

ROLE OF FREE ENTERPRISE IN SECOND PLAN

by

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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.

The Second Five-Year Plan, as evolved through various stages of consultation and discussion from the Plan-Frame to the Draft Outline, has received the final imprimatur of the Union Parliament. The Plan underwent minor changes at various stages, but it remains fundamentally the same in its basic approach and, what is known as the "strategy of the Plan". The approach to the problem of planning, as is evident, has been largely conditioned by the "socialist pattern of society" as enunciated at the Avadi session of the Indian National Congress. The principal objectives implicit in the approach have been stated as a sizeable increase in national income so as to raise the level of living, a large expansion of employment opportunities, and a reduction of inequalities in income and wealth and a more even distribution of economic power. Rapid industrialisation, with parti-

cular emphasis on the development of basic and heavy industries, which is included among the objectives, must be really understood as a means of achieving the ends as stated above.

The allocations under the major heads of development show the relative shift in priorities as between the First and the Second Plan, there being a larger accent on industrialisation, especially the development of heavy industries and the necessary **ancillaries** like Transport. The total development outlay for the **Central** and the State Governments works out at Rs. **4,800** crores, which has been upgraded **recently** to Rs. **5,300** crores, as stated by the Finance Minister. Industries and Mining claim about **19%** of the **total** public sector, which expressed in terms of percentage represents nearly **400** per cent in absolute terms. Transport and communications account for **29%**, whereas irrigation and power would be **representing 19%**, agriculture and community development **12%**, and social services claim about **20%** of the total outlay. The likely level of investment in the Private Sector during the Second Plan period is put at Rs. **2,400** crores, out of which organised industry and mining account for Rs. **575** crores. The ratio of public to private investment in the Second Plan is **61 : 39**, as compared to **50 : 50** envisaged in the First Plan.

This is sufficient to indicate the growing expansion of the Public Sector and the enormous responsibilities entrusted to it for achieving the objective of **rapid** industrialisation of the country. The increasingly active role assigned to the Public Sector is reflected in the Industrial Policy Resolution of April, **1956**, whereby the State assumes direct responsibility for the future **development** of industries in three categories—the first category comprises industries, the future development of which will be the sole and exclusive responsibility of the State. The second

category represents industries which will be progressively State-owned and in which the State will have the initiative in establishing new undertakings and in which the private enterprise will be expected to supplement the efforts of the State. The remaining industries cover the third category in which, while the initiative and enterprise of the private sector will be allowed to achieve further development, it will be **open** to the State to start any industry at the same time.

There is no doubt that the growing extension of the Public Sector and the importance attached to it in **achieving** the economic development of the country have been viewed with alarm and misgiving by Free Enterprise. It leaves no doubt in the minds of people that, though our economic structure is still described as a "mixed economy", the State or the Public Sector is to play an increasingly dominant part and the Private Sector will be relegated to a secondary and subordinate position in the overall scheme of development. A legitimate feeling has grown among the thinking people that the role played by Free Enterprise in the past and its capacity to develop and deliver the goods in the future years has not been properly assessed and appreciated. It is again unfortunate that the objectives set forth in the Second Five-Year Plan, in the context of the socialist pattern of society, have been confused with nationalisation and progressive expansion of the Public Sector in our economy at the cost of Free Enterprise. For example, the spate of nationalisation measures and even the recent incursions of the State into trading activities, as embodied in the policies and **programmes** of the Government, are taken for granted as the logical **corollaries** of the socialist pattern. In fact, a drift **has** become definitely **visible** from the concept of Mixed Economy towards State Capitalism, which holds serious portents for the economy of the country as a whole.

It is against this background that we must try to appreciate the role played and the contribution made by Free Enterprise in the Pre-plan as also in the First Plan period. It is extremely regrettable that Free Enterprise has been made the target of sustained and unjustified attacks and its case has hitherto gone almost by default. Only recently, the then Minister for Commerce and Industry, Shri T. T. Krishnamachari, severely condemned Free Enterprise, when he observed at Madurai that, "private enterprise has failed me." It is difficult to comprehend that a person of the stature and eminence of Shri Krishnamachari, who has been closely and intimately connected with the sphere of industry, could have made such a sweeping statement in the face of unassailable and indisputable facts recorded in the findings of the Planning Commission itself in its periodical reports and independent testimonials of important bodies like the World Bank Mission.

Free Enterprise can refer to its glorious achievements in the past and can be legitimately proud of its contributions to the development of the national economy. To have established industries like iron and steel, textiles, cement, sugar, aviation, shipping, chemicals, etc., under the most adverse circumstances during the days of foreign imperialism bears an eloquent testimony to the patriotic and pioneering spirit of Free Enterprise. Nor has Free Enterprise failed to answer the challenge of the Five-Year Plan.

