

**FREE ENTERPRISE AND  
DEMOCRACY**

*By*  
**A. D. SHROFF**



**FORUM OF FREE ENTERPRISE**

SOHRAB HOUSE, 225, D NAOROJI ROAD, BOMBAY-1

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"We are neither omniscient nor infallible, nor are we so rigidly wedded to any course of action as not to alter it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the **people of India** and our friends abroad telling us when and where they think we are going wrong."

Mr. T. T. **KRISHNAMACHARI**,  
Finance Minister, India.

With the announcement of the Socialist pattern of Society as our goal, the raising of the tempo of planning and the inevitable concentration of economic power in the hands of the State, the question of the relation between Free Enterprise and Democracy has assumed great significance. Some time back, the Prime Minister at a press conference in Calcutta expressed the view that the idea of equating democracy with private enterprise was not justified. He is further reported to have observed that in the last analysis democracy and unrestricted private enterprise were incompatible. As against this view, there is a large section of opinion in the country, which believes that the present trend towards State Capitalism, under the ostensible plea of a Welfare State, threatens as much to enslave man to the State as a totalitarian State. It is maintained by them that democracy is a political concomitant of Free Enterprise, and with every step towards a diminution of Free Enterprise, democracy is hastening towards its end. It is not a mere accident or coincidence of history that democracy has grown and flourished along with the system of

free enterprise. Issues are unfortunately confused by the dogma of Marxism, identifying ends with means. The heresy of yesterday has become the orthodoxy of today. It is, therefore, essential to examine the question of Free Enterprise and Democracy afresh in their proper perspective.

It should be clear to any student of economic history that Free Enterprise in our country and elsewhere is not advocated today in terms of the outmoded doctrine of **laissez faire**. To talk, therefore, in terms of unbridled private enterprise at the present time is to confound the issues and lose sight of the necessary historical background and perspective. The **laissez faire** is dead as dodo. It is a singular triumph of the dynamic urge of democratic ideals to have developed a new awareness of social justice and equality. The sphere of the activities of the State has widened considerably. In the economic field, the State wields today enormous power and is able to regulate, and even control, processes from the supply of raw materials to the quantum of production. With the apparatus of Import-Export regulations, it considerably affects both the internal and the external trade of the nation. By means of the powerful instrument of taxation, it adopts suitable monetary and fiscal measures, so as either to curtail distributed profits and/or limit dividends. The vast amount of Labour legislation regulates the relations between the employers and the employees and safeguards the rights of the workers. Again, the modern State by

its entry in the sphere of basic and strategic industries and certain essential utilities and services, commands vast power of its own so as to counter-balance the free enterprise sector of the community. In short, there has evolved a balance of a mixed economy, in which free enterprise and State enterprise each have an important and autonomous role to play, functioning alongside of each other, to meet the needs of the people. In fact, under the system, the right of ownership is limited and circumscribed in numerous ways so that ownership of the means of production no longer affords any absolute power. It is against this background that the problem of inter-relationship between socially regulated free enterprise and democracy has to be examined and considered.

All planners — Socialist, Fascist or Communist — talk in terms of the objectives of rapid industrialisation, of raising the standard of living and an equitable distribution of wealth, with an expanding employment potential. There is nothing inherently socialistic in Planning. In the words of Tawney — "The results of Planning depend on the purposes it is designed to serve, the methods which it employs in order to realise them, and the spirit which determines the choice of both." The best method of achieving this, according to democratic socialists or the revolutionary left-wing socialists, wedded to Marxian dogma, has been re-placement of the private ownership of all property and means of production by some form of common ownership. Whe-

ther it has been the "dictatorship of the proletariat", which would hold the power, or whether the change from private to public ownership was to be effected by democratic ways, the solution has been sought through the transfer of economic power. Both the approaches have proved illusory in the modern world. In the Communist countries, in the pursuit of the Marxist-Leninist theories, all economic power has been transferred to the State, and instead of a 'society of free and equal' we have the spectacle of a totalitarian tyranny. Nor has the experiment towards common ownership in democracies like Britain created any sense of confidence. A mere change of ownership is no guarantee for ensuring that an industry would be run on Socialist lines. On the contrary, it has created problems arising out of undue concentration of economic power in the political hands and the growing bureaucratic despotism, both of which have in practice meant a serious curtailment of democracy. Even the Trade Unions, which had evinced great enthusiasm in favour of nationalised industries, have started re-examining the foundations of the socialist economy and are now showing waning enthusiasm for expanding public enterprise in its present form.

