AN ANALYSIS OF DUTT COMMITTEE REPORT ON INDUSTRIAL LICENSING

FORUM OF FREE ENTERPRISE

SOHRAB HOUSE, 235 DR. D. N. ROAD, BOMBAY-1

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

— EUGENE BLACK

AN ANALYSIS OF DUTT COMMITTEE REPORT ON INDUSTRIAL LICENSING

By A Special Correspondent

This is an attempt to put the Dutt Committee Report straight on its own data. Its analysis seems to have lacked precision and discrimination. A Committee with loaded terms of reference would have been expected to be scrupulous in its analysis, and discriminating in its conclusions and recommendations. It has carried the "loadedness" into the discussions, to convey the impression that the entire large sector of industry is the villain of the piece; but in its conclusions, it had to admit that the real area of lapses was confined to the very small minority. But what is worse is that the summary recommendations do not flow from the factual analysis, and are likely to create more problems for the Government and the Planning Commission after the report than before it.

As an intellectual effort by professionals, it fails to command respect as a precise and discriminating document; but as an attempt to ride an anti-monopoly political wave, it has been left behind by the Monopolies Bill itself, which it recognises as the major instrument for the purpose and by the spectacular bank nationalisation.

Reading the Dutt Committee's report, one would assume that it has been written on the following assumptions:

a) that Government has no past, and that industrial

licensing has been performed by a disembodied system. Its malfunctioning can be remedied by a few over-simple recommendations, with political overtones. It is forgotten that all licensing decisions had the approval of at least two ministers;

b) that all big business is an undifferentiated mass, and that there are no responsible sections in it;

c) that all plan targets are infallible, unchangeable, and that there is no need for better demand forecasting or raising of target if demand exceeds supply in the course of the plan;

d) that India has no foreign exchange problems, and that exports are of no consequence; nowhere in the report has the significance of exports been mentioned in dealing with plan objectives arising out of the Industrial Policy Resolution, particularly in the large-scale sector; and lastly;

e) that hardly anyone will read the report carefully enough to see whether its facts are properly analysed, and that they match its conclusions.

Industrial Licensing Policy is not a simple matter of Left or Right politics. It is essentially a technical instrument for plan implementation of Industrial Policy, which is also meant to serve other policies which have a bearing on the fisc, the balance of payments position, employment and balanced growth; and the basic criterion of industrial licensing policy is to see whether these objectives are realised with efficiency and effectiveness.

Perhaps, the most significant argument which debunks the idea that this is a matter of Left or Right is the remarkable fact that controls and licensing have the tacit approval of large sections of business, which are able to manipulate them in their own interests prefering the crutches of controls to the efficiency of competition,

which provides the best control of monopolistic and restrictive practices in the interests of the consumer.

In the early part of the report, it quotes a passage from the second Five Year Plan to say, "Private enterprise, free pricing, private management are all devices to further what are truly social needs; they can only be justified in terms of social results." It is high time responsible leaders of business established their identity with this basic objective. It is only then, that they will receive a public ear to their constructive criticisms of public policies and the public sector. Not enough has been done so far by the leaders of business to establish their clear acceptance of this basic commitment. As a result, there has been an ideological gulf, and the best of service in economic policies often fails to command confidence.

The report complains of a lack of clarity in the fixing of industrywise targets and unitwise capacities. In the case of the former, the report itself recognised that the responsibility for fixing targets lies outside the Licensing Committee, and is shared between the Planning Commission and the ministries. When it asks for detailed plans of development for an industry before licensing, preferably for a period of ten to fifteen years, this involves vast and complex exercises.

A major lesson since the third Plan has been the need for flexibility, in view of the constraint of resources both rupee and foreign. It is very doubtful, therefore, whether there can be long-range detailed, plans with an unavoidable uncertainty in the basic resource area. It is, therefore, an impractical and unreasonable recommendation in the realities of the situation.

Admittedly more could have been done for clarity in the concept of capacity; but, even this is not easy. Even when capacity may be related to manufacturers' stated capacities, and given specifically for a number of shifts. there may still be significant variations, depending on the

output of different raw materials, which may sometimes change with variability in raw material availability; with pack sizes in particular products, and with technical efficiencies. Therefore, capacity is a concept which cannot be too precisely defined, and it is unrealistic to accuse the Licensing Committee or Government for lack of absolute precision in this matter.

