumstances before we can follow intelligently the problems that will arise in a state enterprise. What are the reasons given in justification for the state entering the field of industry and trade? Mr. Ananthasayanam

Ayyangar, Speaker of the Lok Sabha, speaking in Madras, in his individual capacity, just before proceeding on his tour abroad a few months ago, remarked: "Why all this furore about state trading? The state only wants to help the consumer by doing away with the middle man and undertaking distribution on a 'no-profit, no-loss' basis." Today we may raise our wise eyebrows at such a naive statement, but it should be remembered that the carrot of a "No-profit no-loss" basis was dangled before the eyes of a credulous public, with even some show of seriousness, when the state first entered the field of industry and trade. Today we are all aware that this fiction of "no-profit no-loss" has been given the go-by. Profit motive, which was listed as one of the deadly sins as long as the private sector claimed it, is now installed in its due place of honour. Nevertheless, it is worthwhile to consider even this claim of "no-profit no-loss" basis when the state enters business and examine whether it will benefit the consumer.

On the face of it, it looks attractive and to the man on the street it sounds as if the Government proposes selling to him the various commodities at the price at which it acquired it. Little does he know that what the Government means by "no-profit no-loss" is that it will put up the price *only* by as much as handling, haulage, storage etc. Such of you as have intimate knowledge of how the private trader will use all his ingenuity to haul his goods by the cheapest mode of transport, store it in the cheapest shed, engage the cheapest labour for handling it, sometimes handling it himself, and the care with which he protects the goods (this last point is important, for one of the etceteras included in Government's expenses is wastage and deterioration) will agree that the actual expenses under each of these items will be much higher for the government agency. As the saying goes, "Government's business is nobody's business". For one thing, while the private trader will work 18 or even 20 hours a day if necessary, Government servants will insist on a 8-

hour day and a five-day week. So one should not be surprised if the mere expenses under Government management exceed the *expenses and profit* of the private trader, so that, even if Government stuck to its original promise of "no-profit no-loss", the consumer may have to pay much more than when the trade was in private hands.

Let us take a careful look at the change of scene when Government assumes the role of a trader. While discussing the formation of price in normal and abnormal times, we learned how prices were determined by the state in various ways under different circumstances. It is important to bear in mind that at that time the state was the buyer and, because' it could wield the big stick if it became necessary, it could prevent, at least to some extent, the seller exploiting to the full his position of advantage. But now, with the state becoming the trader, both the power and the advantage are on the same side. "Advantage" is referred to advisedly because the state takes up trading only in those commodities the supply of which is scarce. In fact, it is the difficult position in the supply of a particular commodity that is advanced by the state as the reason for assuming on itself the trade in it on a monopoly basis. We have already seen that it is only when the supply position is difficult that a sellers' market develops, and the seller has the upper hand. So here we have the State with all its power sitting in the shop and the poor citizens, the buyers, await its pleasure. Under the old set-up, even during war emergency, advantage and power were on opposite sides and could counter each other. The power of the buyer, namely, the State, to overwhelm and, if necessary even to destroy the seller if negotiations failed, acted as a counter balance to the advantage the seller had. But what power has the man in the street against the omnipotent Government when it takes the place of the seller? What chances has he of beating down the price demanded by the State?

What the State is capable of doing will become clear if we examine in some detail State trading in cement. The selling price of cement has for years been controlled by the Government. The *ex works* price and packing charges are fixed after meticulous examination of costs and an allowance is made for freight. Even the distribution is controlled. Due to shortage in supply, some import became necessary in **1956.** It was discovered that the imported cement would cost Rs. 40 to **45** per ton more to the consumer at the nearest rail head than the indigenous cement. This raised the problem of having a uniform price for all the cement made available in the country by subsidising imported cement, the finance for the subsidy being found by raising the price of indigenous cement. But though the price was rigidly controlled by the Government and therefore there was no question of profiteering by the industry because scarcitv conditions had arisen, by some unknown process of logic Government decided that the circumstances justified the handing over the entire trade in cement to the State Trading Corporation as a monopoly. The State Trading Corporation came into the picture with the happy position of a selling price to the consumer at all railheads being Rs. 102-50 per ton which the State Trading Corporation would collect, and the price payable by S.T.C. to the producer, including excise duty, packing charges and distribution charges, Rs. 74 **25** per ton, leaving a margin of Rs. **28.25** per ton out of which Rs. 15.25 was average freight which would be borne by the S T.C. This left with the S.T.C. a margin of Rs. 13 per ton. After meeting out of this the subsidy involved in the sales of import-ed cement, a balance of rupees five crores was left with the S T.C. When the Press played up this phenomenal "profit", it was said that the S.T.C. had made a profit of 105 per cent. This appeared on the face of it to be fantastic and I could not accept the statement without having a look at the annual report and balance sheets of S.T.C. The following is the story that the annual reports and balance

sheets for 1956-57 and 1957-58 have to tell:

