Letter to the Editor

Mr. Vaidyanathan on Nationalisation in 1945 and 1950

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IN his article on Nationalisation of Insurance published in *The Economic Weekly* of May 13, Mr. S. Chakravarty has quoted from the speech delivered by Mr. L. S. Vaidyanathan, M.A., F.I.A., at the Foutth Indian Insurance Conferonce, in support of his contention that nationalisation is the only remedy for the alleged malpractices in Insurance business.

It will be of interest to Mr. Chakravarty to read the remarks of Mr. Vaidyanathan contained in the Indian Insurance Year Book 1945 on the same subject.

As the then Superintendent of Insurance, Mr. Vaidyanathan criticised in his report the demand for nationalisation made by certain members of the Legislative Assemblv when a Bill to further amend the Insurance Act, 1938 was iolroductd in November, 1944. In his note Mr. Vaidyanathan analysed the position if insurance undertakings were to be nationalised and condemned the move as it would have a deletarious effect not only on the business of insurance but also on the economy of the country.

I will just quote here the concluding remark from his able exposition of the subject.

" Therefore, from every point of view, it would appear that nationalisation of Insurance would be an entirely retrograde step and it would be inadvisable to embark on this venture without giving careful consideration to various untoward repercus-ions which the change would engender."

Obviously, Mr. Vaidyanathan has changed his view on the subject, as his recent utterances will show, though, personally, I do not think that the position of indigenous insurance business has changed since 1945 to such an extent as to call for its nationalisation.

But then, today, when the cry for nationalisation is in the air and nationalisation is at a premium, one can understand Mr. Vaidyanathan's advocacy for the same.

From the London End

Rain or Fair?

IF the future of British depended on Britain alone, one would have grounds for reasoned optimism. Whatever danger signals there have been in the last few years have come from without, not from within. Internally, employment has shown a remarkable stability, while production has increased at a rate reminiscent of the days of the Industrial Revolution. Since the beginning of 1948, unemployment has averaged not more than 2% of insured population in any month, while for 1949, it averaged 1.5%—and that covers all those who work for wages or salaries, including agricultural and domestic workers. While population has risen from 46.4m. in 1939 to 49.2m. at the end of last year, numbers employed in industry have risen from 17.9m. to 22.2m. The Board of Trade Index of Retail Sales shows, through the seasonal fluctuations, a continuous tendency to rise -with 1947=100, it stood at 102 for the first quarter of 1948, 112 for the similar period in 1949 and 123 for the same period in 1950.

At the same time, the country has never been in a better position to apply the Keynesian remedies to any threatened slump—income tax is the highest it has ever been, and so are indirect taxes on alcoholic drinks, tobacco, durable household goods, petrol and a host of other things. In the result, there is a large margin, measured by the budget surplus (£364m.. in the tax year ended 31st March 1950) with which the Chancellor of the Exchequer can juggle before having to indulge in any orthodox deficit financing. This would mean that capital expenditure of public bodies, which is at present largely financed out of the budget surplus, would be financed by the more usual method of raising public subscription loans, while public purchasing power would be considerably increased. If excise tax were reduced on tobacco, there would be an immediate response in retail sales of other commodities, for, in the face of almost penal prices for cigarettes, the smokers have preferred to sacrifice almost anything, including food, rather than go without their weed.

Also, the Keynesian system is very popular in the 'Labour movement particularly with the theorists of the Labour Party for it is a simple and persuasive system. It is also well-liked by the trade unionists and frequently invoked by them as an argument in wage negotiations in its under-consumptionist aspect. The public, too, by over-simplified illustrated leaflets with which the Treasury has sought to instruct them, has been led to regard the problem of production and distribution as a matter of simple arithmetic. They have for so long been fed on the National Cake fa bigger slice for one section means a smaller slice for another) that they have really begun to believe in this bit of legendary confectionery. They might therefore be led without too much difficulty to support a vigorous programme of deficit spending when the time comes.

Here, then, we have the picture of a well-integrated economic model at work, in marked contrast to a country such as India, with its high degree of hidden unemployment which can only respond to a vast programme of industrialisation involving vast sums of capital. Here, the standard of living is high enough to enable heavy capital formation to take place out of current production, without undue sacrifices on the part of the community. So, in 1949, out of a net national product of £12,834111,, it was possible to deflect about £1,500111. to capital formation, while an even higher proportion had been so used the year before.