The gravamen of the charge against the large industrial sector in Chapter IV of the report leaves an objective reader unsatisfied with the lack of precision in the analysis of data, and the lack of care in seeing whether the conclusions match a precise analysis.

Firstly, if the basic social objective is to prevent concentration of economic power in a few and to give the public sector the commanding heights of the economy, and the co-operative sector an increasing share of the market, then the criterion which the Committee should have adopted should have been the share of the large houses in the total market, and not in the private sector alone. This is a concept which was even accepted by the Monopolies Enquiry Commission. In all fairness, and in keeping with public policy, Parliament and the public should be able to see the respective shares of the private sector, split into large houses and others, the public sector and the co-operative sector, where all these share the total market in particular industries. A national enquiry, looking at national policy, should treat the national market as its universe. Why was this not done? If it had been done, different figures would have been produced, and in better perspective.

Secondly, the numbers of licences issued are quite misleading unless, again, these licences are related to capacities licensed; because a very large unit may be licensed for quantities larger than a number of small units. Therefore, the number of licences issued is a misleading criterion, unless it is accompanied by the capacity licensed.

Thirdly, when it comes to share of imports of capital goods in comparison with the paid-up capital of undertakings, it is shocking to find that the Committee was not served with any figure later than 1958-59, which is in the first three years of the decade under review, rather than, for the end of the decade. If the Committee was served with no more recent figures, then a comparison of the value of the proposed investment in the imports of capital goods by 1966, with paid-up capital in 1958-59, is again misleading. The proportion would seem disproportionately high, and anything that looks high in a Committee with these terms of reference looks almost sinful.

Fourthly, another example of the lack of precision in analysis was that no attempt was made to analyse the enormous difference between the figured of 60 large independent companies and the 73 large houses right throughout the report; even though these differences show up in terms of the number of licences received, the implementation of these licences, and the proportion of foreign exchange spent on import of capital goods to the outdated figure of the paid-up capital of 1958-59. If such an analysis was done, it will be seen from the Committee's own figures that the sixty large independent companies had the lowest proportion of licences issued, only 5.6 per cent as compared with 32 per cent for the 73 large houses, and 59 per cent for other companies (Table IV, page 50).

In terms of licences implemented, again, the 60 large independent companies were the most efficient, with 87 per cent. followed by the 73 large houses with 69 per cent, and other companies at 65 per cent (Table III, page 80).

In terms of the proportion of the imports of capital goods to paid-up capital (1958-59), the large independent companies had the lowest proportion of 39 per cent, with the 73 large houses 79, and other companies 42 per cent (Table III, page 49). It is, therefore, clear that in all three criteria, the performance of the large independent companies is the best, and therefore, no stigma should attach to them in the report.

They cannot, as a group, be accused of having taken a significantly disproportionate share of the licences, or of significant failure to implement, with its implications for pre-emption of capacity. In fairness, the Committee should have drawn this distinction; especially when the Committee has itself on page 53, paras 4.21 and 4.22, admitted that "it is only in the case of a few of the other larger houses that a disproportionate larger share in investments and capital goods approvals in relation to their share and paid-up capital is seen." Even out of the 43 large houses, it admits, "in fact, significant disproportion is observed only in the case of a few houses," namely 3.

If one examines the Dutt Committee's data with regard to the very first question as to whether the large industrial sector had a disproportionate share of the licences, the figures themselves do not support the case. The table below, drawn from the figures of the Committee on page 48, indicates that the 73 large Houses including their second tiers, had only a 23.8 per cent share, whereas the other companies in the private sector had a 43.7 per cent share, and individuals, non-corporate bodies, public sector and co-operatives had a 25.7 per cent share. Large independent companies had only a 4.2 per cent share. The figures in brackets are percentages.