> "The Government of India have entrusted to the Corporation the task of acquiring cement from manufacturers, importing from abroad, and distributing both indigenous and imported cement at an equalised price.
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> "The total loss on imported cement has been of the order of only Rs. **48** lakhs, which, because of the retardation in imports, is considerably less than the original estimates. Consequently, the cement account shows a surplus of Rs. 5.01 crores, the disposal of which awaits the instructions of the Government, of India."

That puts the position very clearly. The scheme was to balance the subsidy with the extra receipts from indigenous cement, but, because the actuals did not work out as estimated, a surplus was left. More was gathered than was actually necessary for the subsidy. You will notice that the S.T.C. correctly viewed this surplus as not pertaining to its proper business and set it apart, almost like black money, to be disposed of by the Government. One should have thought that the Government would have immediately put back the price of cement to its original level. It did nothing of the sort. It transferred the surplus to itself and continued the high price of cement although there was absolutely no justification for it. The report for the next year says:

> "The cement agency account shows a surplus of Rs. 4.1 crores which has since been remitted to the Government of India".

What the Government collected is just another levy, like excise, but in the case of such a levy it would be done openly after getting the approval of Parliament, but in this case it was realised through the backdoor and was therefore an illegal levy. It is amusing to read in the report for 1957-59:

> "Your Corporation is grateful to the cement industry for its constructive and helpful co-operation".

Helpful indeed!

That is the full story of the cement scandal. Now let us examine the allegation of excessive profits being made by S.T.C. In this connection we should remember that the "Surplus" on account of cement was NOT included in the trading profits of S.T.C. Excluding that the position in 1956-57 was as follows:

Gross Profit on account of trading		Rs. 35 lakhs	
Agency commission and service fees		" 69 "	
Total		" 104 "	
Working expenses	Rs. 13.32 lakhs		
Taxes	" 51.00 "	64.32 "	
Balance			Rs. 39.68

or the profit was about Rs. 40 lakhs. The capital of S.T.C. being Rs. one crore, this works out as a profit of 40 per cent. For the following year, the corresponding figures are as below:

Trading profits and agency commission and service fees	Rs. 2.86 crores
Working expenses	" 53 lakhs
Taxes	" 1.21 crores
Net profit	1.12 crores

This means a profit of 112 per cent. One is left wondering whether the Welfare State which claims to enter trade to protect the citizen from the "greedy profiteer" has lived up to its professions. In one of his speeches during his tour of Andhra Pradesh, the Prime Minister said, "How can one meet criticism which is not based on facts." Here are facts taken from an official record. The Press has highlighted this scandal

for the last three months. Has the Government met this criticism based on facts? It is strange that the much maligned Forum of Free Enterprise should adhere to truth and non-violence while the party which claims a monopoly of these virtues indulges in misrepresentations, half truths and violent language.

To continue the story of cement: I have mentioned that the S.T.C. did not touch a pie of the windfall from the attempt to equalise prices. But it was allowed to levy a "service charge" of 1¼% during 1956-57 and ¾% during 1957-58. Did you ever hear of any one robbing you of your business and charging you service charges for it? It is legitimate to ask what service has S.T.C. rendered to deserve this remuneration. The same agency which was distributing cement under the old dispensation continued to do the work of distribution as agents of S.T.C. So S.T.C. was neither the producer nor distributor but still collected large sums as service charges — Rs. 65 lakhs in 1956-57 at 1¼ per cent and Rs. 53.5 lakhs in 1957-58 at ¾ per cent. It claimed that it had earned this amount as service charges. What is the service rendered when it neither produces nor distributes the commodity? S.T.C. does not deserve even the remuneration of a *Dalali* for the *Dalali* at least arranges a meeting between the seller and the buyer which may not materialise but for him. But in this case, the trade had already developed its market and built up its clientele. The S.T.C. did not bring fresh clientele to the trade. Still it claims service charges.