It is forgotten that the real dynamic value of socialism lies, not in an ideological adherence to any economic theory identifying socialism exclusively with common ownership, but in its being a moral protest against social injustice and inequa-

lity. As pointed out by Crossman, if there is a danger of oligopoly developing in the sphere of industry, "there has developed another menace far more serious, and that is the growth of a vast centralised State bureaucracy." Our country is faced with a similar danger. It is in the context of certain growing trends in the direction of indiscriminate nationalisation and even State Trading, leading towards State capitalism, that it is feared that our bureaucracy may fast develop into a great octopus with vast accretions of power, which may some day threaten the very foundations of our freedom. Gandhiji was rightly apprehensive of the growing power of the State, when he stated:—"I look upon an increase in the power of the State with the greatest fear, because while apparently doing good for the people by minimising exploitation, it does the greatest harm to mankind by destroying individuality which lies at the root of progress . . . . What I would personally prefer would be not a centralisation of power in the hands of the State, but an extension of the sense of trusteeship as, in my opinion, the violence of private ownership is less injurious than the violence of the State". The prophetic insight of Gandhiji has been amply borne out by the recent unfortunate developments both in Poland and in Hungary.

Once the State begins to intrude in the field of private or free enterprise, it will soon develop into a monopolist wielding power of an enormous character. Every industry in the private sector

must play a subservient role, every business activity must be carried on in the mode and manner in which the State dictates. As observed by the Group of Socialist Thinkers, in the "20th Century Socialism," in such a system: "There is no freedom to experiment with ideas which have not won State approval. The man who wishes to risk or dare is a misfit — or worse. To eliminate all private capital is to open the road to totalitarianism." Experience has demonstrated that State ownership can as well be dangerous. It has not been immune from abuses and corruption, which it seeks to check. The danger to the individual and his freedom and liberty in such a system was realised by Thomas Jefferson years before, when he expressed his conviction that "the generalising and concentrating all cares and powers into one body has destroyed the liberty and the rights of men in every Government which has ever existed under the sun".

A system of economy in which the public sector goes on continuously expanding its sphere of activity inevitably involves the contingency of a system of controls and regulations. There is also a process of regimentation which grows apace with this development. New vested interests develop pledged to the continuance and expansion of the system. In course of time, the system breeds a sense of intolerance amongst the members of the ruling party and the bureaucracy, which is expected to implement its programmes and policies. Once

the decisions are taken by the Planners and the Government, the same are hailed as national decisions and any dissent of opinion by a minority, however effective, is likely to be viewed with widespread suspicion. Even honest criticism is likely to be dubbed as "dis-loyalty" or "an unpatriotic activity". This denial of freedom is the very negation of democracy.

What is the remedy against such a danger? A concept of mixed economy, as enunciated above, alone provides the necessary balance of power between the State and Free Enterprise, and amongst the components which compose Free Enterprise. It is necessary that the State and Free Enterprise should function simultaneously in the economy, balancing each other in the interest of the achievement of the common objective. It is equally necessary that the system of Free Enterprise should be allowed to function, searching for new horizons and opening up ever-widening range of outlets for self-expression and service. Within the over-all regulations provided by the democratic State, the system of Free Enterprise provides the necessary and essential balance of power between the contending forces. In a free economy, the producer, the worker, the consumer and the investor present a system of checks and balances, ensuring harmonious functioning of the economy. The power wielded by the sellers is matched by the power of the buyers, the power of creditors by the power of borrowers, and the power of employers by that of

Trade Unions. No single factor can ever hope to dominate a given situation for a long time, unless an agreement is reached safeguarding the interests of all the constituent units.

The system of free market economy presents a close parallel to the system of political democracy. "A free market economy is the most perfect possible example of rule by the will of the people. Political democracy has nothing to approximate it. In a political democracy, the people vote periodically or occasionally for and against a few candidates or issues at a time. In a free market economy, they vote constantly for and against thousands of competing goods and services. Their votes, instead of being merely affirmative or negative, express minute gradations and preference. and these gradations shift not only daily, but hourly." It is true that sometimes developments in the shape of monopoly and cartels tend to distort the functioning of the system. In fact, many of the evils attributed to Free Enterprise and profit making are largely the results of existence of monopoly and consequent wide disparities in the distribution of wealth and income. Those who advocate the system of free market economy like the newly-established organisation, the Forum of Free Enterprise, have made their position unequivocally clear on the question of monopoly. As stated in its Manifesto, "Monopoly of any kind, whether State or private, is undesirable. Should any single organisation arrogate to itself the right to do everything,

it would upset the delicate mechanism of a free and democratic social order". They believe that monetary and fiscal measures can be utilised for necessary correction of economic inequalities without seriously interfering with the functioning of free market economy.