Licensee category	Licences	
73 large houses & their 2nd tiers	2387	(23.8)
Total of 20 large houses & their 2nd tiers	1342	(13.3)
Large Independent Companies	417	(4.2)
Total of 73 Houses & their 2nd tiers & large independent companies	2804	(28.0)
Other Companies	4377	(43.7)
Total of Private Corporate Sector	7445	(74.3)
Individuals	447	(4.3)
Other Non-Corporate Bodies	1618	(16.2)
Public Sector Undertakings	304	(3.0)
Co-operative Undertakings	202	(2.0)
Total of last 4 categories	2571	(25.7)

It is also strange that in para 4.17 (page 52), when it gives the aggregative shares of licensing, it does so only within the private sector, even though its table includes licences for individuals, non-corporate bodies public sector and co-operative undertakings. The proportions would have been significantly different if they were taken for licensing of the entire national market. The aggregative percentages, confined only to the private sector, lead to a distortion of the true position.

The burden of the cask in the chapter on Implementation is: (a) A large proportion of licences remained unimplemented: (b) A large proportion of applications had to be rejected, and (c) As a result of non-implementation, there was a denial of opportunities to new entrants.

But the very evidence of the Committee, extracted from Table IV, page 83, will show that the real facts do not bear out these conclusions. The report takes into account failures to implement within one year. This is an unfair criterion, as Government itself expects implementation within a year. Therefore, failure only begins from the second year. The table below contains the figures of the report from the second year of non-implementation, and excludes those for the first year. The figures in brackets are percentages.

Licensee category	Licencee unimplemented after one year	
73 large Houses and their Second tiers	223	(9.3)
20 larger Houses and their Second tiers	137	(10.2)
Large independent companies	25	(6.0)
Large Industrial Sector	248	(8.8)
Other companies	543	(12.4)
Private Corporate Sector	812	(10.9)
Individuals	91	(20.4)
Other non-corporate bodies	154	(9.5)
Public Sector undertakings	38	(12.5)
Co-operative undertakings	41	(20.3)
Total of last 4 categories	324	(12.6)

If, therefore, one takes the criterion of non-implementation from the second year onwards, the figures of the Committee will show the following results.

a) 73 large Houses and their second tiers accounted for only 9.3 per cent of failures to implement.

b) The large independent companies accounted for only 6 per cent, but

c) Companies other than the large companies for 12.4 per cent.

Besides, if one carries these comparisons further, the entire private sector companies accounted for failures to the extent of only 10.9 per cent, whereas individuals (presumably the smallest licensees) accounted for 29.4 per cent, the public sector 12.5 per cent and the co-operatives 20.3 per cent. If anything, the Committee's figures show that the best performance was that of the larger companies, and the worst of individuals, the public sector and co-operatives.

As far as the rejections of applications go, which the Committee has assumed as arising largely from a lack of adequate home work, and partly from favour shown to the larger Houses, the following conclusions may be drawn from its data (page 88, table X).

a) Incomplete applications were in only 17 per cent of the cases in the large industrial sector; but in 39 per cent of the cases in other companies. Therefore, the lack of home work was far more apparent in the case of other companies. Again, the best performance was that of large independent companies with less than one per cent incomplete applications.

b) Rejections on ground of no scope were larger in the case of other companies, 37 per cent, than with the large industrial sector, only 18 per cent.

c) It was quite natural in these years that the largest numbers of rejections in both large industrial sector and in other companies were for reasons of lack of foreign exchange and raw materials, the two being sometimes inter-linked. However, this did point to a lack of adequate preparation for industrial proposals in these two aspects.

d) Rejections on grounds of non-implementation of the earlier licence, or that the scheme was in the small-scale sector, were much iarger in the case of other companies (52 per cent) than in the large industrial sector (31 per cent).

e) The best performance in the private sector was that of large independent companies, who had only 1.2 per cent total rejections, as compared with 18 per cent for the 73 large Houses, 36 per cent for other companies, and 20 per cent for individuals.

If anything, these figures indicate that the performance of the larger units was distinctly better than that of other companies, and that in a balanced view, it is the other companies which have been responsible for the largest share of rejections on various grounds, including inadequate home work.