As the demand for cement is elastic, i.e., the buyer can afford temporarily to reduce his demand when the price is high and wait for better times, buyers held back and the sales of cement went down causing accumulation of stocks with the producers. Had the producers been free to sell their produce they would have sensed the reaction of their customers and immediately reduced prices by cutting their profit. The customer would have been the gainer. But S.T.C. which had acquired a monopoly in the trade would not budge, for it had nothing to lose. Stated in brief, S.T.C. was in this case in the happy position: "No-risks, nothing much to be actually done, only profits to be made." The producers of cement had to cry themselves hoarse with the stocks mounting. The buyers cried themselves hoarse against the prohibitive price; but S.T.C., like Shylock, clung to its pound of flesh. It had nothing to lose! The producers were not paid anything for the stocks accumulating with them. They were paid only as and when sales were effected. You have here a glaring and concrete example of what a powerful trader can do, and does do, both to the producer and to the buyer if he has the monopoly in the trade.

Price which forms itself naturally under a free economy to the satisfaction of both the producer and the consumer becomes a matter for negotiation and deliberate determination when conditions of supply become difficult: but the buyer and the seller are more or less in an ***equally strong* position** to negotiate'. Under a monopoly, with the monopolist having extraordinary powers, price is badgered into any shape the monopolist chooses. If the State enters trade just like any other trader, as one among many, not much damage will be done. In a free economy, all are welcome to the fruits of their labour whether as producers or as traders. Whether they rise or sink will depend on their efficiency. But the State is not prepared to take this place. The State enters trading in a certain commodity only as a monopolist. As a monopolist it commandeers the entire supply. Once that is done, the back of the buyer is broken, for the buyer's "choice of shop" as it is technically called, is gone. He has only one trader to deal with. If he is not prepared to pay the price demanded by the omnipotent State, he has to go without the article. The State also effectively bars direct contact between the producer and consumer. What about the effect of this monolithic monopoly trading

on the producer? Just as the choice of shop is lost to the purchaser, the open market is closed to the producer. The producer, even in a sellers' market, can no longer say, "I don't like the price offered by you. I shall sell it more advantageously elsewhere." For he is legally debarred from selling his goods to anybody else when the State assumes monopoly in the trade. Thus both the producer and the consumer are tied hand and foot, once the State takes over the monopoly in the trade of a certain commodity. You may say, "It may be that the monopolist CAN hold the producers and the consumers to ransom when he is a private party who is selfish and concerned only with his profits. But there is no such danger when a benevolent Welfare State is the monopolist." In other words, you may say that the profit motive is absent when the State is the monopolist. The trouble is that the profit motive is NOT absent in State Trading. At the Ooty Seminar of A.I.C.C. it was proposed that nationalised industry and trade should be utilised for financing the Third Five-Year Plan. Here lies the real and very grave danger. Once this principle of utilising State Trading and industry for financing the Plan is accepted, there is no limit to the profit that can be made and justified in the name of that Moloch — the Third Five-Year Plan. Many are the sins committed in the name of the Plan.

The Government of the day seems to think that it has discovered a sovereign remedy for all our economic ills in nationalisation. There can be no greater admission of bankruptcy in the art of governance if a Government applies the same remedy to every disease. When the rise in sugar prices was discussed in Parliament, the solution by nationalisation was freely bandied about. Serious allegations of corruption, ineptitude, false statistics, etc., which were made on the floor of the House were all brushed aside and the magic remedy of nationalisation was forwarded.

On the food front, a gullible public has been fed with wishful statistics which justify exports one day and all too **soon,** justify severe controls. Ultimately, the muddle on the food front will be used to justify nationalisation. Nationalisation will come and then those very elements who clamoured for it will regret it. The threat of State Trading in foodgrains has been hanging over our heads for sometime now, and we can very well imagine what the fate of the consumer will be when a commodity, the demand for which is inelastic, gets into the hands of the State Trading Corporation. Mr. A. P. Jain, ex-Union Food Minister, in his swan song, wailed that State Trading in foodgrains had failed because the machinery required for *enforcing* it was not there. COERCIVE machinery will be used ruthlessly when State Trading in foodgrains is "enforced".

Let us look at the picture of nationalised industry. In the case of the simple process of trade, the profiteering indulged in by the State becomes patent, but in the process of manufacture the same greedy profiteering can be effectively concealed through the intricacies of costing. It is in the pricing of goods manufactured by the State that the war-time story mentioned earlier has special relevance. No one will deny that, to begin with, the State is in position of the man who got the educational order and was allowed a higher price; but whereas on that occasion these educational orders were restricted to the manufacture of items which did not require a high degree of technical know-how or skill, the Government is now entering industries which require a high degree of technical know-how and skill. Therefore, it goes without saying that their cost must be higher than those of the parties already in the business. If, therefore, the State tries to sell its products in a free market, in competition with other producers, it is bound to find itself at a disadvantage. A private party placed in similar circumstances will have initially to face losses. But he perseveres patiently, bearing the initial losses, till he wins and comes out successful. It is after that, that he will be able to wipe off his initial losses. It is in his case an unrelenting law of survival of the fittest, and

all his bitter struggles are his private affair. He has no control over his competitors. Not so the State!