But of course, the future of Britain depends by no means on Britain alone. The idyllic picture must now be marred by the clashing colours of the world scene. Greatest weakness of all is the dependance of the British economy on the state of trade in the U.S. The present upward trend in Britain, that has resulted in the abolition of petrol rationing and many other economic controls is largely derived from the sustained activity in the American economy, which itself is sustained by heavy military expenditure, external loans and gifts and the Farm Support Programme. In Britain itself, military expenditure, at £800m. for the coming year, is the largest single item in the budget, so that, economically, the ending of the cold war would be disastrous for both Britain and America.

Then, while British exporters are protected from American competition by the dollar shortage, U.S. manufacturers in the lines in which European competition for their home market is strongest are beginning to press for added protection. British exporters have also been protected from German and Japanese competition by virtue of the fact that these two countries have not yet found it necessary to become self-supporting but. have been able to rely on American support to bridge the gap between imports and exports. The failure of the Anglo-American joint textile mission to japan is an indication of impending changes in this direction. While previously, Japanese manufacturers were willing to talk about a division of world markets, with a virtual monopoly for Lancashire in Africa, Australia and Canada, their attitude has now hardened and it is not unlikely that their production will double in the near future.

So, apart from tendencies to disequilibrium inherent in the British economy, the country is almost uniquely susceptible to forces from without. At the moment, those outside forces the buoyancy of the commodity markets in particular — are favourable to British prosperity, but some of them, e.g. the high price of rubber can obviously not be sustained much longer, American armament and stockpiling would have to continue expanding at an impossible rate for this to happen.

Inside Britain, there is the added complication of the fine balance of power in parliament, so that both government and opposition are preoccupied rather with trying to make friends and influence people than to safeguard the country from dangers that will probably beset us only after another general election has been held. The release of petrol from the ration has undoubtedly pleased the very section of the population whose governmental support is weakest, but it is idle to pretend that there are not much better ways of using the country's resources than joy riding. One trouble, of course, is that the government's power to plan is now severely limited—for instance, the licensing of sheet steel and building is almost the last device that gives them power to influence the actions of private manufacturers.

Nonetheless, the government is determined to convey the impression that the weather is set fair, hoping that the electorate will conclude that this is the result of clever government rather than extraneous causes. But, paradoxically enough, its method of doing this, by dispensing with controls, is the very method best calculated to disqualify it from remedying the bad weather, should it suddenly (or even gradually) appear. Even,on the ideological front, there is no longer the same unanimity—there are many people now who feel that for Britain, in her "special position," deficit spending might be a disastrous thing: that for the revival of foreign trade the only remedy will be a forced cut in costs by deflation and unemployment. Some would welcome the return of a fair degree (say 5 or 7%) of unemployment, on the grounds that it would result in a greater economy of resources, especially of living space, harder work and a diminished labour turnover. But whatever happens to the weather, an air of unreality pervades Britain today. An entertainer at a seaside resort is seeking to sue the B.B.C. for making pessimistic weather reports that don't come off. But for the public this is better than predicting sunshine when it is going to storm.

Planning Commission Gets to Work

(from Our Delhi Correspondent)

THE Planning Commission is gearing up its pace and, as the recruitment of the staff gets under way, its work is gathering momentum. Members are studying voluminous materials sent by the various Ministries of the Government of India on several Central projects, while details regarding the development schemes of the States are pouring in. It would be quite some time, possibly several months, before a full-fledged scheme of priorities is evolved.

Meanwhile, the question of control', on certain consumer articles, including cement, paper, salt, sugar, tion and steel and coal, is being actively considered. It is felt in knowledgeable circles that, production in the country being what it is, de-control of paper and cement may not present much difficulty.

On the other hand, few among the affected interests appear to mind the continuance of controls on steel and coal.

The restrictions over the prices and movement of salt and sugar, however, present ticklish problems and at least as many arguments can be adduced for their removal as otherwise.

It is expected, however, that the Commission will have reached some tentative conclusions by the middle of July when a meeting of the proposed Planning Advisory Board is summoned in Delhi to elicit representative public opinion on the crucial subject of controls.

Pending a decision on this question, the Commission is working on a basic plan for achieving self-sufficiency in three agricultural com-