Therefore the conclusions drawn from this report in the PIB handout, which created the first impact on Government, Parliament and the Press, seem to be Mown up beyond the actual proportions of the problem. It arises largely because of the lack of precision in the Committee's analysis. This appears to be the case not only with regard to the aggregates, but also in the case of some specific industries studied. In the discussion of 23 industries studied (pages 53 to 62), in only 11 cases, or less than half, have they been substantiated on the evidence provided by the Committee.

In all the rest, the conclusions are dubious, if not

unreasonable. After elaborate discussions over 23 industries and many cases, the conclusion of the Committee was an anti-climax, and a contradiction of the long string of incriminating suggestions in Chapter IV. After beating the mountain of alleged malpractices they were forced to conclude: "Our study of the share of the large industrial sector in licences, aggregatively as well as in regard to certain products, shows that the large industrial sector as a whole did not obtain a disproportionate share of the overall licences in any significant sense of the term." They have found a disproportionate share of licences being given only to a few, to two or three houses. Yet, their discussion seems to tar all large industries with the same brush; their conclusions say that only a few need to be tarred.

Whilst the Dutt Committee has left a lingering impression, despite its conclusions, that the large industrial sector as a whole has been the villain of the piece, it has shirked responsibility in saying that their "attention is primarily to the deficiences of the system, and not to the wrong actions of the individuals."

The system was operated by people both in Government and in industry, perhaps in politics too. It almost leaves one with the impression that there was no Government in the past, and that industrial licensing was performed by a disembodied system; more so as it has itself pointed out that lapses from policy intentions were made not exclusively with the largest houses, but also with other companies. Therefore, the root of the problem lay, not with the system, but with the operation of the system in all types of cases.

It is surprising that the Committee did not think fit even to call witnesses for evidence regarding the results of its study, and to go merely by what was on the face of papers. In a number of cases (paras 4.64 to 4.85, page 66 to 73), the report provides clear examples to show that it was not the system, but the people who

operated the system, including the ministers, who may have been responsible for providing undue advantage to certain companies, including those which were not large houses.

The chapter on Implementation and Preemption bears the same mark as the earliest one on large houses and industrial licensing, in so far as 30 pages are spent on building up a case for a large number of failures to implement licenses and its consequences, in terms of preemption of capacity and the disadvantage to other. However, its conclusions (page 95, paras 5.4 and 5.5) are, once again, contradictory to the impression given in the preceding pages. It says that "the overall performance of the large industrial sector in implementation would have been seen to be much better if the performance of three large houses was not poor." In other words, out of 73 large houses, the accusation is only fixed on three. It admits, "Lack of implementation is not by itself proof of pre-emption. Only in a few such cases we find evidence of preemption — fewer licences, denial of licences to others and poor implementation."

It does find the phenomenon of some licensees installing capacities higher than licensed "more common." The other apparent sin of granting licences during the period of a ban rests clearly with Government itself. But one would have expected such a committee, with a retired Civil Servant as its head, to have at least examined the special reasons in each case. No such attempt has been made.

On the conclusions and recommendations of the Committee, the following comments are called for :

Social Policy : Industry should clearly accept social purposes of the Industrial Licensing Policy (page 26, para 3.16). But, it will equally be its social responsibility to point to the end results of policy recommendations, in the public interest. The recommendations

of this Committee throw up many such examples, e.g., unthought out proposals for joint sector, middle sector, and small-scale sector.

Large Industrial Sector and Licensing : The case of the Committee against the large industrial houses on grounds of, (a) the hogging of disproportionate shares of licences; and (b) failure to implement, or pre-empt capacity, is not substantiated by the facts thrown up by the report itself, except in a small minority of cases, as admitted in the report. Therefore, the report should be interpreted in its proper and limited perspective. The over-all recommendations cannot logically follow from its limited conclusions, and still more limited analysis.

The terms of reference have been loaded against large industries, without any attempt to see their balancing contribution in terms of employment, investments, exports, essential commodities, research etc. This calls for a study by industry itself of the other side of the national balance-sheet, as the terms of reference were so one-sided.