It enters a new field with a fanfare of trumpets that it will save the consumer from the "stranglehold of the profiteer". When, in due course, it finds that it cannot deliver the goods cheaper than the so-called profiteer and has to face the pressure of public opinion, it yields to the temptation of finding a scapegoat and it will very easily succeed in finding one in a country surcharged with Government engineered climate of hatred of the private sector. The most innocuous looking device is to pool the entire production and fix a uniform price. This has been done, in the name of public good, even when the State was not in the picture as the inefficient producer. It does not require knowledge of higher mathematics to realise that when such pooling is done, the price is bound to be higher than that charged by the efficient units. Pooling of prices is really a form of subsidy to the inefficient units. Once again, it is the consumer that suffers. It is well to remember that by pooling, the State does not remove the cause of complaint by the harassed consumer, but only removes the accusing finger, viz., the efficient producer selling at the lower price, which was pointing to the inefficient and costly producer, the State.

Once the pooled price is introduced, what is happening inside State enterprises is anybody's guess. We shall soon see this process working as the three steel plants in the public sector swing into production. The system of what is called "retention prices" is already in force in the steel industry, and when the industry was in the private sector, the system was so operated as to make the price of steel in India the lowest in the whole world. Prices are bound to rise with Government steel, coming into the market. This forecast is not based on prejudice. It stands to reason that the costs of a new producer should be high in the beginning. This is the universal experience. It is almost an economic law. It was announced in Parliament that the cost of the locomotives produced in Chittaranjan had gone down from Rs. 8 lakhs each to Rs. 6 lakhs each and that, similarly, the cost of the integral coaches produced at Perambur had gone down from Rs. 2 lakhs each to Rs. 85,000/- each, which shows that the State does improve with experience. The annual report of Tata Steel shows that in its recently expanded section costs have gone up and severely reduced profits which shows that the private sector also is not an exception to the general economic law that the costs are high at the beginning. These details substantiate the statement that the costs at the beginning are high. The point, however, is that while Tata's were NOT given an increase on retention price when they justified it on the score of losses on the new plant (which is an economic law and not due to any fault of theirs) the Government will give itself the necessary increase in retention price and thereby increase the overall price of steel in the country. Again it is the consumer that will suffer. There is great danger inherent in the State getting to the other side of the counter for, the State which acted as an umpire in a dispute between the seller and the buyer would have joined forces with the seller and become an interested party. When the State is a disinterested party, the consumer can run to it for a fair deal when the seller is harsh, but to whom should the citizen appeal when the State itself is the seller?

Once the State enters industry and gradually increases its share in the total production, natural formation of price, which is the rule in a free and competitive economy, will cease and the last category, viz.. "cost *plus* profit", will **begin** to operate. Without attributing any diabolical motives, it is easy to see that in this arrangement there is no incentive to efficiency or economy. What is worse, opinions can vary widely even among experts as to cost. The controversies that are still going on regarding the price of locomotives produced at the Tata Engineering and Locomotive Co. (TELCO) are public knowledge When the Chittaranjan

Locomotive works were started by the Government, it was hoped that the costs there would present a challenge to the costs at Telco. But the difference in the methods of costing in the two factories rendered comparisons difficult. The Tariff Commission had to be invited to undertake an investigation to settle the price. It fixed a price, but that was only for the period ending 31st March 1957. There is dispute regarding price for the subsequent period. I understand that this matter has been referred to a one-man arbitration! If this is the position when the buyer is the State which wields a big stick — growing bigger and stouter every day — one can easily imagine what the position will be when the customers are only poor citizens and the sole supplier, the State!