In the context of Indian conditions, it is argued by some that conditions of "monopoly capitalism" involving concentration of economic power have developed in the country. Such a view hardly does justice to the facts pertaining to the structure of our industrial economy. It is inappropriate to use the term "monopoly capitalism" in regard to Indian conditions. An objective examination of the problem would reveal that applying any test, one would come to the conclusion that no such thing has happened in India. The establishment of a monopoly would suggest that those who are interested in the manufacture of particular products or commodities get together and manipulate the prices of these products or arrange production in such a manner that prices can be whipped up to the detriment of the community in general. There is no warrant for such an inference having regard to the structure of our industries. On the contrary, in addition to Railways and certain Utilities, monopolies or semi-monopolistic organisations are being created in the shape of huge State-owned enterprises like the Sindhri Fertiliser Factory, the Life Insurance Corporation, the Indian Airlines Corporation, the State Trading Corporation, the State

Transport Corporation in the Public Sector, with far more serious consequences, both political and economic.

As against this unhealthy trend developing in the State Sector, the development of Joint Stock Enterprise truly represents a picture of co-operative endeavour on the part of the people. Having regard to the magnitude of the modern industrial operations, no single firm can get together all the resources to start any such enterprise. Unless such entrepreneurs by virtue of their credit-worthiness and their record of achievements are able to mobilise the savings of hundreds and thousands of small investors in a free and voluntary manner, no industrial progress would be possible. The investor, in the industry, representing a large cross-section of the community, like the worker, represents an important democratic element. It is significant to note that the total number of investors in major joint-stock enterprises in the industrial field in our country approximates about two and a half millions. Likewise, it is equally revealing to note that the ratio of share-holders to workers employed in some of the industries like Steel and Cement is almost equal, whereas in Textiles per every shareholder there are two workers, and in the case of Electricity as against one worker there are ten share-holders.

Further, what is called the private sector is neither small nor private, but comprises as the Planning Commission rightly point out, "millions of small producers, scattered all over the country". It

is such small people who constitute in themselves the composite roles of the entrepreneur, investor, manager, technical man, salesman and the owner. With these should be grouped millions and millions of small shop-keepers, tradesmen, craftsmen and artisans, skilled workers and peasant proprietors, who all form an integral part of the system of Free Enterprise, and the backbone of our democratic system. It is in this sense that Free Enterprise and Democracy are closely dependent on each other. If the essence of democracy is to vest the ultimate political sovereignty in the hands of the people, it should also vest economic power in the hands of the people at large. Any attempt at extending the public sector in a manner so as to dominate the entire economy will only result in undermining the freedom and autonomy of individuals and groups, which are essential for the full and unfettered growth of democracy. In an economy which seeks to reduce a large number of its citizens to the status of employees of a State Corporation or the agent of its Trading Corporation, the individual can venture to express his political opinion only at the peril of his own economic existence. Whether he is a peasant, working in a co-operative farm, a worker belonging to a trade union of a State-owned industry, or an employee of a State-run service, he must forfeit his political freedom.

It is, therefore, fundamental that our Planners must avoid a doctrinaire or dogmatic approach,

which is bound to be followed by a wrong appraisal of the situation and likely to do more harm than good to our economy and to the freedom and enterprise of the individual. With a characteristic **schizophrenia**, both totalitarian and democratic Socialists, have talked one way and acted another. While they accept Freedom and Democracy in theory, in actual practice Socialist pattern is being identified with "an all-powerful State, with heavy-handed bureaucracy, and regimentation". A time has come for all those who talk in the name of democracy and recognise the value of individual freedom, to accept Free Enterprise as indispensable to a democratic way of life. It cannot then be hamstrung by a whole network of legislative and administrative restrictions, throttling its very existence. It is their duty to ensure that freedom is, in fact, maintained and not crushed out of existence. Free Enterprise is not to be accepted merely on sufferance, to be tolerated on grounds of political expediency, with the sword of Democles hanging over it in perpetual threat. It has a legitimate and a vital function to perform in democratic planning. If historical experience has any meaning, we have to see that the new India of our dreams, which we are building up, derives its strength from the solid foundations of democracy and freedom and not from the top-heavy buttresses of regimentation and concentration of power in a few hands.

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