The extent that there have been irregularities and ad hocery in licensing, it has been clearly shown that it is not confined to the large sector. Therefore, it is not the system alone which is to blame, but also the administration which operates the system. The Committee's recommendation repeatedly points to the abuse and the ad hocery of licensing on the one hand, and yet recommends a larger dose of "the rigour of licensing," even in the case of delicensed industries. There is no satisfactory explanation for this contradiction in policy.

Plan Targets : Nowhere in its study has the Committee brought out the need for more scientific demand forecasting to determine plan targets. It has assumed an infallibility in such targets, when experience has shown that in some cases it has discussed, e.g., cinema arc

carbon and baby food, demand had actually outstripped targets. It takes the view that "the licensing system distorted the basis behind plan targets." When going into such cases, it makes no attempt to examine the way demand has gone, before taking cursory views of changes in licensing.

Nor does the Committee seem to recognise the need for a lead time of anywhere between three and five years, at least between targeting, licensing, and the meeting of of demand by production. It has not recognised that licensing and other formalities alone usually take about two years before capacity can begin to be installed; and actual production may start another two or three years later. Therefore, there is need for much better demand forecasting for plan targets; as well as for an adequate lead time, on an average about three to five years, between licensing and production. Sound licensing must, therefore, be ahead of targets, and of this the Committee seemed oblivious.

Joint Sector : The Committee also recommends a joint sector, and the participation of financial institutions in the equity of those firms which have received substantial loans from them, besides representation on their boards. This raises several problems, which must limit the extension of the joint sector.

Firstly, the recommendation was made before the nationalisation of banks, and presumably, the Committee visualised only a few dozen large companies receiving loans from a few financial institutions like the I.D.B.I., I.F.C.I., I.C.I.C.I. etc. it could now be said that the same principle could apply to the nationalised banks. This would obviously be going beyond the capacity of Government to implement. One cannot conceive of battalions of itinerant directors travelling between thousands of boards of companies, and representing the lenders. Such a migratory species does not exist, and would be hard to produce. The Government must, therefore, retstrict the joint sector to a few select cases.

Secondly, to the extent that loans are converted into equity, to that extent there are implications for the profitability of companies, as a higher return will have to be got on the equity part of the capital, as the cost of equity is higher than the cost of bank loans. If such a higher return is not possible, it would be against the interest of the shareholding public. Besides, with a widespread system of statutory and informal price controls, how is the higher return to be got, except by price decontrol? The Committee seems to have been quite innocent of this implication.

Thirdly, carried too far, the concept of the joint sector may seriously undermine the basic concept of a mixed economy in the Industrial Policy Resolution. It was gratifying to read the statement of the Industrial Development Minister, when he said at the Standing Committee of the Central Advisory Council (Economic Times, August 23), that in this sector, "entrepreneurial and managerial initiative and responsibility in the private sector should not be fettered, and that a concept of the joint sector had to be worked through a process of careful evolution."

The Dutt Committee's recommendation regarding a "core sector" for licensing purposes is only indicative, envisaging "basic, strategic and critical industries" like basic metals, heavy machinery and heavy chemicals. It recommends that the large industrial houses and foreign firms should move into this sector, but as much of this core sector will be in schedules A and B of the IDR Act, either reserved for the State, or requiring growing State participation, this seems to be another contradiction.

What scope will there be for these large and foreign units in industries largely reserved for the State sector, and how will this conflict be resolved especially as the Committee has itself criticised the past actions of Government in allowing the growth of the private sector in this area? There will have to be clear definitions of the core sector. The Committee which accused Government

and industry of not doing their home work, has not done its own home work in this and other aspects.

Small-Scale Sector : This is another case where the final recommendations of the Committee are quite different from their findings in the course of the study. They recommend reserved areas, though the reservations will be temporary, and yet their own conclusions were that they found small-scale industries growing best under two conditions: (a) When the roles of the small, medium and large sectors were clear and complementary, and (b) where positive assistance was given to the small-scale sector in terms of foreign exchange, raw materials etc. The policy recommendation should, therefore, follow from their analysis in (a) and (b) above, and not fall back on the negative path of least resistance, i.e., reserved lists. Besides, the committee has failed to appreciate that tho best aggregate growth lies in the complementarity.