It is significant to observe that new investment in the Public Sector was only Rs. 57 crores out of the expected outlay of Rs. 94 crores, thus leaving a shortfall of 40%. Investment on new projects and expansion programmes in the Private Sector nearly fulfilled its target of about Rs. 233 crores. Again if we refer the fulfilment of production targets, several industries like textiles, sugar, vegetable oils, chemicals like soda ash, caustic soda, electric transformers and

several others have not only overshoot the targets fixed for them, but even fulfilled the same ahead of time. It is a patent fact that Free Enterprise has to function under a climate of disincentives created by heavy taxation, inflexible labour legislation and a host of inhibitory regulation, all of which hamper the growth of new industries.

It is in no small measure a matter of credit to Free Enterprise to have been successful in starting new industries for the first time in India in spite of these handicaps. Such new products which have been listed exceed two scores. A reference may be made to the new lines of development as exemplified by industries such as bicycles, grinding wheels, automatic looms, non-ferrous alloys, ship building, automobiles, machine and small tools, chemicals, belting abrasives and ball bearings to name only a few out of three to four dozen. In all fairness it must be stated that the Government's import regulations inspired more by the imperative need of conserving foreign exchange resources have in no small measure indirectly contributed to the growth of these industries. At the same time, it must be mentioned that the programme for industrial development under the First Plan had stemmed from the schemes which Free Enterprise had already formulated.

There is no doubt that the developments which have taken place during the First Plan period have provided a sound base for the industrial advancement of the country. Shri Krishnamachari evidently seemed to have lost sight of the fact that several industries were developed even outside the Plan and Free Enterprise had not failed to show its own initiative and developed industries on its own volition. Heavy steel cast foundries, manufacture of industrial machineries, expansion of railway wagon building and the manufacture of steel welded tubes by the Indian Tube Company are few instances in point.

Any objective assessment of the achievements of Free Enterprise in the First Plan cannot but give credit to the resourcefulness, spirit of enterprise and willingness to take calculated risk on the part of the Private Sector. It may not be out of place to quote here the views expressed by the World Bank Mission in their Report on Economic Programmes and Policies in India.

"We believe that the importance of private business has not yet been **sufficiently recognised** and publicized. The record bears out the fact that private enterprise has performed creditably during the last five years with respect to both investment and production. In the organised sector of manufacturing and mining, private business has contributed 90% of the increase in net output during this period. Owing to the **capital-intensive** nature of much of the contemplated public investment in industry and mining during the Second Plan, Government plants and mines are expected to contribute only 29% of the anticipated increase in net output of mining and manufacturing as compared with a 54% share in the total planned investment. On the other hand, private business in this sector is expected to account for 71% of the rise in the net output. Considering the probability that the village and small-scale industries may fall considerably short of the targets set for them by the Plan, the importance of the organised private sector becomes even more evident. It is therefore vital that the Private Sector be given adequate incentives and resources to enable it to make its requisite contribution".

This brings us now to the peculiar position of disadvantage in which the Free Enterprise is placed in the Second Plan by what is known as strategy of the Plan. On the one hand the emphasis is placed

on development of basic and key industries and on the other the cottage and hand sector is to be relied upon for the supply of consumer goods for meeting the increasing demand which is bound to follow as a consequence of huge investment programme. Production of finished steel is to increase by 231 per cent, of aluminium by 233, and of steel **structural** fabrications by 178. Output of iron ore is to increase by 199% and that of coal by 63%. The expenditure on these and such other projects will naturally lead to the generation of purchasing power in the hands of the community without increasing the supply of consumer goods in a corresponding manner. The increase in consumer goods output in the **organised** factory sector will be only 20% against an increase of 150% in the output of capital goods. The strategy as evolving a virtual stagnation and freezing of **large-scale** mechanised consumer goods industries through various restrictive measures can only result in creating shortages of essential consumer goods. In an under-developed economy where large mass of people are already subject to chronic shortages to seek to enforce restrictive mentality and exhort people to tighten their belts can hardly generate the necessary enthusiasm for a rapid planned economy. Unless this basic flaw in the strategy of the plan is remedied and suitable adjustments made between the role of the mechanised large-scale production and the village industries sector, inflationary trends which are already existent in the economy will gather further momentum and jeopardise the entire plan.