To illustrate that cost can play funny tricks, let us consider another controversy that is now going on. This one is between the Government and the oil companies. The Government claims that its costing expert has discovered that on the basis of "cost plus *fair* profit", the prices charged by the oil companies are exorbitant. The oil companies say, "Let us have a look at your cost expert's findings." According to press reports, the Government refuses to reveal this. This shows that two can play at the game of costing. If the Government, aided by its handpicked economists and costing experts, say that a truck which you were purchasing for, say, Rs. 25,000 costs Rs. 40,000 when manufactured by the Government what remedy has the public? Even if the Government does not swallow up the other truck manufacturers through a process of nationalisation, there is still the device of pooled prices. It can claim, not without some show of justification, that such pooling is in the public interest. Just as, in the case of cement, it was argued that the high price of imported cement should not fall on the shoulders of only those who purchase that particular lot, it can equally justifiably be argued that the higher price of trucks manufactured in the Government factory should not be borne only by those who purchase that lot. This argument will have even greater force when the buyer is not free to buy what he wants, and from whom he wants, but is subject to controlled allocation and distribution of the total available trucks. So, while in a free economy, shortages are made good by enterprising parties who enter the field to share in the higher profits made by the existing producer in a sellers' market, and, by hard and sustained struggle, come to the top, make good the gap in supply, and even reduce the price for the consumer, when the State undertakes the job of filling the gap in supply, it comes in as the costliest producer and raises prices all round. If the State started producing for its own requirements not much damage would be done to the economy in general though the Government may in fact be manufacturing the article inefficiently. For example, lately the Defence Ministry has decided to manufacture trucks in its own shops as it feels that it could produce them cheaper than what the private sector is charging it. Even if this expectation does not materialise, it is its private affair (not so private either, for it is the tax payers' money that is being wasted, if the cost is actually higher). But, the actual position can be concealed. But if the entire industry is nationalised, it is not in the interest of the Government to conceal the higher costs. In fact, it will flaunt it before the public in justification of the higher price the public will have to pay, for, it is known that costs can be one thing for internal check and another for exhibition to the consumer. Attempts have also been made in justifying higher costs in Government concerns, as compared with the private sector, to omit certain legitimate items of costs on the ground that the competitor is not incurring that cost.

When determination of costs is such a complicated problem even when production is concentrated in one place, how much more difficult should it be in the case of production of foodgrains spread over the entire country with varying methods of cultivation, varying land revenue systems, varying

tenancy systems, varying soil conditions, etc.? Yet the States have: now set out to fix a "fair price" on a cost basis. In a handout issued by a political party, it is claimed that it costs Rs. 134/- to plough an acre of land by the traditional method of country plough and bullocks, but Rs. 266/- if a tractor is used. On the face of it, this claim appears to be wrong as we are told that ploughing by tractor is cheaper. Still the statement can be substantiated if the tractor was used to plough only a small lot, say 10 acres. It just shows what fantastic claims can be made when one sets out to fix prices on the basis of cost. One wonders whether the Government has considered the ludicrous results that will follow if it honestly fixes the price on the basis of cost in each area. It will have to fix a separate price for rice produced in each village if the cost of production varies from village to village, as it is bound to. Does this make sense? Many will be the tragedies — physical, psychological, and ethical that will be enacted when compulsory procurement of foodgrains is enforced.

Whereas the justification originally given for the State entering trade and industry was that it will save the consumer from the "greed" of the producer or the middleman, it is now claimed that it is certainly entitled to "legitimate profit". If that was all, not much harm would be done because there is an element of profit in the present set-up also and the State is welcome to its share. But it has been reported that the Planning sub-committee of the All-India Congress Committee has advised that it would be perfectly "legitimate" (compare this with the expression "fair profit" used in the case of private sector) to use nationalised industry and trade for financing the Plan. It cannot be repeated too often that once this principle is accepted, it throws the door wide open for using nationalised industry and trade as powerful sources of indirect taxation. We should remember that the rise in price will not, under this scheme, be for the purpose of finding funds to be ploughed back into the same business but for financing the Plan in general For example, if tomorrow the fares are increased both in the city bus service. and road transport, the additional revenue need not necessarily be used for improving or expanding these services but will go into the general exchequer. The implications of this principle have to be examined very car-full; for the proposal has in it the seeds of undiluted totalitarianism.