Middle Sector : The Committee thought that, in the main, "this middle area should be left free, subject to market forces and fiscal and financial devices." However, it goes contrary to its own basic view, when it suggests that industrial licensing should continue in this area for the limited purpose of discouraging larger houses from dominating this area. This purpose could be fulfilled by a general stipulation that larger houses with assets over Rs. 35 crores could enter this area only by going through the process of industrial licensing. Government need not take upon itself all the inenvitable licensing responsibility for all sizes of units in this large and diverse middle area, merely for the restrictive purpose of discouraging a few of the largest units.

This is all the more so, as the Committee's basic view that this sector should be subjected to the market mechanism with appropriate financial and fiscal dev'ces would also be in line with the Planning Commission's broad policy approaches. This would not involve *laissez faire* conditions.

It would be dangerous to ban the future growth of large and foreign companies in the middle sector entirely, especially those making contributions to exports, essential commodities and semi-processed materials for the core sector. Government would need to examine very carefully all the implications of curbing the growth of these companies in the middle sector, especially in the engineering, chemicals and food industries, where growth has to come largely from diversification and technological change.

A rigid policy of banning growth in such units may lead to serious shortages and rising prices, and consequent complaints from the public, Parliament and the State Governments. This is not a hypothetical fear; it has been in actual experience since **1964-65.** It would also have serious implications on the growth of revenues from the direct and indirect taxes of this significant section of industry. To minimise its task in this sector, Government may well consider raising the licensing exemption limits to units with assets of Rs. 1 crore, particularly as the earlier exemption limit of Rs. 25 lakhs does not appear to have made much impact.

If a more realistic revised view on the complementarity of all. sectors was to be accepted as basic policy, then there is no justification for a total ban of all large units in the middle sector. Both positive growth assistance and preferential treatment in licensing can be given to the small-scale sector. Besides, in future, large-scale industry should give clearer thought to the ways in which complementary growth of both sectors can be achieved.

Product *Bans* : The Committee does not contemplate the use of bans against all industries producing luxuries, "but only such as would make inroads on essential development through the use of their scarce resources including foreign exchange." No indications are given as to which industries would be so involved, or the criteria to be applied between essential and non-essential products.

Besides, their recommendation that the banned list should be for a period of five years seems quite inflexible, and does not take into account changes in supplies and demand within a five-year period. The present annual review seems a reasonable one.

Area Bans : The Committee contemplates banned areas for the location of new units, and quotes the example of the Bombay metropolitan area. In so doing, it has failed to appreciate the lesson learnt by the Maharashtra Government in the Bombay metropolitan area. In trying to ban industries there, it learnt that it only drove industries outside the State itself.

The Maharashtra Government has since wisely changed its policy, and applied the SICOM scheme: which is not based on any banning concept, but on the concept of providing financial incentives for the location of new units in less developed areas. The banned area principle has, therefore, been tried and found not to be wise in the interest of State Governments themselves. The Government of India may well consider the possibility of extending the Maharashtra Government's SICOM scheme to help the dispersal of industries.

To the extent that the Licensing Committee decisions are those of the bureaucracy and politicians in power, to that extent it may continue to be open to some of the lapses which the Dutt Committee has thrown up. It may, therefore, be advisable to make the Licensing Committee a quasi-judicial one presided over by a High Court or Supreme Court Judge, who should be beyond the reach of influence. He *can* be assisted by a high quality committee of a top economist, the Secretary of the Ministry of Industrial Development, and the representatives of other Ministries concerned.

There might be a separate committee to implement the Committee's other good recommendations for more effective steps for the implementation of industrial licen-

sing. This Committee may be composed of an independent judicial Chairman, the Secretary of the Ministry of Industrial Development and a few representatives of the Central Advisory Council of Industries.

The legacy of the Dutt Committee is that it has bequeathed more problems than it has solved. It has left room for more home work than it has cared to do itself. Ultimately, its contribution is more confusion. And that is a failure of mind. (*Reproduced from "Indian Express," with* kind *permission* of *the Editor*).