The other handicap under which Free Enterprise has to function in the Second Five-Year Plan and which is likely most vitally to affect its performance is a question of resources through which investment in the Private Sector is to be financed. Out of the estimated total of Rs. 2,400 crores, some indication is available for about Rs. 600 crores. This leaves a substantial gap of nearly Rs. 1,800 crores for which

the plan is significantly silent. It is necessary to remember that when a huge total outlay to the extent of Rs. 5,300 crores in the Centre and the States is planned and all the available resources are going to be tapped even by resorting to additional taxation, there is likely to be very little left for Free Enterprise to finance its own requirements. There being a common reservoir both for the Public and Private Sectors wherefrom both are expected to draw their requirements, any syphoning off of the reservoir to the utmost by the Public Sector would hardly provide any scope for savings and investment so essential for the Private Sector to keep its pace with the Public Sector. Under the circumstances, if for inadequacy of financial resources, the performance of Free Enterprise falls short of expectation, the responsibility will rest with the Planning authorities and the Government.

The position as allocated to the Free Enterprise sector in the third category as enunciated in the industrial policy severely restricts its field of operation. Free Enterprise is to be, as it were, cribbed, cabined and confined and has to function under the perpetual fear of the sword of Democles' hanging over its head. While the Industrial Policy Statement recognises the need for providing a sphere of activity for the Private Sector, it also holds out the threat that the State will enter even this sphere and start an industry any time. Such an attitude on the part of the Government ill-accords with the repeated assurances given by the Prime Minister and the spokesmen of the Government from time to time. As observed by the Prime Minister, "It is foolish to have a Private Sector and then undermine it and prevent it from functioning. I personally think that even for the proper functioning of the Public Sector, it is desirable to have a competitive Private Sector."

Unfortunately the recent trends in the Government policy unmistakably point in the direction of

growing expansion of the Public Sector and an increasing encroachment upon the sphere of Free Enterprise. The amendment to Article 31 of the Constitution, the nationalisation of Air Transport, Imperial Bank, Life Assurance, drastic changes in the Company law, and last but not the least the establishment of the State Trading Corporation and its incursion into cement distribution, export of ore, oils, etc., have justified the doubts and misgivings in the minds of many as to the direction in which the Government policies are moving.

If these trends are allowed to grow and develop in an unchecked manner, the country will be soon drifting towards State capitalism instead of the cherished goal of Socialist pattern of society, endangering in the process both Free Enterprise and democracy. These fears have been voiced even by the Socialist leader, Shri J. B. Kripalani, who by no means can be called an ardent champion of Free Enterprise. In the speech he made in the Lok Sabha on 8th September, 1956, among other things, he uttered the warning that apart from the question of poverty and inequality, State Capitalism in Russia and elsewhere had destroyed the democratic liberties of the people and the freedom of the individual. Elsewhere, he has also referred to the growing trends in the direction of authoritarianism in the name of democratic planning.

This phenomenon of growing concentration of economic and political power in the same hands will, instead of achieving the objectives outlined in the Plan, only result in curtailing the freedom of Free Enterprise and imposition of a New Despotism by arming the bureaucracy with vast powers. At a time when Leftist opinion in countries like the U.K. is re-orientating its approach to the problem of a Socialist society and has, as a result of experience, sought to retrace steps from nationalisation, it is singularly unfortunate that in India we should make a doctri-

naire approach instead of adopting a pragmatic and realistic approach. Socialism need not mean the establishment of vast bureaucratic corporations remotely responsible to the Parliament which can hardly exercise any effective control. The real dynamic value of Socialism lies not in an ideological adherence to any economic theory but in its being a moral protest against social injustice and inequality. As observed by R. H. Crossman, "besides these oligopolists in the sphere of industry, there has developed another menace far more serious, and that is the growth of a vast centralised State bureaucracy. The bureaucracy is fast developing into a great Leviathan with vast accretions of power which threaten our freedom." He has exposed the naive assumption that the only changes in society which we have to make are changes in its economic structure and in the distribution of national wealth. The lessons of Fascism and Communism have unmistakably shown that such changes do not enlarge freedom and stimulate an active democracy which is as important as the extension of public ownership and distribution of wealth, the latter being important only as a means to an end.

The question of Free Enterprise and the future of democracy are thus closely and intimately linked up. While in a scheme of planned economic development the Public Sector has to play an important and creative role, there must also be a full recognition of the fact that the Free Enterprise sector must be able to function unhampered and creatively so as to be able to contribute its best to the realisation of the objectives accepted by all. In a Mixed Economy, the guiding principle should be for co-existence between the Public and the Private Sectors, the latter being allowed to function under over-all regulation, without its initiative being smothered or its incentives destroyed. Free Enterprise on its part must re-orientate its outlook and approach to national development by

adapting itself to the new values. It must discharge its obligations to the community by showing its vigour and vitality and also its capacity to sacrifice. Such an approach alone can create the necessary enthusiasm for the successful implementation of the **Second Five-Year Plan.**