We know that the Plan has an unsatiable maw. They say that the Third Five-Year P'an requires an additional Rs. 2,000 crores by way of taxation. If part of this is to be found through nationalised industry and trade, the normal price has to be raised by arbitrary additions. How can Government do this if it is only one of the many producers or traders? It will have to introduce a pooled price and by the same arrangement that it made in the case of cement take to itself the d'fference between the natural price and he pooled price. (It is to be remembered that when the price of cement to the purchaser was raised, the producers were not given a higher price.) The consumer suffered. In the case of nationalised trade, the producer can also be made to suffer in the State's attempt not to antagonise the consumer too much. When the State has a monopoly in trade. the producer has no direct access to the consumer or *vice versa.* In those circumstances, the Government is in a posit'on to tell the producer that he shall supp'y his goods to Government at a certain price A Government which has gone mad over achieving its fantastic Plan targets at any cost will stop at nothine;. By cutting the price paid to he producer also, the Government will increase the margin of profit and thereby the contribution to Plan finance. In fact, when the Government has a monopoly in the trade of a certain article, it can acquire the goods at the price it chooses and sell at a price which has no relat'on whatever to the purchase price and handling charges but has relevancy only to the needs of the exchequer. So ***every sale becomes a collection of tax.*** This is exactly the position prevailing in Com-

munist Russia. Russia has practically no direct taxes. Its revenue comes mostly from the nationalised industry and trade. So let us not be blind to the fact that this is the state of affairs our Government is heading for, aided and abetted by an unthinking proletariat which thinks that it is only having its revenge on the private sector which, it imagines exploited it in the past, little knowing that it is cutting its own throat and placing itself at the mercy of a totalitarian state. Natural economic laws, which act more or less automatically in a free and competitive economy in favour of the consumer, i.e., the general public, are our greatest safeguards against economic tyranny. In addition to being a convenient and sure way of finding funds for fads, extravagances and waste, in the name of the Plan, each step in nationalisation places in the: hands of the Government more patronage and extends, the area of influence of the party in power by getting a stranglehold on every aspect of the private lives of the people.

While our Government is keen on removing all traces of foreign influence on thought in this country, it still seems to be suffering from an inferiority complex. It thinks that the people of this country are still suffering from an inferiority complex, and that, in any controversy, the opinion of a foreign expert in support of Government's policies will silence all argument. Our Government found an Appleby to endorse its policy of doing away with financial justifications for its undertakings. The Government was quick in using his views for keeping the Life Insurance Corporation outside audit by the Auditor-General. It found a Kaldor to give the country the horror of wealth tax and expenditure tax unheard of in any part of the world and rejected in the country from which this expert hails. On the other hand, our country, happily, does not lack competent men who have made a careful and intensive study of trends abroad and have kept themselves up-to-date in their knowledge. When these gentlemen drew attention to what is now generally known all over the world as "the German Economic Miracle" achieved under the guidance of Professor Ludwig Erhard, it was brushed aside as irrelevant. It appears to have become the fashion now to dispose off inconvenient facts by such dictatorial attitudes, without any attempt to rationally meet the points made. There is no use sending delegations abroad to seek, with a microscope, a few justifications here and there, in support of pet ideas, and to dismiss the host of facts that repudiate those ideas as irrelevant and say that what is sauce for the goose is not sauce for the gander.

Dr. Erhard, the Minister for Economic Affairs in West Germany, has written a book with the apt title, "Prosperity Through Competition" wherein he has described in detail how West Germany achieved spectacular progress, after the last world war, through private enterprise. He is not just an armchair economist, as most of the advisers to our Government are, but a practical economist who has demonstrated by concrete results that his theories, are practicable and yield the results forecast. Incidentally, it also shows that rule by the intelligentsia is more conducive to progress than rule by mere ideologists. The results achieved by West Germany are also an effective answer to our Prime Minister's oft repeated thesis that the philosophy of progress by private enterprise is a dead creed and in the twentieth century, only State Capitalism can lead to progress.

If the objective is rapid economic progress, we have two alternatives before us — West Germany and Communist China. The former has achieved economic progress by methods involving enthusiastic, voluntary, hard and sustained work by free citizens culminating in the glow of individual achievement; and the latter by regimented soulless drive to mere production in whose trail followed only the destruction of human dignity and a whole nation clad in blue overalls.

The resounding victory of the Conservatives in the recent elections in the U.K. also has a lesson for us. In the oldest democracy, an intelligent, educated and politically conscious

electorate who desired and got a socialist society have deliberately voted the Conservatives into power — Conservatives who denationalised the steel industry which the Labour Government had nationalised; Conservatives who are firmly wedded to free enterprise and people's capitalism as against state capitalism. The lesson is that a mature democracy has decided that socialism leads to state capitalism and that private enterprise is not incompatible with full social justice.

The views expressed in this booklet do not necessarily reflect the views of the Forum of Free Enterprise.

Based on a speech delivered at the Institute of World Culture, Bangalore, on October 15, 1959.

Free Enterprise was born with man and shall survive as long as man survives.

—A. D. Shroff

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