II

VINTAGE IN SMALL PACK*

Two years of labour to establish its findings appear to have so exhausted the Dutt Committee on industrial licensing policy that it went about gathering wool when it came to making recommendations for improving the licensing system. The full text of the report, which has just become available, does ample justice to the past working of the system but shows lack of perspective and of understanding of administrative and business organisation in the fuzzy outline it presents for the future.

What, for instance, is the demarcation between the core and the middle sector of industrial programmes? The core sector, it is said, will comprise the industries for which detailed industry plans would be prepared while the middle sector will be the balance left after bans and reservations in favour of small industry. Licensees in the core sector would be assured of all the necessary inputs while the middle area "would be subject to licensing only

* *Editorial from "Economic &* Political Weekly," of *Sept.* **6, 1969.** *Reproduced with kind permission* of the Editor.

for the purpose of preventing the entry into this area of concerns belonging to the Larger Industrial Houses and foreign concerns." In the absence of any indication of the magnitudes of investment, the industries or product involved, and regional considerations, it is impossible to appreciate what exactly the Committee is driving at, except that it wishes to reduce the concentration of economic power in the hands of large and foreign houses. This is an estimable objective but in this area it could be achieved more effectively and beneficially through the use of instruments other than licensing, e.g. the lending policies of financial institutions and suitable amendment of Section 18(3) of the Foreign Exchange Control Act, to ensure that relatively smaller and Indian houses grow faster than those already entrenched. To stop altogether the growth of larger and foreign houses and companies would, in addition to demoralising and breaking up organisational teams, lead to production bottlenecks in the immediate future when the boom in economic activity, which everybody hopes for, would enlarge the demand for both capital and consumer goods.

The Committee has quite rightly suggested penalties for breaches of licensing conditions. There is, however, not the faintest suggestion of premia for good performance, howsoever detined. Greater watch over 'effective steps' and 'implementation' in connection with the use of licences is again a necessary step but the Committee has summarily dismissed the point that appraisal of projects and checks on implementation are feasible only when they are applied in cases of disproportionately large value which are few in number; any attempt to secure near-total coverage is doomed to fail. Again, while the Committee is legitimately exercised over some large firms installing "capacity far larger than licensed and (producing) outputs, much larger than the capacity licensed to them", it has not produced any solution which would do away with the mythical concept of capacity and replace it with operationally meaningful quantities like investment and foreign exchange allocation.

That the Committee's thinking on controls was cast in an outdated pocket-sized mould (rather like the rajah of yore going round the village kingdom to see things for himself or the PWD overseer located at site) is clear from the manner in which it confidently recommends the appointment of directors by public institution wherever financial assistance is extended by them. There is a strong case for the building up of an expanding corps of independent professional directors with the help of these institutions but to assume that these non-executive directors would or should really participate in management is utterly fanciful. Perhaps, the Committee was not aware that in modern large-scale management, control on investment and quick reporting and information systems. not occasional physical presence, are the main instruments of control.

The opening up of large business to new and relatively smaller entrepreneurs requires positive, forward-looking attitudes. Technology and organisation are so integral to size that even the liberalisation of finance cannot substitute them. Neither of these two crucial elements receives any worthwhile attention in the Committee's report. Growth of technology and concomitant size cannot be confined within a Rs. 35-crore or any other limit. Nor can the fact be ignored that expansion of small industry depends, by and large, upon the pace of orders from large industry. What prevented the Committee from recommending greater diffusion of the manufacture of components and|or of processing facilities?

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

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

—A. D. SHROFF
(1899-1965)
Founder-President,
Forum of Free Enterprise.

Have You Joined The Forum ?

The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit **a** democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. **15|-** (plus entrance fee, Rs. **10|-)** and Associate Membership fee, Rs. **7|-** only (plus entrance fee, **Rs.** 5 -). College students can get every month one or more booklets published by the Forum by becoming Student Associates on payment of Rs. **3|-** only per year. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai **Naoroji** Road, Post Box No. **48-A,** Bombay-1.

Published by M. R. Pai for the Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by S. J. Patel, at Onlooker Press, (Prop. Hind Kitabs Ltd.), Sassoon Dock, Colaba, Bombay-5.

9|November|1969